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# **“When Paradigms Clash: Irish Labour Market Institutions and the Unemployment Crisis”**

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## Contents

<b>LIST OF FIGURES</b>	<b>6</b>
<b>LIST OF TABLES</b>	<b>7</b>
<b>A MODEL OF THE INSTITUTIONAL MATRIX GOVERNING THE EMPLOYMENT TRANSACTION WHICH CONSTITUTES THE LABOUR MARKET SYSTEM</b>	<b>8</b>
<b>INTRODUCTION: THE LABOUR MARKET PROBLEMATIC</b>	<b>10</b>
<b>CHAPTER 1: A RECENT HISTORY OF THE IRISH LABOUR MARKET</b>	<b>18</b>
<b>CHAPTER 2: LITERATURE REVIEW AND THEORETICAL FRAMEWORK</b>	<b>62</b>
<b>2.1 - Introduction</b>	<b>63</b>
<b>2.2 - Literature review</b>	<b>65</b>
<b>2.3 - The labour market as a system</b>	<b>78</b>
<b>2.4 – Criticism from the Institutional School</b>	<b>95</b>
<b>2.5 - Interviewing as methodology</b>	<b>104</b>
<b>2.6 - Conclusion: A new perspective on LMIs?</b>	<b>114</b>
<b>CHAPTER 3: THE IRISH LABOUR MARKET SYSTEM BEFORE THE CRISIS</b>	<b>118</b>
<b>CHAPTER 4: THE IRISH LABOUR MARKET SYSTEM AFTER THE CRISIS</b>	<b>152</b>
<b>CHAPTER 5: INTERVIEWS WITH KEY LABOUR MARKET STAKEHOLDERS</b>	<b>183</b>
<b>CONCLUSION: ‘LABOUR MARKET INSTITUTIONS - A NEW PERSPECTIVE’</b>	<b>219</b>
<b>BIBLIOGRAPHY</b>	<b>228</b>
<b>APPENDIX A: LIST OF INTERVIEWEES AND THE SEMI-STRUCTURED QUESTIONNAIRE</b>	<b>241</b>
<b>APPENDIX C: LETTER OF INVITATION FOR INTERVIEWEES</b>	<b>245</b>
<b>APPENDIX D: CURRICULUM VITAE</b>	<b>247</b>

## Thesis Abstract

The recent Irish economic and financial crisis had significant impacts on the performance of the labour market and was also associated with major changes to labour market policies and institutions. Drawing on Douglass North's concept of adaptive efficiency, this thesis contributes to the political economy literature on how the key institutional changes came about given the conflicting interests and understandings among key labour market stakeholders. The current theoretical discord over Labour Market Institutions (LMIs) is central. The thesis is organised into five core chapters. In the first, I set the context for institutional change by establishing distinct phases of full employment, crisis, and then recovery discernible from the data. In chapter two I review the relevant theoretical literature on LMIs and suggest a systems approach, supported by the language of New Institutional Economics, which offers a much needed methodology of LMI development over time. Chapter three describes the arrangement of LMIs which constituted the Irish labour market system pre-crisis. Chapter four documents the reforms seen and describes the post-crisis system. Providing the core empirical contribution of the thesis, in chapter five I test the explanatory power of the theoretical framework through interviews with the key labour market stakeholders responsible for the structural adaptation from the pre-crisis to post-crisis system. This chapter suggests an explanation of the political economy of that structural adaptation of arrangements and the role of assumptions from economic theory in their bargaining. European structural reform as it relates to the labour market occurs within a political-economy context, with the localisation of an identifiable body of general LMI theory largely determining institutional outcomes.

## Acknowledgements

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The self discipline, diligence and determination required of my person these last few years by the thesis formulation, was developed in a type of collaboration with these people.

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**- The Saturday legends**

**- The Jacksons and Gilligans**

**- Knocknacarragh Park Residents Association**

**- Citizens associated with the Irish Centre for Human Rights, Galway.**

**- The local soccer community**

**- Flux Factory, New York.**

**- Not the class of '99 in Colàiste Iognàid**

**- My health team**

**All that remains is my wish that my family enjoy this work and all what follows academically;**

**and that my tombstone read...**

**“Runned and jumped, landed”**

## **Author's Declaration**

I declare that this thesis is the product of my work alone and has not been submitted for any other award.

Daniel Higgins

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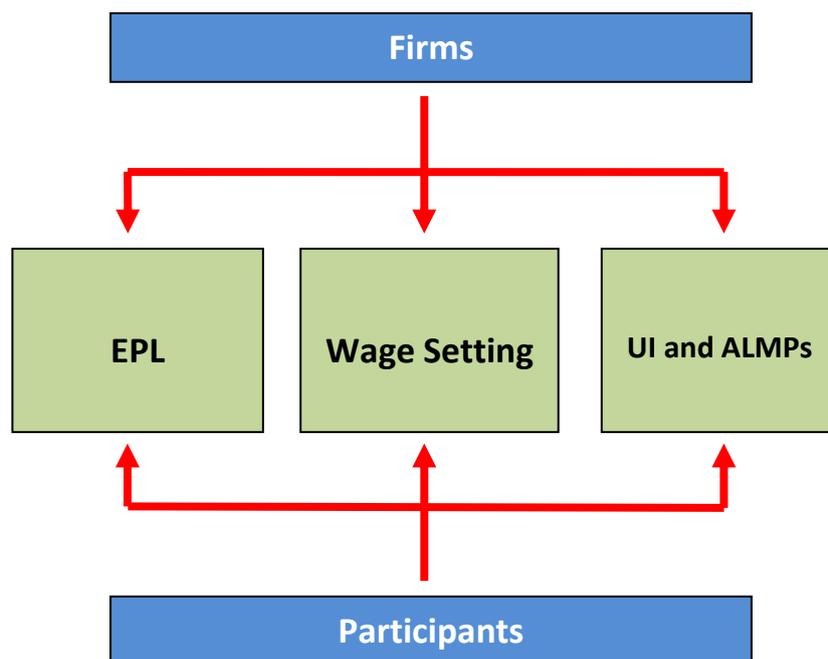
## List of Figures

Figure 1: Population and labour force (000's of individuals), 2002 to present. ....	23
Figure 2: Participation rate, 2002 to present.....	25
Figure 3: Employment rate, 2002 to present.....	27
Figure 4: Numbers in employment (000's), 2002 to present.....	29
Figure 5: Number of unemployed persons (000's), 2002 to present. ....	35
Figure 6: Unemployment rate %, 2002 to present. ....	37
Figure 7: Unemployment and long-term unemployment rate, 2002 to present. ....	39
Figure 8: ILO status of total persons aged 15 years and over, Q2 2002. ....	44
Figure 9: ILO status of total person aged 15 years and over, Q2 2007.....	45
Figure 10: ILO status of total persons aged 15 years and over, Q1 2011. ....	46
Figure 11: ILO status of total persons aged 15 years and over, Present. ....	47
Figure 12: In employment: Full-time and Part-time (000's), 2002 to present.....	50
Figure 13: Highest level of education attained and unemployment rate, Q2 2007 and present. ....	56
Figure 14: A model of the institutional matrix governing the employment transaction which constitutes the labour market system.....	85
Figure 15: A continuum of paradigms.....	107
Figure 16: Kvailes Nine Types of Questions in an Interview.....	113
Figure 17: Guiding principles for “Keeping Ireland working”, Programme for Government 2007. ....	119
Figure 18: Main LMI structures regarding EPL 2007.....	124
Figure 19: Company registrations and dissolutions figures 2002 to 2011.....	127
Figure 20: Figures for total companies 2002 to 2011.....	127
Figure 21: Lending to and deposits from, Irish private households, millions of euro, 2003 to 2007.....	138
Figure 22: Unemployment rate and numbers unemployed, by educational attainment, Q2 2007. ....	146
Figure 23: Job Creation and Destruction Rate (Proportion), 2007 to 2013.....	161
Figure 24: Annual Number of Hirings and Separations, 2007 to 2013.....	162
Figure 25: Nominal Unit Labour Cost Index for Selected Countries, 2007 to 2013.....	171

## List of Tables

Table 1: GDP (000,000s) at current market prices and Annual percentage changes, 2002 to Present. ....	22
Table 2: Employment by economic sector (000's), 2002 and 2007. ....	31
Table 3: Employment by economic sector (000's), 2007 and 2011. ....	32
Table 4: Employment by economic sector (000's), 2011 and present. ....	33
Table 5: Net migration (000's), 2002 to present. ....	48
Table 6: Categorisation of Part-time workers between not underemployed and underemployed, Q2 2009 to present. ....	51
Table 7: Employment by occupational group. ....	52
Table 8: Unemployment rate by age bracket. ....	54
Table 9: LMI Measures Used by Nickell 1997 ....	70
Table 10: OECD wage setting arrangements figures of various countries ....	135
Table 11: Figures for GDP, Growth and Inflation, Phase 1 of Narrative ....	137
Table 12 Selected OECD country expenditure on ALMPs, 2007 ....	144
Table 13: Figures for GDP, Growth and Inflation over Phase 2 and Phase 3 of Narrative. .	169
Table 14: Government 'FET Training Programme' take-up by participants ....	178
Table 15: Government 'FET Further Education Programme' take-up by participants .....	179

**A model of the institutional matrix governing the employment transaction which constitutes the labour market system**



From Section 2.3 (page 85)



## Introduction: The labour market problematic

From a New Institutional Economics perspective, the literature on labour Market Institutions (LMIs) is currently divided between property right and transaction cost analyses, and I suggest a political dialectic in the application of this work discernible from different country arrangements. This has followed the local mediation that has been involved in the drawing down of the alternative dimensions to these structures and mechanisms governing respective labour markets. The recent Irish economic and financial crisis had significant impacts on the performance of the labour market and was also associated with major changes to labour market policies and institutions. This thesis contributes to the political economy literature on how these institutional changes came about given the conflicting interests and understandings among key labour market stakeholders. The clash of paradigms surrounding Labour Market Institutions (LMIs) is localised to the Irish context with their endogeneity and development over time examined. At a theoretical level I adapt and apply New Institutional Economics in emphasising the importance of both conflicting interests and ideas in influencing the possibilities for institutional change. Essentially, I provide a framework for analysing Douglass North's idea of adaptive efficiency as it relates to the institutional matrix governing the employment transaction which constitutes the labour market system and explain the key Irish labour market reforms of the period.

Documenting the reformed institutional arrangements in the context of changed government priorities, while also explaining the rationale and bargaining of these reforms is what concerns the core chapters. With an understanding of the main statistical figures and themes of the labour market narrative it is possible to contextualise the political-economy of labour market governance. I hope to explain the observed reforms since the election of 2011 within the currently available theory on labour market governance with a view towards producing a case-study of the Irish experience of structural reform. As the title of the thesis would suggest, differing perspectives on governance are present in the literature with what may often appear to be equally valid arguments on policy prescriptions playing out through a 'fuzzy process' of policy design. The political economy of this process as it relates to the key crisis reforms is explained. Attention is given to both the transaction cost and property right analyses of LMIs that compete for validity and consequent currency among stakeholders. A literature review is undertaken so as to establish how other

researchers approached the question, and so as to be aware of what conclusions they reached. As stated earlier much debate exists over the functioning of any market and the labour market in particular is without doubt one of the most contested. I establish the key reforms of the period while also discerning the theoretical rationale from which they originated. In this way the case study contributes an evaluation of current LMI theory.

Fundamental to this thesis is an assumption that the literature on LMIs provides a limited but workable treatment of their role within the economy. This thesis draws on the work of major New Institutional Economics thinkers by offering an original model of the institutional matrix governing the employment transaction which constitutes the labour market system. While acting as a conceptual framework with which to analyse the endogeneity and development of LMIs, the model can also help 'localise' the theory to a national context and in doing so provide a much needed account of LMI performance in particular countries. The institutional matrix which constitutes the labour market system may be typified as either a Liberal or Coordinated type across countries and this arises in part from the differing interpretations of LMIs in contemporary developed labour markets. This thesis explains the political-economy of the Irish localisation and exposes the actual rationale of the polity. Through interviews I have elicited the theoretical orientations of the key stakeholders with regard to their intentionality over the role of LMIs within the economy. In line with the work of Douglass North I argue that it is these orientations or mental models held by labour market organisations representatives that can block or facilitate change to the institutional matrix. Using the new model and established language of NIE, this thesis thus aims to make an empirical contribution to the study of institutional and economic policy change. The interviews I draw on throw light on North's idea of adaptive efficiency and contribute to a thesis that establishes the factors at play in the rearranging of the national LMI system of a modern developed economy following a major economic crisis.

### **The Irish case**

Apart from those people directly involved with the study of LMIs, many more will be familiar with the issue of 'structural reform', and in Europe particularly this topic is widely referenced. The prescribed liberalisation of labour markets which makes up part of this discourse, has met arguably the most resistance. Examples of successful national labour markets are used periodically, during elections for example, so as to argue for particular reforms derived from competing paradigms. A comprehensive examination of the factors

involved in the Irish labour markets recent crisis of mass unemployment and the political response makes for a useful contribution to these debates. The economy was hugely damaged by the collapse of the construction industry and the context of a global economic downturn, with the necessary troika bailout following calling into question the very sovereignty of the nation. Much can be written on the banking and exchequer crises and this will no doubt happen in the future. My research focus is on how in the disputed realm of LMI theory, the new circumstances of a crisis influenced the bargaining of a new system among stakeholders, and the insights that were provided into the transactional space of the Irish crisis. The context is one of crisis and this is not unique to the Irish case. The work of Naomi Klein (Klein 2007) immediately preceding this period on other countries documents the highly politicised and varied theoretical nature of policy responses to extreme economic circumstances. She suggests a strategy is frequently utilized by power holders based on exploiting crises to push through controversial exploitative policies while citizens are too emotionally and physically distracted by disasters or upheavals to mount an effective resistance. My case study of the Irish experience may further illuminate the more general political-economy of crises, with one of Europe's most topical labour markets thoroughly examined. I seek insight into the recent bargaining, or otherwise, of the Irish labour market system's structural adaptation. It is open to debate how democratic the rearrangement of the system's constituent LMIs was through the crisis and recovery.

An orthodox prescription for resolving the Irish case of mass unemployment would have included an internal devaluation that would have sought to increase competitiveness domestically and internationally. This would have been construed as an imposition and drawn considerable political opposition. The aforementioned debates usually centre on a question of practical feasibility, with a community of practitioners offering some form of authority in the public sphere. Although the necessity of a bailout from the so called 'troika' was clearly explained and argued, an associated austerity programme with accompanying reform proved to be less communicable to a bewildered and frightened public. Suspicion of such international lenders had already been established popularly and Joseph Stiglitz (Stiglitz 2003) had documented many reasons for such hostility in the years preceding the crisis. Prior failures had cast, and continue to cast, doubt on what are described as orthodox prescriptions and further uncertainty was created by shifting opinion on what actually warrants such a description of contested theoretical ideas. A question arises from the observation of labour market reform as to the role of this theoretical discord in the rearrangement of the labour market system.

It seems obvious that some form of pricing failure occurred in particular sectors of the Irish economy with a large degree of malinvestment occurring. The correction of this failure and accompanying reallocation of labour has drawn the attention of many to LMIs and this thesis will establish what can be known on these key endogenous factors of the economy, at least in the Irish case. The Irish construction bubbles pricing of the human capital associated with certain sectors of the economy gave market signals that proved misleading for both firms and labour market participants. This thesis gives much attention to the role of LMIs in the allocation of human capital. The orthodox assumptions governing the reform arguments of these structures and mechanisms are examined in an Irish context. I aim to establish those assumptions of the competing policy perspectives which bore most influence on recent reform to the Irish labour market system. The current validity and currency of evidence on LMIs as used by the national and international polity will be assessed and explained.

As a modern, industrialised economy with a highly educated workforce it seems useful to move past a classical conception of a stock of labour to a more contemporary conception of augmented labour. In line with this I use the term human capital to describe what the labour market participant transacts for wages in the market. Amartya Sen (Sen 1997) explains that human capital “concentrates on the agency of human beings - through skill and knowledge - in augmenting production possibilities”, and as, “human qualities that can be employed as ‘capital’ in the same way physical capital is.” A legal entitlement of a person to engage their labour for employment may be viewed as a form of human capital with a certain value to those involved in the transaction. In Ireland, national frameworks of qualification measurement provide a real basis to begin talking about a labour market participant having agency over an estimable human capital. The concept has taken on a key role in discussions of economic growth and it is emphasised in the communication of the ‘knowledge economy’ strategy. Ireland has decided progressively on a social-market economy with the State facilitating the supply of human capital to productive uses as indicated by market demand. This involves a market economy governed by state institutions with active participation at all levels. The particular Irish governance of human capital allocation processes, through the labour market by way of LMIs, is related to the ‘knowledge economy’ strategy. Many ascribe a strong endogenous role for these institutions in delivering such a vision and yet the available theory provides less than definitive guidance. Differing interpretations of such a strategy and its implications for the

Irish labour market will be evaluated under different governments over the thesis periodisation.

### **A social contribution**

This thesis attempts a comprehensive examination of the factors involved in the Irish labour markets recent crisis of mass unemployment. In doing this the many quantitative and qualitative sources employed are addressed in the following chapters. The material addressed includes the main body of statistical and written work at the disposal of the contemporary labour market researcher. The explanation I sought encompassed a divided field of research and thus the thesis title reflects the theoretical discord, familiar to labour market researchers, while indicating the points of difference or even conflict. I examine in particular the Irish labour market reforms observed through the recent period of crisis and recovery. I seek a political-economy explanation of the Irish labour market system's structural adaptation through the recent period of economic crisis.

Any particular market has institutional underpinnings without which it could not function and thus any discussion of the market implies a discussion of institutions. Institutions generate and constitute the 'rules of the game' and by their determining how participants transact with each other, they come to influence every aspect of the market. It is my assumption that the labour market is best governed by institutions in the interest of the general welfare of state citizens. I recognize a role for government in the labour market and this thesis is thus concerned with how best government policy might encourage and foster the most efficient allocation of labour, while keeping unemployment at a minimum level. The market mechanism by itself cannot deliver an adequate level of either labour market efficiency or equity, and consequent calls for the mediation of the supply and demand of labour through a set of institutions, suggests, and even requires, a role for state governance. Current theoretical discord on the role of institutions in labour market governance has manifested in a clash of paradigms which politicises the competing prescriptions of a contested body of mainstream research.

People participate in the labour market from necessity to generate an income and this explains why there will always be a large proportion of a country's population active in the labour force. A person is categorised as long-term unemployed once they are registered as an unemployed participant for twelve months or more. In the modern post-industrial labour market people have accepted periods of unemployment as an inevitable part of

their working life. However, long-term unemployment should not be taken as inevitable given the effects it has on the person in terms of a range of factors such as their human capital, future earnings capacity and above all wellbeing. Long term unemployment often requires a different set of institutional supports and can lead to long-term state welfare dependency. Avoiding long-term unemployment as a specific target can be understood then as a key concern of policy makers. There is also a social dimension to unemployment that deserves attention. Unemployment for the individual may be a traumatic experience with serious psychological considerations in addition to obvious economic ones. Orthodox theory states that some level of unemployment is inevitable over the business cycle, yet a normative question exists as to whether anyone can classify any level of involuntary unemployment as acceptable. Ultimately, policy makers faced with the responsibility of how to best maximise general welfare with a limited set of resources must make this judgement.

In Europe, as distinct from some other currency areas, management of inflation is the chief concern of central bankers and it is assumed and expected that unemployment will be minimised by a stable price system. Alternatively, fiscal policy can influence movements around the equilibrium rate but European member states may find their ability to do this constrained by fiscal rules. This means that demand led solutions to unemployment problems in recessionary times have limited scope and currently are not even available for Ireland and many other European Union members. The constriction of the demand side means that it is on the supply side of the economy that much of the focus on policy reform is to be found. The debate on a policy response continues as a range of political and economic events unfold. In this thesis I accommodate what I suggest are some of the key political-economy factors involved in the recent structural adaptation of Ireland's labour market system. Conceptualised as a system, the set of structures and mechanisms of labour market governance were forced to adapt to an outcome that radically deviated from expectations, bringing a changed context for participants and employers. This structural adaptation of the institutional matrix is examined in my work through a case-study seeking to provide a contribution to the issue of European 'structural reform'. The unemployment crisis was brought about in the form of the bursting of a construction bubble exasperated by a global recession that left thousands suddenly without jobs. This fall off in activity followed rapidly through to other sectors of the economy leading to a sharp decrease in general employment. Utilizing the resources available for labour market research I attempt a political-economy explanation of the observed core policy response.

The policy context to my study is affected by the ideological assumptions, stated and misstated, influencing the debate concerning the market/institutional orientation of economies. There can be no doubt that there were many ideological influences on the recent reforms seen in the Irish labour market and this thesis aims to contribute a contemporary understanding of labour market change. The current arguments and trends of most pertinence will be highlighted providing insight into the actual parameters of policy decision making. Although the provided explanation of the Irish experience builds on much existing material and mainstream thought, it became necessary to develop this work further through a compromise of the competing paradigms into a suggested new framework of LMI study. An emphasis on LMIs brings attention to the current theoretical discord on a matter that is perhaps addressed inadequately by mainstream textbooks. By way of an original New Institutional Economics framework I attempt to address this problem by providing both an analysis and explanation of current labour market reform. A range of opinion and theory is accommodated and referenced by a broadly mainstream examination of the period of crisis providing insight, I believe, into the workings of the labour market system. Further, this systemic interpretation of LMIs and consequent model of the labour market system is consistent with the idea of an institutional matrix suggested by Douglass North (North 1994) which sought an understanding of economic systems in terms of their comparative performance and development over time. The most recent major changes to labour market policies and institutions in Ireland are explained as the outcome of a bargaining process among a polity with individual mental models and intentionality on governance derived from often conflicting theoretical sources.

### **Outline of thesis**

This thesis concerns the particularities of the Irish model, amounting to a timely case-study which provides a new perspective on current debates in LMI theory. The aim of Chapter 1 is to contextualise the reforms that were undertaken in the aftermath of Ireland's unemployment crisis. Its focus will be less on the reforms and more on the crisis. A crisis is an appropriate way to describe what recently manifested in the Irish labour market and the reported figures fit this description. Figures used will be from the Central Statistics Office (CSO) and almost entirely from the National Quarterly Household Survey. I argue that the Irish labour market went through three distinct phases from 2002 onwards and that these phases broadly match the three programmes for government seen over this period. My focus in this chapter is less in the political economy of this period than what characterises

the labour market under conditions of full employment, crisis and recovery. A literature review was undertaken so as to establish how other researchers had approached the question, and so as to be aware of what conclusions they had reached. Fundamental to this thesis is an assumption that the literature on LMIs provides a limited treatment of their role within the economy. In Chapter 2 I hope to establish a conceptual framework with which we can contribute more understanding to the process of economic change and develop a methodology of investigation. Its application hinges on whether certain labour rights may be viewed as property rights owing to the agency of the labour market participant over the resource in question, human capital. I suggest a systems approach, supported by the language of New Institutional Economics, which offers a methodology of LMI endogeneity and development over time. Chapter 3 describes the arrangement of LMIs which constituted the Irish labour market system pre-crisis and provides an evaluation of the initial condition of full-employment. Chapter 4 describes the post-crisis performance of the system with hypotheses generated on the rationale which led to the most major reforms. In Chapter 5 I test the explanatory power of the theoretical framework through interviews with the key labour market stakeholders responsible for the reforms to the system, providing the core empirical contribution of the thesis. A progression of modules helps explain the political-economy bargaining of the reforms and tests the earlier generated hypotheses. This contributes to our understanding of policy reform and builds towards a scientific methodology of positive labour market political-economy. The thesis is arguably qualitative because it does not seek generalised rules and mathematical models to explain the labour market but rather seeks to gather and analyse empirical knowledge on the causal processes that shape the policy that may define the labour market.

# Chapter 1: A recent history of the Irish labour market

## 1.1 - Introduction

The aim of this chapter is to contextualise the reforms that were undertaken in the aftermath of Ireland's unemployment crisis. It will focus less on the reforms and more on the crisis. A crisis is an appropriate way to describe what recently manifested in the Irish labour market and no one can argue the reported figures do not warrant this description. Figures used will be from the Central Statistics Office (CSO) and almost entirely from the National Quarterly Household Survey. I have made extensive use of this resource as it is after all the purpose of the survey to provide an adequate picture of the labour market. I hope to provide my own picture but with a narrative that can also provide for a deeper understanding of the figures. I will argue that the Irish labour market went through three distinct phases from 2002 onwards and that these phases broadly match the three programmes for government seen over this period. My interest is less in the political economy of this period than what characterises the labour market under conditions of full employment, crisis and stagnation. I am interested solely in the narrative that the figures, and only the figures, provide. It is this narrative I see when looking at any of the graphs presented below. This is what happened in the labour market. This is the context for the observed reforms that were undertaken and that will be discussed in later chapters. When I do discuss reform I want the reader to have a strong grasp of the data. For instance when discussing unemployment benefit reform it should be known how many people are in the population, how many are in the labour force, how many are unemployed, how many are long term unemployed, as well as a general idea as to age, education and occupation. To this end much of the data will be presented using a range of graphs, tables and pie charts. I hope to balance the thoroughness of this effort with clarity of presentation.

The structure of the chapter is as follows; in section one I elaborate on the headline figures and broaden the scope of the analysis for the period 2002 to present, in section two I examine labour market issues, and then in a final section I conclude. Given the media attention that usually follows the publication of certain data, most are familiar with the headline figures for unemployment. For many this is the clearest indicator of economic well being or otherwise. I elaborate on these figures to gain a deeper understanding than the raw data might convey. To achieve this aim I examine a number of aspects of the labour market including participation, employment and unemployment. The intention is to create

a 'story' of the labour market over the period under study. These headline figures might even be all a person needs to understand why reform was needed or what characterises the labour market under crisis. Before I outline this narrative I must set the context and this will be done by describing the overall state of the economy along with the overall political arrangements. This will involve figures for Gross Domestic Product (GDP) and a note as to which parties were in power.

As for the narrative itself, eight measures of participation, employment and unemployment will show that a broad story transpired involving significant changes for the labour market. For participation, figures like numbers in the labour force and the employment rate give an idea as to what the labour market looks like under full employment. They show two versions of full employment, one stable and the other inflated. Looking at sectoral distribution and numbers employed over time we see a crisis in action. The labour market crisis really began in 2008 when the collapse of the construction industry cost thousands of jobs. This introduces the problem of structural unemployment. In concluding the narrative it will be made clear that three distinct phases are evident from the data. Conclusions can be made from the narrative but many issues arise. The next section addresses these labour market issues again under the themes of participation, employment and unemployment.

The aim of this second section is to more fully uncover what happened in the labour market from 2002 to the present. This takes the analysis further than the headline figures. Issues of relevance to participation like immigration are addressed. What accounts for the large increase in labour force numbers? One issue of importance to employment is the trend towards part-time work. Is this the future of work? Of importance to unemployment is the education profile of the unemployed. Is stagnation another term for structural unemployment? These are the questions key stakeholders grapple with when forming reform proposals. My hope is that the reader will take them on board and have them in mind for when I discuss labour market institutions in later chapters. This is the purpose of chapter one. I want to convey an understanding of the labour market that allows the reader to fully grasp the issues at hand. This understanding is crucial to any analysis of how the recent unemployment crisis has shaped Irish labour market institutions. In concluding this chapter I will provide a summary of the recent history of the Irish labour market. The 'headline figures' suggest a discernible narrative of three distinct phases and the labour market themes suggest issues that exist for policy makers. The summary will address both these elements. If the period were divided into pre- and post-crisis, this would not have

allowed me to give adequate attention to what I see as three distinct phases. An alternative set of headings might have been pre-crisis, crisis, and post-crisis. Upon completion I have no doubt I will have provided the reader with the context of the observed reforms.

## **1.2 - A labour market narrative**

The Quarterly National Household Survey presents data on a range of variables and from the figures a narrative is discernible over the period beginning with a new programme for government in 2002 to the present. The data goes back a little further but an analysis of this period alone will suffice for the purposes of my thesis. The thesis concerns Irish labour market institutions and the unemployment crisis and more specifically how these institutions were reformed in the face of crisis. This period shows institutions functioning under full employment and institutions functioning under crisis. This is the context for recent policy formation and the institutions which are called upon to function efficiently through all the extremes of the business cycle. The period is characterised by a property bubble that didn't recede naturally and consequently burst leading to a sharp crisis. This means the period offers a snapshot of labour market conditions of exceptional circumstance rather than a more usual recession. It can however be argued that the more recent data, which shows a recovery, offers us a fuller range of circumstances with which to judge the efficacy of policy design. The rationale of this design may be discerned from the relevant programmes for government which will be discussed in later chapters. This particular chapter is solely concerned with the narrative and issues that the QNHS presents.

### **1.2.1 - The Macro-Economy Context**

As with figures for unemployment, figures for Gross Domestic Product (GDP) give an indication as to economic well-being or otherwise. Growth or contraction in GDP will result in a consequent growth or contraction in employment and so I present figures for GDP from 2002 to the present to indicate the overall 'health' of the labour market during this period. GDP will suffice for my purposes, although with a large presence of foreign owned firms in Ireland Gross National Product may be a better indicator of health. GDP stood at 130,717 million euro in 2002 the year Bertie Ahern as Taoiseach published the joint Fianna Fail/Progressive Democrat (PD) programme for government. The Progressive Democrats were an economically liberal party and Fianna Fail may be fairly described as centre-right. With 81 seats compared to just 8, Fianna Fail held the majority of ministerial positions.

Over the term of this government the figure for GDP increased to 177,573 million euro and Table 1 shows both absolute figures and annual percentage changes for this variable. This increase, from 2002 to 2007, might indicate a healthy economy growing strongly. The corresponding figures for the labour market also show an impressive record and the economy was lauded internationally for its success. I will describe this phase of full employment more fully below. My next phase begins with the new Fianna Fail/PD/Green Party (78, 2 and 6 seats respectively) coalition government of July 2007. Within less than a year of taking office, the crisis had struck the economy. GDP decreased 5% year on year over 2007 to 2008 and by a further 10% year on year 2008 to 2009. Crisis in the global economy played itself out in Ireland as adverse international developments compounded the bursting of a construction bubble leading to twin banking and fiscal crises. In fact the National Economic and Social Council (National Economic and Social Council 2009) identified five crises; banking, fiscal, economic, social, and reputational. GDP returned to growth in 2011 but the effects of all these crises remained. In January 2011 a Fine Gael/Labour Party coalition government came to power and initiated a programme for national recovery. With 76 seats compared to 37, Fine Gael, which is a centre-right party, held most of the ministerial positions. Both parties were committed to bringing Ireland's fiscal deficit into accordance with the 3% limit set out under the European Union's Stability and Growth Pact.

Table 1: GDP (000,000s) at current market prices and Annual percentage changes, 2002 to Present.

		2002	2003	2004	2005	2006	2007
Phase 1	GDP at current market prices	135955	145557	156143	170188	184995	197202
	Annual percentage change	11.5	7.1	7.3	9	8.7	6.6
	Annual inflation	4.96	2.02	2.65	2.36	4.93	4.7

		2007	2008	2009	2010
Phase 2	GDP at current market prices	197,202	187,756	170,097	167,583
	Annual percentage change	6.6	-4.8	-9.4	-1.5
	Annual inflation	4.7	1.15	-5	1.29

		2011	2012	2013	2014	2015	2016
Phase 3	GDP at current market prices	171,939	175,561	180,298	194537	262,037	275,567
	Annual percentage change	2.6	2.1	2.7	7.9	34.7	5.2
	Annual inflation	2.45	1.22	0.17	-0.31	0.1	

Source: Central Statistics Office and inflation.eu

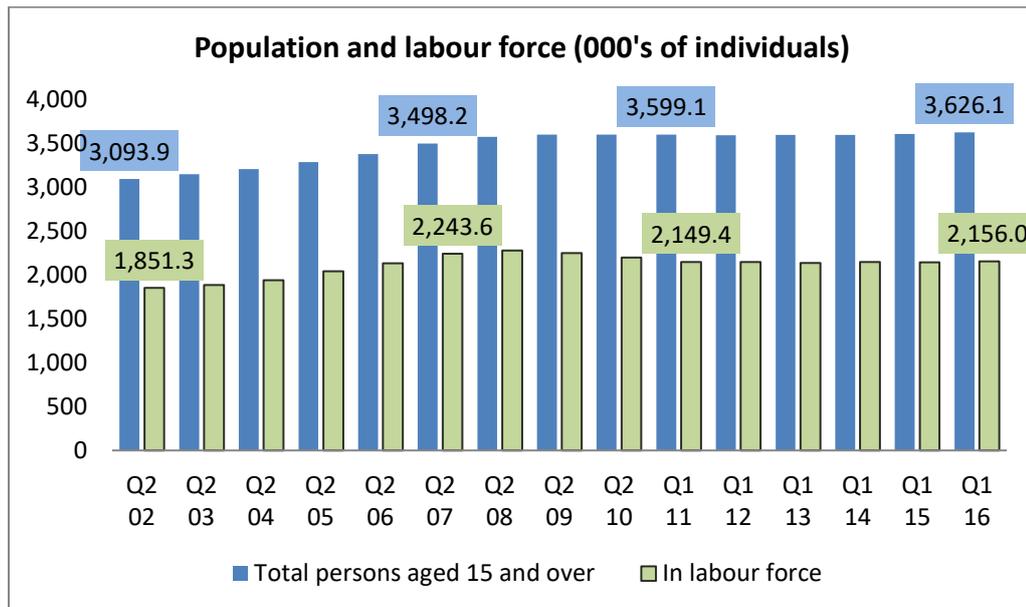
Table 1 divides the period into three phases. Coincidentally or otherwise each phase begins with a change in government. The first phase, with high GDP growth, translated into full employment. The second phase shows a huge drop from 6.8% nominal growth to 5% contraction in the space of a year. This resulted in a crisis in the labour market. Bracketing Ireland's labour market crisis chronologically or indeed considering if it is still ongoing will be discussed later. For the purposes of contextualising reform of the labour market I categorise this phase, from 2007 until 2010, as a crisis. The final phase shows a recovery in GDP which translates to recovery in the labour market. So this is the context for my labour market narrative. Ireland's recent economic history is far more dramatic than anyone would have envisaged in 2002. It comprises three phases, exceptionally high GDP growth, historic crisis and then an arguable recovery.

These three phases characterise the national economy and consequently the labour market over the period 2002 to the present. Examining the data entails eight different variables measured by the CSO. Together these variables or measures give an almost complete picture of the current labour market situation. They show its size and composition and looking at figures over time its development. Later in this chapter my analysis will go beyond what you might expect from broadsheet commentary but for now only the headline figures will be discussed and analysed. I organise the narrative into three themes; participation, employment and unemployment. Participation refers to the number of people available for work. It refers to how many of the working age population are

participating in the labour market. Higher participation means there are more people available for employment and that more people consider themselves workers. This stock of labour, or labour market participants, has changed over the course of the three phases.

### 1.2.2 - Participation

Figure 1: Population and labour force (000's of individuals), 2002 to present.



Source: Central Statistics Office

Figure 1 shows the population of persons aged 15 or over and those in the labour force quarterly from 2002 to present. The labels indicate the exact figures for the quarter when each phase begins. Phase 1 of full employment shows a large increase in both population and labour force. To place these figures in context I draw on some other CSO figures<sup>1</sup>, those for the entire population, that show the entire population stood at 3,917,200 in 2002 and 4,593,100 in 2013. This increase in population of over 600,000 over five years was significant. I have not estimated what this growth rate would have entailed for a current population figure had it continued but it seems it was unsustainable. Whatever about the demands on national infrastructure this would have placed major demands on the labour market. The labour force increased by around 400,000 over this period meaning this amount of new jobs had to be created to keep unemployment stable. The CSO population

<sup>1</sup> See <http://www.cso.ie/en/releasesandpublications/er/pme/populationandmigrationestimatesapril2013/>

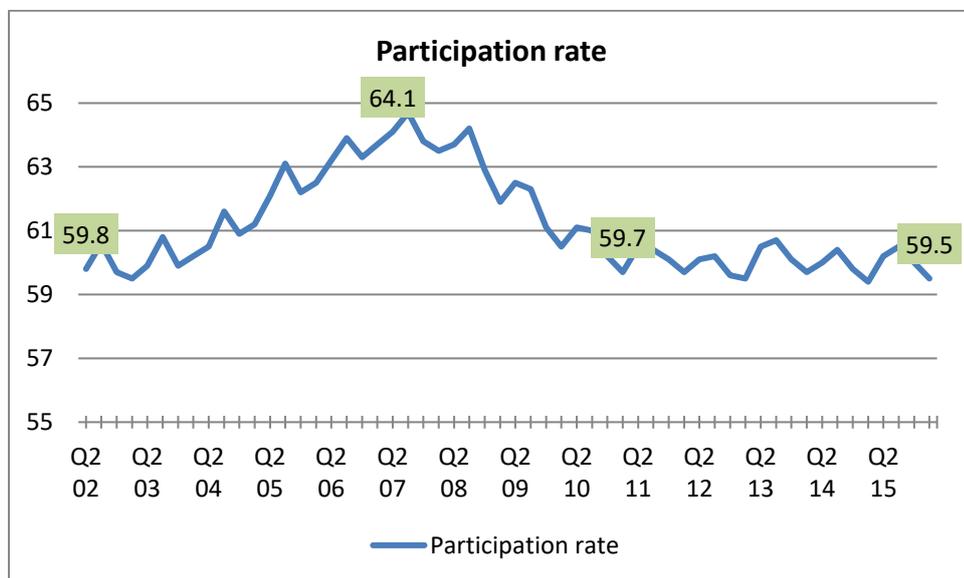
figures show that the population's natural increase averaged around 20,000 in the years before our periodisation so a question arises as to where these numbers came from, and the obvious answer is immigration. The net immigration figure for 2002 to 2007 inclusive is around 330,000 and this coupled with the natural increase explains the large jump. It is worth remembering that as this is a population aged 15 or over, these are working age people. That these people were motivated by employment is probably true and this explains why the labour force numbers show an almost exactly corresponding increase. This was a major economic migration and this issue will be discussed later.

In the next phase, that of crisis, we see a deviation of the figures as the population increased and the labour force shrank. The increase can be attributed to the population's natural increase as fifteen years ago births would have outnumbered deaths by around 20,000. This yearly increase resulted in the working age population going up by almost exactly 100,000 from 2007 to 2011. With net immigration neutral in 2009 this phase gives us an idea of how the working age population should change naturally over the short-term. Different growth will be seen afterwards when the effects of a higher natural increase take effect. This higher surplus of births over deaths averaged around 40,000 from 2002 onwards. Such an increase in population is manageable compared to the rate seen during the boom. I mentioned earlier that the demands on infrastructure and so forth would be greater than what government could manage. For an idea of what the government must cope with in future the reader is referred to the European Commission's 2012 Ageing Report (Commissison 2012). This report projects population changes out to 2060 for the European Union and discusses the implications with regard to key government services like education and health. Although the working age population increased, the labour force shrank, and by a quite considerable 94,200. The economic crisis meant less job opportunities were available to participants and people simply left the labour force. Although this partly explains the decrease, a question remains over where these people went. Not everyone emigrated but instead others found refuge in areas of the economy outside the labour force as the crisis worked its way through the labour market. This issue will be dealt with later in the chapter.

The final phase from January 2011 until present indicates a recovery in the labour market. The number of persons aged 15 or over increased marginally despite emigration. The purpose here is not to discuss the advantages or disadvantages of having either an increasing or decreasing working age population. In any case Ireland's was arguably stable.

The numbers of those in the labour force increased by around 7,000 which when factoring in emigration indicates some form of stability had returned. This was stability after the large dropping out during the economic crisis. It was mentioned that emigration alone cannot explain the 100,000 or so who stopped participating over the crisis phase. This issue will be discussed later as well but for now I will suffice to mention that people participate in the labour force through both necessity and incentive. People participate out of necessity and this explains why there will always be a large proportion of the population in the labour force. However, people were also incentivised economically during the full employment phase to participate. It may be that opportunities arose to earn money that weren't there before. After the crisis and slowdown, there was less of incentivisation of persons and people withdrew their labour. Consequently the labour force stabilised as people turned to education, home duties or retired. Three phases have been presented to explain the broad changes seen in the figures. At this last phase, which I characterise as being of recovery, the working age population had increased but labour force participation was quite lower than its peak.

Figure 2: Participation rate, 2002 to present.



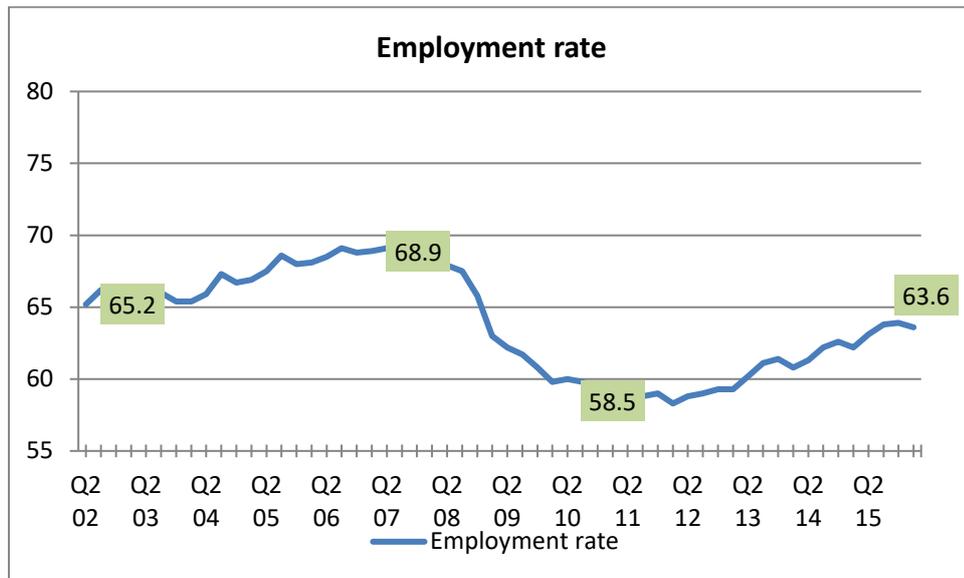
Source: Central Statistics Office

As the working age population increases it might be expected that the labour force increases and it broadly does. Although the numbers for the labour force and population are somewhat skewed by the exceptional economic boom we can see that the labour force

has expanded along with the population since 2002. The participation rate of figure 2 shows how these two measures relate to each other more precisely. It gives the labour force as a percentage of the working age population. It shows the proportion of the working age population participating in the labour market. The first phase of full employment shows an increasing participation rate as more of the working age population join the labour force. As the economy expanded, more job opportunities would have arisen and so people were incentivised to take up employment. The participation rate increased from 59.8% at election time 2002 to 64.1% at election time 2007. This 4.3% increase amounts to around 150,000 more people participating in 2007 compared to how many who would have been participating at the 2002 rate. Where these people came from and what they were doing beforehand will be discussed later. For now it only deserves mention that level of change in the participation rate resulted in a massive change in the absolute number active in the labour force. There was a major societal change as a culture and ethos of work took hold. These numbers signify a shift in attitudes towards work and represent the effects of a booming economy.

In the crisis which soon followed we see a fall in the participation rate until election time 2011. This 4.4% decrease in the participation rate to 59.7% amounts to a reduction in 2011 terms of around 158,000. It seems people retreated from the labour market and returned to their previous roles as students, home makers, retirees and others. With negative economic growth this is understandable and shows the transmission of GDP growth into the labour market. Despite recovery the prior incentivisation effect is not discernible with the participation rate at 59.5% in quarter 1 2016. GDP growth at the level seen during the first phase seems unlikely and thus there is a probability of the participation rate not returning to its peak level. The desirability of the current participation rate is deserving of discussion. The level of 2002, with healthy GDP growth, could be seen as the optimal and this would place the current rate at an acceptable position. This is my interpretation as I see the peak rate as a manifestation of an unsustainable and exceptional boom time economy. A desirable rate is important to know as it has policy implications. Areas of policy like childcare, health and education require careful planning. This thesis won't concern itself with the question of an optimal participation rate but it seems to me that the rates of 2002 and 2014 should give no undue concern to social planners.

Figure 3: Employment rate, 2002 to present.



Source: Central Statistics Office

Figure 3 shows the employment rate from 2002 to present with the rates for election and current years highlighted. The employment rate is the number of employed aged 15 to 64 expressed as a percentage of the total population aged 15 to 64. It simply shows how much of the working age population are actually working and unlike the unemployment rate doesn't complicate things with considerations like actual labour force participation. It provides a clear idea to policy makers and others of how many people are working in the country. Once again the consistently high GDP growth of phase 1 is reflected in labour market data. The figures for 2002 and 2007 both result from a strong GDP position and as with the participation rate a question arises over which number is the more desirable. I have stated that GDP increased annually by a rate that was exceptional and unsustainable from 2002 to 2007. Although it is true that more job opportunities for more people would seem to be better, there is an issue of sustainability. This is as true for the social planner as it is for the person financing a mortgage. Some might argue that this high growth was a good thing and that the economy may have had a 'soft-landing' with growth rates plateauing.<sup>2</sup> In either case, phase 1 of figure 3 shows what an economy enjoying a boom looks like with more and more of the population incentivised to take up new employment opportunities.

<sup>2</sup> <http://www.irishtimes.com/news/ireland/irish-news/bertie-ahern-to-banking-inquiry-i-did-make-mistakes-1.2287305>

The employment rate crashed from 69.1% to 58.5% in the space of four years. The exact figures will be discussed below but it is clear that such a reduction constitutes a crisis. More than one in ten persons of working age lost their job. I mentioned earlier that NESC considered Ireland as having five distinct crises at play and it is easy to imagine the effect such a loss of earnings would have nationally. GDP crashed by 10% in 2009 alone. Thankfully in the labour market as with the broader economy things appear to have stabilised somewhat with phase 3 showing a clear increase in the employment rate. However, this employment rate is still far off the level of 2002. The European Commission (Commission 2010) does provide some guidance as to a desirable employment rate but unfortunately the figure targeted in Strategy 2020 is based on a working age population of age 20 to 64 and thus a direct comparison with CSO figures is impossible.<sup>3</sup> Strategy 2020 is Europe's ambition for smart, sustainable and inclusive growth up until 2020. I have alluded to social planning in this participation theme of the narrative and Strategy 2020 is a broad ranging mix of policies that takes into consideration Europe's future population needs. Five key targets have been set and the employment rate is just one of them. The European Commission country target for Ireland is 69% to 71% which is below the benchmark 75% set for Europe as a whole.<sup>4</sup>

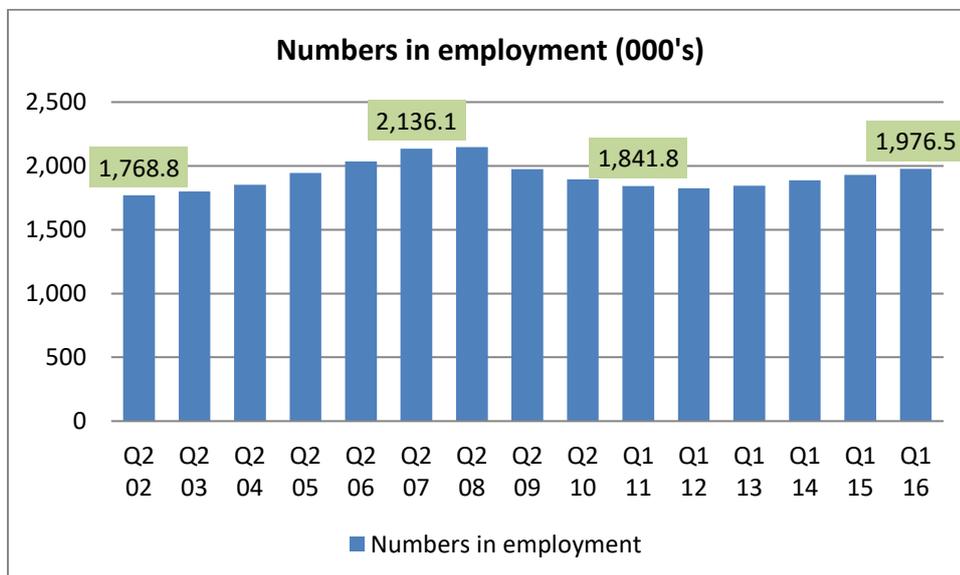
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<sup>3</sup> See [http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index\\_en.htm](http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index_en.htm)

<sup>4</sup> [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

### 1.2.3 - Employment

Figure 4: Numbers in employment (000's), 2002 to present.



Source: Central Statistics Office

The narrative turns now to the theme of employment and I attempt to convey an idea of the absolute numbers involved. I will begin with the CSO's numbers in employment data. Figure 4 shows how many people were in employment over the period 2002 to present. Phase 1 shows an increase from 1,768,800 persons in employment to a figure of 2,136,100. More and more people were working every year and this is a massive number of new income earners. This represents a sizable proportion of the population. If we imagine all of these people earning an average salary then we can grasp the increase in GDP seen. The standard interpretation is that transmission runs from GDP figures to labour market figures. So far the narrative has shown this to be true but another interpretation is possible from the data. It is true also that increasing population with increasing participation and increasing employment leads to GDP growth. This ties in with the figures seen for population, labour force and the employment rate and illustrates what constituted the boom. This fact that employment leads to employment will be discussed in a later chapter and it should be remembered that 367,300 more people were working in the country. Perhaps a form of virtuous cycle took hold that in theory only inflation could stop. Any inflation was of course tempered by euro membership and thus it seemed for many that growth would continue into the future.

Phase 2 reveals how these expectations were misplaced. It suggests that the unemployment crisis really began between 2008 and 2009 when employment dropped by 173,300 in the space of a year. Again we can imagine the effect on GDP of this amount of income earners losing their jobs. Along these lines it may be better to look at Total Domestic Demand (TDD) which the CSO shows dropped by 28% between 2007 and 2011.<sup>5</sup> TDD concerns the real economy with this figure illustrating how an unemployment crisis can transmission into an economic crisis, and with unemployment consequently leading to further unemployment. From 2010 on the employment numbers stabilise and phase 3 shows a sizeable increase from 1,841,800 to 1,976,500. This corresponds to the stabilisation seen in GDP and for now it looks like the general commentary that has any labour market recovery tied to GDP growth affirmed. The figures show employment has stabilised and that the downward spiral has been averted. That employment is higher today than in 2002 would be expected given the increase in population but the current employment rate indicates this situation must improve more with an expectation that the figure will reach 2,000,000. Taking account of these absolute figures is essential to the employment theme of the narrative. Also important is where people are actually employed and how this has changed over the course of the period. I will now look at how GDP and TDD changes transmitted into particular sectors of employment.

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[http://www.cso.ie/px/pxeirestat/Database/eirestat/National%20Accounts%20Quarterly/National%20Accounts%20Quarterly\\_statbank.asp?SP=National Accounts Quarterly&Planguage=0](http://www.cso.ie/px/pxeirestat/Database/eirestat/National%20Accounts%20Quarterly/National%20Accounts%20Quarterly_statbank.asp?SP=National%20Accounts%20Quarterly&Planguage=0)

Table 2: Employment by economic sector (000's), 2002 and 2007.

Sector	Q2 02	Q2 07	Change
Construction	173.4	273.9	100.5
Wholesale and retail trade; repair of motor vehicles and motorcycles	246.3	301.8	55.5
Human health and social work activities	156.8	211.7	54.9
Education	111.5	142.1	30.6
Professional, scientific and technical activities	83.5	110.9	27.4
Accommodation and food service activities	106.7	133.1	26.4
Administrative and support service activities	53.8	79.2	25.4
Financial, insurance and real estate activities	78.0	102.1	24.1
Other	80.3	98.2	17.9
Public administration and defence; compulsory social security	89.2	102.7	13.5
Transportation and storage	87.5	94.2	6.7
Information and communication	65.7	71.2	5.5
Industry	304.8	301.7	-3.1
Agriculture, forestry and fishing	121.4	108.7	-12.7
<b>Total</b>	<b>1,675.0</b>	<b>2,131.5</b>	<b>456.5</b>

Source: Central Statistics Office

Table 2 shows employment by economic sector for quarter 2 2002 and quarter 2 2007 with the corresponding changes over this period. After seeing how the labour force expanded and more people took up employment it is telling to see where all this extra activity took place. An increase in working age population coupled with high GDP growth meant new opportunities for work were available and these new workers demanded housing. This is why construction shows a massive 100,500 increase over the period. There would have been a lot of associated activity to cater for all these new construction workers and thus the wholesale and retail trade sector shows the next biggest increase of 55,500. The next categories are human health and social work activities and education. We already know that Ireland's population increased by a large amount over this period and these sectors would have been in demand. There is no doubt that the housing boom's contribution to government revenue would also be a factor in these two categories. This table provides insight into the question as to whether this was balanced growth or whether it was a bubble. In terms of where they started, most of the other categories show large increases. However, if we look at percentage increases then a rough estimation of near 60% clearly shows a relative explosion in construction employment. If we accept the opinion that Ireland did indeed experience a construction bubble then the table can illustrate imbalanced employment growth. This suggests that it was unfortunate that almost a quarter of the 456,500 increase in new employment was concentrated in the construction

sector. It could be inferred that the construction sector was leading the others and possibly growth in GDP itself.

**Table 3: Employment by economic sector (000's), 2007 and 2011.**

Sector	Q2 07	Q1 11	Change
Construction	273.9	108.5	-165.4
Industry	301.7	238.4	-63.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	301.8	271.3	-30.5
Agriculture, forestry and fishing	108.7	83.2	-25.5
Accommodation and food service activities	133.1	110.7	-22.4
Administrative and support service activities	79.2	64.9	-14.3
Professional, scientific and technical activities	110.9	103.6	-7.3
Financial, insurance and real estate activities	102.1	99.7	-2.4
Transportation and storage	94.2	94.6	0.4
Other	98.2	99.4	1.2
Information and communication	71.2	72.6	1.4
Public administration and defence; compulsory social security	102.7	104.5	1.8
Education	142.1	148.2	6.1
Human health and social work activities	211.7	235.1	23.4
<b>Total</b>	<b>2,131.5</b>	<b>1,834.7</b>	<b>-296.8</b>

Source: Central Statistics Office

Table 3 compares employment by economic sector for quarter 2 2007 and quarter 1 2011. This is the economy's crisis phase and shows how the sharp decreases in GDP and TDD discussed earlier transmitted into unemployment. We saw how construction accounted for a large amount of the employment increase during the boom phase and we can see it accounting for more than half of the decrease in the crisis phase. Over the period 165,400 construction jobs were lost out of a total of 296,800. When viewing these figures alongside the figures for phase 1 surely a bubble is the only suitable description. This is what the unemployment crisis was, a construction bubble burst leaving thousands suddenly without jobs and this fall off in activity followed through to other sectors of the economy leading to a sharp decrease in general employment. As mentioned earlier a global recession compounded the national crisis and this could be behind the category industry being placed in second place in terms of decrease with 63,300 losing their jobs. The prominence of large multinational companies in national industry that are more linked to global activity is no doubt a factor. Tourism was also affected by the global recession and thus accommodation and food service activities show another large decrease. I wrote earlier of causality and whether GDP was influencing the labour market or vice versa. This is a theoretical consideration that is not entirely unimportant to the narrative. As the sectoral distribution of employment allows us to decompose GDP growth somewhat, we can see

that a construction bubble burst and the global economy went into recession at roughly the same time thus explaining the drop in growth seen over this period. This reduction in economic activity for both affected sectors led to a further reduction in economic activity in other sectors most notably wholesale and retail trade which shows a 30,500 decrease. GDP measures only indicate activity and it is real economic activity that leads to economic activity and employment changes. Although this may seem self-evident it highlights the fact that a bubble in one particular sector can have positive and negative effects in other sectors. This is a key point of the narrative.

