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A Comparison of Labour Market Reforms in Ireland, New Zealand and Australia

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Abstract

In reviewing the experience of Ireland, New Zealand and Australia over the last half century, particular attention is directed to Ireland because it has been relatively successful in reducing unemployment and generating a remarkable improvement in its per capita gross domestic product over the last decade and a half. It is argued that Ireland's transformation did not commence around 1987 with the introduction of its 'social partnership' approach to determining wages and workplace conditions, or in 1993 when the so-called Celtic Tiger years commenced. Instead, it is argued that Ireland's transformation commenced during the late 1960s when Ireland's labour productivity commenced its seemingly inexorable ascent.

Introduction

Over the last couple of decades, three relatively small open economies that share a common language and similar political institutions, among other things, have sought to introduce a variety of labour market reforms designed to enhance the performance of, not only their labour markets but, also, their overall economies. These countries are Ireland, New Zealand and Australia. One of these countries, Ireland, has risen from having one of the poorest economies in the Organization for Economic Cooperation and Development (OECD) to having one of the wealthiest. New Zealand, on the other hand, has moved in the opposite direction, while Australia's relative position amongst OECD countries has changed little. Each economy has thus experienced, in many respects, quite different outcomes. These different outcomes have attracted much commentary and analysis, though little direct comparative analysis has been carried out on the three economies.

In the case of Ireland, the focus has been on its spectacular, though largely unexpected success in particular during the first phase of it's so-called Celtic Tiger years from 1994 to 2000 (Organization for Economic Cooperation and

Development, 2006; *Economist*, 2004; Honohan and Walsh, 2002). So impressive has been the performance of the Irish economy that Bosworth (2002, p. 67) writes: 'Ireland ought to be a case study of tremendous interest to economists who would like to explain why some countries grow and others do not, and what countries should do to promote growth'.

In the case of New Zealand, research has focussed on understanding the forces behind New Zealand's relatively difficult passage to liberalising product and labour markets (Rasmussen and Lamm, 2005; Dalziel, 2002; Morrison, 2001, 2003; Easton, 1996). And in Australia, the focus of recent attention has been the introduction of controversial neo-liberal labour market reform modelled in part on New Zealand legislation operative during the 1990s until replaced in 2000 (Landsbury et al., 2005; Ellem et al. 2005; 151 Academics, 2005; Peetz, 2005).

This paper seeks to extend the existing research into these three economies by directly comparing policies and outcomes of the three economies. The focus is principally on labour markets. However, since labour markets are inextricably linked to the rest of the economy, consideration is also given to a selection of broader indicators. The next section gives a brief snapshot of the political economy of the three countries so as provide some general background. This is followed by an examination of key indicators of general and labour market outcomes so as to identify different levels of performance in the three economies. The penultimate section seeks to identify the role of various policy initiatives in generating different outcomes. Conclusions are drawn in the last section.

Note that in the interest of brevity and mindful of the many successes of the Irish economy, this paper will give a focus to policies pursued in Ireland. It is additionally noted that readers of this Journal may be less familiar with Ireland's policies than with those of Australia and New Zealand.

Some Background

Though the three economies under review have much in common, there are nevertheless significant differences. Table 1 indicates that Ireland and New Zealand are relatively small in terms of population compared to Australia, but Australia has a much lower population density than either Ireland or New Zealand. Though all countries can be classified as high-income countries, Ireland currently has the highest per capita GDP while New Zealand has the

lowest. The reverse was true four decades back, which indicates that major changes have occurred in the relative performance of the three economies. In essence, Ireland has expanded as an economic power over the last two decades, while New Zealand has gradually declined in relative economic strength.

Table 1 indicates that international trade is a much more significant component of Ireland's GDP than is the case for New Zealand and Australia. Moreover, there has been a sizeable increase in Ireland's involvement in international trade over the last 20 years. All countries, however, managed to bring their unemployment rates down to relatively low rates in comparison to average OECD experience. Wage and price growth in recent years have been reasonably similar as have nominal and real wage growth – the latter increasing at a sustainably modest pace.

The industry sector in Ireland accounts for a much more sizeable proportion of GDP than is the case for Australia and New Zealand. The industry sector in Australia and New Zealand has contracted in size (as has manufacturing), whereas it has increased in size in Ireland. This somewhat unusual result is related to Ireland's rapid expansion in recent years as a European manufacturing centre for many, mainly US-owned, international corporations. Union density is lowest in New Zealand and highest in Ireland. But all countries have experienced declining rates in recent years.

Overall, our selection of small economies compare favourably with other world economies. This is reflected in their relatively high ranking in the United Nation's Human Development Index (HDI) rankings given in Table 1 – though New Zealand appears to be somewhat lower ranking than Australia and Ireland.[1]

[1] Note also that the HDI incorporates per capita GDP in its measure of development. It can be argued that per capita GNP (Gross National Product, also known as Gross National Income, GNI) would give a more accurate measure of income accruing to a nation than does GDP. This is because GNP or GNI is GDP minus net income payable abroad. For Ireland, given the substantial level of foreign ownership of large corporations located in Ireland, net factor income payable abroad is a sizable quantity, close to 20 percent of GDP during the 2000s; for Australia and New Zealand it's around 4 or 5 percent.

