

Irish Labour Market Review 2008





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Foreword

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), looks at policy responses to the rapid rise in the Live Register in Chapter 2, considers training policy in Chapter 3 and contains a special article on young persons who are not in employment, education or training in Chapter 4.

The Review is published at a time of severe economic difficulties worldwide and in Ireland. These have implications for employment, unemployment and the public finances. Labour market policy and programmes need to respond to the new circumstances and the aim of the Review is to discuss possible responses. Resources are limited and the challenge is to balance short and longer term objectives, the needs of different groups and economic and social priorities.

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 Chapters 3 & 4.

Executive Summary

In 2008, the Irish economy went into a recession after a 12-year period when the annual GNP growth rate averaged 7%. The causes of this abrupt downturn, including the slump in the property market, the banking crisis and unfavourable exchange rates, have been well documented. The reversal in economic fortunes has occurred in tandem with the Irish labour market entering a new phase of rising unemployment after over a decade of unprecedented job creation. There has been a striking similarity in economic and employment trends over the recent 2004-2008 period. This is indicative of the fact that labour-intensive sectors (i.e. services and construction) have been the main growth sectors since 2004. As employment declines in these labour-intensive sectors it is having a pronounced negative multiplier effect on the economy as a whole, as the feedback through the reduction in employees earnings is greater than in the capital-intensive manufacturing sector. These second round effects are, in turn, further weakening labour demand.

Given the close link between employment and economic growth in recent years it was inevitable that a significant economic downturn would bring the most recent employment boom to an end. However, the speed at which this has happened has been faster than many had expected. By Quarter 3 2008 employment was down by 1.2% (-25,000) year-on-year, the first time year-on-year employment growth was negative since 1991. The increase in the numbers signing on to the Live Register has been unprecedented, increasing by 121,000 or 71% during 2008. As a result, the seasonally-adjusted unemployment rate rose from 4.7% in December 2007 to 8.3% in December 2008. Another important aspect of recent trends has been the sharp rise in part-time employment. While overall employment has been falling, the numbers in part-time employment has risen noticeably over the last two years (up 43% or 46,000).

The construction sector has seen the largest number of job losses, although the deterioration in economic conditions (most notably the current financial crisis) has also impacted the services sector, especially the retail sector, as employers experience cash flow problems and consumers reduce their spending. The rise of the euro vis-à-vis sterling has also affected job prospects in both the retail and manufacturing sectors.

Given the slowdown, it is not surprising that the number of vacancies notified to FÁS showed a significant year-on-year fall (-32%) in 2008¹, with declines recorded across all occupations. While up-to-date earnings data is not available, anecdotal evidence would suggest that earnings growth has begun to respond to the changed labour market environment.

Despite the reversal in employment trends, the labour force has continued to grow (up 1.2% annually in Q3 2008), albeit at a slower rate. The main reason for the slowdown has been the fall in net-inward migration. Migration accounted for 40% of labour force growth in Q3 2008 compared to 80% in Q2 2008, whilst the number of PPS numbers issued to EU10-nationals in 2008 was down 40% on 2007, with the number of work permits issued to non-EU nationals down by a similar proportion (42%).

Looking ahead, it is becoming increasingly clear that the economic downturn will be more pronounced than had previously been expected, with little or no prospect of a recovery before 2011. The outlook for the labour market is, unfortunately, equally pessimistic. In previous Reviews (2006 and 2007) we expressed concern that the labour market was vulnerable to economic shocks arising from either the property market and/or the currency markets. These fears have been realised. Given the nature of the economic downturn, it is now inevitable that employment will fall significantly in 2009, with the only uncertainty being the extent of the job losses.

1. The data on FÁS vacancies can be affected by variations in our market share and should not be taken as a definitive guide to overall vacancy trends.

We expect labour force flows to adjust to the changing economic reality, with inward migration falling while emigration gathers pace. As a result, we believe that emigration will exceed immigration. Labour force participation is also likely to fall in the face of fewer job opportunities.

Notwithstanding this anticipated labour supply response, the speed at which the unemployment rate rose in 2008 is likely to continue out to the end of 2009. There must also be some concern that a negative feedback dynamic will perpetuate into 2010 as consumption and Exchequer receipts take a hit from rising unemployment, leading to a concomitant fall in services employment. Hence, in the absence of a significant recovery in the world economy in the second half of 2009, it seems increasingly likely that further declines in employment and increases in unemployment will occur in 2010.

Beyond 2010, the outlook will largely depend on the speed with which the Irish economy can recover from the current recession. Interestingly, the ESRI modelled the effects of a pronounced credit shock on their macroeconomic forecasts in their Medium-Term Review published in May 2008. Their model predicted that this would result in the unemployment rate peaking in 2010² after which time it would begin to fall as economic growth resumed. The rapid economic recovery envisaged under such a scenario was predicated on the assumptions that international interest rates and domestic wage rates would both be flexible downwards. Whether or not these assumptions materialise fully remains uncertain, although there have been signs on both fronts that this has already begun to happen. Yet, even if both money markets and labour markets do prove to be flexible, it remains to be seen whether they will provide sufficient leverage to return the Irish economy back to strong growth so quickly. What does seem certain is that when the labour market does eventually recover, the vast majority of the new job opportunities will be in the services sector. However, any such recovery is now unlikely to occur before 2011 at the earliest. In summary, the overall context for this year's Review is one of contraction and uncertainty.

CHAPTER 2: LABOUR MARKET POLICY

In the long run, aggregate employment and unemployment levels will be determined by the functioning of the labour market, as well as by wider macroeconomic conditions and policies. Indeed, during the current downturn focus needs to be kept on this, regardless of short-term measures to boost employment and reduce unemployment. However, the immediate challenge facing the labour market is the rapid rise in unemployment. It must be recognised that the number of jobseekers is expected to significantly exceed the number of job openings in the short to medium term. Given this, the question arises as to what extent interventions can and should be made to boost job creation, recognising that fiscal policy levers are becoming increasingly constrained. To this end, Chapter 2 looks at possible short-term responses to the downturn as well as wider structural reforms to the labour market, while Chapter 3 considers possible training options including up-skilling the workforce that will continue to reap benefits once the current downturn has passed.

Activation

In recent years, activation measures have represented the primary approach used by the State to help the unemployed back into employment. The OECD, in their recent review of activation policies in Ireland, argue that such an approach has been largely effective and that greater resources should be devoted to activation measures. However, consideration should be given to assessing whether or not an increased emphasis on activation might lead to large deadweight effects in the context of rising unemployment. To help combat this, the possibility of using profiling to provide different levels of service, at different durations, to different sets of clients would seem to have merit as it would target interventions to those most in need (accepting that predictions based on profiling are far from perfect). Furthermore, if the priority goal is to reduce the numbers on the Live Register, there may be a case for giving priority to Live Registrants in the activation process, even though there is merit in the activation of other groups.

2. Albeit at 9%, which is lower than their more recent 2009 forecast.

Personal Re-Employment Accounts (PRAs)

Another approach to activation is the use of Personal Re-employment Accounts (PRAs), which are currently being piloted in the USA. PRAs are designed to help recipients of unemployment benefit who have a high probability of not gaining employment to gain skills and find work. The PRAs combine two strategies – individually-managed training accounts and bonuses for re-employment. One of the main features of the PRA scheme is its flexibility and breadth which empower the recipients with a range of choices. One choice involved in the scheme is whether to take all or most of the lump sum on re-employment rather than use the fund to purchase services. Those who use the PRA funds to purchase services can choose to spend the money on conventional training or ‘supportive services’ that include childcare, transportation costs and clothing for interviews. While there has only been a partial evaluation of the scheme to date, the preliminary findings of a study covering the 2005-2007 period were largely positive. The findings would suggest that an examination of the appropriateness of such a scheme in the Irish context may be merited.

Work Experience / Internship Schemes

A wider general policy question is whether more emphasis should be placed on training or job placement as a means of activation. For the hard to place, it may well be that in the context of weak labour demand the best approach is to focus on training and education. However, in the case of the more employable group it would seem to make more sense to concentrate on job placement over training. There has been a move in this direction in recent years in several countries, most notably Australia and, more recently, the UK, to place greater emphasis on getting people into work rather than training them for employment, with the training component coming, if at all, once a person is in a job. This ‘Work First’ approach is based on the philosophy that what most unemployed people really want is a job rather than training.

Many of those who are likely to be made redundant will be highly-skilled, motivated, have good recent work histories and will, therefore, need very little direct intervention in terms of training or job-seeking skills. Their main obstacle will be sourcing employment opportunities. Hence, a complement to the Work First approach might be to either establish an internship programme or an enhanced Work Placement programme in order to help place unemployed persons into real jobs on a temporary or trial basis. One possible option for such an internship programme would be to make it available to Jobseeker Allowance/Jobseeker Benefit recipients, who would maintain their social welfare entitlements (and perhaps receive an additional top-up allowance) in lieu of the employer paying them a wage. The main target group for such a scheme would be those who are in need of work experience rather than formal training. We suggest that the possibility of introducing such a scheme should be examined (taking account of past experiences of such schemes to avoid deadweight and abuse).

Temporary Employment Programmes

It must be recognised, however, that the opportunities for work experience programmes are also likely to be limited in the current environment. Hence, the establishment of some form of temporary public sector jobs scheme may be necessary. That is not to say we recommend an expansion of Community Employment. However, as unemployment reaches very high levels in the next year or two there will again be a case for creating temporary employment for those who are out of work, especially job-ready workers (including professionals). Participation in such a scheme would largely be voluntary but may become compulsory in the case of some long-term Live Registrants. The focus of any such scheme would need to be on projects of public value and would need to be of limited duration to avoid on-going public financial commitments. Again, a critical consideration in assessing the viability of such a scheme would be determining its net cost to the Exchequer.

Social Welfare and Work Incentives

In the context of rising unemployment it will also be important to ensure that the social welfare system does not create any financial disincentives to the take up of employment. Probably the best indicators of financial disincentives in the social welfare system are replacement rates (the ratio of income out of work to earnings in work). Replacement rates have risen in recent years and it is likely that in the short-term replacement rates will rise even further given that some future job opportunities are likely to pay less than they have in recent years as a result of the contraction in labour demand. Anecdotally, the loss of social welfare entitlements continue to be cited by FÁS Employment Service Officers as a significant barrier to re-entry in employment.

More generally, the ratio of officially unemployed in Ireland (based on the ILO definition) relative to the numbers who are signing on to the Live Register is low (at 60%-65%). According to the OECD, regulations disqualifying claimants from JB/JA are relatively mild – e.g. in respect of voluntary quits, refusal to take-up jobs, participation in active labour market programmes or job search during a training course. The OECD also highlights that sanction rates are low for those who fail to meet the eligibility requirements. Given the context of rising unemployment, higher replacement rates and a high ratio of Live Registrants to the numbers officially unemployed, there may be merit in reviewing eligibility conditions/sanctions for those seeking Jobseekers Benefit/Allowances, to complement the greater focus on activation of those who genuinely want to get back into the workforce. This could include an increased emphasis on availability for work assessments. It should be stressed, however, that given a situation of rising unemployment, the overriding emphasis of activation policy should be on job placement and training rather than increased sanctions and tightening eligibility conditions.

Stimulating the Labour Market

Aside from temporary job programmes, job opportunities for the ‘job ready’ on the Live Register may partly depend on some form of financial incentive for either employers or employees, over and above the fall in wage rates that is likely to occur in the face of rising unemployment. The question remains, however, whether such stimuli would be efficient and affordable given current budget constraints. We outline some of the policy options available along with their perceived merits and potential drawbacks.

The current Employers PRSI Exemption Scheme is primarily designed to get the long-term unemployed into employment. Under the PRSI Scheme, when an employer hires an eligible worker they do not have to pay the employers’ PRSI contributions for the first two years of their employment. One option, given the need to stimulate labour demand for the more recently unemployed, would be to make the scheme more generalised to include those who have been unemployed for a shorter duration (e.g. six months). Admittedly, such a proposal could initially involve a significant cost and its success would depend on whether or not there would be a ‘payback’ to the exchequer through second round effects arising from a reduction in the numbers signing on to the Live Register and an increase in the numbers paying income tax.

It may also be necessary to recognise that, in some cases, the best way to save jobs during a recession could involve policies that encourage part-time work on the basis that some work is better than no work at all. This has been the approach that has recently been adopted by the Dutch government. They introduced an exceptional short-time working scheme in 2008 which allows companies experiencing sharp downturns in sales revenues to reduce their output, to receive an unemployment benefit payment for a proportion of the workforce, while at the same time keeping the affected employees on their payroll. The merits of introducing a similar scheme in Ireland are worth examining.

Another option to be assessed is the introduction of a wage insurance scheme. Such a scheme is designed to reduce the amount of time spent by redundant workers on the dole by incentivising the early take up of jobs that pay less than their previous employment. While wage insurance schemes vary from country to country, they all essentially involve a top-up being paid to a redundant worker who takes up a lower paid job. They aim to speed re-entry into employment and thereby reduce ‘stickiness’ in the labour market while redundant workers take time to re-adjust their wage/career expectations to the reality of weaker labour demand. As with other subsidies, the main downside of such a scheme is the degree of deadweight as it would also be available to those who would have taken a job anyway. It would be important, therefore, to establish whether or not the savings gained from speeding up entry to the labour market exceeded the potential deadweight associated with such a scheme.

Migration Policy

Given the current labour market slowdown, the ability of the Irish labour market to absorb inflows from abroad is being tested as evidenced by the rapid rise in the number of non-Irish nationals (especially EU10-nationals) signing on to the Live Register.

However, the scope for directly influencing Irish-EU migratory flows are limited given that workers from the EU25 have full rights to come to, and remain in, the Irish labour market. It therefore seems prudent to consider whether or not the social welfare system has a role to play in indirectly influencing EU10 migration patterns, given the large differential between social welfare rates in Ireland and Central Europe. In particular, it will be important to ensure that the Irish social welfare system does not become a pull factor for migration at a time when unemployment is rising in many EU countries, especially since not all EU15 Member States granted EU10 migrants full access to their labour markets.

Migration flows from outside the EU25 are, on the other hand, much easier to regulate. In the first instance, migrants from Romania and Bulgaria have yet to be granted access to our labour market on the same grounds as migrants from other EU countries. Given the slowdown in the labour market, we believe that the status quo in this regard should be maintained for the foreseeable future. Outside the EU, economic migration is regulated primarily through the Work Permit/Green Card system. Only under exceptional circumstances should vacancies be considered an adequate reason for Work Permits to be issued. While Work Permits have been issued for workers filling labour shortages from abroad, skill shortages that are filled from abroad are more likely to involve the Green Card system. Despite the economic slowdown, according to the National Skills Bulletin 2008, there are still skill shortages in some occupations at the higher end of the skill scale (although in most cases the extent of these shortages is less severe than in previous years). However, the range of high skill shortages, especially in the construction sector, has narrowed as a result of the downturn. Hence, the list of eligible occupations may need to be kept under review in the context of the looser labour market.

While immigration has been the primary, and virtually the only, focus of migration policy over the last ten years, it must be expected that emigration will rise significantly in the context of the slacker labour market. In particular, construction workers who have been laid off due to the housing slump are likely to seek work abroad. In this context, FÁS should continue to help those who are made redundant in the construction sector to find work abroad as well as providing information more generally on international opportunities.

CHAPTER 3: TRAINING

Training the Unemployed

For some made redundant during the downturn, retraining will be important. This is especially true for workers who have been let go from declining sectors (most notably construction and some manufacturing sectors), to help them find employment in sectors that are likely to grow when the economy picks up. Many persons in the low/medium-risk group are more likely to benefit from short and flexible training programmes. Hence, FÁS will be providing a new range of certified, short, flexible, modular programmes designed to up-skill redundant workers so that they can enhance their prospects of securing employment.

In the past, FÁS ran the Job Training Scheme (JTS) which involved unemployed persons being placed in companies and trained by the company. Under the current circumstances where obtaining employment is increasingly difficult, there may be merit in reinvigorating such a scheme as it could provide an opportunity for Live Registrants to get 'a foot in the workplace' while at the same time receive training.

There will also be a need to help employees who want to start their own business, given the lack of recruitment opportunities available.

Training Construction Workers

The single largest source of increase in unemployment has been the rapid and severe deterioration in construction activity. In response to this specific issue, FÁS has developed a comprehensive action plan which is designed to provide and support employment opportunities for construction workers and to facilitate redundant apprentices in the completion of their training.

In addition to enhancing the job prospects of unemployed construction workers, FÁS is also taking measures to facilitate redundant apprentices in their efforts to complete their apprenticeship. Specifically, FÁS is exploring ways of substituting for the 'on-the-job' training which the apprentice has lost on becoming redundant. Currently, FÁS is implementing a rotation system whereby an employer provides work experience for a redundant apprentice while his/her own apprentices are on the off-the-job component of their training.

Up-skilling the Workforce

While the focus of policy-makers is understandably very much on the immediate outlook, there is a continued need to address Ireland's longer-term skills requirements. The National Skills Strategy set out a vision for meeting these requirements up to 2020. Recent studies show that there has been an increase in training over recent years and that Irish companies, overall, spend a relatively large amount on training courses compared to those in other EU countries. However, most training is concentrated on well-educated and younger employees to the exclusion of lower-qualified or older employees. Finding ways to increase training for these groups is essential if Ireland's Skills Strategy targets are to be achieved.

The Review summarises a number of recent FÁS programmes to promote training of low-skilled employees. Two pilot Paid Learning Leave initiatives in Sligo and Wicklow did not achieve a good level of take-up. This was due to a number of reasons including the particular conditions of the pilots. FÁS will now reflect on these issues to see if further pilots would be beneficial. The Workplace Basic Education Fund, which supports literacy development in the workplace, has been evaluated as successful in reaching a significant number of employees needing to improve their literacy/numeracy capabilities. This initiative will be continued with a number of modifications suggested by the evaluation. FÁS has also initiated an Individual Learning Options pilot and has agreed to support the union learning advocate approach. The Review does not recommend any new initiatives – rather the many existing initiatives should be continued and evaluated carefully to see which merit continuation and/or modification.

The Review argues that Government intervention should be focused on 'market failures' such as the under-investment in the training of low-skilled employees noted above. Currently, public financial subsidies are provided to reduce the costs of training to companies in various circumstances. However, it will be important, especially in the current tight budget climate, to avoid deadweight by funding activities for those who would be willing to pay for training anyway. Limited-duration promotion of company training activity, coupled with specific support in the areas of market failure identified above, would seem to provide the appropriate policy approach for public intervention.

CHAPTER 4: NEETS

This chapter considers the group of Young Persons Not in Employment, Education or Training (NEETs). The concept of NEETs has received growing interest from policy-makers in recent years in a number of countries, especially the UK, and in the OECD. The overall number and percentage of NEETs in Ireland has been relatively modest as measured by the proportion of young people in this situation. However, as unemployment rose since 2007, so the percentage of NEETS rose to nearly 10%. If we consider only persons who have left the education system, we find that 25-30% of young persons are NEET, that 43% were NEET at some point in the five years after leaving full-time education and that 11% were continually NEET over that period.

Most concern may be felt for the sub-group of young persons with below Leaving Certificate qualifications. Over forty percent of this group were NEETs in 2008 according to the Irish data reported here. There is a danger that these persons will continue to remain marginally-attached to the labour force for much of their lifetime and hence face social exclusion.