**Table 4: Employment by economic sector (000's), 2011 and present.**

Sector	Q1 11	Q1 15	Change
Wholesale and retail trade; repair of motor vehicles and motorcycles	271.3	270.5	-0.8
Human health and social work activities	235.1	246.5	11.4
Industry	238.4	246.3	7.9
Education	148.2	154.2	6.0
Accommodation and food service activities	110.7	132.3	21.6
Construction	108.5	121.8	13.3
Professional, scientific and technical activities	103.6	109.3	5.7
Agriculture, forestry and fishing	83.2	107.8	24.6
Other	99.4	103.0	3.6
Financial, insurance and real estate activities	99.7	102.3	2.6
Public administration and defence; compulsory social security	104.5	97.8	-6.7
Transportation and storage	94.6	90.7	-3.9
Information and communication	72.6	81.8	9.2
Administrative and support service activities	64.9	62.1	-2.8
<b>Total</b>	<b>1,834.7</b>	<b>1,926.4</b>	<b>91.7</b>

Source: Central Statistics office

Table 4 compares employment by sector between quarter 1 2011 and quarter 1 2015 with sectors ranked by current size. Economic activity generates economic activity and some sectors have a greater influence on growth towards full employment than others. Thus there is a focus on high skilled work that underpins the European Commission's Strategy 2020. The situation looks healthy from this perspective as the categories industry, professional, scientific and technical activities and information and communication are so prominent with more than 400,000 in employment between them. The category education is linked more so than others to these categories and this too shows a healthy level of employment. With Ireland's population increasing as it has and will in the future, the

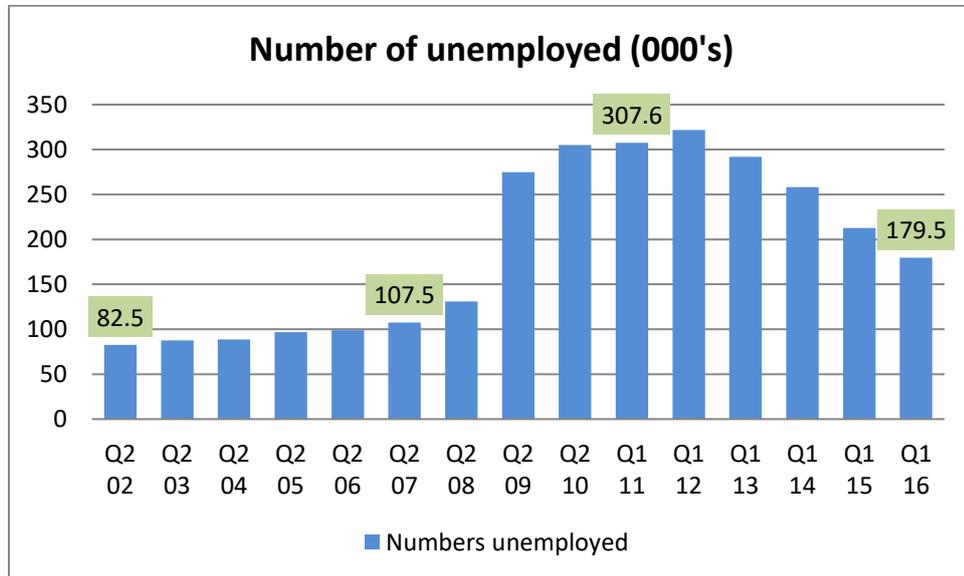
154,200 in employment in education are relatively secure. Also tied into demographic considerations is the human health and social work activities sector. This has an employment of 246,500. According to Strategy 2020, growth must also be inclusive and this raises two issues of particular importance to the sectors wholesale and retail trade and construction. The first sector is the largest with 270,500 in employment and it seems this sector might follow the others mentioned in terms of employment generation. But with such a large number in employment it constitutes a major share of the labour force and thus can generate a lot of economic activity that leads to employment in other sectors like financial, insurance and real estate activities and administrative and support service activities. Although these linkages are crucial to growth and the general economy, its employees are often in what can be described as 'precarious work'. Part of this is to do with the allocation of hours and this will be discussed later as a labour market issue. Another issue that demands an inclusive interpretation to Strategy 2020 relates to the construction sector. This is that many of its participants are low skilled and so lack the job mobility of other more educated workers. The labour market has many jobs that although not as sought after as others still need to be filled. These issues relate further to the dualization of the labour market and this is a trend that must be watched by policy makers.<sup>6</sup> Construction employment currently stands at around half of where it was in 2002 so perhaps this sector will lead growth in the future. Apart from industry most other sectors have actually increased their employment since 2002 with employment increasing by around 250,000 over the entire period. This may lead us to believe that perhaps what happened to employment in Ireland over the entire period was the bursting of a construction bubble exasperated by a global recession which greatly affected particular sectors more so than others.

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<sup>6</sup>See The Dual Labor Market: Theory and Implications, in The State and the Poor, edited by Samuel H. Beer and Richard Barringer, pp. 55-59. Winthrop Publishers.

### 1.2.4 - Unemployment

Figure 5: Number of unemployed persons (000's), 2002 to present.



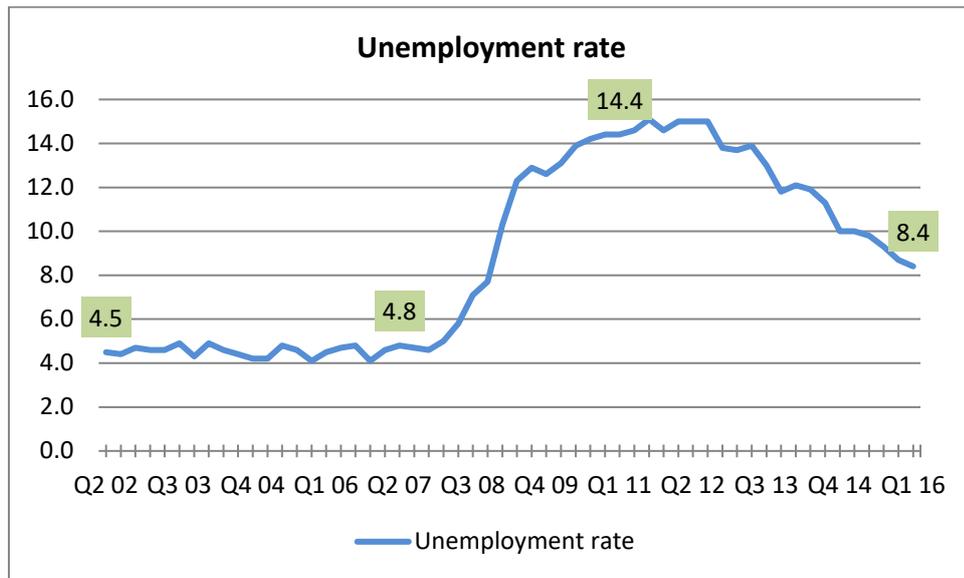
Source: Central Statistics Office

The narrative now turns to the theme of unemployment and to begin I want to give the reader an idea as to the numbers involved. Figure 5 shows the number of unemployed for each year since 2002 with the election years highlighted. In the other graphs we saw how phase 1 represented a boom economy with the construction sector driving growth and employment. The associated figures for unemployment show us what an acceptable level of joblessness looks like. Unemployment for the individual may be a traumatic experience with serious psychological let alone economic considerations although theory states some level is inevitable over the business cycle. That 107,500 people were unemployed is undoubtedly a bad thing although not amounting to a major economic problem. However, although policy makers should probably focus their efforts on areas of the economy needing serious attention, they should not really accept unemployment. A normative question exists as to whether anyone can classify any level of involuntary unemployment as acceptable. Ultimately, policy makers, with a responsibility of how to best maximise the general welfare with a limited set of resources, must make this judgement. In the context of the figures for participation and employment seen so far I would agree that this level was acceptable. This level would have been manageable from a policy perspective with the prospect of employment for each participant not unrealistic. A range of institutional

measures cater for the unemployed with unemployment benefit and active labour market policies the most prominent and relevant to this thesis. Keeping the unemployed out of poverty and in touch with the labour market concerns many government departments and later in the thesis I will be examining the particular institutional arrangements that have been put in place, particularly since the crisis.

The crisis phase really begins over the period 2008 to 2009 when unemployment jumped by a massive 144,000 in the space of a year. This is below the 173,300 fall off in employment over the same period and this difference indicates that some people either emigrated or exited the labour force as discussed in the participation theme of the narrative. I mentioned a NESC description of there being five distinct crises and these figures for 2009 are perhaps the most salient in the discussion. GDP contracted 10% in one year and this produced a catastrophe in the labour market. Aside from the distress caused for those participants affected this would have placed considerable demands on state services. It then jumped another 30,000 the following year bringing it on to 307,600 by 2011. This 200,100 increase in such a short time constitutes a crisis. Although it appears the numbers peaked in 2012 at 320,000 it can be argued that the country is still experiencing an unemployment crisis. As other aspects of the economy gain stability an unacceptable level of unemployed persons are without work. Policy makers must ensure that these persons both stay out of poverty and return to work. The first concern places considerable demands on the exchequer and will be discussed in a later chapter. The second concern raises the issue of structural unemployment. We have seen how employment changed by sector over the period and I suggested that the bursting of a construction bubble exasperated by a global recession meant that particular areas of the economy were affected more. This unemployment stems from particular sectors and with little prospect of growth returning to the levels seen before, these sectors will not be able to provide the same level of employment. Participants will have developed skills and competencies relevant to their employment but unfortunately these same skills and competencies have been rendered redundant. The age profile and education levels of these unemployed will be addressed further as a labour market issue later in this chapter. The key point to bear in mind about structural unemployment is that normal growth won't necessarily lead to reductions and so it requires policy makers to reintegrate participants back into new areas of the labour market for them to take up employment.

Figure 6: Unemployment rate %, 2002 to present.



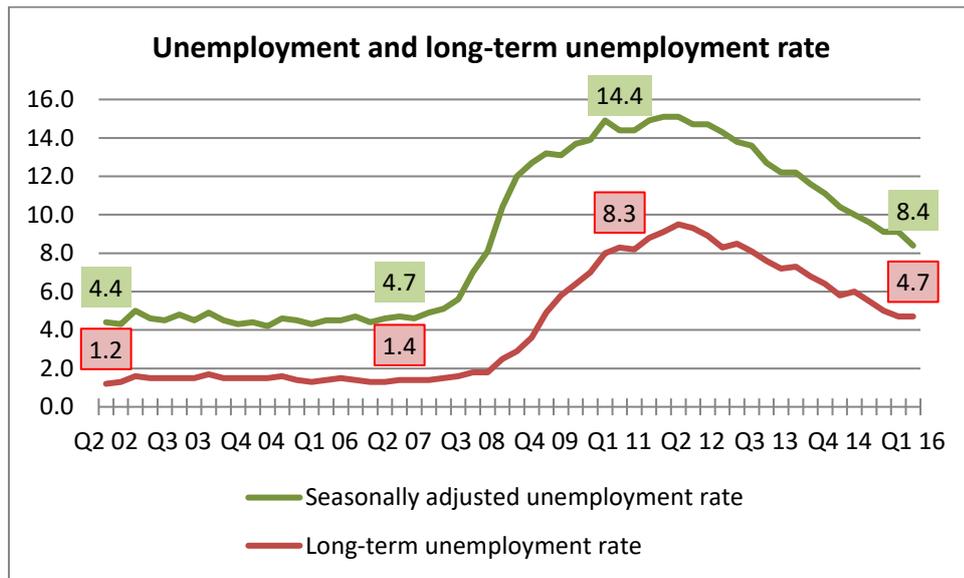
Source: Central Statistics Office

Figure 6 shows the unemployment rate over the period 2002 to present with the election years highlighted. The rate depicts the percentage of the labour force that is registered as unemployed. This headline figure features prominently in commentary whenever new figures are released and has come to be seen as a major indicator of economic recovery or otherwise. It offers a neat synopsis of the broader economy's health that describes more about the reality than figures for GDP. It tells us about the labour market. For many it is the ultimate goal of policy and not just with regard to labour market institutional arrangements. Indeed it is more than a mere indicator of economic well-being but a target for policy, both fiscal and, for many central banks, monetary. This rate will tell us when the economy has recovered fully from crisis. Like the other graphs three phases are evident. The first phase of full employment actually shows a small increase from 4.5% to 4.8% and this is attributable to an increase in the participation rate. Increasing the numbers of the labour force did bring the employment rate up to a new level although it also meant that more people who now considered themselves as participants registered as unemployed when not working. There are many reasons why a person may not be working and it may not necessarily be a bad thing if job matching is the issue. In this light a proportion of the 4.8% would have been waiting for suitable positions to become available. This level of unemployment could be called full employment and I have said throughout the narrative that this description of the labour market situation best suits this phase from 2002 until

2007. For the purposes of this thesis this sub 5% level in the unemployment rate will be interpreted as full employment.

Defining crisis is more difficult and perhaps its description of the second phase is more to do with the rapidity of the increase than the value of the rate. The rate increased from 5.7% to 12.2% in the space of a year as GDP and TDD collapsed over 2008 and 2009. We have seen how these figures translate into absolute numbers and discussion was made of the economic effects of having so many lose their jobs so fast. Normally the job separation rate is countered by the job hiring rate and hence the unemployment rate moves relatively slowly. But this rate of change in the numbers was something entirely new. This was an historic crisis and no one wants to imagine these figures ever being replicated again. The question of the crisis was to what degree would the collapsed construction sector and global recession impact on other areas of the economy. If unemployment leads to unemployment then when would this vicious circle end? It seems that other sectors of the economy were more resilient and so as GDP returned to growth the unemployment rate stabilised after peaking in 2012 at just over 15%. The most recent figures show a sizeable decline but much more improvement is needed to bring the rate to an acceptable level. This might take many years but hopefully some form of momentum has taken hold in the near term. This last phase of post-crisis recovery is being closely monitored by commentators at present to see whether current policy is effective and Ireland is on route to full recovery.

Figure 7: Unemployment and long-term unemployment rate, 2002 to present.



Source: Central Statistics Office

A person is categorised as long-term unemployed once they are registered as unemployed for twelve months or more. There is a social dimension to unemployment that deserves mention. In the modern post-industrial labour market people have accepted periods of unemployment as an inevitable part of the working life. But long-term unemployment is not as acceptable given the effects it has on the person in terms of a range of factors like their human capital, future earnings and general wellbeing. It often requires a different set of institutional supports and can lead to long-term state welfare dependency. Avoiding long-term unemployment specifically should be a key concern of policy makers. The problem goes beyond concerns as to labour market efficiency and with the numbers involved in mind we can see from the graph that a serious social problem exists. From reading the graph we see that once again three distinct phases are evident with the pre-crisis, crisis and post-crisis discernible. This graph in particular lends weight to the argument that we are actually still in crisis with regard to the labour market as unemployment started low, rapidly increased and then stayed high. The unemployment crisis is still evident. The figures for phase 1 show that only a small percentage of the labour force were categorised as long-term unemployed during the time the economy experienced full employment. This is a tiny proportion of the general population and so not discounting its negative effects on individuals, long-term unemployment was not a problem. Policy makers would have been more concerned with labour market efficiency. Different definitions of labour market efficiency exist and in another chapter I hope to

introduce a modern variety of the idea. A narrow interpretation has it that efficiency is about the system's ability to allocate participants to firms that need their labour producing the greatest level of output. This interpretation concerns frictional unemployment and matching. But from phase 1 we can see that the labour market must also take account of the long-term unemployed as they constitute a sizeable proportion of the total unemployed.

During phase 2 we see that the long-term unemployment rate increased more gradually than the general rate during the crisis. The participation theme of the narrative tells us that participation decreased during this time and perhaps some of the new unemployed exited the labour force to pursue other options. The employment theme of the narrative tells us that the construction sector was the most severely affected and most other sectors showed a decline in employment also. This suggests that most of the new unemployed did not take up new employment and thus the participation explanation better accounts for why the two rates didn't follow each other directly. The increase is still sharp though and unprecedented in Irish labour market history. The effects of long-term unemployment on the individual have been mentioned but there is also a broader effect that impacts on communities and society in general. This was a social as well as an economic crisis. Phase 3 contains the peak of the rate at 9.5% for the beginning of 2012. The situation has improved since then with the most current rate at 4.7%. Like with the figures for GDP and numbers of employed, perhaps there are indications that the outlook is positive. Further improvement can occur and one can only guess as to when the situation will return to a rate nearer the full employment level.

Before this happens policy makers must address the issue of structural unemployment. From analysing the graph we can roughly estimate the extent of this problem by decomposing both rates into a natural unemployment and structural unemployment categorisation. Taking the most current figures we see that a gap of 5.3% exists between unemployment and long-term unemployment. This level in short-term unemployment indicates that the crisis, which was described earlier as escalating unemployment, is over. This natural rate is manageable from a policy maker's perspective and still allows for a degree of efficiency in the labour market. What should concern policy makers more at present is the other long-term unemployment component, a considerable proportion of which can be inferred as being structural. So a structural unemployment problem, or crisis, exists. The employment theme showed how industry and construction sectors haven't

made any considerable recovery since the crisis and so we can infer that a large proportion of the long-term unemployed come from these sectors. These participants must be reallocated to sectors in demand of labour and in order to do this the matching function must improve. Participants must retrain as the economy restructures. Active labour market policies offer the solution and thus their design has taken on a significant amount of study. They have become intrinsic to ideas on the labour market system's efficiency.

### **1.2.5 - Summary of narrative**

The participation theme showed how the economy responded to sustained levels of high GDP growth with a first phase from 2002 to 2007 of full employment drawing more and more people into the labour market. Over this period the population increased by around 400,000 as both people returned and migrants entered the country. Both groups were eager for work and the participation rate increased by around 5%. This was a major societal change as a culture and ethos of work took hold with more and more people deciding that they wanted to spend their time working. The employment rate effectively soared to an amazing 69.1%. Almost seven in ten of the population aged 15 years to 65 were working and thus the economy boomed. The employment theme showed how in the next phase of 2007 to 2011 this boom came to a sudden end as employment dropped by 173,300 in the space of a year and total domestic demand dropped by 28% over the period. This is what the unemployment crisis was; the bursting of a construction bubble exasperated by a global recession left thousands suddenly without jobs and this fall off in activity followed rapidly through to other sectors of the economy leading to a sharp decrease in general employment. Over the period the construction sector lost 165,400 jobs with Ireland's sectoral distribution of employment now looking a lot more balanced. Perhaps the construction and industry sectors are still depressed and although it remains unclear when general employment will reach 2,000,000 again, there is some hope that early recovery will take on momentum. The unemployment theme of the narrative highlighted the difficulties faced by policy makers in a third phase of labour market recovery from 2011 until present. The unemployment rate indicates that from a high of over 15% in 2012 the worst is over and that growth can be expected in the short to medium term. But although other aspects of the economy gain stability an unacceptable 179,500 unemployed persons are still without work. Policy makers must ensure that these persons both stay out of poverty and return to employment. To help them they should make a natural rate and structural rate distinction. The key point to remember about structural unemployment is that normal

growth won't necessarily lead to reductions and so it requires policy makers to reintroduce participants back into the labour market. Active labour market policies offer the solution and thus their design has become intrinsic to ideas on the labour market system's efficiency. The narrative contains three distinct phases entailing great changes for the labour market. We now turn to the labour market issues that arose during our discussion.

### **1.3 - Labour market issues**

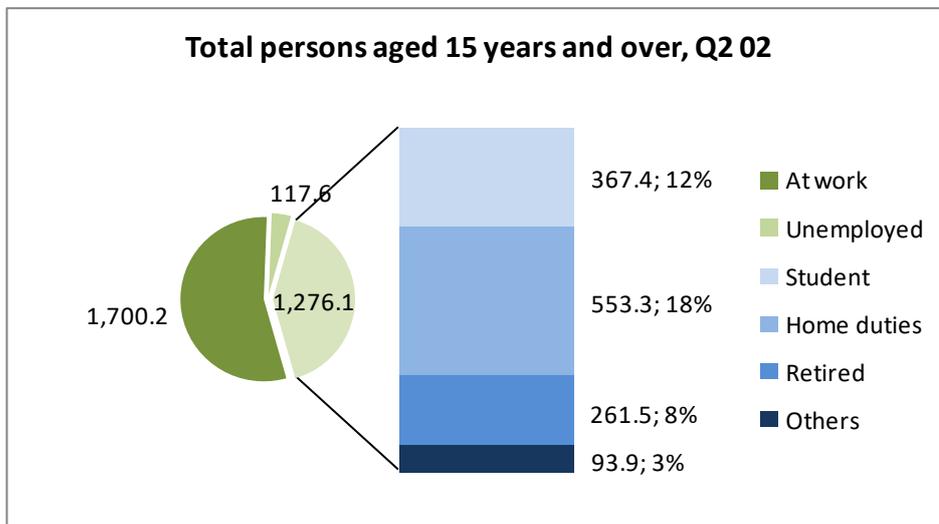
Analysing the CSO data from 2002 to the present suggests a narrative. The analysis also indicates some issues that must be addressed by policy makers. These issues are suggested by trends in the labour market that have arisen naturally through the dynamics of the market mechanism. It is my opinion that the state must govern the labour market and actively participate in it where necessary. The market mechanism by itself cannot deliver an adequate level of either labour market efficiency or equity. The modern market economy indicates a role for the state and calls for the mediation of the supply and demand of labour through a set of institutions. Such institutions must mediate between firms and participants over issues that arise as the supply and demand for labour try to achieve equilibrium. Throughout this thesis the idea of policy design and its relation to these issues will be discussed. This section will outline some of these labour market issues as a necessary preliminary to later discussion of specific policy. It is hoped that from the figures an understanding of the key trends that have become apparent will be facilitated. I have already referred in the narrative to what I have determined as the main issues policy makers must grapple with for the foreseeable future. I divide my analysis into three themes, participation, employment and unemployment. The participation theme begins with an analysis of how the population is divided between those who work and those who don't. There may be very many reasons why people do not work but European Commission labour market targets indicate that more should be participating. Migration is another issue which affects participation and has in the past had a useful role in terms of labour market functioning. But is it socially desirable? The employment theme begins with a description of how work is divided between full-time and part-time workers. This is an issue that when placed alongside the precarious position of particular occupations raises a broader issue which is the dualization of the workforce. The unemployment theme will look at the age of the unemployed and their educational status to provide further insight into the problem of structural unemployment. These issues discussed across the three themes are central to

considerations of labour market efficiency. For policy makers seeking to best design institutions so that they facilitate the markets allocation of labour, they are unavoidable issues.

### **1.3.1 - Participation**

In the narrative I stated that people participated either out of necessity or incentive. Such a statement fits the data that we have seen thus far for participation. There appears to be a certain amount of people for whom work is essential in order to maintain their standard of living, pay their mortgage or otherwise. This group constitutes the vast majority of participants. Alongside this group are a set of participants for whom work is an option. This group participated when the economy was booming and employment was available. They were incentivised to participate. The following figures suggest an idea as to what these persons might have been doing had they not been incentivised. These are the other options that persons pursue when not participating in the labour force. As to an optimal participation rate I decided in the narrative that the current participation rate was sustainable and not necessarily a subject of concern to social planners. However, this view is perhaps at odds with the European Commission given their Strategy 2020 employment rate target for Ireland. That target necessitates a higher participation rate and this may have implications for social planners. In reality, it seems that irrespective of how many people are participating, what matters is employment opportunities and the European Commission's target hinges more on future growth than on anything else. The other participation issue highlighted in the narrative related to migration. I mentioned that a mass economic migration had occurred over the course of the boom and this migration provides an alternative explanation to incentivisation as to why Ireland's participation rate increased as it did. It appears that migration also hinges on growth and during times of contraction emigration can act as an automatic stabiliser bringing unemployment down. The figures below will shed more light on these issues.

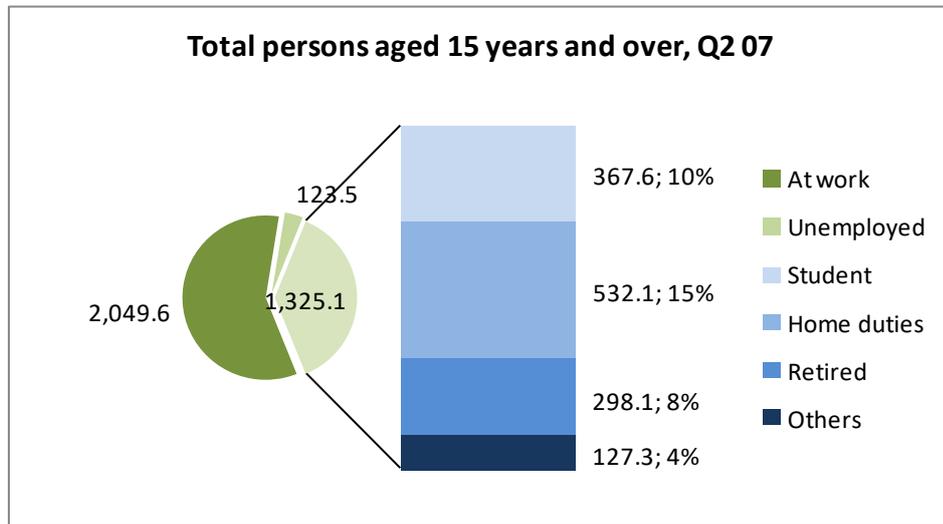
Figure 8: ILO status of total persons aged 15 years and over, Q2 2002.



Source: Central Statistics office

Figure 8 gives the six categories of ILO status that divide the working age population. There is some discrepancy between the figures we see for the 'At work' and 'Unemployed' categories and what we have seen so far. There are various reasons for this, such as those unemployed who categorise themselves as not part of the labour force. One result of this is that the calculated participation rate here differs significantly from the official CSO participation rate. In any case it gives us a broad idea as to the number who have taken options other than working. The biggest group not working are those categorised as being on 'Home duties' with 553,300 individuals or 18% of the working age population. Given that this group carries out essential work there is merit to the argument that this work has an economic value given its obvious contribution to the broader economy.

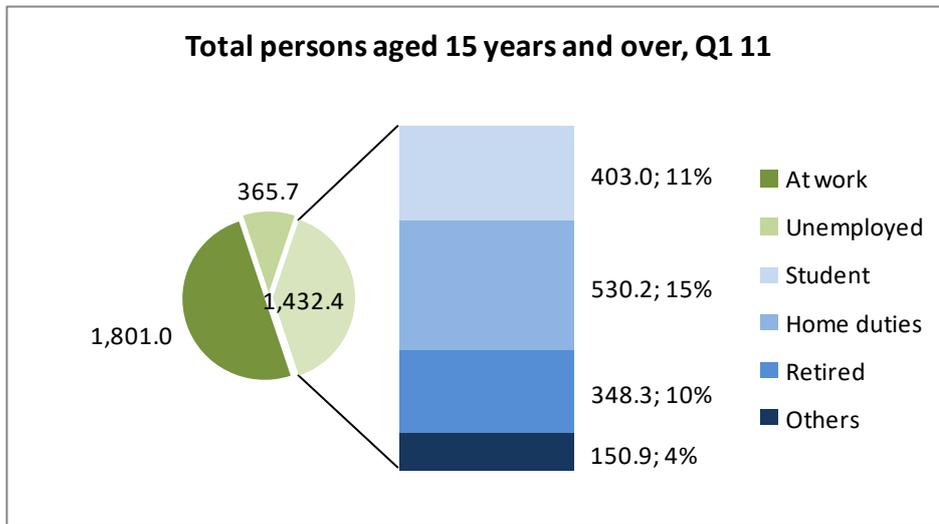
Figure 9: ILO status of total person aged 15 years and over, Q2 2007.



Source: Central Statistics Office

Figure 9 shows the dispersal of the population across the six ILO categories for the year 2007. This gives us a picture of the economy at the peak of its boom and it demonstrates the incentivisation of non-participants into the labour force. It is important, however, not to overstate the extent of this incentivisation. Although the percentage share of the non working categories decreases, the absolute figures are roughly unchanged. The percentages change because of the large increase in those categorised as 'At work' and this is due to immigration. In actual fact the numbers in education remain largely unchanged, 'Home duties' decreases 20,000, and 'Retired' actually increases by more than 30,000.

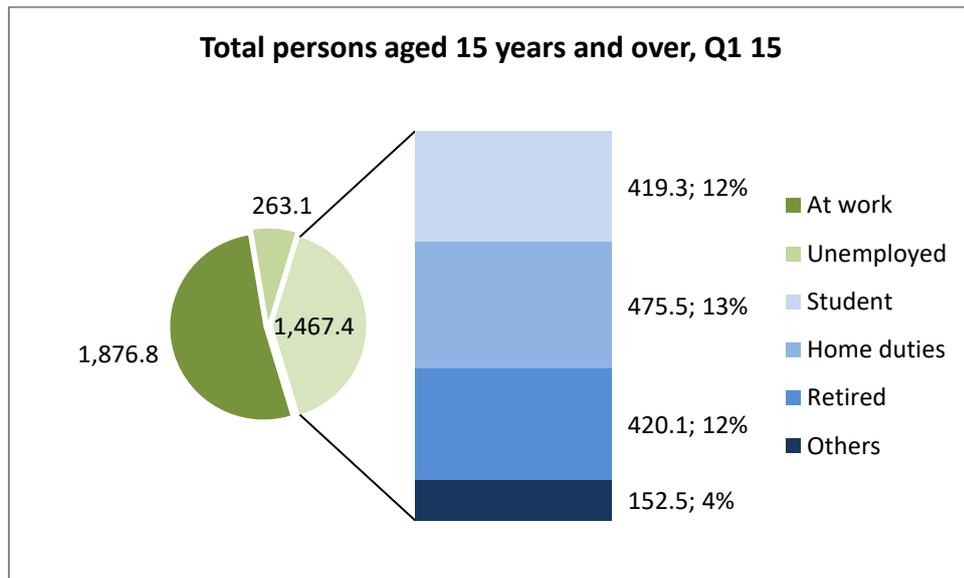
Figure 10: ILO status of total persons aged 15 years and over, Q1 2011.



Source: Central Statistics Office

Figure 10 shows the dispersion of the population among the ILO categories for the year 2011. What stands out is the large jump in those categorised 'Unemployed', a massive increase of 242,200. The category 'Student' increased significantly by almost 40,000 during this period. Perhaps it is that young workers retreated from the labour market when work opportunities were no longer available. In such an economic environment education could be construed as a good option. 'Retired' also shows a large increase and this may not be due entirely to demographics. Perhaps people saw retirement as an attractive option at the time, or perhaps some of the 50,000 had no choice. In either case the share of the population not participating in the labour force had increased since the crisis. The increase in these categories helps account for the drop in participation seen during phase 2 and answers the question as to where these participants went. If incentivisation is the issue then it is perhaps surprising that the category 'Home duties' has not increased its share back to the level previously seen. This is because with less employment opportunities people should retreat from the labour market. It may be that a mix of social, cultural and institutional factors provide an answer.

Figure 11: ILO status of total persons aged 15 years and over, Present.



Source: Central Statistics Office

Figure 11 brings us to the final year of analysis. As the population increased by a large amount during the period 2002 to present you would expect all of the categories to have increased in size. However, 'Home duties' has decreased in size and this may be attributable to an incentivisation effect. Compared to 2002 around 75,000 less people are categorised as on 'Home duties'. If some of this number retired and weren't replaced by younger individuals one might surmise that recently the younger cohorts of the population are taking up employment rather than staying at home. Opportunities to work and increased income are the incentive. Students have increased by more than 50,000 since 2002 and this increase really took off after the economic crisis. As employment becomes harder to attain, for many the actual choice is between unemployment and education. Government initiatives to improve accessibility to education are no doubt a factor in encouraging this trend. 'Retired' shows a massive increase of around 160,000 since 2002 and there could be various reasons for this. Although demographics no doubt play a large role there would be many in this category that were forced into retirement by a weak labour market. For many people these categories are not options and are in fact necessitated by circumstance. This may cast some doubt on the assumption that people are freely choosing between participating in the labour force and otherwise. In any case some degree of incentivisation appears to be at play over the period in question. This incentivisation depends on growth as new opportunities to work and increased income could persuade members of any category to take the option of participation.

The next labour market issue relevant to the theme of participation is migration. The narrative showed that a major economic migration occurred over the years 2002 to 2007 with around 330,000 net migrants entering the country. This increase coincides with the accession to the European Union of many eastern European states in 2004. With a booming economy Ireland would have been seen as an attractive destination for young foreign workers. These people were eager to work and the figures show that the majority quickly took up employment. Irish persons who previously emigrated were attracted back home by the prospect of employment and CSO population figures support the view that these two groups constituted the bulk of this migration.<sup>7</sup> It was mentioned that such an increase in population was unsustainable given the demands it would place on state infrastructure and state services and thus the current stabilisation was welcome. Another concern for policy makers would have been the integration of these workers and their families into Irish society as migration has in the past produced much publicised problems in other countries. However, it appears these new participants took up employment quickly and integrated easily, with this major economic migration contributing to Irish society.

**Table 5: Net migration (000's), 2002 to present.**

	Immigrants	Emigrants	Net migration
2002	66.9	25.6	41.3
2003	60	29.3	30.7
2004	58.5	26.5	32
2005	84.6	29.4	55.1
2006	107.8	36	71.8
2007	151.1	46.3	104.8
2008	113.5	49.2	64.3
2009	73.7	72	1.6
2010	41.8	69.2	-27.5
2011	53.3	80.6	-27.4
2012	52.7	87.1	-34.4
2013	55.9	89	-33.1
2014	60.6	81.9	-21.4
2015	69.3	80.9	-11.6

Source: Central Statistics Office

<sup>7</sup> Once again see <http://www.cso.ie/en/releasesandpublications/er/pme/populationandmigrationestimatesapril2013/>

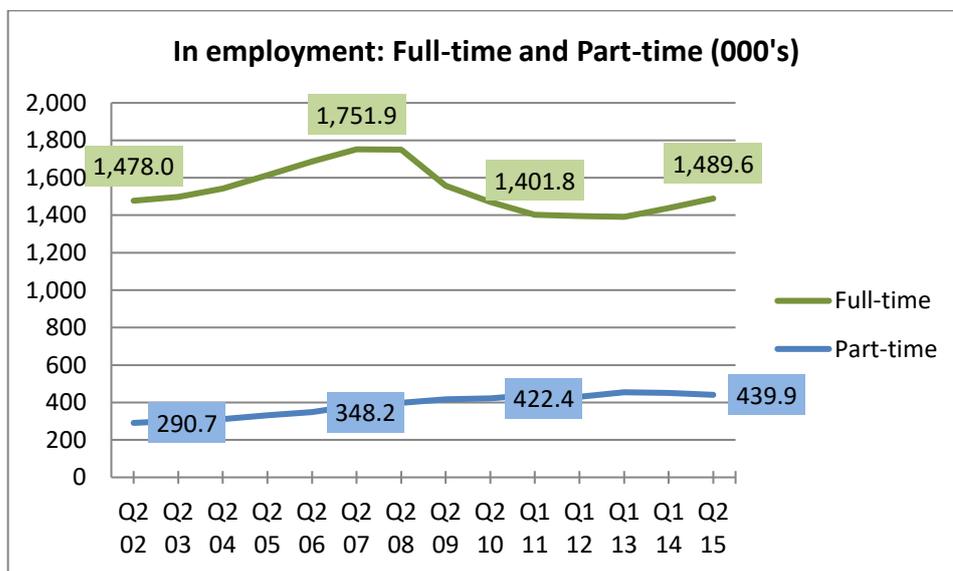
With economic crisis this net immigration turned into net emigration and table 5 shows an almost neutral rate of migration for the year 2009. After that year the number of emigrants has been steadily increasing and so it is reasonable to expect net emigration into the future until sustained economic recovery takes hold. This emigration, although easing pressure in the national labour market, is widely regarded in the media as a problem. It has an effect on local communities as well as the broader social fabric. Although the emigrant experience can be positive it may continue to be regarded negatively by press and public. Being relatively highly educated and English speaking Irish young people have an emigration option open to them that the ranks of the youth unemployed in other European countries have not available. Rather than enduring long term unemployment it appears the young take advantage of these circumstances. The CSO population figures mentioned earlier show that Irish make up the vast bulk of people now emigrating from Ireland. In summary, from these figures it seems that a large number of European and Irish people came to Ireland to work during the first phase of full employment and then stayed. Now a different group of young Irish are emigrating to other English speaking countries. Emigration is an option and, like with the discussion of ILO status, employment opportunities brought on by growth are the only way to really incentivise people to stay and participate in the labour force.

### **1.3.2 - Employment**

The level of employment determines the overall health of an economy. Any measure of national income depends on the amount of wage earners there are actually spending money and paying taxes. The narrative showed that economic activity will generate further economic activity and conversely a reduction will lead to a contraction. This is the concern of commentators when they speak of the real economy. For the periodisation of the narrative employment actually increased and many sectors of the economy proved rather resilient in the face of the construction collapse and global economic downturn. The affected sectors still remain depressed however and a return to full economic health depends on their recovery. The narrative tried to convey an idea as to the effect of all this lost potential wage earning was having on the real economy. Considering growth, if employment leads to employment, these sectors are crucial to the future. It is suggested that these sectors may in fact lead future growth given their current position although perhaps in a more balanced way than before. The figures support this contention and thus a return to economic health may be foreseeable. An issue remains as to the type of jobs that will constitute this recovery. Strategy 2020 is clear on the type of jobs it sees as

providing the optimum future but there are only so many high skilled positions to be filled. The other consequent jobs can only provide a more precarious employment situation and are more prone to the vagaries of the business cycle. This dualization of the labour force is an emerging issue of the modern market economy. It leads to fundamental questions as to what actually constitutes healthy growth. Despite their necessity to economic health it seems that more and more participants of particular occupations are being affected adversely.

Figure 12: In employment: Full-time and Part-time (000's), 2002 to present.



Source: Central Statistics Office

Figure 12 shows the division of those in employment between full-time and part-time workers. At first glance what stands out is a slight convergence in the numbers seen over the period. From the perspective of national income more full-time workers than part-time workers may be desirable so this convergence could be interpreted as a negative development in the labour market. Perhaps the trend is more about firms adjusting to difficult economic conditions. This would appear to be the case when we see that the convergence begins with the crisis of phase 2. Since then full-time employment recovers although we do not see a corresponding drop off in part-time employment. In terms of the crisis a sharp rise in part-time work would be welcome if it meant participants staying in employment. However, it would be desirable from the perspective of increasing national income if these new positions, and a proportion of existing part-time positions, would change over time into full-time positions. This is why the ratio of full-time to part-time

workers should be viewed as an indicator of labour market health. The ratio was around 80:20 full-time to part-time in 2007 and now stands at around 75:25.

**Table 6: Categorisation of Part-time workers between not underemployed and underemployed, Q2 2009 to present.**

Categorisation	Q2 08	Q2 09	Q2 10	Q1 11	Q1 12	Q1 13	Q1 14	Q1 15
Part-time, not underemployed	-	304.1	308.1	313.5	291.3	298.5	309.0	325.1
Part-time, underemployed	-	112.8	114.2	126.5	138.9	155.9	141.7	114.8
<b>Total</b>	<b>397.5</b>	<b>416.9</b>	<b>422.3</b>	<b>440.0</b>	<b>430.2</b>	<b>454.4</b>	<b>450.7</b>	<b>439.9</b>

Source: Central Statistics Office

Aside from concerns as to national income, part-time work is not always desirable from the individual participants' perspective. Table 6 shows the division of part-time work between those who consider themselves not underemployed and those who consider themselves underemployed. Although part-time work may be desirable due to personal circumstances it often places the employee in a more precarious position compared to more regular full-time work. As well as reduced earnings it is this precarious nature of part-time work that makes it difficult for workers trying to fund mortgages or other living expenses. Reduced hours along with a temporary contract do not provide the security needed when planning a future. Once again a trend is evident and currently more than a third of those on part-time contracts consider themselves as underemployed. This figure provides another indicator as to labour market health that helps us to go deeper than the headline figures. This evident trend towards dualization should be a concern for policy makers and initiatives must be put in place to encourage the transition from part-time to full-time employment.

**Table 7: Employment by occupational group.**

<b>Broad occupational group</b>	<b>Q2 07</b>	<b>Q1 11</b>	<b>Q1 15</b>
Managers, directors and senior officials	141.7	141.1	156.3
Professionals	323.0	339.5	345.2
Associate professional and technical	195.0	210.3	226.1
Administrative and secretarial	251.8	221.7	206.6
Skilled trades	438.3	267.6	312.1
Caring, leisure and other services	143.8	145.9	157.3
Sales and customer service	172.2	158.7	162.4
Process, plant and machine operatives	170.1	150.7	142.2
Elementary	294.6	198.5	211.2
Other/not stated	5.7	7.8	10.3
<b>Total</b>	<b>2,136.2</b>	<b>1,841.8</b>	<b>1,929.7</b>

**Source: Central Statistics Office**

Figures are not available for the beginning phase of our periodisation but enough data is provided to allow for a pre- and post-crisis analysis of employment by occupational group. The higher listed occupations have actually increased their numbers in employment from 2007 to present. These would be higher educated individuals often employed in sectors associated with what is termed the knowledge economy. The narrative showed these sectors to be in a healthy position and there is no doubt that their employees would enjoy a security and remuneration above other employees in the economy. These sectors are often the focus of national growth strategies and thus this bodes well for our economic future. A category like 'Professionals' would include employees from every sector and so there are limits to the conclusions we can make based on this data. In any case, it appears that the higher listed sectors are performing well and this is a good thing. As with some other sectors of the economy resilience in the face of crisis typifies the performance of some occupational groups. 'Sales and customer service' along with 'Caring, leisure and other services' have roughly maintained their level of employment. Along with the higher remuneration of the higher listed occupations, relative security is an important consideration. Both will determine how national income and employment perform over the business cycle. It not only benefits the individual, but the economy also, if an occupation offers secure employment.

The construction industry collapse and global economic downturn affected some industries in particular and others by association. Table 7 allows us to see the types of occupation

affected. Between them the 'Skilled trades' and 'Elementary' lost 209,600 jobs over 2007 to present. This accounts for more than the entirety of jobs lost in the construction and retail and wholesale trade sectors over the same period. There is no doubt that some sectors offer employees a different level of security and remuneration. 'Process, plant and machine operatives' was also negatively affected and shows a loss of 27,900. 'Administrative and secretarial' has a loss of 45,200 and this occupation in particular evokes images of what we term economic activity. There was simply less work to be done. It can be said that some occupations are associated more with particular sectors and vice-versa. Some sectors have more opportunities for secure and well-paid work and industrial policy seeks to encourage investment in these areas. Both Irish and European policy makers are committed to the 'smart, sustainable, inclusive growth' of Strategy 2020 and certain sectors are set apart as targets for this growth. The reality, however, is that all sectors have a role to play and what strikes more to the issue of dualization is that all occupations have a role to play also. There are some jobs that simply must be done. One aspect of this dualization is occupational mobility and the ability of workers to progress and develop throughout their career. If higher occupations offer increased remuneration and security then the labour market should allow for the opportunity for lower occupations to progress upwards. If we link remuneration and security of occupation to national income and indeed the national interest then this mobility becomes essential to ideas of labour market efficiency. Labour market institutions can encourage this through their design and flexibility towards users.

### **1.3.3 - Unemployment**

The number of unemployed labour market participants jumped by 144,000 over the course of 2008 to 2009 and over the entirety of the narratives crisis phase the number increased by 200,100. In terms of the unemployment rate this phase saw an increase from 4.8% to 14.3%. The TDD decrease of 28% offers a better indication than GDP of how this sharp rise in unemployment actually depressed demand further and further leading to a contagion in the labour market. Unemployment led to unemployment and were it not for the more resilient sectors of the economy the figures could have been higher. There can be no doubt that this was a crisis. Indeed the current numbers of 212,800 and unemployment rate of 10.0% support the contention that the labour market is still in crisis. Earlier I suggested that a distinction should be made between a natural component and structural component of unemployment. This allows policy makers to approach the problem not as one typified simply by an escalating rate of unemployment but as one that involves the matching of a

massive number of long-term unemployed. In this light our definition of the crisis changes. Although stability may have returned, a major socio-economic problem remains. As TDD returns to growth, policy design must facilitate the reintegration of the long-term unemployed back into employment. This demands an analysis of the characteristics of these unemployed participants.

**Table 8: Unemployment rate by age bracket.**

Age bracket	Q2 02	Q2 07	Q1 11	Q1 15
15-19	14.2	17.3	35.6	29.3
20-24	7.6	8.2	25.6	19.6
<i>Total 15-24 (Youths)</i>	9.3	10.3	27.4	21.5
25-34	4.4	4.5	16.5	11.0
35-44	3.3	3.7	12.7	7.9
45-54	3.0	3.6	10.6	8.8
55-59	2.4	2.8	9.2	8.4
60-64	1.8	1.5	8.4	8.5
65+	0.6	1.0	2.2	2.2
<b>Total</b>	<b>4.5</b>	<b>4.8</b>	<b>14.3</b>	<b>10.0</b>

Source: Central Statistics Office

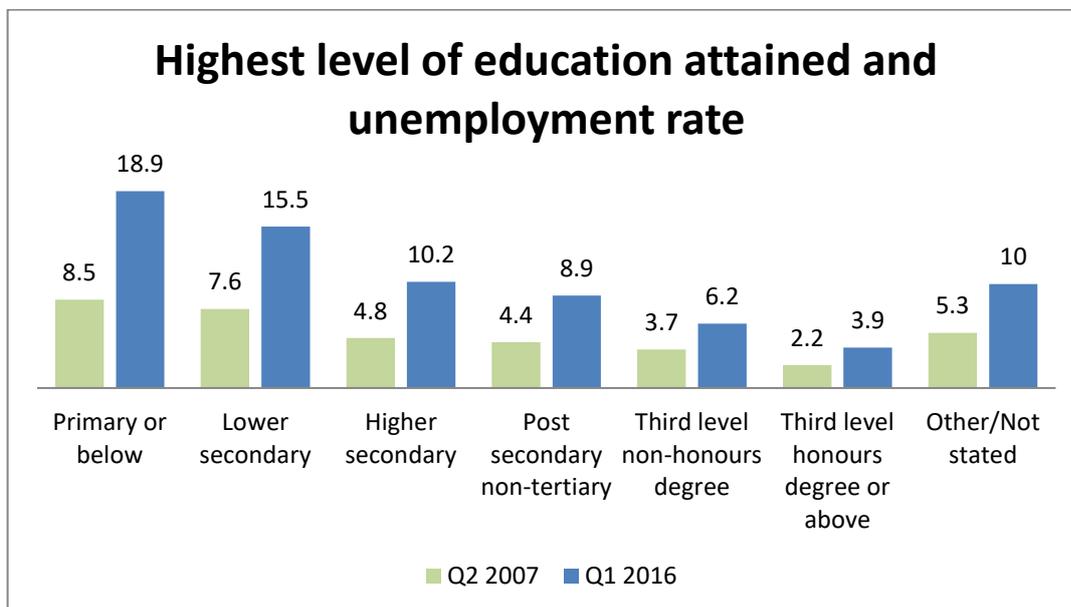
Table 8 which shows unemployment by age bracket provides our first insight into the numbers given in the narrative. These figures show how unemployment is distributed across age and allow us to estimate the relative likelihood of unemployment for individuals. From phase 1 we can see that the youth are more likely to be unemployed and this is common to all labour markets at all times. A spell of unemployment as a participant enters the labour force can be expected. It can take time for a former student to match up with a suitable employer. This type of matching is an issue related to the natural rate of unemployment and an ongoing theme of the labour market. Evident from phase 1 is an increase in this youth rate and this may be attributable to the level of migration experienced over this time period. New entrants to the labour market were competing with new entrants from abroad. The other age brackets were less likely to be unemployed than the average participant.

Having already discussed the large increase in the unemployment rate over phase 1 to phase 2 what deserves attention here is that those in the age bracket '25-34' are now more likely to be unemployed than the average participant. This marks a shift in the nature of the

problem facing policy makers. These are young workers who have left education and found work in the past but since lost their jobs. More participants who were once employed have now found themselves unemployed and this is an issue related to the structural rate of unemployment. This trend remains true in the final phase of our periodisation as distinct from before the crisis a person between the age of 25 and 34 is now more likely to be unemployed than average. Looking at this final phase we see that there is more to the story than simple stagnation and structural unemployment. It appears that younger workers are becoming more likely to be in work and older workers less so. There is doubtless a degree of competition in the labour market and the younger age brackets appear to be improving their chances of employment. This is not necessarily a welcome development as older workers may be more prone to long-term unemployment. In fact all the age brackets appear to experience unemployment.

On the whole, however, the table tells us that unemployment is a problem that particularly affects the young. If youth unemployment was not a problem before then a rate of over 20% represents a serious current problem. Initiatives that have been suggested or taken place since the escalation in the rate will be discussed in later chapters. Another issue is that if policy makers went by the rule that a rate of unemployment greater than the average deserved special attention, then a new problem has manifested itself in the age bracket '25-34'. Although a proportion of these participants appear employable and have gained jobs, this age bracket presents a problem of structural unemployment. Many of these unemployed participants would have taken up employment upon entering the labour market or soon after in sectors experiencing a boom during phase 1. As the economy changed so did the demand for labour from these sectors. These sectors, especially construction, will not return to their previous positions for many years and their demand for labour may not be expected to return in the short or medium term. In this way the economy may be seen as restructuring during our final phase and this suggests that these young workers must realign themselves with the changed needs of firms. This issue will be a theme of the Irish labour market for many years.

Figure 13: Highest level of education attained and unemployment rate, Q2 2007 and present.



Source: Central Statistics Office

Perhaps this graph more so than others highlights the stark differences between the pre- and post-crisis situation facing participants. In 2007 the 'Higher secondary' category had an unemployment rate that was the same as the national rate. This means that an individual's chance of securing employment with this level of education was around average. At this time the two largest sectors by employment were construction and retail and wholesale trade and it seems that a higher secondary education was sufficient for employment in these sectors. The issue of what is sufficient by way of education for employment concerns policy makers as well. They must design educational policy in such a way that provides for a consistent supply of educated participants to meet the demand of firms and industry. The needs of firms and industry will always determine what is sufficient and during the construction boom only a certain amount of education was needed. Whether or not this was in the interest of the general economy or the participants themselves in the long run is debatable. Education policy will not be discussed in detail here as the purpose of this table is to provide insight into the characteristics of the unemployed. Like with age, education is a key characteristic, and perhaps more so determines the participants' relative employability. In the pre-crisis, with Ireland's economy structured as it was, what was necessary for relative employability was a higher secondary education.

This level of appropriate qualification changed in the post-crisis situation and the graph shows that only those with a tertiary education, 'Third level non-honours degree' and upwards, have a chance of employability better than average. From the narrative we know that Ireland's current sectoral composition looks very different from the pre-crisis composition and that the return to previous arrangements is unlikely. The sectoral composition has changed dramatically and this restructuring is likely to continue. This has had implications for what is sufficient in the labour market. We can see from the graph that the 'Higher secondary' and 'Post leaving certificate' categories have unemployment rates above the 12.0% average rate of the time. If the sectors showing growth presently are an indicator as to the future then what firms and industry demand has changed with implications for participants. Looking more closely at the graph we can see that the category 'Post leaving certificate' now has a higher rate of unemployment than 'Higher secondary'. This helps focus in on where the structural unemployment is located in the labour market and brings our occupational analysis into the picture.

We saw that the skilled trades and administrative and secretarial occupations accounted for a large amount of the lost jobs between pre-crisis and post-crisis. These unemployed are people with post leaving certificate educations that have had employment and who now find themselves unemployed. It appears that a large amount of these people lost their jobs during the construction industry collapse and are now long-term unemployed. They would have been relatively well paid employees but despite their relatively higher education they are not needed by firms and industry. This is the nature of structural unemployment and the future of these unemployed participants necessitates the involvement of well-designed educational policy. Overall it seems that there are two problems with regard to such educational policy. The first is that the economy now demands a more highly educated worker. The second is that large cohorts of the unemployed now hold educational qualifications that may be perceived as redundant.

#### **1.3.4 - Summary of issues**

Emerging labour market trends must be addressed with implications for policy design. This policy design and according labour market institution reform will be discussed in later chapters. For now the focus is on summarising the emergent labour market issues. The participation theme covered the issue of Ireland's ambitious Strategy 2020 targets. Although the current participation rate of around 60% sufficed for full employment at the start of our periodisation, it would not suffice for an employment rate of 69% to 71%, the

Strategy 2020 target. Our analysis showed that persons in retirement have shown the greatest growth as an ILO status group in recent years. Achieving the target employment rate may call for incentives to encourage people to stay in work for longer. Thus the incentivisation of work becomes an issue. Helping towards the targets achievement is that those on home duties and not part of the labour force now have a lower share than previously. In the past immigration pushed up the employment rate as economic migrants integrate well into the labour force and take up employment. This may have to occur again if the Strategy 2020 targets are to be met. The prospects of this happening are slim however as since 2009 Ireland has had a net emigration. Sustained growth is the only way to reverse this trend and incentivise people to stay, return or enter the labour market.

The employment theme highlighted the figures that describe the dualization of the labour force. It was stated that if full-time work is preferred to part-time work then a worrying trend has emerged. The ratio of full-time to part-time workers changed from 80:20 in 2007 to 75:25 in 2014. Part-time workers enjoy less pay and often less security than full-time workers. Remuneration and security are two factors associated with precarious working arrangements that negatively affect the situation of employees. It was also shown that a higher proportion of those underemployed now exists. Labour market dualization has both negative individual and aggregate effects. This dualization was also seen in occupational data as the effects of the crisis affected some groups more than others. Ideally every participant would have a secure occupation in a growth sector. Unfortunately, some jobs simply have to be done and the market cannot provide the remuneration and security that these workers would like. This has implications for social policy as well as economic efficiency.

The unemployment theme attempted to profile the unemployed and in doing so uncovered some issues. Although some degree of youth unemployment can be expected, current figures of over 20% suggest a major issue for policy makers. Looking at the unemployed by age also helped us focus in on the problem of structural unemployment. People aged 25-34 are now more likely to be unemployed than average. These are people who once had work and are now unemployed. An issue for educational policy is that these persons have post leaving certificate qualifications which are no longer in demand from firms and industry. They must be retrained. Overall, as the economy restructures, although there are doubts that growth can return to the levels targeted in strategy 2020, people must be further incentivised to participate. The dualization of the labour force is an emerging trend and has

perhaps more implications for social policy than concerns as to economic efficiency, and from profiling the unemployed it appears the labour market demands more from its participants than previously.

#### **1.4 - Conclusion**

The aim of this chapter was to provide a recent history of the Irish labour market. An understanding of this history is necessary for an analysis of the reforms that were undertaken in the aftermath of the economic crisis. It was made clear from the outset that this chapter's focus would be the crisis or more accurately the data that described it. This data came entirely from the CSO and I made full use of this resource. As figures and tables were introduced descriptions of variables were made and discussion sought to highlight the implications for policy design. In this way the data contextualises the policy. A narrative was introduced that divided the period 2002 to 2015 into three phases. These phases were apparent across a range of labour market indicators. A first phase of high GDP growth between 2002 and 2007 was characterised by full employment. The participation theme of the narrative identified this phase as being of increasing participation and a high employment rate. A second phase of crisis was identified over the period 2007 to 2011. The employment theme used annual figures for numbers employed and sectoral data to show that over the course of 2008 to 2009 an unemployment crisis hit the labour market. A third phase of recovery was evident from the figures for the years 2011 to present. However, although signs of growth had returned to the economy unemployment remained high. Understanding this narrative and having a grasp of the figures involved will contribute to the analysis of policy design that concerns the remainder of the thesis. It will be necessary to understand the pre- and post-crisis situation of participation, employment and unemployment.

Certain issues pertaining to the participation, employment and unemployment situation of the labour market were discussed. These issues influence policy makers and constitute a case for labour market intervention. The supply and demand for labour tend towards equilibrium dependant on an institutional arrangement that ensures some degree of efficiency. The data produced three issues across the three themes and although none are market failures in theory, they will shape policy and the reform process. The employment rate target of Strategy 2020 could be interpreted as more ambitious than full employment

in itself as it involves increasing the participation rate also. Although the exact target is currently infeasible, the policy mix implied in such a rate provides a good indicator for future policy. It helps organise thinking around what Ireland as a society expects from the labour market. The second issue to emerge was the dualization of the workforce. The convergence of the numbers of full-time and part-time workers and the subsequent underemployment of increasing workers highlights the pressing nature of this issue. Participants can expect different degrees of remuneration and security from their employment. However, an economy that increasingly relies on employment of a temporary, precarious nature is not as shock-resistant as it might like to be. This is an issue of effectiveness as well as efficiency and thus a role is given to social policy. The third issue to emerge was that of the structural unemployment since the collapse of the construction industry. Certain sectors which once employed large numbers will not return to such levels of employment in the short or even medium term. This not only affects the young seeking employment for the first time but those who were once employed by these sectors. This has two implications for educational policy. The first is that a new level of educational attainment is now demanded by the market to ensure a participant is less likely to be unemployed than others. The second is that a large number of the under 35s have post leaving certificate educations that are currently not in demand. Both imply a policy mix that the efficacy of which depends on reformed institutional arrangements.

