9. **Cautious adjustment in a context of economic collapse: The public sector in the Irish crises**

**Philip O’Connell**

1. **INTRODUCTION**

The Irish economy moved into a long and deep recession in the first half of 2008. This chapter examines the nature of that crisis, outlines the austerity programme that was adopted in response to the crisis and traces the impact of austerity on the public sector in Ireland. It draws on two case studies – restructuring of services to the unemployed and cutbacks in the education system – to illustrate different aspects of the response to crisis.

1.1 **The Irish Public Sector**

The broad public sector in Ireland consists of a core civil service and a wider public service. The civil service comprises the permanent staff of 15 government departments and certain specialized agencies or offices. The wider public service generally consists of specialized staff, such as teachers, doctors, the police and the armed forces. The main subsectors within the broader public service include: health, education, commercial and non-commercial state-sponsored bodies, local authorities and regional bodies, Garda Síochána (police) and defence forces.

In 2008, total public expenditure was €68.7 billion, accounting for 44 per cent of gross national product (GNP). By 2011, following a series of crises in the state and economy, virtually the same level of public expenditure accounted for almost 55 per cent of GNP (Table 9.1).

Over the 2008–11 period total employment in the public service fell from 427,300 to 392,300, although its share of total employment, which had contracted sharply in the interim, had increased from 25 to almost 26 per cent.
There were five key elements to the crisis that erupted in the Irish state and economy, beginning in 2008: the bursting of the property bubble; the banking collapse; the contraction in economic activity; the fiscal crisis of the state; and mass unemployment.

### 2.1 Property Crash

Following a long and sustained inflation in property prices over the course of the previous decade, the Irish property bubble burst. Figure 9.1 shows private residential house prices increasing steadily by over four times from 1996 through 2007, and then falling rapidly by 40 per cent over the next three years.

### 2.2 Banking Collapse

The property bubble had been facilitated by lax lending practices overseen by ‘light-touch’ regulation that followed an international pattern of neo-liberal-inspired withdrawal of the state from banking supervision. Irish banks were exposed not only to the domestic residential and property bubbles, but also shifts in the international economy because the Irish banks, and Anglo Irish Bank in particular, had borrowed abroad profligately to speculate in both domestic and international markets. In the aftermath of the Lehman Brothers collapse, two Irish banks have failed (Anglo Irish Bank and Irish National). Another, Allied Irish Bank, has been fully taken over by the state and the only other major player, Bank of Ireland, required substantial recapitalization by the state.
2.3 Economic Contraction

The Irish economy moved into recession in the first half of 2008, leading to a dramatic deterioration in labour market conditions. GNP contracted by 3.5 per cent in 2008 and by almost 10 per cent in 2009. The economy grew by just 0.3 per cent in 2010 (Duffy et al. 2011). There was still contraction in 2011 and the most optimistic accounts point to extremely sluggish growth in 2012.

2.4 Mass Unemployment

As the Irish economy moved into recession in the first half of 2008, the slowdown was initially apparent in the construction sector, which had become bloated over the previous five years: in 2007 it accounted for over 20 per cent of male workers. The recession led to a dramatic and very rapid deterioration in labour market conditions. Employment losses have been concentrated in construction and related sectors, but are nevertheless widespread across the private sector.

Total employment fell by almost 174,000 (8.2 per cent) in the 12 months between the second quarter of 2008 and the second quarter of 2009, and by another 130,000 in the following two years. This represented a cumulative decline in employment of about 14 per cent over the three years.

Unemployment increased from less than 5 per cent at the beginning
Public sector shock

of 2008 to 14.3 per cent in the second quarter of 2011. Long-term unemployment increased very rapidly as the recession took hold and persisted (Figure 9.3). By 2011, over half of those unemployed have been in that state for over one year. In response to the labour market decline emigration has increased, immigration declined, and Ireland returned to net emigration in 2009 for the first time since the mid-1990s.

Figure 9.2 GNP growth rate, Ireland, 1992–2010

Source: Author’s construction from the Quarterly National Household Survey, CSO.

Figure 9.3 Long- and short-term unemployment, Ireland, 2007–2011 (%)
2.5 Fiscal Crisis of the State

There are two distinct factors underlying the fiscal crisis of the Irish state: financing day-to-day activities and the cost of the bank crisis. First, lower economic activity and employment, combined with overreliance on property-related taxes during the boom, which were used to fund rapid increases in expenditure, have led to a dramatic shortfall of government revenue over expenditure. Figure 9.4 shows that the general government balance, excluding the cost of recapitalizing the banks, and thus relating to financing of day-to-day current and capital expenditures, fell to −7.3 per cent of GDP in 2008, and to just under 12 per cent in both 2009 and 2010.

In September 2008, in the face of growing pressure on Anglo Irish Bank, then the most obvious casualty of the domestic and international downturns, the government took the momentous step of guaranteeing almost all Irish bank liabilities and recapitalizing the banks with public funds. It was a calamitous decision that reflected the close ties between bankers, property developers and the ruling Fianna Fail party and exposed the incompetence and lack of technical expertise of civil servants and financial regulators. Table 9.2 shows the public finances, observed in 2008 and 2009, and forecast for 2010 and 2011, and reveals the impact of the private banking collapse on the public finances.

The general government balance fell to −14.3 per cent of GDP in 2009 and −32 per cent in 2010, a truly dramatic figure. Of course, about two-thirds of this is a one-off extraordinary item related to the banking bailout. The cost of the bank bailout added 2.5 per cent to the government deficit in 2009, over 20 per cent in 2010 and an estimated 5 per cent in 2011.
Public sector shock

Table 9.2 Public finances, Ireland, 2009 and 2010 and forecast 2011, 2012

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchequer balance (€bn)</td>
<td>–24.6</td>
<td>–18.7</td>
<td>–17.3</td>
<td>–14.5</td>
</tr>
<tr>
<td>General government balance (€bn)</td>
<td>–23.0</td>
<td>–49.9</td>
<td>–22.4</td>
<td>–11.4</td>
</tr>
<tr>
<td>General government balance (% of GDP)</td>
<td>–14.3</td>
<td>–32.0</td>
<td>–14.2</td>
<td>–7.1</td>
</tr>
<tr>
<td>Excluding one-off bank bailout monies (% of GDP)</td>
<td>–11.8</td>
<td>–11.5</td>
<td>–9.3</td>
<td>–7.1</td>
</tr>
<tr>
<td>General government debt (% of GDP)</td>
<td>65.2</td>
<td>94.9</td>
<td>104.0</td>
<td>109.0</td>
</tr>
</tbody>
</table>

Note: * Forecast.

Source: Duffy et al. (2011).

Figure 9.5 tracks the impact of the Irish bank bailout on government debt. In 2008, at the onset of the recession, government debt stood at a modest 44 per cent of GDP. By 2010, total government debt had risen to 95 per cent of GDP, and almost 30 per cent related to the bank bailout. By 2011, government debt was over 110 per cent of GDP; almost 40 per cent relates to bank debt.

In response to the severe fiscal crisis, the government introduced a series of expenditure cuts as well as tax increases and a levy on public sector incomes. In November 2010 with mounting pressure from international financial markets, the Irish state applied for financial assistance from the IMF, the EU and the ECB (the Troika). Financial pledges of €85 billion, including €17.5 billion of Irish state resources (mainly from the public
In the face of the fiscal crisis of the state, the Irish government embarked on a severe austerity programme to restore balance to the public finances with the aim of reducing the headline fiscal balance from over 12 per cent of GDP in 2008 to less than 3 per cent in 2015. Table 9.3 provides a summary outline of the austerity package: a total adjustment of €30 billion, entailing about €19 billion in expenditure cuts and €11 billion in tax increases (Bergin et al. 2011). The cumulative effects of this austerity package represent 20 per cent of GDP in 2010. In the initial phase of the austerity package, 2008–10, more or less before the arrival of the Troika, adjustments amounting to almost €15 billion or 10 per cent of GDP were achieved. The second half of the austerity programme, of the same order of magnitude, is to be implemented over 2011–15, under the supervision of the Troika.

