

# Prospects for 2002 and Beyond

The Irish Labour Market: Prospects for 2002 and Beyond



Expert Group on  
**Future Skills Needs**

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## 1. Executive Summary<sup>1</sup>

The Third report of the Expert Group on Future Skills Needs, published prior to the tragic events of September 11th, could not have foreseen the extent of the slowdown that is currently taking place in the world economy.

This study aims to provide an up-to-date outlook for the Irish labour market in the context of recent macroeconomic developments. The study analyses both the short and medium-term prospects for the labour market. The following areas are covered: labour market developments over the last decade, recent labour shortages and their implications, the current labour market situation, and the outlook for the labour market to 2007. The final chapter examines the implications for policy arising from the study.

The unprecedented economic growth of the last decade was facilitated by a significant increase in both the quantity and quality of the labour supply. A younger, better-educated population, increased female participation rates and more recently net in-migration flows all contributed to the rapid growth in the supply of labour. In spite of this, significant labour shortages emerged, as the demand for labour outstripped supply. There were 78,000 vacancies in 1999/00, an increase of almost 17% on the previous year. These labour shortages restricted business development and service quality as well as exerting upward pressure on wages. The ESRI estimates that non-agricultural wages rose by 8% last year with a further rise of 10% expected for 2001.

Given that Ireland is a small open economy, it was inevitable that the recent economic global slowdown would lead to a deterioration in our economic performance. Estimates suggest that GNP growth for 2001 will slow to about 5%. While the unemployment rate is currently only 4.1%, the Live Register for November 2001 was 15,000 higher than in June 2001. Figures released for October 2001 reveal that notified redundancies are also rising, up 42% on last year, with further job losses forecast.

While analysts agree that GNP growth will slow in 2002, there is significant variation in their predictions, with estimates ranging from as low as 1% to as high as 5%. Given the current climate of uncertainty forecasters are bound to disagree on the precise magnitude and duration of the slowdown. Nevertheless, there is a widespread expectation that the economy will recover in the medium-term with average GNP growth rates of about 5%.

The current slowdown will have a negative impact on the demand for labour in the short-term with employment growth expected to be much lower in 2002 and possibly even negative. A reduction in labour supply growth is also predicted due to a combination of fewer students entering the workforce, static female participation rates, and reduced net in-migration. Despite this reduction in labour inflows, the unemployment rate looks set to rise

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<sup>1</sup> This report has been prepared by Brian McCormick of the Skills and Labour Market Research Unit of FAS on behalf of the Expert Group on Future Skills Needs.

significantly in the short-term from its current rate of 4.1%, before returning to a level closer to full employment during the medium-term.

All sectors with the exception of non-market services are set to experience a temporary fall or levelling off in employment in the short-term. However, in the medium-term, employment is set to rise, with the largest increase predicted to be in the services sector, with the number of jobs in non-market services and market services employment forecast to rise by 23% and 18% respectively. Employment in the hi-tech sector which has grown rapidly over the last 5 years, is actually forecast to fall by 4,000 in 2002 before increasing by 15% to 170,000 in 2007.

At an occupational level, the most significant growth rates are expected for managers, professionals and sales workers. On the other hand, the occupations most vulnerable in the current economic slowdown are semi-skilled production operatives, skilled maintenance workers and, scientific and technical workers. In the medium term, labour supply should be broadly in line with demand at an aggregate level, however, surpluses are expected for production operatives as well as some transport and communications occupations.

In the short-term we should witness an easing of labour shortages, although bottlenecks for specific occupations (e.g. the medical professions) look set to persist due to an inadequate supply of suitably qualified domestic labour. While immigration can help to alleviate these temporary shortages, a targeted approach is needed. Immigration policy will need to concentrate on attracting highly skilled immigrants for specific occupations where there is a clear shortage of domestically skilled labour. This will inevitably lead to a reduction in the volume of work permits being issued (26,000 were issued in the first nine months of 2001).

Specific programmes will also need to be put in place for those who become unemployed in the short-term. The harsh lessons of the 1980s highlight the importance of having an active labour market response to ensure that those unemployed during the short-term downturn in the economy do not join the ranks of the long-term unemployed. In order to avoid demoralisation and deskilling, the short-term unemployed need to be retrained during the recovery phase.

The analysis contained in this paper indicates that the medium-term outlook for the Irish labour market is positive and that policy should be focused on helping address medium-term needs. Hence, while increasing the labour supply is of no immediate relevance in the short-term, it is consistent with maintaining competitiveness internationally and increasing the employment rate in the medium term.

Provided domestic policy is shaped with medium-term objectives in mind, there is no reason why a short-term slowdown should leave a legacy of lower growth rates and higher unemployment. Therefore, we suggest consideration should be given to the following policy responses:

- A reduction in the volume of immigration in the short-term, given that the demand for labour is set to fall in the short-term. A more selective immigration policy should be developed, targeting those who are skilled in occupations where there is a clear shortage.
- Further measures by Government and the social partners are needed to promote flexible, family friendly working arrangements, such as part-time work and teleworking, combined with adequate childcare provision, if female participation rates are to increase over the medium-term. Recent research suggests that tax and benefit policies aimed at increasing the take home pay of low income earners will also encourage female participation, although their effectiveness should not be overestimated. Additional measures in this area should be developed.
- The National Employment Action Plan process of pro-active support should be widened by FAS to include both the long-term unemployed and the short-term unemployed with poor labour market prospects.
- Market-orientated active labour market programmes will be needed to ensure that those made redundant in the short-term will be equipped with relevant skills so that they can regain employment as the economy recovers.
- Retraining programmes need to be put in place to redirect those at risk of unemployment in declining industries towards growth industries, where labour shortages are likely to emerge.
- Specific provision should be made for the training of older members of the labour force in order to encourage and enable their future participation in employment in the medium-term when the demand for labour is expected to increase. A recent report by the *Expert Group for Future Skills Needs and the National Competitiveness Council*, addresses the issue of labour force participation of the over 55s in Ireland, directly.
- Increasing the flexibility of the existing workforce by continued investment in advanced skills training. This more relevant than ever given the challenges posed by membership of the EMU and unfavourable demographic trends.
- Decisions about future third-level education and training provision for young persons should be orientated to the medium and long-term when an increasingly qualified and skilled workforce will be required. In particular, there is a continued need for further investment in IT skills as outlined in the Third Report of the Expert Group on Future Skills Needs.

- In the short-term, FAS in co-operation with the social partners and the education system may need to operate an intervention strategy to cope with the possibility that apprentices will be made redundant before their apprenticeship is completed.
- Expenditure on Life-Long Learning should be given a greater priority and the proportion of the workforce availing of third-level education should be increased through appropriate measures to expand part-time provision and remove barriers to access.

## 2. Introduction

The Third report of the Expert Group on Future Skills Needs, published prior to the tragic events of September 11th, could not have foreseen the extent of the slowdown that is currently taking place in the world economy.

This study aims to provide an up-to-date outlook for the Irish labour market in the context of recent macroeconomic developments. The study analyses the prospects for the labour market over both the short and medium-term. From a policy perspective, the distinction between the short-term and medium-term is an important one. Short-term considerations inevitably influence policy. Nevertheless, a clear medium-term strategy is also required to ensure that a transitory economic shock does not divert the economy from its long-run growth trajectory.

The study addresses the following areas: labour market developments over the last decade, recent labour shortages and their implications, the current labour market situation, and the outlook for the labour market to 2007. The final chapter examines the implications for policy arising from the study.

## 3. Labour Market Review

### 3.1 Labour Market Trends

Over the last decade, unprecedented economic growth has seen Ireland's GDP almost double in size. Significant inflows of foreign direct investment (FDI), moderate wage increases, prudent management of the public finances, lower tax rates, low inflation and the relative stability of our exchange rate have all helped create an environment conducive to strong economic growth. When taken together, these factors enabled the enterprise sector to increase its competitiveness internationally.

While these economic conditions were necessary to facilitate competitiveness and increased domestic productivity, the pace of economic growth could not have been sustained without corresponding increases in the quality and quantity of the labour supply.