Although much can be written on the various aspects of the crisis and this work will no doubt happen in the future, my research focus is on the labour market. In this chapter I presented a narrative of the labour market over the years immediately before and after the crisis and also some of the labour market issues that emerged over this period.

Documenting the reformed institutional arrangements in the context of changed government priorities, while also explaining the rationale and bargaining of these reforms is what concerns the following chapters. With an understanding of the main statistical figures and themes of the labour market narrative it is possible to contextualise the political-economy of labour market governance. I hope to explain the observed reforms since the election of 2011 within the currently available theory on labour market governance with a view towards producing a case-study of the Irish experience of structural reform. As the title of the thesis would suggest, differing perspectives on governance are present in the literature with often equally valid arguments on policy prescriptions playing out through a 'fuzzy process' of policy design. The data in this chapter can help ground these arguments in reality with an understanding of both narrative and

issues arguably prerequisite for establishing the validity of the theory which will contribute to the theoretical framework of the next chapter. That chapter will lead into a pre and post-crisis examination of the Irish case with the concluding series of semi-structured interviews with key labour market stakeholders establishing which economic arguments came to influence the observed reforms to labour market institutions since 2011. It is my opinion that the labour market should be governed by institutions in the interest of the general welfare of the state's citizens. I see a role for government in the labour market and this thesis is thus concerned with how best government policy might encourage and foster the most efficient allocation of labour, keeping unemployment to the minimum level.

## **Chapter 2: Literature Review and Theoretical Framework**

### **2.1 - Introduction**

### **2.2 - Literature review**

### **2.3 - The labour market as a system**

### **2.4 - Criticism from the Institutional school**

### **2.5 - Interviewing as Methodology**

### **2.6 - Conclusion: A new perspective on LMIs?**

## 2.1 - Introduction

The labour market data reveals what constitutes a major crisis unlike any other in the history of the state. The magnitude and pace of the change identifiable in the figures can only partly indicate what led to a national panic. The economy was hugely damaged by the construction collapse and global economic downturn and the subsequent bailout called into question the very sovereignty of the nation. Much can be written on the banking and exchequer crises and this will no doubt happen in the future but my research focus is on the labour market. This thesis is concerned with how recent Irish Labour Market Institution (LMI) reform is related to both this narrative and the issues raised. I seek to deduce some of the implications for LMI policy in my analysis of the periodisation and I hope to be in a position to judge the efficacy of the response as well as the efficiency of the system. This chapter marks the first step towards this end. I presume a role for government in the labour market and this thesis is thus concerned with how best government policy might encourage and foster the most efficient allocation of labour, keeping unemployment to the minimum level. There is of course an alternative more liberal view of the labour market that sees state intervention as most often a counterproductive hindrance to market efficiency. Both views are found surrounding the debate and so this chapter will attempt as balanced and fair an account of both perspectives as possible. Indeed, the thesis itself has as its main purpose an attempt to rationalise this debate over the labour market system, with conclusions on the observed response made where possible.

It is through LMIs that the government governs the labour market. This is the set of structures and mechanisms that the government uses to ensure that the labour market functions properly and contributes to the general welfare. For the firms and participants who make up the labour market these structures and mechanisms amount to an institutional matrix which must be negotiated by all. I will attempt to model this matrix over the course of the thesis taking account of the often conflicting interests of firms and labour market participants. As both groups rely on LMIs to some degree it should be possible to reach conclusions about what is logically indicated as being in the interest of all involved. In my opinion any particular market has institutional underpinnings without which it could not function and thus any discussion of the market implies a discussion of institutions. Institutions constitute the 'rules of the game' and by their determining how participants transact with each other, they come to influence every aspect of the market. Essentially they are justified by appearing to be there for the benefit of everyone. The preceding chapter showed the scope and necessity for labour market policy. In a general

sense institutions are used to shape a positive narrative and solve problems. Being central to ideas of labour market efficiency and performance, while I seek conclusions on a national response, the theoretical discord on LMIs generates much unease between social partners and thus the description of a clash.

The title of the thesis itself should indicate that the question of LMIs and their relation to the national response to the crisis is what is under consideration. This chapter will explain how I addressed the question and will indicate how I intend to continue my analysis. A literature review was undertaken so as to establish how other researchers had approached the question, and to be aware of what conclusions they had reached. As stated earlier much debate exists over the functioning of any market and the labour market in particular is without doubt one of the most contested. Much literature was consulted to familiarise myself with the topic. I saw a theoretical framework as being essential for going forward after having familiarised myself with the topic in order to address the question and reach conclusions. This involves an original approach that views the labour market as a system. How each part of the system relates to the others is made clear over the course of the thesis and in this chapter I provide a model of the institutional matrix governing the employment transaction which constitutes the labour market system that I suggest all involved must negotiate. The use of such a model allows for an analysis of how the system was changed as a result of the crisis.

I attempt to explain the localisation of the clash of paradigms among the Irish polity and to establish its role in the political-economy of the national response. As stated earlier much is contested with regard to the labour market and alternative schools of thought have developed often conflicting perspectives on LMIs. There is no market of more fundamental importance to the economy and so this clash of paradigms deserves study. It is necessary in this chapter to devote some attention to the broad contours of this debate and the alternative interpretations that are at play. As the discussion of the labour market develops over the following chapters, the theoretical differences should become more apparent and the arguments over LMI arrangements at play during the bargaining of the reform process will be established. The first section is a literature review where the most important material on the matter is reviewed. This section is then divided into four sub sections that hopefully cover in particular all aspects most relevant to the study of LMIs. The next section is entitled 'The labour market as a system' and forms the core of my theoretical framework. This is divided into three sub sections that address different aspects to the approach. The

next section is called 'Criticism from the Institutional school' and here I address each of the three labour market issues identified in chapter one. Using my theoretical framework and knowledge of the labour market I hope to familiarise the reader with the most pressing themes of LMIs today. A section justifying the use of interviews as a necessary methodology of enquiry within qualitative research and in particular regarding issues of theoretical discord follows. A final section will offer some conclusions. In this chapter I hope to establish a conceptual framework with which we can contribute more understanding to the process of economic change.

## 2.2 - Literature review

In terms of macroeconomic performance policymakers may be concerned with many independent variables. None however impact on the individual as much as unemployment. Work opportunities are what the citizen expects from politicians, bureaucrats, and regulators. As a result there is a vast amount of published material in this area and, as Keynes might say, it is of a cumulatively unfolding nature and not self-balancing (Arestis 1996). The literature varies across a wide range of measures from the micro to the macro. I have been concerned in particular with the macroeconomic and ideas on the best possible arrangement of national LMIs. From this a broad understanding of LMIs developed upon which I worked to build my theoretical framework. Later chapters that involve a more detailed analysis of Irish LMIs specifically help develop a more localised knowledge. My aim is to identify those aspects of LMIs relevant to the thesis and to provide the reader with a clear indication as to where my thinking originated. To begin I outline the main body of theoretical work associated with LMIs. I divide the main LMIs covered in the literature into three categories and provide a description of each.<sup>8</sup> Next I devote a section to LMIs and econometrics. This involves a description of the main factors determining empirical research success or otherwise. The next section involves LMIs and policy. The key factors at play in shaping policy over the recent past are discussed. A final section covers LMIs currently. This section places my research in context and brings the review up to the current situation facing European labour markets. This review provides the context for the Irish reform debate and the clash of paradigms. Additional readings are drawn on in later

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<sup>8</sup> See Freeman 2007 and Thelen 2014 for similar attempts. The treatment here is aided by an offered definition of LMIs which was developed from a definition of Institutions on Wikipedia. See "Social Institutions", *Stanford Encyclopedia of Philosophy* 2015

chapters; however, here I reference the main sources on which I developed my theoretical framework and knowledge of LMIs.

### **2.2.1 – Three categories of LMI**

Unfortunately economists cannot reduce unemployment to zero and thus the goal is to reduce it to the equilibrium level. In the short run and long run real demand will of course cause fluctuations in unemployment around this level. Over the long run both demand and unemployment will tend towards the level consistent with stable inflation. Decreasing inflation means that unemployment is above the equilibrium level and increasing inflation that it is below the equilibrium level. It is possible, however, to change the equilibrium level and this can happen if the ease of matching in the labour market improves or if some factor directly raises wages despite excess supply. Given the central role of inflation we can thus understand central banker's preoccupation with inflation stability. In Europe, as distinct from some other currency areas, management of inflation is the chief concern of central bankers and it is expected that unemployment will be curtailed by a stable price system. Alternatively, fiscal policy can influence movements around the equilibrium rate but European member states may find their ability to do this constrained by fiscal rules. There is a popular mainstream assumption that demand led solutions to unemployment problems in recessionary times have limited scope and, of course currently, are not even available for Ireland and some other Eurozone members. This is a problem for the Eurozone and the debate on a policy response continues. The constriction of the demand side means that it is on the supply side of the economy that much of the policy reform can be found. Much debate exists over this supply side or structural reform and LMIs have taken on a central role. This thesis is so concerned and in order to order and systematize my approach I divide the main LMIs under discussion into three categories.

I begin with Employment Protection Legislation (EPL). This involves the ease to which employers can hire and fire employees. A wide range of laws and practices exist and these "seek to promote worker welfare and more stable employment relationships for the benefit of both the worker and the firm." (Allard 2005) However, a difficulty arises because of "competing needs for worker security and company flexibility." Neo-classical theory has it that because EPL hinders both the hiring and firing of employees, flow rates into and out of unemployment are reduced. Ultimately, with a lag in hiring, this increases the duration of unemployment. For Pissarides (2008) a vicious circle of regulation and low employment can take hold. He also warns that risky hiring is essential for firms and that the "grey

market” might appeal more to employers. It can also lead to a dualization of the labour market if employers are encouraged to increase the use of temporary contracts. There are, however, arguments in favour of EPL. Flaig and Rottman (2011) state that firstly EPL smoothes general employment over the business cycle leading to a more trusty working relationship, and secondly, that employers may invest more in firm specific human capital. Germany and the US provide an example of the differences in EPL seen across countries. The effects of this LMI on national performances remain to be explained and compared.

Wage Setting is the next category of LMI with which I deal and again there are conflicting theoretical arguments. Originally the focus of this LMI category was on the density and influence of unions. It was assumed in this literature that more union power equated with more unemployment because of their upward pressure on wages. Another channel was that by raising the wages of the low skilled relative to higher skilled, ‘wage compression’ reduced opportunities for low wage workers. The key factor here was seen to be union density because that will determine the strength of these two forces. This category also includes other wage related LMIs such as the minimum wage and collective bargaining. Collective bargaining is an institution in itself because of the fact that many non-union employees are covered by agreements. In fact, according to Nickell et al. (2005), “in most countries in the OECD the majority of workers have their wages set by collective bargaining between employers and trade unions at the plant, firm, industry or aggregate level.” France for instance has a 10% union membership but 90% coverage of collective bargaining. The key measures are the coordination mechanisms that determine the degree to which “the aggregate employment implications of wage determination are taken into account when wage bargains are struck.” Ireland has seen the benefits of stable inflation resulting from such coordination. Freeman (2007) shows that reductions in wage dispersions caused by centralised bargaining can “make the dynamics of wage setting closer to the competitive model.” This neo-corporatist labour arrangement results in a superior aggregate reaction to shocks involving exogenous changes in output prices or productivity. Freeman agrees with work by Nickell and Layard (1999) suggesting that highly centralised bargaining will completely offset the adverse effects of trade unionism on employment. Neo-corporatist labour relations can be shown to have worked well in many countries and thus wage determination is often recognised as a key macroeconomic factor. Collective bargaining is of course absent in many countries and proponents of these more liberal arrangements argue the need for labour market flexibility. Associated outcomes and significance can be measured through cross country comparisons.

My third and final LMI category is Unemployment Insurance and Active Labour Market Policies (UI and ALMPs). Microeconomic theory suggests that unemployment insurance raises the reservation wage and reduces search intensity. A key variable is the replacement ratio that measures the value of pre-tax unemployment insurance and social assistance compared to the average pre-tax wage. This theory assumes that an economic decision is being made by the recipient between working and not working. Three key factors affecting this decision will be the duration of entitlement, coverage of the system, and strictness of the system. This LMI also has, in addition, some important macroeconomic considerations. This is because unemployment insurance is regarded as having a function as an automatic stabiliser. Maintaining aggregate demand across cyclical fluctuations is seen as crucial to keeping up overall employment levels. Many countries, for example Germany and Denmark, see this method as superior to stimulus packages. The second element of this LMI is the collection of ALMPs put in place. Their basic purpose is to improve the chances of the unemployed getting work. Their introduction can be seen as the cause of the UK government relabelling unemployment assistance as 'Jobseeker's Allowance.' The basic forms of this strategy are job search assistance, employment subsidies, and training. Through both reintegration and prevention these policies are aimed at reducing long term unemployment as well as helping labour market efficiency. As with the other LMIs outlined previously, according to their work for the European Commission (2005), "the role of policy design, at both the micro and macro level, becomes crucial to achieve the objective of a well-functioning labour market." (Arpaia and Mourre 2005)

### **2.2.2 - LMIs and econometrics**

Outlining the empirical context involves a story of how successive economists have attempted to pin down and establish the linkages at play in what is ultimately a social science. The core elements of this work are the econometric data and modelling techniques used. A healthy debate exists and this can be shown to have influenced the development of a diversity of approaches. The period under review stretches from the 1960s to the present day. Howell et al. (2006) set out the basic facts of the changes in unemployment and institutions during this time. First, they note that nearly all countries experienced escalating unemployment; second, they record that dispersion rates moved upwards with the median, third, that rates declined and converged since the late 1990s, and fourthly, that the performance of the US varies dramatically over this period. Judgement on the success of research is dependent on the data and modelling techniques

used and the OECD has over a long period tried to promote consistency of data and quality in measures which would assist comparative research on unemployment.

Producing quality research requires consistent and comparable unemployment data. We must acknowledge that not every country has figures for unemployment stretching back to the 1960s. It is also true that even when there are figures, they may be calculated differently across countries. Some measure unemployment through national employment services and some others through labour force surveys. These concerns for historical and methodological consistency haven't featured very strongly or frequently in the empirical literature. Going forward we have good data because since the early 1990s OECD member countries have adopted the International Labour Organizations (ILO) standard for measuring unemployment. Although researchers would welcome more data than this period provides, it does offer some opportunity for "full comparability." Through Eurostat agency guidelines, European Union member states are currently now collecting data on a wide range of socio-economic variables. Many opportunities for econometric modelling should present themselves as new data emerges, although currently used models are experiencing a credibility problem.

The measurement of LMIs has been given much more attention, and the published papers usually provide explanations for their chosen method. In the early and mid-1990s Nickell and Layard pioneered the measurement of LMIs in order to test their statistical relation to unemployment (Layard and Nickell 1990). Blanchard and Wolfers (2000) are among those researchers to draw on their work and they use Nickells (1997) measure of EPL, wage determination, and unemployment insurance. These relate to the three categories of LMIs in this thesis and all are positive with respect to unemployment. The work in this area by Gayle Allard also deserves mention. She states in her 2005 paper that all studies "have been handicapped by the lack of a good quantitative indicator covering a long enough historical period." Based on this she sought to enhance and refine the efforts of the OECD and ILO so that national LMIs could be both measurable and comparable (Allard 2005). Having taken this as her project her work is now widely respected and used by others. Flaig and Rottman (2011), for example, use her measures of EPL and unemployment insurance with some success in their recent paper. These measures work on a points based system, where each aspect of the individual LMI is given a value according to its particular country characteristics. The main LMIs of issue in both the modelling and characterisation of labour market systems are contained in Table 9.

**Table 9: LMI Measures Used by Nickell 1997**

<b>Independent Variables</b>	
<b>Employment protection</b>	<b>Replacement Rate</b>
<b>Benefit Duration</b>	<b>ALMPs</b>
<b>Union Density</b>	<b>Union Coverage</b>
<b>Wage Co-ordination</b>	<b>Total tax rate</b>
<b>Change in Inflation</b>	
<b>Dependent Variables</b>	
<b>Log Unemployment Percentage</b>	<b>Labour Supply Measures</b>

**Source: 'Unemployment and Labour Market 'rigidities': Europe versus North America',  
Nickell 1997**

Earlier attempts at regressing the rate of unemployment across a set of LMIs have not proved entirely convincing. The first problem is that data on unemployment is not available for a long enough time period, and secondly, that the data is collected differently. While what were described as the 'basic facts' at the beginning of this section may have some truth, they are not as robust as the labour market researcher may be led to believe. Baker et al. (2006) is quite critical of Blanchard and Wolfers (2000) on the construction of the model used in their work and especially their treatment of EPL. It appears that two OECD data points were used to construct two decades of five year time periods, which were then merged with another study that actually measured EPL differently. They criticised Blanchard and Wolfers (2000) for stretching out their data to include even decades where they don't have figures. In the category wage setting Baker et al. point out that trade union density is not closely correlated with collective bargaining coverage. Contrary to the mainstream view, Baker et al. state the "fairly robust finding that bargaining coordination is

associated with *lower* unemployment,” “which is usually interpreted as indicating that the bargainers have incorporated the effect of wage bargains on employment in their bargaining objectives.” Moving into the third category of LMI of issue is the means of measuring the effects of different unemployment insurance arrangements across countries. At the time of writing, data available to Baker et al. on net replacement rates was for just nine years and only eight countries. Even with good data and institutional measures there are issues of eligibility and enforcement when measuring and comparing social protection arrangements. Baker et al. (2006) question the presumptuousness of other researchers and conclude that “hardly any attention has been placed on the consistency and quality of the data.” They go on to quote Blanchard and Wolfers (2000) own concerns as to ‘research Darwinism’, where “measures that do well explaining unemployment have survived better than those that do not”.

My description of the empirical research seeks to include some additional measures. Those described have shown up in many attempts to more fully capture what is happening in the labour market. A popular addition is the “tax wedge.” This refers to the difference between the real product wage, which involves labour costs per employee normalised on the output price, and the real consumption wage, which involves after tax pay normalised on the consumer price index. This difference is explained by the impact of payroll, income, and consumption taxes. Nickell (2005) includes this measure alongside LMIs in his estimations and finds that a 10% rise in employment tax leads to around a 1% rise in unemployment in the long run. Another estimation in his paper is on the effect of worker mobility on unemployment. One can appreciate the logic of Oswald (1997) when he suggests that someone renting is far more likely to move in order to get work than someone who owns a house and is therefore restricted from travelling to take up employment. Although Gregg et al. say that regional characteristics counter this effect, Ferreira et al. (2010) make a strong argument that negative equity and high interest rates restrict mobility. In this way higher ownership leads to higher unemployment.

Another paper introducing a new variable into the mix is that of Gatti and Vaubourg (2011) who focus on the interdependencies between labour market and financial system arrangements. Their model adds financial market variables to the model alongside LMI measurements. These concern the level of capitalisation relative to GDP, the actual level of credit relative to GDP, and the ratio of the three largest banks relative to the other banks. Control variables involving the exchange rate, per capita GDP, the credit cycle, and product

market regulation are also included. The authors conclude that “unemployment has financial determinants and that these determinants are linked with labour market arrangements.” Those mentioned above are representative of many additions to the modelling that have attempted to add to our understanding of labour market dynamics and efficiency. Amable (2009) attempted a three-dimensional approach that would account for the interrelatedness of a systems LMIs. This marked a move in the direction of something more qualitative, than the provision of a coefficient measure of the right size and sign for an LMI. This allows for illustrations that can aid characterisations of countries and groups of countries as particular labour market types.

The econometric research description referred to should show the main elements involved. Key to the attempt to measure LMI performance is consistency of data and the quality of institutional measures. As we make progress the data quality should be satisfactory and the measurement of LMIs has been shown to be steadily improving. Other macroeconomic variables may be added along with measures that take account of temporary and permanent shocks. However, as early as 2002 the Bank of England concluded that “it is extremely difficult to link movements in the natural rate to structural economic variables. It is generally difficult to derive robust coefficient estimates for structural variables that have the expected sign and are statistically significant.” (Cassino and Thornton 2002) This assertion related to a body of research that involved regressing unemployment rates across LMIs. With limited success demonstrated this type of study is no longer popular. However, there is still a value to having standardised data on LMIs as this can allow for, and assist, with comparisons across countries. Currently no single LMI arrangement is presented or accepted as superior and heterogeneity is acknowledged as a reality (Blanchard, Jaumotte et al. 2014).

### **2.2.3 - LMIs and policy**

Both an understanding of the theoretical and the empirical context is important when we turn our attention to policy. Examining the policy prescriptions that resulted from the work above one can note that from the 1990s through to the mid-2000s, and still ongoing, is a debate on how best to configure LMIs. In 2005 a European Commission report on LMIs and labour market performance stated that “the fact that LMIs are multi-dimensional makes it difficult to identify in aggregate panel regressions the impact on unemployment of interactions between all different policies, all institutions and all shocks.”(Arpaia and Mourre 2005) Even if there were clear policy prescriptions policymakers would have a

difficult job as governments are not only concerned with efficiency but with equity also. There are redistributive and welfare effects that must be acknowledged. For instance Baker et al. (2006) likes to use the term “Protective LMIs” or PLMIs. The political context will inform policy as well as the theoretical assumptions and empirical findings. This potent efficiency/equity trade off will manifest itself in a variety of ways across individual countries. According to Pissarides (2011), “in Europe we have a more caring social system supported by public policy.”

The institutions and policies that define the modern welfare state are in historical terms mostly the result of hard fought political battles. The idealism and action behind such systems can be traced back centuries. Albert (1991) says that the emergence and stability of a specific model depends on political action. Today the citizens and political parties of every OECD country have some appreciation of both state and market. What results is an acknowledgement of what is generally called the ‘social market economy’. This is a free market governed by institutions with active state participation at all levels. Basically, the market is allowed to be regulated in the public interest. This model has been under threat for many years from ideological arguments that support a greater role for market mechanisms and a lesser role for the state. The basic premise of such theoretical assumptions is that any market, if liberalized, would come closer to the theoretical ideal and thus be far more efficient. A big push in the policy sphere for economy wide liberalization has been broadly given the title of neo-liberalism. The policy context of my study is affected by this ideological debate concerning the market/institutional orientation of economies. This thesis aims to establish the ideological influences on the recent reforms seen in the Irish labour market and thus contribute a contemporary understanding of labour market change.

The big push for labour market liberalization has been underway for many years. As mentioned earlier a key event was the publication of the OECD’s 1994 Jobs Study. This advocated the liberalization, or removal of rigidities, of European labour markets with many suggested reforms.<sup>9</sup> In 1999 an OECD follow through measure was carried out of individual countries based on how many recommendations they had put in place. Nickell (2003) produced another index of relative country reform. Baker et al. (2006) highlight problems with both of these approaches and concludes that “the positive conclusions in these studies reflect more the initial orthodox presumptions of a strong positive

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<sup>9</sup> <https://www.oecd.org/els/emp/1941679.pdf>

relationship.” The result is a selectivity of data and theory that favours an initial hypothesis and has been termed ‘research Darwinism’. Another push on policymakers and governments comes from the Fraser Institute’s “economic freedom” index. Since 2001, six indicators of LMIs were introduced, that ranked countries which relied more on market forces higher than those that relied more on institutions. Another approach by Allard et al. (2006) involved combining the European Social Survey and a competitiveness index purporting to show how people are happier in more liberal economies. The list goes on of institutions and researchers advocating a more market based approach to LMIs and the labour market. Countering these came many theoretical, empirical and policy arguments. Representative is the Baccaro and Reis (2005) statement that “the claim that the systematic deregulation of labour markets would solve the unemployment problem faced by several advanced countries appears unwarranted based on our results.” This acknowledges the significance of the OECDs 2006 statement that accepted heterogeneity of LMIs as not necessarily a bad thing. (Bassanini and Duval 2006) Although the big push may be over, or its support weakened, neo-liberalism remains evident today<sup>10</sup>. At any event the LMI market/institutional debate has moved on. Interviews with key labour market stakeholders will uncover their current policy positions in the Irish context.

Irish policy discussion takes place within a European context and Irish LMIs are subject to the same reform pressures found in other countries. The governance of the EU invites a debate characterised by wildly different opinions on how it should operate. Economic and political ideologies compete in the public sphere without any clear common ground and a sense of opportunism prevails. Respected commentators such as Jurgen Habermas struggle to construct dialogue on what they perceive to be the real socio-economic issues while then striving to keep the debate focused on what they feel is actually at stake for the citizens of the European Union (Habermas 2009). European level strategies like the Lisbon Agenda and the more recent Europe 2020 Strategy involve a wide range of social, economic and cultural issues. These are effectively aspirational, establishing broad aims and highlighting critical issues. They are only arrived at after lengthy consultation processes involving a wide range of stakeholders. Because of this the key and appropriate word for the accompanying Broad Economic Policy Guidelines (BEPG) is broad. The labour market category of the BEPGs is titled the European Employment Strategy (EES)<sup>11</sup>.

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<sup>10</sup> See Mirowski 2014 for a fuller account of the politics behind Neo-liberalism

<sup>11</sup> <http://ec.europa.eu/social/main.jsp?catId=101&langId=en>

Weishaupt and Lack (2011) provide a good account of the recent history of European level employment policy and discussion. As with the previous empirical discussion a key period is the mid-2000s. Leading up to this time was the market/institutional orientation debate discussed earlier. Basically politicians grew tired of the growth-as-a-goal-in-itself mantra and began to defend the European social model against perceived ideological threats. The result was the Italian governments “Enhancing Social Europe” initiative of 2007. This was “the first forceful response to rebalance the EES in favour of social issues.” Holding the presidency Germany abstained from signing the document, but France and many others did, with only Malta and the UK rejecting the document outright. Today this is the context from which we might view the European dimension to LMI policy. According to Weishaupt and Lack (2011), “even though the EES remains a ‘soft’ mechanism for employment policy coordination based on benchmarking, monitoring and learning rather than the passage of binding legislation”, it can trigger positive change.

#### **2.2.4 - LMIs and Shocks**

This topic presents a debate that has been continuing for many years and this thesis contributes a contemporary understanding of the theoretical arguments with their exact bearing on recent Irish labour market reforms established. At issue is the best possible arrangement of LMIs so as to deliver low unemployment. In terms of its development the literature on this issue may be divided by two key events. The first is the publication of the OECDs 1994 Jobs Study, following which came a wide range of papers that attributed unemployment to excessive regulation. The overall thrust of this argument was that only by a ‘flexibilisation’ of labour markets could OECD countries ensure a healthy level of employment. Howell, Baker et al. (2007) highlight, however, a contrast between the fragility of the empirical findings and “the confidence with which it is concluded from them that labour market rigidities are indeed at the root of poor employment performance.” In his many papers, Nickell after all never claimed to have established a definitive and predictable relationship between LMIs and the unemployment rate. For instance Nickell (1997) states, “it is clear that the broad-brush analysis that says that European unemployment is high because European labour markets are ‘rigid’ is too vague and probably misleading.” The Jobs Study itself is criticised for its conclusions. One section explains increases in unemployment in some countries by increases in unemployment insurance almost ten years previously. Manning and Strom (1998) somewhat cynically

state, for example, that somebody could write “a very similar paragraph relating performance in the Eurovision song contest to changes in unemployment.”

From Belot and Van Ours (2004) ambiguity begins to show in the research. They wrote that “the basic argument of this paper is that the role of each institution depends on the rest of the institutional framework.” Their paper was among the first to highlight these interactions and so involved sensitivity analyses. Even today institutional complementarities are hard to measure. After Belot and Van Ours (2004) and the acknowledgement of interdependencies among LMIs, teams of researchers from each side of the flexibilisation debate would agree that the research goal of definitive and measurable causality was over. Two key papers illuminating this are those of Baker et al. (2006) and Nickell et al. (2005). Following this came the literature’s other key event, the OECD’s 2006 Employment Outlook. That publication announced that the institutions of low employment European countries were very different to those of the US and UK and this was not a bad thing. Freeman (2007) went on to state that “it is only by combining insights and observations from different perspectives that we will be able to capture the institutional reality and not.” Given the crisis of the global economy which has now occurred this prior research can be seen to have informed the analysis of how national LMIs responded. Relevance to the particular Irish labour market situation and its institutional performance over the crisis will be examined.

Even if different LMI arrangements might be effective over the business cycle, they may not work as well in mitigating shocks and this brings to the fore the substantive matter of this thesis, the unemployment crisis. A shock may be described as an event which causes a short run deviation in unemployment from its equilibrium level. Five such temporary shocks considered by Nickell (2005) concern the money supply, productivity, labour demand, real import prices, and real interest rates. Herwartz and Niebuhr (2011) propose that a common shock would lead to different macroeconomic effects across countries. Blanchard and Wolfers (2000) seek to show this in action by interacting four broad European shocks over the 1960s to late 1990s with individual country LMI characteristics. Henry and Nixon (2000) make use of shocks also when they explain unemployment in the UK, not by institutional factors, but by a small number of transitory shocks involving oil prices, terms of trade, and real interest rates. The interaction between LMIs and asset bubbles can also produce negative and long term effects. What happened recently in Spain, Ireland and some other European countries is certainly deserving of study. I attempt to

explain the localisation of the clash of paradigms among the Irish polity and to establish its role in the political-economy of the national response.

From such evaluations of LMI performance and country comparisons comes the possible diffusion of good policies and mechanisms. Eichhorst, Feil et al. (2010) provide an evaluation of national responses to the recent global recession. For them the most important economic factor is labour market flexibility as this determines “the capacity of LMIs to absorb and accommodate shocks.” Four types of flexibility are provided and these are compared across more than thirty countries. The four types are; ‘external flexibility’, ‘internal flexibility’, ‘wage setting’, and ‘active and passive labour market policies’. Countries relying more on internal flexibility and automatic stabilisers are flagged as successful. This theme of flexibility is taken up in a more recent IMF paper. Blanchard et al (2013) describes micro and macro flexibility. On the micro side they suggest a form of Nordic ‘flexicurity’ as optimal, and with the macro, “conceptually, a combination of national and firm-level bargaining seems attractive”, while trust between social partners is highlighted as key to successful performance. Interestingly the IMF only makes “tentative conclusions” and thus acknowledges that LMI arrangements are complicated with no country having any authority on the issue. They say that successful policies in particular countries, like Germany and Denmark, have led to a reassessment of policy advice at the IMF and elsewhere.

Contemporary capitalism thus exhibits a wide range of economic models each characterised by their own unique arrangement of institutions. The conclusion that emerges from the literature would seem to suggest that theory on LMIs is far from straightforward and that this results in a variety of arrangements seen across countries, with mixed results indicating no model as superior. Any particular LMI arrangements are characteristic of the particular country in question and this heterogeneity presents an unavoidable ambiguity. The question then becomes the challenge of localising the theory, econometrics and policy. This thesis will examine the assessments and mental models of key Irish labour market stakeholders in order to explain the changes and adaptation of the Irish labour market system. The need for adaptation to macroeconomic and microeconomic trends and developments remains and thus best practice is always a current if elusive theme. What is without doubt is that LMIs are interdependent and that consistency in policy mix is a factor of success. For Amable (2009) this coherency is vitally important and so a proper analysis must be able to typify a particular labour market in

terms of its particular arrangements. The IMF attempted this in their recent paper and provided three labour market regimes; an “Anglo-Saxon” model, a “Nordic” model, and a “Continental” model. The first two are presented as relatively successful and the third one not. Also of use in providing such a comparative framework with which to compare policy is the work of Esping-Andersen (1990). He outlines three separate welfare states which have developed over time among industrialised nations. The three are; a “liberal”, a “coordinated/conservative”, and a “social democratic”.

LMI arrangements are characteristic of broader national arrangements and thus it makes sense to talk of Ireland having a liberal labour market. In terms of the current debate such a framework is more credible than comparing national LMI arrangements to some theoretical ideal that is heavily reliant on un-testable assumptions. Milton Friedman understood the controversy concerning Neo-classical assumptions, but given the simplicity and fruitfulness of its predictive power, he adjudged it the superior approach for informing policy (Friedman 1953). Current mainstream practitioners adopt the assumptions of the Neo-classical school and present the estimated growth effects of removing labour market rigidities. In general the term rigidities refers to institutions governing the employment transaction. New Institutional Economics may provide the insight needed into the real role of LMIs in a well-functioning labour market and economy. I propose that the labour market together forms a system involving a relationship between labour market participants and firms that is mediated by the earlier three key LMI categories. These categories are EPL, wage setting, and UI and ALMPs. A gestalt understanding of the labour market as a complete system encourages an appreciation of how LMIs relate to national development goals and why particular models have emerged over time. I suggest performance depends on how well the associated LMIs fit together and ‘interpret’ models like flexicurity and collective bargaining. Such a theoretical framework allows me to analyse LMIs and thus provide an explanation of Irish LMI reform and the unemployment crisis.

### 2.3 - The labour market as a system

This chapter began with an introduction that outlined my approach to studying the labour market. It involves the market as a system composed of institutions which mediate the relationship between firms and labour participants. Institutions are taken as the essential underpinnings of the market without which the latter could not function. Their design and function is a key determinant of economic performance. The issue of LMI reform, and

especially under circumstances of crisis, is what concerns this thesis. This section will outline the theoretical considerations involved in analysing the design of the labour market system giving attention to its overall effectiveness and constituent parts. The system itself is highly dynamic with many endogenous and exogenous factors determining the outcomes as measured by the variables discussed in chapter one. The three categories of LMI may be viewed as endogenous factors and their development over the crisis is judged as critical to future economic performance. It is they that shape the employment relationship and influence how efficiently labour is allocated. The most important exogenous factor is the level of demand and its transmission into the labour market was discussed in chapter one. The assertion that the level of demand determines the level of firm output and thus the level of employment invites a Keynesian analysis. Another assertion that encourages this line of thought is that firm prices are determined by the production process. This places us in the position that as standard Neo-classical analysis will not suffice, we must broaden the scope of our enquiry to incorporate other schools of thought.

Although certain Keynesian themes will reoccur throughout the thesis my theoretical framework will be predominantly concerned with New Institutional Economics as in my opinion its form of analysis offers the best method of addressing the topic of Irish LMIs in the circumstances of an unemployment crisis. New Institutional Economics presents itself as a pragmatic approach given the aim of this thesis. The work of Ronald Coase (Coase 1960) on market functioning and Douglas North (North 1994) on economic change provide the basis for the new conceptual framework offered. New Institutional Economic provides a perspective on the clash of paradigms evident from the literature review and an explanation of how this conflicting theory may be reconciled among a national polity. However, as yet it has not been applied to the labour market and thus the clash of paradigms referred to in the thesis title is that between the dominant orthodox Neo-classical paradigm and the leading heterodox approach to economics, Institutionalism. Although elements of both which relate to the reform of each category will be discussed in later chapters, the most immediate task is to outline my New Institutional Economics approach. I attempt to explain the political-economy of the national response by applying a methodological framework to the available labour market data, documentation and interviews with the key labour market stakeholders involved in the bargaining of the observed reforms. More than any other this framework emphasises the endogenous institutional factors of performance and this is key when viewing the labour market as a system.

### **2.3.1 - Justification of approach**

My interest is in the debate over how LMIs mediate the relationship between firms and labour market participants. I see this relationship as being symbiotic in nature with each side of the transaction dependant on the other. An alternative viewpoint of course has it that firms, representing capital, 'exploit' participants, representing labour. The latter constitutes a more traditional perspective and in this section I substantiate my decision not to adopt such a methodological approach. Instead I choose to develop an analysis within the school of thought known as New Institutional Economics. I hope to provide insight into the many nuances of the modern labour market, and what really defines the working situation of participants. I see the three categories of institutions as generating and forming the 'rules of the game' governing the employment transaction. Institutions shape the relationship and ensure that the transaction provides realizable gains from trade. The participant gains wages for his labour and the firm utilizes this labour to produce output thus earning profit. The gains from trade are of course always in dispute and the institutions are themselves subject to change. Reforming these institutions is never simple and many interested parties will seek their own objective configuration. This thesis seeks to establish the parameters of this debate over change and what can be accepted as the facts concerning LMIs and their configuration. I will show that many models of the labour market exist and that differing viewpoints can be often traced to whether the holder is a firm or a labour market participant.

In reality the views espoused by firm or labour market participant on a particular labour market system are contingent on a range of other social, economic and even cultural issues. If one accepts this then economics cannot be separated from the social and political context within which it is embedded. This form of political-economy analysis is influenced by the Institutional school of thought. An alternative approach is to see how LMIs contribute to reducing unemployment through modelling. The limits of this approach have been discussed and I would like to broaden the perspective beyond simple quantitative measures. As Myrdal (1978) states, the broadening of the perspective found in the Institutional approach, "will regularly destroy the neat simplicity of both analysis and conclusions in conventional economics." I would like to examine how the theory on LMIs was contested and used in arguments by the proponents of Irish firms and Irish labour market participants. I will localise the clash of paradigms to an Irish context and provide a

political-economy explanation of the arrangement and subsequent rearrangement of these endogenous factors.

Simplicity in analysis and clarity of conclusion is not necessarily a bad thing. The problem is that modern policy making is inevitably a complicated topic and especially so as it pertains to the labour market. New Institutional Economics may be viewed as an extension of Neo-Classical work that seeks to incorporate institutions into the analysis. Although useful for my purposes, a criticism of traditional Institutional economics, I acknowledge, is that it is typified by a tendency to a generalism that makes it all things to all people. New Institutional Economics is however, I believe, much more focused and its literature provides detailed models of institutions in action. The origins of this theoretical approach can be traced back to the work of Ronald Coase and my adaptation of Holbrookes (2013) version of the so called Coase theorem provides a foundation for my research in this area;

**“In the absence of transaction costs, the Pareto efficient allocation of resources is independent of the allocation of property rights.”**

This Coase theorem and its variants originate from the application of economic analysis to legal theory. As such, being in origin a legal concept, it may not translate directly to the analysis I wish to employ. In terms of how a market is structured, however, it may be useful. This is because it addresses social arrangements and allocative efficiency, a theme central to this thesis. On this theme, and in relation to the use of the production process as the deciding factor, Coase (1960) has stated that it is, “desirable that the choice between different social arrangements for the solution of economic problems should be carried out in broader terms than this and that the total effect of these arrangements in all spheres of life should be taken into account.” (Page 43) I will thus attempt to apply the theorems terminology to the labour market taking into consideration a broad notion of allocative efficiency and the general welfare. The theorem ties together two of the central concepts of study of New Institutional Economics, property rights and transaction costs. What is important to understand is that according to the theorem, theoretically, in the absence of transaction costs property rights will not hinder the most productive allocation of resources. Their use for the internalization of conflicts and externalities is not necessarily a hindrance to allocative efficiency. Taken in this way the theorem ascribes to a strong belief

in the allocative efficiency of markets. However, from a negation of this interpretation of the Coase theorem a causal link between property rights, transaction costs and the allocation of resources is discernible. Such a negation might read;

**“In the presence of transaction costs, the Pareto efficient allocation of resources is dependent on the allocation of property rights.”**

In this negation of the aforementioned Coase theorem both property rights and transaction costs will influence market efficiency. According to Allen (1999) a division of analysis between both property rights and transaction costs defines New Institutional Economics research and much literature has focused on either one or the other. Due to criticism for the near impossibility of referring the theorem in its true form to an example market, given the presence of transaction costs in most markets, I think the negation of the theorem I describe is most applicable and especially so to the contemporary labour market. Thus, the policy maker assumes that transaction costs and property rights have an influence on the allocation of resources. This application to the labour market hinges on whether certain labour rights may be viewed as in fact property rights owing to the agency and ownership of the participant over the resource in question, human capital. This human capital must be preserved and developed in the interest of all labour market stakeholders and thus what can be constituted property rights are accorded.

It is my belief that New Institutional Economics may be applied to the labour market through using its terminology to describe the economic function of LMIs. Although it remains to be seen how interchangeable labour rights and property rights actually are in practice, taking the full set of each into consideration, an example can be used to illustrate the usefulness of my proposition. An individual labour market participant transacts his human capital with a firm for wages. However, the wage offered by the firm would put the participant in a position of such poverty that he cannot maintain his health and this prohibits him from working. This represents an externality that the transaction does not consider. This poverty would prevent the participant from gainfully participating in the labour market. A mediating institution thus decides that if the market for individual's human capital is to be maintained then it must oblige the firm to offer a minimum price. In this way the minimum wage contributes to market functioning. This human capital must be

preserved and developed in the interest of all labour market stakeholders and thus what can be constituted property rights are accorded. Mediating institutions have thus a key role in economic development. They must balance Neo-classical type concerns for the labour markets allocative efficiency with Institutional type concerns as to social cost.

In this analysis property rights are accorded on the basis of an individual's stock of human capital. The arguments for conferring property rights are many and I see their main thrust as being that the general welfare of the participants who hold the human capital is essential to ideas of economic well-being. Indeed the general welfare of participants is often at odds with the interests of firms and these firms can impose costs on society in their pursuit of profits. This pursuit of profit can damage the welfare of participants and thus the stock of human capital available for economic development.

Alternatively, while conferring rights to the owner of human capital, LMIs can also place additional costs on the firm when a transaction takes place. This will also have a bearing on the allocation of the resource in question. This is consistent with the work of another New Institutional Economics practitioner, Stephen N. S. Cheung. The latter perspective could imply that LMIs are a hindrance to market efficiency through the conferring of additional costs on firms. For example, the minimum wage may legitimately be interpreted as conferring a transaction cost. Consideration of the general welfare necessitates the conferring of property rights to participants as human capital holders so as to avoid any socially harmful costs imposed by firms. However, firms may associate the LMIs governing these rights with conferring transaction costs that also threaten their economic viability and thus the general welfare. Among the determinants of transaction costs is asset specificity (See Oliver E. Williamson 1981). It is my opinion this contradiction between the alternative property right and transaction cost dimensions and its resolution by the State is the core focus of New Institutional Economics as it relates to the Labour market system. Current debate on so called 'structural reforms'<sup>12</sup> concerns the effectiveness of LMIs in this governance role and their influence on the allocation of labour.

Estimating the effectiveness of LMIs in their governance role can involve a whole range of factors. Issues of redistribution and welfare may weigh as heavily as the efficient allocation of resources. It may be useful to distinguish between the effectiveness and efficiency of LMIs and this distinction will be addressed later. The most obvious measure of

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<sup>12</sup> [http://ec.europa.eu/economy\\_finance/structural\\_reforms/index\\_en.htm](http://ec.europa.eu/economy_finance/structural_reforms/index_en.htm)

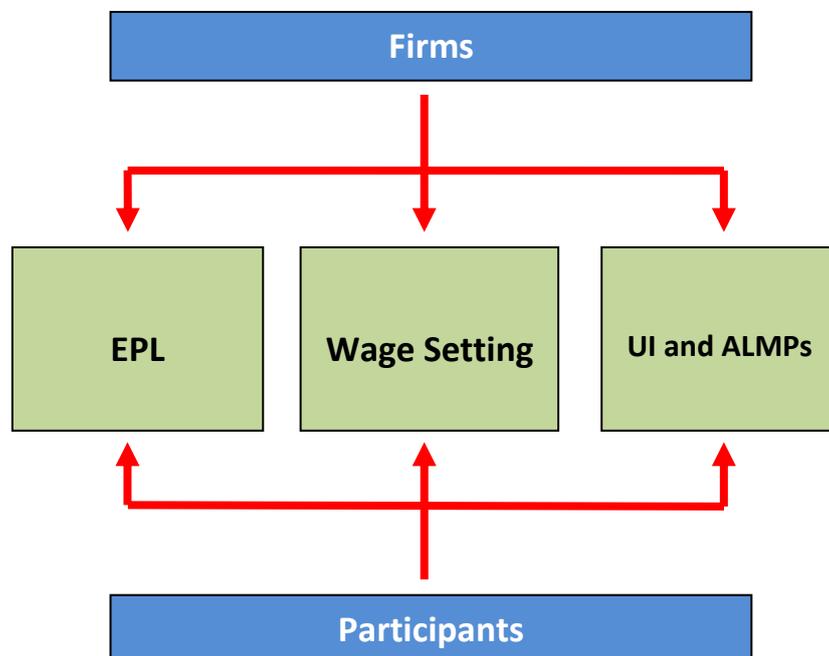
effectiveness is perhaps the effect of an LMI on unemployment. This line of investigation has been the object of much econometric study over the last twenty years, unfortunately with limited conclusions resulting. Some of the theoretical modelling followed suit and Petrongolo and Pissarides (2001) provides an example. They modelled how EPL influenced the rate of unemployment and this work may be classified as either Neo-classical or New Keynesian. But perhaps the Institutional school can provide a better account of EPL. This is because it does not seek generalised rules and models to explain the labour market but rather seeks to gather and analyse empirical knowledge on the causal processes that shape the policy that defines the labour market. From my literature review I conclude that interdependencies play a significant role in determining the effectiveness of LMIs. In this way EPL can really only be evaluated as it relates to other LMIs with the most obvious example of this being an evaluation of the effectiveness of 'flexicurity'.

The employment transaction between labour market participants and firms is mediated by a range of institutions with rights conferred over the three categories. A complicated mix of considerations goes into the decision to offer or take up employment and analysis necessitates going beyond a simple factoring of costs. There is a high degree of causal interdependence with the articulation of some form of master model the ultimate goal of researchers and policy makers. The New Institutional Economics School is the most pragmatic for my research goals as I seek not some mathematical model but rather political-economy insight into the dynamics of firms and labour market participants negotiating the governance of the employment transaction and how the resulting institutions affect unemployment.

Below I present a graphical illustration of my model of the labour market system. More explicitly it is a model of the institutional matrix governing the employment transaction that constitutes the labour market system. Essentially it depicts the employment relationship between firms and labour market participants. The three categories of LMIs are placed in the middle thus mediating between the two groupings. It could of course be possible to have capital instead of firms and labour instead of participants but this wouldn't as accurately reflect the reality of the present day labour market found in modern welfare states. State institutions have gradually developed that have increasingly humanised this relationship with the accompanying bureaucracy operating on the basis of individual citizens and firms. This methodological individualism is evident in policy formation and this suits my analysis as I seek a model of the institutional matrix that an individual firm or

labour market participant must negotiate when they engage the labour market system. In other words, I attempt to model the 'rules of the game' for individual firms and participants. This systemic interpretation of LMIs and consequent model is consistent with the idea of an institutional matrix from Douglass North who sought an understanding of economic systems in terms of their comparative performance and development over time.

**Figure 14: A model of the institutional matrix governing the employment transaction which constitutes the labour market system**



The three categories of LMIs that mediate between firms and labour market participants contain the institutions that the LMI literature has sought to measure and estimate their respective influences on unemployment. As discussed earlier the research effort to model their effects individually may be classified as the orthodox, Neo-classical approach. Here I attempt a New Institutional Economics contribution to the research effort by providing a 'gestalt' model of the labour market. The advantage of this approach is that it encourages an analysis that appreciates the many interdependencies at play between LMIs. It comes from the belief that there is a master model of the labour market in existence involving a

complexity of causal interdependence which it is hoped can be rationalised in theory. From a Keynesian perspective it models the endogenous factors of the labour market that influence unemployment. Although aggregate demand will have the greatest influence on unemployment these LMIs influence the relationship between firm and participant and can thus encourage or discourage employment.

The above approaches provide the means towards modelling the system theoretically. However, this thesis is more pragmatic in intent. Its focus is policy design following a political-economy analysis of the debate and rearrangement of key LMIs during crisis. The model should be seen as a representation of the relationship between firms and labour market participants which can be used to assist policy makers. Proper study of these LMIs must involve an appreciation of the causal interdependencies which are key to issues of effectiveness and labour market efficiency. Such an approach also helps organise the debate over LMIs and later chapters will elaborate on the categories providing insight into the different versions of the system that are advocated by stakeholders. It is these arguments over the arrangement of the systems LMIs that brings about change. The New Institutional Economics School could label certain LMIs as according rights or costs depending on the person's perspective and this relates directly to the issue of structural reforms that are argued over by stakeholders.

I believe a transaction occurs when labour is employed and that the participant has certain property rights with regard to the exchange. Basically, the participant transacts a resource, their human capital, with firms in exchange for wages. In this way the Coase Theorem, as described here, might apply to the labour market and LMIs can be seen to mediate the market through conferring property rights and causing transaction costs. I believe the institutions that govern these rights have an influence on the allocation of labour and that study of their structure, interdependency, and dynamics, thus contributes to our understanding of unemployment. Later chapters will describe the policy assumptions and objectives that make up these institutions with the hope of more fully understanding the unemployment crisis. I will look at the pre-crisis and post-crisis arrangement of LMIs with the aim of understanding how policy both responded and was shaped by the crisis. Interviews with key stakeholders will cast further light on this reform and debate, with attention given to paradigmatic biases in LMI interpretation as either transaction cost or property right institutions.

### **2.3.2 - The system and effectiveness**

From my review of the literature I concluded that it was necessary to view the labour market not as a collection of individual instruments but as an entire system characterized by complexity and interrelatedness. This led me in the direction of Institutional economics and like many before me I sought a master model. Such a model of the system I saw as necessary for the understanding of the purpose and function of individual LMIs. It is through the use of such a model I felt that we can best understand and evaluate the effectiveness of LMIs. Effectiveness is used here in a broad sense so as to be able to take account of considerations of the labour market system apart from its allocative role. Issues such as job security and wage stability are in my opinion related to the effectiveness of LMIs. This I suggest is because LMIs have been construed and used with a broader purpose by policy makers who were themselves given a mandate through the democratic process.

From a New Institutional Economics perspective a participant's labour may be viewed as a resource which is transacted with firms for wages and property rights may be assigned to this resource by mediating institutions in the interest of broader welfare considerations. In this sense the effectiveness of LMIs may also be assessed in terms of contribution to particular goals such as stable credit growth and low long-term unemployment. Aside from poverty, it can be shown that financial stability also has a determinant in the particular arrangement of LMIs in the economy. In this thesis, however, I concern myself with an effectiveness that relates more specifically to the labour market and I hope to consider the role each category of LMI has in contributing to the achievement of stable growth and low unemployment. Further work may establish how the system relates to the EU structural indicators.<sup>13</sup> In this thesis I examine the effectiveness of these endogenous labour market factors taking into account their democratically determined purposes;

“LMI effectiveness is evaluated on the basis of the facilitation of the labour markets allocative role, as this relates to defined considerations external to the employment transaction.”

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<sup>13</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Structural\\_indicators\\_\(SI\)](http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Structural_indicators_(SI))

Although concerned with effectiveness this thesis deals more specifically with the unemployment crisis and thus it is necessary to understand not just the effectiveness of LMIs in their purpose but also how they influence labour market efficiency. By this I mean how LMIs reduce unemployment through the most efficient allocation of labour. The most efficient allocation of labour produces the greatest surplus and thus welfare gain for society. The World Economic Forum (WEF) has the efficiency of the national labour market as one of its twelve pillars of competitiveness in its Global Competitiveness Report.<sup>14</sup> This type of analysis relates to the allocative role of the labour market and treats labour as a commodity. Its treatment of wage determination highlights the difference between concepts of efficiency and effectiveness. For instance, Germany, to whose collective bargaining procedures are attributed to having much influence on that countries recent success, is ranked among the lowest countries on this aspect of the labour market due to its perceived inflexibility. Thus the LMI in question is effective in relation to competitiveness yet inefficient. In my opinion I think it is useful to talk of both LMI effectiveness and LMI efficiency. Such an approach means we can talk of the success or otherwise of the labour market system in bringing down unemployment which is indeed the ultimate test of LMI arrangements. We must also however at the same time give attention to individual LMI effectiveness as their operation and purpose may have other considerations, often economic, that may reduce unemployment even if only indirectly.

“LMI efficiency is judged in relation to the facilitation of the labour markets allocation of human capital to the most productive use keeping unemployment to the minimum.”

Comparisons between national models of the labour market system can be either complicated or simple. An effectiveness evaluation of a model can lend itself to much subjective interpretation while the efficiency of a model may be judged more simply by a figure for unemployment. Perhaps the European Social Model comes at the cost of a perceived reduced efficiency which translates to a higher unemployment rate than the United States. However, European policy makers might not necessarily emulate their American counterparts if they adjudge their LMI arrangements effective given a broader

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<sup>14</sup> <http://reports.weforum.org/global-competitiveness-report-2014-2015/>

set of considerations. This effectiveness–efficiency distinction comes into play whenever alternative models are used as examples in national debates over LMI arrangements. This thesis gives attention to such debate and, given their interests, it could be generally said that firms are more interested in efficiency, while participants may be more interested in effectiveness. Comparisons can of course be made within Europe and Ireland is often grouped alongside the United Kingdom as a more liberal market. It thus makes sense to talk of Ireland as having a liberal labour market. This is evidenced across all three categories and later chapters will outline the features of the market that substantiate such a description.

The many OECD indices that cover each category will be discussed and this will help me place the Irish model relative to other member countries. Other organizations are of course interested in the functioning of national labour markets and much use will be made of papers that compare countries. The IMF in its reports often highlights the successes and weaknesses of national LMI arrangements and this is useful in establishing perceptions of LMI effectiveness and the suggested reasons behind labour market efficiency. The WEF Global Competitiveness Report concerns a survey of the global business community and is thus perhaps more sympathetic to the interests of firms than labour market participants. As mentioned earlier it addresses labour market efficiency as distinct from effectiveness. Ireland, as a liberal market economy, is closer to firm interests and its labour market efficiency rank is one of the report's highest. Many sources are available in my pursuit of empirical knowledge into the causal processes at play in the labour market. It is through such knowledge that I aim to examine the LMIs that constitute the labour market system and to both evaluate the effectiveness and explain the efficiency of the Irish liberal labour market model.

In practice, estimating the effectiveness of the LMIs that constitute the Irish model can be a broad or narrow exercise. My approach will depend on what exactly is being considered and, as mentioned earlier, in this thesis I am concerned with a narrower interpretation than what might otherwise be the case. Judging labour market efficiency offers a much less contested exercise. Doing this would depend on agreement over the economy's natural rate of unemployment. Although any agreement would likely avoid precise figures and instead suggest a range, it can be clearly seen from such an approach what exactly is under dispute. The natural rate of unemployment is the mixture of frictional and structural unemployment that persists when the economy is in equilibrium. It is the rate that persists

even when potential output has been reached and so its determination rests not on considerations of the demand side of the economy but rather on the supply. In Neo-classical theory structural policies are usually presented as the only way to reduce the rate and as this school of thought has come to dominate the economics debate over the last few decades, much attention is given to how LMI arrangements can either increase or decrease the rate. It is this supply side focus that has put LMIs under scrutiny and when the natural rate hypothesis is put alongside a strong faith in the natural ability of the market, we can see that LMIs can constitute key rigidities that either prevent the economy from reaching equilibrium or that allow structural unemployment to persist when this has occurred. As impediments to the natural workings of the market and the price mechanism there will always be proponents of the view that LMIs should be removed to a very minimum.

However, Neo-classical theory can be easily misrepresented and its modern versions actually incorporate much rigidity into the modelling. It would be wrong to say that Neo-classical theory is in its essence opposed to LMIs but rather that its theory is too often misinterpreted to provide policy arguments counter to the interests of labour market participants and that are mainly pro firm. The use of the natural rate has the advantage that we can segment the unemployment rate to establish the degree of structural unemployment. If such sections of the labour market were left unchecked that rate could easily persist for far longer than what would be the case if ALMPs were in fact not used. We can thus view in terms of efficiency how able ALMPs actually are in reallocating this stock of participants into employment by estimating and monitoring the natural rate. The other categories of the model can also be viewed in terms of their ability to guide the market towards a lower natural rate and we can thus speculate on their 'LMI efficiency'.

