



The Performance of the Irish Labour Market in an EU Context

1/2003 FÁS Labour Market Update

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July 2003*



Executive Summary

Traditionally, the primary measure of Irish labour market performance has been the unemployment rate. This paper adopts a more holistic assessment of the Irish labour market by using ten performance indicators which relate to the triple objectives of full employment, productivity and social inclusion, arising from the EU Lisbon Summit in the year 2000. Overall, this broader approach shows Ireland in a positive light vis-à-vis our EU counterparts while at the same time highlighting aspects of our labour market that could be improved. Below are the main conclusions arising from the analysis.

- The difference between the Irish and EU employment rates is much less pronounced than the difference in unemployment rates. Given the concerns about the high dependency ratio predicted in the future, this paper argues that our employment rate will become an increasingly relevant measure of Ireland's labour market performance.
- In terms of labour productivity and costs, Ireland seems to have performed extremely well relative to the rest of the EU. However, the strong performance of technology-intensive sectors and the gap between GDP and GNP means that Irish productivity figures are somewhat flattering.
- Average tax-rates on single low-income earners in Ireland are the lowest in the EU.
- Doubts remain over how socially-inclusive our labour market is, given the number of persons in jobless households and the significant proportion of early-school leavers.
- A weighted labour market index is constructed to provide an approximate summary measure of Ireland's performance relative to the rest of the EU. The index places Ireland in a group of 5 North-European countries who have scored significantly above the EU average. The Netherlands tops this group. The three worst performing countries are from the Mediterranean region.

Introduction¹

The European Employment Strategy (EES) was launched in 1997 at the Luxembourg Jobs Summit, with the fight against unemployment as its major priority. The strategy was reviewed in 2002, both at an individual Member State level and an aggregate EU level. It had been envisaged that “*Member States would undertake national impact evaluation studies of policies on the basis of common terms of reference organised around ten thematic areas*”². Unfortunately, not every Member State has been able to provide information on all ten themes and it was not possible, therefore, to make any meaningful comparison of the performance of specific Member States. Ireland’s impact evaluation of the EES only covered 5 of these themes³. The European Commission conceded in hindsight that the evaluation project was perhaps over ambitious, noting that:

“a full impact evaluation of the EES remains difficult, considering the relatively short period under review as compared to the long-term nature of certain structural reforms. The analysis was further constrained by the complexity of the issues, the lack of exhaustive national evaluation material, and the limited times available (only six months to conduct the national studies).”

The EES was initiated in a context of high unemployment. By the time the EES was under review, however, the economic landscape of the EU had changed for the better and the rather narrow goal of reducing unemployment had been superseded by the broader and more ambitious commitment towards more and better jobs in an inclusive society. This goal, born at the Lisbon summit of spring 2000, formed part of the wider aim of the EU “*becoming the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*”. In terms of the labour market, the Lisbon Summit widened the remit for its EES to cover three inter-related objectives of “*(1) full employment, (2) quality and productivity at work and (3) cohesion and an inclusive labour market*”⁴, shifting the emphasis away from unemployment reduction which was the main focus of the 1997 Luxembourg summit.

¹ The author gratefully acknowledges helpful comments made on the final draft by two external referees and by FÁS colleagues.

² See http://europa.eu.int/comm/employment_social/employment_strategy/impact_en.htm for a list of these themes. The themes are listed under the heading ‘synthetic papers’.

³ See http://europa.eu.int/comm/employment_social/news/2002/may/eval_irl.pdf

⁴ The numbers were not in the original quote and were added by the author.

The Lisbon Council invited the Commission to draw up an annual synthesis report⁵ based on a list of forty-two structural indicators, which would provide an instrument for an objective assessment of the progress made towards the Lisbon objectives. These indicators covered economic, social, employment, R&D, and environment policy areas. This paper focuses on a subset of structural indicators, specifically those which have most relevance to the labour market, in attempt to assess how the Irish labour market has been performing relative to both the EU and, where relevant, the accession countries. The indicators pertaining to the labour market are as follows:

1. The unemployment rate
2. The long-term unemployment rate
3. The percentage of the population in jobless households
4. The employment rate
5. The effective average exit age
6. Labour productivity
7. Labour costs growth
8. Tax rate on low-wage earners
9. Early school-leavers
10. Life-long learning

These ten indicators have been chosen to measure labour market performance in terms of the three Lisbon objectives of full employment, higher productivity, and social inclusion. The present assessment is based purely on labour market statistics⁶, rather than the more far-reaching policy appraisal that had been envisaged for the national impact evaluation studies. The main advantage of this less-ambitious approach is that comparative statistics are readily available. Nevertheless, caution needs to be taken in reading too much into a purely quantitative comparative analysis of the labour market. The paper highlights concerns about the data, where it is felt the statistics might lend themselves to conclusions that could be misleading. These qualifications aside, this paper aims to provide a summary of the performance of the Irish labour market in an EU context.

⁵European Commission, *Choosing to grow: Knowledge, innovation and jobs in a cohesive society, 2003* (Contribution of the European Commission to the Spring European Council, 21 March 2003)

⁶ All the statistics used in this paper are taken from the eurostat website. The exact web reference for the data is:

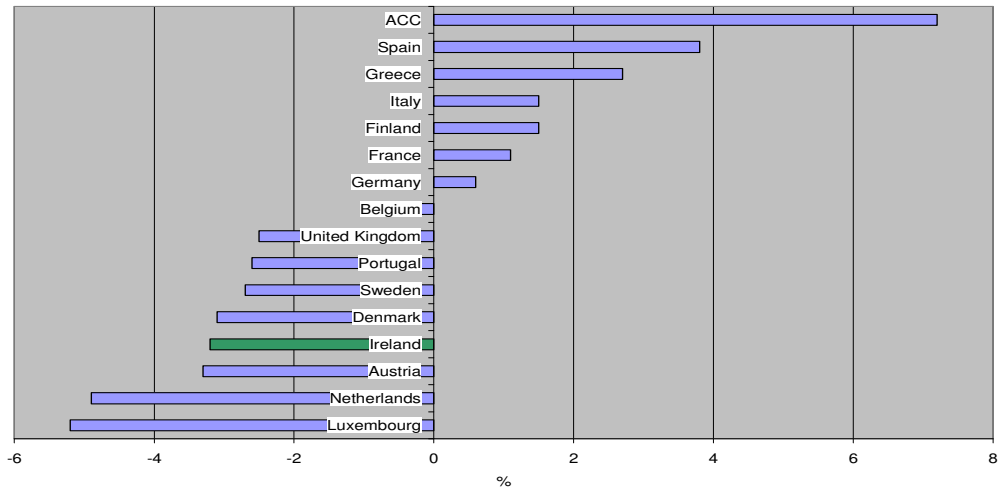
<http://europa.eu.int/comm/eurostat/Public/datashop/print-product/EN?catalogue=Eurostat&product=1-structur-EN&mode=download>

For some indicators, estimates were used for certain countries where actual data was not available. The reader is referred to the website for more detail.

1. The Unemployment Rate

In Ireland attention has tended to focus on the unemployment rate as the principal indicator of the health or otherwise of the labour market. The Irish unemployment rate of 4.4% in 2002 was 3.4 percentage points below the EU average of 7.8% (see Figure 1).

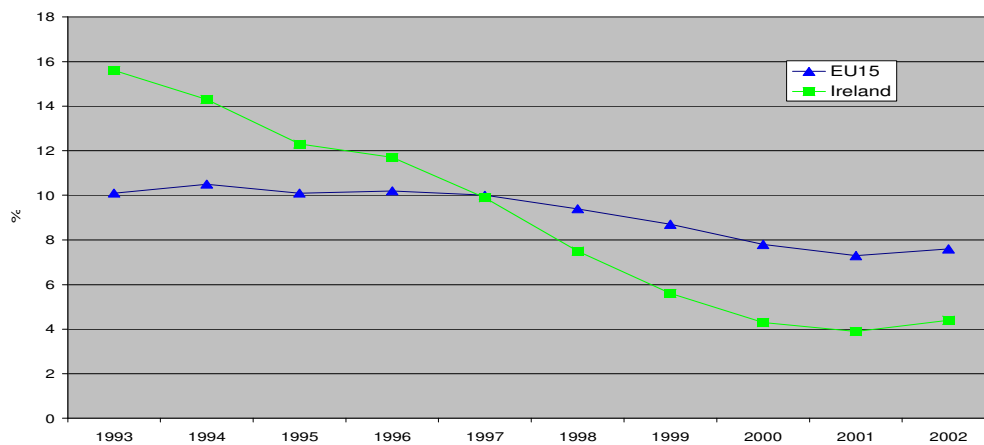
Figure 1: Divergence of Unemployment Rates from the EU average (7.8%), 2002



Source: Eurostat

While both EU and Irish unemployment rates fell during the 1996-2001 period, the decline was more rapid for Ireland (see Figure 2).