As unemployment rises in Ireland, young disadvantaged persons are likely to be among those most affected. Programmes such as Youthreach aim to address the needs of this group, but there is perhaps a need for a re-consideration of the extent to which this programme is currently 'picking-up' all those who should benefit from it. There is a need for a systematic approach whereby schools notify the relevant authorities when pupils leave early, and procedures are in place to contact and refer such persons to suitable provision such as Youthreach. Indeed, such provision should be guaranteed to persons with no educational qualifications. Attainment of education and training qualifications, whether they be the Leaving Certificate or other Level 4/5 qualifications, should be a core objective of Youthreach provision.

In respect of unemployed NEETs, there is a need to ensure that successful activation takes place. Where inactivity is due to child-care, Government policies towards child-care and, at a later stage, training and further education may help poorly-educated parents to enter the paid workforce when their children have become old enough to no longer need full-time parental care.

CHAPTER 1:

Labour Market Trends and Developments

1.1 MACROECONOMIC BACKGROUND

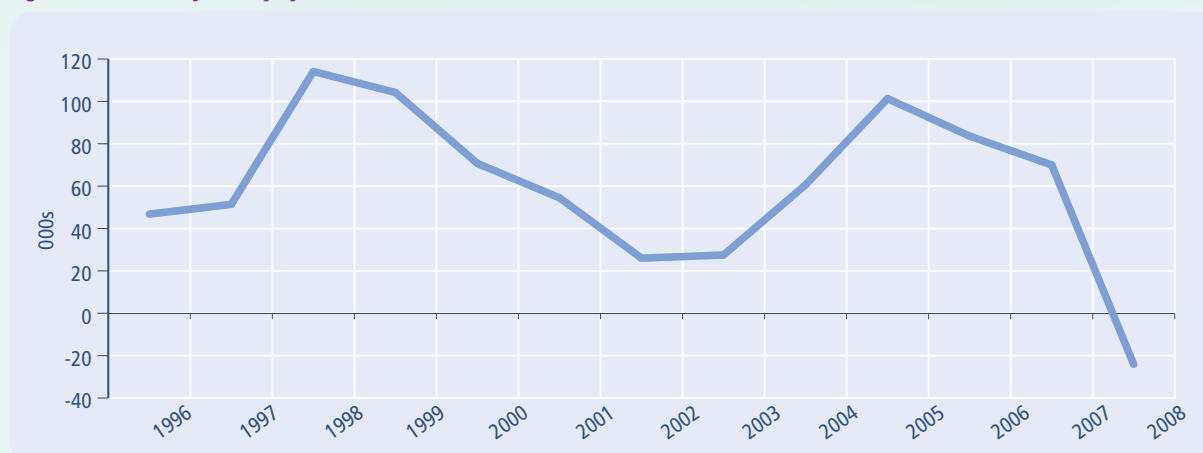
In order to set the Irish labour market in context we first briefly consider the economic background. Over the 1996-2007 period, Irish GNP increased at a rapid rate averaging 7% growth per year. However, there was a dramatic turnaround in 2008 and the Irish economy officially entered into a recession in the first half of the year, when negative quarter-on-quarter growth was recorded for two consecutive quarters. As of Quarter 3 2008, GNP was down 4.9% on Quarter 3 2007. The global financial crisis, along with domestic factors such as the slowdown in the construction sector and the contraction in consumer spending have continued to impact negatively on the economy. And even though oil price and interest rate movements were favourable in the second half of 2008, the euro has strengthened considerably against sterling, hurting our export and retail sectors. Furthermore, our own recent banking crisis has reduced the cash-flow to enterprises. Compounding these unfavourable trends has been the dramatic decline in tax revenue caused by the downturn in construction and domestic demand. This has led to a significant revision of expenditure plans for 2009 in order to avoid an excessive dependence on borrowing. Taking all these factors into account, it is clear that the macroeconomic background for the Irish labour market has become one of contraction and uncertainty.

1.2 OVERVIEW OF EMPLOYMENT TRENDS

From the beginning of the employment boom in 1996 to its end in 2007 the numbers at work have increased by 800,000 to 2.1 million. After moderating significantly over the 2001-2004 period (Fig 1.1), employment growth strengthened again over the period 2004-2007. However, the underlying growth rate peaked in Q3 2005 at 5.2% and has been trending downwards since.

Given the rapid deterioration in our economic performance it was inevitable that the strong employment growth of recent years would come to an end. However, the speed at which this has happened has been more rapid than many had expected. Indeed, the movement of the Irish economy into recession in the first half of 2008 has led to an abrupt end of the 'second wave' of our employment boom over the 2004-2007 period. Employment, which had been growing rapidly at an annual rate of 3.3% (70,000) in 2007 and reached a peak of 2.14 million (seasonally adjusted) in Quarter 1 2008, fell by 40,000 in the subsequent six months. As a result, by Quarter 3 2008 employment was down by 1.2% (-25,000) year-on-year, the first time year-on-year employment growth was negative since 1991. Nevertheless, despite the recent slowdown, our employment rate of 68.2% continues to be one of the highest in Europe.

Figure 1.1: Year-on-year Employment Growth in 1996-2008



Source: CSO, Quarterly National Household Survey, various issues

The dramatic slowdown in the construction sector has been the primary reason for the deceleration in employment growth, falling 9.1% (25,000) year-on-year to Quarter 3 2008. Job losses in the sector were inevitable, given that house commencements were down 50% year-on-year in the first half of 2008. Indeed, the fall in construction employment has been exclusively due to the sharp decline in the housing sector which has shed 40,000 jobs over the 12-month period, whereas the non-residential sector (the commercial and infrastructural sectors) has actually seen employment increase by 14,000 over the same period. Young persons (predominately males) have been hit particularly badly by the decline in the housing sector.

Although the downturn in the construction sector has been the main reason for the employment slowdown thus far, there are clear signs that the deterioration in economic conditions (most notably the current financial crisis) has begun to impact the services sector. While employment in the services sector was actually up by 1% (+8,500) year-on-year to Quarter 3 2008, (primarily due to increases in the education (+6,000) and health (+7,300) sectors), this represented a significant slowdown from the 5% (+67,000) annual growth rate to Quarter 3 2007. Furthermore, when seasonally adjusted, services employment was down 7,000 quarter-on-quarter in Quarter 3 2008 with noticeable falls in both the wholesale & retail sector (-12,500) and the financial & business sector (-4,000). It would appear that the credit crunch began to hit employment in the financial sector in the second half of 2008, while the slowdown in consumer spending has adversely affected job prospects in the retail sector.

Employment growth continued to be negative in the manufacturing sector, down 3% (-8,800) year-on-year. The strength of the euro vis-à-vis sterling is likely to have been a contributory factor in this regard. By contrast, agricultural employment was up 2% (+2,000) over the same period.

The recent resurgence in agricultural employment has partly been due to increased profitability of agri-businesses arising from higher food prices, and partly due to farmers and farm labourers returning to the sector after working in the housing sector during the boom years.

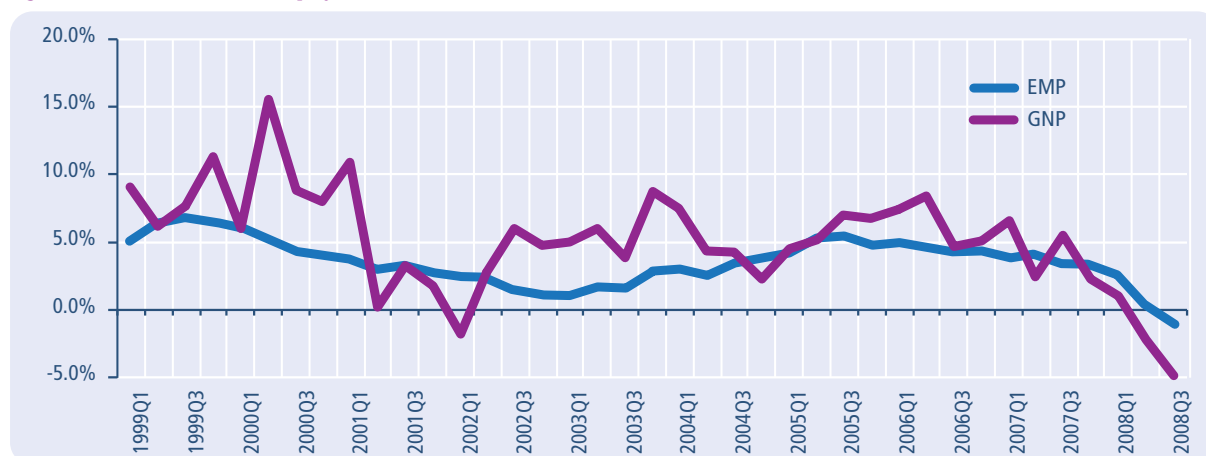
1.3 COMPARING ECONOMIC AND EMPLOYMENT TRENDS

Employment and economic growth rates have shown remarkably similar patterns since 2004 (see Figure 1.2). Over the 2004-2007 period employment grew by 14%, which was twice as fast as the 7% increase over the 2001-2004 period. However, both the economic and employment growth have decelerated rapidly since the end of 2007. The similarity in recent trends is indicative of the fact that labour-intensive sectors (i.e. services and construction) have been the main growth sectors since 2004 and also the sectors that have seen the greatest decline since 2007. As employment in these labour-intensive sectors decline they are having a pronounced negative multiplier effect on the economy as a whole, as the feedback through wages is greater than the capital-intensive manufacturing sector.

1.4 EMPLOYMENT BY AGE AND GENDER

Ireland has a relatively young workforce with 45% of employed persons (930,000) under the age of 35 in Q3 2008 (Figure 1.3). The majority of these younger workers are in the 25-34 age cohort (630,000). The highest employment rate is also for the 25-34 age cohort (80%) while the lowest employment rate is for the youngest cohort aged 15-19 (26%), reflecting the fact that most persons in this age group are in full-time education.

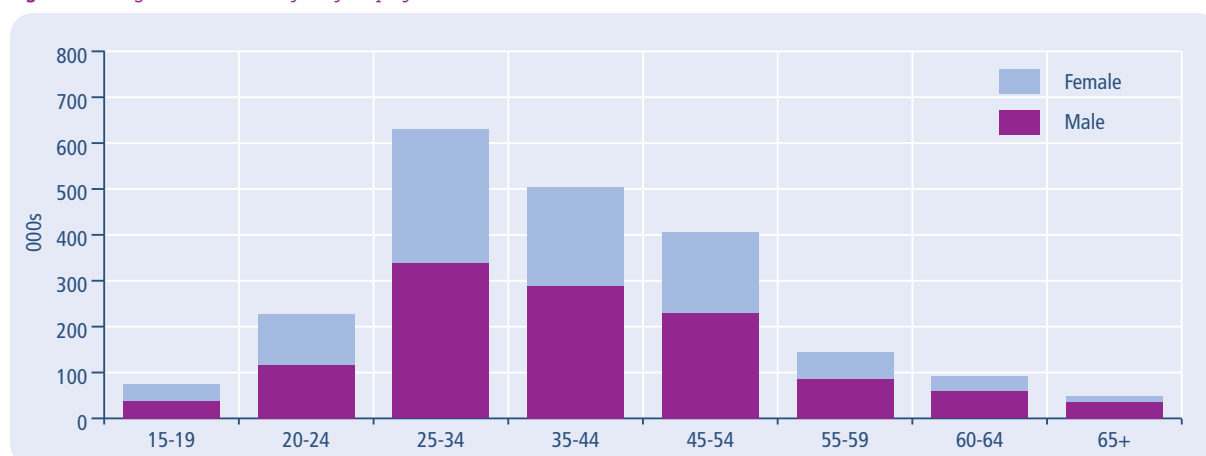
Figure 1.2: Annual GNP and Employment Growth Rates 1999-2008



Source: CSO, Quarterly National Household Survey & Quarterly National Accounts

3. See Chapter 3 for more analysis of young persons activity rates.

Figure 1.3: Age and Gender Profile of Employment Q3 2008



Source: CSO, Quarterly National Household Survey

Furthermore, the employment rate for the 15-19 age cohort has fallen from 30% in Q3 2007, suggesting that young people are staying on longer in education in the face of fewer job opportunities (especially for apprentices)³. There was a decrease of over 32,000 or 2.6% in the number of men at work, while the number of women at work increased by over 7,000 or 0.8%. The largest decrease in male employment occurred in the construction sector, where the number of males employed decreased by 27,000 or 10.0%.

1.5 PART-TIME EMPLOYMENT

One important difference to highlight in relation to recent trends has been the sharp rise in the number in part-time work. Despite the fact that overall employment fell in the year to Quarter 3 2008, the numbers in part-time employment actually increased by 7,600. Over the same period full-time employment fell by 32,900. Up until recently, the share of part-time employment had remained stable, changing only marginally from its 16.7% share in

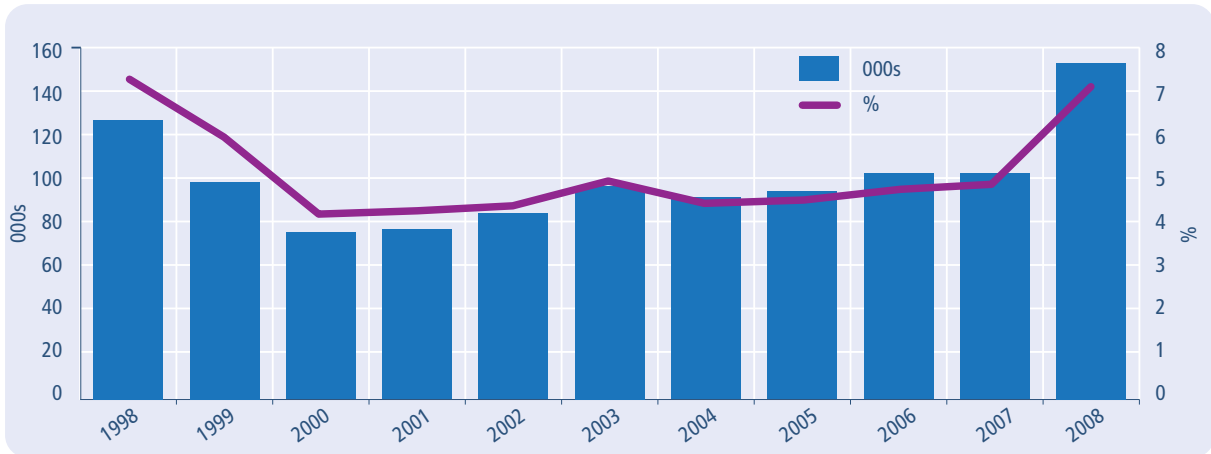
1998 (it was also 16.7% in Q3 2006). However, in the last two years, the numbers in part-time employment have risen by 46,000 (43%). As a result the share of part-time employment rose to 18.5% in Q3 2008. This would seem to represent an extremely significant shift in a relatively short period. The absolute increase in part-time employment over the last two years has been relatively evenly distributed between males (+19,600) and females (+26,300). However, the rate of increase has been much faster for males (+25%) than females (+10%). Up until recently, the increase in part-time work was largely voluntary on the part of the employees. However, figures for Q3 2008 show that all of the annual increase in part-time employment was accounted for by involuntary part-time employment (i.e. part-time respondents to the QNHS said they were 'underemployed'). Why has this increase in part-time employment occurred? Perhaps part-time contracts are on the increase as employers try to reduce their payroll costs. Also the growth in part-time work has coincided with a significant rise in the birth rate. It may well be that parents are opting to take part-time paid employment instead of full-time in order to balance work with family commitments.

Table 1.1: Summary of Labour Force Statistics (Seasonally-Adjusted) 2006-2008

STATISTIC (000S)	2006	2007	2008
Employment			
Agriculture	118.2	115.1	117.2
Manufacturing	293.3	296.2	286.6
Construction	276.4	279.4	254.0
Services	1,368.0	1,435.2	1,444.0
Total Employment	2,055.9	2,125.9	2,101.8
Unemployment	96.4	96.4	143.5
Labour Force	2,150.2	2,219.3	2,247.0
Unemployment rate %	4.5	4.4	6.4
Participation rate %	63.3	63.8	63.7

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

Figure 1.4: Unemployment Trends 1998-2008 (Seasonly Adjusted)



Source: CSO, Quarterly National Household Survey

1.6 UNEMPLOYMENT TRENDS

Having stayed in the 4.0-4.8% range over the 2000-2007 period, the unemployment rate rose appreciably through 2008 (Figure 1.4). The CSO Quarterly National Household Survey (QNHS) estimates that in the year to Q3 2008, the seasonally adjusted unemployment rate rose from 4.8% to 6.3%, while the numbers unemployed increased by 47,100 to 143,500. Over 80% of the increase was accounted for by short-term unemployment. While the unadjusted long-term unemployment rate rose from 1.3% (29,700) in Q3 2007 to 1.6% (37,400) in Q3 2008, it was still very low by historical standards, given that it was 10.4% (137,800) in 1988.

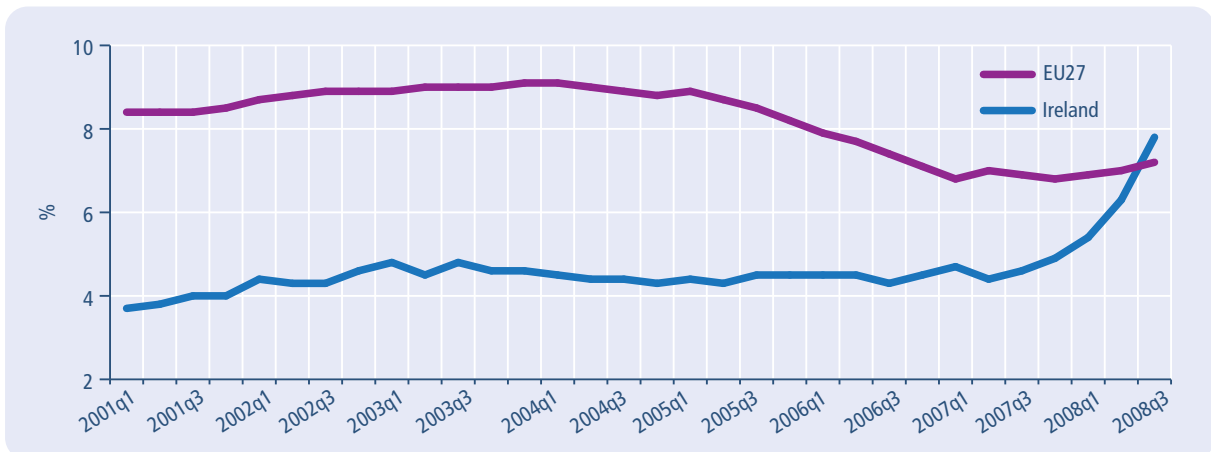
The QNHS for the third quarter essentially reflects the labour market situation as of July⁴. The Live Register provides a more up-to-date indicator of unemployment trends and points to a further deterioration in the labour market over the latter part of 2008.

The numbers signing on the Live Register rose by 67,500 on a seasonally-adjusted basis over the period July to December

2008, which would suggest a considerable weakening in labour demand since the latest QNHS was conducted. Indeed, the seasonally-adjusted unemployment rate, when recalibrated to take account of the rise in the Live Register, is estimated to have risen from 6.3% in July 2008 to 8.3% in December 2008. When seasonally adjusted, there were 293,500 persons signing on the Live Register in December 2008, an annual increase of 121,700 (Figure 1.7). In fact, the numbers signing on in December 2008 were at their highest level since 1993.