In liberal market economies concerns for efficiency and managing the level of unemployment is likely to be more to the fore than in more coordinated labour markets. For coordinated labour markets such as Germany, reliance is placed on market coordination to solve these problems of allocation and thus the models of Neo-classical theory that depend so much on the price mechanism might not so easily apply. Indeed, labour market issues arise that require an evaluation of LMIs which involves a broader set of considerations than concerns as to the natural rate and market efficiency. The three issues emerging from the data in chapter one certainly require a more nuanced analysis. The issue of labour market dualization relates to the first category and solving this problem

requires a set of LMIs that can take account of the many factors involved beyond merely liberalizing legislation and letting the market take care of the problem. There are aspects to this issue that affect the general welfare of society and thus LMIs must be estimated in terms of their effectiveness in addressing this problem rather than merely how well they function within the market mechanism. The second issue relates to the employment rate and the category wage setting which is the subject of much debate as to how wage increases contribute to, or diminish, from employment gains. In the modern economy it is not enough to rely on flexible wages to ensure high employment. The third issue of structural unemployment relates to the third category of LMI and once more LMI effectiveness seems a better conceptual tool with which to more accurately judge the efficacy of policy. As a paradigm the dominant Neo-Classical approach of orthodox economics is insufficient to address these issues as the mechanisms are complicated and other considerations are important alongside low unemployment. New Institutional Economics offers an approach that can address these issues and offer policy options that address them while at the same time generating measures of efficiency judged suitable by all constituent parts of the system. I use New Institutional Economics then to judge the effectiveness of Irish LMIs with regard to their contribution to the general welfare and sustainable growth, as well as low unemployment. The political-economy behind the observed reforms designed to achieve the desired performance will be examined, with any theoretical obstacles identified.

### **2.3.3 - The system's constituent parts**

Adaptive efficiency concerns how responsive the institutional matrix is to adaptation when outcomes deviate from intentions. North (1990) describes the institutional matrix as “an interdependent web of institutions and consequent political and economic organisations that are characterised by massive increasing returns.” The constituent parts of the system through their representative organisations have a key role to play and interviews with these individuals will elicit the theoretical orientations of main stakeholders with regard to their intentionality over the role of LMIs within the economy given a radically changed situation. Central to this question, and following chapters, is how the institutional matrix governing the employment transaction relates to long-term development strategy. Intentionality differed greatly and yet outright industrial relations unrest was prevented. I attempt to explain this aspect of the national response and the part played by the localisation of the clash of paradigms among the bargaining of reform by the Irish polity.

This section will discuss each constituent part of the system on the basis of the individual transaction between firm and labour market participant. To begin I discuss the individual firm and the set of institutions encountered when transacting with a labour market participant. The set of institutions encountered should raise the benefits of cooperative solutions leading to realizable gains from trade for all sides. However, the efficiency of LMIs in their goal is disputed with some involving 'rigidities' that restrict the employment and allocation of labour. This view has it that the firm is hindered by LMIs in its coordination of labour and is thus operating at a sub-optimal level. This of course it is concluded hurts the general welfare by increasing unemployment. From this we can see how the interests of firm and society may be co-aligned. However, there is in general great unease regarding labour market governance among social partners across the set of LMIs within each category and it is expected that the crisis only heightened this aspect of the national response. Firms must be able to adjust their labour force flexibly but today society demands that they internalise some of the cost of this adjustment. The aim is to protect the welfare of society over the business cycle. Looking at the other categories it can be said that society has decided to confer other costs on firms and so the rigidities description relates not only to EPL.

The question is whether the sub-optimal performance of firms is overridden by improvements in the general welfare. Rutherford (2001) states that business interests and the general welfare are not always aligned and this has been a key concern of Institutional work. This internalisation of costs aids the general welfare although it may be viewed as adding a transaction cost to firms. This gives rise to much debate about the nature of LMIs and it is understandable that from the perspective of firms during a crisis that an individual LMI might be considered far more as carrying transaction costs than conferring a valid property right. The set of institutions or institutional matrix is of course subject to change and firms may manoeuvre influence. Perhaps the most effective way is when firms with common interests come together and form an organisation to act on their behalf. Interviews with representatives of such organisations will more fully uncover the agenda and interests of this constituent part of the system during the crisis and their influence on the political-economy of the system's rearrangement.

The individual participant also encounters the same institutional matrix as the firm but from a different perspective and with a different set of interests the participant relates differently to LMIs. From the perspective of participants LMIs for the most part confer

property rights over their human capital. When a participant transacts with a firm it must negotiate the institutional matrix and thus its offer of labour is governed by the state with each category of LMI involving a separate aspect of the employment transaction. For instance in the middle category, wage setting, a minimum wage sets a floor below which wages cannot be paid. The state has decided that a participant is entitled to at least a certain level of compensation when transacting their labour for wages. Conversely, a participant may not work for a wage below a certain level. Many arguments exist for the establishment of a minimum wage and later chapters will examine the issue further. Another component of the middle category is union membership. Once again the state through its mediating institutions has made a law which affects both firms and labour market participants. In this instance a LMI confers the right to union membership on participants. It can also involve an obligation of union recognition on the behalf of firms.

Organisations representing participants, like trade unions, argue for such laws across all three categories and interviews with representatives of these stakeholders in the system will cast further light on the interests of this constituent part. Although the arguments for the conferring of property rights over labour are for the most part normatively charged, efficiency arguments do exist and later chapters will attempt a discussion. Perhaps the most basic efficiency argument is that the state has an interest in the conferring of participant benefitting property rights as a healthy workforce equates to a healthy economy. In this way the interests of participants and society co-align. Another aspect of participants which serves the interest of all involved is their level of education. Participants may be viewed as the individual holders of human capital which in aggregate becomes central to issues of growth and national development. It is perhaps this perspective that lends greatest weight to the argument that human capital should be viewed as a factor of production which is exchanged for wages in the labour market. Working within the New Institutional Economics paradigm I take this view and I am further interested in how property rights over this resource, whether originating in an ethical or efficiency basis, can lead to a higher level of welfare. This perspective has garnered popular support over the last few decades and the crisis was seen by many as an opportunity for new approaches to economic governance. The interplay of this current of trade union backed thought and the more conservative 'troika' will be explained.

The third constituent part of the model is the three categories of LMIs that mediate between firms and participants. This thesis is primarily focused on this part of the model

and more specifically the effectiveness of these LMIs in producing a well-functioning labour market. I am interested in how this part responded to the crisis and the arguments for its overall design. The Stanford Encyclopaedia of Philosophy has defined an institution as “any structure or mechanism of social order or cooperation governing the behaviour of a set of individuals within a given community.” Taking this definition we might define an LMI as an institution that pertains specifically to the labour market. The literature deals with LMIs individually and the limitations of this have been discussed. In the model I offer and seek to develop, I group these LMIs into categories in an attempt to provide a proper examination of the institutional matrix that both firms and participants encounter when transacting. As the mediating institutions that comprise this matrix are a multifarious collection of structures and mechanisms their overall and individual categorization as either transaction costs or property rights can be disputed. Interviews with representatives of these mediating institutions will help in this categorization. In reality there is compromise and ministerial decisions taken through the periodisation were constrained not least by the fiscal reality.

Whether viewed as a transaction cost or property right we must still establish the effectiveness of each LMI category. In terms of the unemployment crisis perhaps the most important category is the third, unemployment insurance (UI) and active labour market policies (ALMPs). This category is comprised of many institutions with interrelatedness a key factor in its objective of the efficient allocation of labour. Participants can become unemployed for a number of reasons and the concern of society is that they not fall into poverty. Another concern is that they take up employment again and so ALMPs are in place to ensure readiness for work. This category has a role in ensuring that the supply of participants meets the demands of firms. As the latter changes so must the former and with an interest in this happening effectively the state funds many programs that will be discussed. Chapter one highlighted the issue of structural unemployment and so this category has a key role to play in Ireland’s economic recovery. An effective arrangement would ensure the provision of a healthy, educated, socialised workforce holding enough human capital to meet the needs of firms and broader economy.

Following on from the work of North (1981, 1991, 1996, 2005) I adopt an institutional/cognitive approach to the reform of the labour market system. It is the mental models of the individuals of the representative organisations and their according intentionality that influences change in the institutional matrix. A collection of

organisations are found representing all constituent parts of the system and it is the interaction between them and the three categories of institutions which brings about the institutional evolution of an economy's labour market system. The individual representatives' pursuit of private gain attained through political and economic change is what drives the process according to this analysis. It is expected that in a labour market context of crisis firm organisations will strongly stress the transaction cost dimension to individual LMIs and participant organisations will stress the property rights dimension following the interests of their respective memberships. However, the mediating institutions of state must consider broader economic development arguments, and thus it remains unclear which interests on each side of the transaction and corresponding theoretical arguments were most emphasised in the balance struck.

#### 2.4 – Criticism from the Institutional School

I now focus on the clash of paradigms and apply my theoretical framework to the labour market issues that will recur throughout the thesis and the interviews. Many Institutional ideas also contribute to the mental models of stakeholders and some of the literature concerns itself with a broader conception of LMIs than their basic allocative role. This section addresses the three issues raised in chapter one by contrasting the orthodox, Neo-classical, approach to the issues with an analysis drawn from and suggested by my reading of heterodox, Institutional work. Much debate exists in the literature and thus in this section I can but briefly discuss each issue from the perspective of the Institutional school. Each issue, for the most part, relates to a particular LMI category and so I intend to address each category in turn while highlighting the main challenge for effectiveness. These issues challenge policy makers to act, not just for the well-functioning of the system, but more so in the interest of the general welfare. They will shape and define the labour market for many years to come. My model of the labour market assumes that it is a system of institutions governing the relationship between firms and participants. At the core of the model is the employment transaction where a participant exchanges their labour with a firm for wages.

Given that there are externalities associated with this transaction, society has conferred property rights on the labour or human capital employed. It is in the interest of society that participants are healthy, educated and socialised and thus able to use their human capital in the most productive way. Firms also have an interest in the well-being of participants not

just as productive workers but also as the end consumers of their products. In this way all constituent parts of the system are stakeholders. I argue that Neo-classical theory in its bias towards firms is not sufficient to incorporate the interests of all stakeholders into its policy suggestions. Institutional economics focuses on understanding the role of the evolutionary process and the role of institutions in shaping economic behaviour. This makes Institutional theory attractive as providing necessary elements of any theoretical framework that might seek to answer the question of how best LMIs can be arranged and rearranged, with these heterodox ideas make a valid and credible contribution to labour market analysis. As discussed earlier, LMI arrangements have a key role to play in relation to the well-functioning of the labour market and these three issues constitute a challenge to this notion of well-functioning.

#### **2.4.1 - EPL and labour market dualization**

EPL concerns the regulations and institutions surrounding the hiring and firing of employees. Labour market dualization can describe a situation where a stark divide among participants in the labour market exists. This divide sees one group of workers in well paid work with relatively secure contracts and another group of workers with low pay and precarious work conditions. EPL arrangements have a pivotal role in their contribution to either increasing or decreasing this divide. An effective 'flexicurity' type arrangement would deliver the flexibility needed by firms alongside the security needed by all participants. A Neo-classical 'efficient' arrangement would keep EPL to a minimum as it hinders job creation. This effect can be seen in models like Pissarides (2000) where the job creation curve is affected by increases to EPL to the detriment of employment. The assumption is that high EPL leads to higher unemployment. In terms of the employment transaction between firm and participant many firms might view EPL as a transaction cost more than anything else. This is understandable as a cost is incurred. Firms thus attempt to minimise these costs when transacting with participants.

Dualization occurs when the market allows firms to offer different types of contracts to different groups and for the most part this is determined by the relative supply and demand for their respective labour. Where the supply of a particular labour type or category of human capital is great, firms can minimise the cost of transacting by offering contracts of lesser entitlements or terms than would be the case if participants had more market or bargaining power. Where a relatively low level of human capital is involved participants can expect low pay and precarious work conditions. Their low pay may be

attributable to the low marginal product of labour they add, whereas the precarious nature of their work may be attributable to the type of contract they found themselves offered. It is these contracts that give rise to dualization and the fact that a larger and larger proportion of participants are being offered them raises questions as to the nature of the economy that is being developed. With low EPL firms can engage in 'risky hiring' far easier in upturns while retaining an external flexibility regarding downturns in demand. This is frequently advocated as the scenario of a dynamic liberal economy and it is argued that such low EPL arrangements encourage low unemployment and higher growth rates because they allow firms to adjust more quickly to shocks and fluctuations in demand.

With regard to the dynamism of the economy and EPL, the Institutional school takes a different stance and one that gives more consideration to the interests of participants. It shows how the stronger contracts sought by participants contribute to the economy. This is because stronger EPL encourages a corporate commitment on the part of both firms and participants. With such a longer term commitment participants are likely to be more attuned to the interests of firms and to act accordingly. Among other things the result is a higher investment in firm specific human capital and this leads to longer term productivity growth. Participants are also more accommodative of internal flexibility and this makes it easier for firms to adjust to shocks and fluctuations in demand. In this analysis of EPL the key focus is not on the costs incurred by firms but rather on the enhancement of the participant's human capital that occurs when they are given an assurance by way of contract that their interests and that of the firm are co-aligned. This human capital must be preserved and developed in the interest of all labour market stakeholders and thus what can be constituted property rights are accorded. In this way property rights can be beneficial to the economy.

In the absence of a contract offering such assurances a more simplified relationship between firm and participant is created. This is where the dualization of the labour market occurs. When a lesser amount of human capital is involved the firm may not require as much of a corporate commitment as otherwise and concerns as to the long term, such as productivity, are not to the fore in their considerations. Whether this is a good or bad thing depends on opinions as to the correct development path of the economy. The participant's human capital and its relevance to the firm will be a key determinant of the type of contract governing the employment transaction. Where stronger contracts are offered the firm is seeking to create a corporate commitment with the participant as the latter's

human capital is regarded as important to the production process. The challenge for participants is that they must bring as much value to the transaction as they can so as to make firms view EPL as an opportunity for corporate commitment rather than a cost.

EPL arrangements differ across countries and the exact implications for respective responses to shocks and fluctuations in demand are unclear. An analysis of Ireland's case will be presented in later chapters and I will draw on inter alia the work by Hall and Soskice on Varieties of Capitalism (Hall and Soskice 2001, Hall and Soskice 2003). They describe economies as being either of a liberal or coordinated variety with neither presented as superior. In liberal economies EPL is lower and this is related to how firms must react more quickly given their emphasis on short term profitability. In such a view this emphasis on short term profitability is a result of the financial system within which they operate. This financial system can also encourage of course a more dynamic environment for firm creation and expansion which in turn it is assumed creates greater opportunities for employment and job mobility. As might be expected, and discussed earlier, EPL is interrelated to other institutional factors which affect the overall effectiveness of this category. Hall and Soskice (2001) state that, "in any national economy, firms will gravitate toward modes of coordination for which there is institutional support there."

On the issue of dualization, however, we see that while all countries are similarly affected, it is to varying degrees. This is because there are certain sectors of any economy which will have in general a low human capital requirement and thus a relatively high supply of labour. These sectors are characterised by the low pay and precarious work which are so against the interests of participants. The economic realities of modern life force many into hopeless situations of limited opportunity. While certain contracts are argued as necessary, given the circumstances of firms in particular sectors, it is clear their abuse can lead to much social damage. In actual fact a widespread abuse of these weaker contracts would amount to an externality as the economy would lack the resilience needed over the business cycle leading to quick catastrophe. Security of tenure it can be argued allows for participants to better plan and insulate themselves against economic uncertainties producing as a consequence a much stronger economy.

A balance is obviously needed and compromises have been found. Success, however, hinges on a more nuanced approach to EPL than that offered by the Neo-classical school. Coordination often produces more effective solutions than the market alone. In Germany, 'Kurzarbeit' allowed firms to retain valued workers through difficult times by offering them

short time work. In Denmark, 'flexicurity' gave firms the flexibility they require while insulating both the participant and society from the vagaries of the business cycle. On the other hand, in Great Britain, the rise in the use of 'zero-hour contracts' shows the pressures at play in liberal market economies. In line with the ideal of Coase in our analysis we must move beyond the production process to fully understand the effect EPL has on an economy. From this wider analysis we might better accord the needed rights governing the transaction between firm and participant.

#### **2.4.2 - Wage setting and official employment rate targets**

The category of wage setting includes structures and mechanisms governing the wage setting process. Among the main inclusions are the minimum wage, union recognition, collective bargaining, and tax arrangements. As discussed in chapter one, the Strategy 2020 employment rate target implies a higher participation rate and return to full employment. Wage setting may have a pivotal role in reaching these targets and much debate already exists over how best to arrange these institutions. A simplification of the Neo-classical view would be that increasing wages can increase involuntary unemployment above the equilibrium level. It is easy to construct the textbook diagram of supply and demand in the labour market. A more refined model in Pissarides (2000) shows the effect of wage increases and here the wage curves movements illustrate the rigidity argument. Together these institutions represent costs for the firm and these costs raise wages above the equilibrium level leading to a higher level of involuntary unemployment than should be the case. From this perspective they may be viewed as inefficient or at best as 'rigidities' which must be surmounted.

However, as discussed earlier, many factors are at play with the establishment of an institution. There are considerations external to the transaction that necessitate going beyond the production process. It is in light of these considerations that we might judge not just the efficiency but the effectiveness of particular institutions. A calculation must be made as to whether the institution is contributing to the economy or not and this is a highly complex exercise. Current debate in many countries over the role of minimum wages provides a good example. This category has taken on a central role in the debate over Ireland's recovery and the arguments of firm and participants groups will be more fully dealt with through interviews in a later chapter. What is clear is that these institutions which govern the wage setting process have a key role in encouraging both firms to take on

employees and participants to offer their human capital, the two factors which will decide how close Ireland comes to the Strategy 2020 employment rate targets.

If the growth which was noted in chapter one develops into something more substantial over the next few years, then perhaps Ireland will have a positive result all things considered. There would be no doubt that the labour market would be regarded as efficient if unemployment decreased and employment increased towards a level comparable to other more successful European economies. Such an outcome is possible. However, a real measure of success, in my opinion, necessitates going beyond the employment rate. Related to the aforementioned dualization issue is the situation of many workers who although in employment experience levels of deprivation as measured by the CSO.<sup>15</sup> This is a quality of life issue and concerns the living standards of participants. Indeed, the general living standards of participants will be an ultimate measure of economic success in the year 2020, with wages having a major influence. This is a source of conflict already between firms and participants with demands for wage increases by participants being refused.

A key measure of this conflict is the labour income share. This is the share of income that is devoted to wages. If the past few decades are anything to go by then participant groups cannot take for granted that an increase in economic conditions and employment will improve their members' living standards. This is because labour's share of income has been steadily decreasing and Sweeney (2013) provides an analysis of the causes. Among other factors, such as globalisation and technology, he attributes one of the essential causes as being due to an increased 'financialisation'. Household indebtedness has increased steadily as the financial sector has developed the range of products available. All types of consumption are now frequently financed not through wages but through debt resulting in a more fragile economy as exemplified by the recent great recession. It is not so much that debt itself is the cause of this fragility but rather its level and the role it has come to play in the economy. I suggest that the real economy has become too vulnerable to the fictive capital which exaggerates and distorts shocks and fluctuations in demand. An overly debt-fuelled growth, which so typified the period of full employment prior to the crisis, is too exposed to cycles of boom and bust to be regarded as sustainable strategy. The conflict between firms and labour market participants over wage setting must be resolved by a

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<sup>15</sup> <http://www.cso.ie/en/releasesandpublications/er/silc/surveyonincomeandlivingconditions2014/>

solution that has participants share more fully in productivity growth through increases in real wages and not an increased reliance on debt. This is one measure of effectiveness.

In their work for the International Labour Organization (ILO) Lavoie and Stockhammer (2013) promote such a wage led growth as an alternative to the debt fuelled growth that typified the years prior to the global financial crisis. They say that “only when wages grow with productivity growth will consumption expenditures grow without rising debt levels.” Aside from encouraging a more stable consumption growth path, wage led growth also has implications for investment. Drawing on the work of Michal Kilecki they show that not alone will an increase in labour’s wage share increase consumption, due to higher consumption propensities, it could also increase investment. This is due to an accelerator effect as higher sales and capacity utilization encourages investment. This is the type of Institutional argument put forward by participant organizations in the debate over Ireland’s recovery. Wage led growth is also presented by the ILO as superior to even export led growth as it is more sustainable in the long term given the latter’s reliance on international imbalances.

However, from a national perspective, and in Ireland’s case especially, such a wage friendly position could hurt international competitiveness. As it stands Ireland has some of the lowest unit labour costs in the European Union and exports have been to the fore of the recovery so far. However, European Commission work shows that price competitiveness is only one of the smaller factors determining the demand for national produce. For participants what is really under question is the level of Ireland’s reliance on the exporting industry, and importantly, who exactly benefits from these particular sectors. Much research work has gone into this area of wages and competitiveness and the debate continues. I hope to establish some degree of objectivity with this debate through further analysis in later chapters and through the use of interviews with stakeholders. What can be said is that the debt fuelled boom that characterised the pre-crisis cannot be allowed to recur and alternative growth strategies must be debated. For Ireland the question may be a matter of timing as to when these wage setting institutions can be rearranged so as to better account for the needs of participants.

#### **2.4.3 - UI and ALMPs and structural unemployment**

The category UI and ALMPs includes those institutions responsible for ensuring the work-readiness of participants who find themselves unemployed. Chapter one highlighted the

issue of structural unemployment, which is where although participants have some level of human capital, their skills and competences are not in demand from firms. The participants who comprise this structural unemployment will mostly have had jobs in the past to which their educational qualifications correspond. For many the option is to emigrate or retrain. The effectiveness of this category in relation to structural unemployment depends on how well government policy can facilitate the provision of a healthy, educated, socialised workforce that meets the demands of firms. It is not enough to simply provide income so that poverty is avoided during the unemployment spell. Active policies are required to develop, enhance, or conserve the participants stock of human capital so that they can initiate the employment transaction themselves, rather than waiting for their original skills and competences to become relevant to the market again. This active dimension to these set of institutions has only become the norm across countries in recent times and so some Neo-classical theory can seem outdated. That theory has it that high reservation wages increase unemployment by allowing the participant to effectively avoid the employment transaction given their current income is satisfactory. In effect, a microeconomic decision is being made by the unemployed participant between working and not working. In the absence of UI or with significantly lower payments the participant would be compelled to seek employment.

This leads to the assertion that a significant proportion of unemployment is attributable to participants who have decided not to work. As with the other LMIs discussed, this category's institutions can be interpreted as constituting either costs or rights. For firms they seem to be costs for a range of reasons. Firstly, a premium may have to be paid above the market clearing wage in order to encourage the participant into the employment transaction if UI payments are too high. Secondly, the cost of financing the unemployed is borne by society with firms included. However, like the other LMIs discussed, the absence of this category from the labour market system would quickly lead to economic catastrophe and thus considerations of this externality lead to arguments for another set of property rights to be accorded to the labour market participant. Issues of effectiveness and efficiency abound and so a balance must be achieved that both protects the supply of human capital, but also ensures that this supply is adaptable and allocated to the most productive uses.

Participants provide the supply of human capital to the labour market and enter a transaction with firms for wages. When the demand for this human capital is absent the

labour market must ensure that this supply is conserved or made ready for new uses when demand returns. Both sides to the transaction have an interest in maintaining this supply and thus some level of UI is accepted to counter the possible damage caused by labour market slack. These payments can be viewed as an acknowledgement to the participant that their human capital is valuable to the labour market. They are insurance against labour market slack and ensure that a participant's human capital is not eroded through the harmful effects that an absence of income would imply. A healthy, educated, socialised supply of participants is essential to the economy and is an investment that society has to make. Labour market slack is thus an important consideration external to the employment transaction given its implications for the well-functioning of the labour market. The welfare of a participant who holds human capital of no present use to firms is taken into account by the labour market and this allows for the productive allocation of this human capital when demand by firms occurs. Another consideration external to the employment transaction is that the labour market should allow a participant time to match his human capital to its most productive use. Once again this is in the interest of both sides of the transaction. This line of reasoning provides a justification for UI aside from more ethical concerns as to personal welfare.

Mediating institutions also accord this right to participants for its stabilising role in the aggregate. These payments smooth income over the business cycle and sustain demand for the output of firms through downturns. Countries differ in the degree to which these payments matter to macroeconomic policy in the face of shocks and fluctuations in demand. Countries also differ in the nature of the payments. In Ireland, for instance, payments are standardised and not related to a participant's previous wage as is the case in many others. In these countries UI ensures not just the avoidance of poverty but a higher degree of income stability where a broader conception of welfare is considered. On the whole, Institutionalists call for a broader conception of UI and ALMPs than that offered by traditional reservation wage arguments and this accommodates the welfare of participants in the face of slack demand. The work of Schmid (1998) could be categorised as Institutionalism since he focuses primarily on the institutions that govern the labour market. In this work he outlines his proposal for a Transitional Labour Market (TLM) which involves a broader conception of UI and ALMPs. The labour market must be able to accommodate, Schmid (1998) argues, the differing "intermediate phases" of employment that occur over the life cycle. These "intermediate phases" are necessitated by different transitions that occur over a person's life cycle. Institutional arrangements must allow for the employability

of participants to be maintained throughout life as they go through transitions between employment and other states such as education, retirement, household duties and unemployment. This would be a labour market with a set of institutions that allows for “transitory states between paid work and gainful non-market activities which preserve and enhance future employability.” (Pg. 2)

The purpose of UI and ALMPs under the TLM becomes the preservation of employability while allowing the participant to deviate from the standard working week. A principle of the TLM line of thinking is that labour markets are not commodity markets but social institutions. This is a more complicated conception of the participant that draws on sociological concepts such as decommodification<sup>16</sup>. Approaching the employment transaction in sociological terms promotes a wildly different analysis than that offered by ideas of ‘stocks’ of participants and the price mechanism. In truth the TLM is a highly idealistic notion but not without some value to the debate over LMIs. Policy makers, I suggest, are better not treating participants as a homogenous group. ALMPs and income supports should be versatile and conducive to a form of labour market adjustment that takes account of individual life stages. There is no doubt that the set of institutional arrangements suggested by the TLM is quite different to those suggested by Neo-classical notions of the price mechanism. For Irish policy and the issue of structural unemployment, the affected participants require a set of income and institutional supports that can take account of where they are in the life cycle, and one that acknowledges that as these participants were willing to work in better times, their unemployment is in large part due to labour market slack, and not personal motivation.

## 2.5 - Interviewing as methodology

Semi-structured interviews form the main empirical contribution of the thesis and my aim is to generate a contribution that might prove valuable to the area of policy reform and the theory of labour market institutions. The following chapters will provide a comprehensive account of LMIs both before and after the crisis. This account will include a description of the observed institutional reforms that have occurred predominantly since the election of the Fine Gael/Labour Party coalition government in 2011. The purpose of the interviews is to shed more light on the perceptions of stakeholders of the observed Irish reforms and, in

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<sup>16</sup> See Esping-Andersen, Gosta. 1990. *The Three Worlds of Welfare Capitalism*. Princeton University Press.

addition, to draw out the parameters of the general debate concerning labour market system design. Conceptually, each LMI has alternative property right and transaction cost dimensions, and this is central to how stakeholders orientate themselves to the debate over competing arrangements. The interviews examine key stakeholder opinions on the recent reforms as well as arguments on more general system preferences. This inter-subjective evaluation of the reforms accounts for the differences in stakeholder mental models discernible from the following chapter's analysis of the Irish labour market system and sheds light on the intentionality of the various interested parties involved. The semi-structured interviews will provide useful insight into the transactional space of crisis which determined the selection of particular reforms and may indeed contribute towards North's idea of a "theory of ideology".

From a New Institutional Economics perspective the literature on LMIs might be described currently as divided between Institutional type property right and Neo-classical type transaction cost analyses. A political dialectic involving this work is evident across different country arrangements which in turn follows the local mediation that has been involved in the drawing down of the alternative dimensions to these structures and mechanisms governing respective labour markets. To put it in Hegelian terms, *what is rational is actual and what is actual is rational*, and thus I suggest that the interviews provide an optimal research methodology in establishing the political rationale for the recent emergent Irish LMI arrangements, but also a useful evaluation of LMI literature's current role in the bargaining of modern, democratic labour market systems. This form of qualitative research, which through its ability to account for theoretical discord, encourages the higher category of reason found in the reality of mediating the governance of contemporary labour market systems. I argue that this brings us closer to a necessary understanding of the absolute or master model towards which we hope to make progress.

#### **2.4.1 - Qualitative research**

Although qualitative in methodology, the aspiration of my research is positivist. Much of the literature on qualitative methods is devoted to research in areas such as health which makes them highly interpretivist (See (Dearnley 2005), (Donalek 2005) (Finlay 1998)) In this literature the concerned interviews are highly subjective as they emphasise the personal experience of subjects. The interviews I conducted were with selected stakeholders who spoke as professional representatives of interested organisations and not merely in a personal capacity. A certain level of expertise and knowledge is discernible and the

interviews were conducted in terms that met a standardized process. The boundaries of the discourse are broadly defined and through established norms a common language brings common constructions. Aside from whether they are viewed in their property right or transaction cost dimensions, there is common ground involved in the actual design and stated function of many LMIs. It is the exact configuration of the instruments that is often only what is contested. In the spirit of Tinbergen<sup>17</sup>, these stakeholders may be seen as expert engineers, tinkering and adjusting the complex machinery of the labour market system. At issue are the responses of the various policy actors to the crisis as a continuing process and their influence on the redesign of the labour market system.

In fact, there is an apparent degree of agreement over many of the instruments concerned that lends itself to a positivism in mediation approaches. The ontological dimension to the interviews is that the subject matter relates to economic science and the interviews have a key part in the construction of a truth. However, there are many issues of theoretical discord and with some obvious differences between the stakeholder mental models I am ultimately forced back in an interpretivist direction in this construction. Interviews, observations, and documents are the three kinds of qualitative data Patton (2002) lists and the following chapters entail the involvement of all three concluding with an examination of my purposeful sampling of the Irish labour markets key stakeholders. This kind of qualitative research was essential in order to establish how the clash of paradigms was localised to an Irish context and internalised in mental models. The particular form of sampling employed had as its initial intention the production of an account of LMI bargaining by representative stakeholders among the interested parties which would yield a contribution to economic science.

From the foregoing discussion of qualitative research it can be seen that remaining positivist was a challenge. Following from my literature review and theoretical framework I emphasised the systemic quality of the labour market and sought a paradigm that could account for this within economic theory. New Institutional Economics presented itself and by lending a scientific rigour to the interview method I hope to make a contribution to the paradigm. This is the value of a positivist aspiration. To this end the interviews require and must retain some amount of positivism rather than any mere interpretivism which could reduce to subjectivism when put under scrutiny. Morgan and Smircich (1980) have long argued that a clear dichotomy does not exist between the qualitative and quantitative

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<sup>17</sup> A biography can be found here, [https://en.wikipedia.org/wiki/Jan\\_Tinbergen](https://en.wikipedia.org/wiki/Jan_Tinbergen)

methods and that “qualitative research is an approach rather than a particular set of techniques, and its appropriateness derives from the nature of the social phenomenon to be explored.” This means there is a pragmatic reason for the adoption of the interview technique and I hope to have provided an argument that qualitative approaches can provide more realism to the Irish reform process thus giving the resulting data and conclusions greater potential for positivist interpretation. It is the ‘fuzzy process’ nature of most modern policy making that led me in a qualitative direction and to the conclusion that my examination of the theoretical discord concerning LMIs could be best served in part through the interview method. Collis and Hussey (2009) construct a continuum of paradigms with positivism and interpretivism on either end;

Figure 15: A continuum of paradigms



Source: Collis and Hussey (2009)

Having made that choice I argue that interviews are the most effective way of more fully establishing how the labour market system reacted to the crisis and could possibly change in the future. The distinction between LMI efficiency and LMI effectiveness is useful as a lens through which to make an examination of the various interviews and what they suggest and provides direction for Coases idea of going beyond the production process when addressing economic institutions. It is hoped that one can make clear conclusions over the labour market system based on this research and such is the importance of the positivist aspiration. It is my belief that the later interviews add greatly to the thesis and that they constitute a key contribution to the research question. Ultimately, where the research is placed on the continuum is to be decided by the course of the interviews themselves.

Donalek (2005) tells us that “in the semi-structured interview, the researcher has planned a series of open-ended questions focusing on different parts of the particular research issue”. The key words here are ‘planned’ and ‘open-ended’. I devised a series of technical questions that would help answer the broader research question while allowing for a

complexity of views. This allows for differing values to run through and influence the construction of the emergent ontological truth. These differences meant that a certain amount of open-mindedness was required. This relates of course to the axiological assumptions or values that I as an interviewer brought to each interview. Within reason the economic researcher must be unbiased and value free and follow the 'law of the subject matter'. This is necessary if one is to allow each stakeholder the opportunity to fully outline their argument and this is the advantage and yield of the semi-structured interview. For the labour market I posit that firms and participants are in a fundamental state of political conflict. Were it not for mediating institutions the industrial relations landscape would constitute a constant and violent battleground involving the forces of labour and capital.

Thankfully this is not the case and the Irish labour market has many of the features of a modern democracy. Change most often occurs through a deliberative process. A form of social dialogue is present with firms, participants and their representative organisations active in the public sphere. Each organisation is responsible for a complex set of interests that are then related to a corresponding complex set of institutions. The corresponding intentionality of key stakeholders necessarily involves a set of mental models of the labour market system and in this New Institutional Economics perspective the adaptive efficiency of the system's institutional matrix depends to a large degree on the concerned polity. Establishing how LMI literature and theory influenced these individuals over the periodisation of the thesis analysis necessarily involves a qualitative approach and thus together with the observations and documents referenced in the preceding chapters, the interviews provide insight into the transactional space of crisis. I hypothesise that theoretical discord affects adaptive efficiency with the strength of the social dialogue available and accessed by the stakeholders determining performance. Rather than seeking to establish a simple correct model of the labour market system, the interviews help in the effort to examine the main factors of an economy's adaptive efficiency.

The proper study of modern policy making often requires, and can be shown to benefit from, qualitative research. This thesis concerns how LMIs were reformed in response to an unemployment crisis and thus it emphasises the dynamics of a changing set of institutional arrangements. Policy making is complicated because of conflicting interests and conflicting theory. Much theory is contested and my literature review has shown that many authorities have retreated from their once thought irrefutable policy suggestions. This softening of approach in economic policy was emphasised with the enacting of Article 9 of

the European Treaty.<sup>18</sup> The 'horizontal clause' in that article requires policy to consider a range of social factors when forming legislation. This means that, clash of paradigms aside, modern policy making in affected countries is even more of a fuzzy process. The rationale for conducting interviews is that they are a valuable way to truly examine the complex debate between key labour market stakeholders, as theory alone cannot clearly reconcile the property rights versus transaction costs contradiction that is associated with LMIs. Work that illuminates or systemises this complex conflict represents, I believe, a contribution, and thus my interviews further what I hope is a political economy understanding of the current labour market dialectic. Prior descriptions in the thesis of the pre and post crisis labour market system made use of definitions of LMI efficiency and LMI effectiveness. While not necessarily always in conflict these concepts provide a useful distinction in understanding differing perspectives from each side of the employment transaction.

A consideration of the nature of this qualitative research, and especially as it pertains to an examination of a clash of paradigms, draws us in the direction of post-modernism given the ultimately subjective character of mental models. It is characterised by an inter-subjective interpretation which to some degree has each interviewee offering only personal perspectives on events. The modern objective economic science of conventional study can be supplemented, or even replaced, by a post-modern world of multiple realities. Kvale (1996) writes of a shift in the social sciences towards the humanities. He suggests that positivist philosophy has declined over the last fifty years and thus new methods that supplement or replace it have emerged. These methods emphasise the social construction of reality with attention given to its subjective nature. In this interpretivist philosophy social context is emphasised and knowledge is constructivist in nature. A contributor to this decline in positivist philosophy was Ludwig Wittgenstein and from his line "reality is not a law which nature obeys but merely the form in which the propositions of science are cast" follows the rise of qualitative methods. Finlay's (1998) description of qualitative researchers highlights all the above features of post-modernism, "they value subjective interpretations; and they emphasise how meanings are negotiated within a social context and how the same event can be interpreted multiple ways." It is said that the interview as a research method naturally leads the individual in a post-modernist direction, and thus the

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<sup>18</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012E%2FTXT>

challenge methodologically was to acknowledge this and yet retain my positivist aspiration both practically and philosophically.

From reading the work of Bonoma (1985) I believe the chosen qualitative methods can deliver a high level of data integrity and results currency. He states that a trade-off is at play and thus the quality of interviewees, relating to data integrity, must help complement the generalizability of the arguments, relating to results currency. The results currency dimension is important and perhaps contingent on the degree to which the chosen interviewees truly are key stakeholders who may be taken to have influenced the observed reforms. According to Vogt (1993) generalizability is “the extent to which you can come to conclusions about one thing (often a population) based on information about another (often a sample).” There is currently much support for the validity of the interview method as producing generalizable results in the humanities and this thesis provides an example of its application to the study of economic policy formation. Although it is an exercise in qualitative research, my work is still rooted in the mainstream theory of LMIs and the semi-structured interviews attempt a construction of contemporary LMI rationale which it is hoped will aid further positivist research. Also of assistance in the description of the Irish labour market system and its reform are both the observations contained in the figures and tables presented earlier in the thesis which together with the documents referenced later, help localise the theoretical discord.

The three types of qualitative research listed earlier are accounted for in the analysis and it is hoped that a sense of positivism pervades. My interviews could of course have taken the form of score sheets measuring satisfaction with specific reforms. However, a score sheet would not uncover the interests at the heart of policy making with the richness required by my project. Such a quantitative approach would ultimately still be qualitative in nature but in a more circumscribed way. I suggest that the set of chosen research methods need not be reduced to a post-modernist exercise in infinite proposition making. According to Kvale (1996), “in the social sciences, positivism has entailed a philosophic bureaucracy that suppresses the subjective and social dimensions of social research”. The methodology employed in this thesis accounts for such a view while acknowledging that a positivist aspiration coupled with the proposed New Institutional Economics framework could well yield further useful research and much needed progress in the area of LMI study.

### **2.4.2 - Semi-structured interviewing**

An important consideration of the interviews was the choice of labour market stakeholders. The generalizability of the research would crucially depend on the chosen interviewee's representativeness. While part of the intention was to gain a balanced evaluation of the observed policy reform which occurred during the crisis, it was also hoped this analysis of the alternative perspectives of social partners would cast light on current themes in the clash of paradigms concerning LMI theory. Hypotheses generated on the observed reforms could be tested through the interviews, as after all the list of representatives constituted the key labour market actors that were most influential in policy formation during the period. The aim was to cast further light on the fuzzy process of policy formation, with the prospect of some clear conclusions emanating on the intentionality of that polity which had been identified as having responsibility for the system's adaptive efficiency. It was assumed that the chosen representative organisations could provide the most valid account of individual interests and thus senior members of the most prominent were chosen. As these organisations shape policy in a number of ways their chosen members were not just general stakeholders of the system but, in addition, active architects in its design. I wanted to establish both why LMI policymakers responded as they did and what factors contributed to the observed emergent labour market system. Standardising a single questionnaire kept my study consistent with the positivist aspiration of the research. Systematically testing hypotheses on the observed reforms across each category of LMI helps the argument that this was a structured scientific investigation of truth as distinct from a more interpretivist survey of opinions. The aim was to have, as Thomas Kuhn might say, a "community of practitioners" address current LMI theory in its relation to the adaptive efficiency of a labour market system in crisis.<sup>19</sup>

Accounts of Irish LMIs in previous chapters placed the labour market system within the context of overall government policy. The political aspiration for Ireland's small, open export led economy to further adapt into a Knowledge Economy requires some form of consensus among key labour market stakeholders over the concerned LMI arrangements. A survey of these individuals indicates which are the LMI reforms and issues of most contention among the polity thus providing insight into how the idea of consensus might relate to adaptive efficiency. It is suggested that the adaptive efficiency of the Irish system involves a degree of policy feasibility which is related to the 'buy in' of stakeholders to

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<sup>19</sup> See [https://en.wikipedia.org/wiki/Thomas\\_Kuhn](https://en.wikipedia.org/wiki/Thomas_Kuhn)

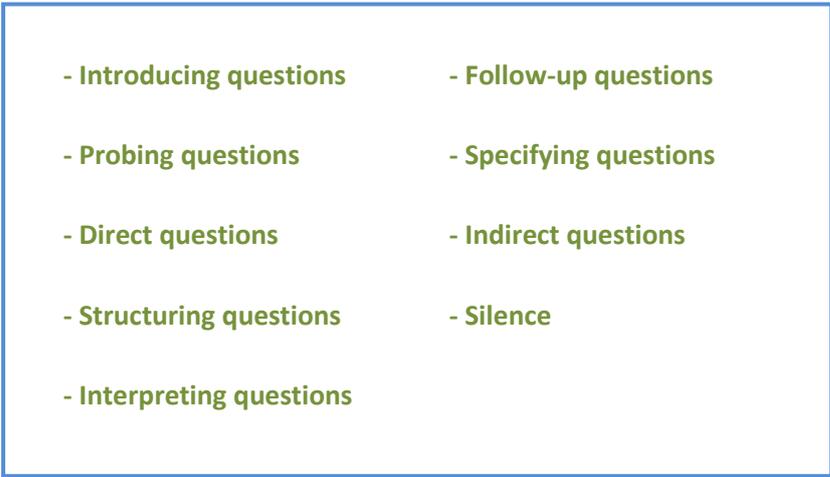
overall development strategy. The adaptive efficiency of the institutional matrix under crisis manifests itself from a transactional space determined by the interests of stakeholders. The interviews provide insight into the mental models of the system's various stakeholders and the temper of the bargaining of LMIs through the stages of variation of arguments, selection of reforms, and possibility of retention. The labour market bargaining process involves compromise and given the common current contention that a categorically optimum arrangement of LMIs is non-existent, I hypothesise that the recent adaptive efficiency of the Irish institutional matrix is best described through a close examination of the transactional space of crisis such as my thesis attempts. Analysis of the interviews indicates the temper and boundaries of this transactional space.

The interview questionnaire was designed to uncover stakeholder mental models of the labour market system, with arguments over LMI reforms and issues that were assumed to indicate intentionality. The clash of paradigms over LMI theory first indicated in the literature review is now further localised in this final chapter, with its influence on the Irish labour market system examined. The overall quality of the interviews entails many factors and will determine how well they contribute to the thesis. A fair list of questions would allow all interviewees to convey a full account of the factors they consider when influencing policy design. This fairness dimension was important to counter any presuppositions that might hinder the process. The evolution of the transactional space of crisis involved some fundamental disagreements between the social partners. As observations and documents provided the basis for the preceding account of Irish LMIs and the unemployment crisis in earlier chapters, the final chapter completes this qualitative research with rare insight into the processes of social dialogue. It is suggested that deliberation in the transactional space among the polity evolves the relevant theory, with the necessary localisation a key factor of the broader system's adaptive efficiency. A progression of modules helps explain the political-economy bargaining of the reforms and tests the earlier generated hypotheses. This contributes to our understanding of policy reform and builds towards a scientific methodology of positive labour market political-economy.

The individual interview itself involves a degree of reflexivity on the part of the interviewer. This meant that much skill is called for if one is to guide the discussion and a familiarity or expertise on the topic is necessary. A well formulated question can go a long way towards achieving a particular research aim but the nature of the semi-structured interview warns

that personal opinions can easily steer proceedings. Knowledge of the topic under discussion, however, and carefully used probes can maintain focus. According to Kvale (1996) “a good interview question should contribute thematically to knowledge production, and dynamically, to promoting a good interview interaction.” I decided that questions would draw on the material contained in preceding chapters and while ensuring answers contributed to clarification in the proceeding analysis they should be not too detailed or specific in a way that would discourage discussion. It is through this discussion that the nuances of bargaining and policy formation may be uncovered. Kvale (1996) lists nine different types of questions that he asserts may be used over the course of an interview;

Figure 16: Kvaless Nine Types of Questions in an Interview

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- **Introducing questions**
  - **Probing questions**
  - **Direct questions**
  - **Structuring questions**
  - **Interpreting questions**
  - **Follow-up questions**
  - **Specifying questions**
  - **Indirect questions**
  - **Silence**

Source: Steinar Kvale, ‘An introduction to qualitative research interviewing’, 1996.

All nine types may be used at some point over the course of an interview. These smaller, secondary questions or probes would be necessary in interaction with interviewees and their reflexive use essential to achieve more fully the development of ideas and theories expressed. This is a creative process whereby initial scripted questions are followed by unplanned probes to produce a readable text. As the interview is transcribed this text stands open for analysis and provides the material on which the following discussion can be based. In her interview work Donalek (2005) found “the resulting description is not simply the participant’s elicited recall of past experiences but a co-created work emerging from the interaction of researcher and participant.” I consider the text of each interview as

representing the transcription of a process of knowledge creation between two individuals with a degree of expertise. This dialogue, based on a common scientific language, more fully addresses my research question than other available material and is thus a key resource and source for my thesis. The intention is to make the interview method a tool of scientific research that contributes to our understanding of policy.

## 2.6 - Conclusion: A new perspective on LMIs?

It was once assumed that LMIs for the most part represented 'rigidities' that obstructed the proper working of the labour market and thus their removal would represent progress towards a more dynamic, lower unemployment economy. However, LMIs function through complex mechanisms and there is a degree of interrelatedness between them in the labour market system they constitute. It seems that with regards the theory and corresponding research project on LMIs, what is needed is pluralism. It is yet unclear how exactly LMIs function within the economy with channels of influence across the three categories influencing labour market parameters in often contradictory ways. A recent history of LMI research shows that the theory concerned is far from conclusive. I attempt to explain how this discord affected the national response to the crisis. In my opinion, work that stems from an institutional background has much to offer the debate on LMI arrangements, and where supported by evidence, can offer insight into the labour market system in addition to Neo-classical assumptions. I suggest that both had an influence on the observed rearrangement of LMIs.

New Institutional Economics ideas on market functioning and development assume a key role in this thesis and drawing on them I offer a contribution to the area of LMI research with emphasis placed on the role of these institutions within the broader economic system. Researchers should concern themselves with the gathering and analysis of empirical knowledge into these institutional mechanisms and suggest appropriate policies based on evidence rather than hypothetical ideals. I intend to gather and analyse much data concerning LMIs with the hope of establishing some truth as to their effective functioning. Neo-classical theory is pertinent as it forms the basis of much policy work and equal attention will be paid to its prescriptions. A clash of paradigms presents itself and my application of New Institutional Economics may provide a neutral perspective as I seek to establish the theories and assessments that influenced the debate over Ireland's labour market systems reform in the aftermath of the crisis. Interviews with key stakeholders will

form an important part of this process and I will establish what exact theory is influencing Ireland's current and future labour market arrangements.

Much theory supports the interests of firms, as does much conflicting theory claim to support the interests of labour market participants. Pluralism is needed in fully understanding the nature of Ireland's labour market and the shape it will take in the future. Understanding the labour market as a system involves having knowledge of the institutional matrix that both firms and participants must negotiate when entering the employment transaction. It is my intention to gather and analyse empirical knowledge into LMIs so as to provide understanding into these differences in firm and participant interests and, further, into the theory that results from this dialectic. I will examine LMIs in both their transaction cost and property right dimensions in order to establish their contribution or otherwise to the well-functioning of the labour market. This necessitates a pluralism of approach and much use will be made of the New Institutional Economics school of thought. It is assumed that the stakeholders are aware of the differing theoretical arguments and brought their own subjective evaluations into negotiations and consultations.

I would like to go beyond the production process and examine how these rights might actually contribute to a broader conception of economic wellbeing. In this way we might look at LMI effectiveness in addition to LMI efficiency, where contributions to the natural rate are the sole consideration, as this effectiveness was a factor stakeholders considered in their prescriptions for the national response. A de-commodification is at play where it is the participants stock of human capital which is transacted not the individual themselves. Maintaining a healthy, educated, socialised supply of participants who possess this stock of human capital necessitates a broader view of the labour market than that of a commodity market. However, for practical concerns I must limit the consideration of the externalities involved, and so LMI effectiveness in this thesis will mainly address the individual LMIs contribution to a well-functioning labour market with stable low unemployment. Along these lines the following thesis will not stray too far from the orthodox, although use will be made where New Institutional Economics can offer insight, especially on the central theme of economic change. The adaptive efficiency of the Irish institutional matrix in the aftermath of crisis concerns this thesis and thus a particular terminology presents itself. I aim to look at the employment transaction in an Irish context and establish how the polity associated with the mediating institutions rearranged the system to fulfil their objectives of

a well-functioning labour market with low unemployment. The answer presents itself through a clash of paradigms.

After outlining my literature review and theoretical framework it should be clear how I intend to proceed. I will use a model of the labour market that has firms and participants on either side of a transaction that is mediated by three categories of LMIs. A well-functioning labour market is a market that facilitates the most productive allocation of human capital keeping unemployment to a low level. This model and ideas as to its well-functioning will be applied to the Irish system as it was at the outset of the unemployment crisis. I will examine LMI arrangements to establish their well-functioning given Ireland's specific labour market model. This will be a test of the Irish system's ability to cope with shocks and fluctuations in demand. Next I will examine the emergent Irish system in the aftermath of the crisis with a description of how the three categories have been reformed. Finally I will discuss the model and these ideas of well-functioning and reform with key labour market stakeholders. This thesis contributes to the political economy literature on how the key institutional changes came about given the conflicting interests and understandings among key labour market stakeholders.

As suggested by the thesis title, examining how this clash of paradigms influenced the observed reform of the Irish labour market system in the aftermath of the economic crisis is the central question of this thesis. These stakeholders will come from each constituent part of the system and despite a seemingly diffuse range of mental models characterising the debate over LMI arrangements, some degree of certitude will be established as to a well-functioning labour market. Given their key role in reform this will further our understanding of institutional change and adaptive efficiency. I attempt to explain the localisation of the clash of paradigms among the Irish polity and to establish its role in the political-economy of the national response. The next chapter describes the Irish labour market as it was at the outset of the crisis. It should be made clear the nature of the model at issue with attention given to how much either market mechanisms or coordination are relied upon. I will establish what characterises the Irish labour market model and how to establish its well functioning or otherwise. A section devoted to each category of LMI will be further divided into an examination of the purpose, description, and outcomes involved. In this way I will more fully flesh out the model outlined earlier and provide an understanding of the institutional matrix that Irish firms and labour market participants must negotiate. This thesis concerns the particularities of the Irish model, amounting to a

timely case-study which provides a much needed new perspective on current debates in LMI theory.

## Chapter 3: The Irish Labour Market System before the Crisis

### 3.1 - Introduction

In this thesis I aim to establish the theory and assessments of the Irish labour market which influenced the debate of its reform since the unemployment crisis. I view the labour market as a system and I offered a model of this system in the previous chapter. That suggested model was an attempt to encapsulate the institutional matrix governing the employment transaction which constitutes the labour market system. Using that model I outline the system as it was prior to the crisis, and thus before the reforms had taken place. In this chapter I describe the pre-crisis system as it was in 2007, immediately prior to the unemployment crisis when the economy was experiencing a phase of full employment. At this point in the labour market narrative the figures for participation, employment and unemployment were healthy and the country was enjoying a period of historical economic prosperity. As I have given and offered an analysis of the figures in a previous chapter, now I feel it useful to turn to an analysis of the institutions that governed the boom from the perspective of the institutional approach of this thesis.

My aim is to locate the theory concerning LMIs in the Irish situation and by doing so we may determine what factors characterised the pre-crisis Irish system. The main LMIs will be examined and the intention is to aid both comparisons to the reformed labour market and our understanding of interviews with key stakeholders which are the topic of later chapters. In terms of paradigms New Institutional Economics influenced the design of the model providing the framework for analysis. This approach recognizes the central role of the employment transaction in the economy and addresses the possible conflict that arises between the goals of efficiency and effectiveness that will be a central theme in this thesis. However, when addressing the clash of paradigms referred to in the thesis title it is clearly the well documented conflict between the Neo-classical and Institutional schools which dominates. Although New Institutional Economics may offer a perspective on this conflict that can account for the transaction costs and property rights duality of LMIs, it is the arguments put forward by the two main paradigms which I use to discuss the system pre-crisis. Thus this chapter, and indeed the main aim of thesis, may be read as mostly located within a New Institutional Economics approach to LMI reform and the unemployment

crisis, with special attention being given to the theoretical debate concerning the optimum arrangement of LMIs.

This chapter will outline the pre-crisis LMI arrangements of the Irish labour market. In making an assessment as to whether these were optimal we must first recognize the context of the development strategy of a small, open, export-led economy. This is an important step in ‘localising’ the clash of paradigms. What we can say is that many analysts and general commentators were satisfied with the development strategy as growth, employment and living standards were in good health. The general feeling was that this would continue into the future although some adjustment might have to take place. This sentiment is reflected in the 2007 Programme for Government which projected an average growth rate of 4.5% over the lifetime of the government.<sup>20</sup> The stated aim was to create 250,000 new jobs and this was assumed to be attainable by ensuring the continuation and development of what was described as a “dynamic and flexible economy.” In terms of the labour market itself, below are some of the guiding principles of a policy that had the stated aim of “keeping Ireland working”.

Figure 17: Guiding principles for “Keeping Ireland working”, Programme for Government 2007.

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- Keeping taxes on employment low
  - Investing in research and development
  - Significantly upskilling the Irish workforce at all levels
  - Developing a growing focus on the dynamic SME sector
  - Where possible reducing the regulatory burden faced by business
  - Ensuring that employment standards are met throughout the country

The development strategy assumed that Ireland would make the transition to a “competitive, innovation driven knowledge based economy” and that in this the labour market had a role to play. This is the context for our analysis of pre-crisis LMI arrangements, and while even if with hindsight we now know that overall the

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[http://www.taoiseach.ie/eng/Publications/Publications\\_Archive/Publications\\_2007/An\\_Agreed\\_Programme\\_for\\_Government\\_-\\_June\\_2007.html](http://www.taoiseach.ie/eng/Publications/Publications_Archive/Publications_2007/An_Agreed_Programme_for_Government_-_June_2007.html)

governments' short term development strategy failed, it is not simply a matter of attributing blame or otherwise to Ireland's particular arrangement of LMIs. We might say of the institutions that they were efficient as unemployment was reduced to its natural rate, but can we say that they were effective given Ireland's development strategy? The latter question is informed by New Institutional Economics and will be a theme for this and later chapters. It is possible that although Ireland's LMIs had indeed contributed to reducing unemployment to its natural rate, they may not have constituted an optimum choice.

In describing the labour market of a small, open, export-led economy experiencing full employment I utilize the model of the institutional matrix outlined in chapter two. A section devoted to each individual category of LMI will follow. These categories of LMI mediate the employment transaction and make up the institutional matrix that must be negotiated by all the parties involved and with the government having its own interests apart from those of firms and participants. Three dimensions of each LMI category will be addressed, the first of which is the purpose of the LMI in question. This dimension concentrates on the efficiency/effectiveness distinction and brings with it the potential conflict between labour costs and rights. It is here we can examine the interests of the mediating institutions. The next dimension is a description of each LMI as it is known by key stakeholders. For each category the emphasis will be on the main structures and mechanisms governing the particular aspect of the employment transaction in question. The final dimension to the categories of LMI I examine is their outcomes and it is here we gain insight into the role each LMI plays in the broader economy. The aim is to develop an understanding of the pre-crisis institutional matrix so that we may discover what characterised the Irish labour market system in the years prior to 2007. This will provide an appropriate departure point to the next chapter where I outline the reforms that have been made to the system and also the final chapter where I discuss the system with key stakeholders.

