

Labour Market Adjustment: Ireland After the Crisis

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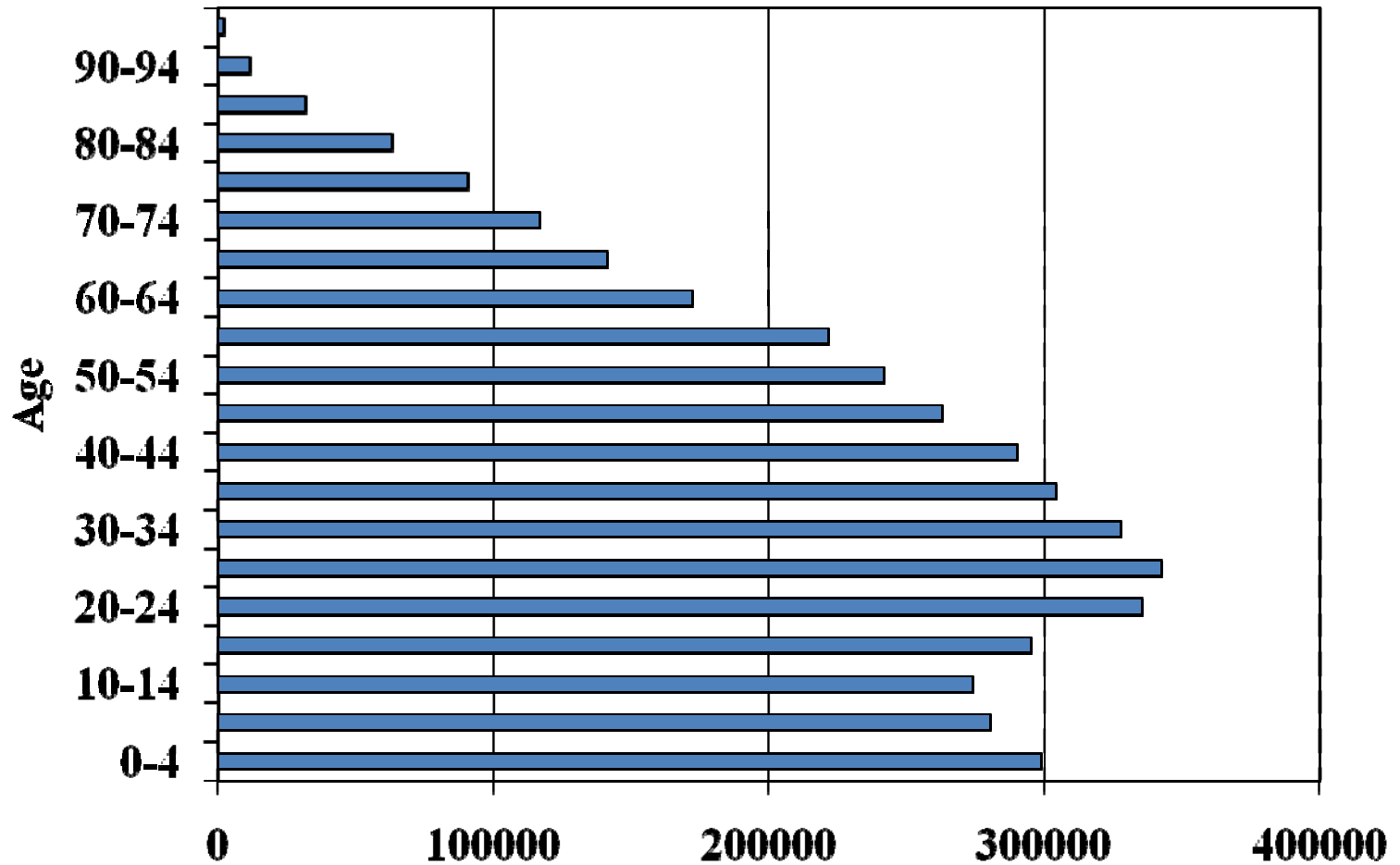
Outline

