The Irish Labour Market Review 2007

A FÁS Review of Irish Labour Market Trends and Policies

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Table of Contents

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Executive Summary

The Irish Labour Market Review is prepared and published by FÁS as a contribution to understanding and debate about Irish labour market developments and issues. The Review was first published in 2002 and has been published annually since. It has addressed a range of issues including the labour market participation of disadvantaged groups, up-skilling of the employed, older workers, immigration, gender pay gaps and incentives to work. This year's Review presents an overall assessment of labour market developments in Ireland (Chapter 1), addresses labour market policy issues in Chapter 2 and contains a special article on gender pay gaps in Chapter 3. The Review has been prepared by the Planning and Research Department of FÁS. Specifically, Brian McCormick was the lead author of Chapters 1 & 2, and Roger Fox was the author of Chapter 3.

Chapter 1: Trends and Outlook

THE EMPLOYMENT BOOM

The Irish labour market has enjoyed unprecedented success since the employment boom began in earnest in 1998, creating an additional 600,000 jobs with the total number in employment reaching the 2.1 million mark in 2007. Fundamental to the success of the labour market has been the strong performance of the Irish economy which has grown at an average of 6% per annum over the 1998-2006 period. This average masks a dip in the GNP growth rate over the 2001-2002 period before a recovery over the 2003-2006 period. In 2006 GNP and GDP grew by 6.5% and 5.7% respectively. The main driver of recent economic growth has been the strength of domestic demand which has been responsible for an increasing proportion of national economic growth each year.

The sectors which have driven economic growth, namely construction and services, have also been the main sources of job creation with the numbers employed in construction doubling over the 1998-2007 period. By contrast, the manufacturing sector has performed poorly on the employment front, employing less workers now than in 1998.

A closer analysis of employment trends shows that while employment growth has been very strong, it has not been consistent, and has tended to fluctuate broadly in line with the economic cycle. Sandwiched in between the two waves of the employment boom (i.e. 1998-2001 & 2004-2007) was a period of more modest jobs growth which was precipitated by the economic slowdown that occurred at the beginning of the decade. Furthermore, employment in certain sectors (most notably construction and manufacturing) and virtually all occupations (with the noticeable exception of professionals) has exhibited a high degree of cyclicality over the 1998-2007 period. There has also been a gender dimension to the employment cycle with males faring much worse than females during the slacker growth period of 2001-2004.

The unemployment rate has remained largely oblivious to the employment cycle, barely deviating from 4.5% over the 2001-2007 period. Although the numbers unemployed have risen by 30,000 to 100,000 during this time, this should be seen in the context of a labour force which grew by 400,000 over the same period. The consistency of the unemployment rate has been largely due to a negative participation effect during the employment slowdown and large-scale migration during the subsequent upturn. These two contrasting effects served to keep labour supply in line with fluctuations in labour demand. Fears about a rise in the unemployment rate arising from the inflow of EU10 migrants have thus far proven unfounded with the post-enlargement period coinciding with the second wave of the employment boom.

RECENT DEVELOPMENTS

An analysis of developments in 2007 suggests that the second wave of the employment boom is coming to an end and that another employment slowdown is in the offing. While the annual employment growth rate was 3.3% in Q3 2007 it has fallen steadily since it peaked at 5.2% in Q3 2005. Furthermore, an unusually high proportion (over half) of the recent jobs growth was accounted for by part-time work which means that the underlying rate of growth was actually below 3%.

Another noticeable aspect of recent employment trends has been the sudden fall in the numbers employed in construction, a sector that had been the mainstay of jobs growth in recent years. As a result, the burden of job creation now falls almost exclusively on the services sector.

In terms of earnings, growth rates across all sectors of the economy have been averaging around the 5% mark in nominal terms, which has meant negligible growth in real terms. However, this average earnings figure hides the fact that growth has been much stronger at the lower end of the spectrum due to the two increases in the minimum wage this year. Nominal earnings would probably have been significantly higher if it had not been for the fact that economic migration has continued to meet the demand for labour, accounting for 60% of the growth in employment in 2007.

OUTLOOK

The economic outlook provides little reason to be sanguine about employment prospects for 2008. Several factors, most notably the slowdown in house-building, the international credit crisis and the appreciation of the euro will impact negatively on Ireland's growth potential. As a result, GNP growth is expected to slow from 5.8% in 2006 to around 4.5% this year before moderating further to 3% in 2008, with the risks for next year probably on the downside. The impact of the slowdown on employment will be particularly acute due to the output contraction in the labour-intensive house-building sector. As a result, employment is forecast to grow by 3.4% (+70,000) in 2007, before moderating to 0.9% (+20,000) in 2008.

While NDP infrastructural projects, commercial property and home improvements will counterbalance some of the fallout from the new homes sector the total numbers employed in construction could fall by some 30,000 during the 2007-2008 period. Employment levels in the manufacturing sector are expected to remain unchanged in the short-term as the opportunities presented by an expanding market for our exports are counterbalanced by the cost pressures concomitant with a strong euro. Hence, all the jobs growth in 2008 is forecast to come from the services sector, where employment is forecast to rise by 2.8% (+40,000) in 2008. However, even the services sector could see employment growth moderate significantly towards the end of 2008 if it suffers a contagion effect from the slowdown in the new homes sector.

While the employment slowdown will increase the numbers unemployed, the impact could be softened if there is a significant labour supply side response similar to the slowdown in 2001. Yet this time round the contribution of immigration as well as participation will have to moderate significantly to avoid a substantial increase in unemployment. Based on the assumption that net inward migration will indeed slow, almost halving from 72,000 in 2007 to 38,000 in 2008, the numbers unemployed are forecast to rise from an average of 100,000 this year to 117,000 in 2008, with the unemployment rate increasing from 4.5% to 5.2%.

The medium-term risks for the Irish labour market are currently on the downside. However, the volatility in key economic variables such as the euro-dollar exchange rate, house completions, financial markets and commodity prices, makes employment predictions beyond 2008 extremely tentative. Furthermore, the precise unemployment implications of a significant slowdown will largely depend on the migration response, for which there is no precedent in the Irish context. In last year's Review we suggested that even if migration was sensitive to a slower jobs market unemployment could still rise to 160,000 by 2012. This was based on a 'what if' analysis which anticipated a shock to the economy resulting from either a correction in the housing market or a significant appreciation of the dollar. It is a cause of some concern then that both of these scenarios have materialised in 2007. In short, given the recent convergence of negative economic events, subdued employment growth and further increases in unemployment seem the most plausible outcomes in the short-to-medium term.

Chapter 2: Policy

1. THE POLICY CONTEXT

Aside from concerns about slower growth, policy makers are also worried about a more general decline in our competitiveness that could adversely affect our potential for future job creation. The link between international competitiveness and job creation will increase in importance, as we rely less on non-traded sectors (notably the construction and public sectors) for employment growth. A major challenge to job creation and competitiveness is the globalisation of labour. This year saw the publication of two major reports by the IMF[1] and the OECD[2] respectively, both of which included an analysis of recent trends in the globalisation of labour. One of the important conclusions was that the size of the effective global labour force has quadrupled over the last two decades. While both reports acknowledge that the globalisation of labour can increase the risk of job losses, they also point out that job creation in areas of comparative advantage can offset job losses in domestic production displaced by imports, provided the right policies are place. Hence, it will be important to ensure that the skills set of our labour force accords with our areas of comparative advantage.

Slower economic growth and the globalisation of the Irish labour market provide the backdrop for the policy discussion contained in Chapter 2. Thus, there is a need for appropriate short-term responses to increased unemployment while at the same time moving forward in relation to long-term needs. In this context we argue that a major policy tension facing the Irish labour market will be the need to adjust to a more competitive environment while also protecting those most exposed to this adjustment. We propose a three-pronged approach which involves (a) a short-term response to tackle the fallout from the economic slowdown, (b) a longer-term response to broader underlying trends and (c) an examination of the Employment Protection Legislation (EPL) framework to reconcile the overarching issues of adaptability and protection.

1. IMF World Economic Outlook, Spring 2007
2. OECD Employment Outlook 2007

2. SHORT-TERM RESPONSE

Training Response

It is unrealistic to assume that all of those who are at risk from the slowdown in the house-building sector will easily transition into other industries that are growing. There are, however, opportunities for reallocation within the construction industry itself to areas which will grow strongly over the next few years. Even with such re-allocations it is forecast that there will be job losses in the construction sector. These represent a waste of skilled labour and a lower return on the considerable investment in apprenticeship in the sector over the last few years.

- Therefore, we believe that from a labour market perspective, there is a strong case for bringing forward some of the NDP infrastructural projects to utilise this pool of skilled labour. This may be possible using Exchequer resources or, indeed, through the application of private sector funding.

Apart from this overall investment recommendation, in the short-term it is recommended that FÁS:

- Provide suitable re-training so that construction workers can move from house-building work to growth areas within construction.
- Consider the provision of entrepreneurial training modules for craftspersons.
- Maintain the process of apprentice curricula review to respond to changes in the building industry.
- Examine any other issues arising within the construction industry due to the down-turn and consider if any actions are required by FÁS or other organisations. (FÁS has recently established a Board Sub-Committee to undertake this task.)

While the construction sector will experience job losses in the next couple of years, it is likely that employment growth in many other sectors will also be significantly lower than in recent years. One response should be to focus training on skills and occupations that seem to be in short supply. It is recommended that FÁS should:

- Examine, and if possible increase, FÁS training provision in relation to occupations which have been identified as being in shortage.
- Consider enhanced job-seeking support for FÁS trainees to help increase their job success in the slow-down.
- Despite the reduced job prospects for the most disadvantaged, continue to provide them with training which helps to increase their short-term prospects but also long-term qualifications. However, FÁS should not increase employment programmes as they are designed to tackle long-term unemployment rather than the predominantly cyclical short-term unemployment envisaged here.

Earnings Policy

One of the key aims of economic policy is to increase national output and, in particular, national output per head (national productivity) and hence income levels. Many factors impact on productivity and the development of human resources is one important part of the equation. In the medium-term our aim must be to increase national productivity and hence generate the resources for increased incomes. However, in the short-term, incomes must track existing productivity levels if our competitiveness is to be maintained. Since joining the Eurozone, Ireland no longer has the ability to improve our competitiveness via exchange rate or interest rate policy. As a result, earnings policy is one of the few macroeconomic areas over which we can independently leverage a competitive advantage.

Therefore it will be necessary to look at our current national wage bargaining processes in order to ensure that they are responsive to changing economic realities. More generally, new and innovative approaches to wage bargaining at the national level may be needed to help the labour market adjust to the reality of slower employment growth. For example:

- Future partnership agreements could involve earnings moderation being traded for reduced inflation.
- Other approaches would involve splitting pay awards into a base pay component and a variable pay component either at the national level or at the firm level. At the national level this might involve a base payment linked to (trade-adjusted) inflation and a further payment linked to national productivity growth. There may also be scope for introducing gainsharing arrangements in larger firms. We recommend that the relevant organisations should examine viable options that can encourage gainsharing.

Given the lower rate of economic growth projected for the future, a lack of wage flexibility on the part of Irish workers could result in higher unemployment, especially if foreign workers are willing to accept lower wages. This may be especially relevant in low-skilled occupations where the majority of EU10 workers are employed. While there is no direct way of controlling the magnitude of inward migration from EU10 countries, immigration flows can be influenced indirectly via the wage channel, especially the minimum wage. Our relatively high minimum wage has increased the attractiveness of Ireland as a destination for EU10 workers. Under the National Minimum Wage legislation, cognisance must be taken of the impact on employment, general economic conditions and competitiveness. While the minimum wage can impact on migration flows it also acts as an anti-poverty measure and has helped close the gender pay gap. Nevertheless, if an excessively high minimum wage were to result in higher unemployment it would prove to be counter-productive as an anti-poverty measure. FÁS recommends that:

- In the light of the projected slow-down in employment growth, the appropriateness of the national minimum wage level should to be regularly re-assessed, taking into account the impact on competitiveness, unemployment, migration and poverty.

3. LONGER-TERM RESPONSE

Developing the Skills for the Future

Over the longer-term, forecasts suggest that the economy has the potential to regain momentum. It is important not to lose sight of this in the midst of the current atmosphere of caution. Research undertaken for such publications as the Enterprise Strategy Group report, the Towards a National Skills Strategy and the FÁS/ESRI Occupational Employment Forecasts suggests that over the long-term there will continue to be significant growth in employment, especially in high-skill occupations. A very important objective will be to help large numbers of low-skill employees to upgrade their qualifications. Reports by FÁS and others have consistently found that well-educated employees, in higher-level jobs, are much more likely to receive training than poorly-educated employees. The OECD has argued that for those groups who receive little employer-sponsored training, raising individual incentives is likely to yield a better outcome than channelling financing through employers. Towards a National Skills Strategy similarly has suggested that it may be more suitable to channel funds directly to those seeking training rather than the providers of training and has suggested that the use of Individual Learning Accounts, among other approaches, be investigated. It is recommended that FÁS should:

- Continue to pilot Paid Learning Leave approaches.
- Undertake pilot Individual Learning Option schemes for poorly-qualified employees.
- Examine the Towards a National Skills Strategy recommendation that all training for National Framework of Qualifications levels 4/5 and below should be free, and decide on an appropriate response in relation to FÁS training courses.
- Develop a suitable model of guidance for the employed, including Accrediation of Prior Learning (APL).
- Increase the focus within all FÁS training courses on acquiring qualifications at a higher level (one-step-up). In practice this will mean encouraging and assisting trainees to complete a series of modules, over a period of time, that will lead to a major qualification at a higher level.

Attracting and Retaining Talent

The ability of Ireland Inc. to meet its long-term skills requirements is likely to be tested in the coming years due to the declining the number of young entrants. Moreover, the scramble to attract the ‘best and brightest’ has been increasing across the world as the demand for high-skill workers has outstripped supply. Hence, policies will need to be continually developed to both attract highly-skilled migrants and retain highly-skilled workers already residing here. Although remuneration will have a role to play in the attraction and retention process, it will not be sufficient. In Ireland, work-life balance issues are becoming increasingly important due to the long commuting times and low provision of childcare. Hence, companies that offer flexible working arrangements, be it teleworking, flexible working hours or part-time options, are likely to be the most attractive to the modern worker.

The Review notes that highly-skilled workers are becoming increasingly mobile and that such mobility takes many forms other than permanent movement from one country to another. It shows that a significant proportion of employees in high-skilled occupations in Ireland are non-Irish and that greater movement between developed countries is also an important trend. The importance of creative workers, living in creative regions or cities, is cited. Increasingly, companies are willing to set-up where such workers want to live and this will lead to a virtuous circle of highly-creative, popular, cities with a diverse set of lifestyles. Currently, Dublin is among such cities. The ‘soft’ features of such cities are as important to many high-skilled migrants as the ‘hard’ aspects such as immigration law or personal taxation. Nevertheless, ‘hard’ aspects such as the system of immigration law and the recognition of foreign qualifications are important factors that Ireland needs to successfully tackle. Specifically, it is recommended that:

- Although it is too soon to assess the success of the new Irish Green Card system, it will be important to monitor its application carefully to ensure that it maximises the entry of highly-skilled workers.
- The system for recognition of international awards should be kept under review to ensure that it is meeting its objectives and that the facility is widely communicated to employers and international employees.

- Irish policy must continue to ensure that the varying needs of skilled immigrants are satisfactorily met. This is likely to include housing, health and education. More generally, Ireland will need to accommodate diversity if it is to be attractive to high skill migrants from different backgrounds.

4. RECONCILING ADAPTABILITY AND PROTECTION

While properly designed training, earnings and migration strategies can help the labour market adjust to economic fluctuations and globalisation trends, they need to be complemented by appropriate Employment Protection Legislation (EPL). According to the OECD, well-designed EPL is one of the policies that can enhance labour productivity. Ireland has, according to international comparisons, a relatively flexible system of EPL. The trend across most of the EU has been to relax the protection of atypical workers (i.e. temporary and part-time workers) vis-à-vis regular workers in an attempt to increase flexibility. As a result the incidence of part-time and especially temporary employment has been increasing in the EU. The downside of this approach can be the creation of a two-tier labour market which increases the insecurity of those working in atypical employment. In response to these trends and the increased need for flexibility the European Commission in November 2006 launched a consultation process with Member States on a Green Paper entitled *Modernising Labour Law to Meet the Challenges of the 21st Century*. This forms part of the wider aim of the Commission to promote the 'Flexicurity Model' as an example of how labour market flexibility and employment security can be reconciled in a 'positive sum game'.

Examining trends in atypical employment and EPL in Ireland, we conclude that Ireland has avoided the two-tier scenario common in the EU that has resulted from increasing the protection of atypical work vis-à-vis typical work. In fact, in Ireland the proportion of temporary work compared to permanent employment has declined in the last decade. We draw attention to one related aspect – the portability of supplementary pensions across employments. This may represent a barrier to flexibility in the labour market. In the context of a slowdown in employment growth, it is important that employment protection legislation is not overly strict while at the same time protecting the most vulnerable. We see no evidence that the current Irish level of EPL requires increased flexibility. However, equally we would point to the dangers of reducing flexibility given the projected slow-down in employment. Moreover, we argue that the policy emphasis should increasingly focus on career security rather than job security.

- We recommend that future policy developments in the area of EPL should take cognisance of the flexicurity approach. In particular, one area that merits further investigation is the portability of supplementary pension rights.

Chapter 3: Special Article: Gender Pay Gaps

Following on from a detailed examination of gender pay gaps in the *Irish Labour Market Review 2005*, an analysis of the impact of recent earnings trends on the gender pay gap is presented in Chapter 3 of this Review. The evidence suggests that the gender pay gap in Ireland has narrowed significantly in recent years. This has largely been due to the fact that women are, on average, getting better jobs than they had previously. It was also found that the most pronounced differences in the gender pay gap relate to persons with low levels of educational attainment. It is recommended that:

- Continued attention to the causes of gender pay gaps, both within society and the work-place itself, will be important. For its part, FÁS should continue with its range of interventions which help women to obtain employment and up-skill within employment. No further specific actions are recommended but there is a need for on-going monitoring of gender issues in FÁS programmes to identify any issues that might require correction.

1 Chapter 1 Trends and Outlook

Macroeconomic Background

In order to set the Irish labour market in context we briefly consider the economic background. Over the 1998-2006 period, Irish GNP has increased at a rapid rate averaging 6.0% growth per annum, which is an exceptional performance by any standards. This average masks a dip in the GNP growth rate over the 2001-2002 period before a recovery over the 2003-2006 period. In 2006 GNP and GDP grew by 6.5% and 5.7% respectively. The indications are that most of the growth for 2007 took place in the first half of this year. The latest figures from the national accounts show GNP and GDP growing by 5.7% and 6.7% respectively in the 12 months to the first half of 2007. Yet, when seasonally adjusted, both GNP and GDP fell quarter-on-quarter by -0.9% and -1.4% and respectively in Q2 2007. Furthermore, the slowdown in the residential building sector will act as a drag on economic growth in the second half of year. On a more positive note, exports have continued to grow, increasing by 5% year-on-year for the first 8 months of 2007. However, export growth has been primarily due to an expanding world market rather than an improvement in our international competitiveness. In fact, our competitiveness has taken a hit this year due to the rise in the value of the euro against the dollar.

1. LABOUR MARKET TRENDS 1998-2007

Overview of Employment Trends

Not surprisingly, Ireland's strong economic performance over the last decade has been extremely positive for the labour market. Since 1998, the numbers at work have increased by 600,000. After moderating significantly over the 2001-2004 period (Fig 1.1), employment growth strengthened considerably in 2005 and 2006, remaining relatively strong in the first half of 2007. In fact the period 2004-2007 could be seen as the 'second wave' of the Irish employment boom with the 'first wave' taking place from 1998-2001, and a relative lull in employment growth occurring between these two periods. One constant feature of employment over the last ten years was the stability of the share of part-time employment. In 2007 part-time work accounted for 17.3% of total employment, virtually unchanged from the 16.7% share in 1998.