The measures implemented from late 2008 have entailed a combination of major changes in the tax and welfare systems and cuts in the number and pay of public servants.

### Table 9.3 The €30 billion austerity package, Ireland, 2008–2014

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (€bn)</td>
<td>5.6</td>
<td>1.4</td>
<td>1.5</td>
<td>1.1</td>
<td>1.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Expenditure (€bn)</td>
<td>9.2</td>
<td>3.9</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Total (€bn)</td>
<td>14.7</td>
<td>5.3</td>
<td>3.6</td>
<td>3.1</td>
<td>3.1</td>
<td>15.1</td>
</tr>
<tr>
<td>% of 2010 GDP</td>
<td>10</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>10</td>
</tr>
</tbody>
</table>

pension reserve fund) were made to cover the combined bank liabilities (now taken into sovereign debt), the cost of bank recapitalizations and the ongoing fiscal deficit. Further severe austerity measures and far-reaching economic reforms are being implemented over the next four years, driven by the requirements of the Troika.

### 2.6 Austerity

In the face of the fiscal crisis of the state, the Irish government embarked on a severe austerity programme to restore balance to the public finances with the aim of reducing the headline fiscal balance from over 12 per cent of GDP in 2008 to less than 3 per cent in 2015. Table 9.3 provides a summary outline of the austerity package: a total adjustment of €30 billion, entailing about €19 billion in expenditure cuts and €11 billion in tax increases (Bergin et al. 2011). The cumulative effects of this austerity package represent 20 per cent of GDP in 2010. In the initial phase of the austerity package, 2008–10, more or less before the arrival of the Troika, adjustments amounting to almost €15 billion or 10 per cent of GDP were achieved. The second half of the austerity programme, of the same order of magnitude, is to be implemented over 2011–15, under the supervision of the Troika.

The measures implemented from late 2008 have entailed a combination of major changes in the tax and welfare systems and cuts in the number and pay of public servants.

### 2.7 Public Sector Adjustments

Attempts to modernize the Irish Public Service date back to the 1994 Strategic Management Initiative (SMI) which set out a broad agenda for change, primarily in the Civil Service, although it was intended to impact across the entire Public Service. In 1996, a blueprint for reform in the Civil Service was outlined in ‘Delivering Better Government’. It set out a vision of a Civil Service as a high performance, open and flexible organization
Public sector shock

with a mission and culture of quality service to government and to the
citizen, and making the maximum contribution to national social and eco-
nomic development and to competitiveness (Department of the Taoiseach
1996). Various initiatives were subsequently advanced in human resource
management, customer service improvements, financial management
systems, regulatory reform and e-government. The OECD Review of the
Irish Public Service *Towards an Integrated Public Service* was published in
2008. The OECD noted that Ireland was facing a more complex environ-
ment, with increased expectations for effective service delivery. The report
concluded that the public sector in Ireland had evolved in an uncoordi-
nated manner without a strategic vision and with poor competence at
senior level, limited performance review and accountability.

In the wake of the OECD Review, a task force was established in 2008
which issued its report ‘Transforming Public Services – Citizen Centred –
Performance Focused’ which set out a new agenda for change. Progress
on the reform agenda has been slow and achievements limited and, argu-
ably, the reform initiatives have been overtaken by the events and condi-
tions of economic and social crises since 2008. However, the broad thrust
of reform – to achieve greater efficiency and effectiveness in the public
sector – is a key element of the Public Service Agreement 2010–2014
(known as the Croke Park Agreement referring to the conference venue
at Croke Park football stadium) agreed between government and the Irish
Congress of Trade Unions June 2010. The Croke Park Agreement repre-
sents an agreed agenda for change across the public service and provides a
framework within which greater efficiency can be secured in exchange for
guarantees on future pay levels and security of employment.

2.8 Public Sector Pay Bill

Reducing the public sector pay bill has been a central element of the austerity
package. Table 9.4 shows the development of public pay and pensions from
2001 to 2011. There was strong growth up to 2008, and the pay and pensions
bill grew by 84 per cent in nominal terms in 2001–08. Growth was particu-
larly strong in 2002–03, which coincides with a package of public sector wage
increases under the ‘Benchmarking’ process, an innovation of social partner-
ship to facilitate wage gains in the public sector relative to the private sector
(Kelly et al. 2009). The pay and pensions bill fell by 1.5 per cent between 2008
and 2009 and by 7.4 per cent over the following 12 months.

Pay and pensions accounted for 8.7 per cent of GDP in 2001 and had
climbed to 10.4 per cent by 2008. However, even with cuts in the nominal
value of the pay and pensions bill, its share of GDP, then falling, increased
to 11.6 per cent in 2009 and stood at 11 per cent in 2011. In nominal terms,
the public sector pay and pensions bill fell by €1.6 billion between 2008 and 2011; this can be compared with the overall cut of €13 billion in total public expenditure in those years.

The public sector pay bill is a function of both pay rates and numbers. Both were cut after 2008.

### 2.9 Numbers

No public servants with permanent contracts have been fired. However, some temporary contracts have not been renewed. Reductions in the number of public sector workers have been achieved by means of a series of voluntary incentivized redundancy and early retirement packages. From May to September 2009, public service employees aged 50 years and over by 1 September 2009 who had already accrued entitlement to preserved superannuation benefits under a public service scheme, and who had not yet reached normal preserved pension age, could apply for the Incentivized Early Retirement Scheme. The scheme allowed those opting for early retirement to receive their pension entitlements immediately without actuarial reduction – on the basis of service already accrued.

The voluntary redundancy scheme was targeted specifically at management, administrative and support workers in the health service. Implemented in November 2009, it offered the equivalent of five weeks’ pay per year of service plus a lump sum. For example, a middle-rank administrator on a salary of €50,000 per annum, and with 25 years of

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**Table 9.4 Exchequer pay and pensions, Ireland, 2001–2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exchequer pay and pensions (€m)</th>
<th>% change</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>10,186</td>
<td></td>
<td>8.7</td>
</tr>
<tr>
<td>2002</td>
<td>11,489</td>
<td>12.8</td>
<td>8.8</td>
</tr>
<tr>
<td>2003</td>
<td>12,773</td>
<td>11.2</td>
<td>9.2</td>
</tr>
<tr>
<td>2004</td>
<td>13,746</td>
<td>7.6</td>
<td>9.3</td>
</tr>
<tr>
<td>2005</td>
<td>14,973</td>
<td>8.9</td>
<td>9.3</td>
</tr>
<tr>
<td>2006</td>
<td>16,218</td>
<td>8.3</td>
<td>9.1</td>
</tr>
<tr>
<td>2007</td>
<td>17,600</td>
<td>8.5</td>
<td>9.3</td>
</tr>
<tr>
<td>2008</td>
<td>18,753</td>
<td>6.6</td>
<td>10.4</td>
</tr>
<tr>
<td>2009</td>
<td>18,478</td>
<td>–1.5</td>
<td>11.6</td>
</tr>
<tr>
<td>2010</td>
<td>17,112</td>
<td>–7.4</td>
<td>10.7</td>
</tr>
<tr>
<td>2011</td>
<td>17,127</td>
<td>0.1</td>
<td>11.0</td>
</tr>
</tbody>
</table>

*Source:* Department of Finance, various years, ‘Analysis of Exchequer Pay and Pensions Bill’.
Public sector shock

service, would receive a €100,000 gratuity on severance, plus a deferred lump sum of €47,000 on reaching the minimum retirement age for his or her post (typically 60–65 years of age).¹

Figure 9.6 shows total numbers employed (whole-time equivalent) in the public sector in 2001–11. The total increased from 247,000 in 2001 to a high of 319,000 in 2009, about a 30 per cent rise. It has subsequently fallen by an estimated almost 17,000, a reduction of about 5 per cent, between 2009 and 2011.