- Introduction
- Demographic background
- Human capital
- Two labour markets:
 - Adjustment in labour supply
 - Adjustment in wages
 - Adjustment in labour demand
- Medium-term effects & policy implications

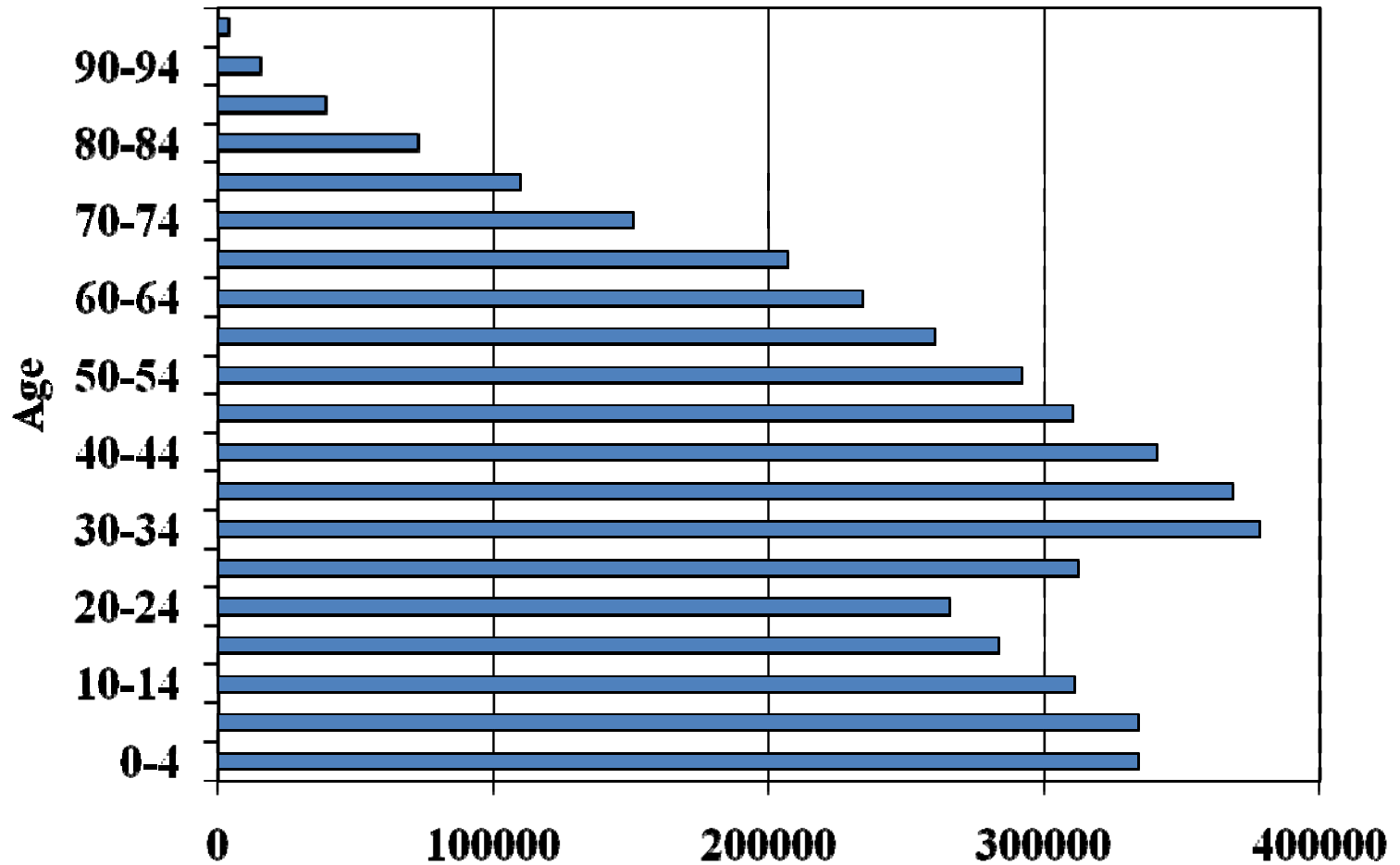
Demographic Background

- High birth rate till 1980
 - Many in late 20s and early 30s
- High emigration in 1940s and 1950s
 - Small proportion retired
- Low age dependency ratio