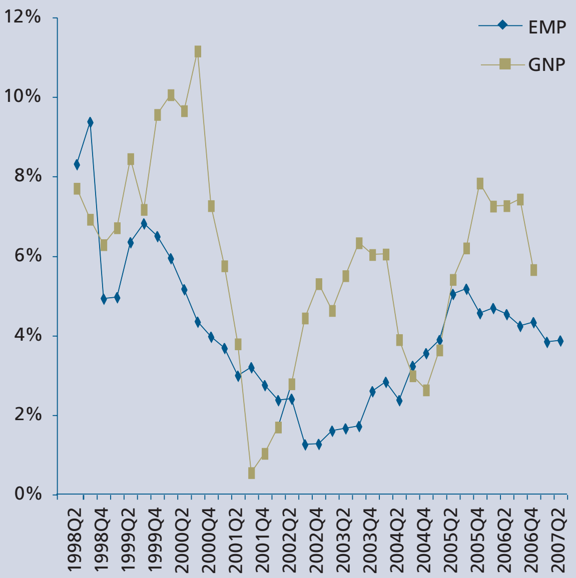
Figure 1.1: Year on Year Employment Growth

Source: CSO, Quarterly National Household Survey, various issues

Comparing Economic and Employment Trends

Employment growth and economic growth have shown similar patterns over much of the last decade with divergences only really occurring during the 2002-2003 period (see Figure 1.2). Both economic growth and employment growth were at their strongest in the second half of the 1990s. Then, in 2001, a trough in economic growth roughly coincided with a significant moderation in employment. To some extent, Ireland was shielded from the worst effects of the slowdown in the world economy at the beginning of this decade due to the weakness of the euro. The economy began to recover towards the end of 2002 and the labour market responded soon afterwards with employment growth picking up considerably towards the end of 2003 before the second wave of employment growth took place from 2004-2007. Employment growth over the 2004-2007 period grew by 14%, which was twice as fast as the 7% increase over the 2001-2004 period. Yet it is worth pointing out that even at the lowest point of the employment slowdown in late 2002, an extra 20,000 jobs were still being created on an annual basis.

Figure 1.2: GNP and Employment Growth 1998-2007*

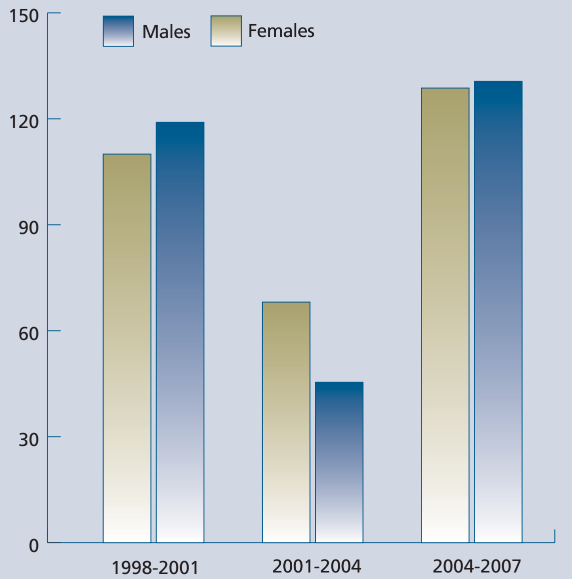


Source: CSO, Quarterly National Household Survey & Quarterly National Accounts
**Employment growth is lagged by two quarters on GNP growth*

Employment Growth by Gender

Figure 1.3 shows that the two employment booms did not differentiate greatly between men and women in terms of absolute employment increases over both periods (although the growth rate for female employment was faster by the order of 5 percentage points). By contrast, the 2001-2004 period of lower employment growth was more favourable for women relative to men, with females accounting for 50% more of the jobs growth than males. The more recent shift back towards gender-neutral employment growth has been largely due to the boom in construction, a sector where the vast majority of workers are men (95%).

Figure 1.3: Year on Year Employment Growth



Source: CSO, Quarterly National Household Survey

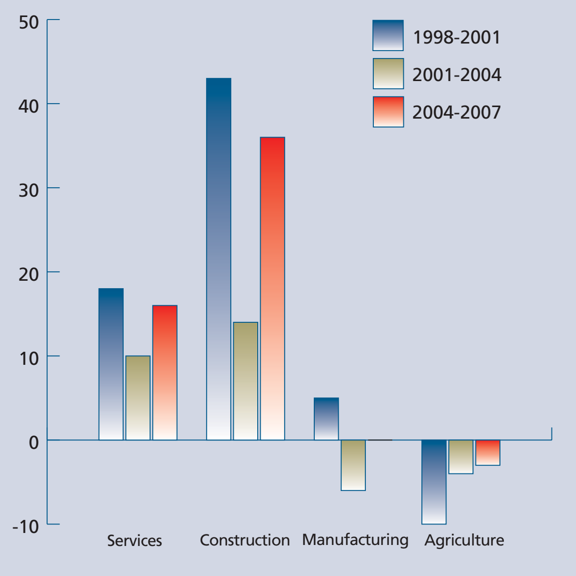
Employment Trends by Sector

Figure 1.4 below breaks down sectoral employment growth over the 1998-2007 period into three sub-periods of equal length, 1998-2001, 2001-2004 and 2004-2007. These periods correspond broadly to the latter years of the first employment boom, the subsequent slowdown, and the second wave of employment growth. The construction sector enjoyed the fastest employment growth in each of these sub-periods. In the first boom, construction employment grew by 43%, then slowed to 14% during the 2001-2004 period before growing by 34% during the second wave of employment growth. Over the combined 1998-2007 period, the construction sector more than doubled adding 155,000 jobs to reach 280,000 in 2007.

In the manufacturing sector, the modest employment growth rate of 5% during the first boom was overtaken by negative growth of -6% during the employment slowdown followed by zero growth over the subsequent 2004-2007 period. As a result, there are now less people employed in manufacturing (292,000) than there were in 1998 (305,000). This represents a very poor performance given the overall strength of employment growth during this period. The agricultural sector has seen an even larger number of net job losses than the manufacturing sector, falling by over 20,000 over the 1998-2007 period. However, the rate at which jobs are being lost has slowed from -10% during the first wave to -3% during the second wave.

The rate of employment growth in the services sector exhibited a much lower degree of cyclicality over the three sub-periods when compared to the construction and manufacturing sectors. And while the construction sector enjoyed the fastest rate of growth, the largest *absolute* increase over both periods was in the services sector, increasing by almost 500,000 jobs since 1998, with almost 200,000 of these jobs coming during the 2004-2007 period. The importance of the services sector has been partly due to its sheer size (accounting for 2 out 3 jobs in Ireland) and partly due to Ireland's continued evolution towards a services-based economy.

Figure 1.4: Sectoral Employment Growth Rates (%) 1998-2007

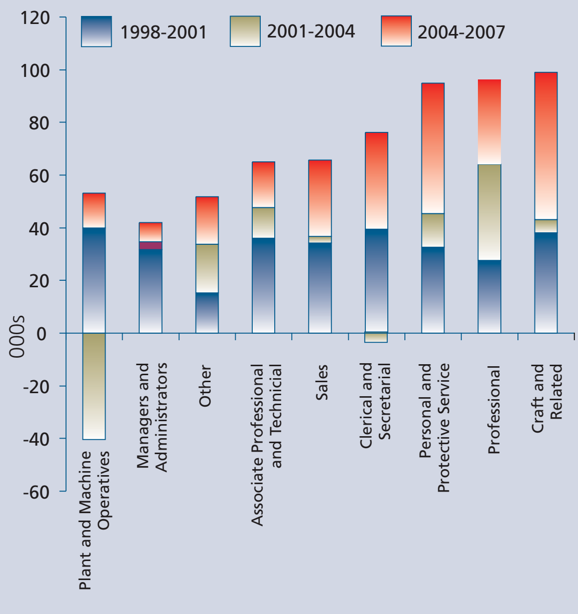


Source: CSO, Quarterly National Household Survey

Employment Trends by Occupation

The change in occupational categories provides a good general indicator of the change in the skill level of workers in Ireland. These are set out in figure 1.5. The largest absolute increase in employment was in craft-related occupations for both the whole 1998-2007 period (+99,000) and the most recent employment boom (+56,000). However, craft occupations, like several other occupations (most notably operatives, clerical & secretarial, and sales) exhibited a high degree of cyclicality with noticeable dips in employment growth (and in the case of operatives significant negative growth) during the slacker 2001-2004 period. The sharp fall in the employment of operatives over the 2001-2004 period should not be surprising given the relatively poor performance of the manufacturing sector during this period. The only occupational category which seemed to be oblivious to the economic\employment cycle over this period was professionals, which grew at a steady and strong rate across the three periods, adding over 96,000 to its ranks in total, the second largest growth of any occupational category. The fastest rate of growth in percentage terms both over the most recent period and over the total period was the personal services & protection category which grew by 27% during 2004-2007 and by 68% during the longer 1998-2007 period.

Figure 1.5: Employment Growth By Occupation 1998-2007



Source: CSO, Quarterly National Household Survey

Labour Force Trends

The labour force is made up of the employed and the unemployed. Unlike the situation in the second half of the 1990s when the labour force grew at a slower pace than employment growth (as unemployment fell), since the turn of the decade labour force growth has been very similar to employment growth, and as a result there has been minimal variation in the unemployment rate. The components of labour force growth in recent years have been as follows:

(I) Participation Rates

- The proportion of each working age cohort participating in the labour force, either in employment or actively seeking work.

(II) Demographic Change

Which in turn is comprised of:

- The net growth (inflows less retirees) in the domestic population of working age, commonly referred to as the natural increase.
- Net inflows into the working age population from the rest of the world (net migration).

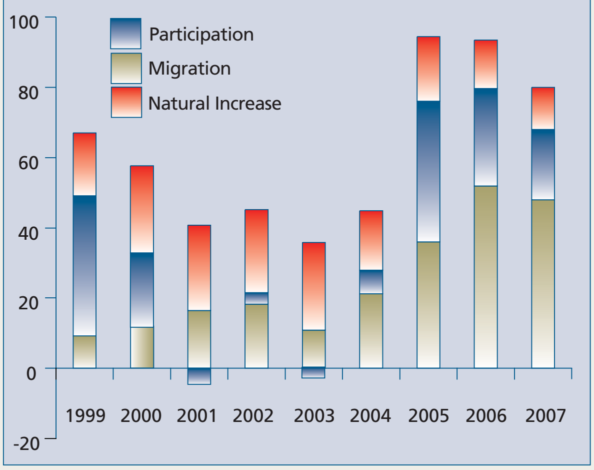
Labour force participation has been very sensitive to changes in the employment cycle. During the first wave of employment growth, the participation effect was a major factor in the strong labour force growth at the end of the 1990s. This contrasts sharply with the 2001-2004 slowdown when the participation effect was negligible, while the second wave of the employment boom has seen a resurgence in participation (Figure 1.6) accounting for a 90,000 increase in the labour supply. The main source of the recent increase in participation has been women, with the female participation rate rising from just under 50% in 2004 to just over 54% in 2007. Over the same period, male participation has increased from 71.3% to 73.5%. Overall, the growth in the labour force has meant that the labour force now accounts for 63.7% of all persons aged 15 or over (i.e a participation rate of 63.7%) compared to 57.0% in 1998.

While the participation effect has regained significance in recent years, immigration has been the most important factor in labour force growth during the second wave. In fact, the birth of the second employment boom coincided with EU enlargement which led to a significant increase in economic migration into Ireland[3].

Prior to EU enlargement, approximately one-third of work permits were issued in respect of workers from the accession states. When Ireland opened up its labour market to the EU10 it was hoped that workers from these countries would fill jobs that had previously required work permits[4]. This has largely happened. Since EU enlargement, the rate at which work permits have been issued has halved. In the first nine months of 2007 there were 18,000[5] permits issued compared to 36,000 for the same period in 2003. Overall, the CSO estimates that the annual contribution of immigration (from both EU and Non-EU countries) has more than doubled from 21,000 in 2004, when EU enlargement took place, to 48,000 in 2007[6].

Unlike migration, the other component of demographic change, the natural increase, has lessened in recent years in both absolute and relative terms. The contribution of the natural increase peaked at 25,000 in 2003 before falling gradually to just 12,000 in 2007.

Figure 1.6: Components of Labour Force Growth 1999-2007



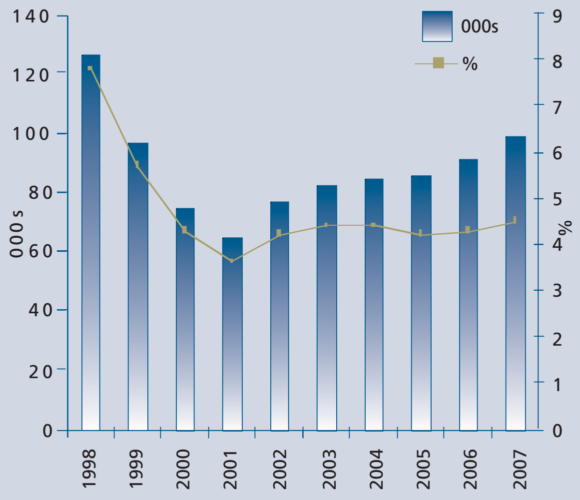
Source: CSO, Quarterly National Household Survey

3. Over 400,000 PPS numbers were issued to persons from the EU10 Member States in the period since EU enlargement, with the majority (60%) being accounted for by Polish nationals. However, this figure overstates the scale of economic migration into Ireland as 1 in 4 those who received a PPS number never took up work in the country, and many of those who do work here seem to do so only on a seasonal basis.
4. Work permits are primarily issued in respect of low-skilled jobs which can not be filled by workers from the EU. Prior to EU enlargement, approximately one-third of work permits were issued in respect of workers from the accession states. In January of this year, changes were made to the work permit system. See"http://www.entemp.ie/labour/workpermits/" for more details.
5. The 2007 figures include Green Cards issued under the new employment permits system introduced this year. So far, approximately one-third of the new employment permits issued have been Green Cards.
6. However, these estimates are likely to be revised upwards in light of the 2006 Census.

Unemployment Trends

The first employment boom saw both the numbers unemployed and the unemployment rate fall significantly with the numbers unemployed almost halving from 131,000 in 1998 to just 68,000 in 2001, while the unemployment rate fell from 8% to a low of 3.8%. During this period, immigration was relatively low and the strong demand for workers was largely met from within the Irish population, including those who had been previously unemployed. Since 2001, the numbers unemployed have increased by over 30,000 to 100,000 in 2007. However, the increase in the numbers unemployed should be seen in the context of a labour force that has grown by 400,000 over the same period. Indeed, the unemployment rate has essentially remained within a narrow range of 4-4.6% over the 2001-2007 period (Figure 1.7). Furthermore, the long-term unemployment rate has remained within a narrow range of 1.2-1.6%. Even when employment growth slowed over the 2001-2004 period, there was not a significant increase in the unemployment rate, as the negative participation effect that occurred during that time ensured that the growth in the labour supply did not exceed labour demand to any great degree.

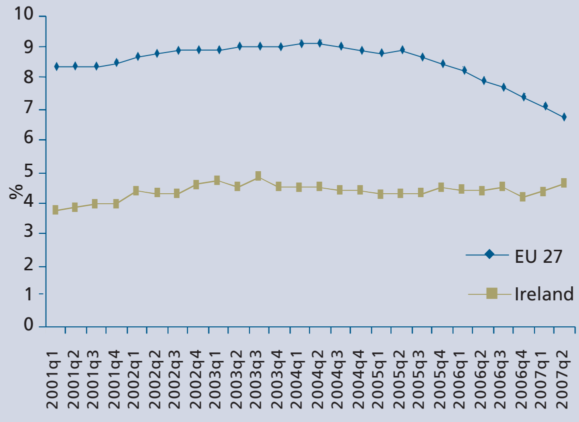
Figure 1.7: Unemployment Trends 1998-2007



Source: CSO, Quarterly National Household Survey

The gap between the Irish unemployment rate and the EU27 average has been narrowing since 2004 when the EU27 unemployment rate was twice the Irish average at 9% (Figure 1.8). This is due primarily to the improved labour market performance of the EU rather than any poor performance by the Irish labour market.

Figure 1.8: Trends in Unemployment rates 2001-2007



Source:Eurostat

Table 1.1: Summary of Labour Force Statistics 1998-2007

Statistic (000s)	1998	2001	2004	2007
Employment	1,506	1,735	1,848	2,108
Unemployment	131	68	87	101
Labour Force	1,636	1,803	1,936	2,209
Unemployment rate %	*8.0*	*3.8*	*4.5*	*4.6*
Participation rate %	*57.0*	*59.7*	*60.4*	*63.7*

Source: CSO, Quarterly National Household Survey (Seasonally Adjusted Series for Second Quarter)

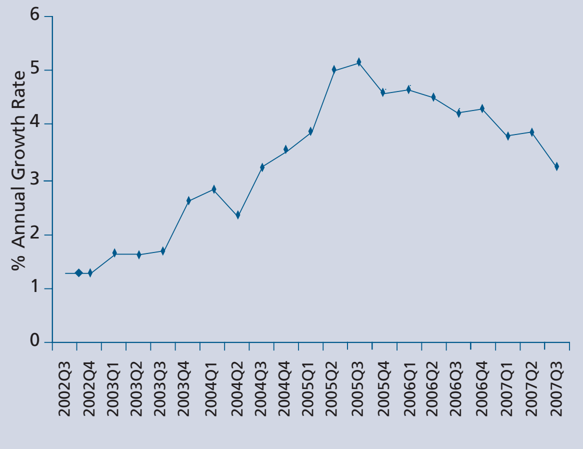
2: Recent trends and Indicators

There has been a lot of concern expressed recently that the Irish labour market has been transitioning into a cyclical downturn that may be more severe than the slowdown that occured at the start of the decade, when employment continued to grow above the EU average despite a slowdown in the Irish economy. The analysis now turns from the longer term trends of recent years to more immediate trends and data to see what justification, if any, there is for this relatively pessimistic prognosis.

Recent Employment Trends

Employment grew by 3.3% (+67,600) year-on-year in Q3 2007 to 2.141 million. While this continues to represent a very strong rate of growth, it is slower than the 3.9% growth rate recorded in Q2 2007. More generally, the annual employment growth rate peaked in Q3 2005 at 5.2% and has been trending downwards since (Figure 1.9). Despite the recent deceleration, Ireland's rate of job creation continues to be extremely high when viewed from an EU perspective. In the year to Q2 2007 employment in the EU27 grew by 1.9% with Latvia the only Member State to have a growth rate (4.4%) faster than Ireland's.

Figure 1.9: Annual Employment Growth (%) 2002-2007

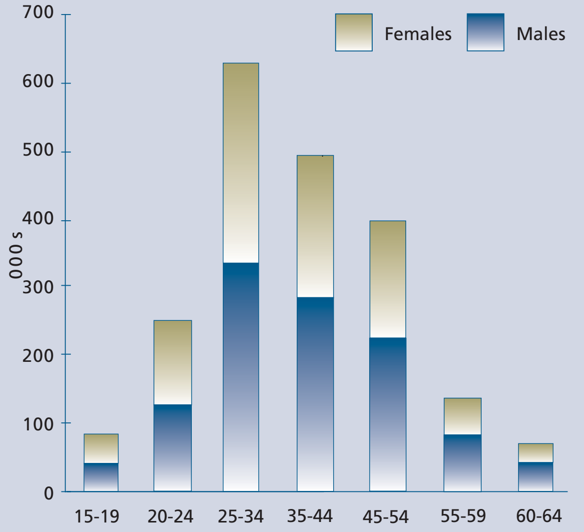


Source: CSO, Quarterly National Household Survey

One important difference to highlight in relation to recent trends is the sharp rise in the number in part-time work. In fact, the number of part-timers accounted for over half the total increase in employment in the year to Q3 2007, increasing from 348,600 to 385,400 (+36,800). This would seem to represent an extremely significant shift in a relatively short period, especially since the part-time proportion had remained more or less constant at around 17% over the 1998-2006 period. Another aspect of recent employment growth has been the more rapid growth rate for female employment (4.6%) vis-à-vis male employment (2.2%) which has parallels with the 2001-2004 period.

Ireland has a relatively young workforce with 45% of employed persons (971,000) under the age of 35 in Q3 2007 (Figure 1.10). The majority of these younger workers are in the 25-34 age cohort (629,000). The highest employment rate is also for the 25-34 age cohort (82%) while the lowest employment rate is for the youngest cohort aged 15-19 (30%), reflecting the fact that most persons in this age group are in full-time education. In each age group, the number of men exceeds women, with the gender disparity tending to be greatest among the older age groups.

