

# NATIONAL ECONOMIC DIALOGUE

STRUCTURAL AND LABOUR MARKET REFORM: OPPORTUNITIES FOR ECONOMIC GROWTH

16-17 JULY 2015



An Roinn Airgeadais  
Department of Finance

# Structural and Labour Market Reform: Opportunities for Economic Growth

This paper has been prepared as a contribution to the discussion in the breakout session at the National Economic Dialogue. It should not be seen as prescriptive but rather seeks to set out the current factual situation and to suggest some of the key questions which participants may wish to consider.

***Key Guiding Questions:***

- *What sectors should be targeted for further structural reform in the interests of economic growth?*
- *Are there still barriers and restrictions in place in product markets that need to be addressed?*
- *What are the most effective ways of using public resources to support the return to work of those who are currently unemployed?*

## BACKGROUND

The core to enhancing Ireland's capacity for economic growth is investment in education and skills, as well as ensuring the right structural and labour market conditions for investment and economic growth.

## ENHANCING IRELAND'S CAPACITY FOR ECONOMIC GROWTH

As a small open economy, Ireland relies on its ability to sell its goods and services in overseas markets in order to achieve sustainable long-term growth and improved standards of living for all. In order to facilitate this, it is important that Ireland continues to attract international investment, support an innovative, competitive and entrepreneurial indigenous enterprise sector, and invest in education and continuous development of skills.

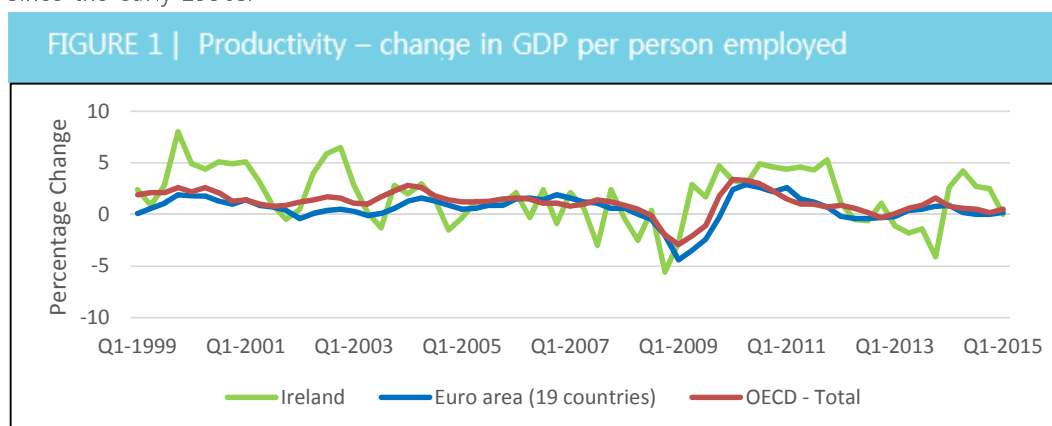
Ireland has long relied on boosting economic performance by attracting investment from abroad. This has the benefit of not just creating jobs and bringing financial capital into the country, but also of increasing the levels of technical, managerial and marketing expertise in the workforce. The significant role played by IDA-assisted firms in the national economy is illustrated by the fact that they generated just over 69% of total exports in 2013 - €124.5 billion out of €179.3 billion. In 2014 they employed 174,488 people and spent €22.4 billion in the Irish economy. Foreign Direct Investment (FDI) firms are a source of high-skill, high-value added jobs that support the wider economy, open new markets for Irish-produced goods and services, and introduce international best practices to Irish workplaces.

While Ireland is noted for its ability to attract FDI, it is sometimes asserted that indigenous enterprises have not been as successful as their foreign-owned counterparts. Against that, Enterprise Ireland client companies employed 180,072 people in 2014 and accounted for €17.1 billion of exports in 2013. Between them, Agency-assisted firms directly provided almost a fifth of all jobs in the country last year.

The indigenous agri-food and fisheries sector has been a key driver of the export-led economic recovery. In 2014, total food and live animal exports were worth some €9.3bn to the Irish economy and about 109,000 people were employed in the agriculture, forestry and fishing sector. Tourism is another key driver of economic growth and job retention in both urban and rural areas. In 2014, about 7.6 million people visited Ireland and about 137,000 people were employed in the accommodation and food services sector. The Small and Medium Enterprise (SME) sector is critical to Ireland's economic growth. This is clear from the fact that Ireland's 180,000 SMEs employ almost half of Ireland's workforce.