The most recently comparable figures (November 2008) reveals that the Irish unemployment rate was above the average EU27 unemployment rate of 7.2%. The gap between the Irish unemployment rate and the EU27 average had been narrowing since 2004 when the EU27 unemployment rate was twice the Irish average at 9% (Figure 1.5). The change in Ireland's relative position has been due to the improved labour market performance of the EU in recent years and, more recently, the marked slowdown in the Irish labour market. The Netherlands had

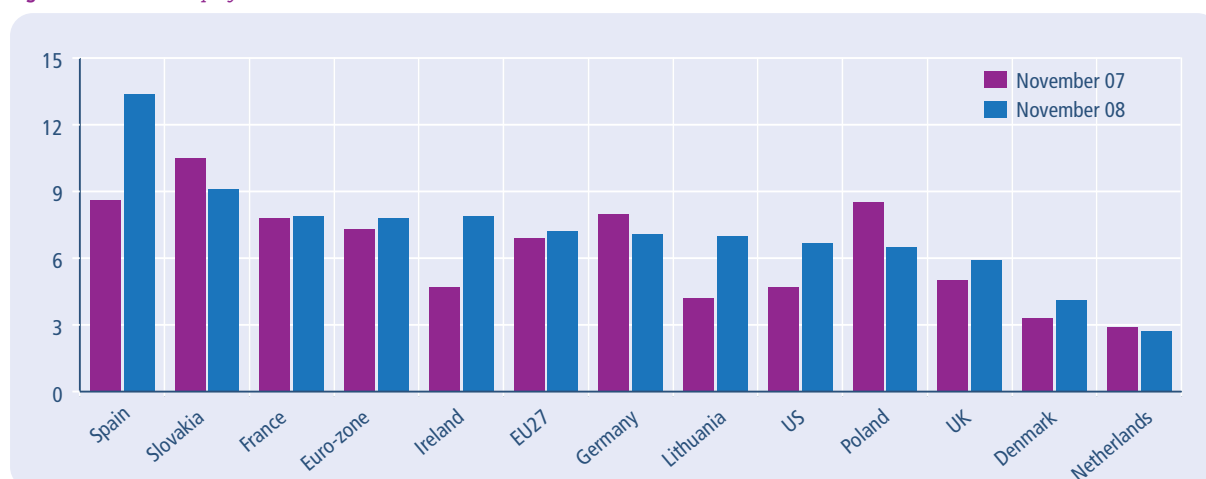
Figure 1.5: Trends in Unemployment Rates 2001-2008



Source: Eurostat

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

Figure 1.6: EU Unemployment Rates 2007-2008



Source: Eurostat

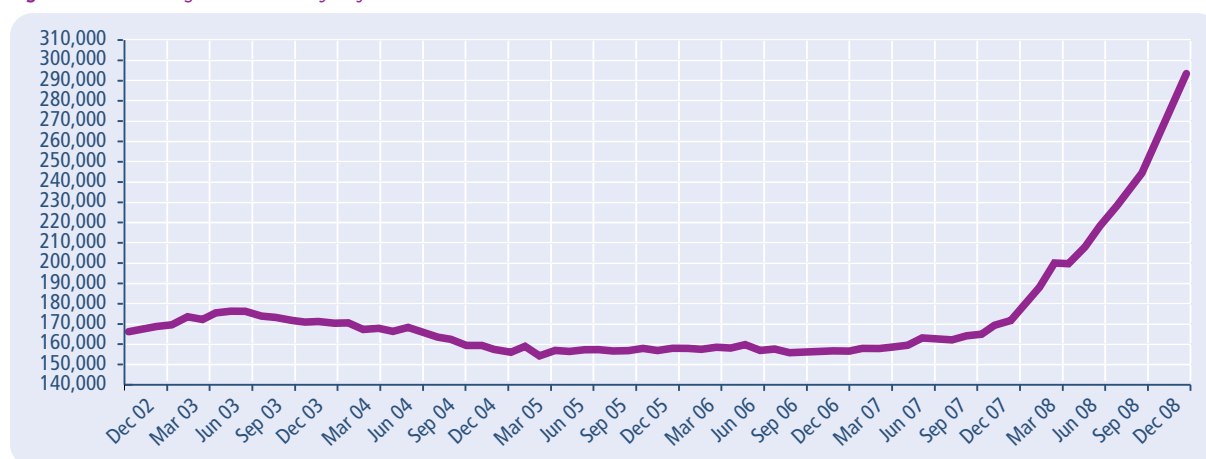
the lowest unemployment rates at 2.7% while Spain had the highest unemployment rate at 13.4%, up from 8.6% a year previously (Figure 1.6). The largest reduction occurred in Poland where the unemployment rate fell by from 8.5% to 6.5%.

There has been some confusion about the true nature of the recent rise in unemployment given the fact that two different indicators of unemployment trends (the CSO Quarterly National Household Survey (QNHS) and the Live Register), covering two different time periods, have been widely referred to.⁵ Given the increase in the Live Register in recent months, it is likely that the number of unemployed has risen significantly since it was last measured by the QNHS. The number of officially unemployed tends to be about 60% of the number of those signing on the Live Register for the same period (although the ratio rose noticeably to 65% in Q3 2008). This ratio is among the lowest in the OECD.

When broken down by age, it becomes apparent that the increase in the Live Register has particularly affected younger people (under 25s). Over the course of 2008, the number of under 25s signing on increased by 83% (29,100) to 64,300, compared to an increase of 67% (92,000) to 229,200 for those aged 25 and over. Research shows that young people tend to be worst affected by a cyclical downturn. Meanwhile, the number of foreign nationals signing on the Live Register had risen by 133% from 23,000 to 54,000 (of which 28,500 were from the new EU Member States) by December 2008.

Of the Live registrants signing on in September⁶, one-third (87,000) identified themselves with the construction sector. There were also a significant number of general operatives (35,000). Together these two categories accounted for almost half (46%) of all Live Registrants signing on (Table 1.2).

Figure 1.7: Live Register Seasonally Adjusted



Source: CSO, Live Register Release

5. Unemployment, as measured by the QNHS, is based on the ILO definition and only includes persons out of work who are actively seeking employment and who have not worked at least one hour in the last week. This rather 'strict' definition of unemployment does not, therefore, include persons who find themselves on the margins of the labour market in a self-employed/part-time/casual work capacity. Unlike the QNHS, the Live Register is not designed to measure unemployment as it includes part-time workers, casual workers and seasonal workers who are entitled to either Jobseekers Allowance or Jobseekers Benefit and those awaiting approval of their claim for payment.

6. This was the most up-to-date sectoral breakdown of the Live Register at the time of going to print.

Table 1.2: Live Registrants by Sector, September 2008

SECTOR	NO.	%
Construction, Woodwork etc.	87,000	33%
General Operative	35,000	13%
Retail & Sales	28,000	11%
Office, Admin, Secretarial	27,000	10%
Domestic & Catering	21,000	8%
Management	11,000	4%
Health & Related sectors	9,000	3%
Education	9,000	3%
Vehicle trade	7,000	3%
Others	31,000	12%
Total	265,000	100%

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

Table 1.3 provides an occupational breakdown of new client registrants who have come to FÁS seeking employment for the period from the beginning of 2008 up to early November 2008. Employment Action Plan (EAP) clients who are referred to FÁS after 3 months on the Live Register are displayed separately to other client registrants⁷. The largest groups identified are Clerical workers (17.0%); Other production workers and operatives (16.6%); Sales workers (10.5%); Skilled building workers (9.2%); Other service workers (8.4%); and Skilled metals/ engineering workers (6.9%).⁸ EAP clients are more heavily concentrated in the unskilled and skilled manual occupations, and less likely to be seeking work in service occupations.

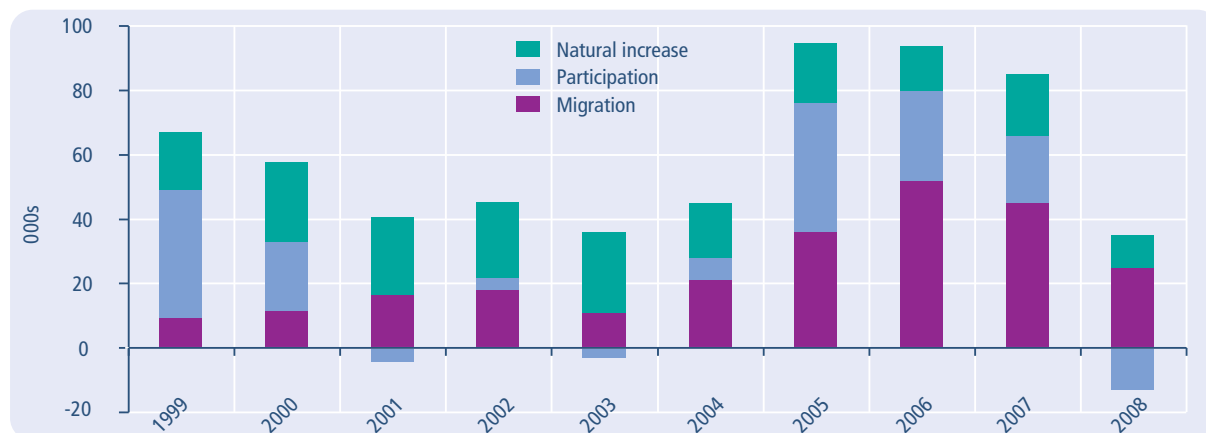
About a third of the “other production” jobs relate to semi/unskilled building work, and a proportion of the skilled metals/engineering jobs also relate to areas such as plumbing and electrical work. Overall, therefore, close to 20% of these new registrants are seeking construction-related work.

A further indication of a weaker labour market was the 60% increase in the number of redundancies in 2008. The number of redundancies increased from 25,000 in 2007 to just over 40,000 in 2008. The most noticeable increase occurred for the construction sector where redundancies have risen by 246% year-on-year. The biggest increase in redundancies was in the Border region⁹ (+104%), compared to the national increase of 43%, while the lowest increase was in Dublin (+41%). However, Dublin still accounted for the highest proportion of redundancies overall (38%).

1.7 LABOUR SUPPLY TRENDS

The labour force is made up of the employed and the unemployed. During the period 2000-2007, labour force growth was very similar to employment growth, and as a result there was minimal variation in the unemployment rate. However, this changed noticeably in 2008, with the labour force growing by 53,000 despite a fall in employment. However, labour force participation may have started to respond to the slowdown. As the number of job opportunities has reduced, the participation rate has begun to fall, albeit marginally. In Q3 2008, the participation rate was 63.7%, down slightly from 63.8% in Q3 2007. As a result, it is estimated that the contribution of the participation effect on labour force growth was negligible. Significantly, during the last employment slowdown in 2002-2003 labour force participation trends also fell (Figure 1.8).¹⁰ The recent change in the participation rate has been primarily due to a fall in participation among the 15-19 age group. This has in part been due to a decline in apprenticeship starts (see later) with younger people, especially males, staying on longer in the education system in the face of fewer job opportunities.

Figure 1.8: Components of Labour Force Growth 1999-2008 (Quarter 2)



Source: Eurostat

7. Note that occupation is not always recorded – it relates to the kind of work being sought by the individual, and is not therefore recorded where the main reason for registering is to seek training, or where, for example with an EAP client, the client’s action plan has training as an initial priority
 8. Percentages are as a proportion of all those for whom occupational details are available.
 9. The Border region consists of the following counties: Cavan, Donegal, Leitrim, Louth, Monaghan, Sligo.
 10. The graph refers to Q2 2008 as the CSO had not published a detailed breakdown of the components of labour force growth for Q3 2008.

Table 1.3: *New Registrations to early November*

CATEGORY	TOTAL	% EXCLUDING NO OCC	EAP CLIENTS	% EXCLUDING NO OCC	OTHER CLIENTS	% EXCLUDING NO OCC
No occupation sought	22709		4556		18153	
General managers	0	0.0%	0	0.0%	0	0.0%
Production managers	675	1.3%	325	1.8%	350	1.1%
Financial/admin managers	371	0.7%	173	0.9%	198	0.6%
Service/Sales Managers	594	1.2%	269	1.5%	325	1.0%
Health/Education professionals	359	0.7%	136	0.7%	223	0.7%
Science/engineering professionals	788	1.5%	346	1.9%	442	1.3%
Health associate professionals	608	1.2%	221	1.2%	387	1.2%
Science/engineering associate professionals	714	1.4%	247	1.3%	467	1.4%
Transport associate professionals	33	0.1%	13	0.1%	20	0.1%
Other associate professionals	1260	2.4%	504	2.7%	756	2.3%
Skilled metals/engineering workers	3579	6.9%	1059	5.7%	2520	7.6%
Skilled building workers	4718	9.2%	2348	12.7%	2370	7.2%
Skilled production workers	584	1.1%	240	1.3%	344	1.0%
Clerical workers	8781	17.0%	2545	13.8%	6236	18.8%
Health/care service workers	2754	5.3%	702	3.8%	2052	6.2%
Hotel/catering workers	3579	6.9%	949	5.1%	2630	7.9%
Sales workers	5389	10.5%	1750	9.5%	3639	11.0%
Transport workers	3080	6.0%	1273	6.9%	1807	5.5%
Other service workers	4342	8.4%	1074	5.8%	3268	9.9%
Agricultural and related workers	799	1.5%	325	1.8%	474	1.4%
Other production workers and operatives	8550	16.6%	3955	21.4%	4595	13.9%
Total	74266		23010		51256	
Total excluding No Occupation	51557	100.0%	18454	100.0%	33103	100.0%

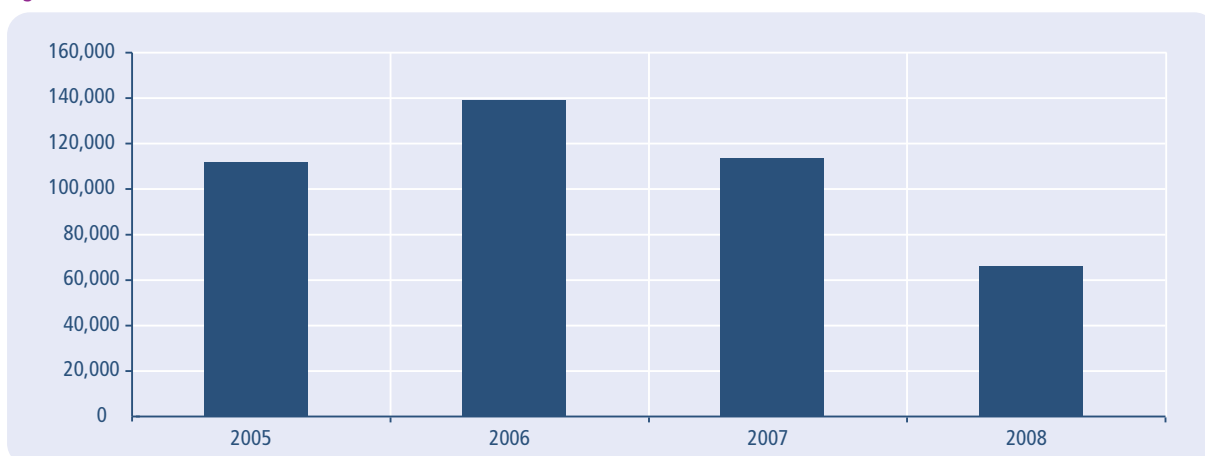
Source: FÁS

While immigration has continued to be an important contributory factor in labour force growth it has weakened recently (migration accounted for 80% of labour force growth in Q2 2008 but only 40% in Q3 2008). Overall, the proportion of foreign-nationals in the labour force was estimated to be 16% in Q3 2008. A more up-to-date trend indicator of inflows from the EU10 Member States comes from Personal Public Service Number (PPSN) data. In 2008 there were 66,000 PPSNs issued to EU10 nationals, which represents a fall of 42% compared to 2007 (Figure 1.9) This was to be expected given that there has been a significant improvement in labour market conditions in Central Europe relative to Ireland. For example, during the 4 years since EU enlargement, the Polish unemployment rate has fallen from 20% to under 7%. At the same time that migration flows slow, the ability of the Irish labour market to absorb these inflows has lessened, as evidenced by a noticeable rise in the number of foreign-nationals signing on. Outside the EU25, economic migration is regulated primarily through the Work Permit/Green Card System

which was introduced under the Employment Permits Bill in 2007, replacing the previous system of Work Permits, Work Authorisations and Working Visas. The number of Work Permits have fallen from their pre-EU enlargement peak of 47,000 in 2003 to under 14,000 in 2008, down 42% on 2007 (Figure 1.10). There are no official estimates of emigration for 2008 as a whole. However, the fall in net-migration in Q3 2008 would suggest that there has been an increase in emigration in response to the deterioration in the Irish labour market. Migration statistics from the Australian Government show that the number of temporary Irish residents in Australia (an increasingly popular destination for Irish workers) was up over 20% year-on-year at the end of Q2 2008¹¹.

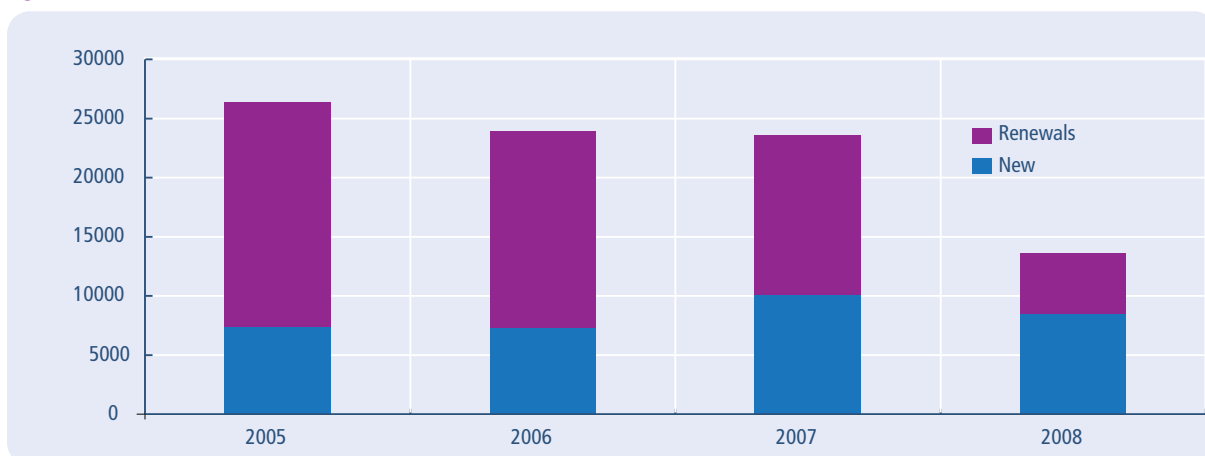
The other component of demographic change, the natural increase, has lessened in recent years in absolute terms. The contribution of the natural increase peaked at 25,000 in Q2 2003 before falling gradually to approximately 10,000 in Q3 2008.

Figure 1.9: PPSN issued to EU10 Nationals 2005-2008



Source: DSFA

Figure 1.10: Work Permits issued to Non-EU25 Nationals 2005-2008



Source: DETE

11. http://www.immi.gov.au/media/publications/statistics/immigration-update/update_june08.pdf

1.8 LABOUR DEMAND

A number of indicators confirm that labour demand has weakened appreciably year-to-date. In the first instance, the number of vacancies notified to FÁS fell from a record 141,000 in 2007 to 96,000 in 2008 (Figure 1.11 opposite), a fall of 32%, with the most noticeable year-on-year decline occurring in the 4th Quarter (-57%). Annual declines in vacancies were recorded across all occupations.