Table 1: Snapshot of Selected Labour Market and Related Indicators

Descriptor	Period	Ireland	Aust	NZ
Population: millions (a)	2005	4.2	20.3	4.1
Population Density: people per square kilometre (a)	2005	59	2.6	15
GDP: percent USA (a)	2005	1.4	5.1	0.8
Per Capita Real GDP: percent USA (a)	2005	98	75	60
Exports + Imports of goods and services (percent GDP)	2005	149	45	62
age Point Change of above 1985-2005	2005	37	7	-5
Real GDP Growth: Local currency, annual average (b)	2000-05	5.3	3.1	3.5
Real Export Growth: Local currency, annual average (b)	2000-05	5.2	1.6	3.4
Inflation: GDP Deflator, annual average (b)	2000-05	3.5	3.4	2.6
Unemployment rate (percent), annual average (b)	2000-05	4.3	6.0	4.5
Employment Growth (percent), annual average (b)	2000-05	2.8	2.2	2.8
Nominal Wage Rate Growth, annual average (b)	2000-05	4.4	4.2	3.4
Real Wage Rate Growth, annual average (b)	2000-05	0.9	0.8	0.8
Industry Value Added (percent GDP) (c)	2003	42	26	24
age Point Change of above 1982-2002	2003	6	-9	-11
Union Density: percent of employees (d)	2003	35	23	22
age Point Change of above 1990-2003	2003	-16	-18	-29
Urban Population (percent Total) (c)	2003	60	92	86
Fertility Rate (c)	2003	2.0	1.8	1.9
age Point Change of above1983-2003	2003	-0.8	-0.1	0.0
Females in Labour Force (percent) (c)	2003	36	44	46
age Point Change of above1983-2003 (c)	2003	6.8	6.1	8.9
Human Development Index World Rank (c)	2003	8	3	19
Human Development Index World Rank, percent USA (e)	2003	100.2	101.2	98.8
Current Account Balance (percent GDP) (e)	2005	-0.8	-5.0	-5.4

(a) Department of Foreign Affairs and Trade (DFAT, 2006), (b) Organization for Economic Cooperation and Development (OECD, 2005), (c) World Bank (2006), (d) Visser (2006), (e) Human Development Report (HDR, 2005).

Indicators of Outcomes

In this section of the paper we look at major labour market and related general indicators of relative economic performance for our three economies. Note that this section is not so much concerned with explaining outcomes. Rather, it is concerned with identifying apparent key differences and similarities in, what might be identified as, 'bottom-line' performance indicators. The broad indicators considered in this section are per capita gross domestic product, the unemployment rate, inflation, real unit labour costs and time lost due to industrial disputes.

Per Capita Gross Domestic Product (PCGDP)

To get an overall measure of economic performance, we initially compare PCGDP for the three economies. PCGDP is expressed in terms of US$ in 2002 EKS PPPs.[2] The data was developed by The Conference Board and Groningen Growth and Development Centre (TCB/GGDC, 2006). The PCGDP data is further standardised by being expressed as a ratio of the average PCGDP data or the OECD. Here the OECD countries are made up of the 'traditional' member countries, including Ireland, Australia and New Zealand. More recent members, mainly former USSR-satellite economies, are excluded on the grounds that the traditional members offer a better basis for comparison.[3]

Figure 1 depicts PCGDP expressed as a ratio of OECD PCGDP from 1960 to 2005 for the three countries. It is notable that during the 1960s until around the early 1970s, New Zealand and Australia registered higher PCGDP than the OECD average, and much higher PCGDP than that of Ireland. After the mid-1970s, New Zealand's relative PCGDP continued to trend down to stabilize, more or less, at around 75-80+ percent of the OECD average. Australia's

[2] EKS refers to a technique for standardising international GDP data that is based on work of scholars named Elteto, Koves and Szulc. PPP refers to purchasing power parities. Without going in to the technical details, EKS PPPs represent a way of standardising real GDP for different countries so as to facilitate the making of reasonably meaningful international comparisons.

3 'Traditional' OECD countries is defined to be composed of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States. West Germany is included in the tally until and including 1990, thereafter united Germany is counted.

PCGDP also fell relative to the OECD average up until the early 1990s, but then recovered to return, more or less, to the OECD average.

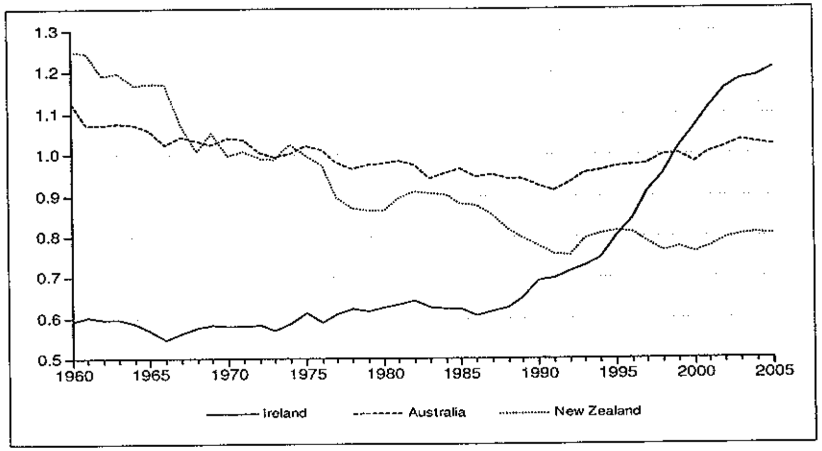

Figure 1: Per Capita Gross Domestic Product as a Proportion of OECD (US$ in 2002 EKS PPPs)

Source: The Conference Board and Groningen Growth and Development Centre (TCB/GGDC, 2006).

Perhaps the most striking feature of Figure 1 is the performance of Ireland. Ireland's relative PCGDP is virtually trendless up until the later 1980s. After that time relative PCGDP rose inexorably to eventually exceed the OECD average by 20percent. Figure 1 records an extraordinary reversal of fortunes for New Zealand and Ireland over the last near-half century. In 1960 New Zealand's PCGDP was more than twice that of Ireland's. In 2005 New Zealand's PCGDP was half that of Ireland's.

Unemployment Rates

Figure 2 depicts OECD-standardised unemployment rates. New Zealand experienced the worst deterioration in unemployment: from its very low rates of 1960s and 1970s—underwritten by state-owned enterprises according to Sautet (2006)—to rising rates peaking in the early 1990s. Ireland on the other hand has experienced the most spectacular improvement from the late 1980s

and early 1990s to the mid-2000s. All countries have experienced improving fortunes, in regards to their unemployment rates, over the last decade or so.