Table 9.5 shows substantial differences in trends over time in public sector employment. Health and education both grew very strongly between 2001

Table 9.5  Number employed (whole-time equivalent) in the public sector, Ireland, 2001, 2009 and 2011

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>81,513</td>
<td>111,770</td>
<td>105,300</td>
<td>37.1</td>
<td>–6,470</td>
<td>–5.8</td>
</tr>
<tr>
<td>Education</td>
<td>67,845</td>
<td>94,880</td>
<td>93,300</td>
<td>39.8</td>
<td>–1,580</td>
<td>–1.7</td>
</tr>
<tr>
<td>Civil service</td>
<td>34,068</td>
<td>39,129</td>
<td>37,300</td>
<td>14.9</td>
<td>–1,829</td>
<td>–4.7</td>
</tr>
<tr>
<td>Security</td>
<td>24,439</td>
<td>26,524</td>
<td>24,250</td>
<td>8.5</td>
<td>–2,274</td>
<td>–8.6</td>
</tr>
<tr>
<td>State bodies</td>
<td>10,388</td>
<td>12,354</td>
<td>11,200</td>
<td>18.9</td>
<td>–1,154</td>
<td>–9.3</td>
</tr>
<tr>
<td>Local authorities</td>
<td>29,090</td>
<td>34,179</td>
<td>30,750</td>
<td>17.5</td>
<td>–3,429</td>
<td>–10.0</td>
</tr>
<tr>
<td>Total public service</td>
<td>247,343</td>
<td>318,836</td>
<td>302,100</td>
<td>28.9</td>
<td>–16,736</td>
<td>–5.2</td>
</tr>
</tbody>
</table>
Ireland

and 2009; health sector employment then fell by almost 6 per cent, education by less than 2 per cent. However, part of the fall under the ‘Health’ heading related to the transfer of about 1,000 staff from the Health Services Executive to the Civil Service in the Department of Social Protection. Significant staff cuts also took place in local authorities of 3,400 (10 per cent), and relatively, if not numerically, in non-commercial state bodies (9 per cent). In this respect, the staff cuts fell proportionately most heavily on areas of the public sector more peripheral from the core civil and public service. In relation to state bodies, this followed an explicit rationalization agenda to counteract a perceived growth in such ‘quangos’ during the boom.

It is difficult to track the gender impact of public sector staff cuts in the absence of accurate data. Table 9.6 shows employment by NACE sectors, by gender. Unfortunately, the principal Irish labour force survey, the Quarterly National Household Survey, does not distinguish explicitly between public and private sectors. We can, however, make some inferences about the general trends by focusing on particular sectors. First, from the peak of the boom in the third quarter of 2007 to the second quarter of 2011, total male employment fell by far more than did female employment, –21 versus –8 per cent. This was mainly because most of the job losses were from the bloated construction sector and to a lesser extent, manufacturing industry, both of which mainly employed men.

In predominantly public sectors, male employment increased by 9,400 in education and health and remained static in public administration and defence. Women’s employment in public administration fell by 7,200, but increased by 11,200 in education and by 13,500 in health, a net gain of 27,000 jobs.

2.10 Wages and Pensions

There has been a good deal of controversy over public sector wages in recent years. Public sector pay is of policy interest because it is financed out of taxation of the private sector. An additional issue in the Irish case has been a decline in international competitiveness since about 2002. Public sector wages can affect wages in the private sector through demonstration effects (where private sector workers seek to emulate pay increases in the public sector) or crowding-out effects (where private sector employers compete for labour with the public sector).

In Ireland, it has been argued that public sector pay got out of line with pay in the private sector during the boom. Two factors are believed to have been important. First, national pay agreements negotiated under the social partnership process, which had been in continuous operation since the previous economic crisis in 1987, were implemented almost universally.
### Public sector shock

**Table 9.6 Employment by NACE sector and gender, Ireland, 2007–2011**

<table>
<thead>
<tr>
<th></th>
<th>2007 Q3</th>
<th>2011 Q2</th>
<th>Change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Males</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Agriculture, forestry and fishing</td>
<td>100.3</td>
<td>76.7</td>
<td>-23.6</td>
<td>-23.5</td>
</tr>
<tr>
<td>B–E. Industry</td>
<td>222.1</td>
<td>164.8</td>
<td>-57.3</td>
<td>-25.8</td>
</tr>
<tr>
<td>F. Construction</td>
<td>254.9</td>
<td>98.1</td>
<td>-156.8</td>
<td>-61.5</td>
</tr>
<tr>
<td>G. Wholesale and retail trade; repair of motor vehicles and motorcycles</td>
<td>152.6</td>
<td>136.2</td>
<td>-16.4</td>
<td>-10.7</td>
</tr>
<tr>
<td>H. Transport and storage</td>
<td>76.3</td>
<td>77.5</td>
<td>1.2</td>
<td>1.6</td>
</tr>
<tr>
<td>I. Accommodation and food service activities</td>
<td>57.5</td>
<td>46.4</td>
<td>-11.1</td>
<td>-19.3</td>
</tr>
<tr>
<td>J. Information and communication</td>
<td>45.5</td>
<td>52.4</td>
<td>6.9</td>
<td>15.2</td>
</tr>
<tr>
<td>K–L. Financial, insurance and real estate activities</td>
<td>43.3</td>
<td>48.6</td>
<td>5.3</td>
<td>12.2</td>
</tr>
<tr>
<td>M. Professional, scientific and technical activities</td>
<td>67.0</td>
<td>62.5</td>
<td>-4.5</td>
<td>-6.7</td>
</tr>
<tr>
<td>N. Administrative and support service activities</td>
<td>40.8</td>
<td>32.4</td>
<td>-8.4</td>
<td>-20.6</td>
</tr>
<tr>
<td>O. Public administration and defence; compulsory social security</td>
<td>51.9</td>
<td>51.9</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>P. Education</td>
<td>35.0</td>
<td>37.6</td>
<td>2.6</td>
<td>7.4</td>
</tr>
<tr>
<td>Q. Human health and social work activities</td>
<td>39.2</td>
<td>46.0</td>
<td>6.8</td>
<td>17.3</td>
</tr>
<tr>
<td>R–U. Other NACE activities</td>
<td>39.4</td>
<td>38.9</td>
<td>-0.5</td>
<td>-1.3</td>
</tr>
<tr>
<td><strong>Total males</strong></td>
<td>1,225.9</td>
<td>970.0</td>
<td>-255.9</td>
<td>-20.9</td>
</tr>
<tr>
<td><strong>Females</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Agriculture, forestry and fishing</td>
<td>11.4</td>
<td>9.1</td>
<td>-2.3</td>
<td>-20.2</td>
</tr>
<tr>
<td>B–E. Industry</td>
<td>83.5</td>
<td>69.0</td>
<td>-14.5</td>
<td>-17.4</td>
</tr>
<tr>
<td>F. Construction</td>
<td>13.3</td>
<td>7.6</td>
<td>-5.7</td>
<td>-42.9</td>
</tr>
<tr>
<td>G. Wholesale and retail trade; repair of motor vehicles and motorcycles</td>
<td>154.3</td>
<td>129.4</td>
<td>-24.9</td>
<td>-16.1</td>
</tr>
<tr>
<td>H. Transport and storage</td>
<td>15.9</td>
<td>17.2</td>
<td>1.3</td>
<td>8.2</td>
</tr>
<tr>
<td>I. Accommodation and food service activities</td>
<td>80.3</td>
<td>60.8</td>
<td>-19.5</td>
<td>-24.3</td>
</tr>
<tr>
<td>J. Information and communication</td>
<td>21.0</td>
<td>22.5</td>
<td>1.5</td>
<td>7.1</td>
</tr>
<tr>
<td>K–L. Financial, insurance and real estate activities</td>
<td>61.8</td>
<td>55.3</td>
<td>-6.5</td>
<td>-10.5</td>
</tr>
<tr>
<td>M. Professional, scientific and technical activities</td>
<td>46.9</td>
<td>39.3</td>
<td>-7.6</td>
<td>-16.2</td>
</tr>
<tr>
<td>N. Administrative and support service activities</td>
<td>41.9</td>
<td>33.8</td>
<td>-8.1</td>
<td>-19.3</td>
</tr>
<tr>
<td>O. Public administration and defence; compulsory social security</td>
<td>55.5</td>
<td>48.3</td>
<td>-7.2</td>
<td>-13.0</td>
</tr>
</tbody>
</table>
in the public sector, which is heavily unionized, but only patchily in the private sector. Second, the benchmarking process, which was initiated on the assumption that public sector pay had fallen behind that in the private sector, recommended awards ranging between 2 and 27 per cent, and averaging 9 per cent (Public Service Benchmarking Body 2002). Higher-level public servants received similar awards in a separate related award process (Review Body on Higher Remuneration in the Public Sector 2005). The Benchmarking Report produced no evidence to support the assumption