To encourage the expansion of existing firms and the formation of new ones, we must ensure that the business environment is flexible and well regulated. This helps not just for job creation, but also innovation and productivity growth, which is an important determinant of living standards in the long run.

The productivity of the Irish workforce has been an important element in attracting international investment. Productivity growth in Ireland has averaged around 2.5% per annum since the early 1990s.



## SERVICE AND PRODUCT MARKET REFORM

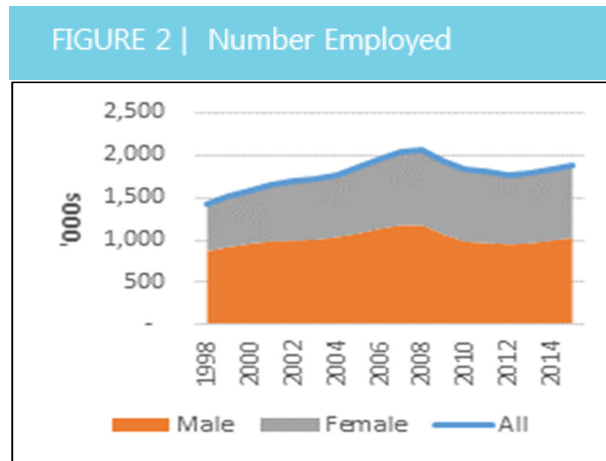
Competition policy is a driver of productivity, innovation and economic growth. It can support greater choice, better quality of services and lower costs for consumers and businesses. Increased competition also ensures that Irish firms are equipped to compete on international markets, that investment is productive, and that consumers reap the benefits of competition. There is a need for continual improvement in the effectiveness of economic regulation and to address the issues raised by the Competition Authority's reviews of specific professions.

Ireland's competitiveness position has improved over the last five years. Much of this has been due to external factors such as the weak euro and falling energy costs. It must also be noted that this improvement has come from a very high cost base – in 2013 Ireland was the third most expensive in the Eurozone for goods and services. With the return of economic growth, and the appearance of pressures such as rising rental costs, it will be important to maintain and build on progress already made. This will involve focusing on costs which are domestically determined such as property, access to electricity, water, waste, communications and business services. Among these costs, Ireland seems to be most out of line in issues such as thermal treatment of waste, legal services, electricity supply for SMEs and cost of credit.

Addressing regulatory and framework issues requires careful planning and extensive consultation with stakeholders. It is important to identify any major constraints, and initiate the development of suitable solutions, as early as possible.

## ADDRESSING UNEMPLOYMENT

The recent economic crisis has had a significant impact on both employment and unemployment. Seasonally adjusted, employment peaked in Q1 2008 at 2.16 million before the crisis. Employment then declined by 327,300, falling to 1.83 million in Q3 2012.



Importantly, these employment losses, and the consequent rise in unemployment, impacted differently across sectors, regions, genders and age groups. All sectors (apart from Education and Health) experienced declining employment but job losses were particularly acute in the Construction sector, Industry and Wholesale Retail Trade. Certain cohorts were disproportionately affected – for example youth unemployment peaked in Q2 2012 at 33%. Ireland's unemployment rate peaked at 15.1% but some regions experienced higher rates: Midlands (19.5%); South-East (19.2%); Mid-West (17%); West (16.3%).

Net migration over the course of the crisis reduced the measured rise in unemployment but this too had a differentiated impact across age groups. Net migration of the 15-24 Age Group is estimated at 80,700 between 2009 and 2014. Net migration of the 25-44 Age Group is estimated at 64,200 between 2009 and 2014.