Figure 2: Trends in Unemployment in Ireland and the EU, 1993-2002



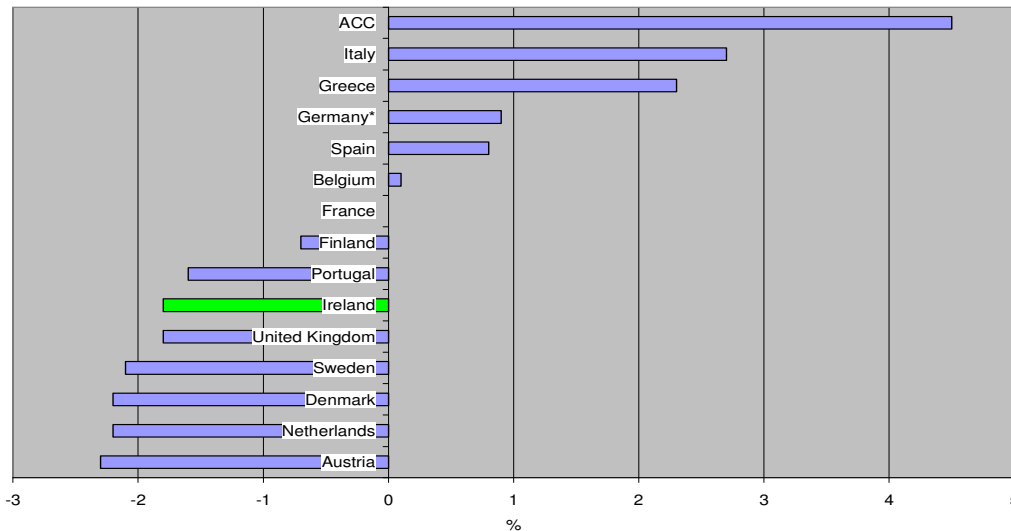
Source: Eurostat

However, between 2001 and 2002 the unemployment rate rose both in Ireland and the EU, with Irish unemployment growing at a slightly faster rate. Data for the accession countries (ACC) is only available from the year 2000 onwards. These figures show that the unemployment rate for acceding countries was 14.8% in 2002, almost twice the EU average and up from 13.6% in the year 2000.

2. The Long-Term Unemployment Rate

The long-term unemployment rate is the number of people unemployed for over 12 months as a percentage of the labour force. The latest comparable data show that the long-term unemployment rate in 2001 was 1.3% in Ireland and 3.1% in the EU. Figure 3 shows that Ireland is one of a group of seven predominantly North European countries with long-term unemployment rates well below the EU average (between 1.3% and 0.8%). Again, the high rate for the accession countries stands out at 4.5 percentage points above the EU average.

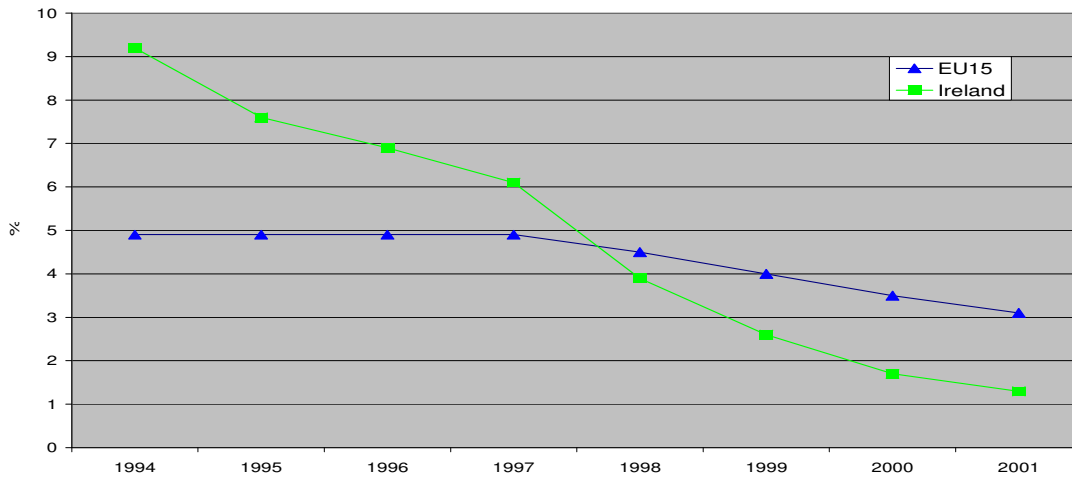
Figure 3: Divergence of Long-Term Unemployment Rates from the 2001 EU average (3.1%)



*Data for Germany relates to the year 2000. Source: Eurostat

The trend in the long-term unemployment rate has exhibited a similar pattern to the overall unemployment rate both in Ireland and in the EU as a whole (see Figure 4). But the reduction in Irish long-term unemployment has been more dramatic than both the overall Irish unemployment rate and the long-term unemployment rate in other EU countries. Over the 1994-2001 period, the Irish long-term unemployment rate fell from 9.2% (almost twice the EU average of 4.9%) to only 1.3% in 2001 (less than half the EU average of 3.1%). The reduction has been all the more remarkable given that the long-term unemployment rate had remained stubbornly high throughout the 1980s.

Figure 4: Trends in Long-Term Unemployment in Ireland and the EU, 1994-2001

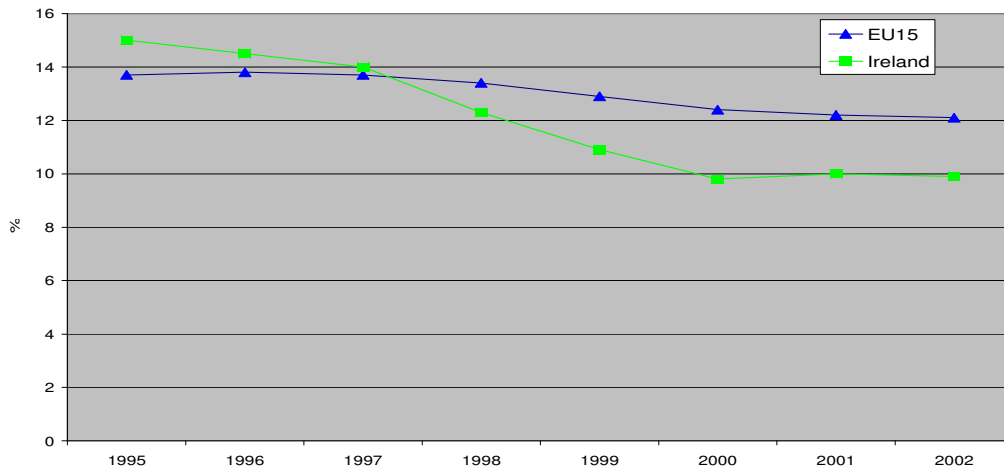


Source: Eurostat

3. Population in Jobless Households

The ‘Population in Jobless Households’ indicator provides another perspective on unemployment. This indicator measures the number of persons living in households with no member in employment as a share of the total population (excluding persons in households where all members are aged less than 18 years, or 18-24 years and in education, or 65 years and more and not working). As expected, the trends for both Ireland and the EU have been very similar to the trends in unemployment. However, the difference between the EU and the Irish levels for the post-1999 period was much narrower than for the overall unemployment rate (see Figure 5). In 2002, 9.9% of the Irish population were in jobless households compared to 12% of the EU population, while the unemployment rates for Ireland and the EU were 4.4% and 7.7% respectively.