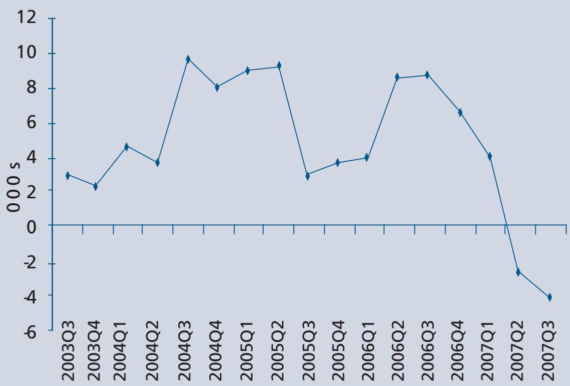
Figure 1.10: Age and Gender Profile of Employment Q3 2007



Source: CSO, Quarterly National Household Survey.

The sectoral composition of employment growth has begun to change significantly recently. Specifically, construction employment, which was a major source of employment growth, has begun to fall, while net job losses in the manufacturing sector seem to have abated for the moment at least, stabilising at just below the 300,000 mark. The seasonally adjusted figure for construction employment actually fell by over 6,000 from 284,800 in Q1 to 278,700 in Q3 (Figure 1.11). The recent deceleration was inevitable given the fall off in residential housing activity in the first half of the year. While total employment in construction has been declining, there has been an increase in the number of self-employed in the sector, which would be consistent with a growth in repair and maintenance activity.

Figure 1.11: Seasonally Adjusted Quarter-on-Quarter Construction Employment growth 2002-2007



Source: CSO, Quarterly National Household Survey

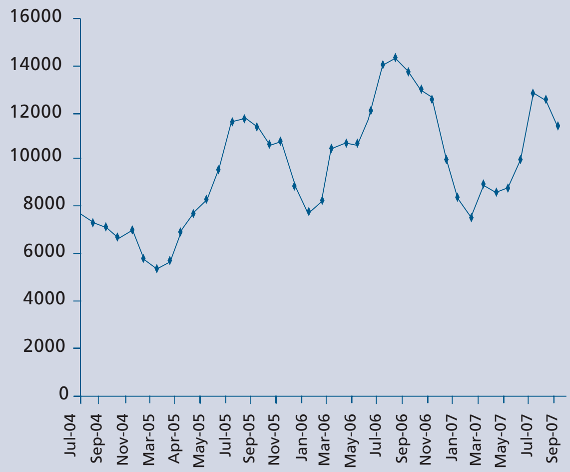
What has not changed has been the continued importance of the services sector. In fact, as employment in construction has declined, the importance of the services sector for employment growth has increased. In Q3 2007, services employment grew by just under 65,000 (+4.7%) year-on-year, accounting for virtually all of the net increase in total employment over the period. Within the services sector the most rapid growth rate was in the financial & business services sector (+10.7%), followed by the hotel & restaurants sector (+7.8%). The financial & business sector has been at the forefront of the growth in services exports and the increase in employment partly reflects this.

Recent Labour Supply Trends

In 2007, immigration continued to be the most significant source of growth in labour supply. The contribution of immigration alone is estimated to have accounted for almost 70% of the increase in the labour force in the year to Q3 2007, with net migration from the new EU Member States accounting for almost 60% of the total increase in the labour force. That said, the most recent trends suggest that EU10 immigration (the main source of inward migration since 2004) peaked in the second half of 2006 (Figure 1.12). Nevertheless, there has continued to be a strong inflow in 2007 with over 100,000 PPS numbers being issued during the January-October period.

Overall, the proportion of non-nationals in the labour force was estimated to be 12% in Q3 2007 although this figure is expected to be revised upwards to around 15% in the light of the recent results from the 2006 Census, which would be high by Western European standards. While the absolute number of non-nationals in the labour force may be underestimated in the QNHS, their sectoral distribution accords closely to the results of the Census. Both the QNHS and the Census figures show that non-nationals are most important for the hotel & restaurants sector, accounting for approximately 30% of the sector's workforce, while the largest volume of workers is employed in the manufacturing sector (42,800 according to the QNHS estimate), with similar numbers employed in the construction sector (36,900).

Figure 1.12: PPSN Allocations to EU10 Migrants (3-Months Moving Average)



Source: DSFA

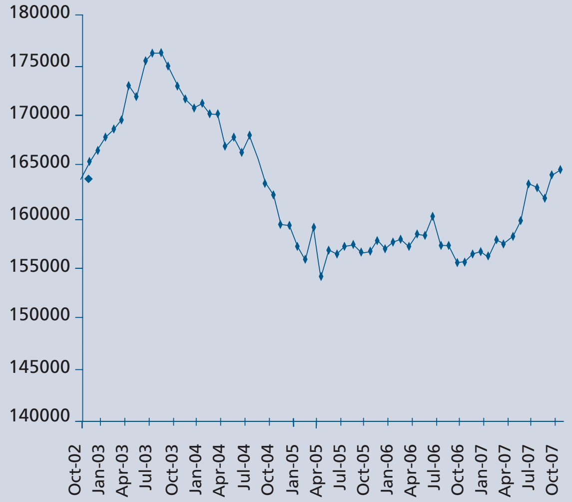
Approximately 20% of the increase in annual labour force growth in Q3 2007 was accounted for by increased participation. This is down from 30% a year previous, which would suggest that participation may be responding to the lower rate of employment growth, reminiscent of the slowdown in participation over the 2001-2004 period.

Recent Unemployment Trends

In the year to Q3 2007, the unemployment level increased only marginally by 1,300 to just over 106,000, while the seasonally adjusted unemployment rate fell slightly from 4.5% to 4.4% over the same period. All of the recent increase was accounted for by long-term unemployment. The Live Register, which provides a slightly more up-to-date indicator of unemployment trends, points to a loosening in the labour market since Q3 2007[7]. When seasonally adjusted, there were 164,200 persons signing on the Live Register in October of this year, an increase of 8,000 since the end of 2006 (Figure 1.13). In fact, the numbers signing on are currently at the highest level they have been since September 2004. While some increase is to be expected, given the growth in the labour force over the intervening period, the pace of the rise over the last 12 months suggests that the labour market is not as tight as it was a year ago. This is reflected in the seasonally adjusted unemployment rate, which, when recalibrated to take account of the rise in the Live Register, is estimated to have risen from 4.2% in October 2006 to 4.8% in October 2007. By comparison, in the 12 months to August the EU27 unemployment rate fell from 7.8% to 6.7%. The largest reduction occurred in Poland where the unemployment rate fell by over 4 percentage points from 13.3% to 9.1% (Figure 1.14). The Netherlands and Denmark had the joint lowest unemployment rate in the EU at 3.3%.

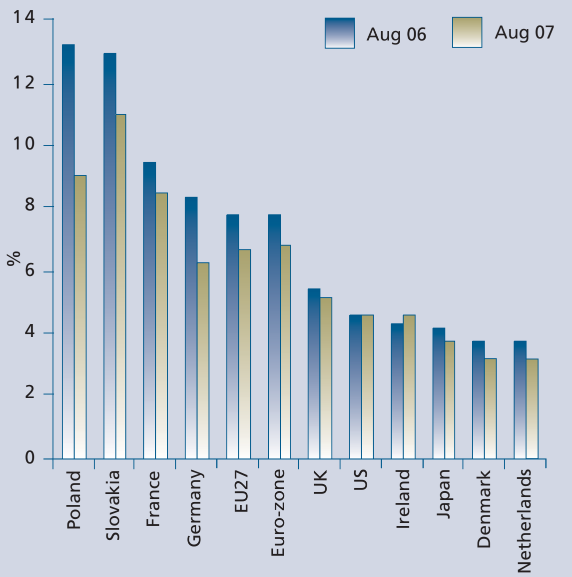
A further sign of a slight weakening in the labour market has been an 11% year-on-year increase in the number of redundancies for the first nine months of the year. The most noticeable increase occurred for the construction sector where redundancies have risen by 66% year-on-year.

Figure 1.13: Live register Seasonally Adjusted 2002-2007



Source: CSO, Live Register Release

Figure 1.14: EU Unemployment Rates 2006-2007



Source: Eurostat

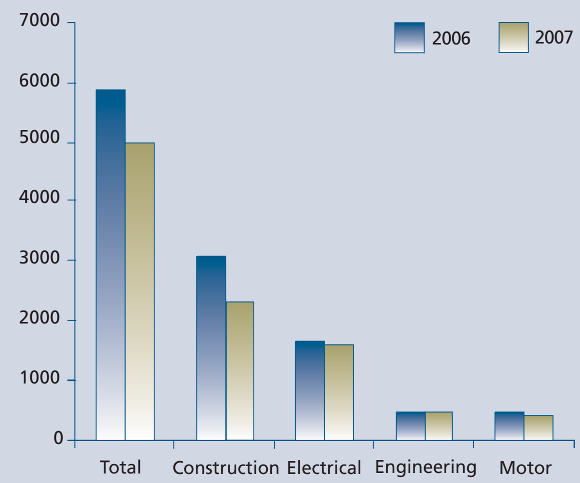
7. For the purposes of the QNHS, Q3 covers the months June, July and August.

Recent Labour Demand Indicators

This section tries to gauge the strength of labour demand by looking at trends in apprenticeship starts and vacancy data from both FÁS registrations and the FAS\ESRI Employment and Vacancy Survey.

Almost 5,000 new apprentices were registered in the first nine months of 2007 (Figure 1.15). While this suggests that labour demand has remained relatively strong overall, it represents a fall of 15% compared to same period in 2006 when apprentice starts were reflecting the strong growth in the construction sector. Not surprisingly, the recent moderation in apprenticeship registrations has primarily occurred in the construction trades, while the electrical and engineering trades have remained virtually unchanged from a year previous.

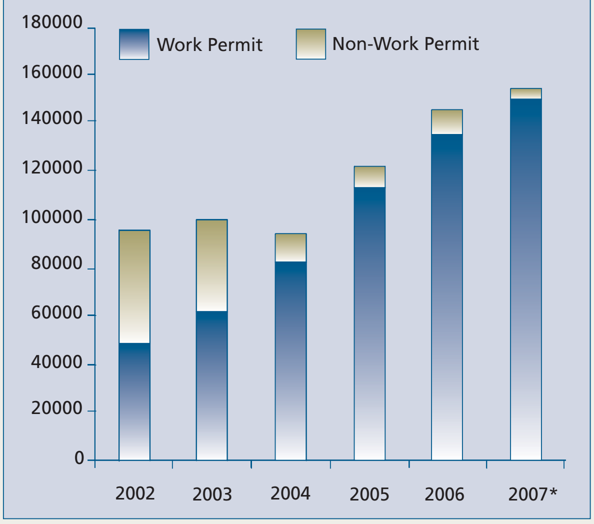
Figure 1.15: New Apprenticeship Starts Jan-Sept



Source: FÁS

The number of vacancies notified to FÁS has continued to grow in 2007. In fact, the total number of vacancies in 2007 is expected to exceed 150,000 which would be the highest in the 20-year history of FÁS (Figure 1.16). The increase is being driven by the services sector which accounts for the vast majority of FÁS vacancies. However, the share of vacancy notifications that are associated with work permit applications continues to fall as the number of work permits being issued declines.

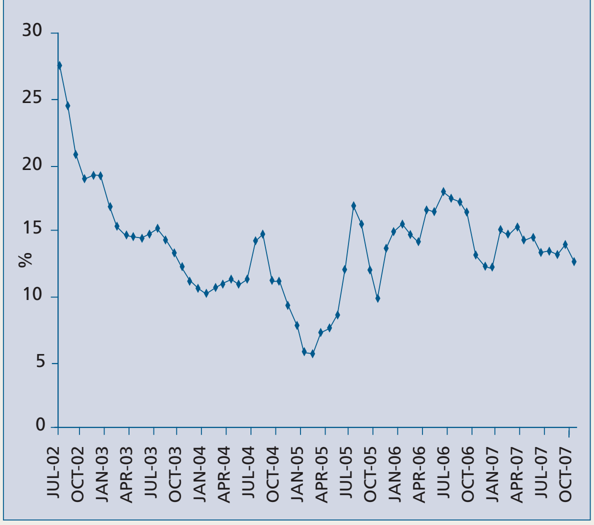
Figure 1.16: FÁS Vacancies 2002-2007



Source: FÁS

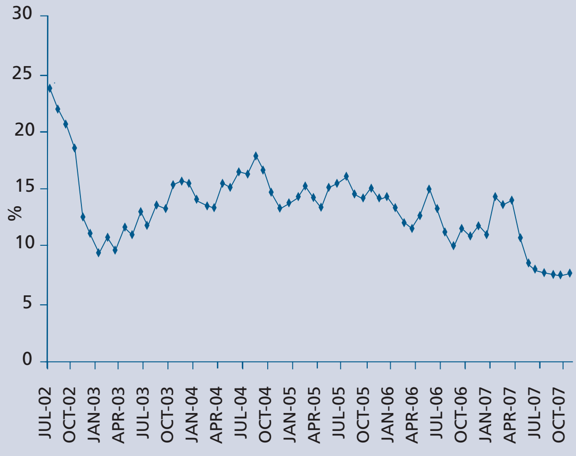
Other vacancy data from the *FÁS\ESRI Employment and Vacancy Survey* suggests that economy-wide the level of vacancies has remained fairly stable. Just over 13% of firms reported vacancies in October 2007, unchanged from October 2006[8] (Figure 1.17). However, there was a noticeable fall in the number of constructions firms reporting vacancies, falling from 11% in October 2006 to 8% in October 2007. This is the lowest incidence of vacancies in the construction sector since the survey began five years ago (Figure 1.18).

Figure 1.17: Percentage of Firms in All Sectors With Vacancies



8. Based on a three-month moving average

Figure 1.18: Percentage of Construction Firms With Vacancies

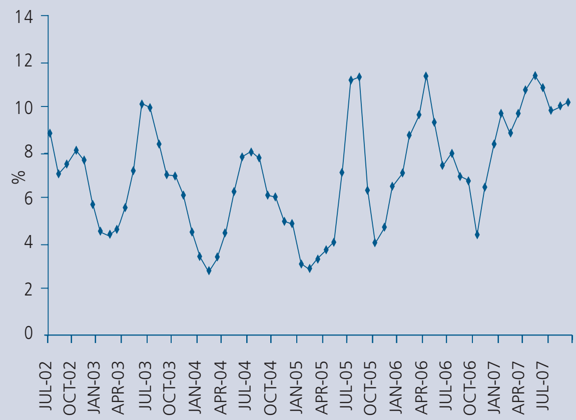


Source: FÁS\ESRI Employment and Vacancy Survey

Although vacancy trends are a good proxy for trends in labour demand, the proportion of these vacancies that are 'difficult-to-fill' provides additional information on the extent of labour shortages. The percentage of firms with difficult-to-fill vacancies increased from 7% in September 2006 to 10% in September 2007[9] (Figure 1.19).

Overall, the available indicators point to continued strong demand for labour in the services sector but a significant weakening in demand for construction workers.

Figure 1.19 Percentage of All Firms with Difficult-to-Fill Vacancies

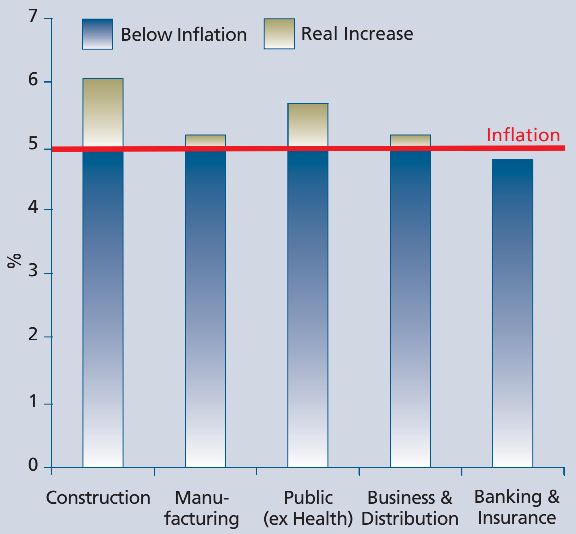


Recent Earnings Trends

Annual average earnings growth rates in all sectors in 2007 have just about kept pace with inflation resulting in little or no real increase in the average level of wages across sectors (Figure 1.20). However, because these are averages they mask changes in compositional effects which are likely to be significant especially in sectors such as construction, manufacturing and hotels & restaurants where there has been a large increase in the number of workers from the EU10. These workers tend to earn less than their Irish counterparts and, therefore, a large inflow would tend to depress the average earnings growth in these sectors. This could mask the fact that a large proportion (and possibly a significant majority) of employees in these sectors are seeing their earnings rise at a faster rate than the average growth rate would imply.

One of the most significant earnings increases in the last twelve months have been for the lowest paid. The national minimum wage was increased in July 2007 from €8.30 to €8.65, having previously been increased from €7.65 in January 2007. This represents a rise of 13% since the start of the year. However, prior to January, there had not been an increase in the minimum wage since May 2005. Figure 1.21 shows that, after the January increase, Ireland had the second highest minimum wage in the EU after Luxembourg. While Ireland's minimum wage is relatively high, its impact on overall average earnings may be limited in current circumstances. This is suggested by Figure 1.22 which shows that only 3.3% of Irish full-time workers were in receipt of the minimum wage at the beginning of the year, which was low by EU standards.

Figure 1.20: Annual Earnings Growth Rate by Sector Q2 2007



Source: CSO

9 Data for October 2007 was not available at the time of publication.

Figure 1.21: Monthly Rates of Minimum Wage by EU Member State in January 2007

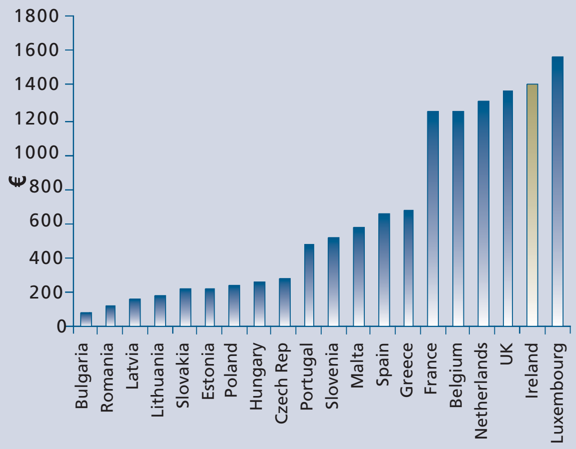
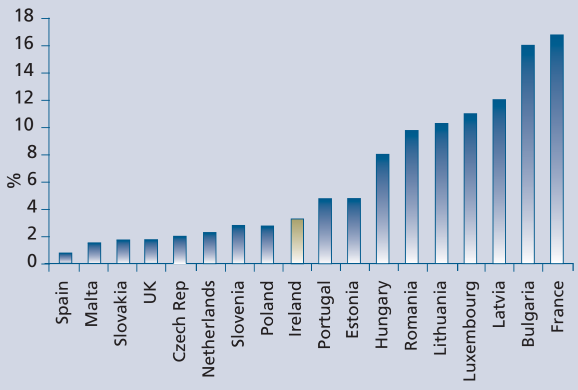


Figure 1.22: Percentage of Full Time Employees Receiving Minimum Wage by EU Member State in January 2007



Source: Eurostat

3: LABOUR MARKET OUTLOOK

Short-term Prospects

Since the last Review was published, the short-term outlook for the economy has become less favourable for several reasons; the slowdown in the construction sector, the credit crisis on the financial markets, the appreciation of the euro vis-à-vis the dollar, increasing geo-political tensions and rising oil prices. With regards to the dollar correction, the euro has appreciated by 15% against the dollar since the 2006 Review was written and by 45% since the dollar was at parity with the euro five years ago. This represents a significant erosion of our competitiveness, given our exposure to the US economy. In addition to the slowdown in house-building and the appreciation of the euro, there have been other unwelcome developments outside our control, namely the recent credit crisis on the financial markets and the continued rise in oil prices.

As a result, in recent months most economic commentators have been revising downwards their growth forecasts for 2008. While there is no consensus among commentators as to the speed of the deceleration, growth forecasts for GNP and GDP are averaging in the region of 4.5% and 4.75% for 2007 respectively and between 3% and 3.25% for 2008. The main sources of economic growth are expected to be consumer demand and exports as house completions fall significantly from their 2006 level. The risks to the 2008 forecasts are likely to be on the downside given the continuing uncertainty in the financial markets and rising oil prices.

The less favourable economic environment will reduce the scope for employment expansion. The employment impact of the slowdown will be amplified by the fact that it is being caused by a contraction in output in the labour-intensive construction sector. However, the full impact of this slowdown will not be seen until 2008. Specifically, employment is forecast to grow by 3.4% (+70,000) in 2007, before a marked deceleration to 0.9% (+20,000) in 2008 (Table 1.2). As a result, employment is expected to average 2,109,000 in 2007 before rising to 2,129,000 in 2008.