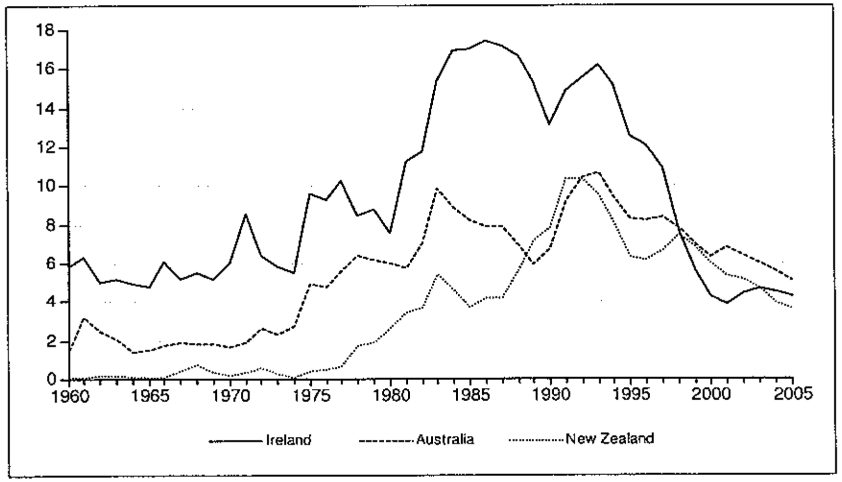

Figure 2: Unemployment Rates – OECD Standardised

Source: OECD (2005) and Australian Bureau of Statistics (2006c). Note: Data are expressed as annual age rates.

Inflation

Figure 3 charts the inflation rates for our three economies. The data is double smoothed to eliminate some of the noise – particularly for New Zealand – so as to get a better sense of the underlying differences and similarities. Figure 3 indicates that there are quite strong parallels in the inflation experience of the three countries. Although, broadly speaking, the underlying rate of inflation for Australia has been a little below that of New Zealand, which has been a little below that of Ireland.

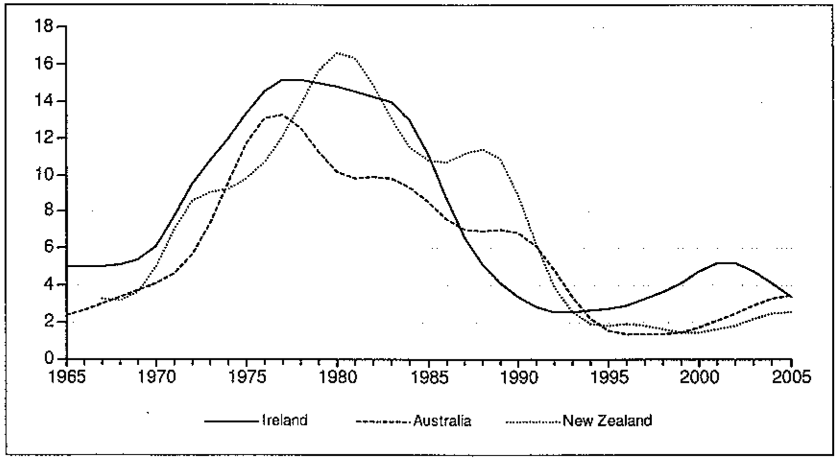

Figure 3: **Smoothed Inflation Rates – OECD Standardised Real Unit Labour Costs (RULC)**

Source: OECD (2005). These series are double smoothed via a Henderson (7 period) smoothing of the 5 year moving average value of the original series. Note: Data are expressed as annual age rates

RULC measure real labour costs per unit of output; it is equivalent to the share of output going to labour. This converts to an index of the real (say) hourly wage rate deflated by an index of labour productivity. The data used in Figure 4 indicate that, broadly speaking, RULC increased up until the 1970s in New Zealand and Australia then subsequently fell back to the approximate values that prevailed around 1960. Note that the indices are all set with a 1960 base year value of 100. Thus the Figure does not reveal anything about the relative share of income going to labour for different countries, other than indicting the direction of change.[4] In the case of Ireland, RULC peaked in the early 1980s and then subsequently declined relatively rapidly into the new millennium. We will explore further this and related issues in the next section.

[4] Note also that the sources used for these data are not necessarily consistent. The data used for Ireland and Australia are from the OECD's *Economic Outlook* data bank. For New Zealand, data on average hourly earnings supplied to the author by Statistics New Zealand, have been used.

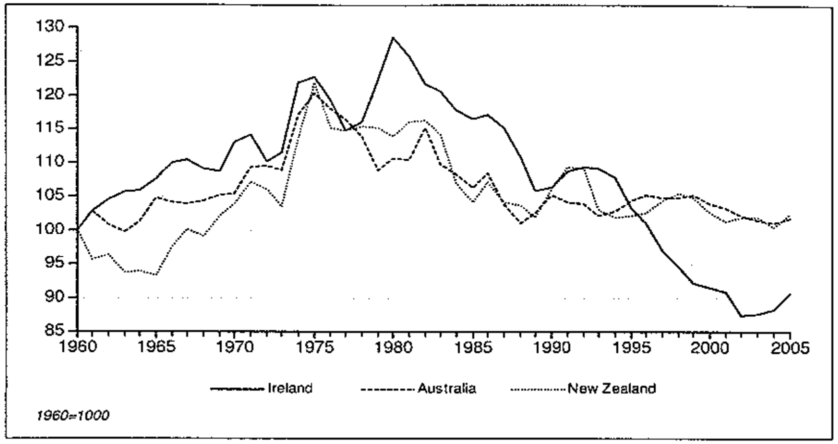

Figure 4: **Real Unit Labour Costs**

Source: OECD (2005), Statistics New Zealand (2006), TCB/GGDC (2006).

Stoppages

Time lost due to stoppages – defined here as working days lost due to strikes and lockouts per thousand employees – are charted in Figure 5. These data are smoothed to try to get a clearer, that is to say less cluttered, impression of underlying broad changes in this overt manifestation of labour market disharmony. Figure 5 indicates that all economies experienced a rising amount of time lost due to stoppages during the first half, or more, of the entire period under review, with rates declining thereafter. Most OECD economies have experienced similar declines in time lost over the last couple of decades, or thereabouts (Beardsmore, 2006; Scheuer, 2006). It is of interest to note that, over the entire period, Ireland was the most strike-prone of the three countries – particularly during the 1960s and early 1980s. Australia was next in line, followed by New Zealand.