### **3.2 - Employment Protection Legislation (EPL)**

The category EPL comprises all structures and mechanisms governing the hiring and firing of employees. The literature has identified particular institutions such as severance pay, and a notification period of dismissal required, which are regarded as having an influence on labour market outcomes. This thesis acknowledges that they have an effect but it seeks

to go further and shed light on the debate over their exact influence on outcomes and the related transmission mechanisms. These particular LMIs can be used to characterise an economy as either Liberal or Coordinated and this section will attempt to arrive at a characterisation of the Irish labour market. For this section I would like to broadly outline the country's EPL arrangements as this gives an idea as to how the labour market is assumed to contribute to the economy. The issue is as to whether Ireland's particular arrangement of EPL institutions was suited towards the country's development strategy. At the time of writing of the 2007 Programme for Government 2,136,100 people had entered an employment transaction. A task for the mediating institutions was to ensure that while the costs of entering the transaction for firms were kept at a non-prohibitive level, the rights of participants were also respected. In this way the challenge was to achieve a balance where human capital could find its way to its most productive use, and the healthy, educated, socialised supply of labour which holds this human capital would be safeguarded.

### **3.2.1 - EPL Purpose**

In regard to EPL the key concern of Neo-classical economists is firm flexibility. In the face of external and other shocks and over the business cycle demand fluctuates and thus firms must be able to adjust output. This necessitates adjusting the inputs of the production process and as labour should be employed only when productive, the firm must be able to adjust the number of its employees. This type of adjustment relates to what is referred to in the literature as an external flexibility and strict EPL will hinder the firm's ability in this respect. Economies that rely more heavily on external flexibility will often at first see unemployment overshoot in a recession, but then recover more quickly than their high EPL counterparts. This is assumed to make for a more dynamic economy and human capital is in theory being constantly reallocated to the most profitable if not productive use. This category of LMI, more so than any other, typifies the characterisation of certain economies as Liberal. With relatively low rates of unemployment these Liberal economies can no doubt claim to be efficient in terms of their allocation of labour and human capital. The emphasis of these economies on external flexibility means that participants themselves must be flexible if they are to be successful in the labour market. As a result educational institutions will be called upon to offer a more generalised curriculum, one that prepares the participant for a career consisting of many employment changes. The category UI and ALMPs is crucial to ensuring that participants are constantly upskilling and retraining when

necessary. This combination of low EPL and well-resourced UI and ALMPs has proven successful in Denmark and their model of 'flexicurity' is highly regarded internationally (See Blanchard, O. J., et al. (2014).

Institutionalists view EPL rather differently to advocates of the weak EPL position and argue that its stronger varieties have proven successful in many countries.<sup>2122</sup> With higher EPL there are conditions, they suggest, attached to the employment transaction that can foster a greater corporate commitment from firm and participant with benefits to both. The concept of the 'productivity whip', for example, is an idea which suggests that when firms are forced to make greater and longer term commitments to employees they usually make investments in firm capital to enhance productivity. The result is higher gross fixed capital formation and higher research and development expenditure. This can be shown to benefit the broader economy and not just the individual firm and participant. At the micro level Institutionalists argue that strong EPL and the accompanying high corporate commitment of participants provides another channel for increased productivity. Here the participant is assumed to be incentivised to invest in firm specific human capital and this, it is concluded, results in a greater work effort. Such types of long term commitments are typical of coordinated economies and while not, at surface level and as measured by conventional standards, as dynamic as their more liberal counterparts, all stakeholders work collaboratively towards success. Neo-classical theory may find it difficult to accommodate concepts arising from such economies as patient capital and social dialogue<sup>23</sup>. A prominent example of a coordinated economy is Germany and the success of its *kurzarbeit* programme over the course of the recession shows that an alternative to the Neo-classical textbook approach exists. The success of this example relied on an internal flexibility where firms were incentivised through subsidies and EPL to cut hours worked, rather than ending the employment transaction outright, and thus unemployment over the recession was curtailed. Much of the Institutional theory on EPL is based on results from case studies such as this, where LMI arrangements have been the outcome of bargaining by firms and participants rather than coming from the ideological prescriptions of more abstract models.

In examining the purpose of EPL it is useful to make a distinction between EPL efficiency and EPL effectiveness. This distinction I find valuable from my understanding of New Institutional Economics and perhaps this work can provide a methodology in arbitrating on

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<sup>21</sup> [https://www.socialeurope.eu/wp-content/uploads/2012/04/The\\_Sustainable\\_Company.pdf](https://www.socialeurope.eu/wp-content/uploads/2012/04/The_Sustainable_Company.pdf)

<sup>22</sup> See Ronald Janssen, <https://www.socialeurope.eu/2013/12/flexicurity-model-never/>

<sup>23</sup> <http://ec.europa.eu/social/main.jsp?catId=329&langId=en>

the clash of paradigms. The efficiency dimension of EPL is more strongly promoted by Neo-classical work as it emphasises the free and fluid circulation of human capital through the economy. Transaction costs are seen as hindering the employment transaction, and thus their reduction is claimed to lead to a freer labour market. Underpinning this is a belief in the allocative role of free markets and perhaps a criticism of Neo-classicalism is that it involves, by such assumptions, a commodification of participants. Viewing labour strictly as an input accommodates the interests of firms and perhaps it is the case that the interests of participants are appeased by the fact that although their jobs are less secure, they have become inured to the expectation of only short terms of unemployment.

However, reducing unemployment to its natural rate need not necessarily mean that the economy's stock of human capital has been allocated to its most productive use or that this human capital is being used to its capacity. This is the effectiveness dimension, and here the Institutionalists with their emphasis on the enhancement of human capital make a convincing case. If we accord the status of property rights to an individual's stock of human capital then perhaps they become more like partners in the production process. This has implications for firm performance. For mediating institutions the goal of EPL is to shape the employment transaction so that human capital reaches its most productive use and unemployment is kept to a minimum. In 2007 Ireland had kept unemployment to a minimum but perhaps human capital had not been allocated to its most productive use. It can be argued that the speculative property bubble was hindering the country's stated development into the aforementioned 'knowledge based economy' of the Programme for Government. It remains to be examined, as to whether the mediating institutions might have rearranged EPL so that it could have contributed to these broader development goals, or alternatively, to conclude that this was beyond the scope of labour market policy.

### **3.2.2 - EPL Description**

In Ireland the terms and conditions of the employment of workers are determined for the most part through voluntary collective bargaining and not through state intervention. The emphasis is on the mediating role of LMIs with the employment transaction seen as a private market transaction between firm and participant and with the states only interest being that certain minimum standards are followed. The state does not have an overarching development goal or policy agenda. Legislation has, of course, changed and adapted consistently to market developments over the history of the state but, as it stands, current EPL arrangements are based on legislation dating from the industrialisation policies

of 1960s and 1970s Ireland. The Minimum Notice and Terms of Employment Act 1973, the Redundancy Payments Act 1967, and the Unfair Dismissals Act 1977 have been amended since but the non-interventionist character of these LMIs remains. Mechanisms such as minimum notice periods and factors for severance pay determination are complemented by structures that ensure that while the costs to firms are kept to a non-prohibitive level, the rights of participants are acknowledged. The box below summarizes the main structures that have been created to mediate between firms and participants;

Figure 18: Main LMI structures regarding EPL 2007

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- Labour Relations Commission
  - Labour Court
  - National Employment Rights Authority
  - Rights Commissioners Service
  - Equality Tribunal

As LMI arrangements stood in 2007 the mechanisms and structures governing EPL were diverse with overall governmental responsibility shared out mainly between the Department of Social Welfare and the Department of Jobs, Enterprise and Innovation. As discussed earlier the particular LMIs that comprise the EPL category were very much mediating institutions, and it would be correct to say that industrial relations were carried out under the 'auspices' of the state without there being a clearly defined developmental strategy or role for EPL.

Non-intervention characterises the Irish situation. A minimum set of standards are enacted with firms and participants bargaining over additional protections. A comparative analysis shows this to be the case in many other countries and for years the OECD has compiled a cross country EPL indicator database with which to make such comparisons.<sup>24</sup> The OECD divides EPL into three categories; Individual dismissal of workers with regular contracts, Additional costs for collective dismissal, and Regulation of temporary contracts. Countries are scored on 21 items in total covering different aspects of EPL as they were in force on January 1<sup>st</sup> of each year. Using scores for 2008 it is possible to compare Ireland's pre-crisis arrangements with those of other countries and so determine how this category of LMI

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<sup>24</sup> [http://www.oecd-ilibrary.org/employment/data/employment-protection-legislation\\_ifs-epl-data-en](http://www.oecd-ilibrary.org/employment/data/employment-protection-legislation_ifs-epl-data-en)

compared to the international norm. For the first category, Individual dismissal of workers with regular contracts, Ireland is placed among liberal market economies like Australia and the United Kingdom. It scores lower than its European neighbours with even Denmark, home of 'flexicurity', having more stringent EPL in this category. The second category, Additional costs for collective dismissal, shows that Ireland has somewhat similar levels of EPL to Germany and the United States, two major industrial countries. In fact Ireland scores between these two with the United States being the more liberal. In the third category, Regulation of temporary contracts, Ireland scores far closer to the United States and the United Kingdom than it does to its European neighbours Spain and France. Overall it can be said then that Ireland, along with the United Kingdom, is an exception to the European norm and across all three categories at the outset of the crisis the country had a relatively liberal EPL regime in place.

Ireland may have had liberal EPL arrangements in place at the outset of the crisis but it would be premature in this chapter to describe Ireland as a Liberal Market Economy. 'Liberal' in that sense refers to economic arrangements and the role of the state in the market. The government's aspiration for the economy was after all for it to be dynamic, flexible and knowledge based. There is no doubt that the state's particular EPL arrangements contributed along Neo-classical lines to this vision and human capital was encouraged to move freely about the labour market. However, as has been stated earlier, Neo-classical theories can encourage a commodification of labour and this input-output perspective neglects those aspects of the employment transaction that can lead to an enhancement of human capital. Irish firms were after all free to choose such an alternative approach if they so wished with the only requirement upon them that they respect the minimum set of standards set out in legislation. It may be concluded that transaction costs were minimised, but perhaps interviews with key stakeholders will determine whether the skill possession and enhancement which might constitute the property rights of participants were taken into account. This human capital perspective and its prescriptions for the knowledge based economy also involves the separate category of UI and ALMPs. A later description of this category may cast light on the characterisation of the Irish labour market as being liberal or otherwise. In terms of efficiency it is hard to determine how much EPL arrangements contributed to the country's low unemployment rates. This, along with the effectiveness dimension, with its application to development policy, will be teased out in interviews with key stakeholders and the results summarized in a later chapter.

### **3.2.3 - EPL Outcomes**

Ireland had a rate of unemployment at or close to its natural rate in 2007. This was no doubt affected by EPL arrangements but we do not know by how much, or exactly through which channels. However, we do know that the government at policy level aspired to a flexible, dynamic, knowledge based economy that could compete with other countries in a highly globalised fast moving market place, and we can seek to assess arrangements in terms of their contribution to this goal. The core question is whether Ireland's EPL arrangements encouraged a more dynamic labour market. More recently the OECD (Bassanini, Garnero et al. 2010) has shown that EPL does in fact affect job churn figures. These figures concern movements of participants from employment to employment, employment to unemployment, and unemployment to employment. Effectively they measure velocity in the employment transaction. There are many determinants of job churn but Bassanini, Garnero et al found that country EPL differences could account for around 30% of the observed differences in job churn. Irish figures for job churn are only available for more recent years and so the Irish situation is not included in the OECD study. The Irish figures we have are from the CSO amalgamation of data from various government sources and in the following chapter I will take the opportunity to analyse more recent developments. While it is hard to estimate dynamism in the labour market over time as figures are not readily available, we do know through comparative analysis that job churn varies across countries and that EPL is a determinant. Given the fact that Ireland's low EPL arrangements have not varied considerably and thus assuming that job churn figures have not varied considerably over the last decade or so, we can say that Ireland was a relatively more dynamic country in terms of the high velocity of the employment transaction pre-crisis. It is thus possible to assume that Ireland actually had a dynamic labour market in the years prior to the economic crisis.

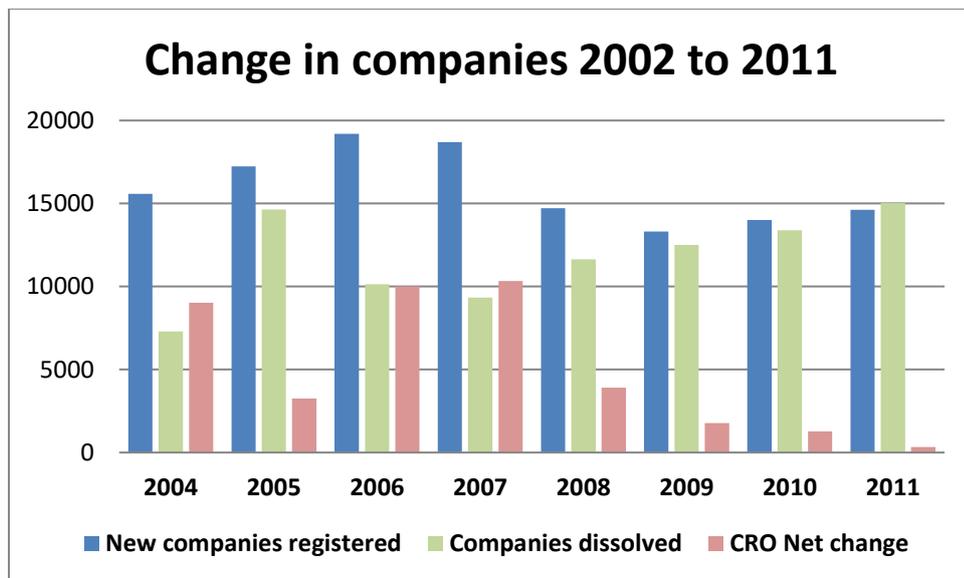
Although the assumption that Ireland had a dynamic labour market can be attributed to its EPL arrangements, it is unclear as to whether we can go on to assume that the broader economy was dynamic and indeed flexible. Such an economy might after all be characterised by high numbers for firm creation and firm destruction. The Company Registration Office provides figures for company registrations and dissolutions each year in its annual report, and using this data it is possible to gain further insight into the degree of dynamism found in the Irish economy.<sup>25</sup> The graphs below illustrate the changes seen in

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<sup>25</sup> <https://www.cro.ie/publications/overview>

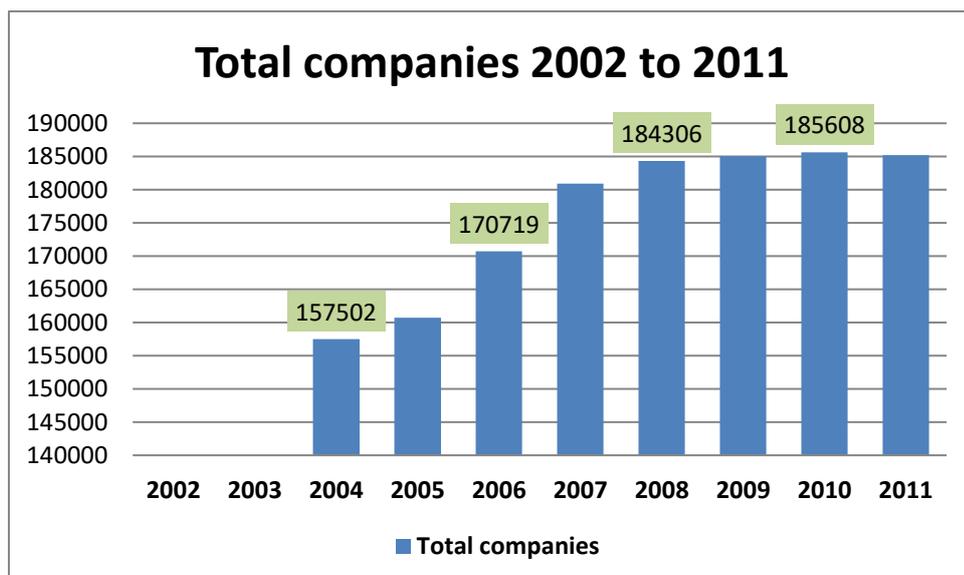
registration and dissolution figures over the full employment and crisis phases. Combining figures from both graphs shows, interestingly, that at least 10% of companies were new companies in the full employment phase of 2002 to 2007.

Figure 19: Company registrations and dissolutions figures 2002 to 2011



Source: Company Registration Office Annual Reports 2002 to 2011

Figure 20: Figures for total companies 2002 to 2011



Source: Company Registration Office Annual Reports 2002 to 2011

There may indeed be a benefit to having such a level of new firms as they may be better attuned to current macro environment trends. These figures for new firms show that the economy as a whole was quite flexible and well positioned to respond to changing conditions in the macro-environment. Although this flexibility is due to a range of institutional factors, EPL has had without doubt a role to play. In all economies human capital is churning through the economy finding its way to the most productive uses and increasing surplus in the process. This is the measure of efficiency. Further, for Irish policy makers a flexible economy and dynamic labour market was a key part of their export led development strategy. Irish EPL arrangements are thus characteristic of the broader economy and not just the labour market. This is the measure of effectiveness. Interviews with key stakeholders are aimed at uncovering how well the constituent parts of the system understood, agreed, or contested this vision.

The apparent dynamism and flexibility of the labour market and broader economy invite such further analysis as would benefit from cross country comparisons. This will not be attempted in this thesis but what can be concluded is that Ireland had liberal EPL arrangements in place. Judging the success or otherwise of these arrangements is a complicated matter and low unemployment rates are only a partial indicator. A gestalt understanding of the labour market system in its entirety with special attention given to how the three LMI categories relate to each other is necessary. From this we may judge the efficacy of labour market arrangements as they correspond to development policy. There is no doubt that the economy had shown flexibility over this period, for example in the switch of industrial emphasis from information technology to pharmaceuticals, and with a high share of participants holding tertiary qualifications the labour market was well endowed with human capital.<sup>26</sup> Low EPL encouraged a dynamism that seemed to characterise what was conceived as the knowledge based economy in the minds of policy makers, and their labour market assumptions involved well educated participants being able to move regularly from employment to employment as new firms in new sectors emerged. This, of course, is a Neo-classical ideal, one that treats the labour market as any other market and Institutionalists may caution over the absence of concerns for the participants themselves, who after all are the safe guardians of human capital. Looking in closer detail at the OECDs paper we see that job churn is higher in particular sectors, those sectors characterised by

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<sup>26</sup> See [http://ec.europa.eu/eurostat/statistics-explained/index.php/Tertiary\\_education\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Tertiary_education_statistics)

the precarious work conditions that have given rise to the dualization issue covered in chapter one. It may well be that firms in sectors not associated directly with the knowledge based economy can take advantage of low EPL to the detriment of long term human capital development. A further issue is that the adverse effects of dualization are socialised meaning public finances are effectively subsidising firms to the detriment of other areas of social policy in need of funding. Wage setting and UI and ALMPs can ensure that participants eventually escape these precarious working conditions and contribute more fully to the economy and society. In the next two sections I will show that these other categories also have a key role to play in the knowledge based economy.

As the economy was in 2007 there is a strong argument that the country had a suitable arrangement of EPL given its development strategy. It could be said that arrangements were efficient and arguably effective. However, dualization presents a long term problem with important macroeconomic stability considerations and surely EPL policy has a role to play. From comparing the OECD scores of 2008 it may be a fair conclusion that protections for temporary workers were too slack. These participants, it can be shown, provide a vital function in the economy and it can be argued that their rights must be respected in the interest of the broader society. In reality the issue is multifaceted and really addressing its labour market dimensions must inevitably involve the other categories. EPL is interdependent with other LMI categories and thus minimum wages and training opportunities have a role to play in countering the adverse impacts of dualization. Reforms in the aftermath of the crisis to the structures and mechanisms which comprise the category EPL will be dealt with in the next chapter.

### **3.3 - Wage setting**

The category wage setting is comprised of structures and mechanisms which influence both the wages paid by firms to participants for the use of their human capital and the distribution of some portion of the surplus generated by the production process. The model of the labour market offered in this thesis groups together the wage setting institutions covered in the literature into a category with the constituent institutions being the minimum wage, trade union recognition, wage bargaining coordination-centralisation, and payroll taxes. This section will attempt to characterise the particular Irish arrangement of this category in the pre-crisis full employment phase of 2002 to 2007. The employment

rate for this period was exceptionally high internationally and the benefit of using this measure is that it indicates high rates for participation and employment. Much surplus was generated with GDP increasing significantly year on year. From this we may conclude that the category's LMIs were efficient. However, from a New Institutional perspective mediating institutions must also take into consideration factors external to the transaction and thus we may also judge the category's institutions on their contribution to issues of macro-economic concern such as inflation and sustainability. Both issues can be used to test the efficacy of LMI arrangements in their contribution to the country reaching the strategy 2020 employment rate targets. From this wider perspective it may be possible to determine if labour market policy might have altered the path of the narrative.

### **3.3.1 - Wage Setting Purpose**

From a Neo-classical economist's viewpoint marginal productivity theory can account for disparities in wages paid to participants. The market is assumed to determine the different wages paid by firms given both the demand for human capital consequent from its marginal product in the production process and the level of supply of willing participants with the requisite human capital endowments. Either part of the market can be regarded as an influence on the wage level with multiple markets existing throughout the economy. There can be a high demand for particular types of human capital if its input into the production process yields a high output. In normal circumstances it is assumed wages will be higher in this market if the firm can remain profitable while rewarding the participant with the value of his marginal product. A participant is paid the marginal product of their human capital and so particular skill possession and enhancement is rewarded more than others. In this way the market signals to participants the most rewarding investment in human capital acquisition. The Neo-classical proposition is that this market mechanism yields the greatest return on potential human capital allocations given a scarcity of willing participants.

For many, who hold this perspective, LMIs represent 'rigidities' that restrict the well-functioning of these markets. The LMIs listed above affect the wage curve so that higher average wages result and this, it is suggested, leads to a higher unemployment rate. Wage compression, it is assumed, also results from the above and this can prevent lower wage categories the opportunity to engage in an employment transaction. Liberal wage setting arrangements, it is claimed, allow for a flexibility that lets wages fluctuate with changes in demand and supply making the labour market more responsive over the business cycle. It is

argued that wage setting LMIs should be arranged only to facilitate the market in this function.

Institutionalists argue that wage setting LMIs have further functions beyond the facilitation of the market mechanism which relate to issues such as macro-stability and the prevention of poverty. Wage setting LMIs can mitigate the adverse effects of aggregate shocks to supply and demand preventing the economy from 'overshooting'. It is also the case that with macro-coordination comes a form of macro-flexibility evident in many countries with strong wage setting LMIs and this has been highlighted by the IMF as an example of successful labour market policy. A considerable body of theory has been developed on these particular LMIs and much work could be conducted on the study of any one in particular, however, what is more relevant to this section and the pre-crisis labour market is their combined influence on competitiveness and inflation. In the Irish case the last agreed Social Partnership Agreement was entitled 'Sustaining Progress' and covered the years 2003 to 2005.<sup>27</sup> The LMIs under study came under the auspices of this agreement with the stated aim of the social partners being to restore Irish competitiveness in the face of rising domestic inflation. An agreed timeframe for wage increases was decided with the intention being to bring domestic inflation closer to the EU average. This agreement and according institutions amounted to a non-market mechanism for the prevention of a wage price spiral becoming embedded in the economy. Wages can increase, of course, without putting inordinate pressure on inflation if they are accompanied by productivity gains. This relates to the well documented 'efficiency wage' argument of Institutionalists that suggests that increasing wages will increase productivity thus actually contributing to profits and employment demand. This type of argument would possibly have been put forward by participant representatives during negotiations with firm representatives. Institutionalists argue that the wage setting LMIs should be bargained over in a process similar to Social Partnership and that this allows for superior performance not just in relation to the macro economy but also in relation to issues surrounding the distribution of surplus such as housing provision and poverty eradication. The National Anti-Poverty Strategy<sup>28</sup> and the

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<sup>27</sup> See <http://www.taoiseach.gov.ie/upload/SustProgagri.pdf>

<sup>28</sup> See <http://www.socialinclusion.ie/documents/NAPinclusionReportPDF.pdf>

Affordable Housing Initiative<sup>29</sup> are examples of measures resulting from the bargaining of wages between social partners.

In taking the negation of the version of the Coase Theorem employed and applying to the labour market; it is suggested that a 'real ekonomik' where firms acknowledge that some transaction costs are inevitable and participants acknowledge that property rights influence the allocation of resources. I propose that the dual nature of LMIs must be considered by mediating institutions when making wage setting arrangements if the labour market is to function effectively. Acknowledging the 'real ekonomik', the agreement of all social partners in Ireland pre-crisis was that wage setting arrangements were designed to encourage a situation of stable growth and low unemployment. The labour market system and the constituent LMIs of the category wage setting were set the task of surmounting the perceived inevitability of the business cycle and delivering on continued economic and social progress. Further analysis will establish the success of the system in this purpose.

What can be tentatively concluded now is that in the early stages of this thesis's periodisation inflation was being tempered as well as was seen to be possible in a situation of full employment and exceptional GDP growth. The rapid increase in house completions which peaked just before the construction collapse provides a far more telling indication of the speculative bubble than does the inflation rate. This activity was chiefly fuelled by foreign credit. A profit led growth took hold in the years preceding the crash, one that put the economy on a doomed trajectory, far different from that suggested by the earlier years of full employment and wage led growth. Many economists argue the inevitability of such bubbles and so it is perhaps beyond the scope of labour market policy to ensure stability across the business cycle. National and European level policy are perhaps the most significant factors for this aspect of the narrative. However, there is an argument to be made that the labour market system's institutions were effective in reining in wages and that this would have ensured more stability over the business cycle and continued competitiveness. There is no doubt that in the absence of the category the market could have delivered something far worse. In this instance the arguments for efficiency contradict those of effectiveness in terms of the purpose of this LMI category in Ireland pre-crisis.

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<sup>29</sup> See

[http://www.citizensinformation.ie/en/housing/owning\\_a\\_home/help\\_with\\_buying\\_a\\_home/affordable\\_housing.html](http://www.citizensinformation.ie/en/housing/owning_a_home/help_with_buying_a_home/affordable_housing.html)

### **3.2.2 - Wage Setting Description**

A minimum wage was introduced to Ireland under the National Minimum Wage Act 2000.<sup>30</sup> Since its introductory level of €5.59 per hour the wage steadily increased in both nominal and real terms to €8.65 per hour in 2007. In that year around 5% of participants were earning this amount. This institutional mechanism may be seen as a market intervention by the State and it's not inconsiderable amount is significant given many other countries have either no minimum wage or one set at only a nominal level. Similar mechanisms result from the long established tri-partite Joint Labour Committees which are structures that set minimum rates of pay in certain sectors.<sup>31</sup> Established under the Industrial Relations Act 1946 the intention was to protect workers in traditionally low pay sectors where Unions were either weak or non-existent. Pay rates in these 16 sectors were governed by Registered Employment Agreements and Employment Regulation Orders. It can be said that in Ireland the state has established mediating institutions which guarantee a wage floor for both firms and participants in their negotiation of the employment transaction across many markets. However, one criticism made by proponents of wage setting intervention was that many sectors were not covered. Using OECD data we may compare this intervention in Ireland to other countries by looking at how the minimum wage relates to the median wage. The median wage is the level where half of working participants are earning below and half above, and more so than the average wage it indicates the situation of the typical worker. According to the OECD in 2007 the Irish minimum wage was 53% of the median wage and this places the country slightly above the United Kingdom but below France.<sup>32</sup> In making comparisons to other countries purchasing power parity and social transfers must also be considered.

Since before the establishment of the State trade union recognition has been a contentious issue and in 2007 the Irish courts ruled that Ryanair, a major Irish company, was not obliged to recognise and bargain collectively with participant organisations.<sup>33</sup> This is a constitutional issue which places the country at odds with many of its European counterparts. However, in terms of the OECD measure of union density, an institutional

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<sup>30</sup>[https://www.workplacelrelations.ie/en/Publications\\_Forms/Detailed\\_Guide\\_to\\_the\\_National\\_Minimum\\_Wage.pdf](https://www.workplacelrelations.ie/en/Publications_Forms/Detailed_Guide_to_the_National_Minimum_Wage.pdf)

<sup>31</sup>

[http://www.citizensinformation.ie/en/employment/employment\\_rights\\_and\\_conditions/industrial\\_relations\\_and\\_trade\\_unions/joint\\_labour\\_committees.html](http://www.citizensinformation.ie/en/employment/employment_rights_and_conditions/industrial_relations_and_trade_unions/joint_labour_committees.html)

<sup>32</sup> <https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>

<sup>33</sup> <http://www.irishexaminer.com/ireland/landmark-ruling-favours-ryanair-in-pilots-dispute-24494.html>

measure prominent in the literature, Ireland in 2007 with 31.5% union density was comparable to the United Kingdom and far higher than France which showed only a 7.5% level. Although the international trend is towards lower trade union density what really matters in terms of the OECD measure of wage setting ‘coordination-centralisation’ is bargaining coverage.<sup>34</sup> The six Social Partnership agreements which began in 1987 were tripartite in design and covered a sizable proportion of the labour market. This was a major distinguishing feature of the Irish labour market, and as discussed in the wage setting purpose section, the broad reach especially in the case of the later agreements placed Ireland more in the position of coordinated as a description of its labour market.

The 2004 OECD Employment Outlook compared countries in terms of trade union density and put Ireland in seventh place out of thirty, far above Germany but below Denmark.<sup>35</sup> Ireland scores very differently to the most referenced liberal labour market, the United States. In terms of wage setting centralisation and coordination Ireland is categorised among the more highly coordinated labour markets with a score of 4/5 for both, far above liberal labour markets like the United States and the United Kingdom which score 1/5 on both measures and more comparable to Germany and Denmark. Although voluntarist in nature, with Social Partnership it can be said that the Irish State actively intervened in the labour market in regard to this arrangement of the particular wage setting institutions. A relatively high trade union density might have facilitated arrangements in a more coordinated or interventionist direction. The traditional large trade union membership within the civil service may account for the high centralisation score, as might also the central role given to the largest employer’s bodies. Centralisation refers to the national nature of agreements as distinct from firm-level. This can be seen in the snapshot of the OECD measures of Table 10.

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<sup>34</sup> See Bassanini et al 2010, OECD

<sup>35</sup> <http://www.oecd.org/els/emp/oecdemploymentoutlook2004.htm>

Table 10: OECD wage setting arrangements figures of various countries

	Centralisation	Coordination		Trade Union density
<b>Finland</b>	<b>5</b>	<b>5</b>		<b>70.5</b>
<b>Denmark</b>	<b>2</b>	<b>4</b>		<b>67.9</b>
<b>Ireland</b>	<b>4</b>	<b>4</b>		<b>31.5</b>
<b>Germany</b>	<b>3</b>	<b>4</b>		<b>19.9</b>
<b>Netherlands</b>	<b>3</b>	<b>4</b>		<b>19.3</b>
<b>United Kingdom</b>	<b>1</b>	<b>1</b>		<b>28.1</b>
<b>United States</b>	<b>1</b>	<b>1</b>		<b>11.6</b>
<b>Score 1995-2000</b>			<b>Score 2007</b>	

Source OECD 2004 and 2016

The tax wedge is an institutional measure common in the literature that concerns the difference between market income and take home income. It is in effect a market distortion but arguably systemically efficient if we see this tax as a source of funding for the essential UI and ALMPs category. In an Irish context I will examine both employer and employee PRSI as the institutional mechanism under study. These two institutions were key issues in the governments wage setting strategy pre-crisis that came under the auspices of Social Partnership. The agreement reached was that moderate wage demands and industrial concessions would be allowed for in the Department of Finances determination of taxes and this was made explicit in the Sustaining Progress document.<sup>36</sup> As a result the country ranks among liberal labour markets like the United States and the United Kingdom with its PRSI rates being among the lowest in Europe. This feature of the category wage setting indicates the Irish State's broadly non-interventionist stance towards the labour market.

Were it not for Social Partnership and the arrangements of the other wage setting institutions we might have been correct to go further in describing the Irish system as a liberal labour market. This was the sixth national agreement since the mid-1980s. As it stands, however, the Irish system was quite coordinated given the influence of both the neo-corporatist Social Partnership and individual sectoral arrangements. Social Partnership

<sup>36</sup> <http://www.taoiseach.gov.ie/upload/SustProgagri.pdf>

explicitly concerned public expenditure, taxation and wage increases, key macro-economic factors that determine the sustainability of growth and level of unemployment. It had arose after a period of national crisis in the 1980s with the support of the main trade unions and largest employer bodies. Pre-crisis arrangements of the state's wage setting institutions were arguably effective and a degree of coordination appeared to be working in reigning in inflationary pressures and 'sustaining progress'. It could be claimed that the Irish forms of wage-setting coordination had proved successful. However, institutional factors beyond the labour market would appear to have proven the most influential in the labour market narrative during its pre-crisis phase of full employment.

### **3.2.3 - Wage Setting Outcomes**

With full employment and exceptional GDP growth, a major issue for the booming Irish economy pre-crisis was inflation. A tight labour market and high labour demand equated to increased cost-push inflation and this can be seen clearly if we extend our periodisation back to the year 2000 when inflation reached 7%.<sup>37</sup> The factors determining this rate are many and multi-dimensional and a full analysis of the years up to 2007 would have to consider the role of immigration. In terms of immigration the influx of foreign workers would have greatly increased labour supply and thus tempered the inflationary pressures of full employment. This is a European level consideration for the common market and from this perspective the system was efficient. The eurozone was allocating labour to its most productive use and curtailing inflation in the process. However, while an analysis of this market mechanism would be valuable to a labour market economist, the emphasis of this thesis is on the institutions which govern or influence the market. In any case, it can be argued that social partnership was a far more important factor and is perhaps an example of institutional measures proving superior to market measures. The graph below gives the changes in inflation along with figures for GDP and GDP growth for the full employment phase of our analysis;

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<sup>37</sup> See Table 9

Table 11: Figures for GDP, Growth and Inflation, Phase 1 of Narrative

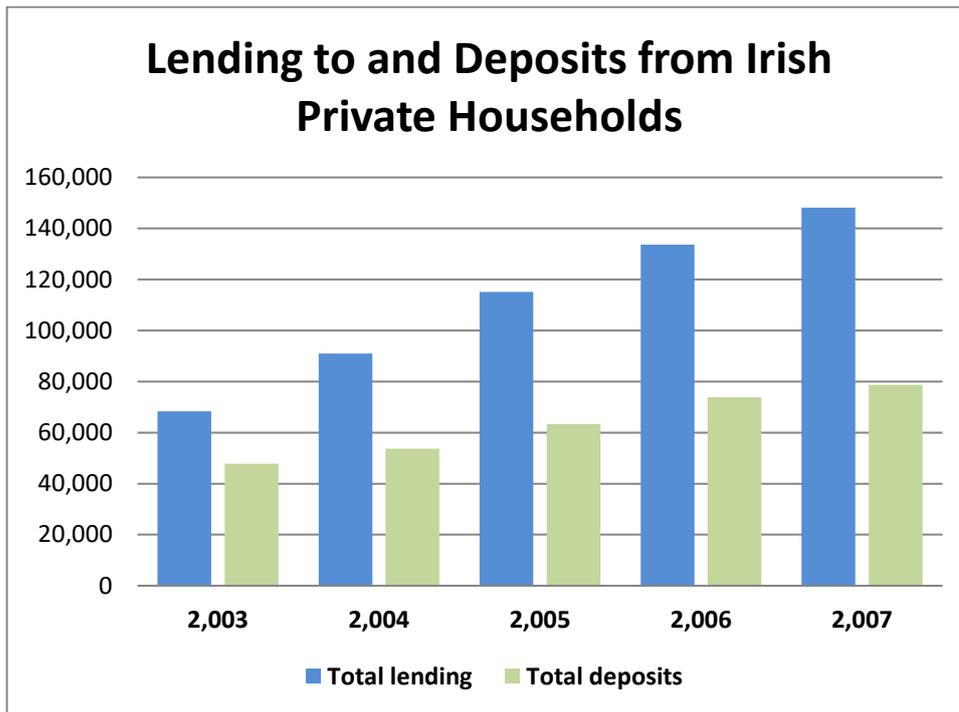
		2002	2003	2004	2005	2006	2007
Phase 1	GDP at current market prices	135955	145557	156143	170188	184995	197202
	Annual percentage change	11.5	7.1	7.3	9	8.7	6.6
	Annual inflation	4.96	2.02	2.65	2.36	4.93	4.7

Source: Central Statistics Office and Inflation.eu

With full employment over this period from 2002 to 2007 it can be argued that Social Partnership, along with immigration, curtailed inflation rather effectively during a period of exceptional GDP growth. By tempering the cost-push inflation so evident in the early years of full employment, the wage setting institutions contributed to a general positive sentiment with regard to the prospects of the economy. Although the rates of inflation seen are rather high, this may be in part attributable to a demand-led factor. Government policy on this front was mainly dependant on the Special Savings Investment Accounts (SSIA) initiative of Minister for Finance, Charlie McCreevy. The savings scheme was launched with the 2001 Finance Act and was scheduled to run for five years until 2007 with the State encouraging savings through a generous incentive payment upon maturity. The amount taken out of the economy by mainly middle-income earners was sizable and upon maturity was estimated at €14 billion.

In chapter two I drew the attention of the reader to work by authors with the ILO which distinguishes between wage-led and profit-led growth. This work concerns the distribution of surplus in the economy and argues that sustainable growth depends on participants sharing in productivity gains and increasing aggregate income. The figures above suggest a narrative that involves full employment increasing wages which in turn increased demand which in turn increased GDP and led to further continuing full employment. On this basis it might seem that the country was set in a virtuous full employment cycle. However, consideration of other data suggests a situation of increasing debt in the pursuit of profits which can go further than wage increases in explaining the exceptional GDP growth and inflation. The following graph suggests a debt-led boom which could only result in a crash;

Figure 21: Lending to and deposits from, Irish private households, millions of euro, 2003 to 2007



Source: Central Bank of Ireland

These figures for household lending are complimented by figures for annual house completions which showed large increases over the course of the periodisation peaking at around 90,000 units in 2007.<sup>38</sup> The institutions of the State, especially with regard to housing, were encouraging a profit-led growth which found itself embedded in the decision making of participants and firms. Put simply, national income began to become more and more sourced from profit rather than from wages, and this pursuit of profit was itself encouraged by cheap and easily available foreign credit. People speculated that house prices would continue to increase into the future and banking institutions agreed.

The scope for wage setting institutions in countering what arguably transpired as misguided policy would appear to be limited and thus we might say that arrangements within their limits were somewhat effective considering the situation of a housing bubble. Irish LMIs in this category didn't hinder the market and although seemingly contradictory to Neo-classical theory were quite effective in maintaining competitiveness and controlling inflation in a time of full employment. The minimum wage and JLCs incentivised participants and by doing so increased the participation rate to a level consistent with the

<sup>38</sup>

<http://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?Maintable=HSA01&Planguage=0>

country's Strategy 2020 targets. They not only provided a wage floor but also an anchor for wage expectations. The high coordination-centralisation of wage bargaining and resultant macro stability offers a lesson for other countries experiencing a phase of full employment. The scope for further advances in areas such as housing and poverty provides another argument for this type of wage bargaining structure. It may provide a model for sustaining a long run employment rate consistent with Strategy 2020 targets.

In terms of surplus distribution and the model, I do not consider income tax and other related policies as LMIs. However, the labour market is arguably more directly influenced by employee and employer PRSI. Perhaps these rates could have been increased and the funding used to fund the category UI and ALMPs over the business cycle when growth slowed. This would also have tempered inflationary pressures and thus allowed for the main concern of wage setting institutions during this period. This was unlikely, however, not just given Social Partnership commitments, but more critically by a political climate which reflected a form of mania in the housing market. Much surplus was generated and the wage setting LMIs dealt with the boom with a degree of effectiveness. However, the housing market had become too prominent, even central, in the economy. Looking at this market there was adequate demand as new participants sought entry to the property ladder and new firms made investments. This along with stable wage growth might have ensured a 'soft landing' for the economy. However, government policy neglected advice such as contained in the Bacon reports on housing policy<sup>39</sup> and, more specifically, continued with the many incentives offered for speculation.

### **3.4 - Unemployment Insurance and Active Labour Market Policies (UI and ALMPs)**

The third category of LMI consists of the structures and mechanisms governing the payment of Unemployment Insurance (UI) and administration of Active Labour Market Policies (ALMPs). Many such institutions are in place and facilitating the economic allocation of the human capital of unemployed participants requires a comprehensive policy mix. Like the previous sections on the other categories I can only abstract selectively from the institutional matrix in providing an account of how particular LMIs function within the system individually and collectively. While only the main LMIs of each category are

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<sup>39</sup> Published in 1999, <http://www.housing.gov.ie/sites/default/files/migrated-files/en/Publications/DevelopmentandHousing/Housing/FileDownload%2C2071%2Cen.pdf>

discussed, this should be sufficient to understand how the system is intended to work, both efficiently with regards the unemployment rate and surplus, and effectively, given considerations external to the employment transaction such as the three issues elicited from the data in an earlier chapter. Many structures and mechanisms come under this category with governmental responsibility pre-crisis being mainly shared between the Department of Social Welfare and the Department of Education. During this period of full employment the long term unemployment rate only peaked at 1.4% or a little over 30,000 participants and thus the category may seem less important than the others in the description of the labour market system pre-crisis. However, unemployment of a frictional or structural variety is a constant issue for individuals affected and indeed the broader society. It requires a comprehensive policy mix and it is hoped that this section will encourage an understanding of the categories LMIs with which we can make judgements as to their efficiency and effectiveness. This will aid an analysis of the reforms that have been made since the crisis which will be described and discussed in later chapters.

#### **3.4.1 - Unemployment Insurance and ALMPs Purpose**

In an Irish context either Jobseeker's Allowance or Jobseeker's Benefit relate to the so called reservation wage typically under study in a Neo-classical analysis of this category. A microeconomic decision is being made by the participant as to whether to offer his human capital and time in exchange for wages or alternatively to not enter the employment transaction and seek UI. In order to incentivise the participant into an employment transaction the UI payment, it is assumed, must not be too high. If the amount earned by not working is greater than the potential reward for entering an employment transaction, then the participant withholds his labour and the unemployment rate increases. ALMPs are viewed in their efficacy with regards the matching process. Unemployed participants must be matched to firms, and active policies, as distinct from passive policies, facilitate the market mechanism in the allocation process. Unemployment payments are made contingent on engagement with employment services involving either job search or training activity. The liberal labour market does not tolerate unemployment and this category may be seen as an unfortunate intervention which ultimately delivers an efficiency gain for society. Expenditure on this category is normally lower in liberal labour markets as a societal ethic of self-sufficiency and mutual responsibility is promoted.

In the literature a description of an economy where Institutional ideas are more influential than elsewhere often involves the term 'coordinated'. 'Conservative' can be

interchangeable with this particular description and in such economies UI is seen as not just insurance against the risk of poverty, but an insurance that prior income will be maintained. In this way UI arrangements help conserve the existing societal order. Stability would seem to be the main concern of the mediating institutions and extending beyond the individual, unemployment payments have a macroeconomic purpose in that they act as an automatic stabiliser. This is of course true of liberal labour markets but in coordinated, or conservative, labour markets, payments are much higher and usually dependant on the participants prior income. The efficiency of this category hinges on the active nature of the ALMPs in place. As coordinated labour markets rely on a more firm specific form of human capital being encouraged by educational policy, the unemployed in these economies often require a more structured and involved set of policies. Spending is thus much higher and possibly the time outside an employment transaction longer. It is understandable that Institutionalist ideas which encourage corporate commitment and stable long term relationships are more dominant in these labour market systems than elsewhere. The interdependence of the three categories has been discussed and this category in particular necessitates a systemic analysis of its arrangement. Systemic considerations are an explanation as to why all stakeholders of the system attempt to coordinate their interests in particular economies and thus Institutionalist ideas are seemingly more effective.

This category has a systemically crucial purpose in that it is responsible for sustaining the necessary and constant reallocation of human capital around the economy over the business cycle. An efficient system and arrangement of this category will facilitate the market mechanism and work constantly to minimise the unemployment rate. Indeed, this category can reduce the natural rate of unemployment through improving the matching process on the supply side. There is no doubt that demand is also important and labour market slack is an issue that even the most efficient arrangement must contend with, however, the importance of this endogenous factor has come to the fore in labour market debate over the last decade. New Institutional Economics attests to the belief that institutions can minimise the adverse effects of externalities and conflicts surrounding the transaction. Structural unemployment was an issue identified in an earlier chapter on data contained in the Quarterly National Household Survey and I propose that this category should be evaluated in relation to its effectiveness in addressing this consideration. My hypothesis is that a minimum wage across sectors acts as an incentive for participants to retrain and re-enter an employment transaction. Human capital must be realigned to the interests of firms, and participants must be allowed the opportunity for skill attainment

and enhancement. A social contract is necessary that ensures that once participants attain a certain level of human capital, this will be respected, and the situation where the skilled unemployed are effectively coerced into unsuitable employment transactions avoided. This encourages an ethic of human capital attainment, one that leads to a democratically legitimated acknowledgement of property rights belonging to the holder. These rights should also guarantee security in the face of other considerations external to the transaction, not least poverty.

### **3.4.2 - Unemployment Insurance and ALMPs Description**

By the end of the period of full employment Ireland had made the move from a passive to an active labour market system. This was consistent with commitments made under the European Employment Strategy of 2003 and the government's National Employment Action Plan (NEAP) can be seen as an attempt to bring about a new orientation of policy.<sup>40</sup> NEAP involved the active engagement of unemployed participants in order to prevent them slipping into long term unemployment. UI payments were made conditional on participating with ALMPs. In Ireland the main payments are Jobseeker's Benefit (JB) which accrues to qualifying participants and Jobseeker's Allowance (JA) which accrues to all unemployed. JB is not means tested and is available on condition of a certain amount of credits being acquired during employment. If it expires or the claimant would earn more through JA, then the participant earns the latter payment. In 2007 the maximum individual payment for both schemes was €185.80. This had increased steadily in real terms since the start of our periodisation and among OECD countries the state pays around a lower to average amount. What distinguishes the Irish system is the potentially infinite duration of payment and when considering the long term, the country moves higher in rankings of average payments. Responsibility for this category was divided across government with UI coming under the control of the Department of Social Welfare. Under NEAP unemployed participants would be referred from this department to other state agencies under the control of others and this may be seen a distinguishing characteristic of the Irish system.

Pre-crisis the main employment agency tasked with engaging the unemployed was Fás and coming under the control of the Department of Jobs, Enterprise and Innovation it had a key role under NEAP. ALMPs have many functions within the labour market system and Fás

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<sup>40</sup> [ec.europa.eu/social/BlobServlet?docId=6038&langId=en](http://ec.europa.eu/social/BlobServlet?docId=6038&langId=en)

provided job search and training assistance. It was established in 1988 under the Labour Services Act with its board made up of union and employer representatives.<sup>41</sup> In theory Fás improved the matching process by gathering together vacancies information from across a wide range of sectors. Unemployed participants could view the advertised vacancies online or at a Jobcentre office. Case workers would of course facilitate the participant in their search and provide advice on CV preparation and interview techniques. It was expected that having been referred to Fás by the Department of Social Welfare an unemployed participant would greatly improve their chances of finding employment. Where training was requested or advised by a case worker Fás had many courses offering opportunities to up-skill and thus the agency had a function of maintaining and enhancing the labour market's stock of human capital.

In theory and under NEAP the agency had systemically crucial functions within the labour market and a budget of around €1 billion pre-crisis. The OECD compiles data on UI and ALMPs expenditure and together with the amounts allotted to other agencies Ireland invested a greater percentage of GDP than the United Kingdom in its stock of unutilised human capital.<sup>42</sup> In 2007 the Irish State spent 0.61% of GDP on active measures and 0.88% of GDP on passive measures compared to 0.29% and 0.15% respectively in the United Kingdom and 0.85% and 1.19% in Germany. In characterising the Irish arrangement of this category it might be said that policymakers understood and valued the functions of UI and ALMPs. However, although the state aspired to the arrangements found in more coordinated labour markets, in 2007 its expenditure and organisation of the category lagged behind countries like Denmark which showed expenditures of 1.34% of GDP on active policies and 1.17% of GDP on passive policies.

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<sup>41</sup> [www.irishstatutebook.ie/1987/en/si/0248.html](http://www.irishstatutebook.ie/1987/en/si/0248.html)

<sup>42</sup> [http://www.oecd-ilibrary.org/employment/public-expenditure-on-active-labour-market-policies\\_20752342-table9](http://www.oecd-ilibrary.org/employment/public-expenditure-on-active-labour-market-policies_20752342-table9)

**Table 12: Selected OECD country expenditure on ALMPs, 2007**

<b>2007</b>	Expenditure as GDP%	Expenditure as GDP%
	<b>Active</b>	<b>Passive</b>
<b>Denmark</b>	1.34	1.17
<b>France</b>	0.92	1.58
<b>Netherlands</b>	0.99	1.15
<b>Germany</b>	0.85	1.19
<b>Ireland</b>	0.61	0.88
<b>United Kingdom</b>	0.29	0.15
<b>United States</b>	0.12	0.3

Source: OECD Statistics

Other functions of ALMPs involve job creation and job subsidies. The most prominent job creation scheme under the control of the Department of Social Welfare pre-crisis was the Community Employment<sup>43</sup> initiative. This scheme was intended to assist the long term unemployed in terms of their employability by reintroducing them to a work routine that would involve the enhancement and development of both their technical and personal skills. The participant typically worked 19.5 hours per week in return for a small additional payment, around €20, on top of their standard payment. Although its labour market function was ostensibly to bring the most marginalised participants back towards employment, it also involved the provision of many local services by voluntary organisations and public bodies. Pre-crisis it was one of the main labour market programmes for unemployed participants. The Back to Education Allowance was also popular with the unemployed and involved participants being supported financially through second and third-level education. This scheme was also administered by the Department of Social Welfare. While effectively taking the participant out of the labour market for a period it offered improved employability in the long term. Job subsidies are also ALMPs and work by offering an economic incentive to the firm and labour market participant. The Job Initiative<sup>44</sup> was designed to make the long term unemployed more employable by allowing firms a reduced PRSI rate for employees who had been unemployed for a long period prior to employment. The Family Income Supplement<sup>45</sup> was an incentive for participants that involved a supplementary payment in addition to wages

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[http://www.citizensinformation.ie/en/employment/unemployment\\_and\\_redundancy/employment\\_support\\_schemes/community\\_employment\\_scheme.html](http://www.citizensinformation.ie/en/employment/unemployment_and_redundancy/employment_support_schemes/community_employment_scheme.html)

<sup>44</sup> <http://www.fas.ie/en/communities/job+initiative/default.htm>

<sup>45</sup> <http://www.welfare.ie/en/Pages/Family-Income-Supplement.aspx>

by the Department of Social Welfare to qualifying employees. As this category contains many such payments and schemes a thorough examination would require more time and attention than that afforded by the constraints of this thesis. Although I focus on the main LMIs, this abstraction from the master model should indicate also the role played by this category within the broader labour market system and the key areas of policy reform being debated.

### **3.4.3 - Unemployment Insurance and ALMPs Outcomes**

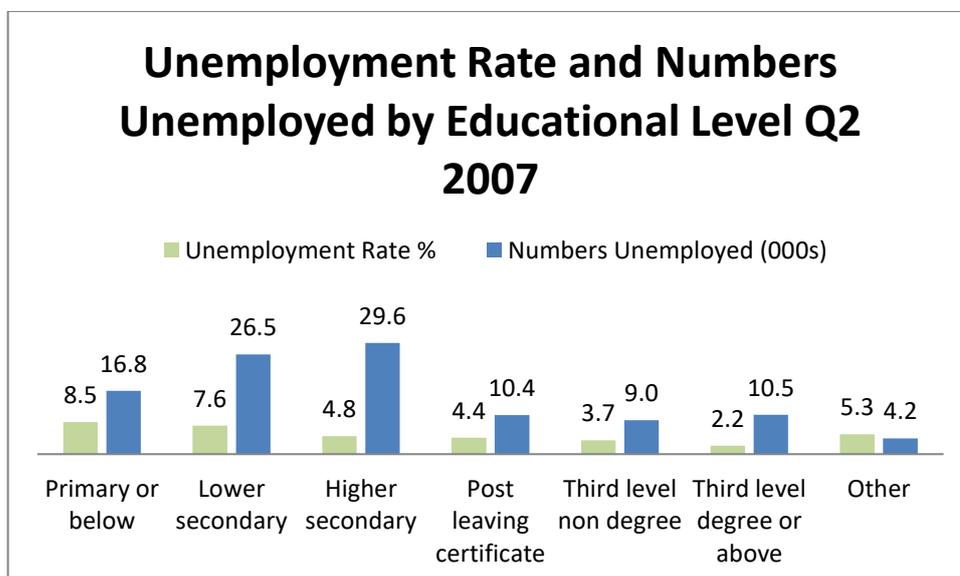
The labour market is constantly reallocating its stock of human capital resulting in both frictional and structural unemployment. The measure of this category's efficiency is in how well it facilitates this reallocation of human capital while keeping unemployment to a minimum. In the full employment phase the long term unemployment rate remained low and so it can be deduced that the larger portion of the unemployed were experiencing a shorter frictional type of unemployment. These participants would require less assistance from the State with income security their main concern. For the other participants it remains unclear if their unemployment had a structural explanation or whether other explanations offered a better basis for policy action. Unfortunately there is no doubt that a sizable portion of the 30,000 or so long term unemployed were predisposed towards State dependence. This is a societal issue and the NEAP was designed to counter the problem. It involved actively engaging participants three months into their unemployment through a referral to Fás. It was envisaged that the unemployed participant would be active throughout their unemployment spell and avoid slipping into long term State dependence.

On appearance it could have looked like the NEAP was a success given the low rates of long term unemployment. However, the ESRI (2011) identified some serious shortcomings with regard to its effectiveness. This research institute looked at two separate aspects to the NEAP, the referral to Fás, and the training received, in order to establish their impact on the employment outcomes of referred participants. Although the training received contributed to increased exits from unemployment, the referral was found to negate this positive effect. It showed that for some unemployed the referral led indeed to necessary up-skilling or retraining, while for others it amounted to an obligatory condition for the receipt of UI. There was a self-selection factor at play and perhaps for the less motivated upon fulfilment of their UI requirements they settled back into State dependence. The OECD(oecd) took issue in 2009 with another aspect of the NEAP which was highlighted also by the ESRI and this involved a failure to fully integrate administrative functions. It

indicated a failure to complete the move from a passive to an active system. The criticism was that search assistance, monitoring and sanctions should all happen in the one place.

Under NEAP a case worker tailored supports to the needs of the participant. The point that the unemployed should not be treated as a homogenous group was made in an earlier chapter and it seems clear that educational attainment, or human capital endowment, is a useful characteristic on which to base advice and policy. The participation rates for those with less human capital could indicate a motivational factor. Incentivisation is key, and perhaps less is on offer from the labour market for those with low educational attainment. The success of Fàs training indicates that increasing the returns to working motivates participants when employment is in demand. Training and education also helps instil an ethic which may have been lacking due to poor early life decisions. The chart below indicates that human capital disadvantage is crucial to unemployment during full employment;

Figure 22: Unemployment rate and numbers unemployed, by educational attainment, Q2 2007.



Source: Central Statistics Office

With the unemployment rate at 4.9% during this period we can see that having a Higher Secondary qualification made the participant more likely to have a job than the average worker. The dispersion of the long term unemployed across education levels is unknown, so it cannot be determined fully that human capital acquisition is related to issues of motivation, apart from employability. It is true, however, that higher human capital is

related to an increased labour market flexibility which protects against long term structural unemployment. This relates to not just what a participant can do to realign their human capital through ALMPs, but also the potential for the firm to enhance and develop their stock of human capital. Educational attainment offers a degree of labour market security and dualization is once again discernible from the figures. The rates of unemployment and numbers unemployed are higher for the lower categories because the employment opportunities offered are more precarious. The terms precarity and proletariat give rise to what a Marxian economist would call the 'precariat'. This is a class of participant who enters and exits an employment transaction regularly over the business cycle. Exiting such an employment situation necessitates engagement with ALMPs and so the system needs to be funded. Initiatives such as the Back to Education Allowance<sup>46</sup> offer a long term solution to those participants susceptible to long term unemployment. The take up of such schemes will be discussed in a later chapter.