The primary reason for the slowdown in employment growth is the downturn in the housing sector.

Employment in the sector peaked at 285,000 in Q1 2007 and there is every reason to believe that the trend will continue to be downward in the short to medium-term. House prices have fallen by approximately 4 percent in the first half of the year[10], with the ESRI forecasting prices to fall by 15% for the year as a whole. However, the impact of the slowdown on housing output is a more relevant concern for employment prospects. In this regard, most commentators are generally agreed that housing completions will fall significantly from a peak of 88,000 in 2006 to around half that level by 2008, (although it should be noted that these forecasts have been consistently revised downwards in recent months). While NDP infrastructural projects, commercial property and home improvements will absorb some of the negative impact of the housing slowdown, net job losses seem inevitable given the likely scale of the output contraction. It now seems quite possible that net job losses in the sector could be in the region of 30,000 jobs over the Q1 2007 to Q4 2008 period. That said, the annual average for construction employment is still expected to rise by 4.1% (+11,000) in 2007 compared to 2006, before falling by -6.9% (-19,000) in 2008.

The largest absolute increase in employment will continue to come from the services sector. In fact, we expect employment growth in the services sector to exceed total jobs growth over the forecast period. In short, we are forecasting the number of service sector jobs to increase by 4.2% (+58,000) in 2007 and by a further 2.8% (+40,000) in 2008. This forecast assumes that there is lag period before the full impact of the construction slowdown spills over into the services sector.

We expect little change in employment in manufacturing in 2008. Essentially, there are two countervailing forces at play. On the one hand, the expanding global market is increasing the demand for our exports, while, at the same time, the appreciation of the euro is making our exports more expensive to our main trading partners outside the Eurozone. On balance, we are forecasting manufacturing employment to increase marginally by 0.9% (+3,000) on average in 2007 and to remain at that level next year, although a slight decline in the employment level can be expected towards the end of 2008.

The appreciation of the euro, combined with adverse weather conditions this summer, is also likely to have a negative effect on the agricultural sector. A slight fall of -1% (-1,000) in the employment level in the sector is expected this year followed by a further decline of -1.3% (-2,000) in 2008.

The impact of the employment slowdown on unemployment will partly be determined by the immigration response to fewer job opportunities. While the economic slowdown at the start of the decade resulted in very little increase in unemployment, it occurred in a different context when migration was not as strong. Although the magnitude of any such immigration response is very hard to predict some general observations can be made. Firstly, the improvement in Central European labour markets will increase the incentive for EU10 migrants to return home, and reduce their incentive to come here. Indeed, the latest PPS trends suggest that inward migration is beginning to slow, although inflows are still stronger than in 2004 and 2005. However, little is currently known about the outward flow of migrants. Nevertheless, it seems likely, given the transient nature of much of the recent migration, that migratory flows will be quite sensitive to an employment slowdown. Also, the fact that EU10 migrants are predominantly employed in occupations that have shown a high degree of cyclical volatility over the last decade, suggests that their employment prospects could be relatively worse than those in other occupations in the event of a downturn.

On balance, therefore, it is assumed that there will be a slight moderation in migration this year before a more noticeable deceleration in 2008. We are forecasting that net inward migration will moderate slightly from 74,000 in 2006 to 72,000 this year before slowing to 38,000 in 2008. During the previous slowdown the primary labour supply response was a temporary reduction in participation and this may happen again. It is assumed that the participation effect will also be reduced next year.

The deceleration in immigration combined with a smaller contribution from both the participation effect and the natural increase should see labour force growth moderating from 3.6% (+76,000) in 2007 to 1.7% (+37,000) in 2008. Despite this deceleration, the labour

10. This figure is based on the the permanent-tsb\ESRI House Price Index for September. However, there is a time-lag of approximately 3 months in the compilation of the index.

force will be growing at a faster rate than employment and, as a result, the unemployment rate will rise. Specifically, the annual average unemployment rate is forecast to increase from 4.4% in 2006 to 4.5% in 2007 before rising more rapidly to 5.2% in 2008. This equates to an average of 117,000 persons unemployed in 2008.

In summary, the short-term outlook is for a marked deceleration in employment and a noticeable upturn in unemployment next year. This is in sharp contrast to the strong employment performance of recent years. While the slowdown in the construction sector is the main reason for this reversal, a spillover effect into the services sector can be expected in the latter part of 2008.

Table 1.2: Employment Trends 2006-2008 (Annual Averages '000s)

	2006	2007	2008
Agriculture	117	116	114
Manufacturing	291	293	293
Construction	269	280	261
Services	1,362	1,420	1,460
Total Employment	2,039	2,109	2,129
Unemployed	93	100	117
Labour Force	2,132	2,208	2,245
Net Immigration	74	72	38
Unemployment Rate	4.4%	4.5%	5.2%

Medium-Term Prospects

There is a much greater degree of uncertainty with regard to the medium-term employment outlook. Several 'unknowns' exist which could have a significant impact on the labour market outlook. At the moment, only one up-to-date medium-term economic outlook is available from which employment expectations can be tentatively formed – the pre-Budget 2008 Outlook from the Department of Finance. This forecasts that economic growth over the 2008-2010 period "will on average be of the order of 3.5% per annum" and that this would translate into average annual employment growth of 1.3% and an unemployment rate of 5.5% over the medium-term. The forecast would seem to suggest that the projected slowdown is not just cyclical but could also be the product of a deceleration in the rate of the underlying growth rate. In this context, domestic responses to competitiveness challenges will have an important role in shaping the future employment story. Yet it must also be acknowledged that many of the important variables which will impact on our medium-term growth prospects such as the euro-dollar exchange rate, oil prices and geopolitical tensions, are outside our control and have become increasingly volatile in recent years.

One of the main preoccupations of the 2006 edition of the *Irish Labour Market Review* was a 'what if' analysis of the Irish labour market which aimed to anticipate the medium-term employment implications of either a significant slowdown in the construction sector and/or a significant appreciation of the euro vis-à-vis the dollar. It was concluded at the time that should either of these scenarios transpire they could have significant implications for both employment and unemployment. Based on the ESRI-MTR projections which assumed a relatively elastic supply of labour from abroad, it was estimated that were such a low growth scenario to materialise then unemployment could rise to 160,000 by 2012. This would equate to an unemployment rate of 7%. Therefore, it a source of some concern that both of these scenarios have materialised since they were posited a year ago. The impact of these scenarios on medium-term employment growth will depend on how long they persist. The future value of the euro vis-à-vis the dollar is impossible to call and it can only be hoped that a relative devaluation of the euro occurs in the near term. With regards to the housing slowdown, a swift recovery seems unlikely. The current indicators are that 2009 will also be a relatively weak year for the housebuilding sector and while a recovery is anticipated in 2010, house-building will not return to its peak level of 2006 when 88,000 houses were built.

A prolonged slowdown in the construction sector could see the services sector suffering from a lagged contagion effect beyond 2008 as construction-related services contract. Negative spillover into other private services sectors could also materialise as consumer spending is impacted by the reduced wealth of homeowners and shareholders. Furthermore, the lower tax take arising from the construction slowdown will have implications for public sector finances and hence spending, including spending on public sector recruitment.

The medium-term outlook will also depend on the severity of the credit crisis in the financial sector – a sector that has been a major contributor to recent jobs growth. The credit crisis could have negative implications for employment prospects in certain segments of the financial services sector by reducing financial innovation such as "securitisation". It will also have implications for the availability of credit, and ultimately this could impact negatively on employment prospects.

Another determining factor of the medium-term outlook will be immigration. The impact and optimum levels of immigration are sources of much debate. If the Irish economy continues to be scalable, i.e. absorbs migration while still maintaining increases in GNP per capita, then this will improve employment prospects as a whole and reduce the unemployment risks. A further scaling up of the economy, facilitated in part by further immigration, could create a productivity dynamic known as 'economies of agglomeration' (Honohan and Walsh, 2007). However, if the construction sector does not recover in 2009, then the absorption of large-scale migration will be harder and the impact on unemployment is likely to be worse than was the case in the previous economic slowdown in 2001. Much will depend on the sensitivity of migration to changes in employment growth. It must be recognised that forecasting EU10 migration flows is still very much 'virgin territory', given the unprecedented nature of such flows into Ireland in recent years. After migration, increased labour force participation has been the main source of labour force growth in recent years. Should participation respond to the projected slowdown in employment in the way that it did during the previous slowdown, then this could buffer the impact of lower jobs growth on unemployment.

It remains to be seen, in the event of a prolonged slowdown, whether occupations that exhibited a high degree of cyclicality (namely construction, low-skilled services and operatives) will do so again. It is fairly safe to assume, however, that construction-related occupations will be worst affected by such a slowdown. On a gender basis, there must also be a concern that males would fare worst in a construction-led slowdown (as they did during the last employment slowdown) given the large number of males employed in the building sector. While there will be opportunities for the redeployment of some construction workers, these will not be sufficient to fully compensate for job losses in the residential sector given the magnitude of the downturn in housing output. Also, if one of the main problems underlying the decline in house building relates to restrictions on credit and associated issues, activities in the repair and maintenance sector could be adversely affected as well. There is therefore legitimate concern with regards to the fate of some workers employed in the residential sub-sector over the short-to-medium term.

In summary, from the current vantage point medium-term visibility is poor due to the increased volatility of exogenous economic variables and the lack of historical precedent with regard to large scale immigration. This precludes explicit medium-term employment forecasts being made with any degree of certainty. In general, though, it seems fair to assume that the Irish employment cycle has reached a turning point of sorts and that the recent second wave of the jobs boom will be followed by a period of much more moderate employment growth. Whether or not this will have as benign an impact on the unemployment rate as the previous slowdown in the 2001-2004 era will depend both on the variables outlined above and on the policy response. Chapter 2 will outline some of the main policy options available for both the short and long-term.

2 Chapter 2 Policy

1. THE POLICY CONTEXT

While 2007 has been yet another year of extremely strong employment growth, a new reality of much more moderate employment growth is beginning to emerge. The concerns expressed in last year's *Review* seem to have been well founded as the challenges facing the Irish economy and, by extension, the Irish labour market, have increased significantly over the last 12 months. Policy will need to respond to the cyclical slowdown in employment that now seems increasingly likely.

Broader Long-Term Trends

As well as confronting the short to medium-term challenges posed by the slowdown in the housing sector and the strong euro, the policy response must also be shaped in the context of the longer-term trends. Research undertaken for such publications as the Enterprise Strategy Group report, the National Skills Strategy and the FÁS/ESRI Occupational Employment Forecasts provides a good indication of long-term needs. The National Skills Strategy report projects forward the overall economic and labour market situation for Ireland in 2020[12]. The labour force is projected to grow to about 2.4 million by 2020. Approximately 1.4 million of the current workforce will still be in the labour force in 2020. An additional 640,000 young people will come into the labour force from the formal education system. The remaining additional 310,000 persons will be made up from immigration and, to a small extent, increased participation by the existing population.

More specific indications of the skills needs for the future arise from other FÁS and Expert Skills Group reports. The latest FÁS/ESRI Report published in August 2007 provided projections up to 2012 and suggest that the greatest demand will be for high-skill occupations.

The Globalisation of Labour

Cognisance must also be taken of wider global labour market trends and their implications for Ireland. While trends in economic variables such as house prices and exchange rates can be hard to predict, the continued globalisation of labour seems to be inexorable. This year saw two major reports published by the IMF[13] and the OECD[14] which both included an analysis of recent trends in the globalisation of labour. The OECD report noted that, due to increasing openness to trade, the links between traded and labour market outcomes has intensified. As new opportunities for specialisation in production emerge, the process of production is becoming increasingly fragmented around the world. As a result many companies are shifting parts of their production process to locations where labour is cheaper. The OECD found that employers' labour demand has become increasingly sensitive to changes in labour costs since the 1980s as cheaper labour from abroad becomes increasing accessible. This increases the vulnerability to economic shocks for those working in industries where labour costs are a significant business consideration, as firms are more likely to respond to shocks by reallocating some of their production processes abroad.

Parallel to the intensification of links between trade and labour has been the increase in the size of the 'effective' global labour supply, that is to say, the number of workers around the world whose services can be accessed and utilised across national boundaries through one of three channels; imports, off-shoring or immigration. The IMF

12. the report's starting point was forecasts made by the ESRI.
13. IMF World Economic Outlook, Spring 2007
14. OECD Employment Outlook 2007

has estimated that the effective global labour force has quadrupled over the past two decades; the greatest impact coming from trade, although off-shoring and immigration have the greatest relevance for labour market policy.

Both reports conclude that while globalisation has led to a decrease in the overall labour share of global income, the absolute size of labour income has increased because of the increase in total global income. According to the IMF, the decline in labour's share of income was due to labour market polices and technology rather than globalisation per se. Significantly, the IMF report noted that the smallest declines in labour share tended to occur in countries that lowered the cost of labour to business and improved labour market flexibility. While noting the concern that globalisation can be a threat to employment in certain sectors, both reports argue that globalisation can be consistent with high employment rates provided the right policies are put in place. In effect, job creation in areas of comparative advantage can offset job losses in domestic production displaced by imports, leaving aggregate employment no lower once the reallocation has occurred.

Labour and International Competitiveness

In the context of an increasingly globalised labour force, it is important to consider what policies can be put in place to ensure that the Irish labour market remains responsive to changing global trends and how labour can be reallocated to more productive jobs where we have a comparative advantage. Yet it might be asked why is there a cause for concern, given our recent success in reforming the labour market? According to the IMF, we have already made excellent progress in the area of structural reform. Most notably, the tax wedge has been reduced from 15.5% in 2000 to 8.1% in 2005[15]. This has both encouraged employers to take on new employees and increased the incentive for those outside the workforce to take up employment.

The primary reason for concern is not due to a lack of structural reform but rather Ireland's loss of international cost competitiveness. The link between international competitiveness and job creation will increase in importance, as we rely less on non-traded sectors (notably the construction and public sectors) and more on the traded sectors for employment growth. We have dropped from 5th to 14th in the world competitiveness ranking in less than ten years[16]. Similarly, we have fallen from 5th to 12th place in the world in terms of being 'a good place to do business'[17].

Part of the decline in our competitiveness has been due to an increase in relative unit labour costs[18]. The Central Bank notes that "*relative labour cost competitiveness for the whole economy has deteriorated significantly since the beginning of the decade, and increases in unit labour costs for the non-traded sector will inevitably feed into higher costs for the traded sector*" (Central Bank, 2007). Hence, containing unit-labour cost growth in both the traded and non-traded sectors will be important for our ability to attract inward investment and to compete abroad[19]. However, one of the main reasons for the increase in our relative unit labour costs has been the increasing value of the euro vis-à-vis the dollar, yet this variable is outside our control. Therefore, if competitiveness is to be restored via the labour cost channel, the focus will have to be on labour productivity and earnings growth.

Most at risk to increased international competition are those employed in the manufacturing sector. Significantly, and perhaps counter-intuitively, the IMF report found that the rise in offshoring activities in high-income countries has been driven by imports of skilled rather than unskilled inputs. So while in the past low-skill manufacturing jobs were lost due to cheaper un-skilled labour costs abroad, increasingly, high skill-jobs will be at risk as the availability of high-skill labour abroad increases. In order to reduce our exposure to offshoring, workers will need to be equipped with up-to-date skills.

Furthermore, given the declining importance of manufacturing exports for job creation, a greater focus will be on the service export sector to create employment. Opportunely, Ireland continues to mature into a services-based economy, and as a result the proportion of exports made up by services has risen in recent years. Services exports accounted for 29% of total GDP in 2005 up from 16% in 1998, while merchandise exports' share of GDP fell to 52% in 2005 down from 70% in 1998 (ESRI, 2007). Significantly, service export activity tends to be more labour-intensive than manufacturing export activity

15. Based on OECD estimates for a single-earner married couple with two children with earnings equal to 100% of the national average.
16. World Competitiveness Report 2007
17. Economist Intelligence Unit Report 2007
18. Unit labour costs measure how much is spent on labour to produce a unit of output and are determined both by labour costs and productivity.
19. According to the National Competitiveness Council labour costs account for over 50% of total costs for many high-tech traded companies.

which serves to further highlight the importance of having a skilled and efficient workforce.

Immigration Context

While trade had been the primary channel for the worldwide globalisation of labour, in Ireland's case immigration has been the most important factor. In recent years, immigration flows into Ireland have been faster than anywhere else in Western Europe since the post-WWII era. And while the growth in off-shoring poses a threat to Irish jobs in exposed sectors, the immigration channel of labour globalisation has thus far had a very positive impact on both the economy and the labour market. In particular, immigration has been critical in keeping skills and (especially) labour shortages to a minimum. The large supply of labour has also led to greater capital investment which has been a further boost to the economy. Fitzgerald et al have modelled the likely impact of immigration from the New Member States on Irish inflation over the 2006-2008 period and estimate that it could be responsible for lowering the overall inflation rate by 0.7 percentage points. The authors also note that while immigration can lead to a higher unemployment rate in the short-term, it will be less if the inflow of migrants helps to reduce infrastructural bottlenecks and, in such a scenario, could actually result in a fall in the long-term unemployment rate (Fitzgerald et al, 2007). Indeed, immigration has been and will continue to be crucial to realising Ireland's infrastructural projects arising from the NDP. Essentially, as long as migrant labour acts as a complement to the skills set that already exists in the country, then the main impact will be on alleviating shortages and increasing output rather than increasing unemployment. Certainly, such a favourable scenario seems to accord well with recent experience where many of the new entrants into the Irish labour market have taken up predominantly low skill jobs that Irish workers have tended to avoid. Indeed, this is broadly in line with the Government's intention to meet shortages in the low skill sectors by opening up our labour market in 2004 to workers from the new EU Member States.

However, migration from the New Member States is unlikely to meet all of our high-skills needs. Hence there will continue to be a significant high-skill inward migration requirement in the coming years. The globalisation of labour has expanded the pool of workers from whom we can draw to meet these workers. Yet, these workers will also be available to other countries who will be trying to entice these 'global workers' to their shores. Ireland will need to take a proactive approach in attracting high-skill workers if we are to avoid having our comparative advantage as a welcoming labour market being usurped by competing countries.

While immigration has brought undoubted benefits and will continue to do so it is important to recognise that we are probably entering a new era where the labour market will not be as tight as it has been. Therefore, the risks of displacement increase as do the risks of segmentation. This could have negative social cohesion implications. With regards to segmentation, Barrett et al have found that there has been little or no integration of EU migrants since EU enlargement (Barrett et al, 2007). It should be pointed out, however, that large-scale immigration is a relatively new phenomenon in Ireland and a reasonable length of time will be needed for integration to take place. Nevertheless, it is of some concern that while the environment for integration has been favourable, given the strong employment and economic growth of recent years, occupational mobility seems to have been very limited for migrants (especially from the new Member States). With regards to displacement, the slowdown in the construction sector could pose a major challenge, given the large number of non-Irish nationals in this sector. The issue of displacement was one of the most prominent topics in the Irish labour market policy discourse in 2006 and was analysed in last year's *Labour Market Review*. It was concluded at the time that the displacement of Irish workers by foreign nationals was not significant given the low rate of unemployment. Indeed, concern about the issue seemed to fade in the first half of this year. However, the less favourable employment outlook currently being envisaged could place it back on the policy agenda in the medium-term.

Adaptability and Protection

In short, two major issues facing the Irish labour market are (a) adjusting to the challenges posed by the new realities of slower employment growth and the globalisation of labour and (b) at the same time protecting those most exposed to this adjustment. It will be important, however, that in the drive to create greater adaptability and responsiveness to ensure that a two-tier labour market does not emerge as has been the case in other EU countries where flexibility has increased only at the margins of the labour market. Central to meeting this twin challenge will be the evolution of our employment protection legislation (EPL). The European Commission is currently promoting one particular approach to squaring the circle of both maintaining adaptability and protection - 'flexicurity'. The flexicurity model is considered by the Commission to be especially relevant to the challenges posed to labour markets by increasing globalisation as it claims to allow employers to adjust to global trends while at the same time protecting workers who are adapting to change (European Commission, 2007).