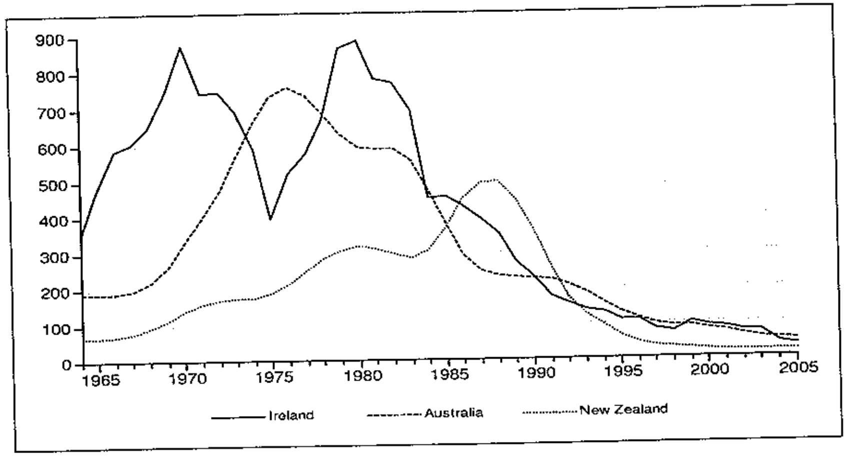

Figure 5: Smoothed Time Lost Due to Stoppages: Days Not Worked per 1000 Employees

Sources: OECD (2005), ILO (2005), Ireland Central Statistical Office (2006), Australian Bureau of Statistics (2006), Statistics New Zealand (2006). These series are double smoothed via a Henderson (7 period) smoothing of the 5 year moving average value of the original..

Policy Initiatives

In this section I review labour market policies plus a selection of other policy initiatives that have likely affected outcomes in the three economies. As will be seen, all of the economies have introduced, to varying degrees, liberalising labour market reforms. However the different labour market reform packages, in conjunction with various other reforms, have been accompanied by markedly different outcomes.

Labour Market Reforms

In this subsection I review, in a broadly chronological fashion, labour market policy initiatives pursued in the three countries from around 1960 to 2005. These are, by necessity, broad-brush comparisons and many issues of detail are ignored.[5] Notwithstanding the limitations associated with the overview perspective given in this subsection, a number of notable similarities and differences do emerge.

[5] Readers interested in gaining a more detailed and nuanced (though separate) discussion of these three economies' labour market policies are directed to Wallace *et al.* (2004), Deeks and Rasmussen (2002) and Bray *et al.* (2005).

The 1960s-1970s

The 1960s and 1970s can be characterised as being years of relatively high inflation, increasing unemployment, increasing real unit labour costs and relatively high levels of strikes both in the three countries under review in this paper as well as most of the other countries in the OECD. Figures 2, 3, 4 and 5 illustrate these patterns with reference to our three countries. During the 1960s in Ireland, wage determination was dominated by 'wage rounds' which involved key industrial sectors establishing major wage increases, and then other sectors seeking to benchmark their wage demands against the achievements of the key pace-setting sector or sectors. This practice, though largely uncoordinated and spontaneous, led to economy-wide wage increases. Pattern bargaining, as this 'wage round' mechanism is sometimes referred to in the USA and Australia, was not of course unique to Ireland. Many other countries have had similar experiences.

With high and rising levels of strike activity in Ireland and periods of high inflation coupled with rising unemployment, the government ushered in a system of centralised wage agreements in 1970. These agreements involved National Wage Agreements negotiated between employers and unions. Government also negotiated, but only as an employer of public servants. There were seven National Wage Agreements during the early 1970s. They were superseded by two 'National Understandings', which were implemented in 1979 and 1980. The national understandings were broader agreements than their predecessor, including social welfare commitments on the part of government.

Unlike Ireland, New Zealand and Australia operated within a system of conciliation and arbitration. During the 1960s and 1970s New Zealand and Australia still had in place similar centralised legalistic wage determining systems. Interestingly, although the *raison d'être* for New Zealand and Australia having centralised systems of conciliation and arbitration was to eliminate the need for work stoppages, no such outcome was in evidence during these years.

The 1980s

The 1980s can be characterised as being years of relatively high and often deteriorating unemployment rates. The average unemployment rate in Ireland, New Zealand and Australia respectively during the 1980s (1981-1990) was 7.2, 3.2 and 4.1 age points higher than the average for the 1970s. Inflation and real unit labour costs were on the decline for the three economies during the 1980s as was time lost due to strikes for Ireland and Australia. In the case of New Zealand, stoppages continued to rise during the 1980s peaking in 1986 with a protracted meat workers dispute. Thereafter time lost in all of these economies declined.

During the 1980s in Ireland, wage determination involved, until 1987, a return to collective bargaining. However, the collective bargaining of this period was much more restrained than had previously been the case. The preceding system of centralised agreements and in particular national understandings had failed to maintain union and employer support, and had failed to get support from the incoming Fine Gael-Labour Coalition Government which had held office for most of the period 1981-1987. Between 1980 and 1987, the unemployment rate in Ireland rose from 7.5 percent to 17.1 percent - the latter rate being the highest in Ireland's post-World War II history. This brought a greater sense of realism, on the part of labour, to wage setting negotiations and a greater determination, indeed necessity, on the part of many in management to resist wage increases (Hardiman, 1988; O'Brien, 1989; Gunnigle et al., 1994).

By 1987 Ireland was in severe difficulties. Social security payments to the unemployed had blown out and, given a shortfall in general tax receipts, so too had public debt. By 1987 General Government Net Financial liabilities peaked at around 112 percent of GDP, an increase from 10 years earlier of 51 age points. With the rise in unemployment, government fiscal imbalance, declining union membership and the successful frontal attack on militant trade unions in the UK by the Thatcher Government and in the USA by the Reagan Administration, unions in Ireland elected to support a return to centralised agreements. Employers, though initially cool to the idea, warmed to the notion of centralised agreements being a part of a package of wider-ranging, business-friendly reforms.