Improvements in labour quality occurred thanks to the rising levels of educational attainment of the young population entering the workforce, the product of significant investment in the education system in the 1980s and 1990s. A highly educated workforce not only attracted foreign direct investment but also increased the productivity yield from these investments. The ESRI estimates that this improvement in labour quality explained almost 20 per cent of the total growth in output during the 1990s. The benefits of economic growth were not, however, merely limited to foreign firms. Indigenous firms in manufacturing and services also enjoyed robust growth in both productivity and employment levels.

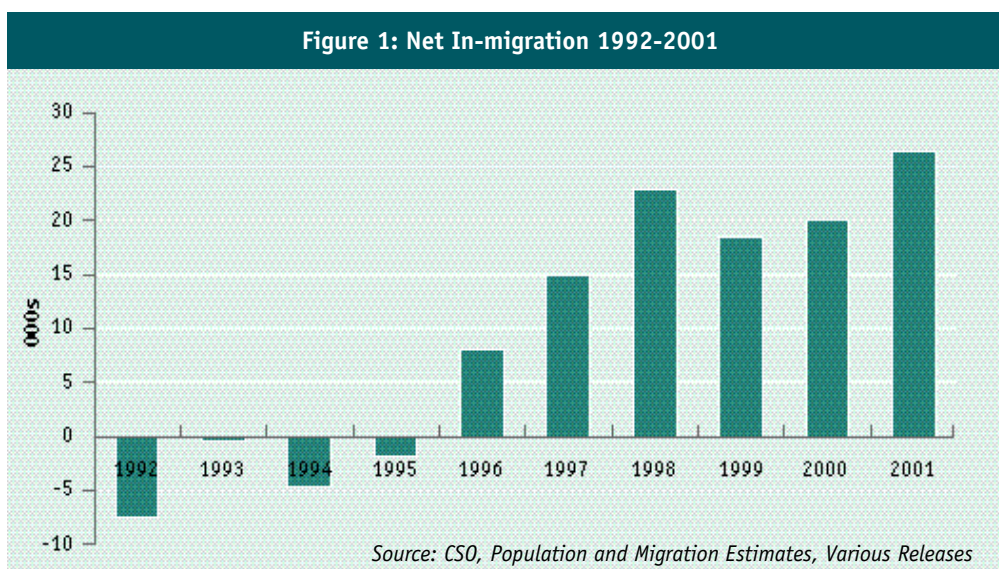
The growth in the productive capacity of the workforce was complemented by a parallel expansion in the size of the labour force, arising from substantial rises in both the population of working age (15–64 age group) and female participation rates, along with a reversal in the trend of net migration. Much of the resulting labour force increase was concentrated among the higher skilled. This reduced the severity of labour/skill shortages precisely when the demand for skilled labour was increasing rapidly.

The rapid growth in the economy translated into historic gains in employment. GNP increased by two-thirds over the last ten years, while employment levels doubled. The latter half of the 1990's saw the most pronounced growth in both economic activity and employment levels, with average annual growth rates of 8.5% and 5% respectively.

For most of the 1990s, the increase in the labour supply, allied to a succession of social partnership agreements that traded tax cuts for wage restraint, helped moderate wage growth in the face of rapid economic expansion. As a result, Irish exporters were able to enjoy a comparative advantage in labour costs vis-à-vis their competitors. In more recent times, however, Irish wage rates have risen faster than the rest of the EU, as the labour market has begun to tighten with many sectors experiencing excess demand for labour.

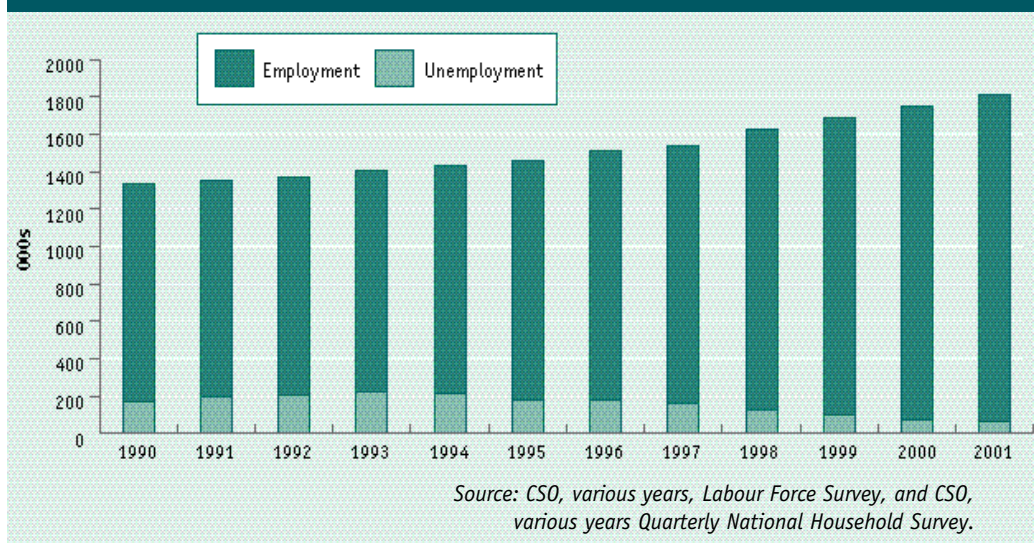
Below is an outline of some of the most important developments in the labour market during the last ten years:

- Between 1991 and 2001, Ireland's population grew by 313,000 persons to 3.84 million, an increase of 8.9%.
- During the same period, the country's population of working age – those between 15 and 64 years – rose by 406,000 to 2.59 million, an advance of 18.6%.



- In each year since 1996, Ireland has experienced net in-migration resulting in a net inflow of 110,600 in total or 18,400 per annum. This is in marked contrast to the 1985-90 period when there was a large net out-migration flow of 179,700. In the year 2000, we had the second highest net-immigration rate in the EU, 5.3 per 1,000 of the population, more than twice the EU average.
- Female labour force participation increased significantly, due to a combination of cultural changes, rising educational attainment and growing labour demand. In 1983, just over one-third of working age women were active in the labour force. By the third quarter of 2001, 55% of women of working age were members of the labour force. Women now account for more than 2 out of every 5 people working outside the home.
- The numbers in the labour force rose from 1.35 million in April 1991 to 1.78 million in April 2001, an increase of 32%.
- Between 1991 and 2001, the numbers at work increased by 560,000 or 49%. Total employment rose from 1.16 million in April 1991 to 1.72 million in April 2001.
- The rapid expansion in employment over the last decade has enabled many of those who were previously unemployed to find jobs. Between April 1993 and April 2001 total unemployment (ILO basis) fell from 223,000 to 65,000. Over the same period, the unemployment rate fell by 12 percentage points, from 15.7% to 3.7%.
- There has been an even more dramatic reduction in the number of long term unemployed. The numbers out of work for more than one year had fallen from

**Figure 2: Labour Force Growth 1990-2001**



125,400 in April 1993 to just 20,500 by April 2001. This represents a reduction in the long-term unemployment rate from 8.9% to 1.2%.

- A typical forms of employment have become much more common. Over one-third of the net addition to employment between 1993 and 2001 consisted of part-time jobs. The number of people in part-time employment in the third quarter of 2001 was 291,700 making up almost one sixth of total employment.
- The increase in the labour supply, combined with successive wage agreements kept nominal wage rates low for much of the 1990s. However, as the labour market began to tighten in the latter half of the decade, wages began to rise significantly. Between 1995 and 2000 non-agricultural wages grew by 5.5% per annum. The market services sector experienced the most rapid wage growth during this period with an annual average increase of 7.3 per cent. Wages in the industrial sector rose by 4.8% over the same period. Both of these sectors recorded their fastest levels of wage growth in the latter half of this period.

### 3.2 Labour Shortages and Earnings in Ireland in 1999/2000

Skill, and subsequently, labour shortages became more apparent during the latter years of the Irish economic boom, adversely affecting the economy's competitiveness. Labour shortages undermined both business expansion and investment confidence, and led to more rapid wage growth. In the face of scarce supply, employers were forced to bid up wages in order to fill an increasing number of vacancies. The most recent FAS\Forfas\ESRI survey of employers' vacancies carried out in 1999/2000 showed that a significant minority of employers (31 per cent) were experiencing difficulties in filling vacancies. This represents a four-percentage point increase from the previous survey in 1998/99<sup>2</sup>.