Figure 5: The Population in Jobless Households in Ireland and the EU, 1995-2002

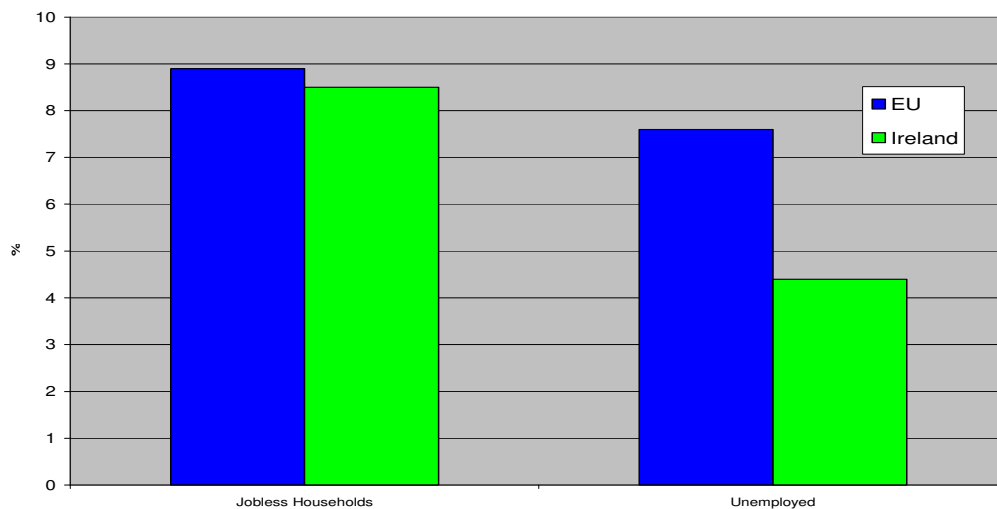


Source: Eurostat

Given that the percentage of the population in jobless households in Ireland is twice the unemployment rate, Irish unemployment must, by definition, be more highly concentrated in larger households. If unemployment was evenly distributed across the population, and was independent of the size of the household, then the percentage of the population in jobless households would equal the unemployment rate.

The ‘household’ effect is even more evident in Ireland when persons over 60 are excluded from the analysis⁷. The 2002 Irish rate for this indicator is 8.5%, which is only slightly below the EU average of 8.9%. Figure 6 highlights how the portrayal of Ireland’s performance vis-à-vis the rest of the EU can vary greatly depending on the unemployment indicator used. The graph shows that there is only a 0.4 percentage point difference between the percentage of the population in jobless households (aged 60 or under) in the EU and Ireland, compared to a 3.3 percentage point difference in the respective unemployment rates.

Figure 6: A Comparison of the % Population in Jobless Households (aged 60 or under) and % Unemployment Rate, 2002



Source: Eurostat

How can this household effect be explained? In the Irish context, Murphy and Walsh (1996) found that a person is more likely to be unemployed if they are living in a household with other unemployed and/or inactive adults. It seems that people with a similar socio-economic background tend to cluster together. However, household composition is just one of a number of factors, such as age, marital status, educational attainment, household tenure and area of residence, all of which can influence the likelihood of being unemployed (Leddin and Walsh, 2003). For example, rather than large households per se increasing the probability of unemployment, it may be that larger households are characterised by lower educational levels

⁷ It would be also be interesting to exclude households with not economically active members. Unfortunately the relevant data at an EU level is not yet available. *The Irish Employment Boom and the Distribution of Work* (Walsh, 2003-forthcoming) analyses Irish data on households with not economically active members.

which in turn reduces employment prospects. And perhaps the ‘unemployment trap’, which was meant to have vanished during the economic boom, has remained an issue for some large households, who would be in receipt of higher levels of dependent-related social welfare payments.

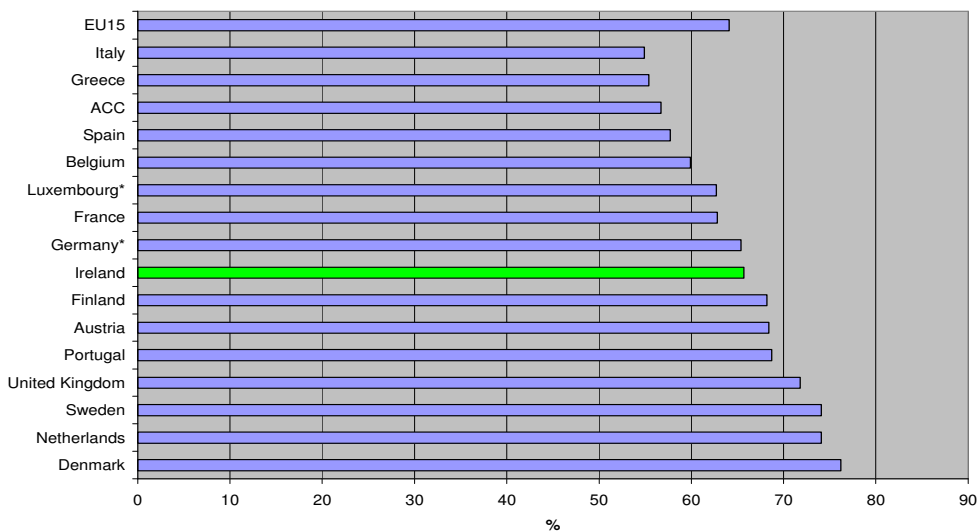
4. The Employment Rate

The employment rate is defined as the number of employed persons (ILO definition) aged 15-64 as a share of the total population aged 15-64. According to the ILO, a person is classified as employed if he or she is working for pay or profit or in a family business for *one hour or more during the week*. Hence, if a person only works one hour a week they are still classified as employed, even if they are a full-time student (Leddin and Walsh, 2003, page 421). An alternative definition of employment is Principal Economic Status (PES) which puts greater reliance on survey respondents to classify themselves as employed or otherwise. A lot can rest on the particular employment definition that is chosen.

Ireland’s preoccupation with the unemployment rate has been understandable given both our history of high unemployment and the recent dramatic reduction in the numbers unemployed. The EU, however, places a greater emphasis on the employment rate as the main barometer of the performance of the EU labour market. Three targets agreed at the Lisbon summit in the year 2000 were framed in terms of employment rates. The Lisbon summit set the EU the goal of reaching, by 2010, a 70% overall employment rate, as well as a 60% female employment rate and a 50% employment rate for older workers (aged 55-64). Individual Member States were encouraged to set their own national targets in line with their relative position at the time of the Lisbon summit.

The latest available employment rate figures relate to 2001 (see Figure 7)⁸. The employment rate for Ireland in 2001 was 65.7%, slightly above the EU rate of 64.1%. The difference between the two rates is much smaller than the differences in unemployment rates. This is due to a higher participation rate in the EU relative to Ireland. The figures show a positive bias for North European countries. Portugal was the only country from Southern Europe with an employment rate above the EU average. The employment rate for the accession countries was 56.7% in 2001, significantly lower than in either Ireland or the EU.

Figure 7: European Employment Rates, 2001

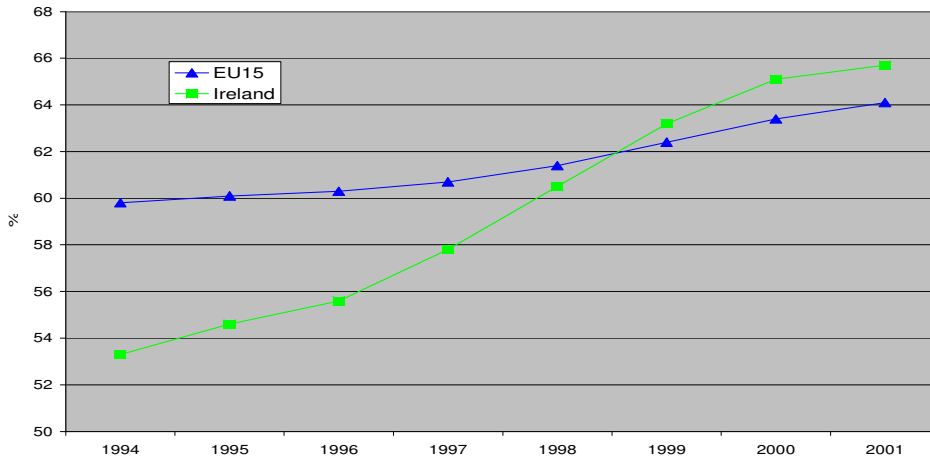


**Data for Germany and Luxembourg relate to the year 2000. Source: Eurostat*

Figure 8 shows that while employment rates in both Ireland and the EU rose steadily during the 1994-2001 period, the rise has been much more pronounced in Ireland (12.4 percentage points) compared to the EU (4.3 percentage points).