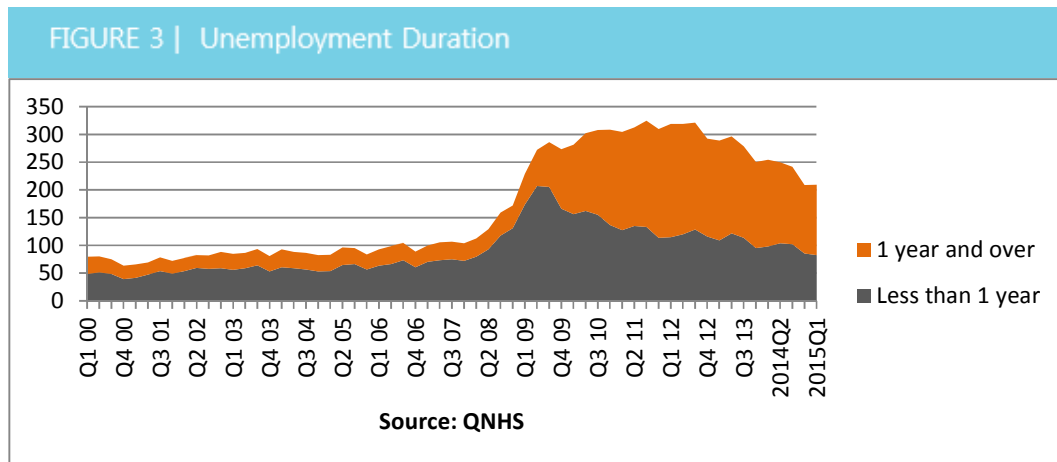
Participation rates also reduced during the crisis – with the male participation rate falling more sharply from a higher base. Female participation remains below the OECD average. The female participation rate declined from 54.3% in Q1 2008 to 52% in Q1 2015. The male participation rate declined from 72.8% in Q1 2008 to 67.1% in Q1 2015.

Since the low point in Q3 2012, there has been a strong employment recovery with a seasonally adjusted increase of 110,300. This recovery has been broad-based across sectors and overwhelmingly (96%) in full-time jobs. All regions have benefitted from employment growth, although the recovery has been strongest in Dublin.

Importantly, employment growth has directly benefitted the unemployed – between 2012 and 2014 there was a 101,900 reduction in unemployment and an analysis of the Quarterly National Household Survey micro data reveals that there was a net 87,400 transitions from unemployment to employment.

Employment growth has also benefitted the long-term unemployed, with the long-term unemployment rate now 5.9% down from a peak of 9.5%. Despite this progress, the chart below illustrates that long-term unemployment, at 60% of total unemployment, remains the most pressing unemployment challenge.

International and Irish evidence confirms that the probability of finding a job decreases with duration in unemployment. This may be due to loss of skills, detachment from the labour force or employer preferences. Significant levels of case officer engagement and jobseeker retraining will be required to prevent the long-term unemployment problem becoming structural and more intractable.



In response to the challenges outlined above, the Government has put in place strategies to stimulate demand (Action Plan for Jobs) and supply (Pathways to Work). Taken together these aim to support employment creation and ensure that the unemployed are equipped to compete for new jobs as they arise.

The Action Plan for Jobs seeks to support employment creation through a series of reforms such as reducing administrative burdens, opening up government procurement and improving access to finance. Pathways to Work has delivered a complete overhaul of the Activation System including:

- structural reform of the Further Education and Training sector with the establishment of SOLAS and the amalgamation of 7 FÁS training centres and 33 Vocational Education Committees into 16 Education and Training Boards;
- roll out of the INTREO office network for engagement with primarily short-term unemployed jobseekers;

- contracting with the private sector for JobPath, the new payments by results activation service for the long-term unemployed;
- delivery of new work experience and employment support programmes such as JobBridge and JobPlus; and
- introduction of new education and training programmes such as Springboard and Momentum in areas of identified skills needs.

## FUTURE CHALLENGES

A core driver of economic growth is labour supply and labour productivity. A core challenge over the next five years will be to increase the labour supply by using a number of approaches including activating the unemployed, attracting back Irish emigrants, and increasing the participation rate, particularly the female participation rate.

The availability and cost of childcare is a consideration for many people. Over the last decade or so there has been major investment in childcare infrastructure and the introduction of the universal pre-school year and targeted childcare schemes. The improving economic situation and employment opportunities can increase pressure on the existing infrastructure, while the cost of childcare provision is an important issue for parents. Discussion of these issues will need to consider how resources should be prioritised to ensure that the services provided to children deliver positive outcomes and that barriers to workforce participation are removed.

## FURTHER GUIDING QUESTIONS

This paper addresses a number of issues related to Ireland's labour market and the potential for structural and other reforms to stimulate economic growth. The following questions are intended to stimulate discussion around these issues.

- Ireland has been successful in job creation and in targeting specific sectors for prioritisation. What new sectors should now be targeted for investment?
- How can Ireland ensure that the workforce builds on and improves its high levels of productivity and adaptability (and attractiveness for investment)?
- What are the main barriers to job creation in Ireland and how can they be removed?
- In addition to current initiatives to get people back to work, what other approaches should be adopted to meet this objective?
- How can Ireland best support the successful return to work of those who have been unemployed for more than a year?
- How should we address childcare issues within the labour market?