Another clear sign of a softening in labour demand can be seen in the decline in the number of new apprentices registering with FÁS. Apprentice starts were down 44% in 2008 to just under 4,000 compared to almost 7,000 in 2007 (Figure 1.12 opposite). Not surprisingly, construction trades experienced the biggest fall (-56%) followed by the electrical trades (-44%). Perhaps significantly, the overall decline in new apprentices has occurred in tandem with a rise in the unemployment rate for the 15-19 age group, from 14.6% in Q3 2007 to 21.8% in Q3 2008.

1.8.1 Survey of Recruitment Agencies

A FÁS survey of recruitment agencies in September confirms the findings of the National Skills Bulletin 2008 that despite excess supply of labour in general, skills shortages persist for some occupations. The vacancies mentioned by recruitment agencies as difficult to fill were heavily skewed towards the higher skilled occupations and the vast majority required experienced candidates. One third of difficult-to-fill occupations were either managerial or professional with a further third at associate professional level; more than 10% were for clerical occupations.¹³ Almost two thirds of vacancies cited as difficult to fill were seeking individuals with 1-5 years experience and one quarter required individuals with substantial experience (5+ years).

The job titles most frequently mentioned as difficult to fill included:

- **Software developers:** there was a particularly strong demand for highly skilled individuals in software development with competencies and experience in networks and specific software applications (e.g. Java)

Figure 1.11: Vacancies Notified to FÁS 2004-2008

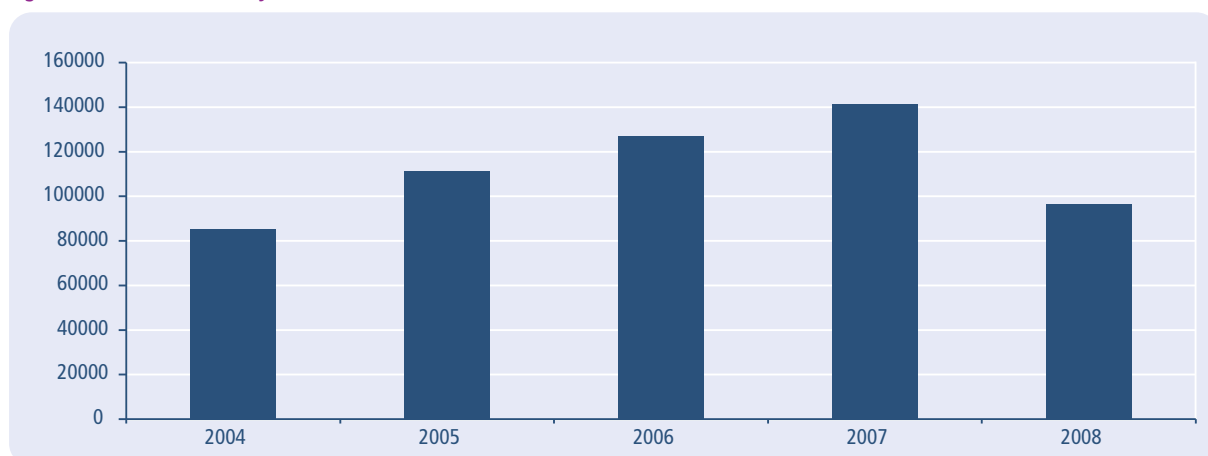
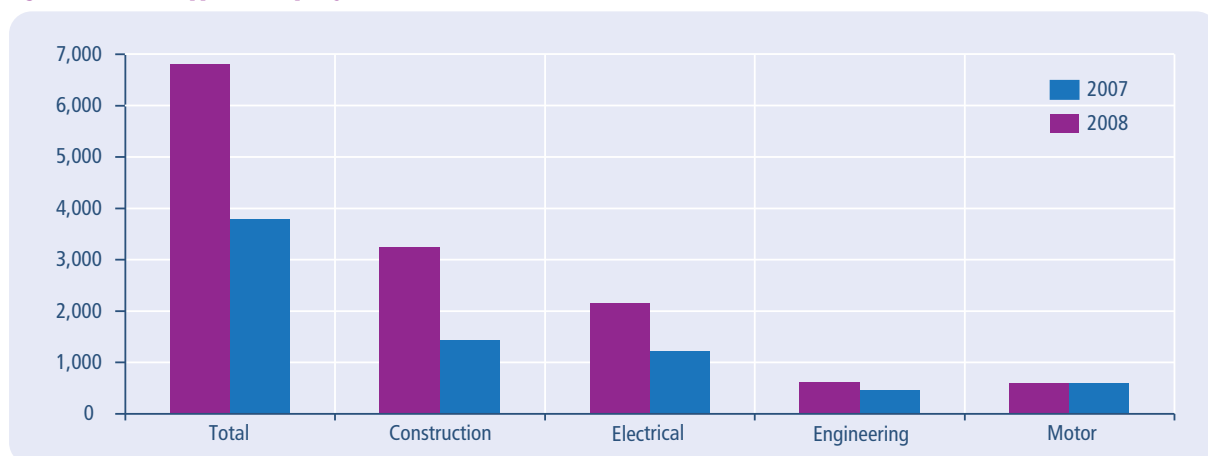


Figure 1.12: New Apprenticeship Registrations



Source: FÁS

13. Survey of Private Recruitment Agencies, J Behan, FÁS, November 2008. National Skills Bulletin 2008, FÁS/EGFSN, 2008.

- **Sales representatives:** there was a strong demand for specialised sales representatives with experience and skill-sets relating to technical or specific product knowledge (e.g. medical reps) or language skills.
- **Fund/assistant accountants:**
- **Accountants:**
- **Nurses:** there was a shortage of specialty nurses
- **Engineers:** various types of engineers continued to be in demand, including quality control, manufacturing, pharmaceutical and mechanical design engineers
- **Scientists:** there was a demand for chemical scientists and laboratory chemists
- **Experienced managers:** there was a shortage of managers in specific areas such as project management and credit control; substantial experience was particularly in demand for managerial positions.

Many of the shortages that had been mentioned in the previous (January 2008) survey have persisted. However, reflecting the recent downturn in the construction sector, construction professional occupations were no longer frequently cited as difficult to fill by recruitment agencies.¹⁴ Job titles frequently mentioned for the first time in the September 2008 survey were chemical scientists and engineers (except construction).

While most recruiters surveyed rated the quality of graduates as appropriate to demand, graduates in software development and in finance were sometimes deemed to have insufficient practical experience or lacking

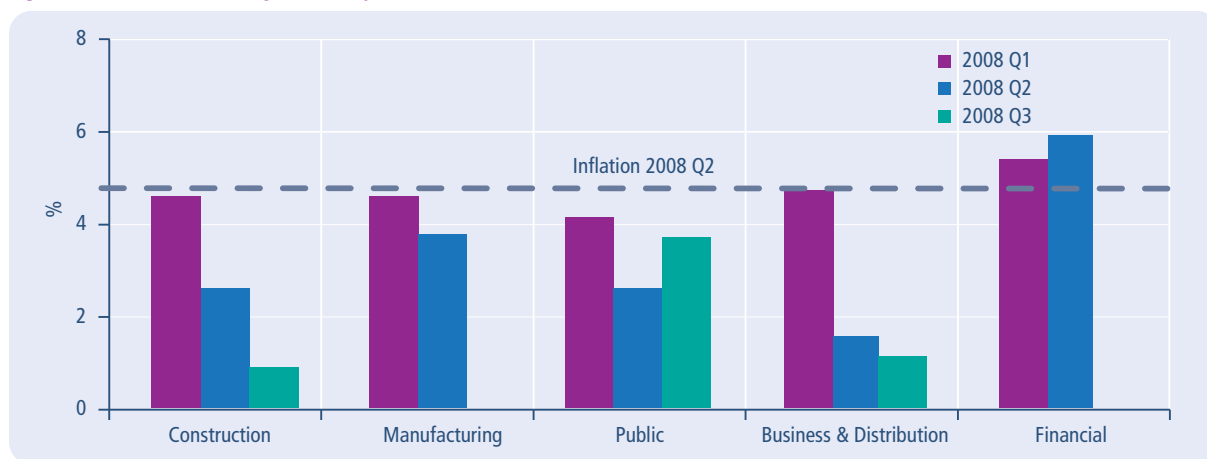
in interest for the positions available. Several recruiters stated that there is a need for a more practical emphasis in education/training, especially in IT and financial-related occupations. In the main, the supply from the education system was estimated to be sufficient in terms of quantity.

As in January 2008, the results of the September recruitment agency survey pointed to a further loosening of the labour market with some agencies stating that there is excess supply for many occupations. Skills shortages are nonetheless continuing to occur, but the shortages pertain to experienced individuals who are highly skilled and/or possess specific, technical or product knowledge.

1.9 EARNINGS TRENDS

Earnings trends provide an indication of the strength of labour demand vis-à-vis labour supply. The slowdown in the labour market would be expected to lead to a moderation in the rate of earnings growth, and the most recent figures show that this has indeed been the case. The earnings data available at the time of print for 2008 show a significant deceleration in the rate of average annual earnings growth¹⁵ in both the construction and business & distribution sectors, with annual earnings growth in both sectors at approximately 1% in Q3 2008 (Figure 1.13). Furthermore, the rates of earnings growth in each sector, bar the financial sector, were below the year-on-year Q2 2008 inflation rate of 4.7%. Hence, there was no growth in real terms for any sector outside the financial services sector.

Figure 1.13: Annual Earnings Growth by Sector



Source: CSO

14. One agency highlighted the fact that they have several hundred construction professionals that they are unable to place.

15. As these are averages, they mask changes in compositional effects which, in sectors such as construction and private services, have been caused by 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. Compositional effects could also be a factor in the public sector, given that recruitment tends to take place at the lower end of the salary scale. These compositional effects could obscure the fact that earnings are increasing for a significant majority of employees at rates faster than the average would necessarily imply.

1.10 SHORT-TERM OUTLOOK

Since the last Review was published, the short-term outlook for the economy, and by association the labour market, has deteriorated rapidly. Towards the end of 2007, the consensus growth forecasts for the economy in 2008 were of the order of 3% for both GNP and GDP. A year later, economists were largely agreed that average economic growth would be negative for 2008. While there is no consensus among commentators as to the extent or longevity of the current recession, it is becoming increasingly clear that it will be more pronounced than had previously been expected, with the Department of Finance forecasting the economy to contract by 4.5% this year with a further decline of 1.1% in 2010.

While much of the slowdown has, to date, been directly due to the dramatic reduction in the number of new house commencements, the credit crisis will mean that the spillover effect to the services sector in terms of reduced consumer spending will become much more acute in 2009. Compounding this is the strength of the euro against both the dollar and, in particular, sterling which is adversely affecting both the retail and hospitality sectors. More generally, there now seems to be a widespread acceptance that the world economy as a whole will experience a serious down-turn and for a small, trading, economy like Ireland, this poses serious problems. On a positive note, both oil prices and interest rates have fallen in the second half of 2008. While this will provide some stimulus for a recovery, the history of previous financial crises suggests that it will take time for the economy to return to its underlying growth path. In the absence of an upturn in the world economy in the short-term, there is the prospect that there will be a negative feedback effect between the construction and services sectors which will override any gains accruing from a successful export performance.

The outlook for the labour market is, unfortunately, equally pessimistic. In recent Reviews (2006 and 2007) we expressed concern that the labour market was vulnerable to economic shocks arising from either the property market and/or the currency markets. These fears appear to have been realised. Given the economic climate, it now seems inevitable that employment growth will be negative for the second half of 2008 and into 2009, with the only real uncertainty being the extent of the job losses. While annual employment growth turned negative in the second half of 2008, the main impact of the economic downturn on the labour market is likely to be felt in 2009.

The downturn in the construction sector will continue to be a major drag on the labour market and will be exacerbated by tighter credit conditions. As the output slump spreads from the residential sector to the commercial sector, the full impact of the slowdown should become more apparent. As a result we expect substantial job losses in the construction sector in 2009.

Further job losses are also expected to occur in the manufacturing sector, largely due to the slowdown in the world economy, increased competition from lower-cost emerging economies and the strength of the euro against sterling. Due to the continued weakness of sterling, many Irish firms will struggle to maintain competitiveness and this will have negative implications for staff retention and recruitment. Given the competitiveness difficulties confronting this sector, we are expecting manufacturing employment to decline significantly in 2009.

It remains to be seen whether or not the agricultural sector will continue to experience employment growth into 2009 given the slowdown in the world economy. On balance, we are expecting a slight decline in 2009, with the return of workers from the construction sector being slightly outweighed by weaker demand arising from the slowdown in the world economy.

Perhaps the biggest uncertainty regarding the short-term is the extent to which jobs in the services sector will be affected by the slowdown in the construction sector, the general tightening of credit and reductions in consumer demand. Unfortunately, the initial indicators are not promising. The wholesale & retail sector, the financial & business services sector and the hotel & restaurants sectors which had, up until recently, been major contributors to jobs growth, have also employment fall in the second half of 2008. The decline in retail sales (especially for household goods) would suggest that there has been a significant direct spillover effect from the construction sector to the retail sector. The retail sector will also be affected by the increase in cross-border shopping arising from the weakness of sterling vis-à-vis the euro. Although other services sectors had, up until the end of 2008, proved fairly recession proof, it is increasingly likely that all private service sub-sectors will experience some degree of job losses in 2009. Furthermore, public sector employment is also set to contract next year in light of the recently announced cutbacks. Overall, it now seems inevitable that total services employment will decline through 2009.

We expect labour force flows to adjust rapidly to the changing economic reality, with inward migration falling over the forecast period while outward migration gathers pace. As a result, we believe that emigration will exceed immigration next year. While outward-migration is largely expected to be composed of immigrants returning to Central Europe, we also expect there to be a net outward migration of Irish workers, primarily those working in the construction sector and young persons coming out of the education sector. Labour force participation is also expected to decline in the light of fewer job opportunities. Notwithstanding a significant labour supply response, the speed at which the unemployment rate has risen so far this year is likely to continue out to the end of 2009.

1.11 MEDIUM-TERM OUTLOOK

Beyond 2009 there is real concern that a negative dynamic will perpetuate into 2010 as consumption and Exchequer receipts take a hit from rising unemployment, leading to a further fall in employment. Furthermore, given that the latter half of the Celtic Tiger era was largely driven by the growth of labour-intensive sectors, the subsequent decline of these sectors may not only lead to a sizeable initial fall in employment, but also significant 'second round' effects as consumer spending contracts as people's income falls. This may lead to a further contraction in labour demand. However, it is too early to postulate the scale of such a scenario in terms of employment and unemployment. More generally, the current degree of uncertainty surrounding the global economy makes labour market forecasts beyond 2009 extremely tentative. Nevertheless, in the absence of a significant recovery in the world economy in the second half of 2009, it seems increasingly likely that a further significant decline in employment and increase in unemployment can be expected in 2010.

The medium-term labour market outlook will largely depend on the speed with which the Irish economy can recover from the current recession. Interestingly, the ESRI Medium-Term Review published in May 2008 modelled the effects of a pronounced credit shock on their macroeconomic forecasts. Of the various scenarios posited in the ESRI Review, this is the one which now accords closest with reality. The ESRI model predicts that the biggest impact of the shock will be on the public finances, although there would also be significant implications for the labour market. Under this shock scenario, the unemployment rate was predicted to peak in 2010 (albeit at 9%, which is lower than their more recent 2009 forecast) with the employment level remaining virtually static. However, the shock scenario was, according to the ESRI, likely to be short-term in nature with the Institute predicting an improvement in the labour market beginning the following year (2011), with the unemployment rate falling slightly (to 8.6%) and employment growing by 1.7% as the economy enjoys strong growth of 5.5%. According to the ESRI model, the credit crunch will have ended by 2012 and the Irish economy would have returned to its medium-term growth path. The rapid recovery envisaged is predicated on the assumptions that international interest rates and domestic wage rates will both be flexible downwards. Whether or

not these assumptions materialise fully remains uncertain, although there have been signs on both fronts that this has already begun to happen. However, even if both money markets and labour markets do prove to be flexible in the face of the current crisis, it remains to be seen whether they will provide sufficient leverage to return the Irish economy back to strong growth in such a rapid manner.

Another determining factor of the medium-term outlook will be the labour supply response. With regards to migration, while there has been a marked slowdown in inward flows from Central Europe, it has not been as pronounced as the slowdown in jobs growth. Significantly, the improvement in the labour market performance of the EU10 countries that took place over the first four years of EU enlargement seems to have come to an end, making return migration a less attractive option. Indeed, the sharp increase in the number of EU12 nationals and construction workers signing on the Live Register over the last year would suggest that many made redundant from the housing slowdown are, for the time being at least, choosing to remain in Ireland, despite the dramatic reduction in job opportunities. As of yet, there is no hard data on the rate of outward flows (either Irish emigrating or return migrants), although anecdotal evidence would suggest that a significant number of construction workers are now looking to ply their trade abroad in the few remaining economies around the world that are still experiencing construction booms (i.e. Australia, Canada and the UAE). Beyond these isolated construction booms, the slowdown in the world economy will mean that the opportunities available to emigrants will be much more limited than during previous periods of net-outward migration.

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 (albeit at the expense of the employment rate). What does seem fairly certain is that when the labour market does eventually recover, the vast majority of the new job opportunities will be in the services sector. However, any such recovery is now unlikely to occur before 2011 at the earliest.

CHAPTER 2:

Labour Market Policy

2.1 INTRODUCTION

In the long run, aggregate employment and unemployment levels will be determined by the operation of the labour market, as well as by wider macroeconomic conditions and policies. Indeed, during the current downturn focus needs to be kept on this, regardless of short-term measures to boost employment and reduce unemployment. However, the immediate challenge facing the labour market is the rapid rise in unemployment (and in particular the rise in the numbers signing on to the Live Register). This is the main preoccupation of Chapter 2. In order to address this issue, it will be important to bear in mind that not only is the increase in the Live Register likely to be significant in the short-term, but the profile of the new Live Registrants is expected to be quite different from recent years. In particular, there will be more experienced and skilled workers signing on, along with an increased flow from both the second and third level education systems. In order for employment policies to be effective, it will be necessary to target sub-groups with tailored responses. A big question facing policy makers is how to prioritise among these sub-groups, given the context of increasingly limited budgetary resources.

It must be recognised that the number of jobseekers is expected to significantly exceed the number of job openings in the short to medium term. Given this, the question arises as to what extent interventions can and should be made to boost job creation, recognising that the fiscal policy levers are becoming increasingly constrained.

Chapter 2 aims to look at short-term responses to the downturn in the labour market environment, as well as wider structural reforms to the labour market. It is important to note, however, that labour market policies can only do so much, and they must be complemented by wider macroeconomic policies, the discussion of which is outside the remit of this Review.

We are conscious of the severe constraints on public expenditure and the need to ensure that any measures to address unemployment are cost-effective. Furthermore,

implementation will necessitate a reallocation of resources from other areas. We do not aim in this chapter to make definitive prescriptions for public policy but we hope to raise issues and ideas that may warrant further consideration. FÁS itself has been examining possible actions it could take, and the need to re-balance resources to areas of most immediate need. This chapter notes some of these new actions and developments.

2.2 ACTIVATION

It is important in considering the role of public employment services to emphasise that there will still be job opportunities over the next few years, albeit on a much more limited scale than during the boom period. Job vacancies overseas will also remain a possibility for those wishing to travel, while opportunities for further education, training and employment programmes also exist (and may increase if specific actions are taken – see below). The reason we emphasise these opportunities is to confirm the continued important role for activation of the unemployed through the public employment service even during a recession.