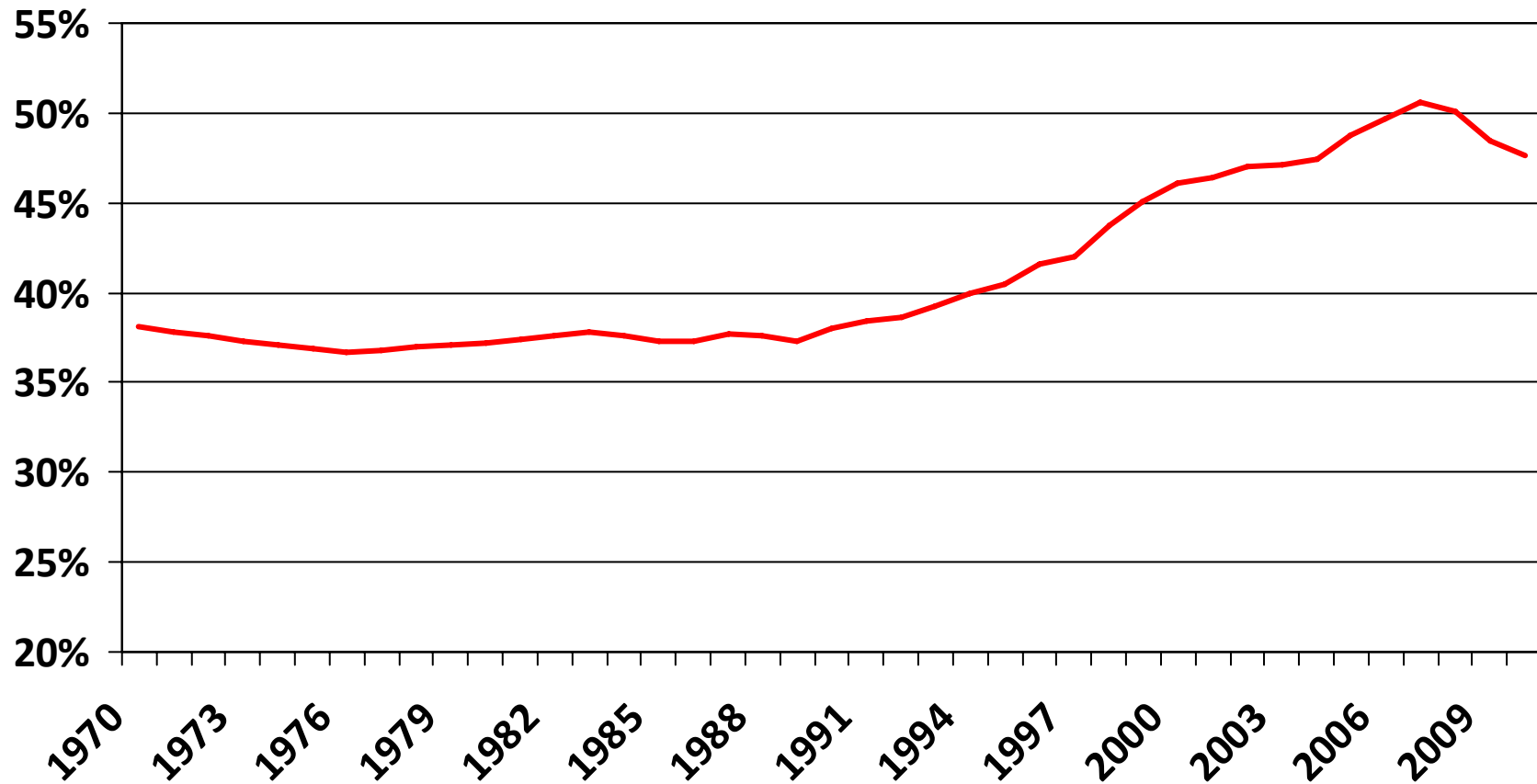
Population, 2005



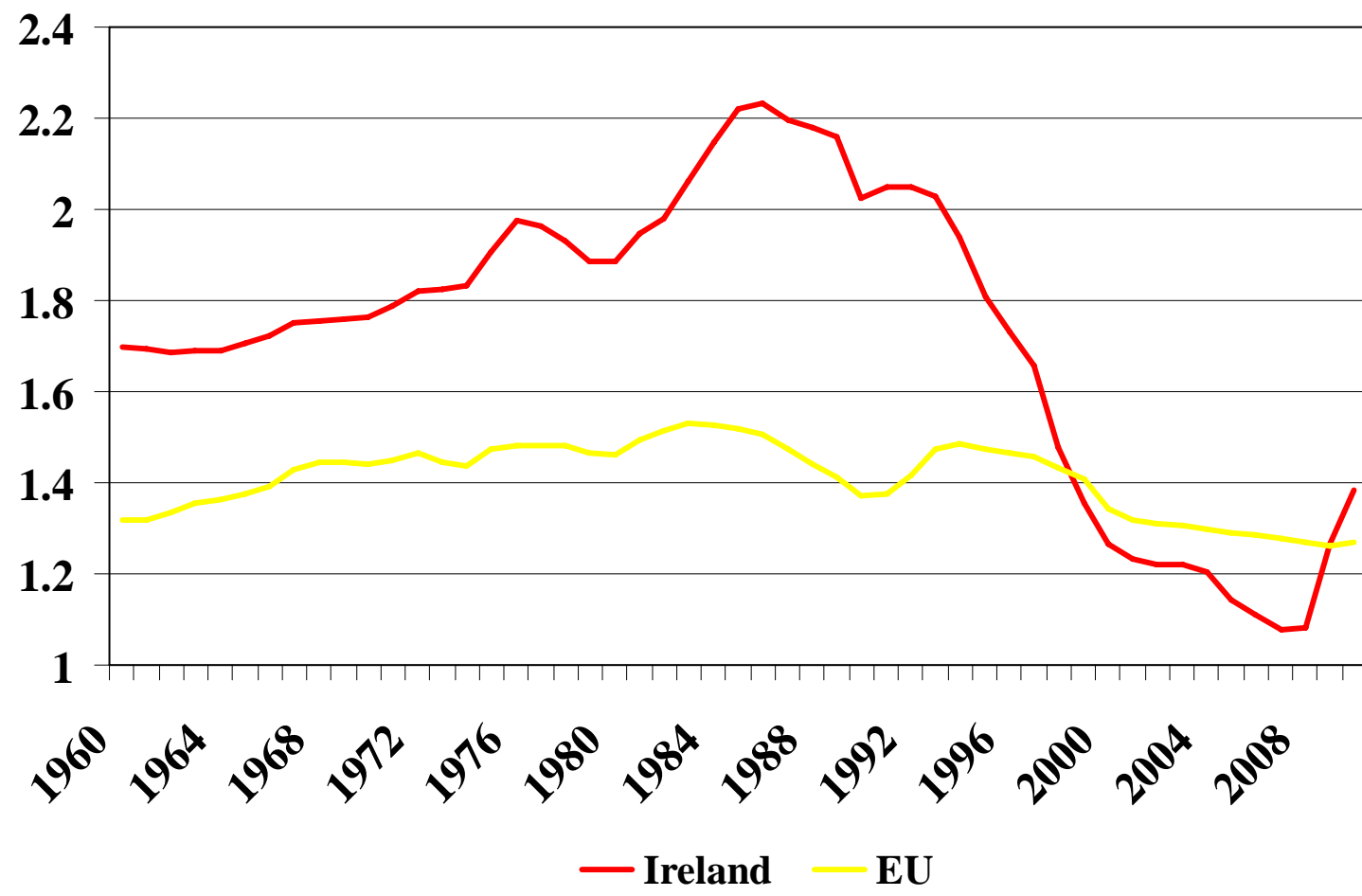
Population, 2015



Labour Force Share of Population