In October 1987, under the auspices of the newly-elected Fianna Fail Government led by Prime Minister (Taoiseach) Charles Haughey, and with the majority support of unions and employer peak bodies, the first of six (up to 2005) voluntary neo-corporatist tripartite agreements, between the representatives of labour, capital and government, was hammered out. The social partnership era was thus born. The first social partnership agreement was titled the Program for National Recovery (PNR) and was operative for a little over three years, from 1987 to 1991. Essentially unions agreed to

moderate their wage claims for a reduction in personal tax rates. This helped take the momentum out of the wage-price spiral and, from a business point of view, reduced the pace of increase in wage expenses. The reduction in real unit labour costs (Figure 5) reflects, in part, the impact of reduced labour costs on business.

Meanwhile in New Zealand and Australia the systems of centralised conciliation and arbitration remained intact, notwithstanding periods of wage freezes in both countries in the early 1980s and a later consensual incomes policy (the Accord) in Australia, and an attempt to bring greater flexibility to labour market deliberations in New Zealand.

The 1990s and Beyond

During the 1990s up to 2005 our three economies experienced similar declines in unemployment rates (Figure 2), although during the early 1990s—a time of worldwide recession—unemployment rates were relatively high. Ireland experienced the most dramatic decline in unemployment. Between 1993 and 2001, the unemployment rate dropped from a little over 16 percent to a little under 4 percent. While the early 2000s saw a slight increase in unemployment rates for a time, all of our economies experienced sustained periods of relatively low unemployment rates.

Ireland's relative PCGDP (Figure 1) rose sharply between 1990 and 2005 (Figure 1). Australia's position improved incrementally over the same timeframe, while New Zealand's remained fairly stable.

Inflation was relatively low during the 1990s; however it rose somewhat during the 2000s – especially in Ireland (Figure 3). Real unit labour costs remained fairly stable in Australia and New Zealand between 1990 and 2005, but declined sharply in Ireland (Figure 4). Time lost due to industrial disputes remained relatively low and on the decline, broadly speaking, between 1990 and 2005 for our selection of countries.

Ireland has emerged as the strongest performing economy in Europe over the last decade and half. It has also performed much more robustly than New Zealand and Australia. This strong performance has been linked – though not necessarily exclusively - to Ireland's social partnership, which as we noted in the previous subsection commenced in 1987. Between 1987 and 2005 there have been six social partnership 'deals' or agreements in place (EIOR, 2006). A seventh agreement was completed in 2006, but this extends beyond the focus of this study. The six programmes are identified below (International Labour Organization (ILO), 2006):

Programme for National Recovery (PNR) (1987 to 1990)
Programme for Economic and Social Progress (PESP) (1990 to 1993)
Programme for Competitiveness and Work (PCW) (1994 to 1996)
Partnership 2000 (1997 to 2000)
Programme for Prosperity and Fairness (PPF) (2000 to 2003)
Sustaining Progress (2003 to 2005)

The Social Partnership era coincides with Ireland's period of relatively rapid growth in PCGDP. This is clearly illustrated in Figure 1. It is understandable, then, that many commentators and analysts have attributed a crucial role to the Social Partnership agreements in enabling Ireland to ascend in the manner that it has (Hardiman, 2000; O'Donnell and O'Reardon, 2000; MacSharry, 2000; Leddin and Walsh, 1998). The view of the ILO (2006) appears to capture something of the conventional wisdom on the matter when it reports: 'It is widely acknowledged that the Irish social pacts have been successful and are the key vehicle for its economic and social success since the 1990s'

How might the Social Partnership agreements have facilitated such a rapid expansion? It can be argued that they worked in at least two ways. First, they have acted to provide a relatively stable and predictable labour relations environment in which business, whether big, small, local or overseas, can comfortably operate. This predictability and reliability is important to business. Ireland's relatively high rate of stoppages during the 1960s and 70s would not have been attractive to overseas investors. Moreover, Ireland's industrial disputes have tended, on average, to be quite protracted affairs. Table 2 indicates that during the 1960s, 70s and 80s, the average duration of industrial disputes was around 2 to 3 weeks; in Australia it was around 2 to 3 days. Thus the potential for disruption to orderly forward planning, because of the possibility of businesses being mired in protracted industrial disputes, was a very real cause for concern. For the 18 years since the inception of the Social Partnership, the average duration of disputes has been 7.5 working days. For the preceding 18 years the average duration of disputes was 13.5 days. In addition, of course, the frequency of disputes during the Social Partnership years was considerably lower (Table 2). That said, it should also be noted that Australia and New Zealand also experienced a declining frequency of disputes. Neither of these countries had social partnership arrangements in place over the same time frame as Ireland's.

Table 2: Measures of Work Stoppages

		Ireland		
Period (a)	Frequency (b)	Involvement (c)	Duration (d)	Time Lost (e)
1960s	119	302	13.8	552
1970s	196	236	15.9	726
1980s	129	360	11.4	361
1990s	37	506	7.1	114
2000s	16	562	5.6	37

		Australia		
Period*	Frequency	Involvement	Duration	Time Lost
1960s	348	402	1.6	222
1970s	491	588	2.3	649
1980s	343	400	2.5	345
1990s	103	783	1.5	122
2000s	81	371	2.0	45

		New Zealand		
Period*	Frequency	Involvement	Duration	Time Lost
1960s	108	270	2.9	84
1970s	342	288	2.4	244
1980s	217	457	4.1	374
1990s	49	420	2.5	61
2000s	24	297	3.0	16

Sources: OECD (2005) *Economic Outlook* (supplied via EconData), ILO (2005), *Year Book of Labour Statistics*, CSO-Ireland (2006).

(a) Note that the 1960s refers in this table to 1960-1969 etc The 2000s refer to 2000-2005
(b) Frequency refers the average annual number of stoppages per thousand employees.
(c) Involvement refers to the average annual number of workers involved in each dispute.
(d) Duration refers to the average annual number of days lost per worker in disputes.
(e) Time lost refers to the number of days not worked due to disputes per thousand employees.