⁸ The EU employment rate for 2002 is not yet available. It is, however, likely to be slightly less than the 2001 figure, given the slowdown in the EU economy that occurred last year. The Irish employment rate had fallen to 65.0% by the fourth quarter of 2002.

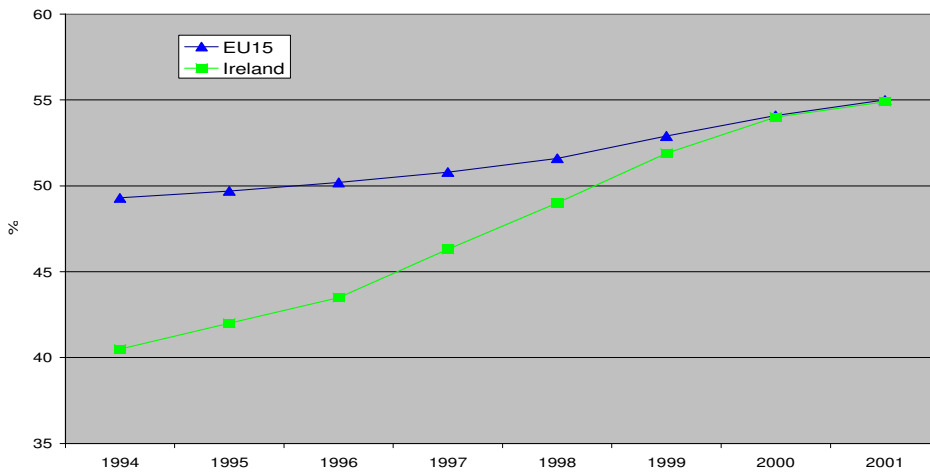
Figure 8: Trends in Employment Rates in Ireland and the EU, 1994-2001



Source: Eurostat

The rise in the Irish female employment rate over the 1994-2001 period (14.4 percentage points) was also more than for the EU as a whole (5.7 percentage points). In fact the large gap that existed between Irish and EU female employment rates in 1994 (8.9 percentage points) had all but disappeared by 2001 with Irish and EU rates virtually identical at 54.9% and 55% respectively (see Figure 9)⁹.

Figure 9: Trends in Female Employment in Ireland and the EU, 1994-2001



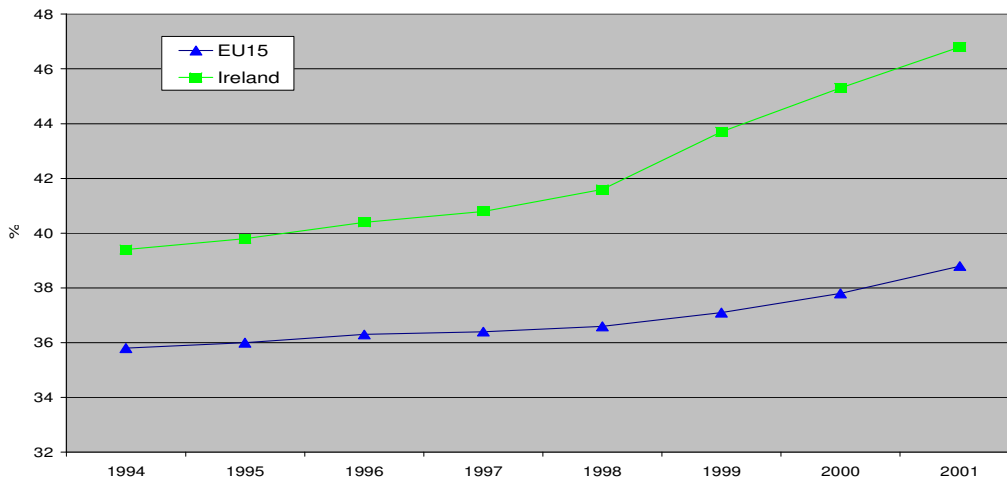
Source: Eurostat

⁹ The EU female employment rate for 2002 is not yet available. The Irish female employment rate was 55.0% in the fourth quarter of 2002.

Historically, the female participation rate (and hence the female employment rate) was low due to the tendency for women with young children not to remain in paid employment. However, in recent years women have been having fewer children and those with children are less likely to retire from the labour force (Leddin and Walsh, 2003, page 424). In addition to this, the female labour force is much younger than in times past. This has led to a rise in the female participation rate and a corresponding increase in the employment rate.

The Irish male employment rate in 2001 was 76.4% compared to 73.1% for the whole of the EU. The EU Council have agreed to a target of halving the gender gaps in employment in each member state by the year 2010. In Ireland's case this means halving the 21.5 percentage point gap between male and female employment rates. Ireland has also seen a significant rise in the employment rates of older workers over the 1994-2001 period, with the employment rate for those aged 55-64 rising by 7.4 percentage points compared to a 3 percentage point increase in the EU (see Figure 10). In fact the Irish employment rate for older workers, unlike the overall employment rate, was higher than the EU average throughout the 1994-2001 period. By 2001 the Irish rate was 46.8%, significantly above the EU rate of 38.8%¹⁰, and not far from the EU target rate of 50% by 2010.

Figure 10: Trends in Employment of Older Workers in Ireland and the EU, 1994-2001



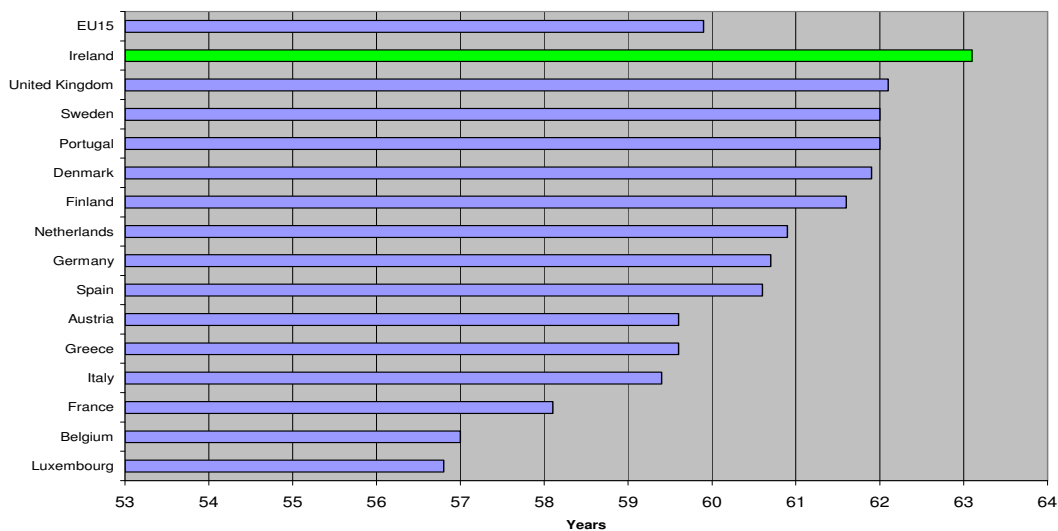
Source: Eurostat

¹⁰ The EU rate for 2002 is not yet available. The Irish rate was 48.8% in the fourth quarter of 2002.

5. The Effective Average Exit Age

An indicator closely related to the employment rate for older workers is the ‘effective average exit age’¹¹. This gives the average age of withdrawal from the labour market. Given our high employment rate for older workers, it is not surprising that Ireland also has a high effective average exit age. In fact, Figure 11 shows that Ireland had the oldest exit age (63.1 years) of all the EU countries in 2001. The EU average effective exit age was 59.9 years.