Irish policy makers sought a flexible labour market and its achievement involved a hybrid of liberal and coordinated arrangements. Educational policy encouraged participants to acquire a general type of human capital that would make them more flexible with regard to the needs of firms. A general skill set would allow for employment possibilities even across sectors and obviate the need for long term support. State education institutes prepared participants for an independent and varied career. It remains unclear whether the later training and education received through ALMPs was of a general or specific type, so we cannot reach a conclusion as to whether this policy was a success in all cases and in all sectors. It remains clear, however, that with a high rate of tertiary educated participants the economy was well endowed with human capital. This contributed to flexibility. In coordinated labour markets firms take an active role in education with more specific human capital attainment resulting.

A well-funded Fás was designed to ensure that participants could better align their human capital to the needs of firms as skill shortages could hinder development. It can be seen that many such ALMPs supplemented the main system with the result that Ireland came somewhere in between the United Kingdom and Denmark in terms of ALMP expenditure. The real test of this system would come with the economic crisis and in the next chapter we will judge whether the micro flexibility of participants translated into an aggregate macro flexibility. With unemployment being so low pre-crisis another function of this

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<sup>46</sup> <http://www.welfare.ie/en/Pages/Back-to-Education-Allowance-Scheme.aspx>

category was to enable participants to move up the value chain. This was deemed key to sustaining progress and with the support of firms many ALMPs actually facilitated the employed as well. The systemic importance of this category has been highlighted and I have emphasised the need for funding. This category and broader system amounts to a core principle of the social contract. The implied agreement between the individual and society is to acquire human capital, engage in training, and the State will, in its turn, ensure security.

### **3.5 - Conclusion**

The pre-crisis system may be assessed in terms of its contribution to Ireland's development towards a knowledge based economy. In looking at the three categories in the labour market model it can be seen that they broadly correspond in turn to characteristics of this new economy sought by policy makers. These characteristics were dynamism, competitiveness, and flexibility. By categorising individual institutions into a model we may judge how effective they are both individually and collectively in contributing to particular development goals. We thus accord a purpose to individual LMIs that supersede their interpretation as either incurring costs or according rights. I have suggested a purpose for each category's institutions and concluded that pre-crisis arrangements were somewhat effective.

EPL arrangements contributed to the economy's dynamism and supported a liberal vision of human capital allocation. Although we do not have figures for job churn during this period it is assumed that EPL arrangements encouraged a higher velocity in the employment transaction. This meant that the market was constantly reallocating human capital to the most profitable if not necessarily the most productive use. This equates to an efficiency gain for the economy and it is true that a large surplus was generated during the period of full employment. Wage setting arrangements, I suggest, relied less on market mechanisms with Social Partnership helping maintain competitiveness in the face of strong inflationary pressures. This neo-corporatist feature of the labour market involved a coordination of interests of all interested parts of the model. It allowed for social dialogue with regard to the surplus generated by a thriving economy and related institutions like the Joint Labour Committees ensured both stability and equity. In separating the effects of the constituent wage setting institutions from the national and European I suggested that this

category was somewhat effective. It is more contentious to state that the third category was effective in bringing about the development goal of flexibility. Frictional and structural unemployment are constant themes for policy makers and this category's institutions were quite well resourced to address them. An active system involves participants remaining engaged with the labour market throughout their unemployment experience and a low long term unemployment rate indicated that for the most part participants were motivated towards employment. This suggests that the category's institutions were somewhat effective. However, separate analysis of the arrangement of UI and ALMPs revealed some scope for reform. The distinction between an efficiency measure based solely on the unemployment rate and an effectiveness based on an additional measure of contribution to development goals better equips us to engage the assessments of the labour market during this period and the various arguments for reform.

The description of a labour market as either liberal or coordinated indicates not only how its LMIs are arranged but also its paradigmatic nature. In Ireland's case pressure would come to reform along mainstream or Neo-classical lines in the aftermath of the crisis, particularly given the conditionality of emergency funding. By characterising the labour market pre-crisis we can estimate this pressure towards reform. Although the pre-crisis system was something of a hybrid model, the historically non-interventionist stance of the State had led to the creation of a somewhat liberal labour market. Although certain Institutional ideas can be identified in some of the model's categories, it would appear that these were tested initiatives only coming from abroad during the 1980s when a dire economic situation called for disruptive reforms. A description of EPL arrangements shows that they followed Neo-classical theory and perhaps these LMIs were generally regarded more as transaction costs hindering the allocation of labour than property rights accorded to participants for the exchange of their human capital. This could be a potential source of conflict and interviews with participant representatives may elicit Institutional arguments contrary to the development model of the State's mediating institutions.

The category of wage setting had many features of a Coordinated labour market and it seems that the somewhat Institutional type of Irish social dialogue proven to be so successful since its introduction in the 1980s was an accepted reality of modern Irish industrial organisation. However, it lacked a legislative grounding and was rather voluntarist in nature. It always had its criticisms and these would come to the fore during the later crisis. The Joint Labour Committees and minimum wage also tilted Ireland's

characterisation in an Institutional or Coordinated direction and these can be seen as an example of interventionist policy with broad political support. Overall, Neo-classical arguments that concern wage flexibility and efficiency were dominated by Institutional arguments of stability and effectiveness. However, it would be wrong to think that these arrangements came from consideration of the rights of participants and more a case that the States mediating institutions now had a labour market strategy. The category UI and ALMPs was part of this strategy and Institutional ideas had also been influential since the 1980s. Further reforms under the European Employment Strategy can also be seen as a move in the direction of the active labour market where participants are engaged by the mediating institutions and their human capital attainment and enhancement viewed as crucial to broader macroeconomic targets. Arguments abound with regard to the treatment of the unemployed and interviews with key labour market stakeholders may help me conclude as to whether Ireland will go further in a coordinated direction. Overall, Ireland has a mainstream system in place where Neo-classical concerns as to the transaction costs dimension to LMIs seems to dominate Institutional concerns as to their contrary property rights dimensions. History shows, however, that the State is pragmatic in its arrangement of mediating institutions and thus the proven successes from coordinated economies are often influential among the polity. This clash of paradigms is presented later in a discussion of the reforms brought about by the crisis.

It may be concluded then that an efficient, somewhat effective and orthodox labour market called for little reform when the labour market narrative was mostly influenced by national and European factors beyond the control of labour market policy. An analysis of labour market outcomes yielded the general conclusion that the system was efficient and somewhat effective. In the next chapter further analysis of labour market outcomes will examine more figures that illustrate the success or otherwise of the system especially when it was in a situation of crisis. This may contribute to a New Institutional Economics understanding of the role of costs and rights in the broader macro- economy with possible considerations for the Irish State's mediating institutions. This new approach to LMIs offers a perspective on the clash of paradigms that can make a real contribution to the deliberative democratic policy making process. Interviews with key stakeholders will provide insight into this process and perhaps I may be able to establish the veracity of the New Institutional Economics claim to labour market analysis and the usefulness of its model of the labour market system.

The interviews will also throw light on mainstream debate over LMI arrangements with Social Partnership and NEAP providing key talking points. The core aim of this thesis involves establishing the theory and assessments of key stakeholders which will enable us to understand what influenced this debate and the consensus or otherwise which might be possible with regard to LMI arrangements in view of developmental policy. In the next chapter I will once again outline the labour market system of a small open export led economy but this time under the situation of economic crisis. There is no doubt that the context has changed and thus the purpose, description and outcomes of each category deserve further analysis. In doing so I will address the main reforms to the system and cast further light into the clash of paradigms concerning Irish LMI reform during the recent unemployment crisis.

## Chapter 4: The Irish Labour Market System after the Crisis

### 4.1 - Introduction

In this thesis my aim is to establish the most appropriate theory and analyses of the Irish labour market which may have influenced the debate of its reform since the unemployment crisis. I view the labour market as a system constituted of various structures and mechanisms which may be placed into three categories of LMIs. In earlier chapters I have provided a model of this institutional matrix, and I have indicated an accompanying theoretical framework leading to a description of the key LMIs pre-crisis during a phase of full employment. This description provided insight into how policy makers may have viewed the labour market as contributing to Ireland's development strategy and an evaluation was made as to both the efficiency and effectiveness of the chosen LMI arrangements. It is argued that the economic crisis brought about a change to this system with a rearrangement of the key LMIs occurring after a new government was elected mid-crisis in 2011. The observation that the system adapted to a new reality invites the question as to how the clash of paradigms concerning LMI theory played itself out as evidenced by stakeholder arguments on reform. This chapter then entails various hypotheses on the observed reform of the key LMIs which derive from the theoretical arguments suggested by both the Neo-classical and Institutional paradigms. As the reform process inevitably involves a degree of bargaining, I aim to explain the adaptive efficiency of the system through the clash and reconciliation of stakeholder mental models.

In this chapter, once again my aim is to locate the theory concerning LMIs in the Irish situation to determine what factors characterised the post-crisis Irish system. The main LMIs will be examined and the intention is to enable comparisons to the former labour market system and build our understanding of interviews with key stakeholders which is the topic of the next chapter. The competing Neo-classical and Institutional constructions and assumptions as to LMIs will inform my explanation of the emergent bargained system that is observed during the recovery period in question 2011 to 2015. When applied in policy, the often conflicting paradigms produce characterisations of the constituent categories as more or less liberal and more or less coordinated. These systemic descriptions offer opportunities to evaluate both an LMI efficiency and LMI effectiveness, with

acknowledgement being made of considerations external to the employment transaction beyond simple measures of the employment rate. It is through this New Institutional Economics perspective that we gain insight into the bargaining of LMIs and the ‘real ekonomik’ of policy design. I attempt a functional-economistic analysis of the key LMIs by accounting for the stakeholders arguments for reform in the language of both the main paradigms at issue. As before, I employ New Institutional Economics, and especially North’s concept of adaptive efficiency, to ‘localise’ the clash of paradigms.

The previous chapter’s description of the pre-crisis system discussed an evaluation of LMI arrangements in terms of both their efficiency and effectiveness relative to Ireland’s development strategy. A positive evaluation could be made but despite this reforms to the key LMIs were observed. This chapter will cast light on the necessity of adaptation to new economic realities, with evaluations of both efficiency and effectiveness made in order to ascertain how the emergent system and stakeholder mental models responded to the crisis. There is an effectiveness dimension which accounts for the costs of bargaining and compromise in outcomes arising from the unavoidable reality of conflicting stakeholder interests within the transactional space of crisis. Final judgement over the employment transactions mediating institutions is made by the State, and the Fine Gael/Labour Party coalition government’s Programme for National Recovery indicates the intentionality of its representatives.<sup>47</sup> The document referred to the “failed politics” of the past and provides an Albert Einstein quote that is stated as providing a guiding ethos in government policy making;

“Learn from yesterday, live for today, hope for tomorrow.”

This chapter’s evaluation and explanation of the labour market system in terms of its adaptive efficiency is informed by the figures of the narrative provided earlier. Claims as to the success of the emergent system can be substantiated by certain measures. However, as the system involves a degree of compromise, stakeholders may have interests which will

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<sup>47</sup> Full text available at <https://www.socialjustice.ie/content/policy-issues/programme-government-2011-2016-full-text>

need another and possibly different reconciliation in the future. This chapter thus provides a description of the Irish labour market system only in the period of recovery following the unemployment crisis with an attempt at an explanation of how the clash of paradigms influenced this particular bargaining of key LMIs. My aim is to form hypotheses on the adaptive efficiency of the Irish labour market system and the evolution of the transactional space.

In describing the emergent labour market of a small, open, export-led economy experiencing a recovery in employment I utilize the model outlined in chapter two. Once again I move from model to matrix through a fuller description of the particular structures and mechanisms that make up the three categories of EPL, Wage Setting, and UI and ALMPs. A section devoted to each individual category will follow. These categories of LMI mediate the employment transaction and make up the matrix that must be negotiated by all the parties involved, with the government recognised as having its own interests apart from those of firms and participants. How the clash of paradigms relates to these interests is examined with the assumption being that particular theoretical arguments were at play in the rearrangement of LMIs. Three dimensions of each category will be addressed, the first of which is the purpose of the LMI in question. This dimension concentrates on the efficiency/effectiveness distinction that brings with it potential conflict of interests between stakeholders. The next dimension is a description of each LMI common to the key stakeholders. For each category the emphasis will be on the main structures and mechanisms governing the particular aspect of the employment transaction in question. The final dimension to the categories of LMI I examine concerns their outcomes and it is here we gain insight into the role each LMI plays in the broader economy. The aim is to develop an understanding of the post-crisis institutional matrix so that we may discover what characterised the Irish labour market system in the year's post 2011. This will provide an appropriate departure point to the next chapter where I test my political-economy explanation of the bargaining process with the key stakeholders involved.

#### **4.2 - Employment Protection Legislation (EPL)**

The category EPL comprises all structures and mechanisms governing the hiring and firing of employees. A theoretical discord which is evident from the literature centres on alternative arguments for either low or high EPL. It can be shown that OECD countries

differ in the relative stringency of this category and, with contested arguments seemingly all proved correct, by various measures of European country employment rates. Ireland, with somewhat liberal EPL arrangements, had seen a drop in employment from 2,136,100 in 2007 to far below the figure of 1,929,500 at the end of the provided narrative in 2015. It is arguable that human capital is being reallocated efficiently in a dynamic economy in accordance with Neo-classical theory and that the structures listed in the previous chapter would seem to have contributed to a well-functioning labour market. However, Institutionalists may point to considerations external to the employment transaction such as macroeconomic stability and contest both the efficiency and the effectiveness of alternative arrangements as can be found elsewhere. Reform for example, was observed during the recovery phase in the area of so called 'workplace relations' and the term indicates the dualism of these particular mediating institutions. While the costs to firms may have stayed constant and the country's OECD measures unchanged, it is arguable that the reforms will in practice strengthen the property rights dimension to this category.

#### **4.2.1 - EPL Purpose**

Labour market stakeholders have differing perspectives on the purpose of this category given the often conflicting interests of their respective constituents. The dualism of EPL, given the differing perspectives found on each side of the employment transaction, necessarily involves mediation by the State in modern industrialised labour markets. Firm representatives advocate the interests of their constituents and Neo-classical theory has long been adduced as support for their arguments. In the context of crisis, and more specifically the situation of Irish firms during the second phase of the narrative's periodisation, many firms faced an existential threat, and thus any impediments to their strategic adjustment to new realities were arguably inefficient in terms of both a micro and macroeconomic analysis. The global economic downturn and construction collapse necessarily involved a reallocation of human capital, one that would continue into the recovery phase. This reallocation is of course a systemic consideration for the mediating institutions with factors beyond the employment consideration being relevant. However, among the key labour market stakeholders representing firms the issue may concern more simply flexibility and costs, with the structures and mechanisms of hiring and firing becoming key factors of survival. Neo-classical theory it would seem supports this perspective, and advocates on behalf of firms would be expected to advance the transaction cost analysis of these institutions. With relatively low EPL arrangements in

place, it remains to be seen if firm representatives viewed the observed reform of the structures listed in the previous chapter as a key issue in the bargaining process for the new system post 2011.

Representatives of participants engaged in the bargaining process advocate the interests of their constituents and in general they can draw on Institutional theory in support of the arguments these stakeholders put forward to the State. It is suggested that many channels exist from high EPL to the achievement of enhanced productivity and these were discussed earlier. More pertinent to this chapter in the thesis is the role of EPL during the crisis and subsequent recovery. There is an argument that the labour market, and especially the construction sector, overshot during the crisis with low EPL a contributing factor. This would be expected of a liberal labour market and a question arises over how much of a swing the economy could take. Volatility in the labour market may translate to volatility as measured in the macroeconomic indicators and thus a systemic issue arises. From such an analysis it is arguable that the necessity of the troika bailout indicates a failure of Ireland's dynamic economy. Examples of alternative EPL arrangements in other countries show that there are policies that can seemingly dampen labour market volatility over the business cycle. While this may be true, and Institutional arguments can be made in support of such a suggestion, it may actually be the case that Ireland's crisis and subsequent recovery involved a more fundamental reallocation of human capital. That indeed the credit bubble and global industrial adjustment implied a far greater reallocation than what might be expected over a typical business cycle, and this may have made it difficult for participant representatives in the transactional process of bargaining to argue the economics of rescuing many jobs that were lost across particular sectors. However, Ireland's system is not entirely liberal, and this might be the case because although the requirement of flexibility may have been accepted by participant representatives, they may have used their influence on Government parties to ensure coordination and investment in the interdependent category UI and ALMPs. It may thus be that stakeholders in the transactional process have arrived at a 'flexicurity' type compromise.

However, this account of EPLs role in the narrative should also acknowledge the contribution of Ireland's particular arrangements as indicated by the speed of the observed economic recovery. If 'LMI efficiency' is judged in relation to the facilitation of the markets allocation of human capital to its most productive use, a reasonable judgement could be made that Ireland's arrangements of EPL were efficient. These structures and mechanisms

governing the hiring and firing of employees, it might be argued, contributed to a flexibility, as evidenced by the figures contained in a narrative, that has become intrinsic to the Government's small, open economy export-led development strategy. Human capital was simply reallocated in line with the demands of the market at a faster pace than what can be observed in other more coordinated labour markets. The rebound in Irish employment rates has contributed to enviable growth rates and a stable fiscal position. While Government ministers now forecast a return to full employment in this decade, and might be expected to argue the efficacy of the country's low EPL arrangements, their role as mediators of the employment transaction implies an acknowledgement of differing participants' perspective, alongside providing the optimal environment for firms.

A property rights perspective on the allocation of human capital suggests a broader and negotiated judgement on LMI effectiveness, one which relates to the facilitation of the market's allocation of human capital together along with defined considerations external to the employment transaction. It was suggested earlier that the according of property rights to participant human capital had a functional-economistic rationale. This New Institutional Economics perspective provides insight into the clash of the main paradigms at issue, particularly given how externalities are often also at play in the debate amongst stakeholders. The social consequences associated with particular EPL arrangements invite that a distinction be made between LMI efficiency and LMI effectiveness, and it is hypothesised that bargaining by key stakeholders within the transactional space of crisis resulted in a continuation of an Irish EPL strategy with more accommodation of the property rights analysis of human capital than is to be found in other more liberal labour markets.

#### **4.2.2 - EPL Description**

In the previous chapter it was stated that in regard to EPL strategy in Ireland, the emphasis is on the mediating role of LMIs with the employment transaction seen as a private market transaction between firm and participant, and with the state's only interest being that certain minimum standards are followed. The particular LMIs that comprise the EPL category were very much mediating institutions, but it would be correct to say that industrial relations were carried out under the 'auspices' of the state without there being a clearly defined developmental strategy or role for EPL. The Action Plan for Jobs contains only a limited number of "disruptive reforms" and it could be inferred that Government thinking was that by itself the market would return the economy to health once macro-

stability had been achieved. This is arguably a Neo-classical position, and thus can be construed as a continuation of relatively low EPL as could have been expected from the Government's guiding policy document. The observed reform in this category of LMI involved the merging of functions of four previous state bodies into one new entity, the Workplace Relations Commission, with the Labour Court remaining as the final arbitrator of disputes. The rules governing the hiring and firing of employees had been left effectively the same with both a transaction cost and property rights analysis broadly suggesting a continuation of policy, and thus a liberal characterisation of this category remains throughout the periodisation of the thesis.

Prior to this reform in 2012 there were thirty different forms relating to the mechanisms of workplace relations and five different structures. These forms would be replaced by one standard form administered by the new Workplace Relations Commission and with final recourse to an expanded Labour Court. An Early Resolution Service would also be established and it was expected that this additional institution would reduce the number of complaints coming before the Labour Court. According to a reform blueprint document of April 2012 requesting submissions on the proposed measures (Dept Jobs 2012);

**“The minister proposes to replace the current complex and outdated system with a simpler more efficient and user friendly two-tier structure with simplified procedures. This reform will deliver a modern, user-friendly, world-class employment workplace relations system that will provide significant benefits for both its users and society as a whole.”**

Reform in this area was intended to improve “the level of service” and may thus be interpreted as an attempt at increase in the efficiency of mediation while not actually changing the precise rules of EPL. Although the exact effects of this reform remain to be seen, the Government expected an increase in cases coming before the Labour Court. If compliance with EPL were to improve it could be argued this institutional reconfiguration effectively enhanced the mechanisms of workplace relations in the interest of participants by improving their opportunities for mediation. It is suggested that by streamlining the process and providing more transparency the government made it easier for participants to

enforce the property rights accorded their human capital in individual employment transactions with firms.

Fine Gael Minister for Jobs, Enterprise, and Innovation Richard Bruton oversaw this reform and introduced the measures in the blueprint reform document as part of a Government “commitment to make Ireland the best small country in the world to do business.” The response of the main firm representative organisation, Irish Business and Employers Confederation (IBEC), was rather muted and it remains to be seen if its members advocated a lowering of EPL during the reform process. The non-interventionist character of Government policy in this category is set to continue at least until the next election with both sides of the employment transaction encouraged to resolve workplace relations disputes themselves. In the dynamic knowledge based economy firms demand flexibility from participants and Ireland’s strategy would seem to be that a generalised education best prepares participants for the liberal labour market. Opportunities for the acquisition and development of human capital are more comparable to those found in coordinated labour markets. Further analysis of the other categories will show that there is interdependency to LMIs and that the junior party of government, The Labour Party, may well have advocated Institutional arguments in the negotiations that led to a more coordinated or ‘flexicurity’ type arrangement involving well-resourced further education and training. It would seem the transactional space of crisis was rather bounded with the main government party committed to low EPL and firm interests. Compromises may have been made among other LMIs and thus this category should not be used to characterise the entire labour market. Although it is possible to speculate on a degree of ‘buy-in’ to a ‘flexicurity’ type model among stakeholders, participant representatives raise the issue of labour market dualisation and point to the abuse of low EPL arrangements by firms. Labour Junior Minister with responsibility for Business and Employment Ged Nash commissioned a study of so called zero-hour contracts which reported in 2015.

#### **4.2.3 - EPL Outcomes**

According to the European Commission, LMIs are multi-dimensional and thus it may only be possible to speculate on the exact contribution Ireland’s EPL arrangements made to the labour market narrative. Once again for thesis purposes a distinction is made between LMI efficiency and LMI effectiveness with various indicators being of interest. The employment rate moved from 68.1% in 2007 at the height of the boom, to 58.5% at the time of an election brought on by crisis, to 67.6% at the end of our periodisation when a recovery had

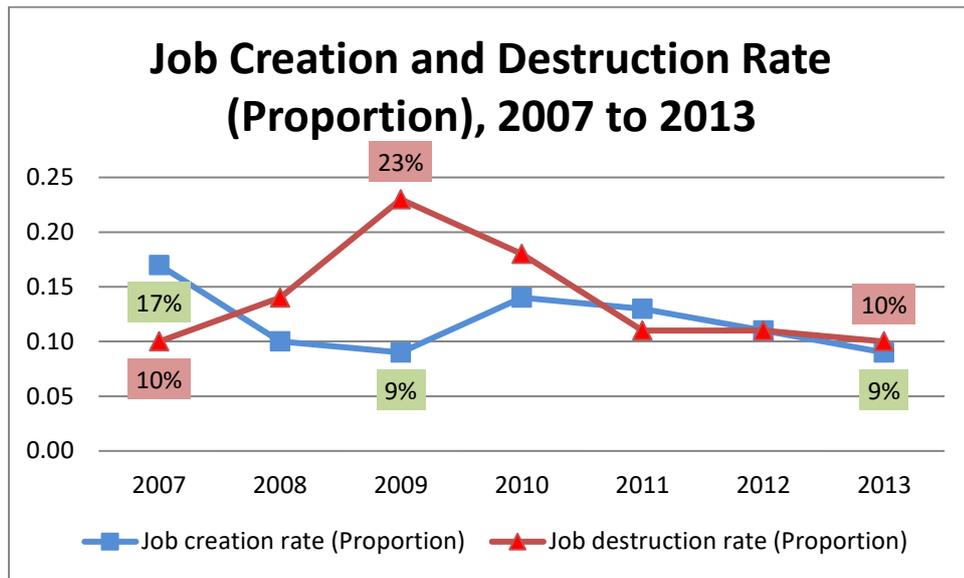
established itself. It is argued that the reallocation of human capital occurring throughout the narrative was of a more fundamental nature than that found during a typical business cycle and was what amounted to a crisis in the labour market. A global recession accelerated an industrial restructuring which affected Ireland along with precipitating the collapse of the construction industry. A commentary on Irish industry over the periodisation might indicate that the country is adapting to a changing global marketplace with some degree of success. It would seem that low EPL has allowed for a particular type of flexibility perceived as necessary for firms engaged in these types of markets. However, according to NESC figures<sup>48</sup>, the recovery of the construction industry has some way to go with a possible conclusion being that it overshot when adjusting to less demand during the crisis. Arguments for stimulus measures to provide some form of recovery momentum are found coming from representatives of both sides of the employment transaction with policy in the United States being quoted as providing a successful example. Various initiatives along these lines and operating within the rules of Eurozone membership were attempted by the Fine Gael-Labour coalition with results yet to be fully determined. As it stands Ireland's employment rate is above the European average of 64.9% but below that targeted for the country in Strategy 2020.

Job churn data collected by the CSO along with aforementioned OECD research invites an analysis of how Ireland's low EPL contributed to the reallocation of human capital over the period of the study. Both of the paradigms of interest have contributions to make and in this thesis I suggest that New Institutional Economics has also particularly so. The main party of government had made a commitment to business and thus a transaction cost perspective informed mainly by Neo-classical theory might be expected to have influenced reform in this category. EPL can be seen as an impediment to necessary adjustment and it may be argued that by not interfering by additional legislation the Government facilitated the recovery. It created, it might be claimed, the necessary macroeconomic environment for adaptation. Fine Gael and firm representatives might argue the necessity of this Neo-classical form of dynamism and point to new areas of economic growth. The chart below compares the job creation and job destruction rate proportions over the narrative;

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<sup>48</sup> See NESC, 2011, ' Supports and Services for Unemployed Jobseekers'

Figure 23: Job Creation and Destruction Rate (Proportion), 2007 to 2013

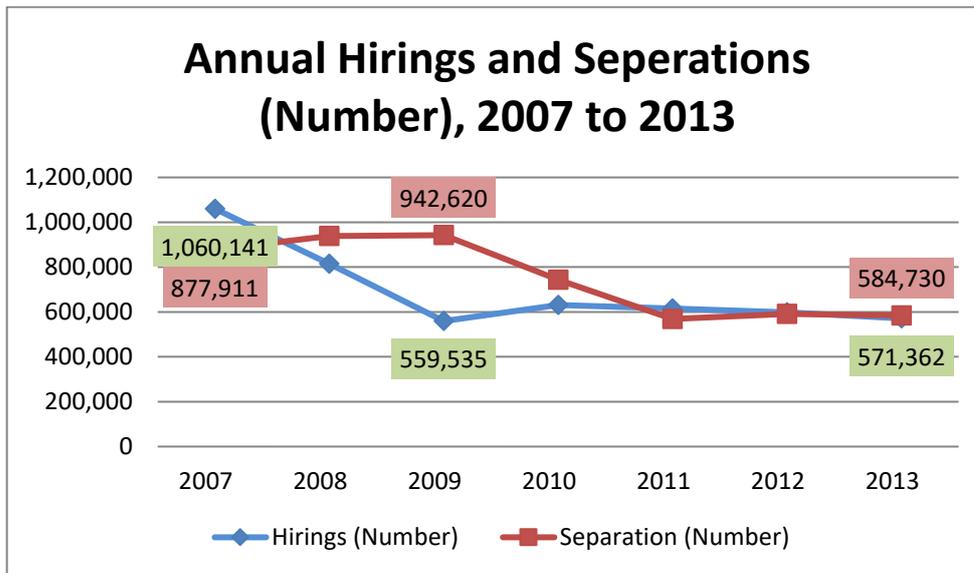


Source: Central Statistics Office

According to the OECD (2010) and others, low EPL increases job churn by limiting the restrictions on the hiring and firing of employees. (Cingano, Leonardi et al. 2010) Although this increases labour market volatility, it arguably contributed to the Irish labour markets relatively quick recovery. Firms responded to economic conditions faster than might otherwise have been the case. EU studies have estimated that in the overall European labour market four replacement jobs will arise for every new job created until 2020.<sup>49</sup> It would appear Ireland's labour market presents a more dynamic case. The chart below compares job hiring's and job separations over the period 2007 to 2013.

<sup>49</sup> See Cedefop, 2008, 'Skill Needs in Europe. Focus on 2020'

Figure 24: Annual Number of Hirings and Separations, 2007 to 2013



Source: Central Statistics Office

Both charts inform an analysis of Ireland’s EPL efficiency, and with comparative research in this area continuing, and as more job churn data becomes available across countries that analysis will deepen. An analysis of Ireland’s EPL effectiveness includes considerations other than the allocation of human capital as measured by the employment rate. It is arguable that excess labour market volatility represents an externality with consequent social costs. The American sub-prime crisis which led to the global economic downturn might well have had a labour market origin with precarious employment transactions proving too unstable to sustain individual mortgages let alone growth in national GDP. The contribution of low EPL to labour market dualisation and precarious employment transactions raises the question of how much dynamism is to be considered good for an economy. Reform of the Irish model has occurred with the Central Bank introducing limitations on private banks mortgage lending.<sup>50</sup> It is now more difficult for a participant in a precarious employment transaction to access any form of credit let alone a mortgage and especially so if that participant is employed under a so called ‘zero-hour contract’<sup>51</sup>. Although the argument to maintain low EPL arrangements continues to be strong, given Ireland’s need for flexibility given the well supported export-led development strategy,

<sup>50</sup> See <https://www.centralbank.ie/press-area/press-releases/Pages/CentralBankannouncesnewregulationsonresidentialmortgagelending.aspx>

<sup>51</sup> A **zero-hour contract** is a type of contract between an employer and a worker, where the employer is not obliged to provide any minimum working hours

there are certain externalities of a systemic nature possibly of concern to stakeholders which may surface in an examination of the transactional space of crisis.

### **4.3 - Wage Setting**

The category wage setting is comprised of structures and mechanisms which influence both the wages paid by firms to participants for the use of their human capital and the distribution of some portion of the surplus generated by the production process. A theoretical discord which is evident from the literature centres on alternative arguments for either liberal or coordinated arrangements. The clash of paradigms is perhaps most pronounced in this category of LMI with stakeholder mental models exhibiting a variety of arguments on the arrangement of the category's key LMIs; national/sectoral minimum wages, collective bargaining, and Pay Related Social Insurance (PRSI). It was argued in the last chapter that pre-crisis arrangements were somewhat efficient and effective as a high employment rate had not resulted in too excessive inflation. The coordinated characterisation of the wage setting category also provided in that chapter now needs modification as change was observed necessitating an evaluation in this chapter of the new arrangements. The crisis led to the removal of certain structures and mechanisms with a move to a more liberal arrangement of the category. A situation of internal devaluation coupled with prescribed inflation targets meant for a highly contested transactional space given the variety of arguments and interests of stakeholders. The partial resolution of some issues contributed to the system's adaptive efficiency with industrial action for the most part averted. However, a general election within changing economic circumstances means the mediation of this category's LMIs is a major public sphere issue. The observed recovery in employment rates has not tempered the discussion and in the absence of consensus a 'real ekonomik' has emerged with stakeholder representatives making various arguments in the lead-in to the next general election.

#### **4.3.1 - Wage Setting Purpose**

In Neo-classical theory the market is assumed to determine the different wages paid by firms given both the demand for human capital consequent from its marginal product in the production process and the level of supply of willing participants with the requisite human capital endowments. Either part of the equilibrium can be regarded as an influence on the wage level with multiple markets existing throughout the economy. Firm

representatives might argue that in the case of Ireland the removal of structures and mechanisms inhibiting these markets in their functioning should be welcomed and as such a return to the prior more coordinated arrangements resisted. The reallocation of human capital across the economy requires flexibility from both firms and participants with the pricing mechanism indicating where each side of the employment transaction should make their investments. Rigidities in the prices offered for human capital prevent the various markets adapting and might arguably cause some firms to close that otherwise would survive the clearing process. The existential threat that faced many firms during the crisis can explain the transaction cost analysis of these institutions found amongst their representatives and in government. If international competitiveness demanded an internal devaluation it is assumed that many key stakeholders followed the Neo-classical conception of the wage setting LMIs influence on the employment rate and broader economy. It would seem this made the emergent liberal arrangements of this category a key part of their labour market strategy for the recovery and path to full employment.

Alternatively, in Institutionalist theory an internal devaluation is best managed through a process of social dialogue and participant representatives argue that where wage flexibility is necessary, both sides to the transaction should negotiate within parameters set by mediating structures and mechanisms. (See Calmfors, Lars; Driffill, John (1988)) In Ireland these LMIs came under threat or were abolished with consequent implications for any potential form of macro-coordination. In many countries with coordinated wage setting LMIs, wages are bargained and agreed on given considerations of participant productivity and aggregate demand. It was hoped by many that the pre-crisis arrangements of this category could play a role in the recovery by delivering cost savings and increased efficiencies for firms while maintaining aggregate demand. However, this form of wage-led recovery would require a large degree of compromise on both sides of the transaction. While having proved successful in other countries in the past, Ireland's voluntarist system lacked legislation to compel both firm and participant representatives to reach agreement. Institutionalist arguments over the key wage setting LMIs are well known by the electorate and the government is currently engaged in a mediation process involving a Low Pay Commission<sup>52</sup>, reformed Joint Labour Committees (JLCs), and public sector pay negotiations.

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<sup>52</sup> The principal function of the Low Pay Commission is, on an annual basis, to examine and make recommendations to the Minister on the appropriate level of the national minimum wage and related matters. From <http://www.lowpaycommission.ie/>

In the last chapter the level of private household debt was highlighted as a defined consideration external to the employment transaction concerning this category. The deleveraging of this household debt would come at the same time as that for firm debt deleveraging and thus disagreements over recovery strategy could be expected in a government coalition of parties with constituents of differing interests. It would seem that although the main party of government adopted a transaction cost analysis of the key wage setting LMIs, systemic arguments relating to aggregate demand coming from the junior party had some weight, and thus a degree of conciliation is discernible in policy. The restoration of the minimum wage to €8.65 in 2011 indicates sizable popular support for a wage-led resolution to the deleveraging process. Across the economy flexibility was found in hours worked more so than wages with the conclusion being that in this instance the liberal market pricing mechanism did not overshoot and demand was eventually stabilised. This contributed to the necessary growth for adjustment to occur and it would seem that at least in some labour markets a degree of coordination in price adjustment would seem conducive to this category's efficiency. The danger of a deflationary wage price spiral brought about by the pressure of deleveraging was averted and thus we may argue the effectiveness of the arrangements given this macro-consideration. However, in the last chapter the role of collective bargaining in relation also to micro-considerations like poverty was highlighted and thus an increase in Ireland's rank among European countries in Eurostat measures of 'At risk of poverty before social transfers'<sup>53</sup> points to a potential externality that would seem to accompany liberal wage setting arrangements. Although many in government and firm representatives would point to the stability of the recovery as a justification for the emergent arrangements, there is no doubt that participant representatives will advocate more forms of social dialogue going into the next election given proven examples of macro and micro effectiveness elsewhere.

#### **4.3.2 - Wage Setting Description**

The 2010 Financial Emergency Measures Bill contained a €1 euro cut to the National Minimum Wage (NMW) with the, then opposition, Labour Party being perhaps this decisions most vocal opponent in the Dàil. At the time the Fianna Fáil Minister for Finance Brian Lenihan argued that the former wage level was "unsustainable in a time of crisis"<sup>54</sup>.

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<sup>53</sup> See [http://ec.europa.eu/eurostat/statistics-explained/index.php/People\\_at\\_risk\\_of\\_poverty\\_or\\_social\\_exclusion](http://ec.europa.eu/eurostat/statistics-explained/index.php/People_at_risk_of_poverty_or_social_exclusion)

<sup>54</sup> See RTE website, 13<sup>th</sup> December 2010, 'Minimum wage cuts passed in Dáil'

Upon the formation of a new government in 2011 the NMW was restored to €8.65 per hour and in making comparisons of this level of wage across countries consideration of social transfers and the provision of social services should be made. As a stakeholder in this issue the trade union representative group Services and Industrial, Professional Technical Union (SIPTU) argue the case for a 'living wage' of €11.45, and while a Low Pay Commission has been established it is generally expected that only small incremental increases can be expected or will occur as the economy reaches full employment. Arguments for this form of market intervention would be unexpected from the Labour Party and their Minister for Business and Employment Ged Nash has publicly indicated his preference for direct government action on wage formation going forward instead of some form of revised social partnership<sup>55</sup>.

In keeping with the current dominant group of wage setting LMIs and, regarding differences within sectoral minimum wages, the government commissioned the Duffy Walsh report on JLCs, being convinced that they had a systemic value and with the intention of a restoration of Registered Employment Agreements (REAs) and Employment Regulation Orders (EROs). SIPTU representatives "would expect" firms to participate in the process of sectoral wage formation, although firm representative group IBEC sees both REAs and EROs as being unnecessary<sup>56</sup>. It would seem a variety of arguments were at play during the bargaining process of this category of the emergent system with a 'real ekonomik' and informed compromise proving the policy outcome from the transactional space. Although Fine Gael Minister for Jobs, Enterprise and Innovation Richard Bruton would seem to have a bias towards firms in general, both a transaction cost and property right analysis is indicated in his statements on this particular group of LMIs with the purpose of their reform being, "to improve Ireland's competitiveness by enhancing wage flexibility while also ensuring protection for vulnerable workers"<sup>57</sup>. Mediation is evident with his department seemingly willing to support the recommendations of the Labour Courts review into JLCs. It would seem the arguments for some degree of coordination over this particular group of LMIs are accepted by Fine Gael and amenable to their coalition with the mainly participant supporting Labour Party. Industrial action has thus far been averted with both sides to the employment transaction and their respective organisations

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<sup>55</sup> See Irish Times website, 5<sup>th</sup> February 2015, 'Low-pay group to get powers to gradually raise minimum wage'

<sup>56</sup> See Eurofound website, June 2014, 'Pay setting powers of joint labour committees curtailed'

<sup>57</sup> See DJEI website, 1<sup>st</sup> October 2013, '**Reform of Joint Labour Committees**'

continuing to debate the particular structures and mechanisms of this group of wage setting LMIs.

In the last chapter it was stated that trade union recognition was a constitutional issue which placed the country at odds with many of its European counterparts. Debate over this particular LMI came to the fore in industrial action by the Mandate trade union representing Dunne's Stores workers in 2015 with Labour Party Minister for Social Protection Joan Burton promising action on the issue<sup>58</sup>. This particular LMI is part of the collective bargaining grouping within the category wage setting and it ultimately proved decisive in the category's re-characterisation following the crisis. Perhaps the key labour market reform of the system during the periodisation of the narrative is the end of Social Partnership with consequent OECD measures of coordination-centralisation expected to contribute to a new arguably liberal characterisation of the entire system itself. Change came in October 2009 with the government budget following the failure of tri-partite crisis talks earlier that year and with the growing necessity of fiscal action. Emergency legislation was introduced to circumvent the Payment of Wages Act 1991 allowing for public sector wage cuts. Industrial action was broadly averted with a negotiation of a Public Service Stability Agreement, or the Haddington Road Agreement, between the new Government and the main trade unions and this would determine the pay and conditionality of public sector workers for the period 2013-2016. In relation to the private sector, IBEC formally announced in December 2009 that, "we are entering a period of enterprise level bargaining in unionised employments"<sup>59</sup>. As it stands currently, firm representative organisations only provide guidelines regarding wage bargaining. Limitations of the transactional space of crisis regarding the mediation of this category meant a tri-partite reconciliation was impossible and also given the differing interests of the key stakeholders. The broader clash of paradigms found among their mental models is perhaps most apparent in the debate over these particular LMI arrangements.

The Labour Party would seem to advocate a more interventionist approach by the State and the Industrial Relations Amendment Act (2015)<sup>60</sup> has been welcomed by participant representatives. While not legally compelling firms to recognise trade unions for the

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<sup>58</sup> See Irish Times website, 2<sup>nd</sup> April 2015, 'Joan Burton: Bill to push employers to enter collective bargaining'

<sup>59</sup> See Eurofound website, March 2010, 'Employer body issues bargaining guidelines after pulling out of national pay talks'

<sup>60</sup> [www.irishstatutebook.ie/eli/2015/act/27/enacted/en/html](http://www.irishstatutebook.ie/eli/2015/act/27/enacted/en/html)

purposes of collective bargaining, these firms must comply with recommendations of the Labour Court arising from disputes brought by trade unions on behalf of their members. SIPTU President Jack O'Connor acknowledged this development as progress for participant interests but cautioned that further assertions of "dignity and fair treatment" in workplaces would require action by trade union members<sup>61</sup>. Although Labour Party ministers might provide these legislative amendments as an example of their influencing policy towards a more coordinated system, Fíne Gael would seem to advocate for a liberal system and with further legislation on the various issues indicating how far each party is willing to compromise before the next election.

Throughout the crisis and recovery phases of the labour market narrative PRSI arrangements have indicated a consensus view among the stakeholders which sees these mechanisms as holding potential for the incentivisation of employment. Reduced employers PRSI rates for the long-term unemployed had been introduced by the crisis Government of 2007 to 2011. Following the general election and a new government there came the announcement of the Jobs Initiative which included an extension of the reduced rate of employers PRSI to cover 600,000 participants earning less than €356 a week. In 2013 this scheme was replaced with the JobsPlus<sup>62</sup> scheme that involved the Department of Social Protection paying a financial incentive to firms over two years for every position they created for a long-term unemployed participant. The Irish National Organisation of the Unemployed (INOU) have said that if the JobsPlus scheme is going to be a success, the government need to be seen to actively market the new initiative<sup>63</sup>.

In terms of the transactional space of crisis it would appear there was a consensus on PRSI among stakeholders which led to the selection of these particular reforms. However, regarding the evolution of this LMI, consideration must be made of the retention of the reforms. With the broadening of the tax base came inevitable public opposition and Ireland's low rates of employers PRSI have entered the debate as a fiscal consideration. Despite this, I hypothesize that some form of scheme for the long-term unemployed making use of PRSI will still be in place after the next general election given broad

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<sup>61</sup> See Liberty, May/June 2015, "Welcome move on workers' rights"

<sup>62</sup> **JobsPlus** is an incentive from the Department of Social Protection to encourage and reward employers who offer employment opportunities to the long term unemployed. Grants of €7,500 and €10,000 are available. Taken from <http://www.welfare.ie/en/Pages/jobsplus.aspx/Pages/VariationRoot.aspx>

<sup>63</sup> See thejournal.ie website, 10<sup>th</sup> October 2013, 'Over 1,200 employers and 2,400 jobseekers register for JobsPlus scheme'

stakeholder support. Future arrangements of the other wage setting LMIs discussed earlier are less clear and the transactional space is currently determined by an uncertain political landscape and an evolving constitutional ontology. Buy-in to the liberal arrangement has not been entirely secured and although a transactional cost analysis of these wage setting LMIs would seem dominant, many Institutional arguments have considerable support.

### **4.3.3 - Wage Setting Outcomes**

In the last chapter it was argued that the pre-crisis coordinated arrangements of this category were efficient in their facilitation of the markets allocation of human capital and somewhat effective considering full employment inflation. The prior structures and mechanisms of wage setting had a long history with a large degree of stakeholder ‘buy-in’. It would seem there is less consensus on the current liberal arrangements with the main paradigms offering conflicting theories to support the differing stakeholder arguments. A wage-led recovery has its proponents in government and among participant representatives, with concerns as to competitiveness emphasised by others. Concerning this particular labour market dimension to the small, open export-led development strategy, there comes a ‘real ekonomik’ of the transactional space with political power and constitutional ontology ultimately determining the emergent arrangements. Although economic orthodoxy prescribed an internal devaluation of the economy to allow for growth, this would involve difficult political considerations and with public opinion divided before an impending general election. Although a liberalisation of arrangements might have made such an internal devaluation more probable, the labour market has not recorded a major change in wage levels.

**Table 13: Figures for GDP, Growth and Inflation over Phase 2 and Phase 3 of Narrative.**

		2007	2008	2009	2010		
<b>Phase 2</b>	<b>GDP at current market prices</b>	197,202	187,756	170,097	167,583		
	<b>Annual percentage change</b>	6.6	-4.8	-9.4	-1.5		
	<b>Annual inflation</b>	4.7	1.15	-5	1.29		
		2011	2012	2013	2014	2015	2016
<b>Phase 3</b>	<b>GDP at current market prices</b>	171,939	175,561	180,298	194,537	262,037	275,567
	<b>Annual percentage change</b>	2.6	2.1	2.7	7.9	34.7	5.2
	<b>Annual inflation</b>	2.45	1.22	0.17	-0.31	0.1	0.0

Source: Central Statistics Office and Inflation.eu

Expectations for the economy in general at the peak of the crisis in 2009 were bleak with the main research institutions all forecasting a prolonged period of high unemployment. Although the exact contribution of public sector wage cuts to competitiveness and growth is ambiguous in itself, they may have provided a broader signal to the general economy. A general understanding of the scale of the crisis facing firms in Phase 2 of the narrative allowed for an effective wage freeze in the economy and this would seem to have allowed for a form of internal devaluation. In the figures for Phase 3 inflation and growth have returned with the exact contribution of wage moderation to the observed recovery a matter of debate. In any case, the described emergent liberal arrangements had not led to a wages 'over-shoot' with inflation consequently recovering rather quickly. The restoration of the minimum wage in 2011 to its 2007 level invites an analysis of this particular LMI in terms of both its efficiency and effectiveness with expected implications for how such wage setting coordination is generally interpreted among the various stakeholders' mental models.

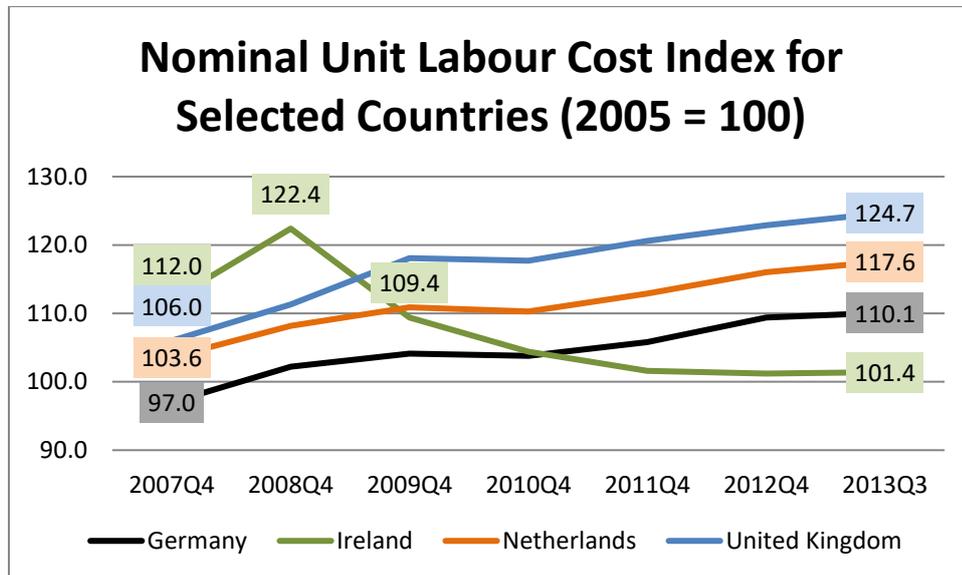
Nominal Unit Labour Costs (NULCs) are a key part of the dialogue on national competitiveness and the only labour market element of the European Commission's Macroeconomic Imbalances Procedure<sup>64</sup>. Although just one measure of competitiveness, national comparisons over time provide economists with some valuable empirical data with which to assess the functioning of wage setting arrangements. A 2013 study by the Nevin Economic Research Institute (NERI) on wage competitiveness indicates a fundamental reallocation of human capital away from the labour-intensive construction sector resulting in an aggregate reduction in NULCs. It would seem that liberal EPL arrangements have had a more significant role to play than the removal of certain wage setting structures and mechanisms. It is too simplistic to ascribe change in Irish NULCs to the emergent liberal arrangement of the wage setting category with a selection of other country NULCs of both coordinated and liberal characterisation potentially undermining such an argument. Many highlight the important contribution made by Ireland's exports to GDP growth and thus this particular metric of Ireland's development strategy would potentially be a talking point in policy formation.

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<sup>64</sup> See

[http://ec.europa.eu/economy\\_finance/economic\\_governance/macroeconomic\\_imbalance\\_procedure/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm)

Figure 25: Nominal Unit Labour Cost Index for Selected Countries, 2007 to 2013



Source: Eurostat

What really remains to be seen is how the reduced JLC process and move to firm-level bargaining affects wage formation as the labour market increases employment. A large degree of labour market slack indicates further room for strong GDP growth with the consequent productivity and inflation considerations of interest to all stakeholders. The main paradigms suggest conflicting alternatives for arranging the structures and mechanisms which influence both the wages paid by firms to participants for the use of their human capital and the distribution of some portion of the surplus generated by the production process. Although it would seem Irish firm representatives prefer flexibility and liberal arrangements, some degree of coordination advocated for by participant representatives may result from Government intervention. Variations on forms of social dialogue are evident across Europe with consensus concerning these LMIs in their efficiency and effectiveness yet to be fully established.

Another metric of the stakeholder discussion on wage setting arrangements as they relate to Ireland's development strategy is the OECDs measure of the percentage employed in low pay<sup>65</sup>. In these 2012 rankings of particular countries, Ireland places alongside more liberal labour markets like the United States and the United Kingdom with figures showing that a little over 20% of the employed were earning less than two-thirds of the median

<sup>65</sup> See <https://data.oecd.org/earnwage/wage-levels.htm> for further comparisons

wage. In coordinated labour markets these figures for those employed in low pay are quite lower although with a feature of modern post-industrial employment structures being an observed pay-off between wage equalisation and full employment (Iversen and Wren 1998). In a New Institutional Economics analysis of the labour market system, attention is given not only to efficiency regarding the employment rate, but also to externalities associated with the employment transaction determining evaluations of LMI effectiveness. Many defined considerations external to the employment transaction about the discussion in Ireland with a seeming preference for somewhat liberal arrangements in this category subject to compromise when the Government deems it necessary of itself to intervene in the market by compelling stakeholders towards certain action. Following the prescriptions of the main paradigms, the specific preferences of firm and participant representatives are much clearer than those of the main political parties, although the Labour Party would clearly advocate a move towards more forms of coordination. It would seem that with the economic recovery came the possibility of a return to some forms of social dialogue in the labour market. However, this category of LMI remains still the most contested, ultimately with the consensus required on alternative forms of wage setting coordination proving elusive.

#### **4.4 - Unemployment Insurance and Active Labour Market Policies (UI and ALMPs)**

The third category of LMI consists of the structures and mechanisms governing the payment of Unemployment Insurance (UI) and administration of Active Labour Market Policies (ALMPs). Many such institutions are in place and facilitating the economic allocation of the human capital of unemployed participants requires a comprehensive policy mix. It was suggested a more fundamental reallocation of human capital occurred over the period 2007 to 2014 in the economy than found over a typical business cycle. It would seem the crisis phase of escalating unemployment has subsided in the figures seen for the final recovery phase of the periodisation with a long-term unemployment rate averaging roughly 7.7% over this phase translating to around 164,780 unemployed participants.<sup>66</sup> This is the context for the observed reforms in this area, with arguments for both an 'LMI efficiency' given the recovery in the figures, and an LMI effectiveness in relation to total domestic demand, to be expected from the government parties in their interviews. Evaluations of the pre-crisis arrangements in this category by research organisations were mixed and perhaps the change in government provided a catalyst for

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<sup>66</sup> On the basis of a 7.7% long term unemployment rate of 2,140,000 labour force participants.

the Irish labour markets move to an arrangement of LMIs in this category that is more in line with the prescriptions of the European Employment Strategy. A degree of consensus may be perhaps discerned from among the mental models of the key labour market stakeholders with a common understanding found of the various arguments over these particular LMI arrangements. It is hypothesised that this category is one of the less contested with the transactional space involving a strategic dialogue concerning the feasibility of differing levels of scarce public resource allocation.

#### **4.4.1 - UI and ALMPs Purpose**

The constituent LMIs of this category are necessarily described in relation to the LMIs of the other categories. The observed movement of the other categories structures and mechanisms had support among many of those stakeholders who adhered more closely to the Neo-classical paradigms assumptions and prescriptions. However, in this category it would appear that many Institutional arguments are discernible in the observed reforms, with the result being the emergence of a rather coordinated set of arrangements. The observation for this category might be that the changes which occurred were foremost a fulfilment of commitments made under the European Employment Strategy of 2003. The crisis arguably acted as a catalyst for the full transition to an active system from common descriptions of the pre-crisis arrangements as a somewhat passive system. Neo-classical theory also supports this LMI transition and the mechanics of the reservation wage argument have already been explained. Fundamentally, the receipt of UI is necessarily accompanied by an obligation to engage with employment services and ALMPs. In order to incentivise the participant into an employment transaction the UI payment, it is assumed, must also not be too high. If the amount earned by not working is greater than the potential reward for entering an employment transaction, then the participant withholds his labour and the unemployment rate increases. Although the level of UI payments were decreased in the crisis period budgets, and with payments for participants below certain ages decreased further in following years, it remains to be seen if indeed this particular Neo-classical theory, or perhaps alternatively budgetary reality, was the motive for the cutbacks.

In coordinated labour markets stability would seem to be a main goal of the mediating institutions and, extending beyond the individual, unemployment payments have a macroeconomic purpose in that they act as an automatic stabiliser. Institutional ideas support these aims and it is expected that participant organisation representatives along

with Labour Party ministers will put forward these arguments over these LMIs. A more fundamental reallocation of human capital may have occurred through the crisis and recovery phases of the thesis periodisation than over a typical business cycle, placing great strain on the category's structures and mechanisms. Although a transition to a more active system was accepted by the main stakeholders, the observation that the emergent reforms took on the human capital focused features of coordinated systems more than those of liberal systems, may be argued as a successful bargaining outcome achieved by Labour Party ministers in a difficult transactional space. An institutional reconfiguration came about where payments of Jobseeker's Allowance and Jobseeker's Benefit withstood budgetary pressure to some degree and especially so with the instatement of Minister Joan Burton in 2011. Labour Party Minister Brendan Howlin has highlighted that the necessary reform of "an outdated system of administration" occurred since 2011<sup>67</sup>. Actions taken by the Senior Officials Group under the crisis government would suggest more weight was accorded to Neo-classical arguments during this earlier crisis phase.

The efficiency of the UI and ALMPs recovery phase arrangements is judged in relation to their facilitation of the markets allocative role keeping unemployment to a minimum. Some degree of stability in UI payments, along with an institutional reconfiguration of ALMPs, has at the very least not prevented the labour market from recovering. An employment first approach contrary to human capital perspectives has guided action on the unemployment rate, although according initiatives like JobBridge have garnered much criticism.<sup>68</sup> This particular approach to the unemployed participant is an emerging characteristic of liberal labour markets and can be abused by some firms while being beneficial to human capital development otherwise. That what occurred over this period was a fundamental reallocation of human capital is acknowledged in both the crisis and recovery administrations emphasis on active training supports. Structural unemployment was identified quite early as an emergent labour market issue of the crisis and of concern to the recovery effort. A range of initiatives were enacted, with the issue of LMI effectiveness and its accompanying list of defined considerations external to the employment transaction expected to feature prominently in the key stakeholder interviews.