A second way in which the Social Partnership agreements may have facilitated rapid expansion has been by restraining nominal wage growth and permitting profits, as a proportion of total income, to rise. This is reflected in declining real unit labour costs in Figure 4 (compare the marked decline in Ireland with the more stable pattern in New Zealand and Australia). Lower real unit labour costs can encourage greater domestic and foreign direct investment expenditure. The trade-off for the workforce as a whole is a lower unemployment rate and accompanying strong employment growth. Real wage growth has generally been positive, but on average more modest than was the case prior to the partnership pact, Nevertheless, on an after tax basis, real wages have likely grown more rapidly for employees than real labour costs to employers given the way some of the Social Partnership programmes have been framed.

We now turn to New Zealand. In 1991 the Employment Contracts Act, (henceforth abbreviated to ECA) was enacted. The ECA completely dismantled the conciliation and arbitration system and was thus quite revolutionary. Unionism in New Zealand declined sharply (Visser 2006) during the years of the ECA (1991-2000), as Figure 6 indicates. Stoppages similarly declined during the 1990s as Figure 5 indicates. In the late 1980s and early 1990s, New Zealand had the highest dispute rate among our three countries. By the mid-1990s and beyond, it had the lowest.

In 2000 New Zealand's ECA was jettisoned. The replacement legislation, however, retained many of the features of the ECA. There has been no return to the centralised system of conciliation and arbitration or unregulated strikes and lockouts, notwithstanding a return to recognising unions and pattern bargaining. (Cooper and May 2005).

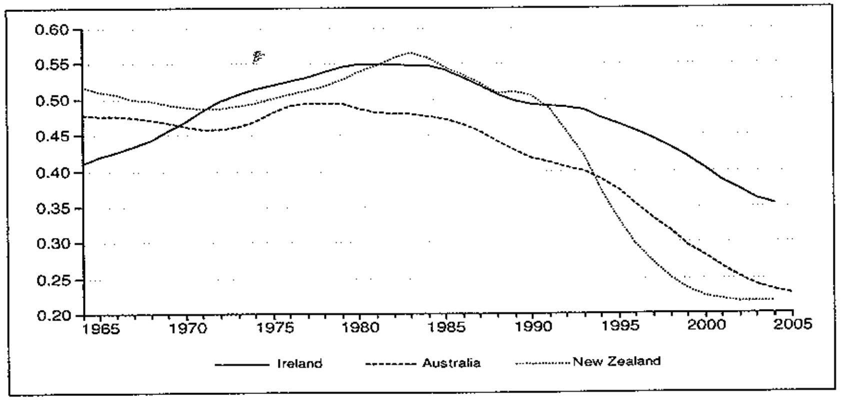

Figure 6: Smoothed Trade Union Density - Proportion of Employees Who Are Unionists

Sources: OECD (2005), Visser (2006), Roche et al. (2000), Central Statistical Office (2006), Australian Bureau of Statistics (2006a,b), Statistics New Zealand (2006) and Blackwood et al. (2006).

Lastly we turn to Australia. In Australia during the 1990s there was a gradual shift away from centralised wage setting towards enterprise-based individual and collective bargaining. Compared to the changes that occurred in New Zealand, the Australian changes were much more incremental – often because of the need to receive approval from a hostile Senate, which is not a problem in New Zealand with its unicameral system.

In late 2005, the Government introduced the *Workplace Relations Amendment (Work Choices) Act 2005.* This legislation, which came into operation in March 2006, is very similar in spirit and intent to New Zealand's controversial ECA legislation.

Other Reforms and Influences

From the time of independence from Britain in 1922 to the mid-1950s, Ireland pursued what most commentators believe was a disastrous policy of self-sufficiency. Ireland's per capita GDP fell relative to that of other relevant economies. These policies were reversed commencing in the mid-1950s. They were given a firmer footing in the 1960s as Ireland opened its economy to international commerce (O'Grada 1997, Burnham 2003). Some of the key early initiatives included the following:

- The establishment of the Shannon free trade zone and the Industrial Development Authority to encourage development
- New investor export-derived profits were tax free for a 15 year period
- Foreign direct investment was welcomed and restrictions on foreign ownership were phased out so that by 1964 ownership restrictions were fully repealed
- Tariff barriers were lowered unilaterally in 1964 and again in 1965
- Ireland entered into a free trade agreement with Britain in 1965

In spite of the pro-trade initiatives of the 1960s, ill-advised Keynesian-styled expansionary fiscal policies were pursued during much of the 1970s and early 1980s. These policies led to a blow out of government debt (Powell, 2003). Between 1973 and 1982, general government outlays in Ireland rose from 40 percent of GDP to 57 percent of GDP; while government net liabilities rose from 53 percent to 80 percent of GDP (OECD, 2005). Radical cuts in government outlays and tax rates were necessary by the late 1980s. In 1987 general government net liabilities were 112 percent of GDP. By 2005 they were 30 percent. Table 3 gives further comparative data on government outlays, receipts and liabilities for our three countries.

Table 3: General Government Sector Activity – Percent of GDP

Activity		1987	2005
General Government Outlays (percent of GDP)	Ireland	54	36
	Australia	39	36
	New Zealand	52	38
General Government Receipts (percent of GDP)	Ireland	44	35
	Australia	36	37
	New Zealand	51	43
General Government Net Financial Liabilities (percent of GDP)	Ireland	112	30
	Australia	15	0
	New Zealand	51	0

Source OECD (2005) *Economic Outlook*

Examination of Figure 1 indicates that Irelands per capita GDP did not 'take off', relative to average OECD experience, until the later 1980s. Some commentators have argued, understandably, that the Irish 'miracle' did not really start until the later 1980s, or indeed until the Celtic Tiger years from around 1993. Thus the *Canadian Encyclopaedia* (2006) states: 'The trigger for … [Ireland's] great good fortune was a drastic change in economic policy, initiated in the 1980s by slashing taxes, buying labour peace, and throwing out the welcome mat to foreign corporations'.

It is the argument of this paper that early policy changes – the aforementioned business-friendly incentives plus a range of other policies and circumstances to be canvassed below – laid the foundation for the rapid growth of the Celtic Tiger years. Specifically, the early and subsequent policies produced a sustained 40 year period of relatively high labour productivity growth. This commenced from around the mid-1960s and has continued unabated into the mid-2000s. Figure 7 illustrates this. It charts the ratio of Irish to OECD labour productivity, as well as the ratio of Australian and New Zealand labour productivity to that of the OECD. The fact that Ireland's labour productivity has been steadily – and seemingly inexorably – rising relative to average OECD experience is clearly evidenced in Figure 7. Note also the relatively lacklustre performance of Australia and especially New Zealand (Margaritis et al., 2005).