Table 9.6  (continued)

<table>
<thead>
<tr>
<th></th>
<th>2007 Q3</th>
<th>2011 Q2</th>
<th>Change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>P Education</td>
<td>97.7</td>
<td>108.9</td>
<td>11.2</td>
<td>11.5</td>
</tr>
<tr>
<td>Q Human health and social work activities</td>
<td>178.4</td>
<td>191.9</td>
<td>13.5</td>
<td>7.6</td>
</tr>
<tr>
<td>R–U Other NACE activities</td>
<td>62.1</td>
<td>58.3</td>
<td>-3.8</td>
<td>-6.1</td>
</tr>
<tr>
<td>Total females</td>
<td>923.9</td>
<td>851.3</td>
<td>-72.6</td>
<td>-7.9</td>
</tr>
</tbody>
</table>

**All persons**

<table>
<thead>
<tr>
<th></th>
<th>2007 Q3</th>
<th>2011 Q2</th>
<th>Change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Agriculture, forestry and fishing</td>
<td>111.7</td>
<td>85.8</td>
<td>-25.9</td>
<td>-23.2</td>
</tr>
<tr>
<td>B–E Industry</td>
<td>305.6</td>
<td>233.7</td>
<td>-71.9</td>
<td>-23.5</td>
</tr>
<tr>
<td>F Construction</td>
<td>268.2</td>
<td>105.7</td>
<td>-162.5</td>
<td>-60.6</td>
</tr>
<tr>
<td>G Wholesale and retail trade; repair of motor vehicles and motorcycles</td>
<td>306.9</td>
<td>265.6</td>
<td>-41.3</td>
<td>-13.5</td>
</tr>
<tr>
<td>H Transport and storage</td>
<td>92.2</td>
<td>94.7</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>I Accommodation and food service activities</td>
<td>137.8</td>
<td>107.2</td>
<td>-30.6</td>
<td>-22.2</td>
</tr>
<tr>
<td>J Information and communication</td>
<td>66.5</td>
<td>74.9</td>
<td>8.4</td>
<td>12.6</td>
</tr>
<tr>
<td>K–L Financial, insurance and real estate activities</td>
<td>105.1</td>
<td>103.9</td>
<td>-1.2</td>
<td>-1.1</td>
</tr>
<tr>
<td>M Professional, scientific and technical activities</td>
<td>113.9</td>
<td>101.8</td>
<td>-12.1</td>
<td>-10.6</td>
</tr>
<tr>
<td>N Administrative and support service activities</td>
<td>82.7</td>
<td>66.1</td>
<td>-16.6</td>
<td>-20.1</td>
</tr>
<tr>
<td>O Public administration and defence; compulsory social security</td>
<td>107.4</td>
<td>100.2</td>
<td>-7.2</td>
<td>-6.7</td>
</tr>
<tr>
<td>P Education</td>
<td>132.7</td>
<td>146.5</td>
<td>13.8</td>
<td>10.4</td>
</tr>
<tr>
<td>Q Human health and social work activities</td>
<td>217.6</td>
<td>237.9</td>
<td>20.3</td>
<td>9.3</td>
</tr>
<tr>
<td>R–U Other NACE activities</td>
<td>101.6</td>
<td>97.2</td>
<td>-4.4</td>
<td>-4.3</td>
</tr>
<tr>
<td>Total persons</td>
<td>2,149.8</td>
<td>1,821.3</td>
<td>-328.5</td>
<td>-15.3</td>
</tr>
</tbody>
</table>

*Source:* CSO, various years, Quarterly National Household Survey. See www.cso.ie.
that public sector wages had fallen behind, and ignored research demonstrat-
ing that public sector workers enjoyed a wage premium before the bench-
marking process (Boyle et al. 2004).

Subsequent papers by Kelly et al. (2009) and McGuinness et al. (2010) have shown that the public sector pay gap rose sharply between 2003 and 2006, by about 12 percentage points, to between 22 and 26 per cent, depending on the estimation procedure. The public sector premium was highest for those in the lower income deciles. These public sector premia in Ireland are substantially higher than those found in other countries. This debate on public sector pay formed part of the debate on policy formation in response to the crisis. Given that spending on public sector pay and pensions represents a substantial component of total public expenditure, another element of that debate related to a trade-off between cuts in public sector employment versus pay.

In March 2009 a pay increase scheduled under the then current national wage agreement was cancelled. At the same time, a public sector pension levy was announced. The first €15,000 of earnings were exempt and the levy was then charged as follows: 5 per cent on the next €5,000 of earnings, 10 per cent on earnings between €20,000 and €60,000 and 10.5 per cent on earnings above €60,000.

In December 2009, wage cuts were introduced. Effective 1 January 2010, all public salaries were reduced as follows: 5 per cent on the first €30,000 of salary, 7.5 per cent on the next €40,000 and 10 per cent on the next €55,000. This generated cuts ranging between 5 and just under 8 per cent of salaries up to €125,000. Salaries up to €165,000 were cut by 8 per cent, salaries up to €200,00 by 12 per cent, and salaries above €200,00 by 15 per cent. These pay cuts were applied generally throughout the public service, although senior civil servants argued for special treatment and their pay cut was reduced to about 3 per cent. In December 2010, in an effort to secure a structural reduction in pay rates, the Department of Finance announced that new entrants to the public service would be appointed at salary scales that had been reduced by 10 per cent of the scales relating to incumbents. Given the moratorium on public sector recruitment, it will take some time for the impact of this measure to become apparent.

Perhaps the most idiosyncratic element of the pay cuts in Ireland was the case of judges. In a somewhat controversial interpretation of the Constitution, which stipulates that the salaries of serving judges should not be reduced by government, the Attorney General determined that the pay cuts applicable throughout the public service should not be applied to the judicial service. About three-quarters of serving judges undertook to take voluntary pay cuts of a similar order of magnitude to the cuts imposed at similar salary levels elsewhere in the public sector. The
The situation was finally resolved when the newly elected government in 2011 held a referendum to amend the Constitution to permit cutting judicial pay in line with practice elsewhere in the public sector. Notwithstanding opposition from judicial quarters, the referendum was passed with an 80 per cent majority in October 2011. Overall, the pay cuts were projected to lead to annual savings of over €1 billion.

Information on the impact of the public sector pay cuts is limited. Preliminary analysis of the most recent National Employment Survey data relating to 2009, which are consistent with the data used by Kelly et al. (2009) to assess the growth in the wage gap between 2003 and 2006, suggest that the public/private sector wage gap had not fallen by 2009. However, this is prior to the imposition of cuts in gross pay implemented in 2010. One of the effects of the austerity programme has been the cessation of the National Employment Survey since 2009, so unfortunately we can no longer draw on this source to compare public with private sector pay during this key period of policy change.

Table 9.7, showing CSO estimates of average earnings in the public and private sectors, suggests that hourly wages in the public sector fell by 4.3 per cent, and weekly earnings by slightly more, in 2010. This coincides with the wage cuts implemented in January of that year. These data refer to gross earnings, so do not take account of the impact of the pension levy on disposable incomes imposed since 2009.