Figure 11: The Effective Average Exit Age in the EU, 2002



Source: Eurostat

Ireland’s high exit age may partly be explained by the low tax rate on low-wage earners (see section 7) and our high employment rate, both of which make remaining on longer in the labour force an attractive option for many older workers. Figures 12 and 13 respectively plot the effective average exit age against (a) the employment rate and (b) the tax rate on low wage earners for each EU country. The graphs¹² would seem to suggest a positive relationship between the employment rate and the exit age, and a negative relationship between the low tax rate on low earners and the exit age. This is consistent with the *a priori* common sense assumption that, all

¹¹ The effective average exit age is based on a probability model considering the relative changes of participation rates from one year to another at a specific age.

¹² Luxembourg was excluded from these graphs as it was an outlier with a disproportionate influence on the relationship relative to the country’s small share of the EU population.

other things being equal, the greater the number of job opportunities available, and the lower the tax rate, the more attractive it is to remain in the labour force.

Figure 12: Scatterplot of EU Employment Rates and Effective Average Exit Age, 2001

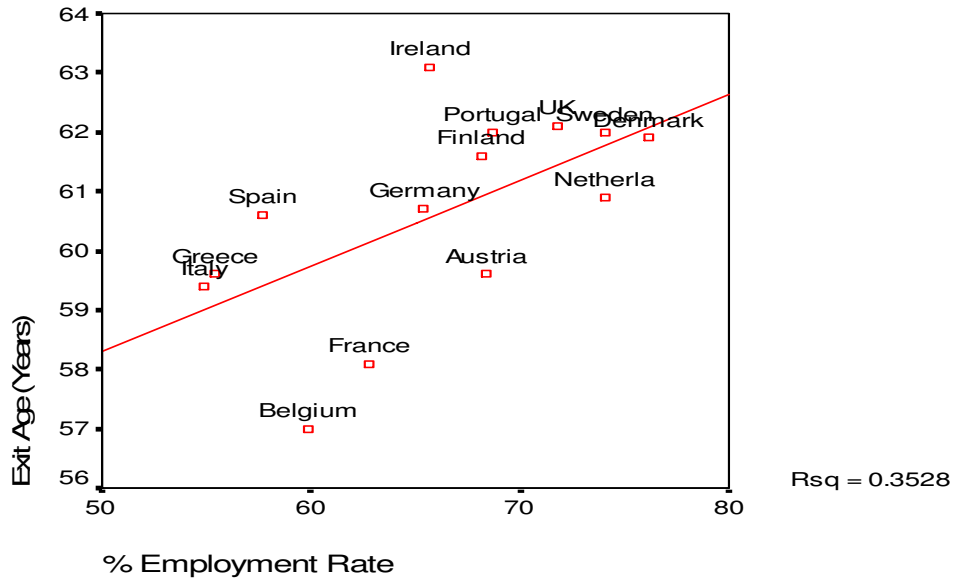
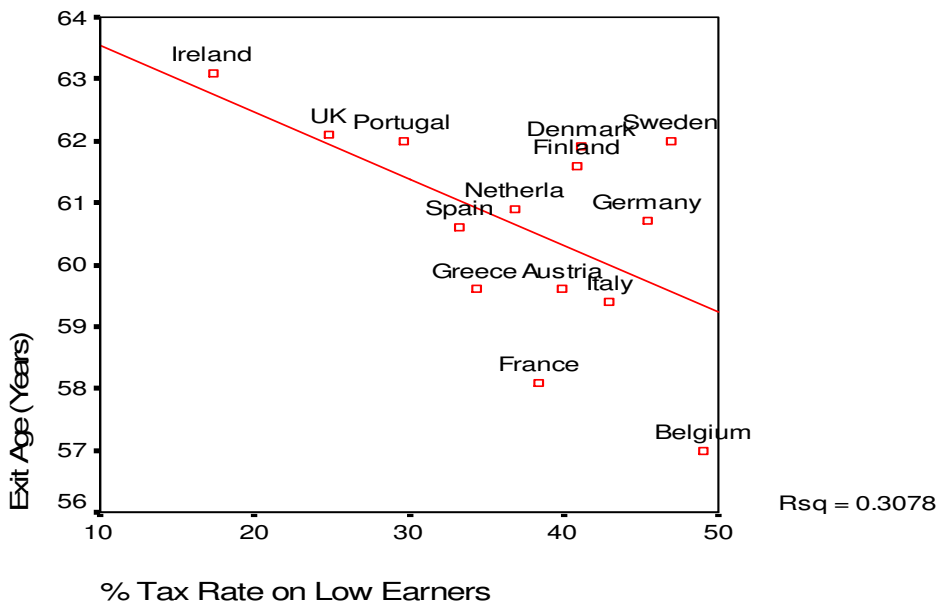


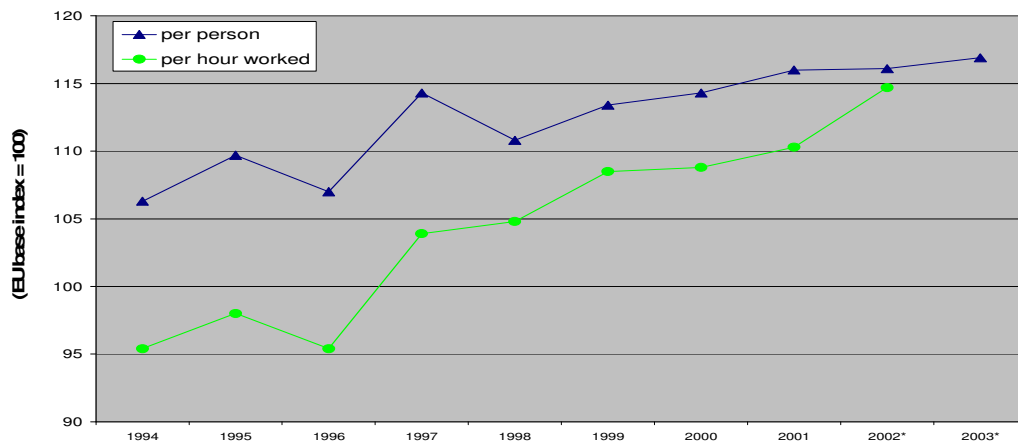
Figure 13: Scatterplot of EU Low Tax Rates on Low Wages and Effective Average Exit Age, 2001



6. Labour Productivity

Labour productivity is measured in two ways: GDP per person employed and GDP per hour worked. Figure 14 below graphs labour productivity per person employed and per hour worked in Ireland relative to the EU in recent years¹³. The graph shows that labour productivity per person employed in Ireland has remained above the EU average and has risen fairly steadily since 1996 when Irish labour productivity was already 7% higher than the EU. In fact, Luxembourg aside, Ireland is forecast to be the most productive country in the EU in 2003, (16.9% above the EU average). Labour productivity per hour worked, which was considerably lower relative to the EU average in 1994 (almost 5 percentage points), has increased even more rapidly since 1996 than productivity per person employed.

Figure 14: Irish Labour Productivity – GDP in PPS Relative to the EU, 1994-2003*



Source: Eurostat, *2002 and 2003 are forecasts

It should be noted, however, that our strong showing on productivity has been heavily influenced by a few exceptional industrial sectors, notably chemicals and electronics, which account for only a small proportion of manufacturing employment. It must also be borne in mind that using GDP instead of GNP will overstate the value of the output that stays in Ireland as the former measure does not take into account net factor outflows (mainly profit repatriation by multinationals based in Ireland). Whereas GDP and GNP measures tend to coincide in most countries, in Ireland annual growth in GDP was on average about 1.25 per cent faster than GNP during the late 1990s.