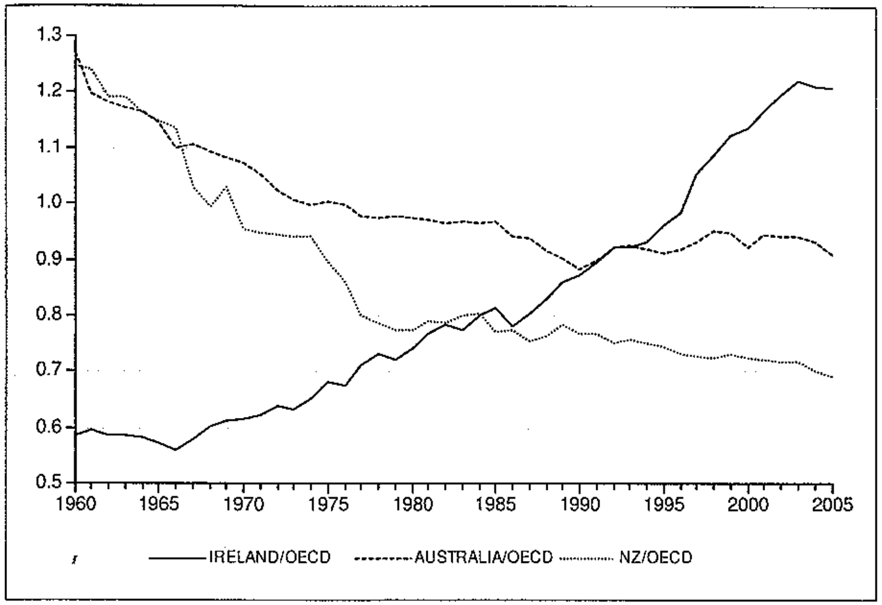

Figure 7: Labour Productivity - Gross Domestic Product per Annual Hours Employed

Source: As for Figure 1.

The broad point to note here is that Ireland pursued an aggressively pro-active policy designed to attract foreign direct investment. Corporate tax rates in the manufacturing sector were set at 10 percent. Other sectors paid higher rates. Negotiations with the European Union subsequently saw the rates increased to 12.5 percent – but that was for all sectors, so for some formerly highly taxed sectors, rates fell. In addition Ireland managed to lower top marginal personal income tax rates.

Generally, Irish governments of different political complexions put in place a number of incentives to businesses to encourage them to establish or expand operations in Ireland (OECD 2005, Powell 2003). While Australia and New Zealand have not been hostile to business, they have not offered the same level of benefits to those on offer in Ireland – indeed few countries have. This is reflected in the current corporate tax rates in New Zealand and Australia, 33 and 30 percent respectively.

Cultural Facilitators

Ireland is an English-speaking country. It has long had cultural ties with the USA. Around 34 million Americans can trace a significant Irish component in their ancestry (US Census Bureau, 2004). American corporate employees find it easy and felicitous to operate in a country like Ireland that has these and other cultural traits that are compatible with the American way of life. Most of the foreign direct investment in Ireland is from American multi-national corporations. In addition to language advantages, Ireland provides non-EU domiciled companies with a handy entry point into the EU market.

Ireland also has a well-educated and skilled labour force, particularly in areas such as engineering, information technology, the sciences and languages. This was not always the case. Secondary education only became free in Ireland in 1967. In the early 1960s, less than 30 percent of school leavers had been awarded the Primary Certificate - the lowest educational certificate in Ireland at the time (Kerrigan, 1998; Allen, 2000). Primary and secondary education was then very much under the control of the Catholic Church. And while the Church is still involved in education, its role in this area and elsewhere has declined (Raymo, 2005).

The influence and power of the Catholic Church faltered somewhat during the late 1960s and 1970s and subsequently has waned markedly. According to Allen (2000, p.160), the root cause of the decline in the role of the Church '... lay in the slow, imperceptible developments that occurred at a molecular level in Ireland'. In particular the rise in female participation in the workforce, the need for family planning to facilitate this trend, and the gradual shift of social attitudes to religious doctrine and the status of the clergy all acted to diminish – though not completely nullify - the status and power of the Church.

Figure 8 charts the decline in the fertility rate in Ireland, as well as in New Zealand and Australia, against the accompanying rise in the proportion of females in the labour force. Note the belated decline in the fertility rate in Ireland compared to the Antipodes. The data for Ireland tend to lag about a decade that of the Antipodes. Ireland's female proportion of the labour force has risen from around 25 percent to a little over 35 percent over the last four or five decades, again lagging behind the trend for Australia and New Zealand, but in this case lagging by more than two decades.

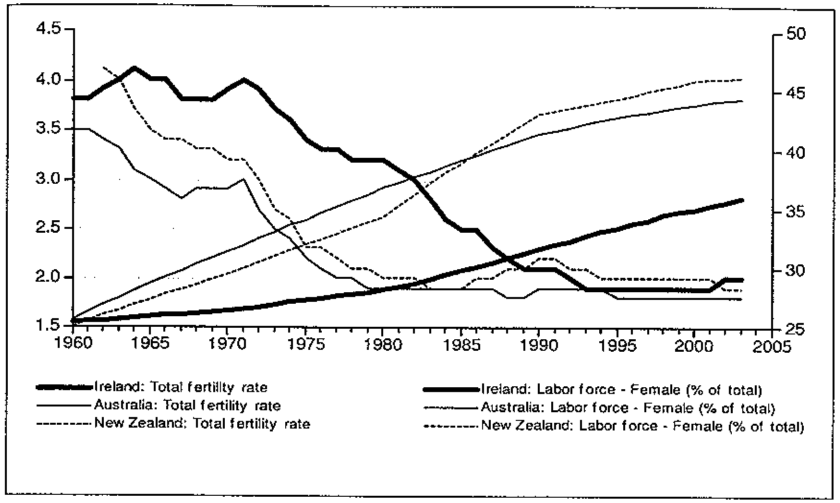

Figure 8: Female Fertility and Female Participation Rates

Source: World Bank (2006)

Serendipitous influences

It might be argued that Ireland has, in some respects, been lucky. It has been in the right place at the right time, so to speak. As mentioned above, it is English speaking, has cultural links to America and joined the EU in 1973, which facilitated American corporate access to the EU market. In conjunction with these advantages, during the 1990s the American economy boomed. America's unemployment rate fell and its share market soared. Computer technology advanced rapidly and Ireland benefited from this expansion as most of the leading American firms in the industry established major operations in Ireland.