It should be noted in this context that adjustment to the crisis differed

<table>
<thead>
<tr>
<th></th>
<th>Average hourly pay</th>
<th>% change</th>
<th>Average weekly pay</th>
<th>% change</th>
<th>Hours worked</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>29.2</td>
<td></td>
<td>930.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>29.9</td>
<td>2.4</td>
<td>947.9</td>
<td>1.9</td>
<td>31.7</td>
</tr>
<tr>
<td>2010</td>
<td>28.6</td>
<td>–4.3</td>
<td>903.1</td>
<td>–4.7</td>
<td>31.6</td>
</tr>
<tr>
<td>2011*</td>
<td>28.6</td>
<td>0.0</td>
<td>892.3</td>
<td>–1.2</td>
<td>31.1</td>
</tr>
<tr>
<td><strong>Private</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>19.3</td>
<td></td>
<td>636.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>19.5</td>
<td>1.0</td>
<td>622.7</td>
<td>–2.2</td>
<td>32.0</td>
</tr>
<tr>
<td>2010</td>
<td>19.5</td>
<td>0.0</td>
<td>616.6</td>
<td>–1.0</td>
<td>31.7</td>
</tr>
<tr>
<td>2011*</td>
<td>19.4</td>
<td>–0.5</td>
<td>610.3</td>
<td>–1.0</td>
<td>31.6</td>
</tr>
</tbody>
</table>

* 2011 data based on three quarters – 2011, Q1–Q3.

Source: CSO, 2011, Survey on Earnings Hours and Employment Costs (EHECS).
between the public and private sectors. In the public sector we have seen wage cutting, but modest cuts in employment. In the private sector, employment contracted by about 16 per cent and average working time also contracted. So while there may have been a very modest cut in hourly pay in 2011 in the private sector, most of the decline in earnings was due to cuts in working time, leading to falls in weekly earnings in each year of 2009–11.

Callan et al. (2010) examine the distributional implications of both the pension levy and the wage cuts using survey data and a tax-benefit simulation model. Compared with a counterfactual wage freeze, they found that the combined effects of the levy and wage cuts on households containing public sector workers were to reduce disposable income by about 1 per cent for households in the lowest four income deciles, and that the losses gradually increased to about 3 per cent for the top decile. Callan et al. (2012: 51) show that the public sector pay cuts have had a progressive impact – as expected, given that the cuts were designed to increase with income:

The public sector pay cuts make little difference to low income households, but reduced the income of higher income households. While the results are broadly similar – least impact on low income households, and the greatest impact on high income households – it is noteworthy that the tax/welfare measures alone led to a reduction in income of about 7 per cent for the middle income deciles (deciles 4, 5, 6 and 7). Inclusion of the public sector pay cuts means that losses rise with income over these deciles.

Callan et al. also show that the scale of the adjustment undertaken by Ireland is substantially greater than that for a range of countries in their analysis (Estonia, Greece, Spain, Portugal and the United Kingdom) and that the distributional impact of the policy changes in Ireland has been among the most progressive.

More generally, however, the most recent Irish results from the EU Survey of Income and Living Conditions (SILC), relating to 2010 (CSO 2012), show that there were marked increases in poverty and inequality as the crisis deepened between 2009 and 2010. For example, the ‘at risk of poverty rate’ – referring to the proportion of households with disposable income falling below 60 per cent of the median – increased from 14.1 per cent in 2009 to 15.8 per cent in 2010. Moreover, the average income of individuals in the highest income quintile was 5.5 times that of those in the lowest income quintile, up from a ratio of 4.3 one year previously.

2.11 Working Conditions

The Changing Workplace Survey conducted among a sample of 5,000 employees in mid-2009 allows us to gain some insight into the immediate
Figure 9.7  Experience of change in job tasks/conditions in past two years, Ireland, 2009

Source: O’Connell et al. (2010).
Public sector shock

impact on working conditions as the crisis developed (O’Connell et al. 2010). A greater share of public sector than private sector workers reported that their responsibilities and work pressure had increased during the previous two years. Public sector workers were substantially more likely to report that their pay had fallen than private sector workers (37 per cent versus 16 per cent), although private sector workers were more likely to report that their job security had deteriorated.

We can also draw upon The Changing Workplace Survey conducted in 2003 (O’Connell et al. 2004) to examine change over time in working conditions Figure 9.8 compares reported aspects of work pressure among public sector workers in 2003 during the boom and 2009 during the crisis. All indicators of work pressure increased somewhat over the period. In particular, the proportion of public sector workers reporting that they worked very hard increased from 86 per cent in 2003 to 92 per cent in 2009. About 46 per cent of workers reported that they did not have enough time to do everything in their job in 2003, but this increased to 55 per cent in 2009.

The 2009 data on work pressure were collected prior to the implementation of the moratorium in public sector recruitment and the contraction in public sector employment between 2009 and 2011 (see Table 9.5, above).

### Table 9.8  Experience of work pressure, public employees, Ireland, 2003 and 2009

<table>
<thead>
<tr>
<th>Job requires I work very hard</th>
<th>Great deal of pressure</th>
<th>Not enough time</th>
<th>Have to work extra time</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003 61</td>
<td>2009 60</td>
<td>2003 43</td>
<td>2009 43</td>
</tr>
<tr>
<td>2003 14</td>
<td>2009 17</td>
<td>2003 10</td>
<td>2009 17</td>
</tr>
<tr>
<td>2003 36</td>
<td>2009 38</td>
<td>2003 35</td>
<td>2009 37</td>
</tr>
</tbody>
</table>

**Sources:** Special analysis of O’Connell et al. (2004, 2010).

**Figure 9.8** Experience of work pressure, public employees, Ireland, 2003 and 2009
so it is to be expected that work pressure increased subsequently in the effort to provide public services with reduced staff numbers.

2.12 Industrial Relations

Industrial relations were dominated by centralized wage bargaining under tripartite social partnership arrangements for over two decades, from 1987 to the onset of the present crisis. Indeed, Irish social partnership was developed as a strategic response to the fiscal and economic crisis of the 1980s, and initially entailed an exchange of wage restraint and industrial peace for state commitment to reduce income tax (McGuinness et al. 2010). In early 2009, employers and the government declined to pay the increases due under the then current National Agreement, ‘Towards 2016’, which had been negotiated in September 2009, on the basis of inability to pay. The fiscal crisis continued to intensify throughout 2009, leading to the imposition of direct income levies on all employees, as well as the pension levy on all public sector workers, and cutbacks in entitlements to health services.

In this context of a growing fiscal crisis, the public sector unions held a one-day strike and street protests in November 2009, in anticipation of harsh measures in the next budget. They also developed a proposal, within the social partnership process, for short time working in the public sector (entailing 12 days’ unpaid leave for public sector workers) plus flexibility over work practices to achieve cost savings. The proposal found some favour in the cabinet, but was eventually rejected following a revolt of government backbench legislators. Dellepiane and Hardiman (2012: 28) argue that ‘government chose not to follow the social partnership route of gradual efficiency-based cost recovery’. Instead, the pay cuts were introduced from 1 January 2010, along with a moratorium on recruitment to the public sector and the rationalization of state agencies.

At that point social partnership collapsed and social dialogue between government and unions ceased. Rigney (2012: 9) argues:

[T]he social partnership process had been atrophying since the inception of the crisis, and was being blamed by some conservative commentators as one of the causes of the crisis. The unions had been in a position of having access without influence for some time. The central forum for deliberative social dialogue, the national economic and social council had been effectively stood down by the government, its term of office having expired, and the council never met during much of the crisis period.

In this context, it could be argued that the conduct of industrial relations in the public sector has been remarkably peaceful, given the cancellation
Table 9.8 Industrial disputes, Ireland, 2007–2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Disputes</th>
<th>Workers</th>
<th>Days lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>6</td>
<td>1,436</td>
<td>6,038</td>
</tr>
<tr>
<td>2008</td>
<td>12</td>
<td>356</td>
<td>4,147</td>
</tr>
<tr>
<td>2009</td>
<td>168</td>
<td>278,228</td>
<td>329,593</td>
</tr>
<tr>
<td>2010</td>
<td>14</td>
<td>511</td>
<td>6,602</td>
</tr>
<tr>
<td>2011</td>
<td>8</td>
<td>1,384</td>
<td>3,695</td>
</tr>
</tbody>
</table>

Source: CSO (2012), Industrial Disputes Quarter 4, 2011.

of the award under the national wage agreement and the imposition of the pension levy in 2009, the pay cuts in 2010 and the moratorium on public sector recruitment. In fact, the early period of adjustment in late 2009 was marked by a number of industrial disputes, strikes and protests against the wage freeze and pension levy (Table 9.8).