In terms of absolute numbers, there were 77,600 vacancies in 1999/2000, having risen by almost 17% from the previous year. This means that 6.5% of the total labour requirement was not being met in 1999/00 compared to 5.8% in 1998/99. This increase was all the more striking when one considers that it occurred side by side with an expanding labour force.

The Manufacturing sector experienced the highest incidence of vacancies with over 50 per cent of firms recording at least one vacancy. Compared to the previous year, the incidence of vacancies in the Traditional Manufacturing and Hi-Tech sectors fell by a few percentage points. The largest year-on-year rise was in the Construction sector where the incidence of vacancies almost doubled from 18 per cent in the 1998/99 survey to 34 per cent in 1999/2000<sup>3</sup>.

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<sup>2</sup> A more recent survey by the Chambers of Commerce of Ireland (Labour Force 2001) conducted this year estimates that 40% of the firms surveyed recorded a vacancy. This represents a two percentage point increase on the 1999 figure.

<sup>3</sup> The Chambers of Commerce survey also found about 50 per cent of Manufacturing firms reporting vacancies. However, they found that the highest incidence of vacancies was among Transport and Communications firms (62 per cent), up 22 percentage points on the year 2000. They also note an apparent decline in the incidence of vacancies in the Construction sector down to 41% from 48% in 1999.

**Table 1: Percentage Vacancies by Occupational Group 1998 - 2000**

Occupational Group	%	
	Vacancies/Employment 1998/99	1999/00
Managers/Proprietors	2.3	2.0
Other Assoc. Professionals	1.0	2.2
Science Associate Professionals	5.1	2.5
Security	8.2	3.6
Science Professionals	7.1	3.8
Production Operatives	5.4	4.3
Transport & Communications	4.6	5.0
Sales	6.6	5.1
Clerical & Secretarial	5.3	6.1
Labourers/Unskilled	4.5	6.3
Engineering Professionals	11.0	7.1
Other Professionals	3.2	8.9
Computer Professionals	14.9	9.4
Computer Associate Professionals	12.9	9.6
Skilled Maintenance & Skilled Prod.	8.6	10.5
Personal Services	7.2	10.6
Engineering Associate Professionals	10.6	15.1
<b>Total</b>	<b>5.8</b>	<b>6.4</b>

Source: FAS\Forfas\ESRI National Survey of Private Sector Vacancies 1999/2000

Table 1 disaggregates these vacancies into occupational groups and shows them as a percentage of total employment in each occupation comparing 1998/99 with 1999/00.

While Engineering Associate Professionals (Technicians) had the highest vacancy rate (15 per cent), the survey found that rates were relatively high for a wide range of occupations, even among those often characterised as having a lower skill content such as Personal Services (10.6%) and Labourers/Un-Skilled (6.3%).

Five occupational groups accounted for over two thirds of the vacancies recorded. These were Skilled Maintenance & Production Workers (18 per cent); Personal Services (16 per cent); Clerical & Secretarial (13 per cent); Production Operatives (11 per cent) and Sales (9 per cent). The diversity of these occupations suggests that the problem of unfilled vacancies has been a widespread phenomenon.

The largest growth in vacancies was among construction workers (143 per cent) rising from 5,700 in the previous survey to 13,700. Other occupations that experienced significant increases in the number of vacancies include: Skilled Maintenance and Production Workers (4,500), Personal Services (4,500), "Other Professionals" (3,000), Labourers/Un-Skilled (2,300) and Engineering Technicians (1,500). Vacancies for Production Operatives fell from 10,000 in 1998/99 to 8,300. Interestingly, vacancies for occupations in the IT sector also fell (albeit modestly) with the figures for Computer Professionals and Computer Associate Professionals falling by 600 and 200 respectively. This may in part be due to the Y2K phenomenon that would have required a greater recruitment drive during 1998/99.

The percentage of firms in Dublin that experienced vacancies (35 per cent) was six percentage points higher than in the rest of the country. Regional variation was most pronounced in the Construction sector with 56 per cent of Dublin firms recording a vacancy compared with only 25 per cent in the rest of Ireland. Over the period 1998/99 to 1999/00 labour shortages in the rest of the country increased relative to Dublin. In 1998/99 the incidence of vacancies in Dublin firms was 40% higher than the rest of the country. By 1999/00 the gap between Dublin and the rest of the country had narrowed to 20%.

Approximately one in four firms surveyed in 1999/2000 claimed that they were experiencing "difficult to fill vacancies", the same as for 1998/99. The occupations where difficult-to-fill vacancies occurred most frequently were Skilled Trades Persons; Clerical; Retail Sales; Technical Sales and Labourers/Unskilled Workers, similar to the pattern in 1998/99<sup>4</sup>. Eighty-one per cent of firms experiencing difficult-to-fill vacancies claimed that these labour shortages had led to an increased strain on management and staffing. Firms perceived restricted business development (62 per cent) and loss of quality of services (57 per cent) as being the next most significant consequences of difficult-to-fill vacancies. Other problems mentioned on a quite frequent basis included increased recruitment costs; increased running costs and loss of business to competitors (each mentioned by 30-40 per cent of relevant respondents).

The IBEC/ESRI monthly survey of industrial sectors provides another measure for assessing the impact of labour shortages on output. Among the questions asked in the IBEC/ESRI survey is "is production constrained by an insufficient supply of skilled labour and/or unskilled labour".

In 2000 as a whole, 7.9% of companies stated that their production was constrained by a shortage of labour, up from 4.4% in 1998. Interestingly, the sectors most affected by labour shortages were traditional, indigenous ones, such as clothing, wood and food. The percentages varied significantly between different industrial sectors.

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<sup>4</sup> The 2001 Chambers of Commerce Survey estimates that the incidence of difficult to fill vacancies has risen from 33% of companies in 2000 to 45% in 2001. Of the companies surveyed 52% stated labour shortages as the main reason why they could not fill the vacancies.

Table 2 compares the FAS\Forfas\ESRI vacancies data with earnings data provided by the CSO, in an attempt to assess to what extent, if any, labour shortages have contributed to the recent growth in wages. The two sectors that recorded the highest vacancy rates in 1998-2000 (Transport/Personal/Other and Construction) were also the two sectors that witnessed the largest increase in average weekly earnings.<sup>5</sup> The data seems to be consistent with the expectation that earnings growth would be higher in those sectors where labour shortages were most acute. Analysis of the CSO data on average industrial average hourly earnings during 1998-2000 plotted against the IBEC/ESRI data, also suggests a positive relationship between labour shortages and wage growth.<sup>6</sup>

Sector	Vacancy Rates		Change in Earnings
	1998/99	% 1999/00	% 1999/00
Traditional Manufacturing	6	5	6.8
Hi-Tech Manufacturing	5	4	6.8
Construction	6	11	14.0
Distributive Services	6	5	7.9
Finance/Insurance/Business Services	5	6	4.3
Transport/Personal/Other	6	7	7.9

Source: FAS\Forfas\ESRI, and CSO

Unfortunately, it is not possible to produce a simple average earnings figure across all sectors as earnings are measured differently across sectors. The industrial data do not include bonus payments while the data for the other sectors do. Also, hourly earnings data are only available for two sectors, Industry and Construction. Given the importance of wage levels in national economic policy formulation, more comprehensive earnings data would be extremely welcome as this would facilitate more detailed analysis and better informed policy making.

## 4. The Current Environment

### 4.1 The Economic Environment

The current downturn in the US economy, that began half way through 2000, has been followed by slowdowns in each of the world's major economies, most notably Japan and the

<sup>5</sup> It must be noted, however, that there is not an exact correspondence between the Transport/Personal/Other category of the vacancies survey and the Transport categories of the CSO Earnings releases.

<sup>6</sup> FAS Labour Market Update Paper No. 2, 2001.

EU. The uncertainty resulting from the tragic events of September 11th has compounded the economic problems currently confronting the global economy. At the moment, there seems little prospect of a recovery in the short-term, with a real possibility that current difficulties could precipitate a temporary recession in world demand.

