

## COMPETITIVENESS THE KEY TO JOB CREATION

- Ireland's international competitiveness has contributed to significant increases in employment (notably in full time employment, and across a broad range of sectors), and to reductions in unemployment
- Continued focus is required to tackle structural unemployment, long-term and youth unemployment, and low participation rates amongst young people and females
- Activation programmes must address identifiable labour market / enterprise needs – particularly for those skills in high demand
- Work must pay – the interaction between taxation, social insurance and social welfare benefits (particularly secondary benefits) needs to be carefully monitored to ensure incentives to work are not damaged
- Other factors limiting participation in the labour market, particularly for second earners (e.g. the cost of travel to work, the cost of childcare) also must be addressed

### WHY COMPETITIVENESS MATTERS

Ireland's ability to compete and trade internationally is a key determinant of wages, living standards and financing of social services like health, education and social protection. Improving competitiveness depends, to a large extent, on our enhancing productivity performance and increasing the numbers participating in the workforce. Therefore, improving living standards depends, among other things, on employment creation, participation and productivity.

### CURRENT POLICY CONTEXT

Despite significant improvements, large scale unemployment continues to damage Ireland's competitiveness. Sustained high levels of structural unemployment coupled with net emigration and reduced participation rates have eroded the skills base. As well as the human and social costs of high levels of unemployment (particularly long-term), large scale unemployment places a significant burden on already overstretched public finances. Ireland has a particularly high rate of jobless households<sup>1</sup>.

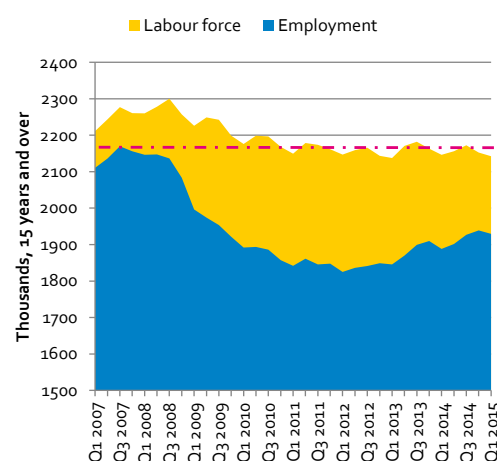
### HOW IRELAND PERFORMS

From a peak of 2.17 million in Q3 2007, total employment fell to 1.82 million in Q1 2012. As employment fell, participation in the labour market also declined, although not to the same degree – hence the rapid and substantial increase in unemployment.

Since then, a range of reforms<sup>2</sup>, allied to the more favourable domestic and international economic climate have resulted in employment growth of 3% in the year to Q2 2015. Total

employment rebounded to 1.96 million: this is the 11<sup>th</sup> successive quarter of data showing an annual increase in employment; since Q1 2012, over 133,000 additional people are in employment. Nevertheless, the scale of the retrenchment in both participation rates total employment is clear from Figure 1. Similarly, the scale of the challenge to recover all of the jobs previously lost by 2018 is evident<sup>3</sup>.

Figure 1: Ireland's labour market, Q3 2007-Q2 2015



Source: CSO, QNHS

In Q2 2015, over 211,000 people were unemployed (giving a seasonally adjusted unemployment rate of 9.6%). Of particular concern to the Council are the predominance of long-term unemployment<sup>4</sup>, the scale of youth unemployment, low levels of participation amongst certain cohorts of the population, and the occurrence of "under-employment", particularly as part time workers seek to increase their hours or return to full time employment.

While the long term unemployment rate has fallen from 6.8% to 5.5% in the year, over 118,000 individuals remain

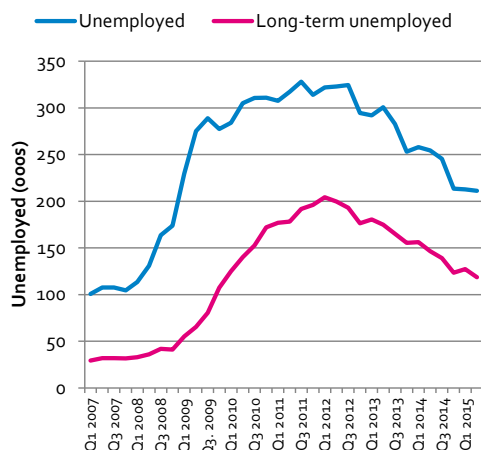
<sup>1</sup> A household is considered jobless if the total time in work over the last year by all working-age adults excluding students is less than 20% of their working time. See NES, Jobless Households: An Exploration of the Issues, No. 137, June 2014  
<sup>2</sup> Examples include Momentum, Skillnets' Job-seekers Support Programme, Jobbridge, Springboard and Pathways to Work, as well as the establishment of SOLAS, Intreo and the ETBs.