The philosophy of flexicurity has provided policy-makers throughout Europe with a framework in which to place labour market policy. FÁS' Irish Labour Market Review 2005 considered the appropriateness of flexicurity (and in particular the Danish form) to Ireland. In our 2006 Review we again highlighted those aspects that are already in place and others that could be strengthened. However, it is increasingly recognised within the EU that each country must adapt the concept to its own circumstances. NESC, in its 2008 Strategy Report, noted one of the central tenets – “it is important to protect workers rather than jobs” (NESC, 2008, Pg. xxi). It stated that this implies three immediate elements; freedom for enterprises to restructure, high levels of unemployment benefit during job search, and active labour market policies. However, it also noted the need to underpin these elements with supports such as childcare, public transport and housing which promote mobility and flexibility.

In their 2009 review of activation policies in Ireland the OECD argue that greater resources should be devoted to activation measures. They point to the fact that after the National Employment Action Plan (NEAP) was introduced in 1998 there was an acceleration in the fall in registered unemployment, and they believe that, despite the fact that activation requirements were less stringent in Ireland than in many other countries, activation contributed to the decline in unemployment simply because such a process had not existed previously.¹⁶ Currently, persons between the ages of 18 and 65 years who approach three months on the Live Register can be referred to FÁS Employment Services for interview with a view to assisting them to enter/re-enter the labour market.

FÁS' immediate response to the recent increase in the Live Register has been to engage with the increased flow of unemployed people referred under the NEAP process. Referrals rose by 18% from 53,500 in 2007 to 63,000 in 2008. FÁS is taking steps, in co-operation with the Local Employment Services, to significantly increase the number of referrals it can accept in 2009.

FÁS has also developed and implemented through its Employment Services a response to redundancies and/or company closures which offers a tailored approach as early as possible to the workers affected with a view to assisting them access alternative employment. FÁS has recently put in place with the DETE a fast-track redundancy notification system (initially for redundant workers in the construction sector) which facilitates early contact with the companies and the employees affected. The FÁS response involves a one-to-one registration / guidance interview to provide an individual response to the needs of each worker. Following this, further customised support may be offered, such as access to a flexible training fund (i.e. the Technical Employment Support Grant (TESG)) to purchase training that may not be available in the short-term through FÁS), or a specially developed training programme, run by FÁS. In addition, people who are awarded statutory redundancy may now access the Department of Social and Family Affairs' Back to Education Scheme immediately, provided an entitlement to a relevant social welfare payment is established prior to commencing an approved course of study.

Given the rapid increase in the number of jobseekers, if the priority goal is to reduce the numbers on the Live Register, the question arises as to whether preference should be given to Live Registrants in the activation process, even though there is merit in the activation of other groups? And within the Live Registrants should priority be given to those who are easiest to place (i.e. those with a good work history and/or education), or

should the focus be on those furthest away from employment even though the latter are likely to be more resource intensive and are likely to result in a lower placement rate? Furthermore, should NEAP referrals receive priority over other Live Registrants? Clearly, during a downturn the worst affected will be those who are most socially disadvantaged. If certain groups are deemed worthy of prioritisation it is desirable that this is done in a co-ordinated manner across the relevant government departments and agencies.

In addition, consideration should be given to assessing whether or not an increased emphasis on activation might lead to large deadweight effects in the context of rising unemployment. To help combat this, a staged approach to engagement could be desirable, with more intensive intervention after a certain time period. The intensive, individualised support which is effective in putting the most disadvantaged people into work is expensive. However, it should be pointed out that the savings from intensive activation schemes can potentially be enormous. To the extent that the (disadvantaged) person would not have otherwise worked for many years, the saving to the State is a multiple of the cost. The UK Freud Report estimates that "a genuine transformation into long term work for such an individual is worth a present value of around £62,000 per person to the State" (Freud, 2007). In this context, increased investment in activation resources has the potential to realise net Exchequer savings if it results in a significant reduction in the social welfare bill.

The possibility of using profiling to provide different levels of service, at different durations, to different sets of clients would seem to have merit as it would target interventions to those most in need (accepting that predictions based on profiling are far from perfect). In essence, this would mean giving more intensive attention at an earlier stage to those identified as having a greater probability of becoming long-term unemployed relative to those who are identified as having a lower risk of long-term unemployment.

Particular problems will face young people during the current downturn, especially early school leavers, given that job opportunities (including apprentice opportunities) will be substantially less than during the boom years. To help address the situation of young persons signing on the Live Register, FÁS and the DSFA have agreed to pilot a new process of immediate activation. Thus, rather than waiting three months to be referred to FÁS, 18-19 year-olds will be referred immediately. FÁS will provide its normal suite of services to such persons, but in addition will run special short training courses designed to improve job search skills. This approach is being piloted in Clondalkin and Letterkenny.

16. In Ireland, the INDECON evaluation of the EAP process found positive net benefits in terms of Live Register reductions and Exchequer savings.

2.3 PERSONAL RE-EMPLOYMENT ACCOUNTS (PRAS)

Another approach to activation, which is partially similar to the TESHG, is the use of Personal Reemployment Accounts (PRAs), which are currently being piloted in the USA. PRAs were introduced in the USA on a preliminary basis in 2004 to help recipients of Unemployment Insurance (UI) who had a high probability of not gaining employment to gain skills and find work. The PRAs combine two strategies – individually managed training accounts and bonuses for reemployment. They are designed to give unemployed workers flexibility in shaping their own reemployment plan. The value of a PRA in 2004 was \$3,000, valid for one year and fully managed by the unemployed worker. Under the scheme, PRA recipients can choose how and when to spend funds from their account to purchase reemployment services. Furthermore, recipients may also choose to receive a proportion of the remaining funds (60%) as a bonus for re-entering the workforce (provided they do so by the end of their 13th week of unemployment benefit) with the remaining 40% available if they are still in employment six months later. In general, most recipients tend to either use the funds to purchase re-employment services or to receive a re-employment cash bonus rather than a combination of the two.

One of the main features of the PRA scheme is its flexibility and breadth which empower the recipients with a range of choices. The first choice is whether to take all or most of the lump sum on re-employment rather than use the fund to purchase services. As well as conventional training, PRA funds can also be used to cover ‘supportive services’ that include childcare, transportation costs (including vehicle purchase), and clothing for interviews.

While there has only been a partial evaluation of the scheme to date, the preliminary findings of a study covering the 2005-2007 period were largely positive. The study found that:

1. In the quarter following entry into the PRA scheme, roughly half of all recipients were employed and this rate did not change much by the third quarter.
2. Roughly two out of three PRA recipients who received the initial 60% re-employment bonus were still in employment six months later and, therefore, were eligible for the second 40% retention bonus. Overall one in five of all PRA recipients received the retention bonus.
3. Recipients who focused on the re-employment cash bonus entered employment quickly and had employment rates that were significantly higher in each of the three follow-up quarters than other PRA recipients.

4. The main spending of the funds by recipients was on supportive services, with a slight amount on training, and little or any on intensive services.

These results are encouraging and suggest that programmes which focus on getting employment first and/or take a broad view of supportive services for job searching can make a real difference to those most at risk to becoming long-term unemployed. However, any scheme run along those lines would probably need to be targeted at the most in need and may again require some sort of profiling system.

While the PRA scheme would seem to have much to commend it, as of yet research has not been completed on the effectiveness of PRAs compared to a control group. However, the findings of the initial evaluation would suggest that an examination of the appropriateness of such a scheme in the Irish context is merited. Some policy commentators have viewed the scheme as an attempt to cut costs by reducing the amount of training services provided by government. However, while this may have been one of the motivations behind the introduction of the scheme, it is not an inherent aspect of PRAs per se. A possible risk to the PRA scheme is that by choosing a cash reward over training, recipients may reduce their long-term earning potential. However, the results of the U.S. study would suggest that this does not seem to be a major problem, given the high long-term employment rates associated with the cash bonus.

2.4 WORK PLACEMENT / INTERNSHIP SCHEMES

A wider general policy question is whether more emphasis should be placed on training or job placement as a means of activation. This will largely depend on the client group in question. Two main groups will need to be catered for, namely, those that are distant from the labour market, and those who have only recently been made redundant and are largely ‘job-ready’. For the hard to place, it may well be that in the context of weak labour demand the best approach is to focus on training and education, especially at a foundation level (in the case of early-school leavers this might mean completing the Junior Certificate or the Leaving Certificate). However, in the case of the more employable group it would seem to make more sense to concentrate first of all on job placement. There has been a move in recent years in several countries, most notably Australia and, more recently, the UK, to place greater emphasis on getting people into work rather than training them for employment, with the training component coming, if at all, once a person is in a job. According to the

UK Freud Report this ‘Work First’ approach, as it has become known, is based on the philosophy that what most unemployed people really want is a job rather than training.

A complement to the Work First approach might be to establish a work placement or internship programme to help place unemployed persons into real jobs on a temporary or trial basis. One possible option for such a programme would be to make it available to Jobseeker Allowance/Jobseeker Benefit recipients, who would maintain their social welfare entitlements (and perhaps receive an additional top-up allowance) in lieu of the employer paying them a wage. The main target group for such a scheme would be those who are virtually job ready and who are in little need of formal training.

This would, in effect, constitute an indirect wage subsidy to the employer. However, in order for such an approach to be viable, there would need to be careful monitoring to avoid such a scheme being used by employers to simply source cheap labour. We suggest that the possibility of introducing such a scheme should be examined (taking account of past experiences of such schemes to avoid deadweight and abuse). Schemes that have been run along these lines in the past could also be re-activated (most notably the FÁS Workplace scheme which paid a top-up to persons who kept their social welfare payment and was up to eight weeks duration) and the earlier Work Experience Programme (which paid an allowance and ran for six months). The target group for the shorter Workplace scheme would be the job ready group and the scheme would essentially provide a trial period for the employer and potential employee. A Work Experience Programme would be more relevant for young persons coming out of the education system who have adequate formal education/training but are lacking in practical experience. However, (re)introducing such schemes would raise questions around duration and level of payment that would need to be considered in the light of the current labour market environment and public finances.

2.5 TEMPORARY EMPLOYMENT PROGRAMMES

Underlying the call for greater activation is the fundamental philosophy of ‘Mutual Obligations’. Essentially, this means that it is incumbent upon the State to assist people into employment, while at the same time benefit recipients have, where practicable, a responsibility to search for employment and to accept suitable job offers should they materialise. This philosophy is consistent with that of flexicurity, (although it does not necessarily incorporate the high level of social security common to most flexicurity systems). The trend among many OECD countries has been towards a greater emphasis on mutual obligations. In the UK, the Government has made a

commitment to rights and responsibilities a central feature of policy. In return for more support in obtaining employment, the UK Freud Report argues that it is appropriate for the State to expect more work-related activity from those on benefit. Meanwhile, in New Zealand, “mutual obligations” begin at the point a person makes an application for unemployment benefit. This includes mandatory attendance at a seminar that sets out their responsibilities (the “Work4U” seminar, which initial evaluations suggest has resulted in a reduction in benefits applications by 10-20%), the drawing up of a Job Seeker Agreement, and introducing the applicant to a work capability and search tool that aims to match people to a national database of vacancies.

It must be acknowledged, however, that a mutual obligations approach will be harder to sustain when the number of job opportunities are contracting as at present. Furthermore, while a ‘Work First’ approach can assist a portion of Live Registrants into employment, the sheer volume of jobseekers expected to come on to the Live Register in the short-term, relative to job opportunities, means that its effectiveness will, by necessity, be partial, even if some form of work placement/internship programme is put in place. This is especially true for the low-skilled and first-time jobseekers. In this context, there is a case to be made for introducing some form of temporary employment programme.

For more than two decades Ireland has run temporary employment programmes to provide opportunities for long-term unemployed persons to improve their employability while providing useful services for society. This form of mutual obligations has provided considerable benefits. However, the principal scheme, Community Employment, provides relatively few new places for unemployed persons because of the low rate of exit from the programme. To try to increase the rate of exit, FÁS is supporting community sponsors to focus on placement from the scheme, while the major focus on skills development during recent years should increase the employability of participants. FÁS is also exploring other initiatives including enterprise start-up and other forms of community/voluntary work for some CE participants who are due to exit CE. If more places can be made available for new entrants onto CE, we suggest that they should be prioritised for long-term Live Registrants.

However, we do not necessarily believe that Community Employment should be expanded. Nevertheless, if unemployment reaches very high levels in the next year or two there will again be a case for seeking a work contribution from the unemployed rather than “paying them to do nothing”. The focus of any such scheme would need to be on projects of public value and would need to be of limited duration to avoid on-going public financial commitments.

While the jobs programme might not involve formal jobs training, it would facilitate a significant amount of informal on-the-job training. Any such initiative would need to involve time limits and gate-keeping. Otherwise it could end up taking on a life of its own and losing focus. Any mandatory placement on such schemes should only be seen as a last resort after all efforts to place long-term Live Registrants in a job have been exhausted. Again, a critical consideration in assessing the viability of such a scheme would be determining its net cost to the Exchequer.

2.6 SOCIAL WELFARE AND WORK INCENTIVES

In the context of rising unemployment it will be important to ensure that the social welfare system does not create any financial disincentives to take up employment while at the same time continuing to provide an adequate income for those who are unemployed. Probably the best indicators of financial disincentives in the social welfare system are replacement rates (the ratio of income out of work to earnings in work). In Ireland replacement rates have tended to be low because unemployment benefit is paid at a fixed rate, regardless of previous earnings, unlike in most other countries where the level of unemployment benefit is, at least partly, determined by previous earnings. According to Callan et al (2005), average replacement rates in Ireland fell during the 1987-2000 period (a time of significant tax and social welfare reform) before rising again in the first half of this decade (largely due to an increase in social welfare payment rates). However, Callan et al (2006) note that:

“ Although replacement rates rose in 2005 in relation to 2000, the proportion of unemployment compensation recipients with rates over 70 per cent is much lower in 2005 when compared with both 1987 and 1994 ”.

More recently, the OECD's Review of Activation Policies in Ireland estimated that the Irish replacement rate was around 50-52% in 2005, which was just above the median in international terms (Grubb et al, 2009). Furthermore, replacement rates are likely to have risen again since then due to further increases in social welfare rates. The increases in social welfare rates in recent years came as part of the commitment made under the National Anti-Poverty Strategy of 2002 to raise unemployment benefit by 25% more than earnings. Another major contributor to increasing the replacement rate has been the rise in both the level and the numbers claiming Rent Supplement. In 2007, 12% of unemployment claimants, 17% of One Parent Family Payment recipients and 9% of Disability Allowance recipients were in receipt of Rent Supplement. In total, just under 60,000 persons received Rent Supplement in 2007.

Yet Callan et al pointed out in 2006 that while replacement rates had risen, the unemployment rate had remained low, suggesting that the rise in the replacement rate did not have any major impact on unemployment over the 2000-2005 period. Indeed, the OECD found that the rise in the Irish replacement rate had a statistically insignificant impact on our unemployment rate. Does this mean that a relatively generous welfare system with relatively high rates can be consistent with low unemployment? This certainly seems to have been the case in both Denmark and the Netherlands, who have the lowest rates of unemployment in the EU. However, both these countries also place a strong emphasis on activation policies (and sanctions for those who do not take up job offers). According to Callan et al, the Irish experience over the 2000-2005 period suggests that activation policy in Ireland was effective in counterbalancing the potential negative effects on work incentives of increased unemployment compensation payments. More generally, international experience (as supported by the principles of flexicurity) finds that while a high replacement rate can be consistent with low unemployment, this is only on condition that it is complemented by a high level of expenditure on labour market programmes.

It should be noted that the relatively benign impact of the rise in the replacement rate in Ireland took place at a time when labour demand was strong. If the OECD analysis were to be conducted in 2008, when the number signing on has risen dramatically, the impact of higher replacement rates on unemployment might have increased, by virtue both of the increased number of people affected by replacement rates and the reduction in job opportunities available. While there have not been any precise calculations on how more recent increases in social welfare rates (including Rent Supplement) have affected the replacement rate, it is likely that the average replacement rate was higher again in 2008. Furthermore, it is conceivable that in the short-term replacement rates could rise even further given that most future job opportunities are likely to pay less than they have in recent years as a result of the contraction in labour demand, while at the same time social welfare rates for 2009 will be up just over 3%. Anecdotally, the loss of social welfare entitlements continues to be cited by FÁS Employment Service Officers as a significant barrier to re-entry in employment. Hence, replacement rates and their impact on the labour market will need to be closely monitored in the coming years.

According to the OECD, Ireland has one of the highest ratios of Live Register claimants compared to numbers unemployed in the OECD. While part of the divergence is due to part-time and seasonal workers, the high ratio would seem to suggest that there are a significant number of people signing on who are not genuinely unemployed and/or seeking work. There would appear to be scope for reducing the numbers on the Live Register who fall into this category.

According to the OECD, given the context of rising unemployment, higher replacement rates and a high ratio of Live Registrants to the numbers officially unemployed, there may be merit in reviewing eligibility conditions/sanctions for those seeking Jobseekers Benefit/Allowances, to complement the greater emphasis on activation of those who genuinely want to get back into the workforce.

The OECD report on activation policy in Ireland cites evidence which suggests that a significant proportion of unemployment payment claimants are not complying with the requirements for job search and availability for work. According to the OECD, regulations disqualifying claimants from JB/JA are relatively mild – e.g. in respect of voluntary quits, refusal to take-up jobs, participation in active labour market programmes or job search during a training course. The OECD have highlighted a number of areas where eligibility conditions for Jobseekers Allowance (JA) and Jobseekers Benefit (JB) could be tightened. Firstly, they believe that the conditions relating to occupational mobility are too accommodating given the current employment slowdown. Currently, an unemployed person can limit their job search to his/her usual employment for three months. Given the reduced number of job openings, the OECD believe that a more realistic approach may be for the unemployed person to expand their job search to occupations outside their usual employment after a shorter duration on the Live Register (e.g. six weeks). (This has been the approach adopted recently in the Netherlands which introduced tighter obligations to accept ‘generally suitable employment’.) In most OECD countries, refusal to participate in job creation programmes would lead to the withdrawal of unemployment payments. Hence, one possible way to increase the effectiveness of sanctions would be to make referrals by FÁS officers to ALMPs compulsory (but at the discretion of FÁS employment officers) with failure to attend resulting in the possible withdrawal of benefit. Currently, a former claimant who is participating in an approved education or training course is not under obligation to seek or take up employment for the duration of the course. The OECD contrast Ireland’s approach with Australia where claimants are required to keep a Job Seeker Diary, and the United Kingdom where jobseekers must report regularly to the placement services with regards to their job search efforts. However, the addition of this monitoring role to the job placement role would have resource implications for FÁS.

The OECD report also highlights that sanction rates are low for those who fail to meet the eligibility requirements. According to the OECD, Ireland has either the lowest or close to the lowest sanction rates in three areas, i.e. sanctions for voluntary job leaving, refusal of work and refusal of an ALMP place, with sanction rates declining from 2004 to 2006. As unemployment rises, this could

become an increasingly important issue. This is likely to be especially true for young persons not in Employment, Education or Training (NEETS), the number of whom has been growing recently (see Chapter 4). It is not desirable that this group of young persons would view entitlement to social welfare benefits as a matter of course, as this could lead to an unhealthy level of dependence on the State. (The pilot immediate activation process for 18/19 years old claimants referred to earlier aims to address this point.)