As a small open economy, our economic performance depends significantly on the health of the world economy. There are signs that the Irish economy is beginning to experience the fallout from the recent global slowdown. Reductions in export growth, industrial production, exchequer returns and retail sales have all manifested themselves in recent months. GNP growth in 2001 is expected to be about 5%, down from 10% in 2000. These figures understate the full extent of the slowdown given that much of the growth in 2001 is only a legacy of the momentum generated by the unprecedented growth in the year 2000.

The recent spate of redundancies among Information and Communications Technology (ICT) firms has highlighted the vulnerability of the Irish economy to a downturn in this sector. The fall in export growth following the slowdown in aggregate demand has been predictable, given that a large proportion of ICT exports are Europe bound. The damage to non Eurozone exports has been limited, thanks to the persistent weakness of the euro, which has enabled Irish-based firms to price their exports competitively. Nevertheless, a continued deterioration in the performance of the US economy could lead to a sharp appreciation in the euro vis-à-vis the dollar. This could result in a significant loss of competitiveness for the Irish economy, especially if such an appreciation coincided with rapid wage growth.

## 4.2 The Labour Market Environment

The total number of persons in the labour force in the third quarter of 2001 was 1,866,000, up 50,500 on the third quarter of 2000. This represented a slight increase in the annual growth rate from the previous year when the labour force grew by 45,000. Demographic factors such as immigration and changes in the age structure of the population accounted for most of the increase in the labour force.

It will be a while before the true impact of the economic slowdown is reflected in labour force statistics. Figures from the CSO reveal that employment continued to grow in 2001, with the number of persons employed in the third quarter (June-August) of 2001 at 1,787,000, up 49,000 on the previous year. However, the year-on-year increase in employment, at 2.8%, was below the 4.1% recorded between the third quarters of 1999 and 2000, which would suggest that the slowdown had begun even before the September attacks.

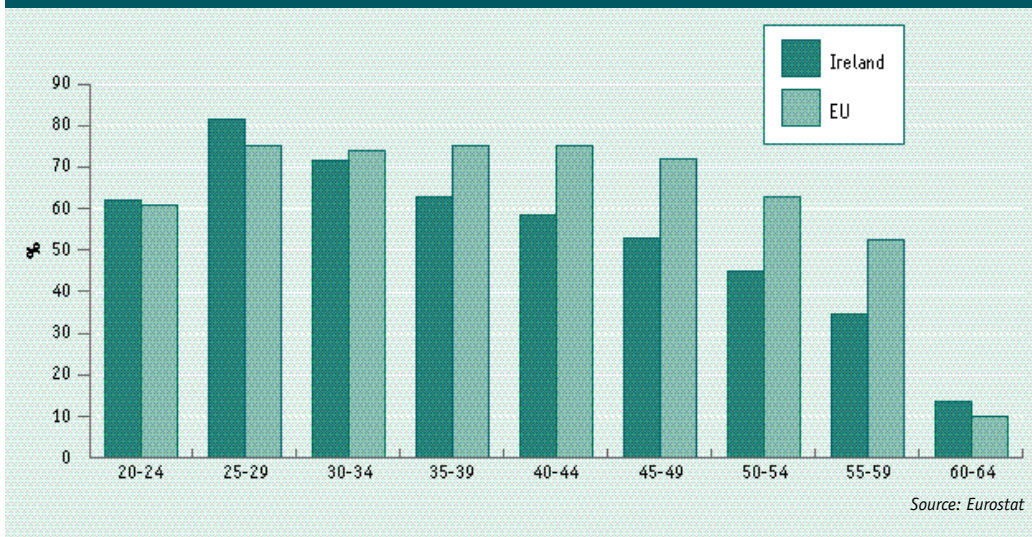
The 4.3% unemployment rate for the third quarter of 2001 was the same as for the corresponding quarter in 2000 but up on the 3.7% rate for the second quarter of 2001. This

translates into a modest annual increase of 1,800 in the numbers unemployed. This was the first such increase since April 1996. However, the number of long-term unemployed continued to fall. The number of long-term unemployed in the third quarter of 2001 was 22,100, down 3,600 on a year previously.

Employment in the Border, Midlands and West region grew by 21,100 (4.9%) and in the Southern and Eastern region by 27,600 (2.1%) in the year to the third quarter of 2001. Unemployment grew slightly in both regions: in the Border, Midlands and West by 800, and in the Southern and Eastern region by 1,000. When disaggregated to the level of planning regions, we see that the unemployment rate was lowest in the Dublin region at 3.3%, and highest in the Border region at 6.8%.

Female participation rates rose very slightly from 49.4% in the third quarter of 2000 to 50.1% in the third quarter of 2001. EU labour force statistics show that the Irish female participation rate for the second quarter of 2000 was 47.2%, slightly above the EU average of 46.9%. However, for women aged 25 to 64 – the ages most likely to be in the labour force – the Irish female participation rate was 65.1% compared to the EU average of 72.2%. Hence, female participation rates continue to lag behind their EU counterparts in this age group.

Figure 3: Female Labour Force Participation Rates 2000



Ireland experienced net in-migration of 26,300 in the year to April 2001. This net figure comprised 46,200 immigrants and 19,900 emigrants. The number of immigrants was up 3,900 (9.2%) on 2000 but slightly lower than the 47,500 people that immigrated to Ireland in 1999. There has been a significant increase in the proportion of immigrants originating from countries outside the EU and the US. Immigrants from outside the US and the EU accounted for 38% of total immigration in 2001 compared to only 21% in 1999. The number of emigrants (2,400) was 11% lower than in the year to April 2000 and was the lowest level of emigration recorded since detailed estimates began in 1987.

Figure 4: Work Permits Issued 1993 - 2001\*



The number of work permits issued in the first nine months of 2001 was more than any previous year and up 46% on the whole of 2000. Nearly six in ten work permits were issued to Europeans, two in ten to Asians, one in thirteen to Africans, one in twenty to North Americans and to nationals from Oceania, and 3% to South/Central Americans. Three quarters of the work permits issued were for people taking up employment in the services sector compared to only one in thirteen in industry. Two sub-sectors accounted for nearly a third of the permits issued, catering (26%) and medical and nursing services (6%)<sup>7</sup>.

## 5. Medium-Term Outlook

### 5.1 Economic Outlook

Economic growth will be the primary determinant of labour demand in the future. The ESRI Medium-Term Review (MTR) contains several economic growth forecasts based on alternative scenarios. While the scenarios involve significantly different short-term forecasts, they all point to healthy medium-term GNP growth of approximately 5% per annum.

The ESRI believes that its "slowdown" scenario probably represents the most realistic forecast given that the tragic events in New York have occurred on top of the current slowdown in the global economy. In the slowdown scenario, the ESRI predicts a temporary US recession that dampens demand for goods and reduces output in other major economies, most notably the Eurozone. The US slowdown is also expected to weaken the value of the dollar vis-à-vis the euro.

<sup>7</sup> According to the Chambers of Commerce Survey, the percentage of companies who have recruited non-nationals has almost doubled from 14% in 1999 to 26% in 2001. The industries where companies have been most prolific at recruiting foreign immigrants in the last year were Hotel/Tourism and Catering (36 per cent), Transport and Communications (32 per cent) and Manufacturing (30 per cent). Only 7 per cent of Financial Services companies surveyed recruited non - nationals in the last year.

In the short-term this will create an unfavourable trading environment for the Irish economy. A slowdown in demand for Irish exports will be compounded by a loss of competitiveness against competitors in the UK and the US due to the appreciation of the euro. While a fall in interest rates will limit the damage to our competitiveness, the slower demand in important European markets will inevitably create problems for Ireland's traded sector. There will also be a cutback in US foreign direct investment which will hurt Ireland more than most other EU countries, given the proportion of US multi-nationals currently based in Ireland.

Domestically, the decline in output will reduce personal disposable incomes while economic uncertainty should increase the propensity to save. These combined domestic effects will lead to a reduction in personal consumption. Given the decline in both exports and domestic consumption, the MTR envisages GNP growth slowing to 1.8% in 2002. While analysts agree that economic growth will slow this year, there is significant variation in their estimates, with predictions as low as 1% and as high as 5%.<sup>8</sup> In the current climate of uncertainty, forecasters are bound to disagree on the precise magnitude and duration of the downturn. Nevertheless, there is a widespread belief amongst analysts that the economy will recover in the medium-term with average GNP growth rates of approximately 5%.