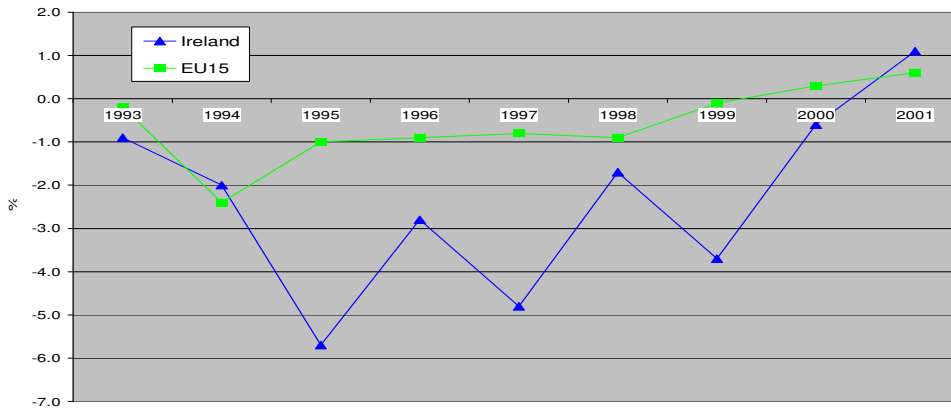
¹³ Comparisons between Ireland and the EU as a whole are made using Purchasing Power Standards (PPS). PPS is a fictive 'currency' unit that takes into account purchasing power, i.e. different price levels. They are fixed in a way that renders the average purchasing power of one Euro in the European Union equal to one PPS.

Honohan and Walsh observe that when labour productivity growth is adjusted to exclude multinational corporation profits it is “*within the range exhibited by other countries and by Ireland itself in earlier periods. Nevertheless, it has been sufficient, when applied to the rapidly increasing share of workers in the population, to generate the observed convergence in living standards.*” (Honohan and Walsh, 2003). Hence, caution is needed in making comparisons between Ireland and other EU countries using GDP-based indicators

7. Unit Labour Cost Growth

Unit labour cost is the growth in labour productivity divided by the growth in wage costs¹⁴. Figure 15 shows that while unit labour cost change in Ireland was lower than the rest of the EU during the 1990s this trend was reversed in 2001.

Figure 15: Unit Labour Cost % Change in Ireland and the EU, 1993-2001



Source: Eurostat

The recent increase in unit labour costs has been due to a combination of lower economic growth and strong earnings growth. Yet despite significant annual wage growth, unit labour cost growth in Ireland was still only 1.1% in 2001, thanks to strong increases in productivity. Unit labour costs in the Eurozone are estimated to have fallen by 0.3% in 2002, although a total figure for the EU in 2002 is not yet available. No figures are available for total labour costs in Ireland in 2002, although the Central Bank have estimated that the unit wage cost in total manufacturing fell in 2002. The caveats mentioned in the previous productivity section concerning the chemicals and

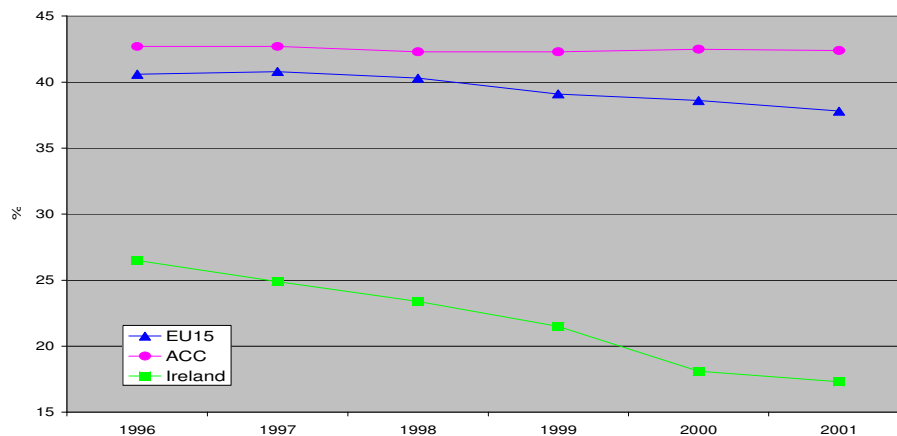
¹⁴ The precise definition of Unit Labour Cost Growth is: the annual growth rate of the compensation per employee in current prices divided by GDP (in current prices) per total employment.

electronics sector, and GDP as a unit of comparison apply equally to measuring changes in unit labour costs.¹⁵

8. Tax Rate on Low-Wage Earners¹⁶

The tax rate on low-wage earners is defined as the average tax rate faced by a single earner without children. A single earner is taken to be an adult full-time production worker in manufacturing industry whose wages are equal to 67% of the average earnings of such workers in each country. The average tax rate on low-wage earners in Ireland has been falling in recent years, thanks in part to successive wage agreements which have traded wage restraint for lower taxes (see Figure 16).

Figure 16: The Tax Rate on Low-Wage Earners, 1996-2001



Source: Eurostat

In fact, at 17.4%, the Irish rate was the lowest in all the EU countries in 2001 and was less than half the Union average of 37.7%. The country with the next lowest average tax rate on low-wage

¹⁵ The Central Bank's Quarterly Bulletin of Spring 2003 contains an index of Unit Wage Costs in Manufacturing (excluding chemicals). The index shows that unit wage costs in manufacturing are much higher when the chemicals sector is excluded. When the chemicals sub-sector is excluded, unit wage costs in manufacturing actually increased by an estimated 6% year on year during the first three quarters of 2002.

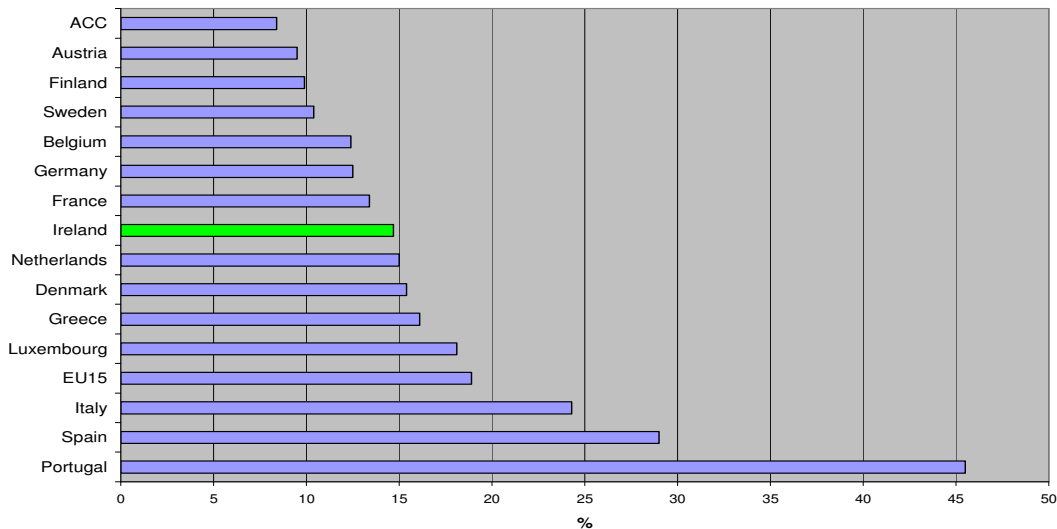
¹⁶ The tax on earnings for this indicator is defined as total income tax on gross wage earnings plus employee and employer social security contributions. This tax on earnings is then expressed as a percentage of labour costs, which are defined to be gross wage earnings plus the employer's social security contributions and payroll taxes (where applicable).

earners was the UK at 24.8%, over 7 percentage points higher than the Irish rate. The contrast in tax rates on low-wage earners was even starker when compared to accession countries where the rate was 41.9% in 2001¹⁷.

9. Early School-Leavers

Early school leavers is defined here as the percentage of the population aged 18-24 with at most lower secondary education and not in further education or training. The Irish rate compares relatively favourably to the rest of the EU, with an early-school leaver rate of 14.7% in 2002 compared to the EU average of 18.9% (see Figure 17).