A Three-Pronged Approach

In summary, there will be a need for appropriate short to medium-term responses to increased unemployment while at the same time moving forward in relation to long-term needs, bearing in mind the challenges of adaptability and protection. In this chapter we first address the short-term needs before considering how to tackle longer-term challenges. The chapter concludes with a discussion on the challenge of reconciling adaptability and protection in the context of our current EPL framework. Hence, the structure of the remainder of the chapter is as follows:

1. The Short Term Response to the Employment Slowdown

2. Longer-Term Response to Broader Underlying Trends

3. A Framework for Reconciling Adaptability and Protection

2. SHORT-TERM RESPONSE

Training Response

The immediate impact of any economic slow-down will be on those who are not currently at work (the unemployed, recent school leavers and graduates) and those in precarious jobs. There is also likely to be an impact on the numbers entering the Irish labour force, whether from home duties or overseas. Subsequently, job losses may become more widespread as contracts are not renewed and employees are 'let go' as companies reduce their labour requirements and, in some cases, close down. Long-term unemployment will increase and the hardest hit will be those who are least 'employable' because of lack of skills, age, disability or other disadvantage.

In the short-term, the contraction in the house-building sector and slower growth in public sector employment means that some of the main providers of jobs growth over the last five years can no longer be relied upon. The slowdown in the construction industry, however, is currently limited to one area – albeit the sub-sector which accounts for most of construction activity in recent years - new house building. As such, the impact on skills will be quite specific. The so-called 'wet trades', bricklayers and plasterers as well as carpenters, and painters, will be among those most adversely affected. There will also be a reduction in demand for other craft workers such as electricians and plumbers although the impact will not be as severe.

It is unrealistic to assume that all of those who are at risk from the slowdown in the construction sector will easily transition into other industries that are growing. There are, however, opportunities for reallocation within the construction industry itself to areas which will grow strongly over the next few years. For example, as output shifts from the house building sub-sector to the infrastructural sector (on account of the €77 billion outlay for the NDP over the next 7 years) and to the home improvement sector (including the area of sustainable development), so too will job opportunities. Re-training will often be needed in order for workers to transition from house-building to other construction sub-sectors. In particular, the new regulations that are due to be introduced in 2009 with regards to energy audits of existing buildings will significantly increase the volume of work in the areas of installation and insulation and this will give rise to increased demand for concomitant skills in this area. It is also worth pointing out that new methods of building are being introduced which tend to be off-site and which will require skills outside existing trades. In fact, many of the new building processes are now akin to factory work and will therefore require skills such as supply chain management. Without re-training, many existing construction workers are likely to miss out on these particular job opportunities.

It is possible that the shift to home improvements will lead to a relative increase in the number of self-employed in the sector. The recent FÁS Survey of Apprentices found that approaching half of all qualified craftspersons envisaged running their own business eventually (Conway, 2007). Thus, there is a case for providing entrepreneurial training for craftspersons. There is also a need for regular curriculum updates in the apprentice system in order to keep up to date with new developments and new requirements of environmental regulation etc. Craftspersons should also be facilitated to build on their qualifications within the further/higher education framework.

From a broader perspective there may be a case to be made for bringing forward some of the NDP expenditure earmarked for the later years of the 2007-2013 Plan, given that we will have a lot of workers (most notably immigrants and apprentices) in situ with up to date skills. In the case of the apprentices, it would be a loss of public investment if many of them decided to emigrate due to a lack of job opportunities in the construction sector. However, any basis for bringing forward NDP expenditure would obviously have to take into account value for money considerations, discounting the present cost against the potential for savings in the future when construction contracts may be cheaper due to a surplus supply of labour.

While the construction sector may experience the most severe job losses in the next couple of years, it is expected that employment growth in other sectors will also be significantly lower than in recent years. Thus, public sector employment growth is likely to be lower as the State has less scope to expand public expenditure. Private services spending will also slow as consumers have slower growing incomes and may be less inclined to go into debt. In these circumstances are there particular responses that education/training providers can make? One possibility could be to focus on skills and occupations that seem to be in short supply. FÁS has produced, on behalf of the Expert Group on Future Skills Needs, a National Skills Bulletin for the last several years. The Bulletin examines the balance between demand and supply for a large number (125) of occupations in Ireland. The focus is on occupations for which domestic sources of supply are not sufficient to meet demand (Table 2.1). These shortage occupations may be having all their excess needs met by immigration or, in some cases are experiencing un-filled recruitment demand despite immigration. It would be naïve to believe that training unemployed persons in these areas would necessarily result in placement into employment. However, it would seem that, all things being equal, it would be better to train in shortage occupations than non-shortage occupations. Consequently, we present below a list of occupations found to be in short supply according to the latest Bulletin.

Table 2.1: Occupations in Short Supply

Area	Occupations
ICT	Software engineers, Programmers
Engineering	Engineers (all types), Welders
Pharmaceuticals	Natural Scientists
Health	Doctors, Dentists, Pharmacists, Psychologists, Radiographers, Therapists
Finance	Accountants, Actuaries, Analysts, Underwriters, Bank Office Administration
Caring	Care Assistants, Childminders
Hospitality	Chefs, Waiters
Construction	Civil Engineers, Architects, Quantity Surveyors, Technicians, Plant Fitters, Building Managers
Transport	HGV Drivers
Sales	Marketing Managers, Sale Assistants, Sales Reps.
Services	Security Guards

Source: National Skills Bulletin 2007, FAS/EGFSN, 2007.

As can be seen from Table 3, the occupations in short supply range from ones requiring a professional qualification to ones requiring basic skills. Thus the list can be of value to education/training providers at all levels across the qualifications framework. A number of them fall within FÁS' normal suite of vocational training courses. Hence, consideration should be given to reviewing FÁS' level of provision in such areas to see if there is a case for expanding the number of persons to be trained therein.

Given that it will be harder to obtain jobs, there could be a benefit in providing more supports to job-seekers who register with FÁS. What supports are needed should be examined by FÁS Employment Services, but possible actions could include greater contact with a wider range of employers, more pro-active vacancy notification, a greater use of Job Clubs and a greater focus on, and support for, job-seeking while on FÁS training courses and employment programmes.

In periods of high unemployment in the past, FÁS established programmes such as Community Employment and the Community Youth Training Programme (CYTP) to provide work-based opportunities to unemployed people. Given the slow-down in the economy now arising it might be suggested that these programmes be expanded. However, this is not recommended here as these programmes are designed to tackle long-term unemployment rather than the primarily cyclical short-term unemployment envisaged here.

Finally, it was noted above that the worst hit in any slow-down are likely to be the most disadvantaged persons including the poorly-educated, persons with disabilities and older persons. While accepting this reality, FÁS should continue to provide its training and employment services to this group with a focus on both short-term positive outcomes and longer-term provision of certified skills at a level which will allow them to pursue successful careers.

Recommendations:

- From a labour market perspective, there is a strong case for bringing forward some of the NDP infrastructural projects to utilise the current pool of skilled labour. This may be possible using Exchequer resources or, indeed, through the application of private sector funding.

For its part, FÁS should:

- Provide suitable re-training so that construction workers can move from house-building work to growth areas within construction.
- Consider the provision of entrepreneurial training modules for craftspersons.
- Maintain the process of apprentice curricula review to respond to changes in the building industry.
- Examine any other issues arising within the construction industry due to the down-turn and consider if any actions are required by FÁS or other organisations. (FÁS has recently established a Board Sub-Committee to undertake this task.)
- Examine, and if possible increase training provision in relation to occupations which have been identified as being in shortage.
- Consider enhanced job-seeking support for trainees to help increase their job success in the slow-down.
- Despite the reduced job prospects for the most disadvantaged, continue to provide them with training which helps to increase their short-term prospects but also long-term qualifications. However, FÁS should not increase employment programmes as they are designed to tackle long-term unemployment rather than the primarily cyclical short-term unemployment envisaged here.

Earnings Policy

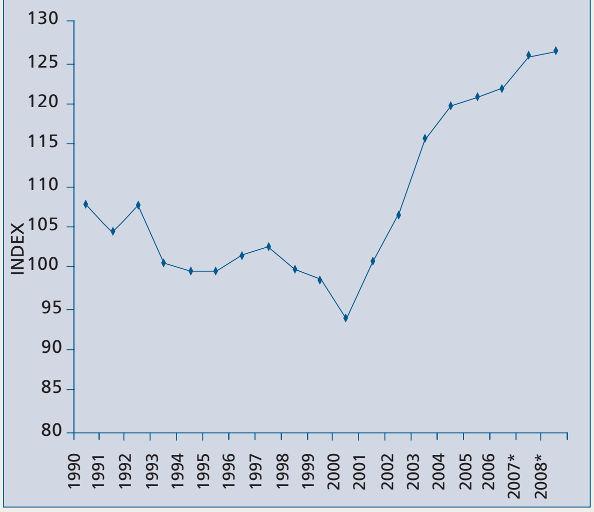
One of the key aims of economic policy is to increase national output and, in particular, national output per head (national productivity) and hence income levels. Many factors impact on productivity including natural and human resources, infrastructure, taxation systems, participation rates, work organisation and industrial policy. The development of human resources is one important part of the productivity equation. In the medium-term our aim must be to increase national productivity and hence generate the resources for increased incomes. However, in the short-term, it is important to ensure that earnings policies take cognisance of fluctuations in the economic and employment cycles. This is especially true for Ireland. Given our membership of the Eurozone, earnings are one of the few macroeconomic variables over which Irish policymakers continue to exert some direct control. It is worth remembering that when a small open economy is part of a bigger monetary union, traditional macroeconomic tools are either unavailable (in the case of the interest rate, increasing the money supply or a devaluation) or relatively ineffective (in the case of discretionary fiscal policy – due to import leakages). Given that Ireland's non-euro trade accounts for 74% of total trade compared to the Eurozone average of 28.4% (ESRI, 2007) the chances of ECB monetary policy being out of kilter with the needs of the Irish economy at a given point in time are quite high.

On a positive note, the structural reforms (e.g. the lowering of income tax rates) that have taken place in recent years allows the Irish labour market some leverage when adjusting to a macroeconomic shock. Yet in reality the speed of adjustment over the economic cycle varies, with much slower adjustment occurring during a slowdown due to the downward rigidity of wages and prices. Hence, it may be necessary to look at our current national wage bargaining process in order to ensure that we can respond to the changing economic reality.

That said, the ability of flexible wages to insulate Ireland against shocks should not be overestimated given that a comparison of wages, interest rates and exchange rates indicates that the exchange rate is by far the most volatile variable. Indeed, one of the main reasons for the deterioration in our competitiveness has been due to the rise in the euro against the dollar, which is outside the control of the Irish government. Since 2000, relative manufacturing earnings have risen by 30% vis-à-vis our main trading partners when converted into a common currency and this has partly been driven by the euro appreciation (Figure 2.1). Research by Honohan and Leddin (2006) suggests that wages have not worked as an adjustment mechanism since we joined the Eurozone. Instead, it has been the boom in the construction sector, spurred on by low interest rates and immigration, that has allowed the economy to survive a loss in competitiveness. However, Honohan and Leddin caution that as the employment and output effects of low interest rates subside *"the failure of the wage-bargaining system promptly to claw back the loss of competitiveness resulting from exogenous exchange rate movements is increasingly likely to show up in weaker aggregate employment performance". (Honohan and Leddin, 2006)*

While acknowledging that an adjustment in earnings policy does not provide a panacea for fluctuations, it can, to some extent, alleviate the damage to our short-term employment performance caused by ECB monetary policies that are inappropriate in the Irish context. Leveraging earnings policy to help smooth out fluctuations in labour demand will necessitate either new innovative approaches and/or adjustments to the National Minimum Wage.

Figure 2.1: Index of Relative Hourly Earnings in the Manufacturing Sector



Source: Central Bank, Summer Bulletin, 2007. **Forecast.*

Innovative Approaches

The precedent for innovation in response to a period of economic difficulty already exists. Specifically, 20 years ago in 1987 when we were experiencing an economic crisis, a deal was brokered between the social partners whereby pay increases were sacrificed in return for cuts in income tax, which led to an increase in net take home pay while at the same time restoring our international competitiveness. However, while this particular approach served us well in the past, it would be hard to repeat as tax rates are already at an historically low level. Moreover, given that the national wage bargaining process has matured during an era of high economic and employment growth that can no longer be relied upon, the current process may need to be modified if it is to avoid the downward rigidity common to these systems. Ultimately, new and innovative approaches to wage bargaining at the national level may be needed to help the labour market adjust. What follows are some suggestions for consideration by the social partners.

First of all, while there may not be much scope for using income tax cuts as a quid pro quo for earnings moderation, other trade offs may be possible. For example, future partnership agreements could conceivably involve earnings moderation in exchange for measures to reduce inflation. Given that inflation has been averaging close to 5% this year, such a trade off might provide a mutually reinforcing mechanism to lower inflation without any loss in real earnings, while at the same time helping competitiveness.

Other approaches could involve splitting pay awards into a base pay component and a variable pay component. This could be done at the macro-level via social partnership, at the sectoral level via special agreements, or it could be done at the firm level in the form of profit-sharing/gain-sharing or employee share schemes. The social partnership approach would involve the variable pay component being lowered in the event of the economy performing below an agreed trend rate of growth and being increased when the economy was above the agreed rate. Thornhill and de Buitléir (2007) recently proposed a two-tier model along these lines which they claim takes greater cognisance of the need to restore cost and price competitiveness in order to improve our export performance. The base component of this two tier model compensates workers for increases in a measure of inflation. Critically, however, this component of pay is based on an average of the inflation rates for internationally traded goods and services in our main trading partners rather than domestic prices. The second component of their earnings model, based on productivity gains, would be linked to growth in real GNP per person at work.

At the firm level, there may be scope for innovative approaches given that in Ireland just over 6% of employees have piece rate/productivity pay incorporated into their pay (European Foundation, 2007). By comparison in the EU10 countries (who are increasingly becoming one of our main competitors for FDI) the incidence of piece rate/productivity pay tends to be high (i.e. 33% in Slovakia and 23% in the Czech Republic). Company profit-sharing is a component of the remuneration package of 10.6% of employees in Ireland which ranks us 10th in the EU – so there is also potential for further improvements in this area if it is deemed desirable.

According to the National Centre for Partnership and Performance (NCPP), while there is evidence that employee financial involvement can improve business performance, especially when it is complemented by other forms of employee involvement, it is not common in Ireland with only one in seven companies having such provisions in place. In particular, the NCPP single out gainsharing[20] as an option for further examination pointing out that:

"Significant work was undertaken on the issue of gainsharing by a Consultative Committee, established under the Programme for Prosperity and Fairness. However, it has proved very difficult to develop firm proposals. The Department of Finance has accepted that there may well be merit in encouraging gainsharing and, despite practical difficulties in designing such schemes, is prepared to examine any viable options which may be developed in the future." (NCPP, 2007)

However, the scope for implementing a gainsharing approach more extensively in Ireland is to some extent limited by the relatively low number of large companies in the country.

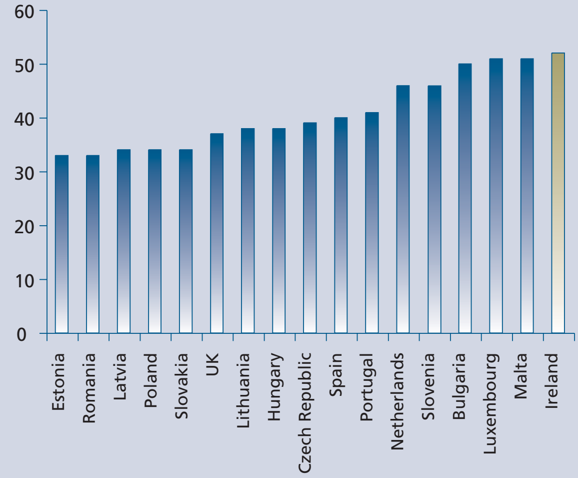
We have outlined examples of innovative earnings policies above. The list is meant to be neither prescriptive nor exhaustive but rather act as catalyst for debate.

The Minimum Wage, Migration and Unemployment

Another aspect of earnings policy that may need to be reviewed in the light of the projected employment slowdown will be our National Minimum Wage policy. While Chapter 1 shows that, in absolute terms, Ireland's minimum wage is high by EU standards, a more meaningful comparison of cross-country minimum wage differences is to express them as a percentage of the average wage in the industrial and services sectors. This is done in Figure 2.2 which covers the 2005/2006 period. The graph show that Ireland's minimum wage expressed as a percentage of the average industrial and services wage was the highest of any of the countries considered. Furthermore, this was before the two most recent increases in the Irish minimum wage, which are likely to have increased the difference between Ireland and the rest of the EU.

20 Gainsharing works in the following way: A Company shares productivity gains with the workforce. Workers voluntarily participate in management to accept responsibility for major reforms. This type of pay is based on factors directly under a worker's control (i.e., productivity or costs). Gains are measured and distributions are made frequently through a predetermined formula. Because this pay is only implemented when gains are achieved, gainsharing plans do not adversely affect company costs. Gainsharing works best when company performance levels can be easily quantified and this tends to be easier in large companies. Employee involvement significantly enhances the effectiveness of incentive pay. When used simultaneously, productivity gains from combining these techniques can exceed gains achieved separately.

Figure 2.2: Minimum Wage as % of Average Earnings in Industry and Services in EU Member States



Source: Eurostat

However, as mentioned in Chapter 1, the percentage of persons on the minimum wage is extremely low. Hence, while Ireland's minimum wage is relatively high, its impact on overall average earnings and unemployment has probably been very small. This has been because labour demand has been sufficiently strong to ensure that the minimum wage has remained below the market clearing rate. Yet, as labour demand weakens over the short-term, then the minimum wage could exceed the market clearing rate resulting in higher unemployment and displacement. Lane (2007) argues that the growth path of the minimum wage may need to be reviewed in the context of an economic slowdown, as an excessively high minimum wage could make some low skilled jobs uneconomic. The chances of this occurring increase if migration is not as responsive to economic fluctuations as assumed in Chapter 1.

Given our relatively open labour market, earnings growth is now partly determined by immigration. When immigration complements the existing skills set of a country, it lowers wages, which in turn results in a positive output and employment effect as has been the case for Ireland during the Celtic Tiger era (Barrett et al, 2006). The large increase in immigrants (the majority of whom are young) has increased the flexibility of the Irish labour market and has helped fill labour and skill shortages which could otherwise have led to significant earnings inflation. From the migrant's perspective, the level of earnings, as well as the number of employment opportunities, has been an important factor in making Ireland the most popular destination (per capita) for inward migration from the EU10.

However, while migration from outside the EU (predominantly skilled migration) is being regulated via the Employment Permits Bill, the magnitude of migratory flows from the EU10 has largely been outside of our control. Yet while EU10 migration flows cannot be regulated directly, they can be influenced indirectly via the setting of the minimum wage and access to social welfare benefits (given that our social welfare rates are equivalent to above average earnings in some EU10 countries). However, to date social welfare benefits have not been all that relevant for two reasons: (i) the Habitual Residency Clause which restricts access to social welfare to persons who have been resident in the State for at least two years and (ii) the strength of labour demand – employment rates for EU10 nationals are close to 90%. On the other hand, the relatively high level of the minimum wage has probably been a 'pull' factor for recent migration given that EU10 migrants are probably more likely to be in receipt of the minimum wage given that they earn less on average than their Irish counterparts[21].

Fitzgerald et al (2007) when modelling the impact of immigration on the Irish labour market over the 2006-2008 period noted that *"If wages exhibit less downward flexibility in low skill occupations, due for example to minimum wages, then we might expect the unemployment effects to be large"* (Fitzgerald et al, 2007). Were the minimum wage to be above the market clearing rate, then in the event of a significant moderation in employment growth, if immigration flows continue, then there would be a risk of some displacement occurring, primarily in low-skilled occupations where the majority of EU10 workers are employed. In such a scenario, there may be a case for influencing the migration decision of EU10 nationals through the minimum wage channel.

Given that the UK has been the other main destination for EU10 migrants, future flows into and out Ireland will also depend on minimum wage relativities vis-à-vis the UK. As of 2005-2006, our minimum wage was 40% higher than the UK rate when adjusted for average earnings in the

21. An analysis of PPS and P35 data for 2005 showed EU10 migrant workers earning significantly less than the average earnings rate for sectors where they are most heavily concentrated (FAS, 2007).

industry and services sectors. Therefore, when the minimum wage is being set in the future we suggest that it needs to be considered in the context of minimum wage relativities vis-à-vis both the EU10 and the UK and the subsequent impact on migration flows.