Recently, Denmark (the home of flexicurity) introduced systematic available-for-work assessments which take place every three months along with new sanction rules that are being applied as part of a gradually toughened regime for those repeatedly failing to appear for interviews. Perhaps there is also a case for considering putting greater emphasis on available-for-work assessments in the Irish system, again bearing in mind the additional resources that would be needed to implement such an approach. It should be stressed, however, that given a situation of rising unemployment, the overriding emphasis of activation should be on job placement and training rather than increased sanctions and tightening eligibility conditions.

2.7 STIMULATING THE LABOUR MARKET

While activation and related measures can help people to return to work, it must be acknowledged that their impact will be partial in a contracting labour market. Many of those who are likely to be made redundant will be highly-skilled, motivated, have good recent work histories and will, therefore, need very little direct intervention in terms of training or job-seeking skills. The obstacles to quickly getting this group back to work are more likely to be either a lack of job opportunities or, in the case of the vacancies that do exist, wage rates that will often be significantly less than those in their previous employment. Hence, the most effective re-employment policies for this group are likely to involve either increasing job opportunities (especially in the private sector) by stimulating employer demand or closing the gap between wage expectations and actual take home pay. Furthermore, measures to encourage staff retention during the downturn could also be encouraged. The question remains, however, whether such stimuli would be efficient and affordable given current budget constraints. What follows is an outline of these policies along with their perceived merits and potential drawbacks.

2.7.1 Demand Incentives

One obvious way to increase labour demand is to reduce the cost of labour to employers. As labour becomes

cheaper, employers are more likely to recruit more staff (or reduce lay-offs). While there are various ways to provide wage subsidies, they tend to come under one of two broad headings: generalised subsidies which are available to all employers under certain conditions, and targeted subsidies aimed at employers who recruit persons who are either long-term unemployed or have a low level of employability. There are benefits and drawbacks to both approaches. In the case of the generalised subsidies, the main drawback is that there tends to be a large amount of deadweight associated with such schemes (i.e. a large proportion of employees who qualify for the scheme would have been hired by employers regardless of the subsidy). Evidence from surveys conducted in the Netherlands show that between 20%-60% of new employees would have been hired without the wage subsidies offered in the Dutch system. However, such surveys are likely to underestimate the long-term benefits of these schemes as subsidies increase the financial viability of companies which will, in turn, increase their long run potential for job creation (OECD, 2008). Furthermore, in the current Irish context of rising unemployment the potential for deadweight is likely to be reduced given that an employer's default position is likely to be to lay-off staff rather than hire new staff. A wage subsidy would, therefore, reduce some of the financial burden borne by the employer when recruiting during this time of economic uncertainty.

The other approach is to target subsidies at groups facing particular difficulty in gaining employment (e.g. the long-term unemployed, disability payment recipients, lone parent payment recipients) in order to minimise the deadweight effect associated with a more generalised subsidy. Targeted employment subsidies are common throughout the OECD and can be effective in terms of increasing the employment potential of marginalised groups. On the downside, there can be a stigma attached to targeted subsidies. Furthermore, substitution effects could lead to little or no net increase in employment levels (i.e. the subsidised group are hired at the expense of other jobseekers or, even worse, employees are let go to make way for the cheaper labour available under the wage subsidy scheme). This risk of displacement is probably greater during a downturn given that employers will be reluctant to expand their workforce. (There is a link, [here](#), with the issue of prioritisation of client groups raised earlier in this chapter.)

More generally, a guiding principle of any wage subsidy scheme, be it general or targeted, is that job opportunities that are created should be as sustainable as possible. Given that wage subsidies tend to be temporary, they may simply lead to increased staff turnover, with newly subsidised employees replacing existing employees for whom their subsidy is about to expire. This can be compounded by the fact that once an employee comes to the end of the

duration of the wage subsidy, they may well be, in the normal course of events, due a wage increase. When faced with a wage increase on top of the loss of a subsidy, many employers may decide that the cost of retaining the employee is too high. One way of getting over this replacement problem is to introduce a clause which would lead to employers having to repay the subsidy should they fail to extend the contract of their subsidised employees beyond the subsidy's expiry date (e.g. the Employers PRSI Exemption Scheme). Another, more positive, approach to sustainability is to make the subsidy conditional on the employer providing training for the subsidised employee, thereby increasing the employer-employee bond and, as a consequence, reducing the incentive for the employer to lay off the employee once the wage subsidy expires. An example of this approach was contained in the United States Job Training Act.

2.7.2 Employer's PRSI Exemption Scheme

What role can wage subsidies play in the current Irish context and to what extent do they already exist? There are currently two wage subsidy schemes in place in Ireland at the moment – namely the FÁS Wage Subsidy Scheme and the Employers PRSI Exemption Scheme, both of which are essentially targeted. The FÁS Wage Subsidy Scheme is highly specific and is designed to encourage employers to recruit people with a disability. The Employers' PRSI Exemption Scheme is designed to get the long-term unemployed, as well as disability payment and lone parent recipients, into employment. Under the PRSI Scheme when an employer hires an eligible worker they do not have to pay the employers' PRSI contributions for the first two years of their employment. In order to qualify, the employer must take on an employee who is getting the Back to Work Allowance (BTWA). The scheme reduces the wage bill associated with hiring anyone who has been unemployed for 2 years or more (as you have to be unemployed for 2 years in order to be eligible for BTWA or in receipt of One Parent Family Payment or Disability Allowance for at least 15 months). The Scheme largely avoids the replacement problem as it is conditional on there being a net increase in the numbers employed in the hiring company. However, given its eligibility criteria, it has no benefit for the short-term unemployed, many of whom will have to rely on a recovery in labour demand if they are to return to work. Furthermore, based on the discussion above, it would seem that a more generalised approach is likely to be more effective during a downturn. Hence, given the need to stimulate labour demand for the more recently unemployed, there might be a case for making the scheme more generalised to include those who have been unemployed for a shorter duration (e.g. six months). Initially, such a proposal could involve a significant cost, which is likely to be felt more acutely given

the projected decline in Government revenue. However, it is suggested that these costs could be largely recouped from the reduction in social welfare and the increase in tax receipts that would arise from an increase in employment. There may also be merit in making such a subsidy conditional on the provision of training by the employer, as is the case in the United States.

2.7.3 Subsidising Part-Time Work

It may also be necessary to consider policies that encourage part-time work on the basis that some work is better than no work at all. This has been the approach that has recently adopted by the Dutch government. They introduced an exceptional short-time working scheme in 2008 which allows companies experiencing sharp downturns in sales revenues which reduce their output, to receive an unemployment benefit payment for a proportion of the workforce, while at the same time keeping the affected employees on their payroll. In effect, the scheme allows companies to place their workers on unemployment benefit for a six week period without having to lay them off. The scheme is intended to help companies reduce working hours for employees without affecting their salaries. Under the plan employees receive part of their wages from the national unemployment fund, on condition they spend non-working hours on training and schooling. The companies themselves top up wages to 100% in this slump period, during which time employers are actively encouraged to source training for their workers. To be eligible for the scheme a company has to have had a thirty percent loss of turnover for at least two months. The merits of introducing a similar scheme in Ireland are worth examining in the context of the current budget constraints.

2.7.4 Supply Incentives

As well as recruitment subsidies, the labour market can also be stimulated by using supply incentives. These involve financial incentives being targeted at the employee, rather than the employer, in the form of either a direct or indirect cash payment. Normally, they are targeted at those in low paid employment and/or other disadvantaged groups. In some sense, given that there will be an excess supply of labour in the short-term at least, the question might be asked, is there any need for increasing supply incentives? While it is true that the employee is the primary beneficiary of any such subsidy, it should also be borne in mind, however, that such a subsidy can act as an indirect hiring subsidy for the employer. Furthermore, if the incentive is time-limited, then it can reduce the amount of time that a jobseeker spends out of work, as the time-limit is likely to focus the jobseeker's mind on getting employment quickly,

thereby reducing the incentive for them to wait for the 'right' job offer. However, in a situation where the supply of labour exceeds the demand for labour, it is important that any supply incentives are carefully thought through as they are much more likely to be subject to deadweight costs than their demand incentive counterparts. Such deadweight costs would prove extremely hard to justify at a time of severe budget constraints.

A supply side approach that has yet to be tested in Ireland is the introduction of some variation of a wage insurance scheme (for further discussion on this topic see the Irish Labour Market Review 2005). Such a scheme is designed to reduce the amount of time spent by redundant workers on the dole by incentivising the early take up of jobs that pay less than their previous employment. The most well known example of wage insurance is the Alternative Trade Adjustment Assistance (ATAA) scheme in the US. While wage insurance schemes vary from country to country, they all essentially involve a top-up being paid to a redundant worker who takes up a lower paid job. They aim to speed re-entry into employment and thereby reduce 'stickiness' in the labour market while redundant workers take time to re-adjust their wage/career expectations to the reality of weaker labour demand. Studies have shown that return workers can lose an average of 5-20% of their previous income when taking up a job after being made redundant and this differential tends to persist over time. Given the high wages received in some sectors of the Irish economy in recent years (especially construction) this estimate is likely to be on the low side. In particular, prime-aged and older workers are most likely to incur heavier and longer-term losses.

Wage insurance schemes are typically based on a top up of x% (for example 50%) of the difference between the wage being offered to returnees and the wage in the previous job, with the top-up being capped at a certain level (e.g. €10,000 per annum) The scheme only applies where the wage rate for the new job falls under a certain limit (e.g. €50,000 per annum). The key to the scheme in this regard would be that the wage insurance could only be claimed for a limited period (e.g. during the first six months on the Live Register). Such a time limit would act as a disincentive against remaining on the Live Register for longer than necessary. Furthermore, these wage insurance payments would be payable for a limited duration (e.g. one year).

One of the attractions of such a scheme is that it has the potential to be revenue neutral if designed properly, as the 'top-up' to the employee could be funded from the savings gained through a reduction in social welfare payments and (to a lesser extent) increased tax receipts. However, strict controls would need to be put in place to ensure that people on lower wage jobs don't purposefully leave (potentially in collusion with, or under pressure from, their employers) and then reapply for the same job

(although this might not be such a big issue in the current context, given the increasing level of job insecurity).

As with other subsidies, the main downside of such a scheme is the degree of deadweight as it would also be available to those who would have taken a job anyway. It would be important, therefore, to establish whether or not the savings gained from speeding up entry to the labour market exceeded the potential deadweight associated with such a scheme. Another problem with the scheme, although by no means an insurmountable one, is how to document the loss of earnings of the self-employed and those who might have had a somewhat irregular earnings history (e.g. some construction workers). The interaction of any wage insurance scheme with Family Income Supplement (FIS) would also have to be considered in the context of work incentives, although the overlap between the two payments is likely to be relatively modest. However, it may well be that the experience of the FIS scheme, where take-up has been low, can provide insights into the design of any such wage insurance scheme.

The efficiency of any wage insurance scheme would ultimately depend on how it is designed. More generally, unless the design of the scheme was relatively uncomplicated, it could lead to a significant administrative burden (as has been the case with FIS). To this end it might be worth exploring on a pilot basis as this would be a good way of identifying potential problems. In the event of such a scheme being considered desirable, but not necessarily revenue neutral, it might require diverting resources from other labour market programmes which were deemed to be less effective at returning the recently redundant to employment. This would be consistent with the Work First approach mentioned earlier.

2.8 MIGRATION POLICY

Given the current labour market slowdown, what role does migration and specifically further inward-migration have to play in the development of our labour market? It is worth remembering that when Ireland opened its labour market to the enlarged EU in May 2004, it was expected that the workers from the New Member States would fill the large labour shortages (primarily in low skill occupations) which prevailed at the time. However, there were also fears that Irish workers would be 'displaced' by low-wage labour from the EU10 and that some migrants from the EU10 might take advantage of our relatively generous social welfare system. Given the strong jobs growth over the intervening period, these displacement fears have, up until now, proved largely unfounded. Instead replacement, rather than displacement, is probably a more accurate description of

what happened between 2004 and 2007, with foreign-nationals taking up jobs left vacant by Irish workers who had moved on to other occupations/sectors.

However, given that the era of rapid jobs growth has ended and unemployment is rising, the risk of displacement occurring has increased. More generally, the ability of the Irish labour market to absorb inflows from abroad is being tested as evidenced by the rapid rise in the Live Register, especially among EU12 nationals. That said, it should be pointed out that data from the DSFA show that less than 10% of EU12 claimants signing on for less than a year in April 2007 were still signing on in April 2008. Nevertheless, this data predates the rapid deterioration in the labour market that has taken place since April 2008. As a result, when data for the more recent period becomes available, it is likely to show EU12 nationals staying on the Live Register for longer.

While the rate of the inflow has decreased significantly (PPS numbers issued to EU12 migrants were down 43% in 2008 compared with 2007), in excess of 73,000 PPS numbers were still issued to EU12 migrants in 2008. This seems high given the current labour market situation and, in particular, the rise in the number of EU12 migrants signing on.

In this context, an effective employment rights compliance system (NERA) as agreed in Towards 2016 will be essential to ensure that the risk of existing workers being displaced is kept to a minimum. However, it must be recognised that a major factor determining the risk of displacement occurring in the future, namely the sensitivity of migratory flows to an employment slowdown, has, up until now, been largely outside the direct influence of policy. Therefore, it is worthwhile considering what are the possible options available to help keep migratory flows compatible with the new labour market reality of rising unemployment.

The scope for directly influencing Irish-EU migratory flows is limited given that workers from the EU25 have full rights to come to, and remain in, the Irish labour market. It therefore seems logical to consider whether or not the social welfare system has a role to play in indirectly influencing EU12 migration patterns given the large differential between social welfare rates in Ireland and Central Europe. Furthermore, for EU10 migrants who have been residing here for over two years, the habitual residency clause is no longer relevant. As a result, there is a danger of an 'unemployment trap' for EU10 workers who came to Ireland on a temporary basis to work but are now redundant. Some may be discouraged from seeking work at home if the amount that they can earn there is less than what they are entitled to from the Irish social welfare system.

The inability of the Irish labour market to absorb migrant inflows further increases the need to ensure that sanctions and eligibility conditions are sufficiently tight to ensure that the Irish social welfare system does not become a pull factor for migration at a time when unemployment is rising in many EU countries, while not all countries have granted EU10 migrants full access to their labour markets. To some extent, this has already begun to happen. In the summer of 2008, the practice of the electronic transfer of funds (ETF) was replaced with the requirement to physically sign on at a post office/social welfare office. This decision was taken following investigations which found that almost 10% of claimants were found not to be resident in Ireland at the time they were claiming benefits, or were claiming a level of benefit to which they were not entitled. Migrants on the Live Register for three months will also, of course, undergo the same activation process as Irish nationals.

Migration flows from outside the EU25 are, on the other hand, much easier to control. In the first instance, migrants from Romania and Bulgaria have yet to be granted access to our labour market on the same grounds as migrants from other EU countries. Given the slowdown in the labour market, we believe that the status quo in this regard should be maintained for the foreseeable future.

With unemployment in Ireland rising, labour shortages have ended. Indeed, the 2008 *National Skills Bulletin*¹⁷ took the view that any demand for low-skilled workers can be met from domestic labour sources. This would mean that most low-skilled occupations should be excluded from the list of eligible permit occupations and only under exceptional circumstances should vacancies be considered an adequate reason for Work Permits to be issued. Furthermore, the renewal of permits could be reviewed. Under a stricter approach to the renewal process, each case would be judged on its merits. The non-renewal of Work Permits could, in certain cases, lead to significant hardship for some migrants, and it may be important, therefore, that a 'one size fits all' approach is not adopted, but rather where cases of genuine hardship arise that the application for renewal is viewed compassionately. Where employers are still finding it difficult to fill vacancies, FÁS should work closely with them to source appropriate candidates from the Live Register or the broader EU-wide Eures system.

While Work Permits are issued for workers filling labour shortages from abroad, skill shortages that are filled from abroad are more likely to involve the Green Card system. Green Cards are granted primarily on the basis of the salary related to the job, with any posts that are offering salaries over €60,000 eligible for a Green Card. However, they are

also offered for a limited list of occupations where salaries are in the range €30-60,000. According to the National Skills Bulletin 2008, skill shortages disappeared for a number of occupations in 2008. Most noticeably, the shortages of construction skills, which had been acute, have been reversed and they are now in excess supply. Yet, despite the economic slowdown, according to the National Skills Bulletin, there are still skill shortages in some occupations at the higher end of the skill scale (although in most cases the extent of these shortages is less severe than in previous years). Specifically, the National Skills Bulletin identified skill shortages, usually for persons with experience, in the following areas:

- IT (Senior Professionals)
- Marketing (Senior Managers)
- Engineering and Science (Chemical Engineers, Electrical Engineers, Quality Control Engineers)
- Healthcare Professionals and Nurses
- Financial (Accountants, Underwriters, Actuaries)

It is important that high skilled workers continue to be attracted to Ireland via the Green Card system, as this is central to our national strategy to attract knowledge-based companies from around the world. However, the range of high skill shortages, especially in the construction sector has narrowed as a result of the downturn. Following a recent review of the Green Card scheme, Civil and Mining Engineers and all Constructions Professionals are no longer eligible to apply for Green Card Permits where the salary on offer is in the range €30,000 to €59,999. Nevertheless, the list of eligible occupations may need to be kept under review in the context of the looser labour market.

While immigration has been the primary, and virtually the only, focus of migration policy over the last ten years, it must be expected that emigration will rise significantly in the context of the slacker labour market. As mentioned in Chapter 1, these emigration flows are likely to be comprised of both Irish and return-migrants, with the latter making up the majority of the outward flow. In particular, construction workers who have been laid off due to the housing slump are likely to seek work abroad. In this context, FÁS should continue to help those who are made redundant in the construction sector to find work abroad, especially in countries which may still be experiencing growth in their construction industries. Already, FÁS has hosted a number of successful construction job fairs where employers from such countries have been able to meet potential recruits.

17. FÁS/EGFSN, *National Skills Bulletin* 2008.

CHAPTER 3:

Training

3.1 INTRODUCTION

In Chapter 2, we argued that there is a case for putting a greater emphasis on getting Live Registrants into employment rather than training as many of those coming on to the Register are likely to be 'job ready' and have little need or desire to participate in full-time training. That said, there will be certain groups for whom training will be crucial to the improving their employability. More generally, over the longer-term actions to up-skill the workforce will continue to reap benefits once the current downturn has passed. It is worth remembering that in previous periods of high unemployment (e.g. the 1980s) it was government policy to keep training people despite the fact that job opportunities were limited at the time. However, when the economy recovered, a large supply of highly-skilled workers were available, which allowed us to take full advantage of the upturn. We believe that this approach should be adopted again. This chapter will look at some of the policy options that go some way to meeting both the short and longer-term training needs of the Irish labour market.

3.2 TRAINING THE UNEMPLOYED

Given the rise in unemployment there will be an increased demand for training for those who have been made redundant. The nature of this training will be critical. In particular, it will be important to retrain workers who have been let go from declining sectors (most notably construction and some manufacturing sectors) to help them find employment in sectors that are likely to grow when the economy picks up (most notably the business services sector). There will also be a need to retrain some who are almost job ready but who may need a 'top up' to make their current skills more relevant to the jobs market.

To this end, FÁS is introducing a number of new training programme opportunities to meet the needs of the increased numbers on the Live Register. FÁS is providing a new range of certified, short, flexible, modular programmes designed to up-skill redundant workers so that they can enhance their prospects of securing employment. The

courses provide specific technical skills alongside job-seeking skills and support. The course range includes driving, sales, IT applications, software and welding.