This benign medium-term outlook is predicated on the US economy recovering in 2003, with Europe following suit, thereby reinvigorating demand for Irish exports, foreign direct investment and domestic consumption. The ESRI points out that there is no reason why a short-term slowdown should cause long-term damage, provided domestic policy is shaped with medium-term objectives in mind.

## 5.2 Labour Demand Outlook

However, the slowdown will have significant implications for the demand for labour in the short-term. In the MTR slowdown scenario employment growth is forecast to fall from an annual average of 5% in 1999-2001 to only 0.6% for 2002-2004. The Department of Finance also forecast a slowdown in employment growth during 2002-2004, although their annual average growth estimate of 1.5% represents a more optimistic short-term outlook than the ESRI forecast. However, the ESRI does foresee a recovery in the medium-term, with employment levels increasing by almost 3% annually.

In absolute terms the ESRI expect employment to fall by 12,000 over the next two years. Nevertheless in the medium-term, employment levels are set to rise by an average of 45,000 for each year during the 2004-2007 period. The overall increase in employment over the 6 years to 2007 is forecast to be over 178,000 (10%).

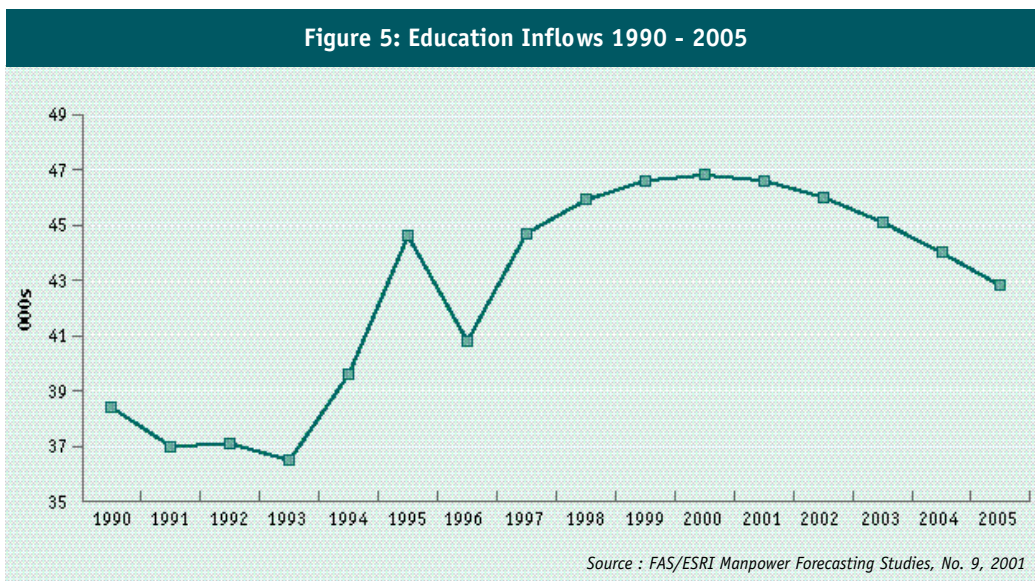
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<sup>8</sup> The OECD in their Economic Outlook are predicting that Irish GNP will grow by 2.9% this year. This represents a slightly more optimistic short-term outlook than the ESRI.

### 5.3 Labour Supply Outlook

The rapid economic growth experienced during the 1995-2000 period was facilitated by a substantial rise in the supply of labour. However, large increases in the supply of labour can no longer be relied upon to continue our economic expansion as labour force growth is set to slow, the reasons for which are discussed below.

The high birth rates of the 1970s translated into large natural increases in the labour force during the 1990s. The birth rate was as high as 23 births per thousand of the population in 1972. However, after 1981 the birth rate plummeted, falling to as low as 13 births per thousand in 1994, before recovering slightly in the last 6 years. Given this dramatic decline in the birth rate, the natural increase in the labour supply will inevitably fall in the coming decade. The latest FAS/ESRI forecast report estimates how this will affect education inflows into the labour force in the coming years. As can be seen from Figure 5 below, inflows into the labour force from education are projected to decline steadily over the coming years having peaked at approximately 47,000 in 2000.



Increased female participation rates, another significant factor in the growth of the labour supply during the 1990s, are also set to decline in importance over the coming years. Participation rates, especially for younger women, have reached such high levels (76.3% among 25-34 years old), that the scope for further increases is limited. The ESRI notes that when educational attainment is controlled for, Irish women aged 25-30 have among the highest participation rates in the EU. However, increases are possible for older cohorts where participation rates are low relative to the rest of the EU.

The contribution of net in-migration to labour force growth is also set to be a lot less pronounced than in the previous decade. Net in-migration could disappear in the short-term

as Irish emigrants postpone their return and some of those who have come to Ireland in recent years leave. And while CSO figures show net in-migration in the year to April 2001 reaching a historical high of 26,300, immigration is forecast to fall to an average of just over 5,000 p.a. for the 2002-2005 period.<sup>9</sup>

Therefore, the three main determinants of labour supply growth over the last decade, the natural increase, female participation rates, and net in-migration, are all set to decline in significance over the coming years. As a result, a significant reduction in labour force growth is expected over the next six years with average annual growth rates of approximately 2% forecast. Nevertheless, this will still result in an extra 200,000 people being added to the labour force by 2007.

**Table 3: Employment and Unemployment Forecasts ('000s) 2000 - 2007**

Year	Labour Force	Employed	Unemployment	Employment Increase	Unemployment Increase	Unemployment Rate
2000 Actual	1746	1671	75	80	-22	4.3%
2001 Actual	1782	1717	65	46	-9	3.7%*
2002	1815	1702	113	-15	48	6.2%
2003	1842	1704	139	3	25	7.5%
2004	1875	1739	137	34	-2	7.3%
2005	1912	1790	123	51	-14	6.4%
2006	1947	1850	98	60	-25	5.0%
2007	1983	1895	89	45	-8	4.5%

\* The unemployment rate used here is for the second quarter of 2001 in order to allow comparability with yearly estimates for 2002-2007.  
Source: ESRI Medium-Term Review 2001-2007, CSO Quarterly National Household Survey Second Quarter 2001

#### 5.4 Labour Demand/Supply Balance

In order to estimate the unemployment rate, we subtract the predicted annual employment levels from the corresponding labour supply levels. The figures outlined in Table 3 show unemployment rising from 65,000 in the second quarter of 2001 to 139,000 two years later. The unemployment rate is set to almost double from 3.7% to 7.5% by the year 2003 before falling to 4.5% by the year 2007.

The estimates suggest that the labour market will be less tight in the short-term than it has been in recent times. Nevertheless, in the medium-term there will be very little 'slack' in the labour market overall. This is an important point given that labour supply growth has been identified as a fundamental determinant of the Irish economy's medium-term growth potential<sup>10</sup>. Therefore, in the medium-term when external factors are set to be more favourable, the economy would probably perform below its optimum level, if labour force levels were to remain static.