It is also important to recognize the importance of the National Minimum Wage as an anti-poverty measure and the fact that it has also helped close the gender pay gap in recent years (see Chapter 3). Furthermore, it should be noted that under Sustaining Progress it was agreed that the minimum wage should be set at 60% of gross industrial earnings. This has not yet happened, although we are close. However, if the minimum wage were to reach the 60% target yet exceed the market clearing rate, then it could prove counter-productive as an anti-poverty measure as it could lead to an increase in unemployment.

Under the National Minimum Wage legislation, cognisance must be taken of the impact on employment, general economic conditions and competitiveness when determining the appropriate wage. The best approach will partly depend on the response of migration to the projected slowdown in employment and the 'scalability' of the Irish economy. If it is deemed that the net impact of immigration continues to be unequivocally positive in terms of GNP per capita, then there will be very little need to leverage the minimum wage as a mechanism for regulating migration flows. On the other hand, if it is felt that migration flows are excessive, then it may be appropriate to adjust the minimum wage accordingly, taking into account other objectives of the minimum wage.

It should, however, be reiterated that the impact of earnings policy on the business cycle and unemployment should not be overstated given that the main source of recent shocks has been as a result of significant fluctuations in the exchange rate. More fundamental shifts are needed over the long-term, primarily through increases in productivity, and policies to encourage this are considered in the next section. Nevertheless, a responsive earnings policy can complement improvements in productivity.

Recommendations:

- New approaches to wage bargaining need to be considered. These could include inflation trade-offs, two-tier approaches (involving productivity and relative inflation components) and gainsharing.

- In the light of the projected slowdown in employment growth, the appropriateness of the National Minimum Wage will need to be regularly re-assessed, taking into account the impact on competitiveness, unemployment, migration and poverty.

3. LONG TERM RESPONSES

Developing the Skills for the Future

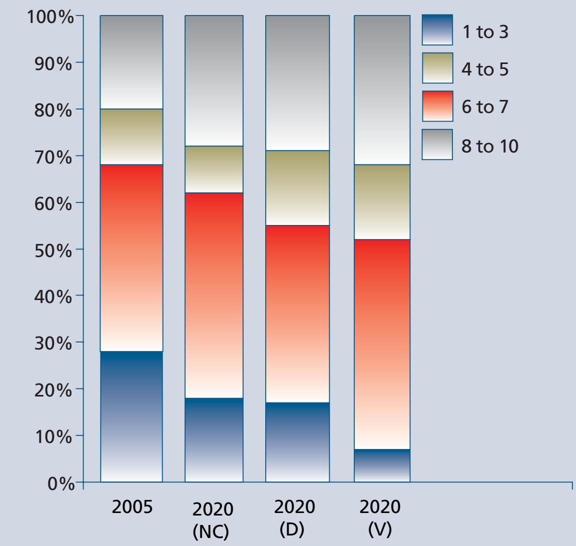
So far we have looked at what adjustments may be needed to respond to the anticipated trough in the business cycle. Over the longer term, forecasts suggest that the economy has the potential to regain momentum. It is important not to lose sight of this in the midst of the current atmosphere of caution. According to the latest FÁS\ESRI forecasts, a large supply of highly-skilled workers will be needed in order to return the economy to a stronger growth trajectory.

Towards a National Skills Strategy

The publication of *Towards a National Skills Strategy*, based on research by the Expert Group on Future Skills Needs, in March of this year is an important milestone in Irish skills policy development. It is the first time such a strategy has been published. The strategy was launched jointly by the Ministers for Enterprise, Trade and Employment and Education and Science and was endorsed in the National Development Plan 2007-2013.

The strategy's main conclusions are presented in Figure 2.3 below. This looks at the educational profile of the labour force in four broad divisions (NFQ 1-3 = below Leaving Cert., 4 – 5 = Leaving Cert/PLC, 6 – 7 = third-level non degree and 8 – 10 degree or post-graduate). The first column shows the existing mix. Columns 2 and 3 show intermediate projections (details in report) and Column 4 shows the mix (vision) as recommended by the Expert Skills Group

Figure 2.3: Education Profile of the Labour Force



Source: EGFSN

In summary, achieving the vision would mean that 48% of the labour force would have third-level qualifications in 2020 compared to 32% in 2005. Conversely, only 7% would have below Leaving Cert. qualifications compared to 28% currently.

The supply of labour in 2020 will come from three sources; the existing workforce, new entrants and immigrants. Each of these will need to be well-educated to meet the future vision. Of the 1.4 million existing workforce still at work in 2020, half a million need to be up-skilled by at least one NFQ level. Specifically, there is a need to up-skill:

- 70,000 persons to Level 3
- 260,000 persons to Levels 4/5
- 130,000 persons to Levels 6-10

In relation to young people the strategy aims to increase Leaving Cert. participation to 90% and third-level entrance to 72%. Finally, it will also be important that immigrants continue to have on average a high level of education.

The report does not provide detailed recommendations for policy or implementation. However, it emphasises that the scale of investment in human resources required is significantly above existing levels and, consequently, will require a large, co-ordinated, effort across Government, the social partners and society as a whole. One specific conclusion is of importance:

"As a general principle, individuals who do not currently hold a qualification equivalent to NFQ Level 4 or 5 (Leaving Certificate equivalent) should be assisted to achieve such an award, through either full-or part-time study, without incurring tuition costs and with a level of subsistence, provided by the State, for full-time study where appropriate."

FAS\ESRI Occupational Employment Forecasts

The FAS\ESRI employment forecasts published in August 2007 provide another indication of the future skills requirements of the Irish economy. The forecasts for 18 broadly defined occupational groups are presented in Table 2.2, for both *High Growth* and *Low Growth* scenarios. By international standards the levels of employment growth envisaged under both scenarios, as given in the totals at the bottom of the table, are high. That said, the increases are not of the same order as for the period 1998-2005, when employment across the economy as a whole grew by more than 30 per cent.

This strong overall growth translates into employment growth within almost all occupations. Only one classification, *Agricultural Occupations*, is forecast to experience reduced employment under the *High Growth* scenario, although under the more pessimistic *Low Growth* assumptions, the *Unskilled Manual* category also contracts. The most striking aspect of the forecasts is that there exists considerable variation between occupations, leading to a strong 'skills gradient' in employment growth. That is, employment growth is anticipated to be much stronger in the more highly skilled occupations.

Table 2.2: Employment by Occupation[22], 2005-2012					
Occupation	2005	2012 (forecast)			
		High Growth		Low Growth	
	000s	000s	% increase	000s	% increase
Agricultural Occupations	99.2	82.4	-16.9	81.85	-17.5
Managers & Proprietors	228.2	286.2	25.4	269.97	18.3
Health & Education Professionals	100.1	125.1	25.0	112.64	12.6
Science & Engineering Professionals	55.0	70.9	29.1	65.81	19.7
Business, Legal & Other Professionals	79.6	113.0	41.9	105.84	32.9
Health Associate Professionals	66.1	89.5	35.4	80.52	21.8
Science & Engineering Associate Profs.	41.3	54.4	31.6	50.78	22.8
Other Associate Professionals	57.6	77.3	34.1	72.04	25.1
Clerical	235.8	267.6	13.5	252.23	7.0
Skilled Building Workers	84.6	99.5	17.6	90.57	7.1
Skilled Maintenance Workers	74.1	83.9	13.3	78.43	5.9
Other Skilled Manual	80.4	89.3	11.1	83.07	3.3
Operatives	125.4	138.0	10.1	130.83	4.4
Transport Occupations	82.8	88.3	6.6	85.51	3.3
Sales Occupations	154.8	185.2	19.6	175.45	13.3
Caring Occupations	60.9	82.6	35.6	74.43	22.2
Other Service & Protective Activities	114.2	132.5	16.1	124.18	8.8
Unskilled Manual	117.3	121.1	3.2	112.57	-4.1
Total	1857.4	2186.8	17.7	2046.73	10.2

Studies of particular sectors by the Expert Group on Future Skills Needs show positive growth in a number of key sectors for Ireland in the future. These include ICT, engineering, life sciences, health and financial services. In many of these sectors, too, the reports show a move to higher levels of qualification; for example in ICT from ‘general’ programmers to high-level specialists, in financial services from ‘back-office’ administration to ‘front-office’ selling and advice. The importance of management has also been stressed in a number of recent studies, and this has resulted in the establishment of a Management Development Council earlier this year.

Reports by FÁS and others have consistently found that well-educated employees, in higher-level jobs, are much more likely to receive training than poorly-educated employees. Table 2.3 below shows the latest results for Ireland from a recent FÁS report[23]. This shows, for example, that whereas 15% of employed adults who had a third-level qualification received some education/training in the four weeks before the survey, the comparable figure for those with a Junior Certificate was 3%.

22.* Figures are based on Principal Economic Status Classification as opposed to ILO classification used in Chapter 1
23. Participation of the Employed in Education/Training 2006, R Fox, FAS, 2007.

Table 2.3: Education/Training of Employed (ILO, 25 – 64) by Education Qualification and Gender2						
Education	Male		Female		Total	
	Number	%	Number	%	Number	%
Primary	***		***		4,000	2
Junior	4,800	3	4,300	5	9,100	3
Leaving	12,500	5	15,000	8	27,600	7
Post-Leaving	5,900	5	7,300	9	13,200	7
Third-Level	35,800	12	51,600	17	87,500	15
Other/Not Stated	***		***		2,900	6
Total	62,900	7	81,300	12	144,300	9

**** In this table the asterisk indicates that the numbers are too small to report. However, they are included in the totals.*
Source; CSO Quarterly National Household Survey, 2nd Quarter 2006.

The FÁS Response

The skills training implications of the long-term objectives set out above are not new and FÁS' existing suite of services is in line with them. In addition, the further development of FÁS services, as set out in its Training Strategy, would also be consistent with their direction. However, the scale of up-skilling required to achieve the National Skills Strategy's targets is of an order of magnitude greater than currently planned by FÁS (or indeed other institutions in Ireland). Hence, there will be a need for new spending and, probably, new innovations in delivery, as well as a widespread, more positive, attitude to up-skilling among the population at large. This will be a major challenge for all stakeholders over the next decade.

It is likely that the greatest challenge for Ireland in achieving the targets in the Nationals Skills Strategy will be in relation to the low-skilled. Companies are typically less likely to want to invest in low-skilled employees. Equally, many low-skilled employees have low expectations of the value of education/training, often have negative memories of formal education/training, do not have the resources of time or money to attend formal training courses and have poor basic skills upon which to build. FÁS has developed a number of actions to begin to address these issues; it has developed the Skills for Life programme (funded by the Workplace Basic Education Fund) which focuses on literacy and communication skills, it has supported training courses under the Competency Development Programme in sectors such as cleaning and it has developed Strategic Alliances with a number of union organisations to target low-skilled employees including the 'union learning representative' concept. In developing initiatives for low-qualified employees it will be important that they remain targeted at this group. If eligibility is allowed to 'drift' then, inevitably, the programmes will end-up being demanded principally by higher-qualified employees. Either this will increase the cost of the programmes considerably or else the lower-qualified will not receive much benefit.

As noted above, the principle of 100% funding for the poorly qualified group has been proposed in the National Skills Strategy report in relation to programmes to achieve qualifications up to Level 4/5. Currently, FÁS CDP-funded courses explicitly for low-skilled employees can be 100% funded by FÁS. However, not all such CDP courses are 100%-funded as FÁS has taken the view that, in relation to some courses, an employer contribution is appropriate. More generally, many courses that might be of interest to this group are not free. Within the public sector, FÁS evening courses, FÁS e-college, VEC adult courses (except adult literacy) all charge fees while, of course, private sector providers also charge fees. Thus, one issue for policy (in respect of low-qualified employees) is to decide whether all or only some courses should be 100% State-funded, and, for the remainder, what rate of subsidy should be provided.

In its Training Strategy FÁS argued that it would be necessary to introduce a form of wage support to enable low-skilled employees to obtain time-off from work to attend up-skilling courses. A particular form of Paid Learning Leave was recommended (Paid Learning Leave has also been recommended by ICTU and NESF over the last few years). FÁS has, in 2007, commenced a pilot Paid Learning Leave project in two locations, Sligo and Wicklow, and this should help to identify the likely success, and barriers, facing any such provision. Indeed, FÁS is considering the benefits of piloting some further, alternative, approaches to Paid Learning Leave to increase the learning available on this subject. Such further piloting would seem to be desirable.

The OECD has argued that for those groups which have a relatively high demand for training but nevertheless receive little employer-sponsored training (for example, women, immigrants, temporary workers), raising individual incentives is likely to yield a better outcome than channeling financing through employers. The National Skills Strategy similarly has suggested that it may be more suitable to channel funds directly to those seeking training rather than the providers of training and has suggested that the possible use of Individual Learning Accounts, inter alia, be examined.

The concept of Individual Learning Accounts (ILAs) arises typically as a mechanism whereby contributions from a number of actors (e.g. State, employers, employees) are brought together to fund education/training. However, Individual Learning Accounts are also seen as potentially achieving another objective – allowing individuals greater choice of provision. Thus, rather than State funding being given to providers, who then offer courses (at reduced rates), the purchasing power is given to the individual to select a course from competing providers. This has a dual purpose. Firstly, it helps to create a 'market' in education/training provision. Proponents argue that a 'market' model will lead to greater innovation, flexibility and customer-focus among providers and hence better provision for learners. Secondly, providing the learner with purchasing ability may increase motivation and interest in learning as the learner may feel more empowered to meet his/her own needs.

ILAs have generated considerable interest and experimentation. They have (or are) being piloted in Canada, the USA, the Netherlands, the UK, Scotland and Wales. The OECD has written extensively about them and recent policy reports in the UK (Leitch) and USA (NCEE) have both recommended their use. However, it is fair to conclude that the 'jury is still out' about the introduction of ILAs and that, to date, they have only been successfully operated on a small-scale. Nevertheless, the objective of empowering individual employees is seen as very positive.

It is important to note that there is considerable confusion between ILAs and learning vouchers. A number of countries claim to be running ILA schemes that are, in reality, simply voucher systems. Vouchers are typically provided by a public authority to individuals to purchase education or training. In this way they aim to achieve the second set of objectives outlined above – empowering individuals and creating a more competitive market among providers.

FÁS has had some positive experiences of an individual-based approach in relation to some client groups – for unemployed clients through the former Customised Training Fund and through Own-Time Training for Community Employment participants. However, any such scheme needs to have clear criteria for participation and course selection. Otherwise, there is a danger of widening eligibility, leading to a loss of targeting and hence increased deadweight.

Operationalising an individual-based approach for the employed could involve ILAs or vouchers or simply some invoicing system between providers and FÁS. It is recommended that FÁS should pilot a new Individual Learning Options scheme whereby employed persons with below Leaving-Certificate qualifications can receive funding to attend courses of their choice. Conditions relating to eligibility of participants and courses need to be carefully drawn up. Suitable groups for pilots include low-skilled employees in (a) SMEs in vulnerable sectors and (b) companies that have participated in FÁS company HR initiatives. Guidance should be an essential part of the approach. The pilots should operate with a 'right to purchase' funding system rather than ILAs or vouchers and should be evaluated.

Pilot initiatives in relation to Paid Learning Leave and Individual Learning Options will help to assess the value of these approaches in boosting up-skilling of the employed. Another important area is career guidance and information for the employed. Drawing on the experience of the recent pilot run by FÁS in its Midlands region, and in the context of DETE/DES discussions of a national system, a suitable model of guidance for the employed including APL should be developed. This should link into the approach of the Enterprise Strategy Group which outlined a model of Diagnostics – Train – Diagnostics to link identification of needs with suitable training. It should also draw on the important motivational benefits of APL.

The up-skilling targets in the National Skills Strategy do not exclusively relate to employed persons but include all persons in the workforce. Thus, they can also be achieved through the provision of education/training for unemployed persons or other persons not at work. Thus, there will be a benefit in increasing the focus within FÁS training courses (for both the employed and unemployed) on acquiring qualifications at a higher level (one-step-up). In practice, this will mean encouraging and assisting trainees to complete a series of modules, over a period of time, that will lead to a major qualification at a higher level.

Recommendations for FÁS:

- Continue to pilot Paid Learning Leave approaches.
- Undertake pilot Individual Learning Option schemes for poorly-qualified employees.
- Examine the *Towards a National Skills Strategy* recommendation that all training for NFQ levels 4/5 and below should be free, and decide on an appropriate response in relation to FÁS training courses.
- Develop a suitable model of guidance for the employed, including Accrediation of Prior Learning (APL).
- Increase the focus within all FÁS training courses on acquiring qualifications at a higher level (one-step-up). In practice this will mean encouraging and assisting trainees to complete a series of modules, over a period of time, that will lead to a major qualification at a higher level.

Attracting and Retaining Talent

Over the last few years labour, and to a lesser extent, skill shortages have not reached critical levels for three reasons: increased female participation, the 1970s baby boom and immigration. For example, the number of women in paid work has doubled since 1994. The other source of increased indigenous labour has been the baby boomers of the 1970s and early 1980s who came of age just in time for the employment boom, with the number of 21-year-olds peaking at 70,000 in 2001. Since then, the decline in the number of young entrants has mirrored the fall in the birth rate that occurred through the 1980s. More recently, immigration has been crucial to meeting our labour and skill needs.

However, while skills shortages are largely being alleviated by immigration, they do exist, especially at the high-end of the skills spectrum. In particular, Irish HR managers have been experiencing difficulty in recruiting professionals in the ICT, Financial and Health sectors. However, sourcing highly-skilled professionals is not a problem unique to Irish HR managers. While the globalisation of labour has resulted in a fourfold increase in the effective supply of labour, it has not kept pace with the increased demand for skilled workers. An international survey for the Corporate Executive Board found that 62% of Senior HR managers were extremely concerned about a dearth of talent in their company (*Economist*, 2006). A similar study by the Boston Consulting Group found that both HR and other executives were in agreement that managing talent was the major HR challenge facing companies over the next 10 years (*BCG*, 2007). Around the world, CEOs realize that attracting and retaining talent will be crucial for profitability.

As a result, the scramble to attract the ‘best and brightest’ has been increasing across the globe, with the focused recruitment strategies of multi-nationals such as Google indicative of this new reality. According to Dr. John Sullivan of San Francisco State University *“Google recruitment has a ratio of one recruiter for every 14 employees (14:1). That ratio surpasses the previous record of 65:1, held by Cisco during the first war for talent in the late ‘90s”* (O’Sullivan, 2007). A worrying HR strategy of some European companies has been the relocation of their operations eastwards to Central Europe and Asia where skills are in more plentiful supply.

The ability of Ireland Inc. to meet its skills requirements is likely to be tested further in the coming years due to the declining contribution of the baby-boom generation mentioned earlier. Furthermore, female participation is unlikely to increase much further as many women currently in the workforce are in their early to mid-thirties, raising the likelihood that there will be an increase in the rate of maternity leave in the near future (indeed this has already begun to happen). And while immigration could, in principle, continue to make up any shortfall in the Irish labour supply, the high cost of living may make it increasingly difficult for Irish recruiters to attract talent here.

What strategies then are likely to be most effective in assisting Ireland Inc. to attract new talent and retain existing talent (be they Irish or non-Irish nationals)? While remuneration will obviously be a factor, it will not be sufficient. In Ireland, work-life balance issues are becoming increasingly important due to the long commuting times and low provision of childcare. Hence, companies that offer flexible working arrangements, be it teleworking, flexible working hours or part-time options are likely to be more attractive to the modern worker. According to the NCPP: *"As the labour force becomes more diverse, flexible working arrangements are becoming an increasingly important aspect of quality of working life for many employees"* (NCPP, 2007a). Adopting these work-life balance arrangements could also improve output. Recent research by the ESRI suggests that people working from home tend to work more hours on average than their colleagues in the office (Russell et al, 2007). Other enticements will include opportunities to gain experience in different roles within a firm and fast-tracking high-achievers to the upper rungs of the corporate ladder. This is especially relevant for Ireland's international finance sector where there are significant retention problems due to the repetitive nature of many fund administration tasks. More generally, support for the development of structured careers is likely to gain increasing importance as the notion of a job for life becomes redundant.

While enlightened HR policies can help to attract and retain the best and the brightest to these shores, they will need to be supported by policies at a macro-level. As well as increasing competition between corporations there is now widely believed to be a 'global war for talent' waged at the level of national policies. Since the 1990s most OECD countries have been changing their immigration policies to facilitate high skill immigration, even though controls of unskilled immigration have generally been tightened. In Ireland, immigration policy is based on the assumption that whereas any additional unskilled labour that is needed will be sourced from within the EU/EEA, the economy will continue to need to attract highly skilled people from across the globe.