More generally, FÁS is giving a greater focus on job-seeking in its training courses. The progress being made to ensure that all FÁS training courses are certified on the National Framework of Qualifications will also ensure that persons completing FÁS courses have a recognised certification that will allow them, if they wish, to proceed up the qualifications ladder. In addition, various courses for the unemployed are also going to be provided by Institutes of Technology around the country.

There will also be a need to help employees who want to start their own business. Generally, the demand for enterprise courses tends to increase during a downturn. In the past FÁS ran several programmes along these lines and there is a strong case for the provision of such courses in the current climate. In particular, courses aimed at persons with experience, such as persons being made redundant, are likely to be attractive. FÁS will aim to provide enterprise development courses in all regions in 2009 and, in doing so, link with the County Enterprise Boards. FÁS' Business Appraisal Training Programme has a well-established approach which can help potential entrepreneurs to evaluate their prospective business while developing the necessary range of knowledge and skills.

In the past, FÁS ran the Job Training Scheme (JTS) which involved unemployed persons being placed in companies and trained by the company. Under the current circumstances where obtaining employment is increasingly difficult, there may be merit in reinvigorating such a scheme as it could provide an opportunity for Live Registrants to get 'a foot in the workplace' while at the same time receive training. However, such schemes are open to abuse as they can be used as a way to replace normal, paid, workers with 'cheap labour'. Therefore, it would be important to devise mechanisms that would counter such abuse. It is also important that real training is received, which is of value to the employee as well as

the employer concerned. While one approach potentially open to large companies would be to become a FETAC-accredited trainer, this is unlikely to be practical for many smaller companies. An alternative would be to include a portion of off-the-job training in FÁS within the JTS programme. This portion of the Job Training Scheme could provide a (component) FETAC qualification.

Many persons in the low/medium-risk group can benefit from short and flexible assistance via programmes such as the Technical Employment Support Grant (TESG). The TESG is essentially a discretionary grant that can be given by a FÁS Employment Service Officer to a client that he/she believes would benefit from a short-term training course or some other form of assistance in job search (e.g. purchasing a suit for an interview). As the need for re-skilling increases to meet the needs of a growing and diverse client group, there is a strong case for FÁS to promote the TESG in a more pro-active manner.

3.3 TRAINING CONSTRUCTION WORKERS

As already stated, the single largest source of the increase in unemployment has been the rapid and severe deterioration in construction activity. In response to this specific issue, FÁS has developed a comprehensive action plan which is designed to provide and support employment opportunities for construction workers and to facilitate redundant apprentices in the completion of their training.

The employment creation dimension of the plan includes a number of innovative programmes, particularly in the sustainable energy sector. These have commenced in Ballyfermot and Cork Training Centres and will be rolled-out nationally. FÁS has introduced training programmes in the installation of solar energy technology, heat pumps and biomass boiler systems. Research conducted by FÁS has identified sustainable building as an expanding market, particularly in the context of the imminent introduction of the Building Performance Directive for the existing housing stock.

FÁS is also introducing a wide range of additional programmes in areas of construction plant, steel-fixing, explosive training, roofing, scaffolding and quarrying. Training and certification in these skills areas will qualify construction workers to work in areas other than the highly depressed house-building sector.

FÁS has developed a range of environmental-related training courses over the last few years. It is an area that FÁS has identified as having the potential to create additional employment opportunities over the next few years. FÁS is offering a wide range of courses in this area including site assessment, water nutrients management and radon gas identification.

FÁS will also offer a number of training programmes which are designed to equip redundant construction workers with the skills to set-up and manage their own business. Research undertaken by FÁS shows that the small domestic repair, maintenance and improvements market is still quite active. This market was rather poorly served during the recent house-building boom and has the potential to provide employment for some workers who have lost their jobs in the residential sector.

Finally, FÁS has just completed the development of a state-of-the-art training centre in Mount Lucas and this facility will be utilised to provide training in a wide range of construction-related activities where employment opportunities have been identified and where certification is required for employment.

In addition to enhancing the job prospects of unemployed construction workers, FÁS is also taking measures to facilitate redundant apprentices in their efforts to complete their apprenticeship. Specifically, FÁS is exploring various ways of substituting for the 'on-the-job' training which the apprentice has lost on becoming redundant. One measure now in place is a rotation system whereby an employer provides work experience for a redundant apprentice while his/her own apprentices are on the off-the-job component of their training.

As the domestic construction industry contracts, many builders, and indeed individual workers, will seek work in the United Kingdom and in Europe generally. As a consequence, many apprentices will find themselves working abroad. FÁS is exploring ways in which their work can be assessed and recognised for inclusion as part of their 'work experience' in the formal apprenticeship system.

FÁS is also exploring the potential of different public infrastructure projects (e.g. OPW) as possible sources of on-the-job training for redundant apprentices. However, FÁS will only consider projects where it is satisfied that the on-the-job training is of a sufficient quality to be included as part of the formal training of apprentices.

3.4 UP-SKILLING THE WORKFORCE

There is widespread agreement about the need for Ireland to up-grade its skills supply to meet future needs. The National Skills Strategy, published by the Expert Group on Future Skills Needs in 2007, set out its vision for 2020 and this vision was endorsed by Government in the National Development Plan 2007-2013. The vision aims to enable Ireland's success as a high-skills, knowledge economy, while also permitting social inclusion. Last year's Irish Labour Market Review summarised the Strategy and examined some of the actions that could be taken to help ensure its achievement. In particular, it examined the concepts of Individual Learning Accounts (ILAs) and paid learning leave as flexible ways of incentivising individuals to meet their training needs. Efforts to enable the accreditation of prior learning and a focus on helping individuals move up the qualifications ladder over a lifetime were also stressed.

There may be a tendency to lessen the policy focus on up-skilling in the current circumstances of rapidly rising unemployment. However, it should be remembered that Ireland's best hope of coming successfully out of the current downturn will be through export-led growth based on competitive internationally-traded goods and services. Productivity improvements will be vital to improve competitiveness, and improvements in skills across all levels of management, professional, technical, craft and operative jobs are a proven ways of increasing productivity¹⁸. As well as long-term benefits, up-skilling of existing employees can help to avoid company closures and lay-offs.

The importance of skills in helping the development of Ireland's growing services sectors has been examined in the recent NESC Irish Economy report¹⁹. That report emphasises

the importance of productivity in both private services (which are increasingly internationally-traded) and the public service and the essential role of 'generic' and 'softer' skills in these labour-intensive sectors. In the following sections we revisit some of the aspects involved, drawing on recent policy thinking, research and on-the-ground experience.

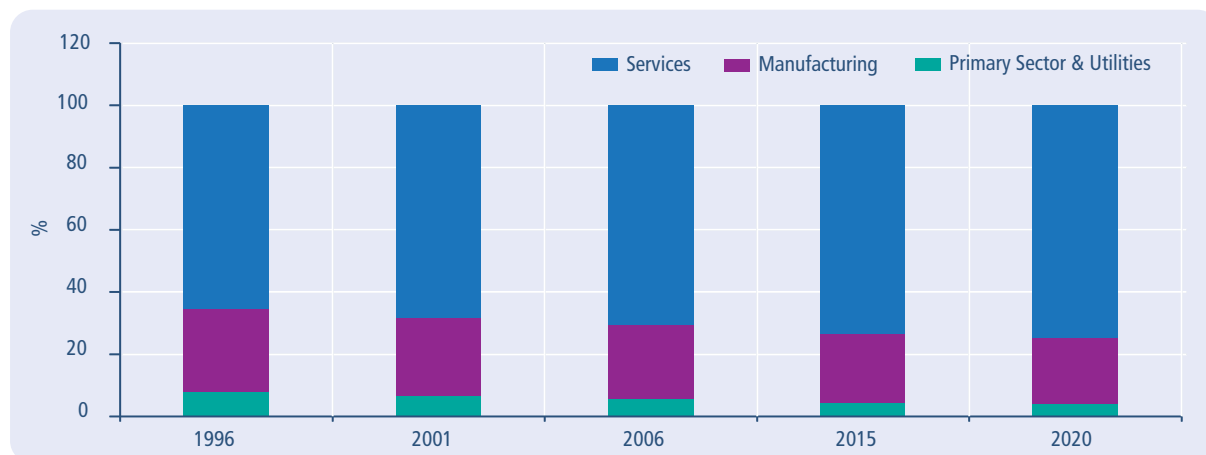
3.4.1 EU Forecasts to 2020

It is useful, firstly, to note the research conducted on skills at the European level which echoes the results of Ireland's National Skills Strategy. CEDEFOP has produced medium-term forecasts of occupational skill needs in Europe to 2020.²⁰ The forecasts cover 25 EU Member States plus Norway and Switzerland (EU-25+) and, although produced before the current downturn, still provide a reasonable guide to longer-term needs. They analyse skill needs by broad sector, occupational group and broad qualification level.

The research concludes that over 20 million net new jobs are expected to be created between 2006 and 2020. The forecast 20 million additional jobs come despite the loss of well over three million jobs in the primary sector and almost 0.8 million jobs in manufacturing. Almost three quarters of jobs in the EU-25+ in 2020 will be in services (Figure 1). In 2020, 31% of all jobs will need high qualifications and 50% medium qualifications. Demand for low qualifications will fall from a third in 1996 to 18%.

However, due to the need to replace people leaving the labour market, there will be significant numbers of job openings even in the primary and manufacturing sectors. CEDEFOP forecast that there will be 85 million jobs available to replace people who retire or leave the labour market for other reasons.

Figure 3.1: Employment Shares in EU25 1995-2020



Source: CEDEFOP

18. The recent All-Island Skills Study quotes a report that the lower level of skills in the UK explains 20% of the productivity gap in the UK with other countries. See All-Island Skills Study, EGF/NI Skills Expert Group, 2008.

19. *The Irish Economy in the Early 21st Century*, NESC, 2008.

20. *Future Skill Needs in Europe – Focus on 2020*, CEDEFOP, 2008.

The report concludes that a consistent and ambitious strategy is required that reduces the flow of early school leavers and drop-outs and establishes a comprehensive skills plan for adult learning.

3.4.2 Statistics on Training of the Employed in Ireland

The Irish National Skills Strategy (NSS) has two main actions – increasing the proportion of persons entering higher education and up-skilling half a million persons who will already be in the workforce over the period. In this section we summarise two reports that have been published by FÁS documenting the extent of training of employed persons in the last year.

The CVTS3 survey report presents the results of the EU-wide survey of continuing vocational training (CVTS3) undertaken under the responsibility of Eurostat in 2005.²¹ It covered companies employing 3 or more persons in all sectors except agriculture – a total of 58,700 companies. Just over half (51%) of all companies (i.e. 30,000 companies) provided some continuing vocational training (CVT) for their employees in 2005. All large companies (250 employees or more), 89% of medium-sized companies (50 – 249) and 49% of small companies provided some training.

Overall, 711,000 employees attended a training course in 2005 – just under half of all employees. Employees in the public administration, education and financial services sectors were more likely to have attended a training course, while those in construction and hotels/restaurants were less likely to have done so. One quarter of training course time related to health and safety. Five other subjects each comprised about a tenth of the time spent; sales/marketing, engineering/manufacturing/construction, management/administration, ICT and finance/office work.

The cost of CVT training courses was calculated to include direct costs (fees, travel, equipment), the costs of internal training staff and the wage costs of trainees while on training courses. On average, companies spent 2.6% of their labour costs on training courses. Total estimated expenditure on training courses in 2005 was €1,556 million.

The nearly half of companies that did no training in 2005 were asked why. The predominant reason, cited by 83% of such companies, was that the existing skills of their staff met their needs. Related to this was a reason given by about a quarter of companies: that they aimed to recruit staff with the required skills. Other reasons, such as time and cost, were given by small percentages of non-training companies.

In comparison with other EU countries Ireland ranks in the top half of EU countries in terms of provision of CVT overall, and training courses in particular. In terms of the percentage of labour costs spent on training courses, Ireland ranks first at 2.5%. In fact, Ireland's percentage (on the EU-wide definition) has increased marginally from the figure of 2.4% in the 1999 survey.

The other report presents statistics on training of the employed in 2007 from the Quarterly National Household Survey. Of the 1.98 million employed persons in 2007, 253,200 (13%) received some education/training in the four weeks prior to the survey. Considering only 'adults' (aged 25-64) at work (in line with EU definitions), 153,000 (9%) received some education/training. This represents an increase from 8.6% in 2006 and 7.9% in 2005.

Looking at the differences in the receipt of education/training between types of employees (aged 25 – 64) showed:

- Females (13%) were more likely to engage in education/training than men (7%).
- Younger employees undertook more education/training than older employees (11% of 25 – 34 year olds compared to 5% of 55 – 64 year olds).
- Better educated employees were much more likely to partake in education/training (15% of third-level graduates compared to 4% of those with a Junior Certificate).
- Employees in public services and financial services were more likely to participate than employees in agriculture and manufacturing.
- Professionals (17%) and associate professionals (14%) were much more likely to be in receipt of education/training than production operatives (3%) and craftspersons (4%).

Drawing the results of these two surveys together, we conclude that many employed persons receive training and companies spend a significant amount of resources on training. However, the overall level and the imbalances in provision mean that Ireland will not achieve its skills strategy objectives without considerable extra activity. More small companies need to start investing in their employees, and to extend their training activity beyond their specific direct needs such as health and safety.

There will be a particular need for further measures for poorly-educated, low-skilled employees as emphasised in the National Skills Strategy and the FÁS' Training Strategy. Concerted, strong action will be required if the continuing training gap between the well and poorly-educated employee is to be narrowed.

21. *Continuing Vocational Training Survey 2005 – Main Results*, R. Fox, FÁS, 2008.

3.4.3 Recent FÁS Initiatives to Promote Training of Low-Qualified Employees

In the last few years FÁS has initiated a number of programmes and services to attempt to promote training of the low-qualified employed. Some of these have only recently been commenced so that it is too early to judge their success. However, this section reviews our experiences to date.

a. Promoting Literacy in the Workplace

The Workplace Basic Education Fund (WBEF) was set up in 2004. The central aim of the fund of €3 million was to improve employees' literacy and numeracy skills. The Department of Enterprise, Trade and Employment mandated FÁS to operationalise the fund and FÁS did so in consultation with the National Adult Literacy Agency (NALA). Ultimately, the fund supported activity under what became known as the Skills for Work (SFW) initiative. About 2,000 persons were trained on the programme in 2007.

The model that now operates under SFW emerged from a period of experimentation and typically operates as follows:

- National co-ordination provided by FÁS;
- Regional co-ordinators employed by NALA and the Belfast Unemployed Resource Centre;
- Regional co-ordinator acts as broker between the employers/employees and the delivery agents (typically, but not exclusively, the local VEC);
- Regional co-ordinator contacts companies and negotiates a training contract (typically an integrated curriculum with Communications at its core together with other relevant content such as Health and Safety);
- Regional co-ordinator agrees programme with the relevant VEC including delivery, cost etc;
- Contract implemented by VEC tutor while co-ordinator continues to act as liaison/support to employer, employees and tutors.

An evaluation of the WBEF has been undertaken by WRC Social and Economic Consultants.²³ They draw essentially positive conclusions about the initiative:

"From a standing start, FÁS and its partners have made notable achievements within the confines of a limited exercise. These achievements include, for example:

- The establishment of a working model for the delivery of workplace basic education;

- Engagement with a significant number of employers and the recruitment into training of a significant number of employees;
- Raising awareness about workplace basic education and its advantages;
- Development of quality materials in the form of workbooks, CD ROMS and individual or bespoke, themed course materials;
- Development of training content and provision that is in line with FETAC requirements thereby safeguarding the value of the interventions made.

The model that has evolved is differentiated from traditional adult education provision in a variety of ways including the following:

- It is largely delivered on-site and, as such, is brought to the participants in a way that is not typical of traditional interventions;
- The process is mediated by brokers that straddle the vocational training/education divide thereby ensuring content that has value to both the employer and the employee and contributes to the capacity of the individuals to both learn and earn;
- The model has involved active collaboration between organisations working across the education/training divide."

The evaluation also highlighted some issues in the programme. One was the lack of centrally or generally available content at NFQ Level 3. Another was the use of the programme to provide English for Speakers of Other Languages (ESOL). While recognising that such language learning was valuable for both employers and their employees, the evaluation argued that this was diverting attention from the core objective of literacy. FÁS has accepted this argument and has re-focused the programme exclusively on literacy (and related communications). More generally, the evaluation noted that the operational structures established to run the programme were of a temporary nature and more long-term arrangements needed to be put in place in respect of the regional co-ordinators. FÁS has decided to establish suitable structures and these are being set up.

In summary, FÁS believes that the WBEF is an important initiative to improve literacy among the Irish workforce and intends to implement the programme successfully over the coming years.

23. *Evaluation of Initiatives Taken Under the Workplace Basic Education Fund*, WRC, 2007.

b. Paid Learning Leave

A pilot Paid Learning Leave scheme took place in two locations in 2007/2008. The pilot scheme provided funding for an employee to receive up to 100 hours paid leave during working hours with FÁS reimbursing the employer to the extent of the national minimum wage. Employers were encouraged to top-up the FÁS payments to normal wage levels. FÁS contracted with two local project promoters to contact and encourage employers to take part in the projects and help organise relevant training. Once the training needs of an employer were identified, FÁS contracted with a local, approved trainer to deliver the required training. Training could have an occupational focus but also include basic educational skills or soft skills. Each employer was limited to a maximum of three employees on any course.

The Sligo pilot programme targeted workers in traditional manufacturing sectors, with Junior Cert standard of education, who had not received formal training in the previous five years. It was promoted by FÁS in partnership with Sligo Leader Partnership Company, thereby bringing in the County Development Board, unions, employers and educational interests.

The Wicklow pilot targeted young workers with Junior Certificate who had at least two years continuous employment and had not received training other than normal induction training during the previous two years. It was promoted by the Wicklow Rural Partnership on behalf of FÁS.

Unfortunately, the amount of take-up of the pilots has been small. Despite broad agreement in principle with the approach, many difficulties arose that reduced interest and participation on the pilots. These difficulties related, essentially, to employers' willingness to participate. FÁS has commissioned an external consultant to evaluate the pilots and an interim report has been received. This identified a number of particular obstacles that reduced take-up; the restrictions on number of participants per company, the restriction to Junior Cert or below and younger age group (in the case of the Wicklow pilot), confusion/overlap with other State-funded training programmes, as well as the perennial problem of releasing staff during working times.

Nevertheless, the interim evaluation identified high levels of satisfaction among the employers and employees who had participated in the pilot. Employers engaging in the programmes believed that their involvement with the pilots will benefit their business by improving business growth, productivity, efficiency, creating value-added employees and a knowledge-based workforce. Employees believed that their involvement will provide the opportunity for them to gain new skills, increase their confidence and communication skills, and allow them to meet new people.

In conclusion, the two pilot Paid Learning Leave initiatives have not generated an adequate level of take-up. This is discouraging for those who regard Paid Learning Leave as one, necessary strand of a comprehensive suite of measures to up-skill the workforce. However, there is a danger of 'rushing to judgment' on Paid Learning Leave on the basis of the two pilots. There is a need to reflect more fully on the issue and examine whether alternatively-structured pilots might prove more successful. This is something that FÁS will explore further in the coming months.

c. Individual Learning Options

Individual Learning Accounts (ILAs) are an approach to the provision of education and training that have been receiving increasing interest internationally and in Ireland in recent years. Last year's edition of the Irish Labour Market Review presented a detailed outline of the rationale, advantages and disadvantages of ILAs and suggested that they should, in some form, be piloted. The Review noted that, in practice, the 'account' aspect of ILAs has not been successful and that, rather, a 'voucher' or 'right to service' approach was more common.