Figure 17: The Percentage of Early School-Leavers in the EU, 2002



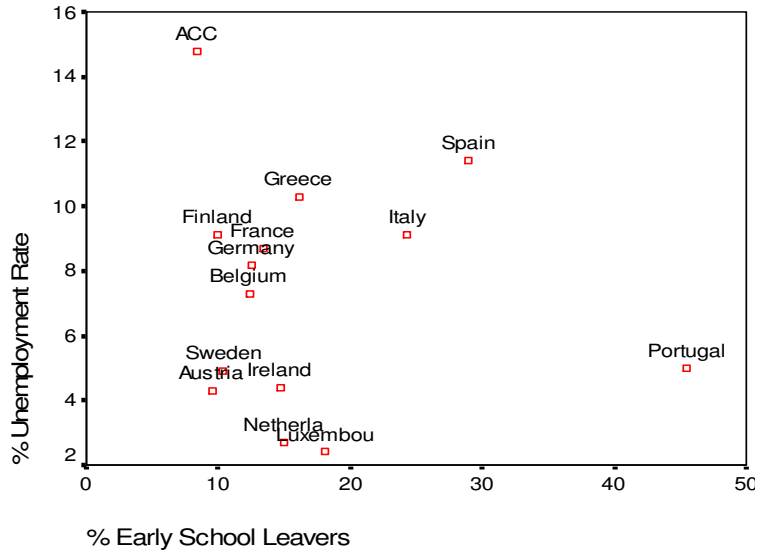
Source: Eurostat

Early school leaver rates are particularly high in the Mediterranean countries. While, the percentage of early-school leavers in the accession countries was 8.4%, lower than any country in the EU, the high-level of educational participation in the accession countries may have partly been forced due to the lack of job opportunities available to young people in these countries.

¹⁷ A comparison of marginal tax rates across the EU would be extremely valuable, since they have greater relevance to work incentives. Unfortunately, data on EU marginal tax rates is not currently available.

However, Figure 18 does not suggest that such a relationship exists between unemployment and the rate of early-school leaving across the EU.

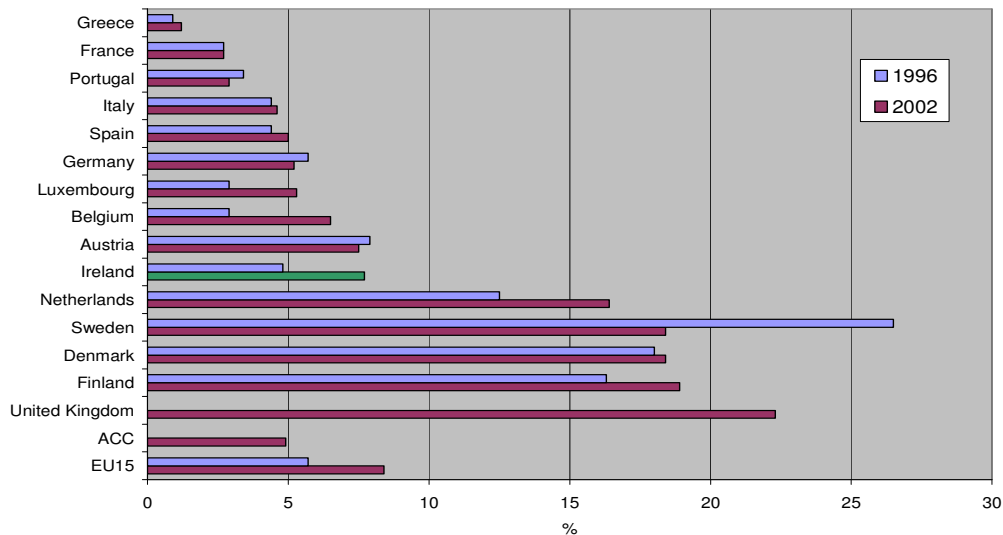
Figure 18: Scatterplot of EU Unemployment Rates and Early-School Leaver Rates, 2001



10. Life-Long Learning

The life-long learning indicator measures the percentage of the population aged 25-64 participating in education and training over the four weeks prior to the survey. Figure 19 shows that there was a significant increase in lifelong learning rates in both Ireland and the EU as a whole since 1996 (albeit from fairly low bases).

Figure 19: % of Working Age Population in Education and Training, 1996 & 2002*



*1996 data was not available for the UK or the accession countries, Source: Eurostat

In 2002, 8.4% of the EU workforce had received education and training in the previous four weeks, up from 5.7% in 1996. In Ireland the comparable 2002 figure was 7.7%, slightly less than the EU average, but rising at a faster pace, having been only 4.8% in 1996. The graph also highlights a dichotomy in life-long learning rates between the Nordic countries (Sweden, Denmark, Finland, the Netherlands) and the UK on the one hand, where rates were high (16-22%) and the rest of the EU where rates were low (1-8%). Since the 1980s most North European countries emphasised the importance of education and training for economic growth. In particular, the Swedish government has allocated extensive resources to the education and training of its adult citizens, but especially the unemployed. Significant responsibility has also been given to the Swedish private sector to provide funds for training (Kjellberg *et al*, 1998).

Overall Assessment

If performance is measured purely on the traditional basis of comparing unemployment rates, then the Irish labour market looks in extremely good shape relative to the rest of the EU. The Irish unemployment rate of 4.4% compares extremely favourably with the EU average of 7.8%. A similar conclusion would be reached if long-term unemployment rates were used as a measure of a healthy labour market. However, when the narrow 'unemployment rate approach' is eschewed for a wider assessment of the labour market, Ireland's performance is more ambiguous. The broader approach adopted in this paper involves using the ten EU structural indicators outlined in the introduction.

The 'population in jobless households' indicator would suggest that the number of Irish people affected by unemployment is larger than might be implied by a simple reading of the unemployment rate. In fact, the percentage of the population in jobless households for those aged 60 or under is almost the same in Ireland (8.5%) as it is in the whole of the EU (8.9%). It seems that more needs to be done in Ireland to help/encourage the unemployed in large households into employment if the cycle of persistent joblessness in households is to be avoided and social inclusion is to be achieved.

While the concept of full employment in Ireland is normally defined in terms of a low unemployment rate (3-5%), the Lisbon Summit (implicitly) defined full employment as an employment rate of 70%. This paper argues, in line with the practice of the European Commission, that the employment rate is still a very important indicator of labour market performance. Firstly, a higher employment rate leads to a reduced dependency rate, a larger tax base and the possibility of lower rates of income tax, making the labour market more competitive. Policy makers are becoming increasingly concerned that Ireland's current demographic profile will imply higher tax burdens in the longer-term when there will be a large number of retirees relative to the number of taxpayers needed to fund pay-as-you-go pensions. In this context, the employment rate is a more relevant indicator than the unemployment rate. Another reason why the employment rate should also be taken into account is that its accuracy as a performance indicator is less affected by the problem of 'hidden unemployment'. Hidden unemployment can arise when the participation rate is depressed due to discouragement or lack of suitable job opportunities. The presence of hidden unemployment results in a lower employment rate but is not picked up by the unemployment rate.

The difference between the Irish and EU employment rates is much less pronounced than the difference in unemployment rates. A comparison of Irish and EU employment rates shows that while the Irish employment rate has risen relative to the EU in recent years, the Irish rate in 2001 (65.7%), was only slightly ahead of the EU average (64.1%).

The 2001 female employment rates for Ireland (54.9%) and the EU (55%) were virtually identical. However, it should be noted that the increase in the female employment rate in Ireland in recent years has partly been due to the relatively young age profile of the Irish workforce. High participation rates among younger women have pushed up the overall average. Employment rates among older women are well below the EU average. This group of older women are therefore a potential target group for any future policy measures designed to boost the employment rate.

Efforts to boost the employment rate will be helped or hindered by the extent to which older workers are willing to stay on in the workforce. The National Action Plans of all Member States see older workers as an important source for increasing the labour supply. The proposed Commission target is for the effective average exit age to be 65 in the EU by 2010. Thus far, the figures have been encouraging for Ireland. The effective average exit age of Irish workers was 63.1 years in 2001, which was above the EU average of 59.9 years.

Turning to the productivity of the workforce it seems that Ireland has performed extremely well relative to the rest of the EU. However, as has been noted, the strong performance of the relatively technology-intensive chemicals and electronics sectors and the gap between GDP and GNP means that Irish productivity figures can be somewhat misleading. In the same vein, rising wage costs have to some extent been obscured in the unit labour cost measure by high productivity levels in technology-intensive sectors (especially the chemicals sector). Given that the Irish economy is currently slowing down, our unit labour costs seem destined to rise, thereby hampering our competitiveness.