The number of workers involved in industrial disputes rose massively to 278,000 in 2009, up from just 356 in the previous year. The vast majority of the days lost to disputes were related to one-day strikes in the public sector in the final quarter of 2009, and industrial peace returned in 2010, and was subsequently maintained.

In spring 2010 the public sector unions and the government re-engaged in dialogue and the Public Service Agreement 2010–2014 (Croke Park Agreement) was negotiated between the government and the unions. The government undertook not to implement any further pay cuts for four years and stated that there would be no compulsory redundancies.

The main elements of the agreement are as follows:

- no further pay cuts until at least 2014;
- no change in the arrangements for indexation of pensions for public service pensioners and serving public servants at least until 2014;
- significant cost saving across the public service;
- review of extent of savings generated to be held in spring 2011 to determine if scope exists for any reimbursement of pay cuts;
- substantial reduction in public service numbers in years ahead;
- no compulsory redundancies but flexible redeployment arrangements;
- unified public service labour market to be created;
- merit-based promotion;
- promotion and incremental progression based on performance; and
- industrial peace clause.
The Croke Park Agreement was formally endorsed in June 2010 by the Irish Congress of Trade Unions. A significant minority – seven trade unions representing some teachers, nurses, lower-paid public servants and others – voted against the agreement, although most subsequently accepted it. In addition to agreeing the basis for cost cutting through acceptance of pay cuts and staffing reductions, the agreement provides for the achievement of increased productivity and improved services through revised work practices, organizational restructuring and redeployment of staff across the public sector.

The agreement provides for an annual review focusing on the sustainable savings generated from its implementation. The first annual review was published in June 2011 covering the 12 months to the end of March 2011. The Implementation Body noted that the Exchequer pay bill fell from a peak of €17.5 billion in 2009 to €15.7 billion in 2010, or €15 billion, when the effect of the pension-related deduction was factored in, representing a 14.4 per cent reduction. A further reduction to €14.8 billion was estimated for 2011, representing a 15.5 per cent fall from peak by the end of 2011. The provisional gross Exchequer-funded public service pay bill cost for 2010 was €15.9 billion. The estimate for the gross Exchequer-funded public service pay bill in 2011 was €15.7 billion. Therefore, the minimum savings target for the Exchequer-funded public service pay bill would be €220 million for 2011, with a further saving of some €28 million in the local government pay bill, which is funded differently.

The review established that estimated sustainable pay bill savings in the order of €289 million had been achieved during the review period. The saving was driven primarily by a 5,349 reduction in staff numbers but also other factors such as reductions in overtime costs (down 5.2 per cent) and pay bill savings accruing from changed work practices and rationalization.

The review concluded that the level of sustainable savings delivered during the first year of the agreement had exceeded the targeted savings for the public service pay bill in 2011. The review also found that public service bodies had generated significant non-pay cost savings through better use of resources – reorganizing work and achieving greater internal efficiencies, property rationalization, reducing the costs of purchasing goods and services and changes in the way services are delivered.

Non-pay savings (exhaustively detailed in the report) amounted to over €300 million. The report also provides some examples of initiatives taken by public bodies which have led to costs of €85.7 million being avoided which would otherwise have been incurred. The review concluded that, in the first year of the four-year agreement:
numbers had fallen substantially, more quickly than previously estimated, and services had been maintained and in some cases expanded and productivity increased;

- the cost of delivering public services had fallen in a sustainable way, primarily through reducing headcount across the public service, enabling the state to meet its external economic and fiscal commitments; and

- thousands of staff had been redeployed, including across functional boundaries which helped to meet two challenges: avoiding gaps in service as numbers reduced and changing the way in which public services are delivered to citizens and business.

The review also noted that industrial peace was maintained across the public service during this period: this is not insignificant when contrasted with the escalating industrial unrest in the months preceding the agreement.

3. CASE STUDIES

3.1 Case Study 1: Restructuring Services to the Unemployed

A major restructuring of services to the unemployed has been in progress since 2010. This represents the beginning of the development of a strategic response to mass unemployment, and the staff redeployments involved in this restructuring can be seen as taking advantage of the flexibility in the Croke Park Agreement.

The Department of Social Protection (DSP) is to take a greater role in providing activation services for the unemployed, as well as for its more traditional role in paying unemployment-related income supports. This is similar to the role adopted by social welfare authorities in other countries and consistent with the conclusions of the OECD Report on the need to combine income support and activation policies in Ireland (Grubb et al. 2009). The reform also addresses some of the problems highlighted in an evaluation of activation measures implemented under the Irish National Employment Action Plan (NEAP), which found that up to half of potentially eligible clients who might have received job search assistance under the NEAP fell through the net and received no assistance, while those who did receive activation assistance were less likely to exit unemployment, an effect that was attributed to a reduction in job search in the absence of regular monitoring or sanctions (McGuinness et al. 2011b).

The restructuring and reform process also takes place in the context of
the fiscal and unemployment crises. Unemployment increased from less than 5 per cent of the labour force at the beginning of 2008 to over 14 per cent in 2011. The Live Register, which measures claimants of unemployment related-payments (Jobseeker’s Benefit or Allowance) and part-time, casual and seasonal workers, increased from 290,000 in 2009 to 440,000 in 2012. This has led to a dramatic increase in the numbers of claims processed by the DSP in a relatively short period of time. The number of recipients of Jobseeker’s Benefit and Jobseeker’s Allowance increased from 139,000 in 2007 to over 385,000 in 2010, and expenditure on these jobseeker payments increased from €1.4 billion to €4.1 billion over the same period (Department of Social Protection 2011b).

3.1.1 Scheduling a new activation regime at the DSP

The project plan for the National Employment and Entitlements Service (NEES) was approved by government in June 2011 (Department of Social Protection 2011a). The establishment of the NEES is a key commitment under the terms of the Memorandum of Understanding with the EU/IMF/ECB (Troika). Central to the reform and restructuring process is the integration of the income support services with employment activation services within the DSP. From January 2012, the DSP is to take a greater role in providing activation services for the unemployed, as well as for its more traditional role in paying benefits. Second, the DSP is to implement a new case management system with a strong focus on activation, rather than just income support. Third, the Social Welfare (Miscellaneous Provisions) Act 2010 provides for sanctions to be applied to unemployed persons on the Live Register unreasonably refusing to participate in training, education and employment offered by facilitators within the DSP. Fourth, the DSP has begun to implement a profiling system for the unemployed, developed in collaboration between the Department and ESRI researchers (O’Connell et al. 2009). Profiling is a statistically based system for the early identification of those with a high probability of becoming long-term unemployed at the time they first become unemployed. It allows for a ranking of jobseeker claimants according to their likelihood of long-term unemployment, and provides the capacity to target resources on those who most need, and can benefit from, activation measures.

In February 2012, the DSP launched Pathways to Work, its new integrated service. At the core of the new policy document is a commitment to reducing long-term unemployment. Pathways to Work is based on five strands:

- more regular and ongoing engagement with the unemployed;
- greater targeting of activation places and opportunities;
Public sector shock

- incentivizing the take-up of opportunities;
- incentivizing employers to provide more jobs for people who are unemployed; and
- reforming institutions to deliver better services to people who are unemployed.

Profiling of clients to enable early identification of those at high risk of long-term unemployment is to be extended to half of all local offices by the end of May 2012 and to encompass virtually all new claimants by the end of 2012. Group engagement will also be made available, as appropriate, to all people profiled as at moderate risk of long-term unemployment and those who have been on the Live Register for at least three months. The Department is to ensure that those most at risk of long-term unemployment, such as those previously employed in the construction and retail sectors, will be a specific focus of activation interventions and education and training opportunities. A new fully integrated ‘one-stop-shop’ service is to be piloted from four office locations in May of 2012 and extended to a further 10 offices by the end of the year.

Restructuring of services to the unemployed has entailed a series of organizational mergers. During 2011, about 1,000 personnel from the Community Welfare Service (CWS) were transferred from the Health Services Executive to the DSP and became full staff members of the Department in October 2011. While the principal focus of the CWS has historically been on income support on a personalized basis, it is planned to automate standard welfare claim processing, integrate the CWS functions with mainstream DSP functions and free former CWS staff to take on the role of NEES case management and activation.