In 2008 FÁS Services to Business in the South-West Region have piloted a new initiative called Individual Learning Options (ILOs). The ILOs aim to respond to the needs of low-skill/vulnerable employees who would benefit from training but whose needs can not be addressed by training courses currently being run under the Competency Development Programme. Courses up to FETAC Level 5 are eligible and grant aid up to €1,300 (or 70% of the cost) is provided. The pilot is at an early stage with take-up of just over a dozen persons to date. Most of the participants have been female employees with poor educational qualifications who wish to acquire training. Training has covered a wide range of areas including Special Needs, Legal Secretary, and Accounts.

d. Union Learning Advocates

Many studies have shown that one of the difficulties in increasing the amount of training for the low-skilled is a reluctance on the part of such workers to engage in training. This may relate to several factors including poor memories of formal school learning and doubts about the benefits of training. One approach to helping to overcome such concerns is union learning advocates. FÁS has initiated a programme to support union learning advocates in co-operation with ICTU and SIPTU. The aim of the programme, which is still at an early stage, is to help shop-floor employees to identify and meet their skill needs by

providing advice and advocacy on their behalf. The programme is modelled on the successful experience in the UK. As the programme is still at establishment stage it is too early to judge its success in Ireland.

3.4.4 Training of the Employed: Needs and Policy Responses

Government policy towards training of the employed has always been that prime responsibility rests with employers. The Government's role should be to encourage and stimulate actions where insufficient training is taking place. As a number of reports have noted, there is plenty of evidence that investment in training of the employed provides a positive return. However, these returns can accrue to four separate groups; the current employer, future employers, the individual employee and the government. In practice, it is very difficult to match costs to potential benefits (especially as these benefits are uncertain). Hence, the four potential beneficiaries, acting separately, are likely to under-invest. In economist's terminology, this represents a 'market failure'.²⁴ In general, the training policy premise is that intervention may be required in cases of market failure, and that, consequently, these are where public funding of training should be targeted.

The data presented above from the two surveys of employee training suggests that the main failures relate to small companies and in respect of older and poorly-qualified employees. The recent Expert Group report also identified some particular sectors as least likely to engage in training: construction, wholesale, retail, hotels/restaurants and other services. In other countries, part-time and temporary workers have also been found to receive relatively less training. A further consideration relates to the type of skill. Thus, it is argued, there may be particular problems relating to skills in relatively short supply or where the 'economic pay-off' would be relatively large. This argument, for example, might apply to management development (in that companies' success is particularly dependent upon it), export marketing, ICT skills, quality management or safety skills. In all these cases, the argument would be made that these skills provide relatively large externalities to others – and hence are likely to be the subject of 'market failure'.

In this context it is useful to emphasise that public funding is, and is likely to remain, a relatively small proportion of company expenditure on training. A report by the ESRI for the Expert Group on Future Skill Needs in 2003 found public expenditure was €49 million compared to an estimated company spend of €1 billion.²⁵ Since that time public expenditure by, especially, FÁS and Skillnets has increased so that in 2008 expenditure is likely to reach about €75 million.²⁶ However, total expenditure by companies was estimated at €1.5 billion in 2005 – though only about €420 million of this was on the direct costs of training courses.²⁷

While the 'market failures' noted above should be the ultimate objective of public intervention, direct subsidy may not always be the best approach. Rather, intervention to encourage companies to spend more of their own funds on employee training may be preferable. This has been achieved by collective funding (Levy/Grant) schemes, by promoting good company HRD practice (e.g. through the Excellence Through People process), through encouraging similar types of companies to form networks (e.g. Skillnets) or through providing training for managers (especially owner-managers) in good business practice (including HRD). These approaches provide alternatives to subsidies targeted at individual employees. In particular, there is a widespread view that a company will usually only be interested in training its employees if the managers are convinced, through their own experience, of the benefits of training.

Currently, public financial subsidies are provided to reduce the costs of training to companies in various circumstances. FÁS, Skillnets, County Enterprise Boards, Enterprise Ireland and Fáilte Ireland all provide financial subsidies either on the basis of a particular type of company (e.g. high-growth potential), size of company (e.g. micro), type of skill (e.g. export marketing), sectoral grouping (e.g. food sector Skillnets) or type of employee (e.g. low skill operatives and SME managers). FÁS' recent emphasis (through the Competency Development Programme) has been on particular types of skills and employees.

The Expert Group's recent report on different possible measures to promote training of the employed considered skills brokerage services, taxation, individual learning accounts/vouchers and learning leave.²⁸ The report was most positive towards the skills brokerage approach. As detailed above, FÁS has undertaken pilots in respect of both individual learning accounts and learning leave which

24. More extensive discussion of these issues was presented in the FÁS Training Strategy, 2005, and more recently in the Expert Group on Future Skill Needs report *Analysis of some potential mechanisms to increase participation in Education and Training in Ireland, 2008*.

25. *Data Analysis of In-Company Training in Ireland*, P O'Connell, EGFSN, 2005.

26. Note that we have not included an estimate of the cost of tax relief provided to individuals in this figure.

27. *Company Training in Ireland 2005*, R. Fox, FÁS 2008.

28. EGFSN, 2008, op.cit.

can help inform future choices. The FÁS Workplace Basic Education Fund pilot (see above) involved the use of brokers (although admittedly with a specific literacy focus) and FÁS' experience may be of value if a decision is taken to pilot a skills brokerage approach.

Overall, we draw a number of conclusions from this section. Firstly, Ireland must continue to invest in upskilling and training that will position the country to take advantage of a global economic upswing. It is a high priority for Government to invest in moving the economy up the value chain and to support endeavours to enhance Ireland's productivity, its international competitiveness and its ability to export goods and services. However, it is clear that the scale of upskilling activity needed for the NSS targets is greater than current or recent levels of activity.²⁹ Public expenditure can not bridge the gap fully, but must find ways of encouraging employers and employees to make greater efforts themselves. Renewed efforts must be made to influence employers to give as much attention to the training function as they give to other business areas. A strong vibrant training function, as promoted in the Irish HR standard, 'Excellence through People', would ensure the systematic identification of skills deficiencies and

training needs at all occupation levels, together with the identification of skills shortages in the labour market. Such a strengthening of the company-based training function would significantly enhance the upskilling of the employed.

There are a very wide range of initiatives and approaches in existence at present including four relatively new initiatives by FÁS targeted at the low-skilled. Experimentation will continue to be needed in the future to find ways to achieve the NSS vision. However, it will be important to avoid deadweight, especially in the current tight budgetary climate, by avoiding funding of activities for those who would be willing to pay for training anyway. Equally, we must ensure that support for some trainers does not displace equally-satisfactory others. Selective promotion of company training activity, coupled with specific support in the areas of market failure identified above, would seem to provide the appropriate policy approach for public intervention. Finally, there is still a need to examine whether greater use can be made of facilities in the education and training systems which may lie idle during parts of the year/week/day to provide up-skilling training for employed persons.

29. Anecdotal reports suggest that companies are currently cutting back severely on training due to the recession.

CHAPTER 4:

Young Persons Not in Employment, Education or Training (NEETs)

Recently, there has been increased interest in a number of countries about the concept of NEETS (Young persons who are Not in Employment, Education or Training). Such persons may be deemed to be a 'problem group' in that they are not gainfully-employed and are not developing qualifications or skills that would be of use to them in the future. The UK Government, in particular, estimates the number of NEETs each year and sets targets to reduce them. One British report, published in 2007, records 1.24 million NEETs in the UK, a figure that had grown by 15% during the decade.³⁰ The report argues that the failure to tap NEETs' potential undermines social cohesion, damages the economy and puts a growing strain on the Exchequer. The report estimates the cost of NEETs at £3.65 billion a year. Recently, the OECD analysed the number and

characteristics of NEETs across OECD countries. This chapter provides statistics on the situation in Ireland as well as comparative data for other countries.

We have investigated the situation for Ireland drawing on data from the CSO's Quarterly National Household Survey (QNHS). NEETs are defined as persons who:

1. said that their Principal Economic Status was not employed or in education and
2. had not received any education/training in the previous four weeks.

Thus, the number includes unemployed persons, people who could not work because of disability or ill-health and persons in un-paid caring roles in the home. Tables 4.1 and 4.2 present a profile of NEETs in Ireland in 2008.

Table 4.1: Profile of NEETs in Ireland 2008 – Age/Gender

TYPE OF NEET	15 -19			20-24			15-24		
	F	M	T	F	M	T	F	M	T
Not in Labour Force	3,200	2,500	5,800	18,800	7,700	26,400	21,900	10,300	32,200
Unemployed	2,800	5,500	8,300	6,900	13,900	20,800	9,700	19,400	29,100
Total	6,000	8,000	14,100	25,600	21,500	47,200	31,600	29,700	61,300
% of Age Group	4.3	5.5	5.0	15.2	12.9	14.1	10.3	9.6	9.9

Source: CSO QNHS, 2nd Quarter 2008.

Table 4.2: Profile of NEETs in Ireland 2008 – Age/Qualifications

	15 -19		20-24		15-24	
	No.	% of Age Group	No.	% of Age Group	No.	% of Age Group
Primary/Junior	9,100	4.3	17,300	43.5	26,400	10.4
Leaving Cert	4,400	6.7	21,600	10.8	26,000	9.8
Third-level	*	*	5,400	6.7	5,400	6.5
Other/ Not Stated	*	*	2,900	20.4	3,500	20.7

*Numbers too small to be reliable.

30. 'The Cost of Exclusion', Prince's Trust, 2007.

In total, 61,300 persons aged 15-24 in Ireland could be classified as NEETs in 2008. This represented 9.9% of the population of these ages. Females made up slightly more than half (52%) of the NEETs. The picture was different between the younger (15-19) and older (20-24) age groups. In respect of the younger group, there were 14,100 NEETs, only 4.5% of the age group. Nearly sixty percent were male and 59% were unemployed, with the remaining 41% not in the labour force. In contrast, for the older age group (20-24), there were 47,200 NEETs (14.1%). Women made up 54% of the NEETs and 56% of NEETs were not in the labour force. Thus, in essence, NEETs in the older age group were more likely to be women in the home with child care responsibilities.

Table 4.2 shows the position in relation to educational qualifications. The pattern, especially for 20-24 year olds, is as expected. Young persons with poor educational qualifications are much less likely to be at work than those with better qualifications. Perhaps the most striking figure is the 17,300 young persons aged 20-24 with below Leaving Cert qualifications who were NEETs. This was 43% of 20-24 year olds with below Leaving Cert qualifications.³¹ Sixty percent of these were not in the labour force, the others were unemployed.

It is important to note that, although significant, the level of NEETs in Ireland at 9.9% is less than half of the UK rate of 21%. (The extent to which this difference is due to different methods of calculation is not clear.)

It is of interest to examine trends in the number of NEETs in Ireland in recent years. Table 4.3 presents the main statistics from 2002 to 2008.

Thus, there has been a trend to an increased number of NEETs over the period 2002-2008, with 32% more NEETs in 2008 than in 2002. The percentage of NEETs has also risen by a similar rate. There was a particularly large increase between 2007 and 2008, with an additional 10,000 NEETs in the twelve months to the second quarter of 2008. Interestingly, the most rapid increase was in the number of unemployed (+46%) whereas the numbers not in the labour force rose by 22% between 2002 and 2008. The increase was greater for males than females. The increase in unemployed NEETs should not, however, be surprising. Overall, CSO statistics show that total unemployment in Ireland rose by 50% from 2002 to 2008.

It was noted above that most of the discussion of NEETs emanates from the UK. This, at least partly, is due to the relatively high level of NEETs there. Figure 4.1 opposite shows the position for a number of OECD countries, including Ireland, in respect of persons aged 15 to 19. (Note figures for Ireland presented above covered the age group 15-24).

It can be seen that the rate in Ireland is quite modest at 4% - 5% and this is similar to many other EU countries. However, Finland, Italy and the UK, and to a lesser extent Spain and Portugal, have significantly higher levels.

Table 4.3: Number of (15-24 year old) NEETs 2002 – 2008

	2002	2003	2004	2005	2006	2007	2008
Total	46,200	49,700	49,000	49,800	51,300	51,400	61,300
- Female	25,100	28,100	28,500	27,200	27,800	27,600	31,600
- Male	21,100	21,500	20,400	22,500	23,500	23,800	29,700
Total	46,200	49,700	49,000	49,800	51,300	51,400	61,300
- Unemployed	19,900	20,800	21,400	22,100	24,100	24,100	29,100
- Not in Labour Force	26,300	28,800	27,600	27,700	27,200	27,200	32,200
% NEETs	7.2	7.7	7.7	7.8	8.0	8.1	9.9

Source: CSO QNHS 2nd Quarter of each year.

31. CSO figures for adults aged 25-64 show that 53% of persons with Primary or below qualifications and 72% of persons with a Junior Cert were in the labour force in 2005 compared to 90% of persons with a degree.

Figure 4.1: Percentage of 15 to 19 year olds not in employment or education, 2007



Source: 'The cost of exclusion' op.cit, based on OECD data.

Recently, the OECD has undertaken further analysis of NEETs in a number of OECD countries including Ireland.³² Unlike the data presented above, however, the OECD only analyse the situation of persons who have left school. (Excluding persons still in education naturally raises the rates of NEETs compared to those shown earlier.)

As well as considering the number of NEETs at a point in time, as we have done earlier, they also look at numbers over a five-year period following the end of initial education. The results are shown in Table 4.4.

Table 4.4: NEET Status of Youth One, Three and Five Years after Leaving Education (%)

	NEET (All)			NEET (Male)			NEET (Female)		
	Total	Unemployed	Inactive	Total	Unemployed	Inactive	Total	Unemployed	Inactive
Ireland									
One year	29	10	19	28	7	20	31	13	18.
3 years	31	8	24	33	8	25	30	7	22
5 years	25	6	19	19	8	11	31	4	28
Australia*	19	6	13	10	7	4	28	5	23
Austria*	18	3	15	15	3	11	21	3	18
Denmark*	22	4	18	20	3	17	25	5	20
Germany*	20	7	12	15	8	7	24	6	18
Greece*	34	12	22	20	10	9	48	13	34
Italy*	36	17	18	27	16	11	45	18	27
Spain*	31	17	14	22	14	8	44	21	23
UK*	20	6	14	12	8	4	28	4	24

*Figures for each country refer to 5 years after leaving school.

Source: OECD Employment Outlook 2008, Table 1.5

32. OECD Employment Outlook 2008, OECD, Paris, 2008.

Thus, in respect of persons who have left school, the overall NEET rate one year later in Ireland was 29.5%. This comprised 10% who were unemployed and 19% inactive. The three year rate, in total, was slightly higher at 31.5%, but the unemployed rate had fallen to 7.8% and the inactive rate had risen. Five years after leaving education, the unemployment rate had fallen further (to 5.8%) while the inactive rate had also fallen to 19.4%. The Irish figures are perhaps surprising in that the rate of inactivity is as large (for the first three years after leaving school) for males as females. However, by the fifth year, a more expected pattern is found with 27% of the females inactive compared to 11% of the males.

Comparing the five-year after school position in Ireland with other countries shows that, in total, Ireland had a NEET rate (25%) which was considerably lower than Southern European countries' rates (e.g. Italy 36%, Spain 31%, Greece 34%). However, our rate was higher than countries such as Australia (19%), Austria (18%), Germany and the UK (20%). Our rate was lower than the Southern European countries because of lower unemployment, but higher than the other countries because of higher rates of inactivity.

The OECD also calculate the 'always', 'ever' and 'average' rates of NEETs for the 5-year period after school. An extract from the results is shown in Table 5. This also shows the

experience of persons who were NEET in their first year after school in terms of the permanence or otherwise of their situation.

As shown in Table 4.5, 43% of Irish school-leavers had experienced a spell as a NEET in the five years after school, and 11% had continually been NEETs over the period. The 'always' rate for Ireland can be compared with a high of 24% for Italy and a low of 4% for Denmark. Indeed, Denmark is interesting as it has a high 'ever' rate but large exit and recurrence rates. Thus, it seems that there is more mobility in the Danish youth cohort than in most other countries. Overall, the average NEET Years figure for all the countries shown is quite similar at 3 to 3.6 (note that this is the rate for those who were NEET in their first year after education - not all young people). So, although NEET spells may often be short, persons who experience this situation accumulate on average over 3 years NEET experience during their first five years out of education.

As noted earlier, low-skilled youths are more likely to be NEETs than medium or high-skilled youths. For the EU 10 the OECD reports that 40% of low-skilled youth were never NEETs compared to 57% of medium or high-skilled youths. These differences apply to both women and men.

Table 4.5: Analysis of NEETs over 5 Years

	EVER NEET %	ALWAYS NEET %	NEET YEARS	EXIT RATE %	RECURRENCE RATE %
Ireland	43	11	3.3	63	36
Australia	30	5	3.0	69	30
Austria	46	11	3.1	69	33
Denmark	61	4	3.2	85	63
Germany	41	6	3.2	62	28
Italy	62	24	3.6	54	30
Spain	68	12	3.1	77	47
UK	36	8	3.4	57	26

Notes: The final three columns refer to persons who were NEET in Year 1. 'NEET Years' refers to the total duration during the five years of those who were NEET in Year 1. Exit rate refers to NEET in Year 1 but not NEET in Year 2. Recurrence rate refers to those who exited in Year 2 but were NEETs sometime in the following three years.

Source: Extracted from OECD Employment Outlook 2008, figure 1.10.

Conclusions

The concept of NEETs has received growing interest from policy-makers in recent years in a number of countries, especially the UK, and in the OECD. The overall number and percentage of NEETs in Ireland seems relatively modest as measured by the proportion of young people in this situation. However, as unemployment increased during 2008 so the percentage of NEETS has risen to nearly 10%. If we consider only persons who have left the education system we find that 25-30% of young persons are NEET, that 43% were NEET at some point in the five years after leaving full-time education and that 11% were continually NEET over the period.

Most concern may be felt for the sub-group of young persons with below Leaving Certificate qualifications. Over forty percent of this group were NEETs in 2008 according to the Irish data reported here. There is a danger that these persons will continue to remain marginally-attached to the labour force for much of their lifetime and hence face social exclusion.

As unemployment rises, young disadvantaged persons are likely to be among those most affected. Programmes such as Youthreach aim to address the needs of this group, but there is perhaps a need for a re-consideration of the extent to which this programme is currently 'picking-up' all those who should benefit from it. There is a need for a systematic approach whereby schools notify the relevant authorities when pupils leave early, and procedures are in place to contact and refer such persons to suitable provision such as Youthreach. Indeed, such provision should be guaranteed to persons with no educational qualifications. Attainment of education and training qualifications, whether they be the Leaving Certificate or other Level 4/5 qualifications, should be a core objective of Youthreach provision.

In respect of unemployed NEETs, there is a need to ensure that successful activation takes place. As noted in Chapter 3, where inactivity is due to child-care, Government policies towards child-care and, at a later stage, training and further education may help poorly-educated parents to enter the paid workforce when their children have become old enough to no longer need full-time parental care.

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FÁS – Training & Employment Authority

27-33 Upper Baggot Street, Dublin 4, Ireland

Telephone +353 (0)1 607 0500 Fax +353 (0)1 607 0600

For more information visit www.fás.ie or e-mail info@fás.ie

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