<sup>9</sup> ESRI Medium-Term Review 2001-2007

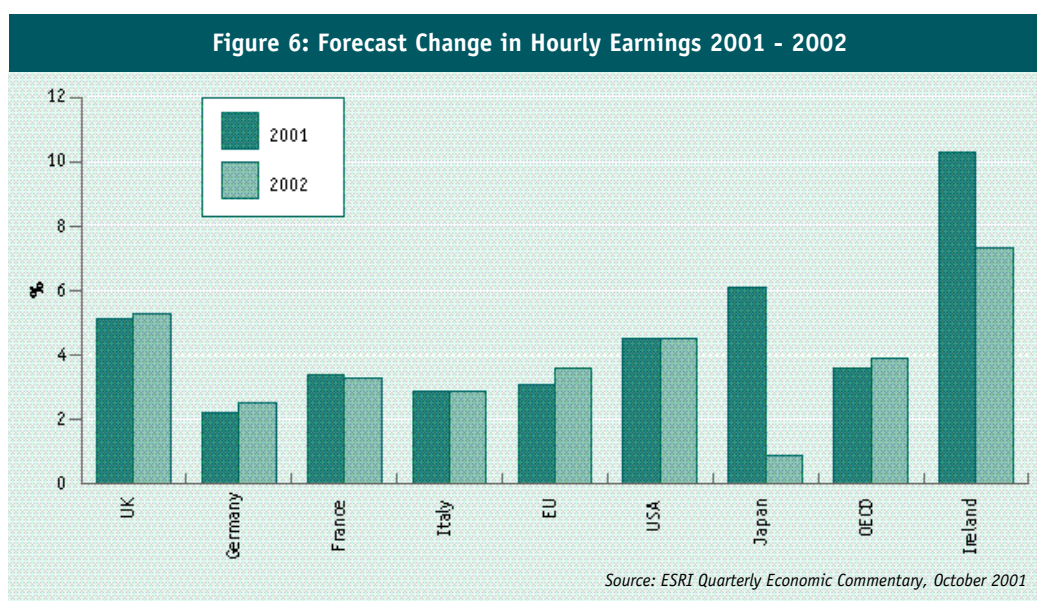
<sup>10</sup> ESRI, Medium-Term Review 2001-2007

CSO figures<sup>11</sup> show that aside from immigration, there is potential for increasing the labour supply by up to 80,000. This is the number of those who are outside the labour force but have indicated a desire to participate. They are made up of discouraged workers (9,500), passive job seekers (2,900), and persons not in education who want work (67,600). The number of women (51,000) in the potential labour force is significantly larger than the number of men (29,000).

## 5.5 Impact on Earnings

While the slowdown in the demand for labour should exert downward pressure on wages, this will not happen straightaway. Wages take time to adjust to changes in demand, especially in the context of the current PPF benchmarking process where many of the wage claims are backdated. The ESRI has forecast an increase in average hourly earnings of 10.3% and 7.3% for 2001 and 2002 respectively. As Figure 6 shows, Ireland's projected short-term wage growth rates are significantly higher than the EU average. Wages are also forecast to grow faster than the economy in the medium-term. For the period 2003-2007 after tax non-agricultural wages are anticipated to rise by approximately 6.5% per annum.

If the slowdown proves sharper than anticipated, the excess supply of labour would dampen some of the upward pressure on wages, with more moderate increases in hourly earnings likely to occur than are currently forecast. Conversely, if labour shortages persist in the medium-term, there is a real danger that wages would rise over and above those agreed in the national agreements. This could have serious consequences for our competitiveness internationally, especially if the anticipated appreciation of the euro was to materialise.



## 5.6 Sector Outlook

The ESRI Medium-Term Review anticipates that all sectors with the exception of non-market services are set to experience a temporary fall or levelling off in employment in the short-term. For agriculture, traditional manufacturing and to a lesser extent food processing, this slowdown in employment will continue into the foreseeable future.

However, in the medium-term employment levels are set to rise in most sectors as can be seen in Table 4. By 2007, the largest percentage increases are predicted to be in the two services sectors, with non-market services and market services employment rising by 23% and 18% respectively. Market services<sup>12</sup> is expected to account for 44% of total employment. Employment in the hi-tech sector, which has grown rapidly over the last 5 years, is actually forecast to fall by 4,000 in 2002 before increasing by 15% to 170,000 in 2007.

**Table 4: Sectoral Employment Forecasts ('000s) 2007**

Sector	2000	2007	% Change
Agriculture	122	102	-16%
Traditional Manufacturing	102	90	-12%
Food Processing	46	45	-2%
High Technology	146	170	16%
Utilities	11	10	-9%
Building	164	194	18%
Distribution	233	264	13%
Transport & Communications	100	113	13%
Other Market Services	333	431	29%
Health & Education	251	315	25%
Public Administration	81	94	16%
<b>Total</b>	<b>1588</b>	<b>1828</b>	<b>13%</b>

Source: ESRI Medium-Term Review 2001-2007

<sup>12</sup> Incorporating distribution, transport and communications, and other market services including financial services.

## 5.7 Occupational Outlook

The FAS/ESRI manpower forecasts for 2005 provide an estimation of the occupational breakdown of employment over the coming years<sup>13</sup>. As the forecasts were based on the results of the previous (1999-2005) Medium-Term Review forecasts, they are best used to estimate the relative composition of employment growth rather than as predictors of absolute employment levels. The results are summarised below in Table 5.

In proportionate terms, the occupations expected to witness the largest growth over the forecast period are managerial (+20%), professional (+22.8%) and sales workers (+20.9%). Only agricultural workers and proprietors in services look set to fall. These trends are in keeping with those experienced in the rest of the developed world. There has been an increased demand for more highly qualified professional workers as well as unskilled and skilled service workers, while at the same time a decline in the demand for unskilled manual workers and agricultural workers.

It is worth noting that these forecasts were made before the current slowdown in the global economy had become apparent. Also contained in the report is an alternative economic

**Table 5: Occupational Employment Forecasts ('000s) 2005**

Occupation	2000	2005	Change	%Change
Agricultural	122	109	-13	-10.7%
Managers	115	138	23	20.0%
Proprietors in services	50	47	-3	-6.0%
Professional Occupations	193	237	44	22.8%
Associate Professionals	103	117	14	13.6%
Clerical Occupations	208	224	16	7.7%
Skilled workers (maintenance)	80	85	5	6.3%
Other skilled workers	151	156	5	3.3%
Production Operatives	129	139	10	7.8%
Transport/Communication	66	76	10	15.2%
Sales workers	129	156	27	20.9%
Security workers	43	49	6	14.0%
Personal service workers	142	166	24	16.9%
Labourers	58	59	1	1.7%
<b>Total</b>	<b>1588</b>	<b>1757</b>	<b>169</b>	<b>10.6%</b>

Source: FAS/ESRI Manpower Forecasting Studies Report NO. 9

13 FAS/ESRI Manpower Forecasting Studies Report No. 8, April 2000

slowdown scenario (akin to the recent Medium-Term Review 2001-2007 slowdown scenario) where the original annual growth forecasts are scaled back by 1.5 percentage points. This reduces the original 2005 employment growth forecast by 5.5%. The reduction is most significant for semi-skilled production operatives (down 12 per cent on the original estimate), skilled maintenance workers (down 9%) and scientific and technical workers (down 8% for both professional and associate professional levels).

The latest FAS/ESRI manpower forecasting publication<sup>14</sup> provides a wider conception of labour demand that not only includes demand arising from economic growth (expansion demand) but also replacement demand resulting from workers exiting the labour market for reasons such as retirement, ill-health, return to education or home duties. While this approach to manpower forecasting is still at a somewhat experimental stage, the results of the study are indicative of the impact that replacement demand can have on the overall number of job openings that need to be filled. The latest FAS/ESRI report estimates that replacement demand may increase the 2005 forecast for new job openings by as much as 50%. Occupations where there is high staff turnover, such as clerical workers and sales workers, will normally experience a higher level of replacement demand.

While the forecasts would suggest that the supply of labour should be broadly in line with labour demand at an aggregate level, will the same be true at the level of occupation? The report predicts that if recent trends continue, then by 2005 there will be a shortage of skilled manual/craft workers and to a lesser extent, sales workers. On the other hand, a labour surplus is forecast in the areas of semi-skilled production and personal services.

Skill shortages such as those forecast for skilled manual/craft workers are by no means inevitable. Steps can be taken to increase supply via training and/or immigration. Indeed, such steps have already been taken with very considerable increases in apprentice numbers over the last four years as well as successful campaigns to encourage construction craft workers to move to Ireland. In addition, it should be emphasised that the replacement demand forecasts were made before the September 11th downturn.

Nor is it by any means certain that the surpluses forecast for semi-skilled production and personal services will materialise. Those employed in semi-skilled occupations where surpluses are expected may decide to seek employment in occupations that are in greater demand (i.e. sales workers). It is worth noting that when you consider those in less skilled occupations as one broad group, the projected supply of labour only slightly exceeds demand.