Under the reform, FÁS, the national training and employment authority, is to be abolished and its functions dispersed. About 700 FÁS staff working in its Employment Services division were transferred to the DSP in January 2012, and the training function is to be taken over by the Department of Education and Skills. These staff are expected to bring core competencies in job placement and advice to be applied to the new activation regime. Several hundred civil servants were also transferred to the DSP from other government departments in order to cope with the increased workload resulting from the unemployment crisis, such that total staff increased from about 4,900 in 2008 to almost 7,000 in 2012.

3.1.2 Resolving industrial relations issues

Redeployment of staff and reorganization of working practices can thus be seen as one of the positive outcomes of the Croke Park Agreement, which facilitates the development of a strategic response to the unemployment crisis.
Ireland

crisis. The organizational merger has had to overcome a number of complex industrial relations issues. Many of the incoming staff made a transition from public to civil servant, and in the process, resigned from public service unions such as Services Industrial Professional and Technical Union (SIPTU) or IMPACT, and joined the mainstream civil service unions – the Public Service Executive Union, or the Association of Higher Civil and Public Servants (AHCPS) in the case of more senior grades. Pay scales in FÁS and the CWS each differed from standard civil service scales in the DSP – most were higher for equivalent grades – and enjoyed different terms and conditions. Following extensive negotiations and arbitration, individual officers held on to existing terms on a personal basis. This generates inequalities between staff that have come from different organizations now working side by side and engaged in similar functions, but with different pay and conditions. These differentials are regarded as posing a challenge for both management and unions and are expected to take some time to work their way through the system.

3.1.3 Lack of resources and potential mismatch between capacity and demand

Concerns have been expressed by representatives of unemployed groups about the numerical and technical capacity of the DSP to deliver the new activation regime. These concerns would appear to be warranted. Grubb et al. (2009) argued that the public employment system did not have sufficient staff to implement a system of frequent and regular monitoring interactions with the unemployed. While staff numbers at the DSP have recently been augmented by the transfer of 1,700 staff from FÁS and the CWS, it is unlikely that the Department has expanded its capacity sufficiently to implement a much enhanced activation role to a greatly enlarged clientele, given that the Live Register increased from about 290,000 at the start of 2009 to over 440,000 in 2012. This suggests that the ratio of jobseekers to case workers will remain far higher than in countries with serious activation systems. It is also likely that the enhanced activation regime will result in an intensification of work pressure on front-line staff at the DSP. Moreover, it is doubtful whether the majority of incoming staff possess the appropriate mix of technical and interpersonal skills to implement a novel and interventionist activation regime on a clientele that has been largely left to its own devices for the first three years of the crisis. It is not clear at this stage in the development of NEES and Pathways whether adequate resources have been set aside for a training regime to bridge such a skills gap.

It has also been observed that in the absence of numerical and/or technical capacity, to assist, encourage and guide jobseekers through both job
searching and through a complex system of active labour market provision, private firms specializing in recruitment and personnel should be contracted to provide these services (Dan O’Brien, Irish Times, 2 March 2012). Concerns have also been raised about the quality and relevance of training for unemployed workers: effective training is an essential component of an activation system, and much of the training available to the unemployed has been found to be ineffective in helping them return to work (McGuinness et al. 2011a).

The development of a more active system of engagement with the unemployed represents a strategic response aimed at reducing the incidence of long-term unemployment. That strategic response has been facilitated by the Croke Park Agreement, which allowed for redeployment of staff from other agencies and some reform of work practices. Nevertheless, the potential effectiveness of the new activation regime appears to be compromised by the absence of frequent and regular monitoring, and by lack of capacity, both numerical and technical, to implement a sufficiently interventionist activation system. Given these caveats, it is clear that the implications of policy restructuring both for those implementing the reformed system, as well as for their unemployed clients, remain uncertain.

### 3.2 Case Study 2: Cutbacks in Education

The Department of Education and Skills had a gross current budget in 2011 of €8.7 billion; 77 per cent of this expenditure was public sector pay and pensions. It covered approximately one-third of the public service with 103,000 full-time equivalent public servants. This represents about 16 per cent of government expenditure or 4.7 per cent of GDP, which lags some way behind the OECD average of 6.2 per cent (Figure 9.9).

Total public expenditure on education, in nominal terms, increased €4.2 billion in 2000 to a high of €9.4 billion in 2009 before falling to €8.9 billion in 2011. Consumer prices increased by 29 percent over 2000–09 and increased by about 1.5 percent over the next two years. The education sector pay bill increased from €3.8 billion in 2000 to €6.7 billion in 2009, or by almost 14 per cent per annum. Over the same period, the non-pay bill increased by over 10 per cent per annum, while capital expenditure increased by less than 5 per cent per annum. The pay bill fell by 3.5 per cent from its peak of €6.7 billion in 2009 to €6.5 billion in 2011. The non-pay bill fell by 5 per cent from its peak of €2 billion in 2008 to €1.9 billion in 2011; capital expenditure fell by 40 per cent to €0.5 billion over the same period. Thus, between 2008–09 and 2011, roughly half of the cutbacks in the education sector were achieved through cutbacks in the pay bill and about half through cuts in capital expenditure.
Most of the cuts in the pay bill can be attributed to the public sector wage cut implemented in January 2010 and to a range of productivity-enhancing measures in the Croke Park Agreement. The agreement includes a specific ‘Educational Sectoral Agreement’ that covers a range of measures designed ‘to facilitate the most effective and efficient use of resources and to maximize the quality of educational delivery’. These measures include provisions to increase the number of working hours across the education system, as well as greater flexibility in scheduling and in redeployment of surplus teachers. Specifically, the agreement provides for the following:

- 33,000 primary teachers are to work an additional hour per week (36 in a full year);
- 27,000 post-primary teachers are to work an additional hour per week, accumulating to 33 additional hours per school year without diminishing tuition time;
- 9,500 academic staff in institutes of technology and universities are to work an additional 26–35 hours per year;
- redeployment procedures at primary level have been implemented with some 850 surplus teachers redeployed;
- new redeployment procedures for secondary level teachers have been implemented, resulting in the elimination of a surplus of some 200 teachers;
- greater flexibility in the deployment of Special Needs Assistants

Source: Department of Public Expenditure and Reform: www.per.gov.ie.

Figure 9.9 Expenditure on education, current and capital, Ireland, 2000–2011
(SNAs) and greater discretion in the deployment of SNAs during non-instruction days; and

- a reduction of 2,000 posts of responsibility in primary and post-primary schools. These posts broadly equate to promotional posts in teaching and their number is expected to continue to decline in line with a moratorium on recruitment.

In addition to the wage cuts, a wide range of cuts have been imposed across the education system.

In primary education, the main cuts since 2008 have entailed an increase in the pupil/teacher ratio from 27:1 to 28:1; cuts in funding for disadvantaged schools; cuts in support for special needs education and in language support for schools with higher proportions of immigrant children; cuts in capitation grants for operational and maintenance functions; cuts in material and equipment funding and in certain book grants schemes; and cuts to school transport services.

At secondary level, the main cuts since 2008 have included an increase in the pupil/teacher ratio from 18:1 to 19:1; a reduction in the number of teachers; a moratorium on posts of responsibility relating to in-school management; the withdrawal of resource teachers for members of the Travelling Community; cuts to school funding; and cuts to school transport services. The cutbacks have resulted in the reduction of about 1,000 teachers in secondary-level schools and in reduced choice of subjects for students, particularly in smaller schools. There have also been losses in English-language teachers in schools with significant immigrant pupil numbers.

At tertiary level, the cutbacks have included cuts in staffing numbers across the universities of 3 per cent in 2009 and 2010 and a moratorium on recruitment in 2009–10, followed in 2011 by the imposition of an employment control framework that restricts recruitment and promotions. These staff cuts have occurred despite increases in student numbers at tertiary level. Students’ registration fees were increased to €2,000 per annum, student maintenance grants were cut and a series of further increases are planned over the coming years.