Summing up

It has been argued that Ireland's 'economic miracle' began back in the 1960s when it was decided to open the economy to the outside world. However, Ireland went further than merely opening its borders to outside trade, it positively encouraged outside firms to set up there. It did this with tax breaks, special economic zones and the development, over time, of suitable infrastructure. Educational standards rose markedly with an expansion in state-funded education facilities, including free university education to those who pass the entrance exams, and a much higher proportion of students staying in the education system. It is contended that these reforms underpinned the *long-term* relative growth in labour productivity in Ireland, enabling it to steadily catch up, and eventually surpass, average OECD experience.

However, while Ireland's labour productivity growth (relative to the OECD average) commenced its ascent in the late 1960s as reflected in Figure 7, Ireland's per capita GDP did not commence its rapid ascent till the late 1980s – some 20 years later as reflected in Figure 1.

We can get an insight into the possible sources of the 'extra spurt' of growth from the late 1980s by decomposing per capita GDP into three components: namely, labour productivity, the employment rate and the labour force participation rate.[6] We have already noted from Figure 7 that labour productivity (relative to the OECD average) was growing as steadily and strongly after the late 1980s as before; that is, relatively strong labour productivity growth commenced in the mid-1960s and continued into the mid-2000s. Thus the *added* impetus to per capita GDP growth from the late 1980s did not come from labour productivity growth; it came (as we shall see) from a rise in the employment rate and the labour force participation rate.

The employment rate, which is the compliment of the unemployment rate, began rising rapidly from 1993 (Figure 2). In 1993 the employment rate was 84 percent – in other words the unemployment rate was 16 percent. By 2000, the employment rate was 96 percent. This spectacular rise in the employment rate explains much of the rise in per capita GDP during the Celtic Tiger years. Essentially, as more people shifted from being unemployed to being employed, GDP rose without a corresponding rise in the overall population.
But what brought about the rise in the employment rate (or decline in the unemployment rate)? While there are many factors influencing the employment rate, it is the argument of this paper that real unit wage costs were of central importance. Between 1993 and 2000, real unit labour costs fell by 16 percent (Figure 4). Thus the real cost of labour to business during this period was declining. This does not mean that average real wages were falling. They were not. But they were growing less rapidly than labour productivity.

[6] Let Y/P be per capita GDP where Y is real GDP and P is population. Now $Y/P \equiv Y/E \times E/L \times L/P$ where E is the employed labour force and L is the labour force. The term Y/E is labour productivity, the term E/L is the employment rate and the term L/P is the labour force participation rate.

The profit share of GDP rose. Businesses generally faired very well during this period – but so too did people who had formerly been unemployed.

Finally we turn to the labour force participation rate. These rates are given in Figure 9. Note that the participation rate for Ireland was falling up until the late 1980s, whereas the rate in Australia was rising, and more or less trendless in New Zealand. It is suggested that an important contributing factor to the decline in the Irish participation rate up until the late 80s was the relatively high and rising unemployment rate during the same period (Figure 2). Potential labour force participants were discouraged from vying for jobs because the unemployment rate was oppressively high and rising (notwithstanding the higher proportion of women in the labour force). A recovery from high unemployment commenced in the late 1980s, but stalled during the early 1990s due to the worldwide recession at that time. The subsequent sustained decline in the unemployment rate from 1993 (as noted earlier) made the labour market a much more attractive proposition to those who had previously been out of it. It is argued that the rise in the participation rate during the 1990s is linked to improved employment prospects. Since improved employment prospects have been linked to declining real unit labour costs, it follows that the rise in the labour force participation rate is also linked to real unit labour costs. Thus real unit labour cost falls have been central to increasing the employment rate and increasing the participation rate. Both of these rises have been instrumental in increasing per capita GDP during the Celtic Tiger years

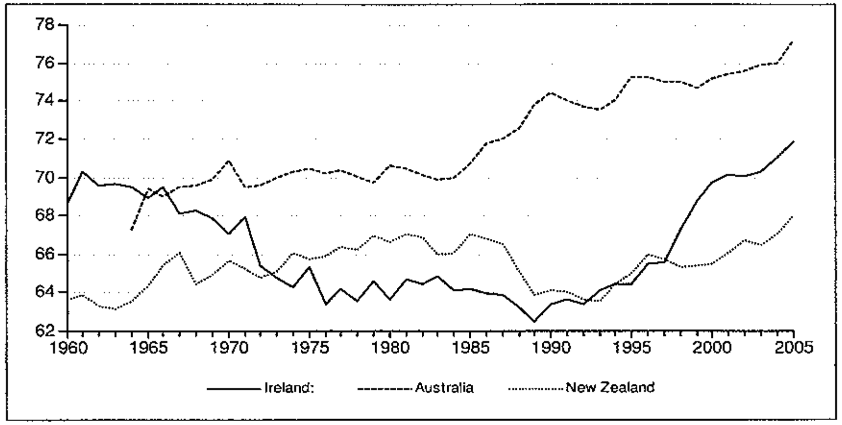

Figure 9: Labour Force Participation Rates – Percent
Sources: OECD (2005)

Conclusions

This paper has sought to review the experience of Ireland, New Zealand and Australia over the last near five decades focussing, in particular, on differences in labour market practices. Emphasis has also been directed to Ireland's experience and its spectacular emergence during the last couple of decades as the fastest growing economy in the developed world. It has been argued that tax incentives to encourage business development, investment in education, fiscal rectitude and labour market policies that hold down real unit labour costs have been of critical importance in explaining Ireland's ascent.

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