In recognition of Ireland's likely skills deficit from domestic sources on the one hand, and the increased competition for highly skilled workers on the other, the Irish Government introduced a new Green Card system in February of this year. However, there is a need to see if any further actions are required at Government, region or city level. This needs to be informed by an understanding of Ireland's relative attractiveness compared to other countries and the kinds of policies in place elsewhere. FÁS has commissioned Professor James Wickham, Project Director for the Trinity Immigration Initiative, to prepare a policy paper on attracting and retaining high skilled immigrants. This will be published by FÁS in due course. Drawing on Prof. Wickham's analysis some interesting findings and conclusions emerge. What follows is a summary of his analysis.

High Skilled Migration Patterns

The absolute and relative importance of high skilled immigration varies between countries. There is a higher overall level of high skill immigration to countries such as the USA, Canada and Australia than to nearly all European countries. Thus in Australia, Canada and the USA immigrants account for 25%, 20% and 10% respectively of all skilled employment; in most European countries the proportions are far lower. In Europe not only is the overall level of immigration lower, but the immigrants are more likely to enter low skill jobs. Only in the UK – and now Ireland - is the share of immigrants in high skill jobs similar to their overall share of employment, (OECD, 2002)[24].

One consequence is that, in the more dynamic economies of Europe, what sociologists refer to as the 'service class' (managerial and professional occupations) is increasingly multi-national in origin. In the UK, for example, those in service class occupations are disproportionately likely to have been born outside the UK, with the proportion especially high in London (30.5% of London's population is foreign-born).

Within rich countries – such as Ireland – significant numbers of people have lived and worked outside the country, and this is particularly the case for those with qualifications. Table 2.4 shows that in Ireland the higher the level of education, the more likely people are to have lived outside of the country. Thus of those who only had achieved primary education, 84% had lived in Ireland all their lives. At the other extreme, of those with at least a third-level degree only 57% had never lived outside of Ireland. In Ireland today, to be educated is to be mobile.

24. Exact comparisons are difficult: the Australian, Canadian and US figures are for foreign born, the European figures for non-nationals. OECD 2002 [Policy Brief] p4

Table 2.4: Ireland: Mobility and educational level: % of Persons with Different Educational Qualifications who have lived abroad.					
	Born and lived in Ireland	Born in Ireland lived abroad	Born abroad arrived pre-1996	Born abroad arrived 1996-2002	Total
Primary (including no formal education)	83.6	11.7	0.7	4.0	100.0
Lower secondary	82.3	8.1	2.2	7.5	100.0
Upper secondary	78.1	10.1	3.2	8.6	100.0
Third level - non-degree	71.1	15.3	4.4	9.1	100.0
Third level – degree or higher	56.6	19.7	8.8	14.9	100.0
All	79.3	9.4	3.5	7.8	100.0

Source: Wickham (2007)

Within employment, immigrants are on average much better educated than the Irish population (see Table 2.5). Thus, half of the non-Irish employed in 2006 had a third-level qualification compared to less than one third of the Irish employed. The inverse is found at lower levels with 31% of the Irish employed having lower secondary education or below compared to only 16% of the non-Irish employed. Thus, the inflow of immigrants to Ireland over the last years has significantly helped to increase the average level of education in the country.

Table 2.5: Irish and Non-Irish Employment by Educational Level 2006		
Educational Level	Irish	Non-Irish
Lower Secondary or Below	31%	16%
Upper Secondary	40%	32%
Third-Level	29%	53%

Source: QNHS 2006 (FÁS LMRU extraction)

Immigrants make up an important element in a number of higher-level occupations in Ireland. For example, as in many Western countries, the Irish health service relies on inflows of medical professionals and nurses. In 2005 20% of doctors holding full registrations with the Medical Council of Ireland had overseas addresses (not including temporary registrations) while the proportion of non-Irish nurses increased from 2 per cent to 8 per cent over the period 1998 to 2004 (quoted in Fahey et al, 2007). There has also been an important inflow of engineers, architects and computer specialists into Ireland over the recent years as shown in Table 2.6.

Table 2.6: Percentage of Non-Irish Employed in Professional Occupations		
Occupational Group	Irish	Non-Irish
Architects, Town Planners And Surveyors	11	16
Health Professionals	13	15
Computer Analyst/programmers	11	14
Health Associate Professionals	9	14
Ship And Aircraft Officers, Air Traffic Controllers	5	13
Professional Occupations Nec	12	11
Engineers And Technologists	12	11
Business And Financial Associate Professionals	5	7
Scientific Technicians	4	7
Natural Scientists	10	7
Specialist Managers	6	7
Draughtspersons, Quantity and Other Surveyors	5	6
Business And Financial Professionals	6	6
Total Professional/assoc Prof. Groups	8	10

Source: FÁS SLMRU extraction from QNHS data. Note that these figures are based on a sample survey and, therefore, subject to sampling error. Also note that the QNHS figures do not incorporate the latest Census 2006 data which showed a higher percentage of non-Irish at work. The QNHS figures will probably be adjusted upwards in future.

High skill migration differs from the mass movements of the post World War II period, the experience of which still shapes much migration policy discussion in Europe. It is part of a process of increasing mobility within society, especially amongst the professional and managerial occupations, in which a period living and working 'abroad' is part of normal career development. High skill migration therefore cannot be understood in terms of the permanent movement from a country of origin to a country of destination, in which the immigrant will 'settle', 'integrate' or even 'assimilate'. Furthermore, there are substantial differences between occupations and at different stages of individuals' life cycles. High skill migrants often move within a global labour market. Migration cannot be totally separated from other forms of mobility, such as 'expatriation', studying abroad or even business travel. High skills migration is shaped by institutional structures and actors, which include not only the nation state but trans-national corporations and trans-national recruitment agencies. Researchers increasingly argue that as highly skilled and 'creative' individuals become less tied to specific work locations, they increasingly choose their work destinations in terms of quality of life attributes.

Although public policy discussion focuses on attracting skilled labour from outside the EU, one of the key recent changes has been the growth of intra EU flows of skilled migration, including between the pre-accession states. For example, the financial services industry in London and the South East of England now employs significant numbers of French immigrants, many in professional and managerial occupations; with a French population of over 200,000. French London is now as big as Lille or Rouen.

The level of outward migration from rich countries is partly shaped by the economic cycle, as evidenced by the high rates of skilled emigration from Ireland in the 1980s or the outflow from France in recent years. Just as many skilled Irish returned in the 1990s, so doubtless many French emigrants will return 'home' if there are more job opportunities in France.

However, overall studies of skilled migration within the EU show that there is relatively little such migration, despite the fact that the absence of formal immigration controls within the EU should create a single labour market. As well as language barriers, part of the issue here is that education and training systems within the EU remain essentially within the competence of national member states. Issues arise, in many cases, in relation to the recognition of qualifications gained in other countries and this represents a barrier to high-skilled migration.

Multi-national companies play an important role in high skills migration through intra-company transfers. Even more than before, such companies are concerned to avoid national level restrictions on immigration.

In recent decades a period abroad has become a normal part of the transition to adulthood for many young Irish persons. This may be through spending part of one's university education at another EU university (e.g. through the Socrates programme), a gap year doing voluntary service abroad or a working holiday to Australia. Growing numbers of young adults choose to live in a foreign city, attracted not so much by job opportunities but by the possibility of a different life style. What matters is not the level of wages, but the quality of the 'conversation'. This is 'lifestyle emigration'.

An example of the importance of lifestyle emigration is shown by the success of the cultural and artistic 'industries' in cities such as London and New York. As has been recognised for some time, such industries are major economic drivers in their own right but also ensure the cultural facilities which make these global cities attractive destinations for more mundane but high earning immigrants. The vibrancy of a city's cultural sector depends in turn on the city attracting a relatively large semi-bohemian immigrant population with different skills, values and experiences. Lifestyle immigration is thus a key resource for a city's cultural industries.

Writers emphasising the importance of the 'creative class' in modern development argue that whereas in the past people used to move to jobs, now jobs move to people. For example, Richard Florida (author of *The Rise of the Creative Class*) is adamant that while economic growth, of course, generates wealth which can be used for cultural facilities, what actually matters is the converse: cultural facilities (in the very broadest sense of the term) generate economic growth. The cultural facilities that matter, he states, are not the 'big ticket' facilities (concert halls, opera houses etc) but a vibrant street life and a good music scene. Because the creative class values creativity and diversity, its members move to places where these exist. Once there, they then create jobs.

Florida has lauded Dublin as an example of a city which, like Austin, Texas, started by attracting high-tech firms and talent, then leveraged that investment with its own talent, attracted emigrants to return and then invested in cultural amenities and became more open and tolerant, thus beginning a virtuous creative cycle. On this basis Dublin is now able to attract new immigrant members of the 'creative class', ensuring continued and broader economic growth. Indeed, according to Florida, between 1995-2002 Ireland had the fastest growth of its creative class of any OECD country.

Policy Implications

Given the diverse forms of high skills migration and the range of motivations involved, conventional immigration policies are only part of the total range of policies relevant for migration decisions. It is important, therefore, to distinguish between 'hard' and 'soft' policies – *hard* policies refer to immigration legislation and related matters and are aimed at migrants directly, *soft* policies change the context of migrants' decisions. Furthermore, policy is made not just by nation states but also by the companies (whether private or public sector) in which the migrant is employed.

Most Irish policy discussion has focused on 'hard' policies at the 'state' level (questions of migration regulation such as work permits, Green Cards, points systems etc.). In the contemporary situation these are necessary but not sufficient: equally important are 'soft' policies at the national and – usually neglected but increasingly important - the city level. These 'soft' policies relate to the life-style aspects of migration

Thus, skilled migrants can be attracted and retained by policies that enhance quality of life and that promote cultural diversity. Equally, whereas employers can attract and retain migrants through 'hard' policies such as relocation and remuneration packages, it is clear that 'soft' policies at this level too are important, in particular a work environment in which cultural diversity is not only tolerated but actively encouraged.

Irish policy has become significantly more open this year than in the past, with the virtual abolition of any labour market testing for highly skilled migrants and a greater flexibility for spouses to work. Although the new system has the advantage of simplicity, there remain some restrictions due to the requirement that Green Card applications are linked to an individual employer. Although it is too soon to assess the success of the new Irish Green Card system, it will be important to monitor its application carefully to ensure that it maximises the entry of skilled workers. It is important, too, that the implementation of the state's 'hard level' policies does not give the appearance of focusing on restraining immigration.

In last year's Irish Labour Market Review we drew attention to the importance of recognition of qualifications from abroad if the skills of immigrants to Ireland are to be fully used. Structures and systems have been established to address this issue but the pressure on resources to carry out this work is steadily rising. The EGFSN's National Skills Strategy stated that the system for recognition of international awards should be reviewed to ensure that it is meeting its objectives and that the facility is widely communicated to employers and international employees.

Although much migration is not about settlement, many categories of immigrants are unlikely to be attracted to a country where labour market policy treats them as useful temporary guests. The importance of soft policies suggests that much attention now must be given to the sub-national level - the extent to which Dublin is an attractive city for living is a crucial issue for high skill migration. In this context, Ireland's advantages should be noted: survey evidence suggests that Irish people are more tolerant of cultural diversity than many other Europeans, and a reputation for welcoming foreigners is not just important for tourism! It is not entirely facetious to suggest that, at least for some migrants, what matters is not the level of tax, but the 'quality of the conversation'. Irish policy must continue to ensure that the varying needs of skilled immigrants are satisfactorily met. This is likely to include housing, health and education. More generally, Ireland will need to accommodate diversity in cultural and social matters if it is to be attractive to high skill migrants from different backgrounds.

Recommendations:

Although it is too soon to assess the success of the new Irish Green Card system, it will be important to monitor its application carefully to ensure that it maximises the entry of high-skilled workers.

The system for recognition of international awards should be reviewed to ensure that it is meeting its objectives and that the facility is widely communicated to employers and international employees.

Irish policy must continue to ensure that the varying needs of skilled immigrants are satisfactorily met. This is likely to include housing, health and education. More generally, Ireland will need to accommodate diversity if it is to be attractive to high skill migrants from different backgrounds.

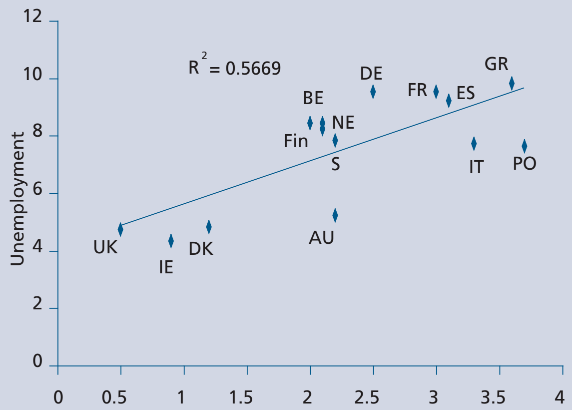
4. RECONCILING ADAPTABILITY AND PROTECTION

Employment Protection Legislation

While properly designed training, earnings and migration strategies can help the labour market adjust to economic fluctuations and globalisation trends, they need to be complemented by appropriate Employment Protection Legislation (EPL). According to OECD research, well designed EPL enhances labour productivity. Inappropriate or overly stringent employment protection slows mobility between different jobs, reducing the dynamism of the labour market and increasing the length of unemployment between jobs. It also slows productivity growth as it restricts the movement of labour into high-productivity industries (OECD, 2007).

Ireland had one of the lowest levels of employment protection in 2003 according to the OECD with the U.S. having the lowest and the U.K. also having low levels The highest levels of employment protection were found in Spain and France (see the *Irish Labour Market Review 2006 for more details*). Figure 2.4 shows a significant correlation between EPL 'strictness' and unemployment among the EU15 Member States; the higher the level of EPL strictness in a labour market the higher the rate of unemployment. While there are, of course, other factors impacting on employment besides EPL strictness, the strong positive correlation between EPL strictness and unemployment does suggest that the two are linked in some way.

Figure 2.4: Impact of EPL on Unemployment

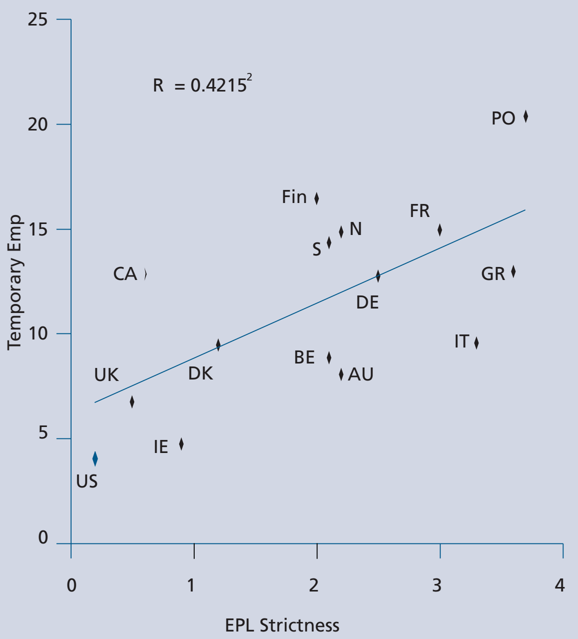


Sources: OECD Employment Outlook 2006 & Employment in Europe 2006

The design of EPL also plays a major role in determining which segments of the labour market are most adversely affected by a slowdown in job creation and which segments are most protected. The approach that has been taken by some EU countries to make the labour market more adaptable has been the promotion of atypical employment (such as part-time and temporary employment) over regular employment via changes in EPL. This has been done by increasing or maintaining the protection for permanent workers and loosening the relative protection for atypical workers.

According to the European Commission the loosening of EPL in the EU in recent years has been driven largely by a loosening of temporary legislation, while the legislation governing permanent contracts have been left relatively unchanged. This loosening of EPL in respect of temporary workers has been correlated with a rise in temporary employment in nearly every EU country over the 1991-2005 period. There is also a strong positive correlation between EPL strictness and the incidence of temporary employment across OECD countries (Figure 2.5). While partial loosening of EPL (by loosening legislation for atypical but not regular contracts) has contributed to greater flexibility at the margin, this has led to the creation of a dual labour market in some Member States, resulting in precarious employment and a lack of adequate provision of training for workers under a typical contracts, which has impacted negatively on productivity (European Commission). Furthermore, recent research suggests that overly strict protection for regular employment slows productivity growth as it restricts the movement of labour into high-productivity industries (OECD, 2007).

Figure 2.5: Impact of EPL on Temporary Empployment



Source: OECD Employment Outlook 2006 & Employment in Europe 2006

European Commission Green Paper

In response to these changes in employment contracts and to the increased need for flexibility the European Commission in November 2006 launched a consultation process with Member States on a Green Paper entitled *Modernising Labour Law to Meet the Challenges of the 21st Century*. The paper notes that in recent years *“Fixed term contracts, part-time contracts, on-call contracts, zero-hour contracts, contracts for workers hired through temporary employment agencies, freelance contracts, etc., have become an established feature of European labour markets.”* (European Commission, 2006).

This Green Paper should be seen in the context of the Commission’s desire to promote ‘flexicurity’ as the labour market model of choice for Member States. The main idea behind flexicurity is that it aims to combine the benefits of labour market flexibility with employment security, where security is seen in the context of protecting workers rather than jobs. Last year’s Review considered the appropriateness of flexicurity (and in particular the Danish form of flexicurity) to Ireland and concluded that Ireland already had some aspects of flexicurity, but did not recommend a wholesale adoption of the model. However, since last year’s Review was written, the Commission has adopted a more nuanced approach by emphasising the need to develop common principles of flexicurity that can be adopted by Member States to their particular labour market situation, rather than singling out one particular prototype to follow slavishly. The Commission has also highlighted that, while the Danish model may have been the inspiration for the flexicurity concept, there are actually several variants of flexicurity. The recent Green Paper essentially looks at the first element - the role of labour law in the overall context of flexicurity. Indeed, the Commission’s promotion of flexicurity is partly underpinned by a concern that in the strive to increase the flexibility of their labour markets many EU countries have concentrated on flexibility at the margin by promoting atypical work patterns.

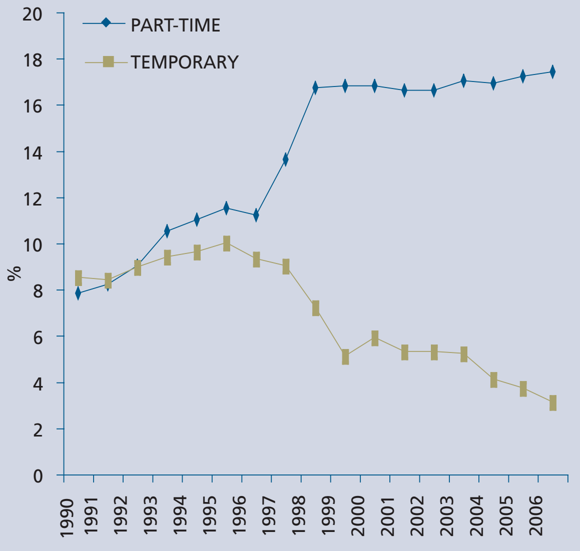
The Irish Experience

Despite the perception of Ireland having a weak EPL system, there have been a number of changes to atypical legislation since the early 1990s which have increased the level of protection for atypical workers. With regard to part-time work, the most important piece of legislation was the *Worker Protection (Regular Part-time Employees) Act 1991* which brought in a series of changes in legislation which ensured that part-time workers who worked a minimum of 8 hours a week were entitled to the same benefits that full-time workers have: maternity pay/leave, redundancy pay etc. (Cousins 1995). The subsequent *2001 Protection of Employees (Part-time)* Act replaced the Worker Protection Act and eliminated the hourly thresholds altogether. This Act also sought to ensure that part-timers are entitled to the same earnings and benefits as full-time workers on a pro-rata basis.

With regards to temporary employment, the most significant legislative development took place in 1993 when the *Unfair Dismissals (Amendment) Act 1993* was introduced to prevent employers from re-employing the same temporary contract worker on successive temporary contracts. This was followed 10 years later by the *Protection of Employees (Fixed-Term Work) Act 2003* which prevents employers continually renewing temporary contracts, thus ensuring that temporary employees were not treated less favourably than permanent workers. An employee who works on one or more fixed-term contracts for a continuous period of four years is now considered to have a permanent contract.