The FAS/ESRI report also attempts to quantify the importance of immigration for filling the projected job openings. The report suggests that professional occupations are most dependent on the inflow of migrants to meet labour demand. At the other end of the spectrum, immigration is expected to lead to a surplus of workers in the production operative, and transport and communications occupations (production operatives are especially vulnerable to a downturn in the economy's fortunes).

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14 FAS/ESRI Manpower Forecasting Studies Report No. 9, April 2001

## 6. Policy Issues

### 6.1 Policy Considerations

The Third Report of the Expert Group on Future Skills Needs contained various recommendations for increasing labour supply from both within Ireland and from abroad. In the light of the recent economic downturn a reassessment of labour supply policy measures for both the short-term and medium-term is now necessary.

In the short-term we should witness an easing of labour shortages overall, as the demand for labour weakens considerably. However, a slowdown in the supply of labour (albeit not as pronounced) is also forecast. Thus, while the labour market will not be as tight as in recent times, certain occupations (most notably the medical professions) may continue to experience labour shortages.

The longer-term outlook for the economy is quite positive and labour market policy should be focused on helping address medium-term needs. Extreme care will be needed if we are to avoid making policy changes in the short-run that may prove to be short-sighted in the medium-term. Policy formulation for the medium-term should take account of the following:

- The growth potential of the economy over the coming years will in part be determined by the size of the labour supply. The ESRI point out that their medium-term economic growth forecasts would have been greater if the projected supply of labour had also been greater.
- By the middle of the decade, the labour market is expected to have tightened considerably after a loosening in the short-term. This is likely to lead to a loss of competitiveness if appropriate supply-side policies are not put in place in the interim.
- There are continued benefits to be gained from increasing the quality of the labour supply both in terms of productivity and competitiveness.
- The EU Council has set an objective to increase the average employment rate<sup>15</sup> by nine percentage points over the next decade in order to reduce the dependency ratio.<sup>16</sup>

We now turn to the short-term and medium-term policy implications for the main sources of labour inflow, namely immigration, female participation, older age participation, the unemployed and labour quality.

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<sup>15</sup> The employment rate in this case is the percentage of the population of working age who are currently in employment as a proportion of the population of working age. It differs from the participation rate, which measures the percentage of the population who are currently in the labour force, both employed and unemployed, as a proportion of the population.

<sup>16</sup> While the employment rate target for the whole of the EU is 70% by 2010, individual member states are advised to set national targets in line with their respective starting points. The recent boom has pushed the employment rate for Ireland up to 65%, higher than the EU average of 61%

## 6.2 Immigration

In the short-term, as the demand for labour falls, a reduction in the volume of immigration is warranted. A more selective policy favouring highly skilled immigrants should be pursued, targeting specific occupations where it is clear that the domestic labour force is unable to provide a sufficient number of qualified workers.

In the longer-term, large-scale net in-migration could place considerable strain on an infrastructure that is already operating at close to full capacity. For example, it is estimated that an extra 30,000 migrants would be needed to add 1 percentage point to the GNP growth rate<sup>17</sup>. This would necessitate an additional 10,000 dwellings at a time when affordable housing is becoming increasingly scarce. Hence, in the medium-term, when the labour market is forecast to tighten again, we should place ourselves in a position whereby we are not overly reliant on immigration to solve labour shortages.

As the ESRI point out, from an economic perspective, future immigration policy for non-EU nationals should be administered transparently by the state, with a fair system of selection such as the points system used by Canada. Where selection is not based on a points system, a lottery should be used to allocate work permits/visas. The ESRI argue that work permits should not be tied to a specific employer or sector as this can lead to economic inefficiencies.

## 6.3 Female Participation

While broad measures to increase the supply of labour are of no immediate relevance in the current economic climate, they are nevertheless consistent with the medium-term objectives of increasing the employment rate and maintaining competitiveness internationally. Both the Expert Group and the EU have focused on two sub-groups as potential sources of future labour supply. The first sub-group is women. The Lisbon European Council in March 2000 set a target for the EU female employment rate to increase from 51% to 60% by the year 2010. The employment rate for women of working age in Ireland of 54% is above the EU average<sup>18</sup>.

Over the last decade those women who wanted to work but were not in the labour force were identified as being the most responsive to fiscal policies encouraging labour force participation. However, as has been noted earlier, there are much fewer women not in the labour force now than there were ten years ago. As a consequence, the supply of female labour is becoming less and less responsive to changes in the after tax wage rate. According to recent research by Doris<sup>19</sup>, only unskilled (lower paid) women are still very responsive to fiscal incentives aimed at encouraging labour force participation.

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17 Medium-Term Review 2001-2007, ESRI

18 Note this is not the same as the 2nd quarter 2001 *participation rate* figure quoted earlier in the paper. However, when unemployment is very low, the difference between the participation rate and the employment rate can be as little as 1-2%.

19 Doris, A., 2002. Quarterly Economic Commentary Special Article, Dublin: The Economic and Social Research Institute, forthcoming.

Hence, the move towards individualisation of the tax system, which benefits those on higher incomes, may have only limited impact on labour supply. Measures targeted at those on low incomes (such as lower tax rates) are likely to achieve the greatest supply response<sup>20</sup>. The individualisation of the welfare system may also increase the supply of unskilled labour, as could raising the level of Child Benefit. Increasing Child Benefit payments allows mothers to enter the labour market without facing high marginal tax rates, while at the same time benefiting those mothers who choose to stay at home in a caring capacity. Nevertheless, irrespective of the policy adopted, the potential for using fiscal incentives to increase the supply of female labour should not be overestimated.

Perhaps a more effective approach to attracting women into the labour force would be a greater commitment to family friendly labour market policies in line with EU objectives. Flexible working arrangements, when combined with adequate childcare provision, can benefit those with caring responsibilities (mainly women) who are restricted either by time or location. Part-time work and/or working from home offer two possible solutions to carers who also wish to participate in the labour force. Advances in information technology make the prospect of working at home a much more realistic goal than in times past. Table 6 outlines the results of a recent IBEC survey that looked at the percentage of companies in the Manufacturing, and Wholesale Distribution sectors who provided flexible working arrangements in 2001. The figures suggest that there is scope for the further development of flexible working practices.

<b>Types of Flexible Working Arrangements</b>	<b>% of Companies</b>
Career Breaks/Sabbaticals	7%
Telecommuting/Home Working	8%
Flexi-Time systems	13%
Flexible Hours	17%
Shift Work	23%
Permanent Part-time Work	45%

*Source: IBEC National Survey in Manufacturing and Wholesale Distribution 2001*

## 6.4 Older People

People aged 55-64 were the second sub-group identified by the EU as a potential source for increasing labour supply. The EU target employment rate for this sub-group is 50% by 2010. The equivalent employment rate in Ireland is 47%. In Ireland just over half of those aged between 55 and 59 years are members of the labour force, compared to just over a third of those aged 60-64 years<sup>21</sup>.

<sup>20</sup> This would be consistent with recommendation made by the Lisbon European Council to alleviate the tax pressure on the relatively unskilled and low paid.

<sup>21</sup> CSO, Quarterly National Household Survey, Second Quarter 2001

While Europe has seen a decline in participation rates for older workers, the opposite has been the case in Ireland. However, one would expect the current economic slowdown to impact negatively on older age participation rates. This is of no immediate concern given the short-term decline in labour demand. Nevertheless, in the long-term, it will make the EU 50% employment rate target for 2010 more difficult to attain.

The Third Report of the Expert Group recommended two approaches to encourage increased labour force participation among older people. The first measure involved alleviating direct taxes on the combined income older people derive from pensions and earnings. A greater commitment to more flexible working arrangements was also recommended. While proposals in these areas are no longer a priority in the short-term given the recent economic slowdown, they should assume greater relevance in the medium-term when the labour market is expected to tighten considerably.

Although both fiscal and structural measures to encourage participation are needed in the medium-term, their effect will be negligible if the target group has already decided not to participate or if they are unable to take up employment due to inadequate qualifications. Many older people who are currently outside the labour force had already made the decision not to participate before they reached the age of 50. The decision to participate is in part influenced by a person's level of adaptability. And the more training one receives when young, the greater one's adaptability when older. So if the 40-50 age group are targeted for training at that age they will be more likely and more able to choose to participate in employment in their later years. This age cohort is particularly vulnerable to an economic downturn, as many are employed in the manufacturing sector, where significant job losses are forecast. This is not to negate the importance of further training for people in the 50 + age group, but rather to indicate the need for a wider (life-long learning) approach.