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<sup>67</sup> <http://www.per.gov.ie/en/speech-by-minister-for-public-expenditure-and-reform-mr-brendan-howlin-t-d-at-the-jordanian-government-leaders-forum-1st-november-2014/>

<sup>68</sup> See <https://www.welfare.ie/en/Pages/Indecon-Report-on-Evaluation-of-JobBridge.aspx>

#### **4.4.2 - UI and ALMPs Description**

In Ireland the main UI payments are Jobseeker's Benefit (JB) which accrues to qualifying participants and Jobseeker's Allowance (JA) which accrues to all registered unemployed. Cuts in these payments were made in the budgets leading up to 2012 with the rates currently static at €188 for a qualifying participant. Although UI payments had been made conditional on engaging with the employment service before the new government had come to power, it is expected that many key stakeholders will interpret the observed reforms as a further move towards an active system. An institutional reconfiguration, supported by increased allocations in the numbers of case workers and available ALMPs, has occurred since this time. The establishment of the National Employment and Entitlement Service (NEES) was a key part of the new emergent arrangement of this category<sup>69</sup> and being contained in the Programme for Government. Although the establishment of the NEES was a key commitment under the terms of the Memorandum of Understanding with the EU/IMF/ECB, much scope of design is imaginable in the delivery of this service, being informed by the various types of liberal and coordinated examples found elsewhere. It remains to be seen how the constituent LMI arrangements and issues were bargained over by the key stakeholders. Two current political issues leading into the election are the treatment of the self-employed and of those aged under-26 vis-a-vis the various government departments.<sup>70</sup> According to Minister Burton, "the objective is to integrate the provision of employment services and benefit payment services within the Department and in so doing to ensure that the payment of income supports to people who do not have a job is directly linked to the equally, if not more important, task of supporting people in their pursuit of employment and related opportunities and improving their life chances."<sup>71</sup>

Labour Party Minister for Education and Skills, Ruairí Quinn, was one of the first politicians to call for the replacement of FÁS. One of the first tasks of its newly formed replacement, Solas, will be to devise a strategy for the development of a unified further education and

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<sup>69</sup> <http://www.welfare.ie/en/Pages/Project-Plan-for-the-Development-and-Implementation-of-the-.aspx>

<sup>70</sup> See RTE.ie, February 2015, 'Labour facing tough fight for second Government term - Burton'

<sup>71</sup> See joanburton.ie, August 2011, 'National Employment and Entitlements Service'

training (FET) sector.<sup>7273</sup> The observed institutional reconfiguration of this category may indeed have had the support of all key labour market stakeholders with the continuation of strong ALMP support for firms and participants a governmental priority during both crisis and recovery periods. The continued emphasis on FET throughout indicates a more institutional approach in government policy, although this is not entirely consistent with the employment-first attitude promoted by NESC (2011). Maintaining an adequate supply of healthy, educated, socialised participants endowed with the human capital required by firms in domestic and export sectors has proven important to the human capital reallocation observed in the recovery phase of the thesis periodisation. Thelen (2014) notes that Arthur Laffer has described the arrangements characteristic of more liberal labour markets in this category as “disciplinary”, and yet it seems in the Irish case the labour market flexibility required by the knowledge economy has been achieved whilst maintaining the idealism of the Developmental Welfare State agreed upon by social partners in 2005. The various effects of Irish arrangements of FET on individual labour market participants have been explained by NESC and with new ideas on the treatment of the unemployed possibly evident in interviews among key stakeholders.

The final observed key reform of interest in this category since the new coalition government took power arguably marks clear progress towards an active system of supports that has labour market flexibility as a core economic strategy. It can be hypothesised that much bargaining led to these particular arrangements governing the allocation of the economy’s stock of human capital, with a distinctive Irish resolution apparent. Launched in Sligo in 2012, Intreo is a single point of contact for all employment and income supports. Designed to provide a more streamlined approach, Intreo offers practical, tailored employment services and supports for jobseekers and employers alike.<sup>74</sup> Defining this institution strictly as either a structure or mechanism would not be possible given the varied role it plays in the labour market system. There is no doubt a continued role for Intreo going forward as the issue of structural unemployment may only ever dissipate into an issue of labour market slack, by which it could be deduced that any achievement of national employment rate targets necessarily involves a demand led solution.<sup>75</sup> The efficiency of this key LMI relies on a number of component structures and

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<sup>72</sup> Further Education covers education and training which occurs after second level schooling but which is not part of the third level system.

<sup>73</sup> See [education.ie](http://education.ie), October 2013, ‘Board of Solas appointed’

<sup>74</sup> See [welfare.ie/en/Pages/Intreo\\_home](http://welfare.ie/en/Pages/Intreo_home)

<sup>75</sup> For indication of labour market slack see OECD (XXXX)

mechanisms such as 'Jobs Ireland' and 'JobPath', assisting the supply of participants offering their human capital, and also a range of other supports and services facilitating firms in their demand of this human capital. Observed institutional reform is consistent with the NESC proposal of a 'Board for Temporary Projects' that followed consultations among many different social partners during the crisis. Ensuring the protection and enhancement of the labour markets stock of human capital is possibly best achieved through the property right dimensions of the individual skills and attributes held by participants and with transaction cost analyses resisted on the basis of many popular arguments. The next section will attempt to evaluate both the efficiency and effectiveness of Intreo along with the broader mix of LMIs discussed which constitute the institutional matrix governing the employment transaction which is interpreted in this thesis as mediating the labour market interests of stakeholders.

#### **4.4.3 - UI and ALMPs Outcomes**

The IMF (2012) reported that under the Pathways to Work initiative, there would be 450,000 places available in further education and training, although this figure would include around 170,000 available to all students and not only the unemployed. An acknowledgement of the structural nature of the unemployment crisis is evident in the treatment of affected participants, as while there were clear indications made of an employment-first approach in overall strategy, a human capital approach involving FET has also assumed a key role in the government's response. In the context of a national crisis and harsh austerity programme, interpretations of the activation type model in this category have localised to the Irish labour market in a caring form of arrangement consistent with more coordinated labour markets elsewhere. The perception of a real threat to the social protection dimension of the Developmental Welfare State was common amongst voters before the election of 2011, and the Labour Party's campaign and resultant government mandate of defending such protective institutions has featured prominently in a continuing national debate. A justification for entering government as a minority party with limited policy opportunities has some merit if more liberal minded interests were resisted in their assumed preferences for more liberal LMI arrangements in this category. While that may be true, the overall strategy was of an employment-first approach which is characteristic of low-spending liberal labour markets. Given limited scope for any alternative, and further considering the Irish education system's production of a more generalised human capital, the chosen strategy had the broad support of NESC, with their

suggestion of 'Board of Temporary Projects' proving influential. Initiatives such as JobBridge and JobPath are indicated as a practical option for unemployed participants, with varying experiences of such schemes producing arguments on either side of the debate concerning their perceived fairness. The numbers participating indicate the gain to firms.

**Table 14: Government 'FET Training Programme' take-up by participants**

<b>FET Training Programmes</b>	<b>2011</b>	<b>2014</b>
Specific Skills Training	20,900	16,359
– (Long)	11,000	10,887
– (Short)	9,900	5,472
Community Training Centres	3,100	3,193
Local Training Initiatives	3,600	4,757
Traineeships	5,100	4,842
Bridging	4,000	2,652
Redundant Apprentices	1,100	20
Evening Courses	21,500	13,569
<b>Total</b>	<b>80,200</b>	<b>61,751</b>

Source: Department of Education and Skills 2015

The figures for training programme take-up indicate a willingness by participants to engage the labour market despite the resistance to further cuts in unemployment insurance and this is contrary to Neo-classical assumptions of the reservation wage. While it should be remembered that full-employment was achieved within an arrangement even less emphasising of activation in the recent past, poor take-up of supports available for redundant employees of the Dell closure have been highlighted. NESF (2011) describes a number of 'effects' that such engagement produces in the individual participant with health and motivation equally emphasised alongside human capital acquisition. Involvement in such schemes is facilitated through 'case workers' who assume a mentoring role rather than enforcer of obligations as is the case in more disciplinary based systems. It was suggested earlier that a more fundamental reallocation of human capital is taking

place in the observed labour market figures and thus new conceptions, often of an Institutional origin, have influenced this category's arrangement within the knowledge economy than more traditional ideas on the unemployed.

**Table 15: Government 'FET Further Education Programme' take-up by participants**

<b>FET Further Education Programmes</b>	<b>2011</b>	<b>2014</b>
<b>Full-time</b>		
PLCs	31,688	59,163
VTOS	5,000	8,590
Youthreach	3,688	6,102
<b>Part-time</b>		
Adult Literacy	49,000	52,778
BTEI	28,000	39,803
Community Education	50,000	61,469
<b>Total</b>	<b>167,376</b>	<b>227,905</b>

Source: Department of Education and Skills 2015

The relation of this recent reallocation of human capital to the observed higher educational attainment level now required of participants is no doubt of concern to policy-makers. The trend necessitates an educational strategy which can facilitate both firms and participants in a move towards higher levels of value adding economic activity. In the table above the increased numbers of beneficiaries of the relatively more human capital targeted further education programmes of the ALMPs available further indicate a willingness as well as realisation that the labour market is moving further in the direction of a post-industrial employment structure. Considering the sheer scale of the numbers involved during the crisis, efficiency is discernible in the arrangement of this category's LMIs with benefits accruing to all concerned in the employment transaction. However, many defined

considerations external to the transaction could feature in the interviews with key stakeholders thus leaving the broader judgements on policy effectiveness open to dispute.

Prescriptions for labour market efficiency that follow from a Neo-classical understanding of this category's LMIs have more traction in particular labour markets. It can be true to say that these economies exhibit an institutional matrix which implies a more commodified labour force with transaction cost analyses of the relevant LMIs more dominant than the property right prescriptions that mainly emanate from Institutional sources. Interviews can establish the temper of this clash of paradigms as well as the key issues of theoretical discord. Structural reform is used vaguely by proponents of more liberal arrangements with the OECD (2011) lacking a comprehensive rationale. The role of structures facilitating job-matching in the labour market is key and more recent research has indicated this as the key reason of recent success in Germany. The coordination observed in the particular LMIs of this category is a common feature of labour markets where both social-democratic and Christian-democratic parties share some degree of consensus on design. Earlier it was hypothesised that Institutional theory has currently more traction among government policy-makers with the result being that the localisation of the clash of paradigms produced an Irish strategy more characteristic of other European labour markets than more liberal examples elsewhere. The bargaining of these arrangements within strict budgetary constraints will be examined in the next chapter.

#### **4.5 - Conclusion**

The emergence of a changed post-crisis system may be explained in terms of how the clash of paradigms concerning LMI theory localised to the transactional space of crisis among key labour market stakeholders. It is assumed that contributions to the policy debate of the periodisation in question and government bargaining over Ireland's development towards a knowledge based economy resulted in labour market reform. In looking at the three categories in the labour market model it can be seen that they broadly correspond in turn to characteristics of this new economy sought by policy makers as contained in the programme for government. The prior characteristics of dynamism, competitiveness, and flexibility remain apparent but within a changed context. As with the description of the pre-crisis system by categorising individual institutions into a system we may judge how both efficient and effective they are in contributing to particular development goals. We thus

accord a purpose to individual LMIs that supersedes their interpretation as either institutions of transaction costs or property rights. A polity member's intentionality over an LMI will acknowledge both dimensions. I have suggested a purpose for each category's institutions and concluded that the emergent post-crisis arrangements were arguably efficient, although an estimation of their effectiveness is dependent on particular defined considerations external to the employment transaction.

An explanation for reform of the first category, EPL, necessarily involves the characterisation of its key constituent LMIs and a liberal description of Ireland's particular arrangements remains. The liberal vision of human capital allocation is subject to criticism on the basis that the labour market can quite often overshoot and with greater job churn observed in these types of economies. It was suggested a systemic consideration to greater labour market volatility is pertinent to conceptions of the dynamic economy. However, what can be seen as a recovery in the employment rate supports a justification of Ireland's somewhat neo-classical approach thus leading to a tentative conclusion of efficiency. Observed reforms might have arisen from the concerns of either of the political parties and with participant representatives seemingly approving of the greater emphasis on what in a NIE analysis are property right dimensions of these particular structures and mechanisms. Interviews with a selection of the relevant key labour market stakeholders will more fully establish any degree of consensus or 'buy-in' to this LMI category's contribution to Ireland's small, open, export-led development strategy.

Observed reform of the wage setting category resulted from perhaps the most contested area of the theoretical clash of paradigms concerning LMIs. It might seem that an intentionality over these structures and mechanisms which could be informed by neo-classical theory emerged dominant. Firm representatives responded to their constituents demands for the removal of rigidities to the determination of the different wages paid by firms given both the demand for human capital consequent from its marginal product in the production process and the level of supply of willing participants with the requisite human capital endowments. The risk of an overshoot in this process and a deflation in general prices appears to have been avoided, leading to an argument for 'LMI efficiency'. However, any conclusion of a neo-classical dominance, despite the drift to a liberal characterisation of the category, would be premature. The observation of what could be described as a national wage freeze along with higher shares of part-time employment might suggest that both firms and participants were influenced more so by institutional

ideas on the employment transaction. It seemed that any government response was constrained by an evolving constitutional ontology with further reform only possible given the outcome of the next general election. An institutional reconfiguration occurred in the UI and ALMPs category with both neo-classical and institutional theory evident from the arguments of stakeholders. In the next chapter interviews with selected members of this polity will establish the rationale behind this move in the direction of the European Employment Strategy and also how the issue of structural unemployment came to influence the transactional space of crisis.

The observed reforms across the three categories present an interesting case-study of the adaptive efficiency of a modern labour market. The institutional matrix was rearranged with a bargaining of the particular structures and mechanisms assumed. Interviews with selected members of the polity will establish the key reforms and issues concerning this process and with the hypotheses in this chapter evaluated. Exactly how the clash of paradigms 'localised' to the recent unemployment crisis might explain the movement to a more liberal characterisation of the Irish system. Although it seems that there is a degree of 'buy-in' to Ireland's export led development strategy, the labour market system's contribution to this strategy is unclear. It may be the case that institutional theory on the employment transaction between firms and participants is more relevant to the modern Irish economy given the popularity of what in NIE terminology are property right analyses of LMIs. While neo-classical theory is still dominant in the transactional space, as evident in the coverage of this bargaining process contained throughout the chapter, it may have developed further than accounts contained in the mainstream literature and into forms of transaction cost analyses inviting far more nuance. The seeming clash of paradigms in the literature will be further examined in this qualitative case-study of Irish LMIs and the unemployment crisis through an analysis of semi-structured interviews with selected key labour market stakeholders. Exactly how the theoretical discord on LMIs affects the political economy of an unemployment crisis in a modern democratic economy may test not alone the validity of the preceding hypotheses of the observed reforms, but perhaps also a NIE claim to an analysis of the labour markets political-economy.

## Chapter 5: Interviews with Key Labour Market Stakeholders

### 5.1 - Introduction

This thesis concerns itself with the development of a model of the institutional matrix governing the employment transaction which constitutes the labour market system, a model which could be used to case-study the adaptive efficiency of the Irish labour market system through a period of crisis. An analysis of adaptive efficiency must emphasise the role of mental models and thus the current theoretical discord over Labour Market Institutions (LMIs) is central. It is assumed that this clash of paradigms played itself out among key stakeholders in the bargaining of the new Irish labour market system. Hypotheses were suggested as to the observed reconfiguration towards a more liberal system characterisation. Previous chapters provided accounts of the pre and post-crisis systems giving the purpose, description, and outcomes of their constituent LMIs. These accounts provide both insight into the intentionality of the key labour market stakeholders regarding LMIs and also a comparison of performance. This chapter suggests an explanation of the political economy of the structural adaptation in arrangements and the role of assumptions from economic theory in their bargaining. European structural reform occurs within a political-economy context, with the localisation of an identifiable body of general labour market theory partly determining LMI arrangement outcomes. In testing the hypotheses I utilize the ideas of New Institutional Economics to provide insight into the labour market system's adaptive efficiency and the evolution of the transactional space of an economic crisis.

Semi-structured interviews form the main empirical contribution of the thesis and my aim was to generate a contribution that might prove valuable to the area of policy reform and the theory of labour market institutions. This account will include a description of the observed institutional reforms that have occurred predominantly since the election of the Fine Gael/Labour Party coalition government in 2011. The purpose of the interviews was to seek more light on the perceptions of stakeholders of the observed Irish reforms and, in addition, to draw out the parameters of the general debate concerning labour market system design. Conceptually, each LMI has alternative property right and transaction cost dimensions, and this is central to how stakeholders orientate themselves to the debate

over competing arrangements. The interviews examine key stakeholder opinions on the recent reforms as well as arguments on more general system preferences. This inter-subjective evaluation of the reforms accounts for the differences in stakeholder mental models discernible from the preceding chapter's analysis of the Irish labour market system and sheds light on the intentionality of the various interested parties involved. The semi-structured interviews will provide useful insight into the transactional space of crisis which determined the particular selection of key reforms and may indeed contribute towards North's idea of a "theory of ideology" (North 1990).

Having made that research choice I argue that interviews are the most effective way of more fully establishing how the labour market system reacted to the crisis and could possibly change in the future. The distinction between efficiency and effectiveness is useful as a lens through which to make an examination of the various interviews and what they suggest and provides direction for Coase's idea of going beyond the production process when addressing the role of economic institutions (Coase 1960). It is hoped that one can draw clear conclusions on the labour market system based on this research and thus the importance of the positivist aspiration when testing the hypotheses. The interviews are the core of the thesis and they constitute a key contribution to the research question. The explanation of the Irish system's structural adaptation draws on the experience of key labour market stakeholders during the period in question. The interviews with the high level members of the national polity were divided into four modules each of which will be dealt with in turn as the chapter and explanation of the factors determining the rearrangement of the system progresses.

I precede this with a section on the practicalities of the interviewing process that complements the earlier chapters' more theoretical justification of this methodological approach. A liberal description of Ireland's particular arrangement of EPL remains and it was hypothesised that a degree of consensus or 'buy-in' is evident in this LMI category's contribution to Ireland's small, open, export-led development strategy. Regarding wage setting governance during the crisis it might seem that intentionality over these structures and mechanisms was dominated by neo-classical theory. The observation of what could be described as a national wage freeze along with higher shares of part-time employment might suggest that both firms and participants were also influenced by institutional ideas on employment practices. It seemed that any government response was constrained by an evolving constitutional ontology. An institutional reconfiguration occurred in the UI and

ALMPs category with both neo-classical and institutional theory evident from the earlier reported arguments of stakeholders. It would appear that while having ultimate decision-making authority, government ministers were constrained by the fiscal reality, but not to the point that led to large-scale industrial and social unrest.

## **5.2 - The methodology of interviewing**

This thesis may be viewed as a case-study into the adaptive performance of a labour market through an economic crisis. Taken together, the analyses of the various observations, documents and interviews constitute a comprehensive study of the Irish experience of a major structural adaptation after outcomes radically deviated from expectations. The localisation of this material and the interviews themselves, follow the main conclusion of the literature review, which was that contemporary capitalism exhibits a wide range of economic models, each characterised by their own unique arrangement of institutions. This approach towards LMI study is influenced by the Varieties of Capitalism literature, and it is suggested that it is through case-study and comparison, that current evaluations of the research concerning LMIs may usefully contribute to respective national social dialogues. The list of interviewees indicates that a range of political actors took part and those closest to the reform process were involved. This substantiates claims as to the validity of the approach and adds research currency to the overall study. The literature on semi-structured interviews was very useful and a text on case-study research especially (Yin 2013). Members of the polity interviewed were provided an opportunity to voice their arguments and assessments of Irish structural reform over the period 2002 to 2016. Being professionals accountable to particular constituencies and interests, these stakeholders were best placed to indicate and illuminate the parameters of the debate on Irish labour market reform and the implicit assumptions held on LMI theory.

It was argued earlier that a political-economy explanation of the Irish labour market's structural adaptation, necessarily involved elements of qualitative research. It was thus expected quite early in the case study that semi-structured interviews would form an empirical referent for the discussion on the observations and documents of the pre- and post-crisis analysis chapters. A broad range of reforms and issues were discussed that brought with them the challenge of establishing which of the most important of these should occupy the attention of the final interviews. An iterative process involving many

drafts of the standardised questionnaire preceded the interviews. An information sheet and formal letter of invitation was sent to individual representative organisations and government departments' addresses acquired by telephone. The conducting of the interviews happened in the weeks and months immediately preceding and following the general election of late February 2016. The interviews with members of the national polity were divided into four modules that address four key aspects of the explanatory model. Together, they are designed to build an explanation of the recent structural adaptation of the pre-crisis system to the post-crisis system. A logical progression is evident from one module to the next and it was hoped that the vector of reforms and issues analysed in the pre- and post-crisis chapters would transform through interview with the set of stakeholders into a set of theoretical results. Thus, current LMI theory is localised into a standard questionnaire, which then tests this theory for current validity and currency among the community of key Irish practitioners.

Given the growth in employment creation observed, this period in the labour market has been previously described as recovery and the temper of the theoretical discord was somewhat more muted than might be expected in a situation of crisis. However, the questioning endeavoured to uncover insight into the earlier periods also and thus attention was focused in turn on each module. The political-economy of labour market reform during crisis and an emergent new labour market system is explained. The timing of the interviews coincided with preparations for the general election and thus care had to be taken to discern and avoid any manifestation of sheer electioneering on the part of the practitioners. Fine Gael had the election slogan "Let's keep the recovery going" and the Labour Party had "Standing up for Ireland's future".<sup>76</sup> <sup>77</sup>As will become apparent from the following interview analysis, labour market reform would not have been described as a headline election issue, with instead the provision of various state services occupying this space. The interviews would uncover the degree of agreement or disagreement on the observed reforms and issues, while providing insight into the Irish manifestation of the clash of paradigms.

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<sup>76</sup>[https://www.finegaele.ie/\\_\\_uuid/b5055220-ec96-4f03-b18a.../manifesto.pdf](https://www.finegaele.ie/__uuid/b5055220-ec96-4f03-b18a.../manifesto.pdf)

<sup>77</sup> [https://www.labour.ie/download/pdf/labour\\_manifesto\\_2016.pdf](https://www.labour.ie/download/pdf/labour_manifesto_2016.pdf)

Table 13: The key reforms and issues of the interviews

<b>EPL</b>	<b>Wage Setting</b>	<b>UI and ALMPs</b>
- Workplace Relations Commission	- NMW/JLC	- NEES/FET
- Labour Court	- Social Partnership	- Job Creation/Job bridge
	- JobsInitiative/PRSI	- Jobseekers Allowance/Benefit
- Dualization	- 'Strategy 2020'	- 'Structural Unemployment'

Source: Daniel Higgins, 'Information sheet for interviewees', 2015.

An information sheet was provided in advance of the interviews indicating to participants the range of topics under examination. Each interview lasted approximately an hour and allowed attention to be given to all of the modules. An analysis of each interview was undertaken and this involved the categorisation of arguments and statements into themes and then a ranking in terms of usability. Some skill was needed in the interviews, as while although the participants were in general more than interested in providing their perspective on labour market reform, timing and clarity was demanded for the generation of material which could be appropriately used in the offered political-economy explanation. In his suggestion for extending Neo-classical work on the analysis of property rights Adam Ozanne (Ozanne 2016) suggests;

"[W]e are not concerned with the state that 'ought' to be chosen or 'should' be chosen (a normative issue), but simply with the state that actually emerges from the interplay of economic and political forces in society (a positive issue)."

It is the political-economy reality of conflicting beliefs having had power in the recent negotiation of the Irish labour market system and an explanation of how observed reforms emerged that concerned the questioning and analysis of the interviews. Software often used for the analysis of interviews was unnecessary given the relatively smaller sample of interviewees. The key arguments and quotes elicited in the interviews were listed and filtered using Microsoft Excel to produce the most important for use in the explanation of

the LMI bargaining among polity members. The more important parts of the interviews would have been apparent as they occurred in interview and recorded through the individual interview sheets. These entries were cross-checked against the transcriptions of the audio recordings before being used in the final thesis explanation. The key reforms identified in earlier chapters were in fact the issues of most concern to the interviewees and participants had a good understanding of the purpose of their involvement in the case-study.

### Module A: Preliminary questions on the labour market system and key LMIs

It is through LMIs that the government influences and seeks to govern the labour market. These are a set of structures and mechanisms that the government uses to ensure that the labour market functions properly and contributes to the general welfare. For the firms and participants who make up the labour market these structures and mechanisms amount to an institutional matrix which must be negotiated by all. As stated earlier much is contested with regard to the labour market and alternative schools of thought have developed often conflicting perspectives on LMIs. There is no market of more fundamental importance to the economy and the clash of paradigms perpetually manifests itself amongst national polities. This module sketches the parameters of the transactional space and the particularities of the recent Irish experience of structural reform. The assumptions underlying the mental models of those key stakeholders interviewed are described as they relate to the three categories of LMIs. Forming the basis of much of the argument on the arrangement of the various structures and mechanisms of governance, these assumptions will be related to the two main paradigms of interest in the case-study. The description of offered arguments and beliefs is organised around the institutional matrix model, with interviewees arranged as they relate to the employment transaction. I aim to provide a characterisation of the key stakeholders as they fall into somewhat conflicting groups while using the terms of the suggested theoretical framework.

#### **Module A: Employment Protection Legislation (EPL)**

The interviewed representatives of firm organisations might have been expected to rely on transaction cost analyses of these rules of hiring and firing. These analyses lend themselves to more liberal prescriptions and there is no doubt that among this group for the most part the structures and mechanisms of this category are viewed as a burden. The director of the

Small Firms Association (SFA) stated that “Government doesn’t create jobs, but the environment”, and with Ireland being described as a low EPL economy, the chosen arrangements seem to fit in with this liberal conception of the dynamic economy. From this perspective, this category of LMI can be the biggest disincentive to increasing employment, and, further, “a free labour market is sufficient”. Perhaps what distinguishes Ireland from other liberal labour markets is an appreciation of the Developmental Welfare State, (See Scruggs and Allan 2006), which was described earlier (NESC 2005), and this lends itself to an acknowledgement that some forms of coordination can benefit the interested parties. There is an appreciation evident that a healthy, educated, socialised supply of participants is essential to labour market efficiency. This category also relates to the general and further education and training systems, with a presumed expectation of government to coordinate these systems towards providing a flexible supply of skilled and human capital endowed participants for firms. According to the chief executive of the Industrial Development Agency (IDA), this is at the core of considerations of national competitiveness. This representative was also wary that we not develop a cadre of workers that are the ‘precarariat’. However, the chief executive of the Irish Exporters Association emphasised the competitiveness issue of Ireland having a higher burden than the United States. The earlier suggested higher rate of job churn is accepted, the head of education, social & innovation policy at the Irish Business Employers Confederation (IBEC) stating that “disputes always arise” and that what was being lobbied for was “transparency”. It would seem that there is quite some consensus among the various firm representatives on this category’s having a strategic role in the argued development strategies of the knowledge economy.

The Institutional paradigm provides arguments on development strategy and it too places great emphasis on the role of human capital in the knowledge economy. A research officer of the Unite Trade Union criticised the transaction cost analyses common to orthodox theory and criticised this perspective as it implies that labour, and by extension human capital, is always something to be reduced. He suggested that firm managers could “at least understand, labour is not a cost.” This is a more positive perspective on the role of EPL with associated efficiency arguments concerning property rights. Emphasising the contribution of factors like stability and commitment to innovation, many trade union representatives are in agreement that a degree of certainty is good for the macro-economy. In these perspectives there is less of a commodification implied and the positive economic role of the social protection elements of the DWS are emphasised. The assistant director with responsibility for policy at the National Youth Council of Ireland argued for a networked

and well-structured system, with a research officer of the SIPTU Trade Union arguing for strong intervention to cope with “the ups and downs.” The president of SIPTU suggested that more clarity was needed than offered through Ireland’s voluntarist system. Current arrangements, it was said, could be traced to minimalist interpretations of EU Directives. Although there might be some acknowledgement that a recovery has taken place and that the goal, according to the head of policy and media at the Irish National Organisation for the Unemployed (INOUE), was to create and maintain decent jobs, she said it was true to say that “the dynamic economy was good for some.” The director of the Think-Tank for Action on Social Change (TASC) argued for “the Nordic way of dealing with it.”

The arrangement of EPL involves considerations of efficiently allocating human capital to its most productive use keeping unemployment to a minimum, and effectively allocating this human capital in light of other considerations external to the employment transaction. This task necessarily requires a mediation of often conflicting Neo-classical and Institutional assumptions. It would seem the labour market recovery was based on a more balanced distribution of participants than the last period of full employment and the validity of respective prescriptions for EPL arrangements might depend on the particular sectors of issue. A senior Department of Social Protection (DSP) official stated that if people feel exploited they will invest less and that labour is not a commodity like others. The Labour Party Minister for Education and Skills who held office during the recovery period suggested that a clear and transparent framework was required and this is especially true if we accept, as a senior Department of Employment official suggests, that there are facts of “flexibility and labour surplus” and “cycles”, creating the propensity for exploitation. The Labour Party Minister of Employment during the recovery argued the necessity of certain forms of coordination if the need to adapt the skills base to future needs is considered. These effectiveness considerations can be found among the polity and the earlier shortcomings of a full employment economy ill equipped towards its stated knowledge economy aspiration have been mentioned. In relation to the DWS strategy underpinning this aspiration, the DSP official stated that, “in some ways, lots of things fought for, have been achieved”, with the big battles won. It may be the case that some form of flexicurity has been arranged in Ireland in terms of how this category and the UI and ALMPs category relate to each other.

The two main paradigms of interest are present in the mental models of the stakeholders and an awareness of the conflicting assumptions seems apparent. There is a localized nuance to the representative’s arguments and assessments, suggesting that strict textbook

analyses are of less use to these polity professionals. However, it is possible to discern a bias towards one or other of the paradigms in the interviews, with judgement on the often conflicting theoretical prescriptions following the expectation of transaction cost Neo-classical type analyses by one side of the employment transaction, and property right Institutional type analyses by the other. Social dialogue necessarily involves a standard of validity and it seems that certain labour market truths are accepted by a majority. This may be attributable in part to the realities of the Irish labour market context, but also to the fact that certain theoretical tenets may be estimated as superior, or at least, more valid. The DWS implies some degree of compromise in mental models, and while the rationale of European law is well understood, its localisation both requires transaction cost and property right analyses among the polity. The generalised nature of Irish education and its association with a dynamic, low EPL labour market forms the basis of discussion. Stakeholders acknowledge the importance of compliance with the various arrangements and modification would seem to occur through a dialogue. The 'rules of the game' are well understood in this category and the strategic design of EPL arrangements, given Ireland's small, open, export-led economic development model, accepted as offering the most immediate opportunity for a satisfaction of interests. It is in the other categories that the clash is most apparent.

### **Module A: Wage Setting**

A strict Neo-classical interpretation of the various structures and mechanisms of wage governance, describing them as rigidities, would lead to the conclusion that they must be eliminated if the market for human capital is to reach equilibrium and maintain flexibility. However, this textbook interpretation is not typical of the view of Irish firm organisation representatives as expressed in the interviews. A 'real ekonomik' is evident among these stakeholders, as once the political reality is acknowledged, the exact configuration of the wage setting LMIs becomes the issue. It must be stated that the alternative NIE transaction cost and property right analyses may draw on each and either of the alternative paradigms. Thus, a minimum wage "keeps us out of the dark ages" according to the chief executive of the Irish Exporters Association. He was unsure of the liberal arrangements found in the United States and seemed to accept forms of coordination as long as they were linked to performance and productivity. The chief executive of IBEC talked about supply and demand having a natural position, but the market could force wages too low and thus there might be a need for sectoral wages. It may be the case that national level agreements are too

cumbersome and distant from the reality of the production floor across different sectors. A representative of IBEC attested to there being “no universal model” and the representative of the SFA stated that minimum wages were the biggest obstacle to employment in certain sectors with no capacity. The concern of the SFA representative was that the arrangements not kill dynamism, describing intervention as a form of “price-fixing.” However, the reality of public support for minimum wages turns this particular discussion to their calculation and then the insistence by firms of their linking to productivity and other factors. It was also acknowledged by the Irish Exporters Association representative that the form of national bargaining under Social Partnership “kept unrest out of here”. A representative from IBEC suggested a process “that makes sense to both parties” and an IDA representative stated that “engagement” from both sides was needed for effective wage governance.

The selected representatives of participant organisations are more favourable to coordination, with Institutional arguments on the functionality of different mechanisms of wage governance providing for a perspective that has more faith in market intervention. Although the limitations of ‘one-size fits all’ agreements are acknowledged, it is evident that the spirit of Social Partnership remains, as a clear majority of these stakeholders believe a more nuanced and sophisticated system of wage setting provides opportunities for both efficiency, in terms of generated output, and effectiveness, in terms of other considerations such as housing and pensions. The director of Social Justice Ireland stated that an efficient or effective modern democratic economy cannot run for very long without some form of social dialogue. The general president of SIPTU argued for a highly interventionist system based on “strong civil society organisations that are representative of all parts.” Indeed, a direct link between trade union density and the credit driven crash was highlighted by a representative of the Unite Trade Union. The Unite Trade Union representative stated that the market mechanism means high skilled and management take advantage. The same SIPTU representative stated the market is extremely inefficient at distributing equitably and that some framework was required along with the planning of the labour market. The clash of paradigms is loudest in this category and current concerns as to inequality, indebtedness and the general social welfare seen as directly related to the arrangement of wage setting LMIs. A representative of the National Youth Council of Ireland argued that some form of negotiation facility should be in place. In relation to representatives of the largest trade union, SIPTU, it seems that while mechanisms at

company level are accepted, some mechanism that extends beyond just wages regarding pensions and public capital is favoured.

The Labour Party Minister for Employment during the recovery stated that “there is an enormous role for the state” in the governance of labour market wage setting. It appears that the positive aspects to coordination highlighted in the Institutional paradigm have outweighed the argued benefits to textbook Neo-classical, more liberal prescriptions. The director of the National Economic and Social Council (NESC) stated that there are benefits to corporatism in a small, open economy and also that collective bargaining embeds bargaining in a wider policy context. He stated he held the Institutional view on wage governance. The Labour Party Minister for Education and Skills during the recovery viewed the traditional system of national pay agreements as very positive and thus, pro-intervention can be seen as the dominant perspective among these high-profile individuals responsible for the operation of the state LMIs. The senior official from the Department of Social Protection defended the Institutional aspects to the Irish system of wage setting stating that there was no evidence to the contrary, “nothing obviously sticks out”, on the issue of potential rigidities. His position was that there was a role for the state in institutional mediation. Historically, the Irish state has intervened in certain sectors and industries in the past and while the constitutionality of this intervention has been challenged, the recent reforms reveal a preference for coordination among a majority of the polity. That said there are both Institutional and Neo-classical considerations in the arguments and assessments of the selected stakeholders. The emergent institutional mediation seems informed by concerns as to productivity and competitiveness, as well as to other and less quantifiable considerations. The modules to follow will return to this category and a fuller estimation of the issues of wage setting LMI arrangements will emerge.

### **Module A: Unemployment Insurance and Active Labour Market Policies**

It has been explained that this category is linked most closely with the category EPL and there is an expectation evident among the firm organisation representatives that the state facilitate a flexible supply of healthy, educated, socialised participants who are endowed with the requisite levels of human capital. According to the IDA representative, the education and training system is fundamental to the labour market and in attracting foreign direct investment (FDI). He argues for arrangements that support flexibility and makes the point that the more you prepare people for the labour market, the less you have

to do post formal. The Irish Exporters Association representative stated that university cannot cater for everyone and questioned national shortcomings regarding the current apprenticeship system. This tied in with a point made by an IBEC representative, who also said that he was “ad idem with the unions” on this issue. This suggests that some degree of coordination is amenable to the mental models of firm organisation representatives on the matter of labour supply and the skills needs of firms. In relation to the UI component, an IBEC representative stated, “I don’t buy into the Daily Mail jargon”. The relevant rates are important and, of relevance to the wage setting category, it should be in a participant’s interest to take up employment. Dependency was mentioned by the Irish Exporters Association representative and he argued that the focus should be on getting people back to work. This fits in with the ‘job-first’ approach that would seem to be favoured by many stakeholders over the ‘human-capital’ approach which dominates in many other countries. The SFA representative suggested the payments system be “front-loaded”. Altogether these opinions might indicate a degree of liberal bias; although the SFA representative is appreciative of the case-worker’s role and sees the benefits of a more personal service.

According to a representative of the National Youth Council of Ireland, the Irish Public Employment Service (PES) has a key role to play in the overall employability of participants and in identifying future labour market trends. This view is shared generally among participant organisation representatives along with Father Séan Healy of Social Justice Ireland in stating the Irish PES can make a lot of contributions, and is, "essential". The Unite Trade Union representative stated that this category is vital, offering necessary security and stability while also facilitating the matching of firms and participants. The Institutional argument that UI has a stabilisation function is acknowledged by the National Youth Council of Ireland representative and there is a shared belief in the micro and macro dimensions of a ‘safety-net’ among the other representatives. A SIPTU representative suggested that the LMIs of this category could be controversial and highlighted the link to wage setting arrangements in a remark that the minimum wage should act as a benchmark. A representative of the INOU drew attention to the fact that many primary earners can find it difficult. There is no doubt that the Department of Social Protection is accorded a key role in the general governance of the labour market in the opinion of participant stakeholders and there could be a degree of consensus among both sides of the employment transaction on the its role and that of the Department of Education and Skills.

The 'activation agenda' has become a general theme in European labour markets and the interpretation of various guidelines and directives requires some imagination on the part of the two main government departments involved. The Labour Party Minister for Social Protection during the recovery period highlighted the "mutual contract" implied, while arguing the benefits of the "person-centred approach". This would not seem inconsistent with an Institutional perspective and there is a clear income-support role towards individual participants, as well as a general stimulus function intended. An official at the same department raised the issue of PRSI and indicated dissatisfaction with its current design. This LMI had the potential to be a mechanism of taking collective interests into account, "transparently", and ideally would be an earmarked tax. He went on to suggest a national training fund. According to the Fíne Gael Minister for Enterprise, Jobs and Innovation it is a complex network that "requires a lot of inputs from people" and with the intention being that participants would not just come off the unemployment register, but are "employable for life." There would seem to be some contradiction between the prescriptions of the OECD and the arrangements favoured by Irish Ministers. Aside from the value of UI payments, the Community Employment Scheme is adjudged to have a positive role in a 'participatory society'. It is true to say that the DWS model often conflicts with some tenets of Neo-classical theory and that a more European conception of the category has lent higher currency and validity to many Institutional arguments.

From a NIE perspective, there is an appreciation found among the stakeholders of the importance of both efficiency and effectiveness criteria regarding LMI design. Arguing the respective prescriptions of each of the contesting paradigms seems necessarily to involve nuance and compromise in the reality of what is ultimately a political negotiation. Among the stakeholders there is much consensus as to the validity of arguments and an acceptance of the DWS strategy has meant that certain parameters of the debate within the transactional space are discernible. The localisation of the clash of paradigms has drawn out the centre ground of the Irish labour market debate and the economic recovery has tempered opinion to a degree, and this has prevented outright large-scale industrial unrest. The configuration of the LMI categories towards a knowledge economy and within a DWS occurs through a process and it is important that many of the key departments related to labour market governance during the reform period were held by trade union backed Labour Party Ministers. That said, with overall authority on budgetary decision making resting with a Fíne Gael Taoiseach and Minister for Finance, firm friendly perspectives allowed for liberal considerations to enter the debate. This latter party

declared its aspiration for the nation to be “the best little country in the world to do business” and the modules to follow will address the more particular LMI questions of the observed reform during the recent structural adaptation.

### Module B: An assessment of the labour market system’s pre-crisis arrangements

This module of the interviews concerns the Irish labour market during the period 2002 to 2007, which has been described earlier as a period of full employment. At this point in the labour market narrative the figures for participation, employment and unemployment were healthy and the country was enjoying a period of historical economic prosperity. Many analysts and general commentators were satisfied with the broad development strategy as growth, employment and living standards were in good health. The general feeling was that this would continue into the future although some adjustment might have to take place. This sentiment is reflected in the 2007 Programme for Government which projected an average growth rate of 4.5% over the lifetime of the government. An assessment was made earlier of both the efficiency and effectiveness of pre-crisis LMI arrangements. It was concluded that although there was a high degree of efficiency, consideration of other factors called into question the system’s effectiveness. Most notably, in the context of the labour market’s contribution to national development strategy, the pre-crisis arrangements may not have been optimal in relation to the ‘knowledge economy’ aspiration of policy makers. It may be the case that an unsustainable debt-fuelled growth tilted the economy off path, with a necessary adjustment and reallocation of human capital becoming inevitable. The selected stakeholders represent a wide range of interests, and this module sought insight into the political economy of a nation experiencing a historic economic boom. A mixed assessment resulted, with some obvious and other not so obvious issues being highlighted by the different stakeholders.

#### **Module B: Employment Protection Legislation (EPL)**

Historically, a firm friendly perspective on EPL could be expected from what traditionally are regarded as the two main political parties of government, Fine Gael and Fianna Fáil. Consequently, Ireland in 2002 had a low EPL regime in place by OECD measures. The main argument for such an arrangement follows a Neo-classical type transaction cost analysis where regulation is seen as a burden that can discourage new employment through pushing up the price of labour. Firm organisation representatives made assessments of

these arrangements and issue was taken with the functioning of the categories LMIs. Patricia Callan of the SFA described the situation as inconvenient, slow, and with the outcomes hard to judge. Rather than the regime being too strict, it was the case that the regime was deemed too complex for users. Tony Donohoe of IBEC said that there was not enough attention on mediation, with the reality being that the five structures in place offered multiple legal routes. Danny McCoy of IBEC stated that legislation was actually "pretty strong", with the main issue being the "problem of length of time." Relatively higher job churn can be expected from such low EPL arrangements and at full employment this would appear to have been the case in Ireland. Patricia Callan stated that at full employment it was not worth peoples while to engage the various dispute resolution mechanisms. She hoped for efficiency and consistency in the future. This period saw a large increase in immigration and this was positive according to Danny McCoy. It was the case that the migrants for the most part had their "skill set utilised", although he did suggest that these new participants might have been better matched.

An assessment of the performance of EPL during the period makes allowance for both LMI efficiency and LMI effectiveness. Michael Taft of the Trade Union Unite said this performance was hard to judge as labour demand was so high and the labour market so tight. In general, the participant organisation representatives seemed wary of Neo-classical forms of dynamism. Bríd O'Brien of the INOU stated that the system's focus was on economic costs, rather than the significant social costs. This would indicate that the interpretation of human capital allocation found in Institutional thought, involving less of a commodification of labour, has more bearing on the arguments and mental models of these particular stakeholders. Lorraine Mulligan of SIPTU stated that much legislation is European driven. While various European directives may be open to interpretation, it was a run of the mill period, with the conclusion being that the established Neo-classical type transaction cost interpretations were dominant. Along with a low measure of EPL observed, Jack O'Connor of SIPTU complained that the state was wholly unequal to the task of enforcing the legislation in place. This was coupled with "rigorous hostility to union organising." David Begg of Tasc stated that an attempt at more institutional arrangements were undermined by migration. In terms of the political-economy of a move towards more coordination in this category, the high immigration brought about by a tight labour market might have made the task more difficult. According to Jack O'Connor, the availability of a whole new workforce opened the opportunity for exploitation in construction and services.

Overall, and despite full employment, these stakeholders would contend the assumption that the category of EPL was entirely well-functioning.

Kieran Mulvey, who was chairman of the Labour Relations Commission (LRC) at the time, admitted that the state was "not as conscious of necessary protections as we needed to be." He suggested that quality controls on government tenders might have improved the situation. An official with the DSP, John McKeon, stated that at the individual level the supports were there, but under conditions of full employment, there was an issue as to what extent it was even relevant. He stated that it had been difficult to identify failures and to make an assessment on performance under these conditions. Labour Party Minister during the recovery, Joan Burton, stated that the consequence of the immigration influx was stimulus and flexibility, although some pre-existing segments hadn't seen an improvement in their conditions as might have been expected. The bargaining power of trade unions is assumed to increase under full employment. However, according to Kieran Mulvey, many migrants held an antipathy to unions and the state. It seems the easy movement of participants into employment transactions meant less importance was attached to EPL and the state had less pressure to act in either a liberal or coordinated direction. A judgement of LMI efficiency is credible, although on LMI effectiveness this is less so forthcoming. Richard Bruton, Fine Gael Minister at DEJI during the recovery, stated that Ireland had a seriously distorted economy, and was "imbalanced". The role of exports was quite small in his analysis and this contradicted many notions of the knowledge economy. He also stated that structures were legalistic and unclear. Martin Shanagher, an official at the Department of Employment, drew attention to a consultation paper containing 25 criticisms of the pre-crisis system, which would come to influence the reform that would follow this period.

### **Module B: Wage Setting**

The aspired knowledge economy was conceived as dynamic, competitive and flexible among the mainstream of economic thought in Ireland, and Social Partnership, which largely characterises this period's labour market arrangements, was understood as a tool of industrial relations towards this end. Danny McCoy of IBEC acknowledged that it had facilitated an anchoring of wage expectations. However, although a wage price spiral had been averted, the growth involved was "too explosive". Martin Shanahan of the IDA explained that construction sucked in employment in what was an artificial growth that "bid up prices". Simon McKeever of the IEA stated that Social Partnership had been good in

the early days, when stakeholders could keep all the negotiations on one page. Another factor for him was the "inclusion issue", as IBEC doesn't represent everyone. Patricia Callan of the SFA stated that pay was just too narrow, and that other considerations should have factored into the negotiations. According to her, Social Partnership suited the government more than anyone. Although this period of full employment and prosperity was popularly associated with the Social Partnership arrangement, the following recognition among the public of a housing bubble tainted opinion on this form of industrial relations. Firm organisation representatives seem amenable to forms of coordination, although clarity in process would be seen as a prerequisite. On the issue of minimum wages, Patricia Callan stated that these mechanisms should keep pace with welfare, but complained of a lack of analysis in their configuration. However, Tony Donohoe of IBEC described the Joint Labour Committees of this period as an "anachronism" that didn't take account of developments since the 1940s. Related to the dynamic, competitive and flexible conception of the knowledge economy, he stated that the form of coordinated arrangements in place during the period was not nimble enough.

Opinion on Social Partnership among participant organisation stakeholders was mixed. Related to the processes of wage setting under the arrangements, came a criticism from Michael Taft of the Unite Trade Union of the "one size fits all" approach. Involving no protocols for participant bargaining, the agreements could be seen as a limit on "divvying". Such an arrangement was in fact very poor, being not based on productivity or other market factors that could potentially increase the income share available to labour. According to Lorraine Mulligan of SIPTU, Social Partnership worked well, but was getting ahead of itself. She also drew attention to the broader issue of wage setting within a property bubble and the difficulties this implied. Sean Healy of SJI complained that the agreements failed to take account of the broader context and that the last agreement 'Towards 2016', was "the closest we came to an integrated approach." It can be said that Social Partnership for the most part related to wage demands and competitiveness and this drew criticism from Bríd O'Brien of the INOU. She said that "growth, growth, growth" was not a means of addressing social issues. It can be said that Social Partnership was not viewed as a panacea for labour market issues by the stakeholders. However, Jack O'Connor of SIPTU stated that Social Partnership performed reasonably well to the degree that wages kept up with inflation. Lorraine Mulligan stated that benchmarking outcomes were led by the private sector. There are Institutional arguments for wage setting coordination on the basis of competitiveness and flexibility, with this group of stakeholders wary of letting firm

manager discretion dictate wages. Keeping pace with an inflated construction sector and an associated house price level would seem to have been the concern. In relation to minimum wages and the JLCs, Jack O'Connor said that these LMIs were effective for setting rates and levelling the playing field, with the issue being their enforcement.

According to Minister Richard Bruton of Fine Gael, this was not a reforming period and while things were superficially fine, the wage setting arrangements were in fact not legally robust. Judgement on the performance of this category requires nuance and while John Mckee of DSP said of arrangements, "they worked", and that with such a surplus the alternative could have been worse; the "system of wage setting didn't look beyond itself". He stated that overall it was more a macro than a micro failure. Martin Shanagher of the Department of Employment stated that Ireland became known as an expensive location. He suggested that the initial pay and tax compromise improved competitiveness, although unfortunately this became less of a feature as time went by. Rory O'Donnell of NESC stated that Social Partnership didn't deliver a lot of organisational change and was in fact more aspirational. Laissez-faire wage setting would not seem to be favoured in the mental models of labour market governance of any state representative and Minister Richard Bruton of Fine Gael acknowledges that minimum wages are useful in providing some certainty, while their also being "not a central institution". Labour Party Minister of Employment, Ged Nash, with responsibility for this area stated that, "I strongly believe", in the necessity of wage setting governance.

The governance of wage setting requires acknowledgement of both transaction cost and property right analyses. The arrangement of this category's LMIs would seem to require this nuance and a mediation of interests and concerns by the state has meant textbook prescriptions must localise into complex and changing economic circumstances. The period's observed arrangement of this category was somewhat coordinated and proponents argue a satisfactory performance given inflation was reasonably constrained under full employment. In fact, as chapter one showed, the numbers employed increased from 1,851,300 in 2002 to 2,243,600 in 2007 and this escalation in purchasing power might have been detrimental to the country's macro-environment had Social Partnership not been in place. The narrative also showed that a major economic migration occurred over the years 2002 to 2007 with around 330,000 net migrants entering the country. This increase coincides with the accession to the European Union of many eastern European

states in 2004. It was suggested that these labour market figures would place great strain on the states social infrastructure and the later partnership agreements might indicate an accommodation of demographic concerns.

This, however, is the only indication of reform during the period and it may be the case that easy employment, along with easy credit, led to a general opinion that what was in actuality a debt-fuelled boom would continue in a mostly harmonious industrial relations landscape. This might raise the need to expand the remit of any future agreements. While there is a view that some people were left behind by the boom, a form of liberal market peace-formula was in effect, with full employment guaranteeing a degree of opportunity for labour market participants and firm profitability. It might have been assumed that socio-economic concerns and the labour market necessities of the knowledge economy would imply a joined-up policy approach involving the next category of the labour market system, UI and ALMPs.

### **Module B: Unemployment Insurance and Active Labour Market Policies**

In relation to the market's facilitation of human capital to its most productive use keeping unemployment to a minimum, this category has a key role. An Irish labour market with low EPL and steady wage increases meant a high velocity in employment transactions under full employment. National income boomed and there was an obvious efficiency. However, the issue of effectiveness was highlighted by many firm representatives. Martin Shanahan stated that further education and training (FET) had been directed in the wrong areas, with the requisite maintenance, retraining and reallocation of human capital placing a huge demand on the state. According to Danny McCoy there is a role for the state, further adding that the sometimes criticised Fàs expenditure was necessary. Firm organisation representatives favour the coordination of this category towards maintaining a steady supply of human capital endowed labour market participants and this is central to ideas on flexibility. Apart from the issue of structural unemployment, under full employment also, the economy needs to be transforming, "up the value chain". This is emphasised by Danny McCoy in his suggestion for targeted training for managers. Although there is appreciation of the role it plays, the Public Employment Service (PES) received a somewhat negative assessment. According to Tony Donohoe, Ireland came into the crisis with a dysfunctional public employment service in need of structural change. The benefits of Institutional type arrangements are known to this group of stakeholders and something more similar to flexicurity would seem to have been their ideal preference during this period.

Participant representatives held similar views on the pre-crisis system and according to David Begg, activation was not felt necessary at the time. There is no doubt that a tight labour market and rising wages would have incentivised people. James Doorley of the NYCI agreed that arrangements were quite passive, with the FET of early school leavers neglected. That this incentivisation often meant an individual's education was neglected during the period of full employment is a point also raised by Lorraine Mulligan. Sean Healy of SJI stated that although long-term unemployment was down during the period, there was too much focus on construction. James Doorley described this construction dependence as "complacency", with the state PES and FET "inflexible to adaptation". Jack O'Connor was more conciliatory, stating that although there was not an emphasis on activation, there had been an emphasis on training. During the period trade unions would have had representation in the organisation of Fàs and he suggested that it was reasonably effective, despite right-wing media hostility to tri-partite arrangements. Representing the interests of the unemployed, Bríd O'Brien stated that there was little on offer for the people furthest from the labour market, and that the coming crisis would exasperate these people's circumstances. She went further to say that "in this society people tend not to even acknowledge class". It can be said that the stakeholders representing this side of the employment transaction would also have favoured a more active and forward looking attitude from the state.

Labour Party Minister for Education and Skills during the recovery, Ruairi Quinn, stated that there was a residual group who lacked a culture of work and were not interested in either the PES or FET. At the same time Fàs had lost credibility among the public due to "corporate indulgence". Fellow Labour Party member Joan Burton acknowledged that Fàs had lost reputation. According to recovery period Fine Gael Minister for DEJI, Richard Bruton, Fàs became seen as a way of managing unemployment and not developing people. He agreed with other stakeholders in saying that the domestic boom had shifted the focus of human capital and prevented the new economy from emerging. Whether there was agreement on the performance of the PES and the main body charged with FET, Fàs, the Troika would come to emphasise the European 'activation agenda', thus making some form of change in this category seemingly inevitable.

In looking at the three categories in the labour market model it can be seen that they broadly correspond in turn to the desired characteristics of a new knowledge based economy sought by policy makers. The distinction between an efficiency measure based on

the unemployment rate and an effectiveness measure based also on a contribution to socio-economic and development goals better equips us to engage the assessments of the labour market during this period and the various arguments for reform. The characteristics sought were dynamism, competitiveness, and flexibility. In chapter three I suggested a purpose for each category's institutions and concluded that pre-crisis arrangements were somewhat effective in allowing these characteristics to emerge. Although the pre-crisis system was something of a hybrid model, the historically non-interventionist stance of the State had led to the creation of a somewhat more liberal labour market. EPL arrangements contributed to the economy's dynamism and supported a liberal vision of human capital allocation. However, stakeholders took issue with the legalistic nature of dispute resolution. The category of wage setting had many features of a coordinated labour market and it seems that the somewhat Institutional type of Irish social dialogue proven to be successful since its introduction in the 1980s was an accepted reality of modern Irish industrial organisation. A clearer definition on the extent of this role was lacking and although stakeholders enjoyed the benefits of social dialogue, they seemed to have wanted different things from the process. The Joint Labour Committees and National Minimum Wage also tilted Ireland's characterisation in an Institutional type Coordinated direction and these can be seen as an example of interventionist policy with significant political support. The category UI and ALMPs drew critical assessments on the basis of its pre-crisis functioning and putative role within the sought after knowledge based economy. It may be concluded then that an efficient, somewhat effective and orthodox labour market called for some moderate reform.

### [Module C: An evaluation of the reformed post-crisis labour market system](#)

It is argued that the economic crisis brought about a change to the labour market system with a rearrangement of the key LMIs occurring after a new government was elected mid-crisis in 2011. The observation that the system adapted to a new reality invites the question as to how the clash of paradigms concerning LMI theory played itself out as evidenced by stakeholder arguments on reform. As the reform process inevitably involves a degree of bargaining, I aim to explain the adaptive efficiency of the system through the clash and reconciliation of stakeholder mental models. Preceding chapters formed hypotheses on the adaptive efficiency of the Irish labour market system and the evolution of the transactional space. In chapter four I suggested a purpose for each category's

institutions and concluded that the emergent post-crisis arrangements were arguably efficient, although an estimation of their effectiveness is dependent on particular defined considerations external to the employment transaction. It is through this New Institutional Economics perspective that we gain insight into the bargaining of LMIs and the 'real ekonomik' of policy design. It was concluded that there was a demand for moderate change across the three categories and indeed the new government of 2011 to 2016 enacted various reforms. The emergence of a changed post-crisis system may be explained in terms of how the clash of paradigms concerning LMI theory localised to the transactional space of crisis among key labour market stakeholders.

### **Module C: Employment Protection Legislation (EPL)**

Reform in this category was intended to streamline what was adjudged to be a complex and legalistic arrangement of dispute resolution structures. The combination of both the Workplace Relations Commission (WRC) and Labour Court LMIs amounted to a simpler arrangement that kept with an aspiration of the dynamic labour market. Simon McKeever stated that job churn was good for the economy as it offered more options for labour market participants. Figures from chapter one showed that some degree of a human capital reallocation had occurred but with an improvement in the performance of EPL yet to be seen according to Patricia Callan. Tony Donohoe was "happy about many things", but again it was too early to tell. Certain sectors had seen a growth in employment and Martin Shanahan acknowledged this stating that there was a huge demand for skills. The Irish education system fosters a more generalised learning among students and the Irish labour market "probably does better in availability than others." He also stated that firms were actively trying to attract back graduates who had left since the crisis.