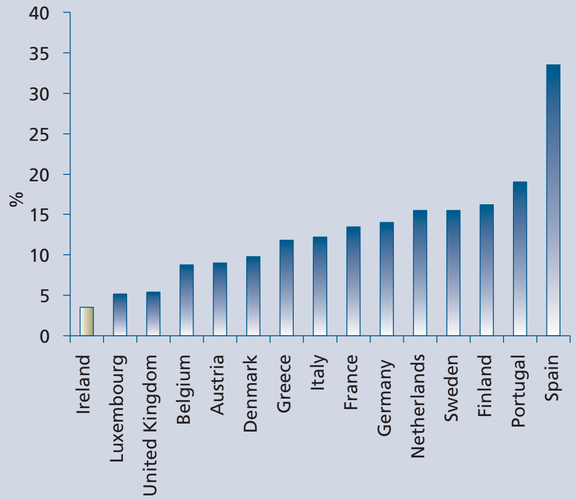
Hence, unlike some EU countries, Ireland has increased the protection of atypical workers while providing relatively loose protection for permanent employees by OECD standards. As it has become harder to 'hire and fire' temporary workers vis-à-vis permanent workers, Irish employers have shown an increasing preference for permanent contracts over fixed-term contracts. Since 1995, the incidence of temporary employment has fallen from 10% to just over 3% in 2006 (Figure 2.6) at a time when fixed-term contracts were increasing in popularity across the EU. Consequently, we now have the lowest incidence of temporary employment in the EU15 (Figure 2.7). And while the incidence of part-time employment rose during the 1990s, at 17% it was still lower than the EU15 average of 20% in 2005. As a result, Ireland has avoided the two-tier scenario common in the EU by increasing the protection for atypical work vis-à-vis typical work.

Figure 2.6: Trends in Atypical Employment in Ireland 1990-2006



Source: Eurostat

Figure 2.7: Temporary Employment in the EU in 2005



Source: Eurostat

Up until now, Ireland seems to have got the balance of employment legislation right between adaptability and the protection of the most vulnerable. Indeed, the Commission's Green Paper is, in a sense, an implicit endorsement of the Irish approach to date. However, it will be important to continually monitor this situation in the light of the economic environment and globalisation trends.

Flexicurity and the Future

The flexicurity philosophy of projecting workers rather jobs provides a good framework in which to consider the future development of Irish EPL. As mentioned previously, the EU Commission has agreed that while the Danish model may have been the inspiration for the flexicurity concept there are actually several possible variants. Indeed, the Commission cites Ireland's social partnership system as an example of flexicurity. The Commission maintains that social partnership is crucial to ensuring that flexicurity "delivers benefits for all". The most recently negotiated National Social Partnership Agreement - Towards 2016 - includes explicit reference to the need to promote both labour market flexibility, while respecting job security, and makes specific commitments to protect working conditions. In particular, the establishment of the National Employment Rights Authority (NERA), together with a proposed threefold increase in the number of labour inspectors, represents a key strategic focus on the protection of workers' rights

(DETE 2007). As well as the Danish and Irish examples, the Commission also cites the Austrian severance pay system, Netherland's increasing protection of temporary work and Spain's efforts to reduce the prevalence of fixed-term contracts. The Commission goes on to point out that there are several pathways through which countries can develop their own flexicurity strategies. However, *"While flexicurity policies and measures must reflect the very different national situations"* the Commission points out that *"all EU Member States face the same challenge of modernisation and adaptation to globalisation and change".*

In relation to the EPL component of this model, the question is what pathway, if any, should Ireland take given the new challenges that the labour market faces? From an Ireland Inc. point of view a case might be made that protection should decrease as this will increase the adaptability of labour in the context of a slowdown. However, as already mentioned, the current EPL system is already flexible by international standards. From the perspective of employees, there will obviously be a desire to increase protection given the uncertainties that lie ahead. However, given the current parity of protection between full-time, part-time, temporary and permanent workers, greater levels of protection would be hard to implement without resulting in a significant loss in flexibility. Interestingly, research points to an 'insecurity paradox' whereby workers in countries which have the most stringent EPL tend to feel least secure about their employment prospects, even after differences in individual characteristics and macroeconomic performance are controlled for (European Commission, 2006). A possible explanation for this counter-intuitive conclusion is that in stricter regimes unemployment is higher, labour market segmentation is greater and that the worry about being left on the 'outside' is more dominant than the security of being on the 'inside' (Postel-Vinay and Saint-Martin, 2004).

Ultimately, the best way to promote flexibility while at the same time providing protection against fluctuations is to concentrate on 'career protection' rather than 'job protection'. It is important that other supports, over and above EPL, are in place, namely, access to ongoing training and incentives to assist 'permanent' employees to switch from declining sectors to growth sectors. These are genuine forms of 'career protection', which do not have any obviously negative effects on the functioning of the labour market.

In the context of a greater emphasis on career protection, one area that needs further consideration is in relation to the portability of pension rights. The objective here is to ensure that there are no pension-related obstacles to the free movement of labour. A mobile worker should be able to continue to make relatively unbroken contributions to the provision of a supplementary pension. This should inform the final White Paper on Pensions.

Another aspect of atypical work is agency work, which is often synonymous with temporary work (although this need not be so). While the numbers employed in agency work is not yet known[25], there is little doubt that it has been increasing rapidly in recent years and looks like it will continue to do so. As a result, the issue of agency work has become more widely discussed in recent months. However, the lack of any hard data on the scale and nature of agency work has precluded us from researching this topic.

Recommendation

We recommend that the future policy development in the area of EPL should take cognisance of the flexicurity approach. In particular, one area that merits further investigation is the portability of supplementary pension rights.

25. Estimates range from 40,000 to 100,000 - it is hoped this will be clarified in the New Year by an additional question in the CSO QNHS.

3

Chapter 3
Special Article[26]: Gender Pay Gaps

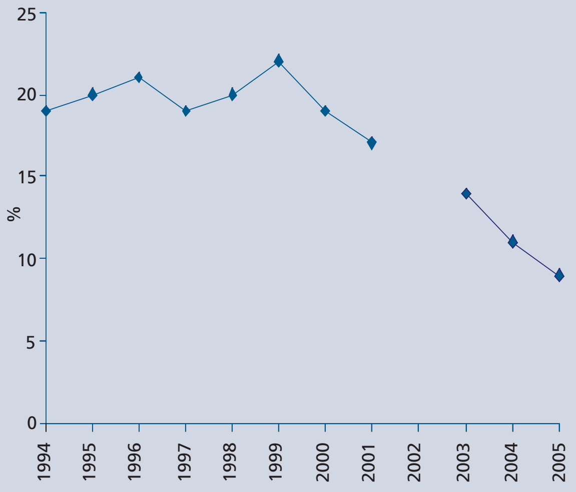
Gender pay gaps are the differences between the pay of men and women. The FÁS Irish Labour Market Review 2005 contained a special chapter on gender pay gaps. It noted that the gender pay gap in Ireland was 14% in 2003, that it had fallen from 19% in 1994 and that it was slightly below the EU-15 average of 16% in 2003. The article also drew attention to the Irish Government's and European Union's commitments to reducing gender pay gaps. Gender pay gaps arise because women work in different jobs to men and these jobs pay differently. A very large amount of research has been conducted into the causes of these differences and to what extent they reflect 'real' differences, traditional gendered roles or discrimination. The chapter reported on the Irish and international research and presented an analysis of recent Irish statistics. It concluded with some recommendations.

The purpose of this section is to up-date the 2005 chapter. More recent European-wide statistics on gender pay gaps are presented, the earlier analysis of occupational differences in Ireland is up-dated and other research conducted over the last couple of years is summarised. Some conclusions are drawn at the end of the section.

TRENDS IN GENDER PAY GAPS

Figure 3.1 shows the trend in the gender pay gap for Ireland over the period 1994 to 2005 based on EU statistics. The gap is defined as the difference between the average gross hourly earnings of male and female employees, aged 16 – 64, who work 15 or more hours per week. The results for Ireland show a large reduction in the last five years from a peak of 22% in 1999 to 9% in 2005. It is important to note that this decrease may be over-stated as there was a change in the Irish data source from the ECHP survey to the SILC survey after 2001. For this reason the CSO has indicated that the 2004 and 2005 figures are provisional.

Figure 3.1: Gender Pay Gap in Ireland 1994-2005



Source: Eurostat Structural Indicators, epp.eurostat.cec.eu.int. Note that no figures are available for 2002.

The Irish gap is now significantly below the EU average of 15%. Table 3.1 presents data on the gender pay gap in selected EU countries from 1994 to 2005.

26. Roger Fox, Director of the Planning & Research Department, FAS, is the author of this article..

Table 3.1: Gender Pay Gap, Selected EU Countries, 1994-2003				
Country	1994	2001	2003	2005
Italy	8	6	-	9
Portugal	10	10	9	9
Belgium	13	12	-	7
France	13	14	12	12
Denmark	11	15	18	18
EU 15 2	17	16	16	15
Ireland	19	17	14	9
Sweden	16	18	16	16
UK	28	21	22	20
Germany	21	21	23	22

Source: Eurostat website: epp.eurostat.cec.eu.int

Thus, Ireland's gender pay gap has gone from being slightly above the EU average during the 1994 – 2001 period to being lower at 9%, compared to 15% for the EU–15, in 2005

The National Women's Strategy 2007 – 2016 report draws attention to some issues with the Eurostat gender pay gap figures quoted above[27]. It notes that the figures relate to persons working more than 15 hours a week and that this exclusion of many part-time workers, who are mainly women and are paid relatively poorly, understates the gender pay gap for all employees. The report notes that based on the CSO's 2003 National Employment Survey the gap of average hourly earnings of men and women was 15.8 per cent (men averaged €17.74 per hour and women €14.93).

OCCUPATIONAL SEGREGATION

As noted above, gender pay gaps arise because women and men work in different occupation and these occupations pay differently. A major cause of gender wage gaps is the different occupations in which men and women are employed. In the 2005 article the under-lying causes of such differences were discussed. Researchers define a 'Dissimilarity Index' (DI) which measures how much gender segregation there is in employment. The index can vary from 0, meaning no difference, to 1, meaning that all occupations are either all male or all female. The Irish Labour Market Review 2005 article quoted results from Hughes over the period 1983 to 2001 which showed the Irish DI ranging from .65 in 1983 to .58 in 2001. The article then presented calculations by FÁS from the 2002 Census and 2004 QNHS. These figures have now been up-dated using the 2005 and 2006 QNHS and the results are presented in Table 3.2.

Table 3.2: Index of Dissimilarity for Ireland 2004-2006			
Criteria	2004	2005	2006
Total	.59	.59	.61
Full-time	.58	.58	.60
Part-time	.54	.55	.54
Under 35	.57	.57	.59
Over 35	.64	.64	.64
Below-Leaving Cert.	.73	.73	.74
Leaving Cert.	.62	.64	.66
Third-level	.46	.44	.46

Source: QNHS data from SLMRU, FÁS.

Thus, Ireland's Dissimilarity Index has remained steady at around .6 over the last three years, with a slight increase in 2006. We have also calculated the Index for certain sub-groups of the employed. Thus, as shown in Table 3.2, the Index is greater for Full-time than Part-time employees. It is also greater for persons aged over 35 than for the younger cohort. Finally, the most pronounced differences relate to persons with different levels of educational qualification. The 2006 Index has a value of .74 for persons with below Leaving Cert qualifications, compared to .66 for Leaving Cert. qualified persons and .46 for persons with Third-level qualifications. Thus, gender-defined roles are much stronger for persons with lower levels of qualifications.[28]

OCCUPATIONAL CHANGES AND WAGE RATES

An additional perspective on the changes in female employment, and their possible impact on gender pay gaps, can obtained by looking at data on employment and wage levels. Information on wage levels on an occupational basis has not been available regularly in Ireland. However, the CSO's National Employment Survey 2003 collected such data and these were reported, inter alia, in the National Women's Strategy (Table 4). The percentage of women at work has risen steadily in recent years and the question we want to address is whether, on average, this has been in higher or lower-paying jobs. The number of women employed in 1998 and 2006 by broad occupational group is presented in Table 3. Total female employment over the period rose by over quarter of a

27. National Women's Strategy 2007-2016,
28. It is probable that the differences between age groups are caused by the differences in the education mix of older and younger age groups...

million persons (44%) from 593,000 to 855,000. There were particularly large increases in employment in Personal Services (79%), Professionals (75%) and Sales (63%). A measure of the level of these jobs is average hourly earnings paid and the final column of Table 3.3 shows such data for 2003 for each occupational group. As would be expected, the highest average wage is for Professionals (€25.6 per hour) and the lowest Sales (€9.7 per hour). Using this 2003 data with the number of females employed in 1998 and 2006 we can calculate a hypothetical average wage for females in 1998 and 2006. This is found to be €14.9 per hour in 1998 and €15.2 in 2006. Thus, assuming that the relative wage levels in 2003 did not change significantly over the period, on average women in 2006 were in somewhat better paying jobs than in 1998. What makes this change more striking is that changes in the mix of male jobs had a different effect. Using the same basis of calculation, but with average male earnings in 2003, then the change in the occupational mix of males employed between 1998 and 2006 would have resulted in a fall of average male earnings from €19.1 per hour to €18.5 per hour. Thus, this crude analysis supports the hypothesis that part of the reason for the narrowing of the gender wage gap in recent years is that women are, on average, getting better jobs than they had previously.

Ireland. However, we know that wage levels at the bottom of the job ladder have risen over the last decade due both to the high level of demand for labour and the introduction of the National Minimum Wage. (Research by Brian Nolan showed that earnings inequalities narrowed between 1997 and 2000 while the Report of the Consultative Group on Male/Female Differentials noted that the National Minimum Wage had risen over time to give a positive impact on the gender pay gap.[29]) The National Minimum Wage rose from €5.58 in April 2000 to €8.30 in January 2007, an increase of 49% over the period. This could be compared to a 41% increase in average weekly earnings during the six years 2001-2006 inclusive[30].

Differences in male and female wage rates at a broad occupational level can be clearly seen in the CSO National Employment Survey data for 2003. Table 3.4 summarises the data which shows significant differences in most occupational groups. However, the level of aggregation of occupations in this table means that it is difficult to be sure that valid comparisons are being made. It is interesting to note, however, that the narrowest differences relate to the Professional occupational group – one of the growth areas for female employment and also the best-paying group.

Table 3.3: Female Employment 1998, 2006 by Broad Occupational Group

Broad Occupational Group	Employment		Change	% Change	Ave Hourly
	1998	2006	1998-2006		Earning 2003
Professional	66.3	116.3	50.0	75.4	25.6
Managers and administrators	69.0	97.5	28.5	41.3	22.6
Associate professional and technical	66.0	100.3	34.3	52.0	16.4
Clerical and secretarial	136.3	186.1	49.8	36.5	13.8
Personal services	77.0	137.9	60.9	79.1	10.6
Other	55.4	69.4	14.0	25.3	10.4
Plant and machine operatives	41.0	26.6	-14.4	-35.1	10.2
Craft and related	15.5	11.7	-3.8	-24.5	10.0
Sales	67.0	109.1	42.1	62.8	9.7
Total females	**593.4**	**855.0**	**261.6**	**44.1**	

Source: CSO, QNHS

As noted above, gender pay gaps may also have reduced because of changes in the wages paid to different occupations and, hence, males and females. Regular occupation or job-linked data on wages is not available in

29. See article in Irish Labour Market Review 2005, FÁS for further discussion.
30. Quarterly Economic Commentary, ESRI, Summer 2007, Table 9.

Table 3.4: Male and Female Mean Hourly Earnings 2003 by Broad Occupational Group

	Male	Female	Male/Female % Difference
Managers & administrators	28.8	22.6	27.6
Professional	27.0	25.6	5.6
Associate professional & technical	21.4	16.4	30.2
Clerical & secretarial	15.8	13.8	14.1
Craft & related	14.9	10.0	49.1
Personal & protective service	12.9	10.6	21.6
Sales	13.0	9.7	33.5
Plant & machine operatives	13.5	10.1	33.2
Other	12.5	10.4	20.4

Source: CSO National Employment Survey 2003.

RESEARCH AND POLICY

Since the 2005 Irish Labour Market Review chapter, a study of gender pay gaps among recent graduates was published[31]. This study is interesting because it focused on persons who, a priori, should experience similar labour market experiences – all with similar educational qualifications and not yet with children. However, the research found, three years after graduation, that female graduates earned on average 8% less per hour than male graduates in the private sector (no difference in the public sector), worked shorter hours and were less likely to receive bonuses and employer-sponsored training[32]. The research also found that in the private sector lower earnings for arts graduates mainly affect women while higher earnings for engineering graduates accrue primarily to men. In terms of policy implications the study recognises that motherhood is undoubtedly an important contributor to the gender pay gap overall, but that subject choice, work organisation and the transparency of wage, bonus and training determination also influence pay levels to the disadvantage of women.

The National Women Strategy did not set out a specific numerical target for reducing the gender pay gap. However, it did suggest that this might be something that could be considered at the time of the first review of the Strategy in three years time. The Strategy, drawing on the range of research available to date, set out a series of activities that would help to decrease the gender pay gap. These are reproduced in the Box below and many are similar to those in earlier reports including the Irish Labour Market Review 2005.

Objective 1-B of National Women's Strategy: Actions to decrease the Gender Pay Gap

- Implement recommendations in PPF Partnership Report on Male/Female Wage Differentials
- Continue work of National Framework Committee on Equal Opportunities at the level of the enterprise to address the gender pay gap
- Introduce statutory employment records which may facilitate research
- Ensure effective monitoring and enforcement of the National Minimum Wage
- Continue to review the National Minimum Wage as appropriate in conjunction with Social Partners
- Undertake research into institutional good practice in relation to equality proofing at the level of the enterprise
- Extend the programme of Equality Audits to consider and report on the gender pay gap
- Consider the establishment of a voluntary 'quality mark' to show commitment on the part of the employer to equality issues, including gender equality.

In the Strategy one of these actions, relating to the effective monitoring and enforcement of the National Minimum Wage is attributed to the Department of Enterprise, Trade and Employment and FÁS. In practice, enforcement and monitoring are matters for the Department, but FÁS has a role to play in ensuring that all vacancy notifications that it handles are compliant with the National Minimum Wage. FÁS also has a role to play in relation to training which was covered in the Report of the Consultative Group on Male/Female Differentials in 2003. FÁS' activities include programmes to help women return to the workforce after an absence on caring activities[33], the encouragement of women to enter non-traditional roles including apprenticeship, training of childcare workers and the managers of childcare facilities, and the provision of support for women at work to be up-skilled through training courses such as 'women into management'. FÁS

31. Degrees of Equality: Gender Pay Differentials among Recent Graduates, Russell H et al, ESRI/Dept of Justice, Equality and Law Reform, 2005.
32. However, it should be noted that female employees, overall, are more likely to participate in education/training than males – see, for example, Participation of the Employed in Education/Training 2006, R Fox, FAS, 2007.
33. The Expanding the Workforce Programme run by FÁS is now being mainstreamed nationally.

activities focused on the low-skilled such as the Skills for Life programme (re literacy and numeracy) as well as programmes in areas such as cleaning also support a significant number of women to improve their skills and gain recognised qualifications. Thus, there does not seem to be a need for any significant new activity in this area by FÁS. However, FÁS should continue to monitor its programmes and services to ensure that they are helping to address gender equality issues and address issues or gaps that are found during such monitoring[34].

SUMMARY/CONCLUSIONS

In conclusion, the evidence from recent official statistics suggests that the gender pay gap in Ireland has narrowed significantly in recent years. However, there is a need for some caution with these figures as they are provisional and, if true, would represent a surprisingly large change over a short period. The analysis of occupational change presented in this section would support some narrowing of the gap as women on average seem to have increased their presence in better-paying occupations in recent years. Unfortunately, the latest official statistics on wages for occupations are for 2003 so we do not know to what extent changes in relative wages have helped or hindered women in the last few years. The maintenance of strong labour demand in the economy and the increases in the National Minimum Wage should have helped to ensure that women in lower-paying jobs are not falling behind and may, even, have been gaining. In terms of policy, a continued attention to the causes of gender differentiation, both within society and the work-place itself, will be important. For its part, FÁS should continue with its range of interventions which help women to obtain employment and up-skill within employment. No further specific actions are recommended but there is a need for on-going monitoring of gender issues in FÁS programmes to identify any issues that might require correction.

34. Such monitoring will also be part of the reporting structure under the EU-supported Operational Programme for Human Capital Development 2007-2013.

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