A recent report by the *Expert Group for Future Skills Needs* and the *National Competitiveness Council*, "Labour Participation Rates of the Over 55s in Ireland", directly examines the issue of labour market participation of older people and makes recommendations regarding ways of increasing the participation rate of that group in the national workforce, without compromising other social and economic objectives. The study charts participation rates of this group, including changes in participation rates in other EU and OECD countries, and examines the factors affecting participation of older workers with a view to specifying how each of these might be influenced by government measures to increase their participation rates.

## 6.5 The Unemployed

Re-employment strategies will need to be tailored to cater for unemployment in its various forms, namely short-term, frictional, long-term, and structural unemployment.

The harsh lessons of the 1980s highlight the importance of having an active labour market response in place to ensure that those made redundant during an economic slowdown do

not join the ranks of the long-term unemployed. In order to avoid demoralisation and deskilling, the short-term unemployed need to be retrained during the recovery phase. Recent research shows that skills training courses with strong linkages to the market place offer the greatest probability of re-employment for the short-term unemployed<sup>22</sup>. Therefore in the short-term, special programmes will need to be put in place for those who become unemployed during the current economic downturn.

The National Employment Action Plan involves a pro-active approach by FAS in co-operation with the Department of Social, Community and Family Affairs aimed at those threatened with long-term unemployment. This has proved successful. In addition, pilot schemes in Ballyfermot and Kilkenny targeted at the already long-term unemployed have resulted in significant reductions in unemployment relative to their surrounding areas. A recent ESRI report<sup>23</sup> has recommended that a similar pro-active approach be introduced for those short-term unemployed who are identified as having poor labour market prospects. We recommend that FAS should widen its proactive process to include both the long-term unemployed, and the sub-group of recently unemployed identified as being most in danger of drifting into long-term unemployment.

Over the medium-term, sectors that are in decline (most notably agriculture and traditional manufacturing), will inevitably experience job losses. This structural unemployment should be seen as an opportunity to redirect human resources towards growth sectors where labour shortages are most likely to occur. For example, farmers could be retrained to prepare them to work on either a full-time or part-time basis in non-agricultural or quasi-agricultural businesses.

## 6.6 Labour Quality

While measures to increase labour quality are always beneficial, regardless of the economic environment, they will assume even greater significance now that we are part of the . Membership of the EMU has shifted the burden of economic adjustment away from the money and foreign exchange market on to the labour market<sup>24</sup>. Hence, our future economic performance will be determined to a large extent by the ability of the labour market to respond rapidly to European and global macro-economic developments.

In the recent past, the large inflow of young highly educated workers has created an increasingly dynamic labour force. Unfortunately, the proportion of students relative to the overall labour force is beginning to fall due to unfavourable demographic trends. This will hamper our efforts to adapt to future changes in skills needs. Hence, there is a need now more than ever before to ensure that these students are equipped with up-to-date and transferable skills.

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22 *Investing in People*, Denny K, C. Harmon, P. J. O'Connell, ESRI, November 2000

23 "Employability" and its Relevance for the Management of the Live Register, A. Barrett., C.T. Whelan and J.J. Sexton, ESRI Policy Research Series No. 40, 2001.

24 See " Economic Adjustment in the European Monetary Union: The Irish Experience", Anthony Leddin in the *ESRI Quarterly Economic Commentary*, October 2001

In the short-term, we need to guard against knee-jerk reactions that may, in the context of a downturn, seem like rational policy responses, but which actually jeopardise our medium-term growth prospects. For example, while the demand for science and ICT professionals may be slowing at the moment, this does mean that the number of courses for these occupations should be cutback. By the time those currently embarking on these courses have graduated, the demand for ICT skills should have recovered. It is imperative the economy does not become uncompetitive as a result of shortages of skills in this sector. For this reason, the Expert Group on Future Skills Needs re-iterates its call for an investment package of €165 million in this area (see Third Report of Expert Skills Group).

Similarly, there is a danger that apprentices in the Construction Industry may be unable to complete their apprenticeships as their employers decide to lay them off due to the short-term slowdown. FAS, in co-operation with the social partners and the education system, may need to operate an intervention strategy to cope with this possibility. Given that demand for craft skills looks likely to increase in the longer-term, it is important that the medium-term needs of the craft industry are not damaged by short-term redundancies.

Aside from training new labour market entrants, labour quality can be improved by re-skilling the existing labour force. As changes in the economy become more rapid, employees need frequent retraining in order to keep their skill set relevant to the market. The Lisbon Council recommended that greater priority should be given to developing lifelong learning as a basic component of the European social model. A number of more recent European Commission documents have developed policies and proposals in this area. The Third Report of the Expert Group highlighted the need to develop targeted initiatives under the Life Long Learning strategy that will allow individuals, both employed and unemployed, to train or retrain for jobs where labour is in particularly scarce supply.

While it is recognised that businesses should assume primary responsibility for training of their employees, firms that offer insecure employment and low pay generally undertake little or no training. The Expert Group looks forward to the Task-Force on Life-Long Learning report due out in the near future and welcomes the measures already put in place to increase access to third-level education and the various initiatives taken by the social partners. However, expenditure on Life-Long Learning should be given a greater priority and the proportion of the workforce availing of third-level education should be increased.

## 6.7 Suggested Policy Responses

Provided domestic policy is shaped with medium-term objectives in mind, there is no reason why a short-term slowdown should leave a legacy of lower growth rates and higher unemployment. Therefore, we suggest consideration be given to the following policy responses:

- A reduction in the volume of immigration in the short-term, given that the demand for labour is set to fall in the short-term. A more selective immigration policy should

be developed, targeting those who are skilled in occupations where there is a clear shortage.

- Further measures by Government and the social partners are needed to promote flexible, family friendly working arrangements, such as part-time work and teleworking, combined with adequate childcare provision, if female participation rates are to increase over the medium-term. Recent research suggests that tax and benefit policies aimed at increasing the take home pay of low income earners will also encourage female participation, although their effectiveness should not be overestimated. Additional measures in this area should be developed.
- include both the long-term unemployed and the short-term unemployed with poor labour market prospects.
- Market-orientated active labour market programmes will be needed to ensure that those made redundant in the short-term will be equipped with relevant skills so that they can regain employment as the economy recovers.
- Retraining programmes need to be put in place to redirect those at risk of unemployment in declining industries towards growth industries, where labour shortages are likely to emerge.
- Specific provision should be made for the training of older members of the labour force in order to encourage and enable their future participation in employment in the medium-term when the demand for labour is expected to increase. A recent report by the *Expert Group for Future Skills Needs* and the *National Competitiveness Council*, addresses the issue of labour force participation of the over 55s in Ireland, directly.
- Increasing the flexibility of the existing workforce by continued investment in advanced skills training. This is more relevant than ever given the challenges posed by membership of the EMU and unfavourable demographic trends.
- Decisions about future third-level education and training provision for young persons should be orientated to the medium and long-term when an increasingly qualified and skilled workforce will be required. In particular, there is a continued need for further investment in IT skills as outlined in the Third Report of the Expert Group on Future Skills Needs.
- In the short-term, FAS in co-operation with the social partners and the education system may need to operate an intervention strategy to cope with the possibility that apprentices will be made redundant before their apprenticeship is completed.
- Expenditure on Life-Long Learning should be given a greater priority and the proportion of the workforce availing of third-level education should be increased through appropriate measures to expand part-time provision and remove barriers to access.

## Appendix 1

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**Mr Colm Regan**

Forfas

**Mr Peter Rigney**

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## Appendix 2

### Reports published by the Expert Group on Future Skills Needs

The First Report of the Expert Group on Future Skills Needs Responding to Ireland's Growing Skill Needs	December 1998
Business Education & Training Partnership Report on the Inaugural Forum, Royal Hospital Kilmainham	March 1999
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## Appendix 3

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