<sup>3</sup> Department of Finance / Department of Public Expenditure and Reform, Spring Economic Statement 2015, April 2015

<sup>4</sup> A large proportion of long term unemployed workers have previously been employed in skilled trades or elementary occupations.

unemployed for a year or more – representing over 56% of total unemployment (Figure 2).

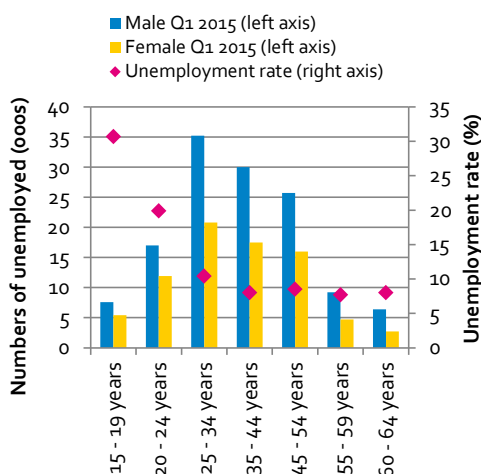
Figure 2: Unemployment, Q3 2007-Q2 2015



Source: CSO, QNHS

While the number of unemployed young people has fallen significantly in the last year (from 52,600 to 41,900), the two youngest age cohorts still have the highest unemployment rates (Figure 3). Eurostat data show Ireland also has a worryingly high proportion of **young people neither in work nor in education and training (NEET)** (33.5% of those aged 15-24 years in 2014)<sup>5</sup>.

Figure 3: Youth unemployment, Q3 2007-Q2 2015



Source: CSO

There is a need to understand better the factors driving the fall in youth labour force participation, and the permanency of this phenomenon – between Q3 2007 and Q2 2015, the participation rate for 20-24 year olds fell from 79% to 62.1%. Given the NEET figures quoted above, this fall cannot be fully explained by younger cohorts remaining longer in education. Likewise, the low rate of **female participation** (52.8%) in the labour market in Ireland is a cause for concern to the Council.

<sup>5</sup> The EGFSN have noted that a considerable proportion of the unemployed, particularly youths, have no previous work experience or occupation, reflecting the challenge confronting some people seeking employment. See EGFSN, Regional Labour Markets Bulletin, September 2014

## ACTIVATION, COORDINATION & EVALUATION

Activation programmes are essential to prevent the marginalisation of unemployed workers and to minimise the risks of long-term unemployment. These programmes also need to facilitate the re-entry into the labour market of those workers who are no longer deemed participants. Activation measures should:

- Address **identifiable labour market/ enterprise needs**. Programmes need to be **evaluated**, reviewed and updated on an ongoing basis to reflect changing needs;
- **Match candidates** to programmes based on their abilities, skills and learning requirements. Appropriate candidate selection and ongoing guidance and support is vital to ensure that courses are successfully completed and meet the needs and expectations of learners, as well as employers;
- Emphasise **quality assurance** for providers, ensure appropriate **occupational standards** for enterprise, and demonstrate **progression pathways** for learners; and
- Provide structured **internships** which include work experience opportunities within enterprise.

## ENSURING WORK PAYS

The Council have previously highlighted the interdependency of the taxation system, social welfare and replacement rates<sup>6</sup>.

**Replacement rates** evolve as average incomes fluctuate in response to labour market developments, and as budgetary changes to taxation, social insurance contributions and social welfare rates are implemented. It is important that policy makers remain cognisant of the impact that any such changes have on the incentive to work. **Replacement rates need to be monitored** on a regular basis.

Specifically, there is a need to ensure that (a) part time workers have a significant **financial incentive** to avail of full time employment opportunities; and (b) the receipt of **secondary benefits** does not impede employment take-up. Other factors limiting participation, particularly for second earners (e.g. cost of travel to work, **cost of childcare**) also need to be urgently addressed.

**Further Reading:** The policy positions above are drawn from the *Competitiveness Challenge 2014* and the *NCC Submission to the Action Plan for Jobs 2015*. See [www.competitiveness.ie](http://www.competitiveness.ie).

The NCC reports to the Taoiseach. Bulletins are issued by the Chair and Secretariat.

<sup>6</sup> The replacement rate measures the proportion of out-of-work benefits received when unemployed against take home pay if in work. In general, a replacement rate in excess of 70 per cent is considered to act as a disincentive to work. Most individuals face replacement rates of less than 70%.