On a positive note, our average tax rates on low-income earners are extremely low, especially when compared to the rates in accession countries. This should give those outside the labour force a greater incentive to work and should, therefore, help Ireland to mobilise our labour supply. However, as noted earlier, the average tax rate refers only to single earners, and therefore tells us nothing about the average tax rate faced by married couples.

The European Commission has proposed a target of halving the school drop out rate in each Member state and a reduction in the EU average drop-out rate of 10% by 2010. In order to halve Ireland's early school leaver rate there would need to be an increase in leaving certificate completion rates¹⁸ from 81.6%¹⁹ to about 90%. While the rate of early-school leaving in Ireland is currently below the EU average, it is higher than the North European average and significantly higher than the accession countries. The low rate of early school leaving in the accession countries would seem to counter the myth that they do not have a well-educated workforce. Our higher rate of early school leaving puts us at a competitive disadvantage compared to accession countries when it comes to attracting investment from high-skill companies.

There has been an increase in the percentage of the Irish workforce receiving lifelong learning since 1996. Nevertheless, we are still behind the EU average for this indicator. The Commission has noted that Ireland has yet to implement a strategic framework for lifelong learning. The Commission has proposed a target of increasing the rate of participation of adults in education and training to at least 10% in every Member State by 2010. The Commission has recommended that Ireland should place increased emphasis on in-company training. Nevertheless, research suggests that in-company training is not necessarily the most equitable route for lifelong learning as it tends to benefit those in higher-level jobs the most (Fox and Doyle, 2001).

Clearly there are a lot of variables to consider when assessing labour market performance, some of which have not been covered in this paper due to data constraints (most notably earnings). In an attempt to summarise the various indicators that were discussed, a composite weighted index has been developed. The index gives greater weight to what might be deemed to be the most fundamental indicators and less weight to indicators that are to some extent dependent on other indicators or where there is a question mark over the accuracy of the data. The exact weighting scheme is given in the appendix. Obviously the accuracy of such an index depends on the accuracy of the subjective judgements used to allocate the weights and no pretence is made to suggest that this is the definitive measure of labour market performance. The index should instead be viewed as a rough approximation of how member state labour markets are performing taking a holistic view of the labour market that encapsulates full employment, productivity and social inclusion.

¹⁸ The early school leaver rates and the leaving certificate non-completion rates are not directly comparable.

¹⁹ Source: ESRI 1999 Early-School Leavers Survey.

Two indexes have been constructed. The first index excludes the early-school leavers variable as there was no data available for the U.K. The second index includes the early-school leavers variable but excludes the U.K. The results of the indices are outlined in tables 1 and 2 below.

Table 1: EU Labour Market Index (- E.S.L.)*

Country	Score
Netherlands	144.6
Denmark	141.7
United Kingdom	134.5
Ireland	133.3
Sweden	131.5
Luxembourg	119.6
Austria	118.5
Portugal	110.1
Finland	101.2
France	81.0
Belgium	69.6
Germany	66.1
Spain	59.5
Italy	48.2
Greece	40.5

Table 2: EU Labour Market Index (- U.K.)*

Country	Score
Netherlands	140.9
Denmark	136.2
Sweden	133.3
Ireland	132.8
Austria	127.0
Luxembourg	116.5
Finland	111.3
Portugal	106.1
France	88.1
Belgium	79.4
Germany	74.8
Spain	59.1
Italy	49.3
Greece	45.2

*EU Base Index = 100

Ireland's score of 133.3 for the EU comparison and 132.8 for the EU less UK comparison puts us well above the average. In fact in both rankings we come fourth. The Netherlands is highest and Greece the lowest in both rankings. The tables highlight the Northern-Southern European dichotomy in labour market performance. Of the Mediterranean countries only Portugal scores above the EU average, while Spain, Italy and Greece occupy the bottom 3 places in both tables. It may be a surprise to see Germany scoring so poorly. If an earnings variable were included their ranking would almost certainly be higher.

Conclusions

Overall, the message arising from this assessment of the Irish labour market is positive (as evidenced by Ireland's high score in the EU Labour Market Index). Nevertheless, despite Ireland's success in tackling unemployment, there are still aspects of our labour market where there is considerable room for improvement. For example, while unemployment is extremely low by European standards, the Irish employment rate is only slightly above the EU average. And although Irish labour productivity is high, a question mark remains over our ability to sustain this productivity in a cost-effective manner in the coming years. There must also be doubts over how socially-inclusive our labour market is, given the number of persons in jobless households and the significant percentage of early-school leavers. This is not, however, to belittle the strong performance of the Irish labour market in recent years, which has led to significant improvements in the welfare of Irish society.

In summary, Irish labour market performance has been closer to Luxembourg (associated with the single objective of low unemployment) than Lisbon (associated with the triple-objectives of full employment, high productivity and social inclusion). Going forward, the European Commission has set 10 priorities²⁰ for action in Member States in an effort to create a more results-orientated EES. These priorities for action are accompanied by specific targets, which in the future will provide a benchmark for assessing the performance of individual member states in implementing the EES.

²⁰ See http://europa.eu.int/comm/employment_social/news/2003/apr/newees_en.pdf for the 10 priorities.

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Appendix: EU Labour Market Index.

The Index uses the following variables:

1. The unemployment rate
2. The long-term unemployment rate
3. The employment rate
4. The female employment rate
5. The older worker employment rate (aged 55-64)
6. The effective average exit age
7. Labour productivity
8. Labour costs growth
9. Tax rate on low-wage earners
10. Early school-leavers
11. Life-long learning

A. The percentage of the population in jobless households data was not used as no data was available for Denmark, Sweden or Finland.

B. A separate index was created to include the U.K. which does not use the Early-School Leavers variable as there was no U.K. data available for this indicator.

C. With the exception of the labour costs growth variable, all variables were measured using data for the latest year available. For Germany and Luxembourg the latest data available for variables 2 - 5 was the year 2000, compared to 2001 for the rest of the EU.

D. The labour costs growth variable was measured in terms of the change in labour costs from 1993 to 2001. There was no data for Portugal available after 1999, so it was decided to use the change in labour costs from 1993 to 1999 as a proxy for the 1993-2001 period.

E. Insufficient data was available for the accession countries to include them in the analysis.

F. The index is created by ranking each country's performance on each indicator. A stronger performance leads to a higher score. For example, Luxembourg has the lowest unemployment

rate of the EU-15 in 2002 and was therefore given a score of 15. Spain had the highest unemployment rate in 2002 and was, therefore, given a score of only 1.

G. The scores of each country for each indicator are then multiplied by the weight given to each indicator.

H. The weighting scheme is as follows:

1. All indicators are assigned an initial weight of 4.
2. If an indicator is deemed dependent or inter-dependent with another variable the weight is halved. If an indicator is dependent or inter-dependent with more than one variable then the weight is halved for each dependency.
3. If there are doubts about the comparability of the data, the weight is halved.

I. The weights have been calculated as follows:

Structural Indicator	Initial Weight	Dependent	Doubts Re. Data	Final Weight	(including UK)		(excluding UK)	
					EU Average Score	Weighted EU Average	EU Average Score	Weighted EU Average
Unemployment Rate	4	No	No	4	8	32	7.5	30
Long-Term Unemployment Rate	4	Yes	No	2	8	16	7.5	15
Employment Rate	4	No	No	4	8	32	7.5	30
Female Employment Rate	4	Yes	No	2	8	16	7.5	15
Older Worker Employment Rate	4	Yes (x2)	No	1	8	8	7.5	7.5
Average Effective Exit Age	4	Yes (x2)	No	1	8	8	7.5	7.5
Labour Productivity	4	No	Yes	2	8	16	7.5	15
Labour Cost Change	4	Yes	Yes	1	8	8	7.5	7.5
Average Tax Rate on Low-Wage Earners	4	No	Yes	2	8	16	7.5	15
Life-Long Learning	4	No	Yes	2	8	16	7.5	15
Early-School Leavers	4	No	Yes	2	N/A	N/A	7.5	15
EU Average						168		172.5

J: The EU score is then set to 100, and each member state is re-weighted by dividing the individual member state score by 168 for the index including the U.K. or 172.5 for the index excluding the U.K.