Many of the cutbacks, including those affecting teachers and other staff in the education sector, have been accomplished without negotiation between social partners. This represents a dramatic departure from practice prior to the crisis and from the Croke Park Agreement. For example, while the latter was ratified by the Irish Congress of Trade Unions in June 2010, it was accepted by the Irish Federation of University Teachers only in June 2011.

Discussions between the Department of Education and Skills and the
three main teachers’ unions on school staffing in the context of ongoing cutbacks were initiated in June 2011. The talks resulted from a commitment undertaken the previous year for the Department to consult the education partners to provide them with a chance to identify a range of cost-cutting measures for government to consider. However, it had been stated that if ‘alternative feasible measures to deliver these savings cannot be identified, appropriate increases in the classroom teacher allocation schedule will be introduced’. All the teachers’ unions were opposed to further cuts in staffing, citing large average class sizes at primary level in Ireland and the likelihood that vulnerable, marginalized, socially disadvantaged and less academically able students would be adversely affected.

However, following the Budget for 2011, the Department of Education and Skills in January 2012 issued a circular stating that special allowances for teachers with additional qualifications would no longer be paid to new entrants to the profession. This circular was issued without negotiations or consultation with teachers’ unions (ASTI 2012).

3.2.1 The effects of education cutbacks
Cutbacks to education have been controversial. A decision to cut special needs assistants was overturned while cuts in the numbers of additional teachers at officially designated socially disadvantaged schools have been postponed, pending a review. Both of these policy shifts followed protests by parents and teachers. This may be why the main strategy has been to increase class sizes across all education sectors. An increase in class size may be the most effective means of cutting education spending, outside of further pay cuts. However, Irish classrooms are already large by European standards. Larger classes reduce employment opportunities for teachers and can increase work pressure. The Irish National Teachers’ Organization argues that Irish classes are already among the largest in Europe and that younger children do less well in large classes.

A survey of principals of second-level schools conducted on behalf of the Association of Secondary Teachers in Ireland (ASTI) in 2012 found that almost half of schools have already dropped subjects from their Leaving Certificate programme as a result of cutbacks implemented since 2009 and almost two-thirds are considering such cuts after Budget 2012. Second-level schools in the survey have lost an average of 1.6 full-time teaching posts as a result of cuts in teacher numbers and pastoral care and administration are the functional areas most affected. The ASTI argue that fewer teachers results in less subject choice and a narrower range of pastoral services. This may have a negative impact on less academically oriented students. Indeed, as Smyth and McCoy (2009) argue, many of the cutbacks erode provision for socially disadvantaged students, and may...
have a greater negative impact on such students. This can have the long-term effect of exacerbating social inequalities in Irish society. According to the ASTI, the main problems are: pressure on the school curriculum and the learning environment due to staffing restrictions; damage to administrative capacity of schools from the moratorium on posts; and increasing numbers of parents experiencing difficulties in meeting the costs of education. The ASTI also noted that one of the most significant budget cuts in 2012, the allocation of career guidance posts, is equivalent to an increase in the pupil–teacher ratio of 0.8. As a result, schools will be faced with the stark choice of either curtailting guidance and counselling services to students, or dropping subjects and/or special programmes to assist less academically able students (ASTI 2012). One potential danger of the reduction in guidance and counselling provision is that it may lead to increased drop-out and early school leaving (Teachers’ Union of Ireland 2011) with career-long implications particularly for socially disadvantaged and less academically gifted students.

4. CONCLUSIONS

Since 2008, Ireland has experienced a most extraordinary and severe set of interrelated crises, including the bursting of the property bubble; the banking collapse; the deep contraction in economic activity; the fiscal crisis of the state; and mass unemployment. The principal response adopted by the Irish state to that crisis has entailed an orthodox deficit reduction strategy, focusing on the fiscal crisis, driven by international bond markets and, since 2010, by the terms of the IMF/EU/ECB emergency loan programme. The broad parameters of the resulting austerity package entail reducing the fiscal deficit by about €30 billion or 20 per cent of GDP (at its 2010 value), comprising revenue raising of about €11 billion and spending cuts of €19 billion between 2008 and 2014. The deficit reduction strategy thus entails a dramatic contraction of the Irish state and in the scale and nature of its activities.

A key strategy in the austerity programme has been to reduce the public sector pay bill. The public pay bill is a function of both public employment levels and pay rates and this chapter outlines how both were cut after 2008. The numbers employed in the public sector, broadly defined, fell by about 5 per cent between 2009 and 2011, having grown by almost 30 per cent over the previous decade. Average earnings in the public sector fell by almost 5 per cent in 2010 and by another 1.2 per cent in 2011. This would have offset rapid growth in average pay in the public sector during the boom years, and the evidence suggests that the public sector pay premium
had grown to much higher levels in Ireland than could be found elsewhere in Europe immediately prior to the crisis. Additional adjustments to public sector net earnings were implemented in the form of a pension levy applied exclusively to public sector workers in recognition of comparatively beneficial pension arrangements available to public sector workers.

Tripartite social partnership arrangements for centralized wage bargaining dominated industrial relations for the two decades prior to the crisis. But social partnership may also have serious unintended consequences. As Dellepiane and Hardiman (2012) argue, in Ireland, the insider power of the public sector and the low levels of unionization of the private sector, especially in the exporting sector, may have distorted wage structures. This may have had the consequence of public sector wages increasing out of line with the private sector (Kelly et al. 2009; McGuinness et al. 2010). Social partnership can be seen as a casualty of the crisis in Ireland. In 2009, employers and the government declined to pay wage increases due under the then current National Wage Agreement. With the imposition of pay cuts in 2010, social partnership collapsed and social dialogue ceased. While both the pension levy and the pay cuts were designed to be progressive, taking more from the top of the earnings distribution than the bottom, in the main, this would not appear to have been due to the influence of the trade union movement. It may simply have been well-informed and strategic policymaking: fairness, even in pay cuts, may have more legitimacy than pay cuts that are perceived to fall unfairly.

What is perhaps most surprising, particularly in a comparative context, has been the relatively peacefulness of industrial relations during this traumatic period. Following a sudden and sharp increase in strike days in November 2009, mainly due to a one-day public sector strike to protest against the pension levy and the wage freeze (the refusal to pay the increase under the 2008 National Wage Agreement), the number of industrial disputes tapered off to their previous levels of passivity. There was no surge in strikes protesting the pay cuts imposed in January 2010, which may also have reflected public opinion about the issue of public sector pay. Later that year the Croke Park Agreement was negotiated between government and public sector unions, and stipulated commitments to flexibility in industrial relations and no strikes in exchange for commitments to no further wage cuts and no compulsory redundancies. The debate continues as to whether the Croke Park Agreement represents part of the solution to Ireland’s fiscal crisis, in delivering productivity-enhancing reforms in exchange for guarantees on jobs and pay; or part of the problem, in so far as it maintains relatively advantageous pay rates and a sluggish pace of reform.

The case studies in the education sector and in services to the unemployed
show that the impact of the Croke Park deal has differed across the two sectors. Arguably, in the policy area of services to unemployed workers, the agreement has made possible redeployment of staff and flexible reorganization of working arrangements that have facilitated the development of an important series of strategic reforms to the system. The impact of those reforms in terms of both the quality of the service to unemployed clients, and on workers implementing the system, remains uncertain, not least because of capacity constraints remaining in the system. In the education sector, the principal impact would seem to have been in productivity: working time has been increased, while pay has been cut. This productivity gain has been combined with myriad cutbacks in services and facilities and there is concern that the impact of the cuts may fall most heavily on socially disadvantaged and less academically able students, with the potential to aggravate social inequality over the longer term. Thus, in education, the austerity programme may have achieved productivity gains and cost cutting without, or even at the expense of, a strategic approach to educational reform.

NOTES

2. See McGuinness et al. (2010) for an analysis of the impact of wage-bargaining regimes in the private sector.
3. Travellers are a traditionally nomadic people of ethnic Irish identity who maintain a separate set of traditions. They have a history of educational, labour market and social disadvantage.

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