Lorraine Mulligan stated that in a climate of cost cutting the trade unions had adopted a defensive posture. That said, manufacturers were actually often willing to work with trade unions. It seems to be the case that among certain occupations in certain sectors a human capital perspective is factored into managerial decisions. Although a current of Institutional thought is evident in firm practices, low EPL remained, with Ruairi Quinn stating that Fine Gael had no interest in this area. David Begg stated that the new WRC consolidated legislation in this area and was not contentious. He stated that Ireland had a multi-faceted economy, with an established export industry and multiple other tiers. James Doorley drew attention to the fact that although the one-stop-shop was a good idea, enforcement among young and temporary workers was important. He questioned the sustainability of current

growth and if the system of institutions was keeping up. Considering the “damage” done by the Ryanair case, the institutional reconfiguration was a good step, and seemed like a rational approach according to Michael Taft.

Rory O’Donnell stated that in relation to the pre-crisis system, “there was a shared view it was complex”. In general, Ged Nash indicated the benefits of early intervention and stated that more clarity was needed. It was hypothesised earlier that while not enacting any obvious greater protections for participants, those existing protections were now more accessible. Richard Bruton stated that the crash had exposed existing weaknesses, with the reforms allowing for a modernised and less political process. He indicated the importance of culture, with support for the States traditionally non-interventionist stance in this category arguably discernible. It seems that while reform did occur, there was no change in the strategic purpose of this category, with Martin Shanagher stating, “we haven’t had a diminution of employment rights since 2011”. Ruairi Quinn stated that the WRC reform was going to happen. On the issue of migration Richard Bruton stated that the country “can’t fill all skills”, drawing attention to the necessity of a permit system. He stated that the talent base was key to a dynamic economy.

### **Module C: Wage Setting**

Among firm representatives there is an inclination to a Neo-classical type transaction cost analysis that makes significant coordination among stakeholder interests untenable under a general circumstance of economic crisis. Wage floors and Union recognition incur additional costs on the transaction, often precluding, it is said, employment. The post-crisis system was characterised as more liberal and mainstream thought would arguably expect this mode of governance to facilitate an internal devaluation. For this reason, the wage setting category is the most contested theoretically between clearly different alternative LMI prescriptions. Patricia Callan stated that firms were mainly contractually obliged on wages, thus making significant adjustments “not worth the IR grief”. In fact, wages were the last thing a company would do, according to Tony Donohoe, with many other budget lines providing necessary adjustment. Danny McCoy stated that the wage bill is a function of the quantity of workers and thus reducing head count was often preferable to a cut in wages. A possible overshoot in an adjustment of head count would be expected with low EPL, however, in relation to total domestic demand, efficiency wage concerns among firm managers may have averted an even more severe labour market adjustment. According to Martin Shanahan, “we lost an unproductive sector”, with the conclusion being that the fall

in construction sector employees contributed to the reduction to unit labour costs. Danny McCoy stated he was against the cut to the minimum wage in part given the effect on the reservation wage. Martin Shanahan stated that a baseline was important, although how you set that is important, stating also that an international perspective was necessary. Patricia Callan indicated a local camaraderie where people “knew the reality”. She stated that people had moved on from Social Partnership, with 61% of her members reporting a 2% pay rise.

There was no question the wage setting category was now more liberal, according to Michael Taft. According to Jack O’Connor the new regime was not as robust and it “remains to be seen if the vacuum can be filled”. He stated that the removal of the JLCs had provided for exploitation in a deregulated environment. Lorraine Mulligan stated that regulation prevented a race to the bottom and highlighted a potential “free for all” in services sectors. David Begg stated that collective agreements can contain the damage, but that he would not retrace those steps, in regard to Social Partnership. The restoration of the minimum wage was important to the NYCI, according to James Doorley. He also talked of pent up demand in the labour market, with some “expectations” among participants and firms. He highlighted that there was an obvious danger without some type of system and questioned current sustainability. David Begg indicated there was some labour hoarding present. Bríd O’Brien argued that the ministers must make connections, stating she could imagine three government departments “going off in different directions”.

Ruairi Quinn stated that a social-democratic approach was needed to go beyond the boundaries of a narrow price mechanism. There seemed to be an appreciation of coordination mechanisms among the three groupings of stakeholders. Ged Nash stated that the culture of social partnership is still alive. However, John McKeon stated that the prevalence of crisis firms meant a national deal would not work in such an environment. Other avenues towards coordination were offered for utilization in the transactional space, with Ged Nash stating that the Industrial Relations Amendment Act (IRAA) was “quite tripartite”. Richard Bruton stated his preference to take the minimum wage out of the political arena. He criticised an “excessive delegation of law to the Oireachtas” which typified earlier processes of wage setting. Joan Burton stated that one of her first moves was to reinstate the minimum wage, and that this was hosted in a Department of Welfare bill. According to Martin Shanagher there was nothing to be gained from a race to bottom although that “in some sectors” an adjustment was arguably necessary. Like others, he

indicated a tri-partite support of evidence based wage setting. Under the new Sectoral Employment Orders, if a group of participants could demonstrate they were "substantially representative" of a sector or industry, they could apply to the labour court for an order. They would of course be now represented in the labour court by a trade union irrespective of firm recognition under the IRAA, with a study of pay and conditions leading to enforceable standards which would need to be voted on in the Oireachtais. Martin Shanagher indicated this was "not pure collective bargaining".

### **Module C: Unemployment Insurance and Active Labour Market Policies**

The institutional reconfiguration of both the PES and FET arrangements since 2011, introducing Intreo and Solas, is arguably more than a moderate reform. Critical studies, accompanied by critical opinion, gave a poor impression of this category's overall efficiency and effectiveness for various reasons. The performance of the new arrangements could not yet be adjudged a success according to Tony Donohoe, although further iterations of the Pathways to Work Initiative were welcome. Success would require "confidence, culture, and competence". A jobs-first approach was still emphasised and Tony Donohoe stated that considering the alternative human-capital approach, "It's a debate", but he thought in reality it was probably a balance. For Martin Shanahan reform may have come too late, with the passive system being regrettable at a time when Ireland needed strong intervention. Patricia Callan stated that the new PES, Intreo, was generally good considering employer engagement. She also stated that JobsPlus "was our idea". Although the new PES arrangement had been designed in line with an active and more efficient function, the FET system was more complicated in conception. Simon McKeever complained of a shortage of talent across all sectors and that EU projects are too cumbersome in the area of ALMPs. Martin Shanahan stated that the state has more to do in developing a dual system.

James Doorley stated that institutional change happened "probably at the worst possible time". David Begg stated that reform of UI and the PES wasn't elegant. Lorraine Mulligan provided an alternative perspective with the view that the case-worker approach was an improvement. In its design it was "considerate of the person". She said there had definitely been a "ramping up" of the service but questioned whether the full demand had been met. James Doorley complained that not enough trained and motivated case workers were in place. Michael Taft criticised the cut to automatic stabilisers and in relation to ALMPs highlighted that Ireland had the "most underperforming indigenous sector in the EU". He

argued for training, apprenticeships and other initiatives in sectors such as hospitality. Bríd O'Brien stated that a focus on fraud had meant a control dimension came to dominate rather than activation. She had been happy with the National Employment and Entitlements Service (NEES) title, "but was the only one". She suggested a Junior Minister position to fill the gaps and make interdepartmental connections. While it would not be true to characterise the Irish system of UI and ALMPs entirely as a disciplinary mechanism, as was suggested of some liberal economies by Laffer recently, Michael Taft stated that people should not compare Ireland to the UK but rather other Small Open Economies (SOEs), there being 6 of such in the EU. Sean Healy stated that all of the solidarity in the system was lost and that the new system would continue to be in trouble. According to Jack O'Connor the system was now "less tri-partite", but that the time to review arrangements was too soon.

Joan Burton spoke of an enormous social crisis where the jobs market had basically closed down. John McKeon stated that a pragmatic politics was involved in the response and that there were not many ideologues of influence. He stated that the changes were necessary and that the changes had absolutely produced better outcomes. He highlighted the newly reformed Education and Training Boards and indicated that case-worker profiling would determine suitability for a work-first or human-capital approach, with interventions where necessary. Martin Shanagher said there were "certainly resource constraints", with the available case-workers required to bring a different skill-set. Joan Burton stated that a certification through training element was important and had a valuable role to play. She stated that networking had been difficult with avenues to work in meltdown during the crisis. According to Kieran Mulvey the benefit to exercising the option to work must be substantial. Martin Shanagher stated that the system had to make sure people are always better off. In relation to JobPath, John McKeon stated that there were not enough resources and that we "owe it to them to provide a service". Rory O'Donnell thought that JobPath was a "huge reform quietly introduced" and viewed with great suspicion.

### **Module C: The bargaining of LMI reform within the transactional space of crisis**

It may be said that Neo-classical type arguments exert more influence in current mainstream thought on LMIs, at least among the more powerful international and Irish organisations. The 'Action Plan for Jobs 2013' document is in reality a type of government programme. It deals with the general economy and when it comes to jobs, "making sure the environment is as supportive as possible." Apart from its six relatively minor 'disruptive

reforms' it could hardly be called interventionist. However, the Institutional School has evidently had an influence on the polity responsible for the labour market system. The policy context to my study is affected by many ideological assumptions, stated and misstated, and the assumption is made that together they influenced the debate and the bargaining that led to the emergence of the new Irish labour market system. Concerning the market/institutional orientation of economies, it is hypothesised that stakeholder mental models display a compromise and nuance in their intentionality concerning LMIs. Forming the basis of much of the argument on the arrangement of the various structures and mechanisms of governance, it is suggested that a clash of paradigms influenced the observed reform, with the interests of labour market constituents requiring compromise across transaction cost and property right dimensions of analysis. The backdrop of austerity brought realism to the process, with the social partners seemingly contributing to a practical dialogue on the policy decisions that were ultimately made by individual government ministers with authority on arrangements within the three categories.

Danny McCoy of IBEC stated "I don't think the Troika's intervention had one impact". In relation to the labour market, he said it was impossible to fix something that wasn't broken. He argued that in the general economy Irish exports had begun capturing demand in 2009. Tony Donohoe, also of IBEC, stated that the crisis re-established the primacy of the Department of Finance. In relation to the general bargaining of labour market reforms, "some were and some weren't". The WRC had been, though ALMP changes had not been bargained. It became apparent from the interviews that differentials in influence existed between the representative organisations. Patricia Callan of the SFA stated that "I don't think any were bargained". Martin Shanahan of the IDA stated that the backdrop of the Troika arrival brought realism with more consensus generated on the possibilities of the crisis. In relation to the Action Plan for Jobs, Patricia Callan said there had been some input. Simon McKeever of the IEA stated that the government do consult, with submissions having been made to the Action Plan for Jobs. Representing the interests of smaller firms, Patricia Callan criticised the Local Enterprise Offices initiative for not being negotiated.

Participant representatives were opposed to a liberalisation of the wage setting category. While keenly aware of the crisis facing many firms, demand led solutions involving stabilisation arguments of an institutional type were popular among their constituents. Jack O'Connor stated that there was consultation in 2015 on the rearrangement of the JLCs and REAs. However, these changes were never agreed and could thus not be called a bargained

outcome. In fact, he reported that the abolition of Social Partnership and the REAs had "destroyed the core of infrastructure on which industrial relations was based". David Begg reported that the JLCs and REAs did involve bargaining. In the political-economy context of crisis and early recovery, James Doorely said that accepting some reform was a way to stave off future reform. Lorraine Mulligan stated that when the Troika arrived it was a case of least worst and that among trade union officials "it was never a case of no reform". Brid O'Brien reported that central government decided the response to the crisis. It may be the case that certain labour market participants had limited bargaining power in the transactional space of crisis. Jack O'Connor stated that the SIPTU supported Labour Party, "very much so had an influence" and pointed to the International Labour Organisations statement on LMI reform during the global recession. Lorraine Mulligan reported that the adjustment to UI arrangements was not bargained by the social partners, while the introduction of Solas was very positive and welcomed by the trade union movement.

Richard Bruton stated that the WRC reform was done collaboratively. It is evident that the competing transaction cost and property right dimensions to EPL figured in a resolution having emerged as it was put, "internally". Kieran Mulvey of the former LRC stated that compared to other countries where a lot had been deconstructed, he said much was retained and that we are interventionist. He stated that the trade unions showed great leadership in terms of company enhancement and security but had been given no credit. Rory O'Donnell of NESC stated that the EPL reform was not hugely contentious. The protection of individual rights was now more to the fore than collective bargaining. He also stated that in general, reform was not exactly bargained, but not entirely arbitrary. Ged Nash reported that some ideas were "anathema" to the Troika. That said, he stated that "we are a democratically elected government". Joan Burton stated that the Troika had put pressure on pensions and other payments. Martin Shanagher reported that the euro reduction to the minimum wage had been part of the Troika deal. It seems the case that a form of internal devaluation was favoured by the troika and this would be in line with Neo-classical tenets of wage setting. In relation to the UI and ALMPs category, he stated that there had been "a strong European dimension". The Troika had been keen to push the activation agenda with cabinet committees meeting often on the issue. As evidenced by other social partner accounts, he agreed that in relation to PES case-workers, "getting people into those roles involves a learning process".

The localisation of the current body of LMI theory, LMI econometrics and LMI policy prescription is a question facing national stakeholders. Revealing the preferences of this polity among these published resources is uncertain. Rather than attributing arguments to particular sources, it is more feasible to discern a transaction cost or property right bias in intentionality over national LMIs. It can be said that the Irish polity took responsibility for labour market reform since 2011 after a measure of certainty had arrived following a national panic. The 'real ekonomik' of the transactional space was tempered by a seeming earlier consensus on national development strategy, although a full consultative process across every reform and issue of each category was impossible. That being the case we may adjudge that although a clash of paradigms occurred, common ground among the coalition partners and other social partners allowed for a nuanced discussion and configuration of institutions. Successful examples of what may be described as Neo-classical and Institutional prescriptions provided a frame of reference accommodating both transaction cost and property right dimensions to human capital allocation. However, discord is evident across the arrangement of all three categories as they relate to different sectors and occupations. Uncertainty typifies the experience of all labour market constituents in a small open economy having a somewhat liberal labour market. This suggests that while further reform is probable, the political framework for any such change is healthy. A final comment by a stakeholder was that "Social Partnership died, but Social Dialogue didn't".

#### **Module D: Opinions on the outlook for future reform**

A prominent issue in the general election campaign of 2016 concerned the health of fiscal balance sheets and an expected 'fiscal space'. Attempts at linking the labour market system and the constituent LMIs to the recovery will no doubt occur in both the national and international literature. This case study attempts to uncover the role of LMI theory in the structural adaptation of the Irish labour market system. In this chapter it is the political-economy of the institutional matrixes adaptive efficiency that I explain. This module seeks to establish the parameters of future reform in terms of feasible arrangements and the validity of the underlying assumptions.

Leaving aside the issue of 'fiscal space', stakeholders provided opinion on the outlook for the three categories of structures and mechanisms governing the labour market. Opinion was of course influenced by the differing interests across sectors and occupations that

these representatives represent. In the context of the labour market's contribution to national development strategy, the pre-crisis arrangements may not have been optimal in relation to ideas on the 'knowledge economy', which was a goal shared by policy makers. It was observed that the economic crisis brought about a change to the labour market system, with a rearrangement of the key LMIs occurring after a new government was elected mid-crisis in 2011. Features of LMI arrangements in other economies would seem of relevance to the reform dialogue. It can be concluded that among the social partners there is an understanding that the key export sector demands dynamism in EPL, with broad support for a wage setting arrangement responsive to changes in productivity within the individual sectors, taking account of international competitiveness, and an assumption that the state will facilitate a flexible supply of healthy, educated, socialised workers who possess the requisite mix of human capital. There is something less of a clash on the theoretical assumptions that will guide LMI policy as it localises to individual Irish sectors.

#### **Module D: Employment Protection Legislation (EPL)**

Following from Varieties of Capitalism theory, firm practices follow the structures and mechanisms of the institutional matrix. A participant representative indicated that the dualisation issue and the associated precarious work conditions of some employees was the result of business models. There is no doubt that an awareness of human capital perspectives on this category of LMI is present in the transactional space. In relation to human capital there is common ground on the benefit of a property right regime and a representative of a mediating organisation indicated that different forms of flexibility are in existence elsewhere. It seems the influence of the two paradigms of interest will follow the practicalities of the particular sectors and occupations in future LMI negotiations.

Among the stakeholders there is a degree of consensus and an acceptance of the DWS strategy has meant that the parameters of the recent debate within the transactional space are discernible. Reform in this category was intended to streamline what was adjudged to be a complex and legalistic arrangement of dispute resolution structures. It was hypothesised that an improvement in the accessibility of resolution processes would strengthen the position of labour market participants and possibly smaller firms. As a member of the EU and a SOE, Ireland is influenced by foreign firm practices which might encourage a more nuanced culture of both transaction cost and property right analyses in human capital reallocation. Following from Varieties of Capitalism theory, firm practices follow the structures and mechanisms of the institutional matrix. Regarding the more

innovative sectors which have been attracting increases in employment in the Irish labour market, Acemoglu, et al. (2012) highlight that in a context of technology spillovers;

“The feedback effects between institutional choices and specialization decisions introduce new and interesting economic forces.”

Ireland’s current low EPL regime is more attributable to a labour market policy concerned with attracting this type of Foreign Direct Investment (FDI) from frontier industries, than simply to a basic Neo-classical explanation. The role of augmented labour and the associated concepts of human capital have become central to policy design.

Structural reform in this category must take account of the closely related UI and ALMPs category and broader education system. In a European context, Ireland provides a more generalised education than its European counterparts, making its labour market participants arguably more adaptable in relation to alternative employment transactions. This does not necessarily imply the rational superiority of Neo-classical thought in this area of policy, however, and the ILO (2010) highlights the implications of severance pay on the “cost-benefit calculation associated with laying off workers.” Importantly, in a situation of high household debt, less volatility across employment transactions can make a contribution to macro-stability. In terms of the broader European economy, an asymmetric equilibrium of practice seems apparent vis-a-vis itself and the Irish economy, while acknowledging Ireland’s small share of this common market. Such an international arrangement can emerge naturally according to Acemoglu, et al. (2012) from a greater emphasis on frontier technologies. They also highlight a future outlook for a national modernization towards a labour market with more social-democratic, or in this context, property right analyses, leading to other forms of security. This is ultimately determined politically. The issue of dualization circuitously draws attention to their term “symmetry breaking”. There is now the legislative scope for a national institutional development along these social-democratic lines and seeming realistic given public support and the potential of new LMI arrangements across the categories in different sectors.

#### **Module D: Wage Setting**

Among firm representatives there is an inclination to Neo-classical type transaction cost analyses thus making significant coordination among stakeholder interests untenable under a general circumstance of economic crisis. The post-crisis system was characterised as more liberal. For this reason, the wage setting category is the most contested

theoretically between clearly different alternative LMI prescriptions. In keeping with the DWS, there was an acceptance among the social partners that a 'race to the bottom' was to be avoided. However, disagreement was evident as to what constituted decent pay, with a denial by some that the country had a low-pay economy. The Institutional concept of efficiency wages would seem to be popular in management coordination practices and there seemed to be an appreciation of coordination mechanisms among the three groupings of stakeholders. Other avenues towards coordination apart from collective bargaining were ultimately utilised in the transactional space, with the new structures and mechanisms of wage setting being tested in conditions of growing employment demand. Both paradigms have a bearing on this category's design, with much common ground found. There is the potential for a more transparent and procedural form of wage setting to take hold with greater legal certainty, albeit with a more decentralised form of governance.

The post-crisis system was generally characterised as more liberal, and mainstream thought would arguably expect this mode of governance to facilitate an internal devaluation. For this reason, the wage setting category is the most contested theoretically between clearly different alternative LMI prescriptions. In such an environment, other avenues towards coordination were offered for utilization in the transactional space. The Neo-classical prescription that participants should be paid the marginal product of their human capital is more nuanced when localised, with an acknowledgement of the necessity of a low-pay commission discernible among firm representatives in the interviews. The Institutional concept of efficiency wages would seem to be popular in management practices and there is an appreciation of coordination mechanisms among the three groupings of stakeholders. Other avenues towards coordination apart from collective bargaining were ultimately utilised in the transactional space, with the new Sectoral Employment Order mechanism of wage setting to be 'rolled out' in conditions of growing employment demand. It seems that clarity and transparency in the determination of transaction costs allows for a dialogue which opens up space for the property right dimensions of wage setting LMIs to figure in the transactional space.

It is through the offered New Institutional Economics perspective that we gain insight into the bargaining of LMIs and the 'real ekonomik' of policy design. I suggest that the alternative transaction cost and property right dimensions to the wage setting LMIs will be rationalised through a mediation process that accommodates a common demand among

the stakeholders of clarity and transparency in wage determination. This will necessitate a further internal form of 'symmetry breaking' across sectors, as the global economy tilts differing rates of productivity gains towards different national sectors. The new industrial relations architecture, involving the IRAA 2015 and SEOs, allows for such a form of decentralisation. Acemoglu and Robinson (2013) emphasise that economic policy "should not just focus on removing market failures and correcting distortions", but "its implications for future political equilibrium should be factored in", particularly when the distribution of income and rents are considered within an imbalanced political context. The efficiency dimension of an achievement of the Strategy 2020 targets is clear when considering 'the size of the pie', yet the arrangement of distributional mechanisms and overall economic model introduce an effectiveness problem. The question, that is pertinent, given the role of state services provision in the 2016 general election, is what the defined considerations external to the employment transaction that are in fact of most importance in the dynamic, competitive, flexible economy.

#### **Module D: Unemployment Insurance and Active Labour Market Policies**

Both Neo-classical and Institutional paradigms form the basis of much of the argument on the arrangement of the various structures and mechanisms of governance. The respective assumptions of interest in the case-study were discernible in the mental models of the stakeholders. It would likely be the case that individual stakeholders have bias and this can be traced back to the interests of their organisation members. While the economic recovery tempered discussion, the pre-crisis consensus on the DWS gave a means of establishing validity among these assumptions in my analysis. The DWS also provided common ground for the stakeholders. It seems that Institutional arguments are having a growing influence in an economy which is being led by sectors where property right dimensions to participant human capital can often outweigh transaction cost or 'rigidities' perspectives. The traction and power of either Neo-classical or Institutional type management coordination practices will depend on where the Irish economy's future growth comes from, with the Irish labour market systems institutional matrix having influence on and owing from this industrial relations dialogue.

The 'real ekonomik' of the transactional space was tempered by a seeming earlier consensus on national development strategy, although a full consultative process of stakeholders across every reform and issue of each category was impossible. The institutional reconfiguration of both the PES and FET arrangements since 2011 is arguably

more than a moderate reform. Further movement in the direction of the EUs 'Activation Agenda' places pressure on state resources and in particular the retraining of PES case-workers. Social partners would seem to be in agreement that success hinges on this element of the reform. The centrality of the contribution of augmented labour to growth is assumed by firm representatives, although transaction cost bias leads to an expectation that the state will provide the required supply of human capital. Participant representatives understand that worker empowerment happens through skill attainment and thus emphasise property right analyses of human capital attainment. The Irish labour market now demands a higher human capital stock both at the macro- and micro-economic levels. The micro-economic decision regarding the attainment of a person's personal stock occurs within a more European type institutional context than in liberal labour markets. Greater time is allowed and social protection provided, outside of an employment transaction.

In certain sectors, management practices concerning the augmentation of labour rely more on a human capital approach that implies a property right interpretation of the 'rules of the game'. The feedback between the workplace and the LMIs of the labour market system lend an increasing credibility to more social-democratic forms of coordination that extend the analysis of the labour input beyond mere cost. This is suggested in the interviews, with the ILO (2010) highlighting the nuance found in examinations of the role of LMIs in the labour market and broader economy. The role of education cannot be underestimated and the European Youth Guarantee indicates space for a new form of industrial relations. In his 'End of History' thesis early on in the development of the European Union, Alexandre Kojeve wrote of;

"The rational supremacy of the regime of rights and equal recognition."

In relation to this particular category, Boeri and Van Ours (2013) and Bertola (2009) draw attention to the contribution of job matching to an economic structural adaptation. Separate work by Jung and Kuhn (2014) established the contribution of German labour market reform in the area of job matching structures and mechanisms to recent German labour market success. This latter work has relevance for considerations of macro-stability and structural adaptation across the business cycle. The allocation of human capital to its most productive use has knock-on effects into other considerations and not least sustainable economic growth. The facilitation of suitably human capital endowed labour market participants to suitable employment transactions realizes larger and more secure gains to all involved. In the Irish case, all stakeholders would seem to acknowledge a

dualisation in the labour market, while expecting the state to provide for the necessary apprenticeship and continuing FET programs that resolve the issue. This is not too distinct from the United States which has its own problems (See Thelen 2014). On the whole, the polity could be described as somewhat bullish, with a configuration of the social protection elements of the DWS possibly emerging outside the transactional space of an efficient and arguably effective labour market system.

#### **5.4 - Conclusion**

Among the stakeholders there is much consensus as to the validity of arguments and an acceptance of the DWS strategy has meant that the parameters of the recent debate within the transactional space are discernible. It can be concluded that among the social partners there is an understanding that the key export sector demands dynamism in EPL, with broad support for a wage setting arrangement responsive to changes in productivity within the individual sectors, also taking account of international competitiveness, and an assumption that the state will facilitate a flexible supply of healthy, educated, socialised workers who possess the requisite mix of human capital. The localisation of the clash of paradigms drew out the centre ground of the Irish labour market debate and the economic recovery has tempered opinion to a degree and prevented outright large-scale industrial unrest. Much was gained as a result by both sides of the employment transaction. Although the Action Plan for Jobs was less interventionist than that which was sought by the citizens who voted for the Labour Party on the basis of their election manifesto, particular reforms stand out as being of a coordinated type and arguably more secure than pre-crisis arrangements.

Unfortunately for the government parties, austerity fostered discontent among the electorate. Labour market reform was not a headline election issue, with the provision of various state services occupying this space. It may be the case that the Action Plan for Jobs was perceived as not being interventionist enough. Communicating the key role of the Troika in the accessing of product, capital and labour markets proved a big challenge that was arguably somewhat successful given the return of Fíne Gael to government. While issues remain in certain sectors and occupations, the political framework for an institutional resolution to any of the problems is healthy. An understanding that the individual participant possesses a stock of human capital and that in aggregate this is central to notions of an economy's stock of augmented labour, and that stock makes a

contribution to growth, is evident among these stakeholders. A common 'knowledge economy' perspective may be discerned across the categories from enabling the participant individually within the EPL category, through easier access of the legal structures, to providing groups of individuals opportunity to apply for Sectoral Employment Orders as part of wage setting governance, to providing each long-term and young unemployed participant with a case worker and the opportunity to enhance their stock of human capital. It would appear that the polity has to some degree delegated authority outwards to state agents holding legal positions across the institutional matrix on the basis of professional qualification. Perhaps a distinguishing feature of what is the somewhat liberal Irish model is the accessibility of human capital qualifications and the share of third-level graduates.

From a New Institutional Economics perspective the institutional matrix governing the employment transaction can be seen to have adapted to a new reality. The facilitation of the labour market's structural adaptation from crisis to recovery occurred with positive measures of both LMI efficiency and LMI effectiveness. Although the potential for interests to capitalise on the theoretical discord remains, this case-study shows that future localisation of available theory will occur through a social dialogue characterised by a relatively high level of trust. In the next chapter I conclude the thesis by contextualising the case-study within the recent debate on European structural reform and austerity. It is suggested that the offered theoretical framework provides much scope for further labour market research.

## Conclusion: ‘Labour Market Institutions - A New Perspective’

It was assumed that the observed Irish labour market reform emerged through a ‘fuzzy process’ of policy design. Building an explanation of this process necessitated a new framework of LMI analysis that relied on established elements of the New Institutional Economics paradigm. This framework of analysis was structured around a model of the institutional matrix governing the employment transaction which constitutes the labour market system. The relevant observations, documents and case-studies available to labour market research gave substance to the models parameters. Yet, the contribution that differing perspectives on the governance of the employment of human capital could lead to both transaction cost and property right analyses of the constituent LMIs of the labour market system, yielded a means of establishing some amount of common ground and co-alignment among the alternative Neo-classical and Institutional prescriptions which had given rise to the titular “clash of paradigms”. The offered framework allowed for a case-study that kept within the contours of mainstream debate, including a chapter explaining the contribution of opponent polity members to the labour market reform process. Further case-study of structural reform in Ireland and other OECD countries has been provided with a proven framework of analysis.

Adopting the employment transaction as the base unit of analysis necessitated clarification on the good being transacted and it is suggested that the case-study’s treatment of human capital extends the mainstream Neo-classical analysis in the direction of an established European form of economic governance. The available resources for labour market research allow the individual practitioner to extrapolate from a characterisation of national governance, over the individual’s transaction of their human capital with a firm, to particular sectors and occupations. The aforementioned ‘symmetry breaking’ occurs not just between countries but perhaps, and increasingly, within the individual country. There appears to a ‘systemic variance’ whereby differing labour market system arrangements are found within common labour markets. As shown, exogenous determinants of LMI efficiency and LMI effectiveness require the nuance of addressing both transaction cost and property right considerations of the system’s constituent LMIs. Given the offered Irish narrative of structural adaptation in this case-study, it may well be the case that labour market systems that are similar by all available measures, could produce a variance in

empirical and structural indicators. Streeck (2012) suggests that countries may come to be seen as republics “housing a variety of conflicting economic and non-economic concerns”, with more emphasis given to the politics side of political-economy, and that these countries having an inherent dynamic and capitalist modality in production structure, are, “in need of adjudication through national and international politics.” An earlier Irish social dialogue led to agreement on the Developmental Welfare State and this avenue of discourse may yet yield a new political outcome.

While already amenable to an econometric analysis, estimations of modes of governance by international organisations also allow a general characterisation of labour market systems as arguably either liberal or coordinated, given observed arrangements of the LMI categories individually or collectively. Comparative analysis both across and within national LMI arrangements suggests a 'systemic variance', whereby similar exogenous determinants of the economy can transmission through labour market systems differently. Evidently, shocks produce a variance in system performance when comparisons are made from a growing choice of indicators. It is argued that a degree of systemic variance is found in many common labour markets across the global economy given heterogeneity in LMI arrangements both across and within nations and with implications for orthodox theory. The argument that both modern fiscal and modern monetary policy require an acknowledgement of there being a two-way channel between the labour market and broader economy is perhaps more stronger today given growing evidence of the endogenous role played by LMIs. The literature on these LMIs requires an engagement with the various indicators sooner rather than later as public debates ultimately relating to efficiency/effectiveness distinctions of the labour market are quite polarised, with serious social and political consequences given the central role of the employment transaction in modern societies.

### **The clash in an Irish context**

Although much can be written on the various aspects of the crisis, my research focus is on the political-economy of the labour market system. I presented a narrative of the labour market over the years immediately before and after the crisis and also some of the labour market issues that emerged over this period. Documenting the reformed institutional arrangements in the context of changed government priorities, while also explaining the rationale and bargaining of these reforms is what constituted the preceding chapters. With an understanding of the main statistical figures and themes of the labour market narrative

it is possible to contextualise the political-economy of labour market governance. The data in the first chapter introduced the competing arguments in real conditions that would give the prerequisite understanding of both the narrative and issues towards establishing the validity of the theory which concerned the main research question of the thesis.

The pre-crisis system may be assessed in terms of its contribution to Ireland's development towards a knowledge based economy. Looking at the three categories in the labour market model it is clear they broadly correspond to characteristics of this new economy sought by policy makers. These characteristics were dynamism, competitiveness, and flexibility. The description of a labour market as either Liberal or Coordinated indicates not just how its LMIs are arranged, but also its paradigmatic nature. Although the pre-crisis system was something of a hybrid model, the historically non-interventionist stance of the State had led to the creation of a somewhat liberal labour market. An analysis of labour market outcomes yielded the general conclusion that the system was efficient and somewhat effective. Although certain Institutional School ideas can be identified in some of the models categories, it would appear that these were tested initiatives only coming from abroad during the 1980s when a serious economic situation called for disruptive reform. It may be concluded then that an efficient, somewhat effective and orthodox labour market called for some reform when labour market outcomes were mostly influenced by national and European factors beyond the control of labour market policy.

The emergence of a changed post-crisis system was explained in terms of how the clash of paradigms as illustrated within LMI theory localised to the transactional space of crisis among key labour market stakeholders. Contributions to the policy debate of the periodisation in question, and government bargaining over Ireland's development towards a knowledge economy, resulted to a large degree in the observed labour market reform. As with the description of the pre-crisis system by categorising individual institutions into a system we may judge how both efficient and effective they are in contributing to particular development goals. A purpose was accorded to individual LMIs that accommodated their interpretation as either institutions of transaction costs or property rights. The observed reforms and outcomes across the three categories presented an interesting case-study of the adaptive efficiency of a modern labour market.

The institutional matrix was rearranged with a bargaining of the particular structures and mechanisms assumed. Interviews with selected members of the polity established the key reforms and issues concerning this process and the hypotheses of earlier chapters were

evaluated. Although it seems that there is a degree of 'buy-in' to Ireland's export led development strategy, the labour market system's contribution to this strategy is unclear. It may be the case that institutional theory on the transaction of human capital between firms and labour market participants is more relevant to the modern Irish economy given the popularity of what in NIE terminology are property right analyses of LMIs. While Neo-classical theory is still dominant in the transactional space, as evident in the explanation of this bargaining process contained in the preceding chapters, it may have developed further than accounts contained in the mainstream literature record and it may have evolved into forms of transaction cost and property right analyses inviting far more nuance. I also aimed to establish the veracity of the New Institutional Economics claim to labour market analysis and the usefulness of the offered model of the institutional matrix. It is suggested that the offered theoretical framework provides much scope for further labour market research.

### **Employment Protection Legislation (EPL)**

Reform in this category was intended to streamline what was adjudged to be a complex and legalistic arrangement of dispute resolution structures. It was argued that the state held a non-interventionist stance in relation to industrial dispute resolution and this was disputed by some. It was hypothesised that an improvement in the accessibility of resolution processes would strengthen the position of labour market participants. A general opinion that it was too early to tell the effects of the reforms can be reported. Ireland scored amongst the more liberal countries in the OECD EPL measure tables and this is not expected to change in the short-term. A degree of consensus is evident on this category's contribution to national development strategy, with the DWS indicating a level of coordination among the LMIs of this and the UI and ALMPs category. However, assessments varied across sectors and among occupations, with the issue of labour market dualization being offered as having the potential for unrest and further reform. The Labour Court would seem to have a central role in any such further reform, with the accompanying mechanisms of the industrial relations architecture providing avenues for the enhancement of arrangements which follow a human capital or Institutional perspective.

A government official indicated that the system "needed time to settle down and work across boundaries" and that the WRC signalled a momentum for change. The Employee Consultation and Information Act had followed from a European Directive and would seem to have a stronger property right dimension. Originating from a European source where Institutional arguments carry more weight, it necessarily involves a degree of social

dialogue with the DWS influencing the force of theoretical arguments. Such reform takes place within a context and a firm representative stated that the reality that “we missed the industrial revolution” had to be acknowledged. A Fíne Gael minister indicated that the political-economy context was of “continuing pressure where change is the only constant.” Trade union officials and participant representatives indicated that while it was in the states interest to provide for decent jobs, the labour movement was weak. Great emphasis was placed by the Fíne Gael minister on innovation and he indicated that “the war for talent is where competitiveness lies.” A firm representative indicated that “countries that get the mobility question right” would succeed. Another firm representative supported the generalised nature of Irish education.

### **Wage Setting**

Labour Party minister Jed Nash stated that regarding trade union involvement in wage setting, “the only impediment is political will.” There is an understanding among participant stakeholders of the polity that a sector by sector strategy of wage setting offers the best opportunity of an Institutional type wage-led growth. The Labour Party minister stated his intention to make Ireland “the best small country to raise a family”. The idea that “one size doesn’t fit all”, as stated by the Fíne Gael minister, is common among the stakeholders. Trade union representatives are as expected in favour of coordination across taxation and income with a preference for “levers”. A firm representative stated that the philosophy was think small first. Opinion does vary, however, with some participant representatives stating more of an ambition for national agreements. It is the case that stakeholders seek LMIs to provide a coordinated wage setting environment involving taxation, infrastructure, housing and other considerations, while ensuring sustainability through competitiveness. The macro-economic assumptions of what are described as alternative debt-led and wage-led growth models provide a background to micro-economic bargaining at sectoral and firm level. Aware of the benefits of industrial relations peace, stakeholders seek rational legal processes of income distribution and redistribution.

The dramatic rise in household lending was highlighted as an outcome of the pre-crisis wage setting arrangement. This is consistent with the Institutional theory from Lavoie and Stockhammer outlined earlier and Labour Party ministers seemed informed by this research. Other elements of Institutional thought are also present among the polity with firms having displayed an awareness of efficiency wages practices. The Neo-classical prescription that participants should be paid the marginal product of their human capital is

more nuanced when localised, with an acknowledgement of the necessity of a low-pay commission discernible in interview. It seems that clarity and transparency in the determination of transaction costs allows for a dialogue which opens up space for the property right dimensions of wage setting LMIs to figure in the transactional space. In relation to the Strategy 2020 employment rate targets, an IDA representative stated that clarity was needed about where the country was going, and saw some form of social dialogue as necessary. The degree of coordination across different sectors will effect the capital-labour income share with the share of expected productivity gains potentially making the labour court a central actor in national industrial relations.

### **Unemployment Insurance and Active Labour Market Policies**

The institutional reconfiguration of both the PES and FET arrangements since 2011 is arguably more than a moderate reform. Critical studies, accompanied by critical opinion, gave a poor impression of this category's overall efficiency and effectiveness for various reasons during the pre-crisis period. A preference for a job-first approach would indicate that expenditure on this category, as measured by the OECD, will not reach the level that typifies labour markets characterised by more of a human capital emphasis in policy. Further movement in the direction of the EUs 'Activation Agenda' places pressure on state resources and in particular the retraining of PES case-workers. Social partners would seem to be in agreement that success hinges on this element of the reform. In relation to FET there is a common perspective found that the national economy's success is dependent on the human capital of labour market participants, with emphasis being placed on a design that can accommodate all sectors and occupations. While the influence of the Troika is seemingly apparent, the resistance during the reform period from the democratically elected ministers is also, suggesting that the mental models of the newly appointed ministers will have a large bearing on the future of this category.

A participant representative stated that the dynamic, competitive and flexible economy had new social costs. Many stakeholders drew attention to a residual class of labour market participant or "underbelly". As the employment rate target implies a certain level of participation this is a problem. According to a mediating organisation there was a long way to go in the linkages of the labour market system. He emphasised other ideas on flexibility and stated FET was key. There is common perspective that the National Skills Strategy will require linkages among the LMI categories and social partners. The centrality of the contribution of augmented labour to growth is assumed by firm representatives, although

transaction cost bias leads to an expectation that the state will provide the demanded supply of human capital. Participant representatives understand that worker empowerment happens through skill attainment and thus emphasise a property right analysis. A firm representative indicated that “jobs will follow skills”. She indicated that the system should put the person first, which I suggest indicates some appreciation of the Schmidts proposed ‘transitional labour market’. Consensus is found on the issue of apprenticeships and it seems that a relaxation of resource constraints will open up the transactional space on these issues.

### **EU structural reform and Ireland**

The post-crisis labour market system was characterised as somewhat more liberal owing to institutional changes in the wage setting category. It was reported in the interviews that in the private sector wages had not been reduced and thus the improved competitiveness vis-a-vis unit labour costs is possibly as a result of a reallocation of employment out of the construction sector. The imposition of a cut in the minimum wage by the Troika was reported and this would indicate the current mainstream preference for an internal devaluation strategy of export-led recovery. This reduction was resisted and overturned with a discernible domestic demand and stabilisation consideration across many stakeholders. However, the recovery has been export-led and thus a question arises as to the exact contribution of Irish LMIs to the labour market narrative. It may be the case that the macro-stability of the broader economy provided the exogenous factors of the labour market recovery, albeit the key LMIs having facilitated a smooth reallocation of human capital considering their suggested endogenous role. The rebalancing of the economy was aided by Ireland’s European-style labour market system, while being further helped by a large mobile and well-educated workforce who emigrated.

In comparison to other European countries, the Irish labour market system is more liberal, albeit with a stronger social protection dimension than other systems of this liberal type. The offered prescriptions of LMI theory differ, often greatly, with the localisation of a body of observations, documents and case-studies among national polity members having the most bearing on emergent arrangements. The aspired ‘knowledge economy’ currently relates to the labour market system in a Troika-friendly, Neo-classical type arrangement and Aidan Regan (2016) reports that while this seemingly supports the assumed arguments of the structural reform agenda, the Industrial Development Agency played a major role in the progress of this adaptation. The term ‘enterprise policy’ describes how a state agency

could, independently of the election cycle, attract frontier technological activity and generate a domestic cluster effect that capitalised on the strategic positives of Ireland's place in the international supply chain. That these growth sectors place a greater emphasis on human capital perspectives can be assumed, with an associated property right analysis of the key LMIs endogenous role seeming more relevant than traditional narrow labour cost considerations. With strong political support and a commitment to the DWS, the 'symmetry breaking' arrangement of the Irish labour market system amongst other European Small Open Economies looks set to remain.

Within the Irish system itself and considering an internal form of 'symmetry breaking', the political-economy of the systems design requires an appreciation of sector specific factors, issues and themes that may lead to further forms of coordination within a somewhat liberal context. Thelen (2012) emphasises that the common interpretation of Varieties of Capitalism theory as there being only two distinct possible modes of capitalism is false and that "where the most vulnerable groups are well organized and incorporated into institutionalized decision-making venues, both producer-group politics and electoral dynamics can pave the way for more encompassing reform coalitions." She continues on to indicate the potential of a new industrial relations within characteristically liberal economies that are experiencing the emergent and inevitable dominance of the services sectors.

The transactional space of crisis as it relates to labour market reform is influenced by a clash of paradigms in LMI theoretical field. I contribute a case-study of the Irish experience of structural reform as it relates to the labour market system. The language of New Institutional Economics provided a means by which the validity of competing assumptions over these structures and mechanisms of social order and cooperation could be localised within a national context and within the mental models of key members of the Irish polity. In describing the emergent labour market of a small, open, export-led economy experiencing a recovery in employment I utilized a model I have outlined in chapter two. The model provided showed the institutional matrix governing the employment transaction which constitutes the labour market system. The respective currency of various transaction cost, and property right analyses of the key LMIs among this polity, cast light on the political-economy of the Irish labour markets structural adaptation through crisis and into recovery.

How the clash of paradigms related to competing interests was examined with the assumption being that particular theoretical arguments were at play in the rearrangement of LMIs. The Institutional paradigm provided the backdrop to arguments from stakeholders that acted as a countervailing force to what were the assumed theoretical arguments of the Troika, arguments that are more closely associated with the Neo-classical paradigm. The Labour Party's pledge that it was "Labour's way or Frankfurt's way" going into government indicated that social-democratic perspectives across the three categories would be emphasised by their party in negotiations. That party took control of the main departments associated with the labour market model on offer and the avoidance of large-scale industrial relations unrest in addition to official electoral support from the main trade union going into the 2016 election suggests that the rearrangement of the LMI system brought a range of interests back into the processes of social dialogue. It would seem that the political-capital associated with an earlier recovery and subsequent full employment period influenced the key stakeholders interviewed by encouraging more accommodative positions regarding the clash of paradigms in the transactional space. While the relevant ministers could exercise a degree of discretion in the reconfiguration of the main LMIs, anything that would have upset the broader macro-stability which preoccupied the coalition partners dialogue was avoided. It can be said that the current LMI prescriptions having most currency among the polity, are somewhat nuanced and judged in relation to a particular development strategy, and with the Irish localisation exhibiting tenets of both schools.

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## Appendix A: List of interviewees and the semi-structured questionnaire

### **Firm Organisations Representatives**

IBEC - Danny McCoy, Chief Executive

Irish Exporters Association - Simon McKeever, Chief Executive

IDA - Martin Shanahan, Chief Executive

IBEC - Tony Donohoe, Head of Education, Social & Innovation Policy

SFA - Patricia Callan, Director

### **Labour Market Participant Representatives**

ICTU - David Begg, General Secretary

INOUE - Brid O'Brien, Head of Policy and Media

Unite - Michael Taft, Research Officer

SIPTU - Jack O'Connor, General President

Social Justice Ireland - Sean Healy, Director

National Youth Council of Ireland - James Doorley, Deputy Director

### **State Labour Market Institutions Representatives**

Enterprise, jobs and innovation - Minister Richard Bruton

Social Protection - Minister Joan Burton and John McKeon

Education and skills - Minister Ruairi Quinn

Employment - Minister Jed Nash and Martin Shanagher

NESC - Rory O'Donnell, Director

Labour Court - Kieran Mulvey, Chief Executive

**A - Preliminary questions on labour market system and key LMIs:**

- **Question A:** In your view, what are the essential elements of a well-functioning labour market system?

- **Question 1:** **Employment Protection Legislation (EPL)** involves both worker protection and worker reallocation. What role has it to play in the well-functioning of a labour market?

- **Question 2:** The governance of **wage setting** takes many forms across countries. What is required for a well-functioning labour market?

- **Question 3:** What contribution can **UI** arrangements make to a well-functioning labour market?

- **Question 4:** What contribution can **ALMPs** arrangements make to a well-functioning labour market?

**B - An assessment of the systems pre-crisis arrangements:**

- **Question 1:** **During the pre-crisis period**, how would you evaluate the performance of Irish labour market institutions in the area of **employment protection**?

- **Question 2:** How would you evaluate the performance of the various **wage setting** LMIs?

- **Question 3:** How would you evaluate the performance of the **UI** system?

- **Question 4:** How would you evaluate the performance of the pre-crisis system of **ALMPs**?

**C - An evaluation of the reformed post-crisis system:**

**- Question 1: Many changes were made to Irish labour market institutions since 2011.**

What is your evaluation of the changes in the area of **employment protection**?

**- Question 2:** Significant change occurred during this period in the area of **wage setting** governance. How would you evaluate the impacts of the changes?

**- Question 3:** A new system of **UI** emerged through the crisis. What is your evaluation of the observed reforms?

**- Question 4:** A new system **ALMPs** emerged through the crisis. What is your evaluation of the observed reforms?

**- Question 5:** To what degree can the various reforms be viewed as bargained outcomes?

**D - Opinions on the outlook for future reform:**

**- Question 1: What is your view of any necessary future reform to the Irish labour market system across the different categories of LMIs?**

**-EPL?**

**- Wage setting?**

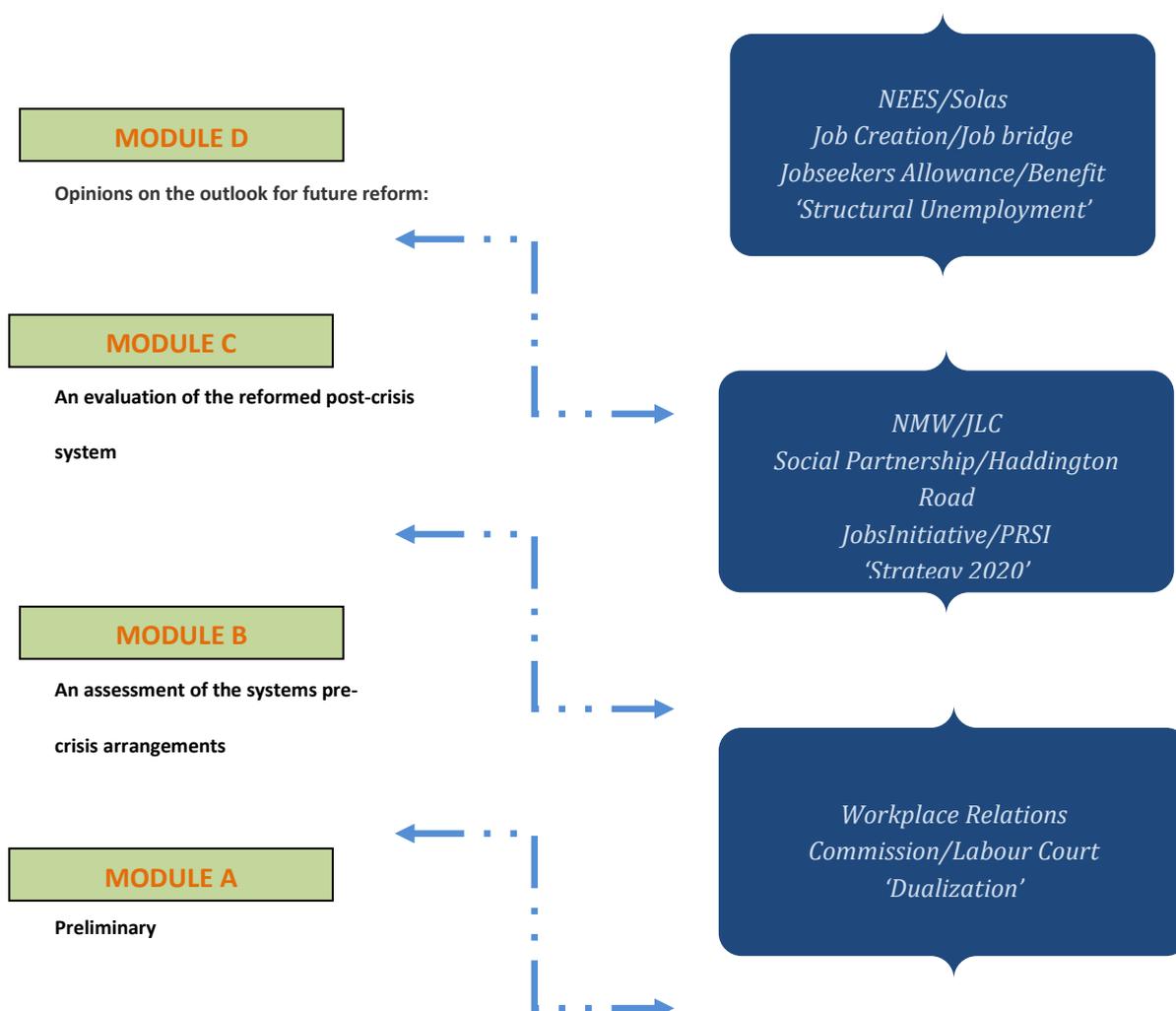
**- Unemployment Insurance?**

**- ALMPs?**

## Appendix B: Information sheet for interviewees

### An invitation to a Labour Market Institution (LMI) discussion: Ireland 2016

- An explanation of a labour markets structural adaptation must emphasise the role of stakeholder mental models and thus the current theoretical discord over Labour Market Institutions (LMIs) is central. It is assumed that this clash of paradigms played itself out among key stakeholders in the bargaining of the new Irish labour market system. Previous chapters provided accounts of the pre and post crisis systems giving the purpose, description, and outcomes of their constituent LMIs. These accounts provide both insight into the intentionality of the key labour market stakeholders regarding LMIs and a comparison of pre- and post-crisis LMI arrangements.



## Appendix C: Letter of invitation for interviewees

Mr Daniel Higgins,  
Economics PhD student,  
Department of Economics,  
NUI Galway

December 2015

Dear Sir/Madam,

Thank you for agreeing to receive this letter of invitation to participate in a much needed analysis of Ireland's current labour market performance. I hope to interview you and a selection of other national labour market stakeholders and contemporary witnesses of the recent unemployment crisis.

My PhD thesis examines the changes in the labour market since the current economic crisis began and my PhD supervisor is Professor John McHale. I am pursuing a series of semi-structured interviews with key labour market stakeholders in the Irish labour market with a view to explaining through economic arguments the observed reforms to labour market institutions since 2011. An evaluation of both the efficiency and effectiveness of the emergent system will be contributed while more crucially providing an explanation of the rationale behind key observed reforms.

Your participation in the semi-structured interview would be greatly appreciated and I intend the work to contribute towards the continuing national dialogue on labour market issues. I estimate that the interview will last no more than forty-five minutes and your final permission for use of any material that is obtained in the interview process will be sought before publication of any kind takes place. An information sheet with questions is available on request.

I am very flexible as to possible arrangements on time and venue which might be convenient for you. I will be in contact with you shortly and I can be contacted at [daniel.higgins@nuigalway.ie](mailto:daniel.higgins@nuigalway.ie) and by telephone on 086 1050502.

Again, thank you  
very much.

Yours sincerely,

Mr Daniel Higgins



## Appendix D: Curriculum Vitae

### Curriculum Vitae

**Name:** Daniel Higgins

**Date of birth:** 30-9-1980

**Address:** 'Aimhirgin', Circular Road, Ragoon, Galway. **E-mail:**  
daniel.higgins@nuigalway.ie

**Phone:** +353 (0)86-1050502

#### Educational details

**Sep 2011 - Present Structured Economics Phd Program, N.U.I. Galway.**

Subjects; Advanced Micro, Advanced Macro, Advanced Econometrics, Philosophy of Social Sciences. Thesis title: "When Paradigms Clash: Irish Labour Market Institutions and the Unemployment Crisis."

**Sep 2007 – Sep 2008 M.EconSc. Economic Policy: Evaluation and Planning, N.U.I. Galway.**

Subjects included; Semester 1: Macro theory, Micro theory, Cost Benefit Analysis, Data management, Semester 2: Policy and planning, Econometrics, Public economics, Intern'l macro. Thesis title: "An Irish perspective on the euro: its development as a currency, issues of economic governance, and its impact on trade." Result: 1-1.

**Sep 1999 – June 2003 B. Comm (Economics), N.U.I. Galway.**

Final year subjects included; Economics of financial markets, International economics, Irish economy, European economy, Economic thought and methodology, Economic theory, E.C. law, Regional and urban economics, Transition economics, Money and banking, Econometrics. Final year result 2-1.

**Second Level:** All honours in seven honours subjects in Leaving Certificate 1999 at Colaiste Iognaid, Jesuit College, Galway.

## Work Experience

**Nov 2010 – July 2011 Department of Enterprise, Trade and Innovation, Lower Hatch St, Dublin 2.** Working as part of a team in a cross government project aimed to reduce the level of red tape arising from legislation that impacts on business by 25%. Researching legislation, interviewing officials, identifying burdens, interviewing business owners, empirically assessing costs and changes.

**June 2008 – Aug 2008 Institute of International and European Affairs, North Great Georges Street, Dublin 1.** Working for this European focused think tank involved researching and producing reports on European economic issues, along with other intern duties that gave insights into how policy is formulated at a national and European level.

**Feb 2007 – Apr 2007 Reminiscence Proprietary Trading, Trinity Enterprise Centre, Dublin.** Day-trading position involving the achievement of a license and the trading of shares on the NYSE.

**Dec 2005 – Aug 2006 General Office Assistant.** Working in a constituency office this involved many duties like replying to emails, correspondence, typing press releases, fundraising, and researching issues in current affairs.

**June 2003 – Jan 2004 Citco Fund Services, IFSC, Dublin.** This company provides services to hedge fund managers. Working as an operations specialist as part of a team reporting to the head of middle office, tasks involved cash and trade reconciliations, data input, portfolio checks, forming daily accounts and liaising with clients.

## **Skills**

**Computing:** Familiar with accounting, trading and econometric software packages. Microsoft Office Skills Diploma acquired through Pitman Training Institute. CIW, Certified Internet Webmaster, courses completed through state agency, Fas E-College. PC maintenance and Web-design completed through Fas evening courses. Author of 'faiertied.org' and 'systemicvariance.com' websites.

**Other:** Goethe German course completed, almost fluent Irish. Evening courses on HR management and Psychology at Galway-Mayo Institute of Technology.

## **Interests and Activities**

**Hobbies and Interests:** Always interested in current affairs and international events I was a member of the political discussion society in college. I also liked the film society and keep an eye out for the latest releases from my favourite directors. I'm also a bad piano player and took part in a P.C. producer course run by a local music shop. I now publish songs under 'Higgidan'.

**Sport:** For many years I played soccer for Salthill Devon in the Connacht senior league and in a nightowls league for Galway Celtic. Despite my finer sporting moments being behind me I still retain a natural, hardy competitive edge and so I'll nearly always take part in any sport or activity.

## **References**

Professor John McHale, Department of Economics, N.U.I. Galway.

Jill Donoghue, Research Director, Institute of International and European Affairs, Dublin.

Professor Tom Boylan, Department of Economics, N.U.I. Galway.

**National University of Ireland Galway 2017**