Economic Dependency

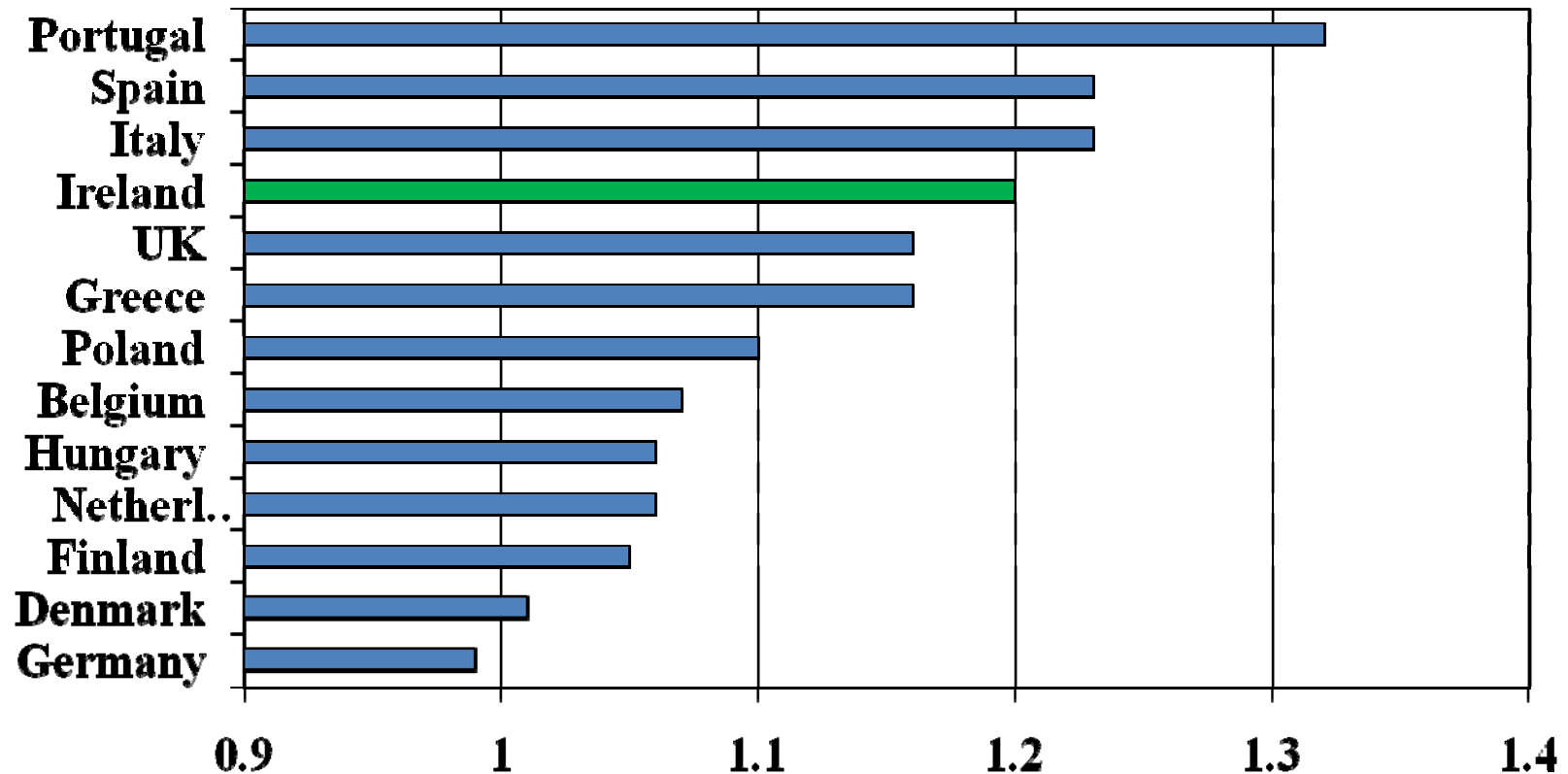


Human Capital

- Limited investment pre 1970
 - Second level education fee paying
- Expansion in coverage in 1980s
- Expansion of third level in 1990s
- Consequences:
 - productivity, participation, employability
- Long-tailed impact
- Effect of crisis

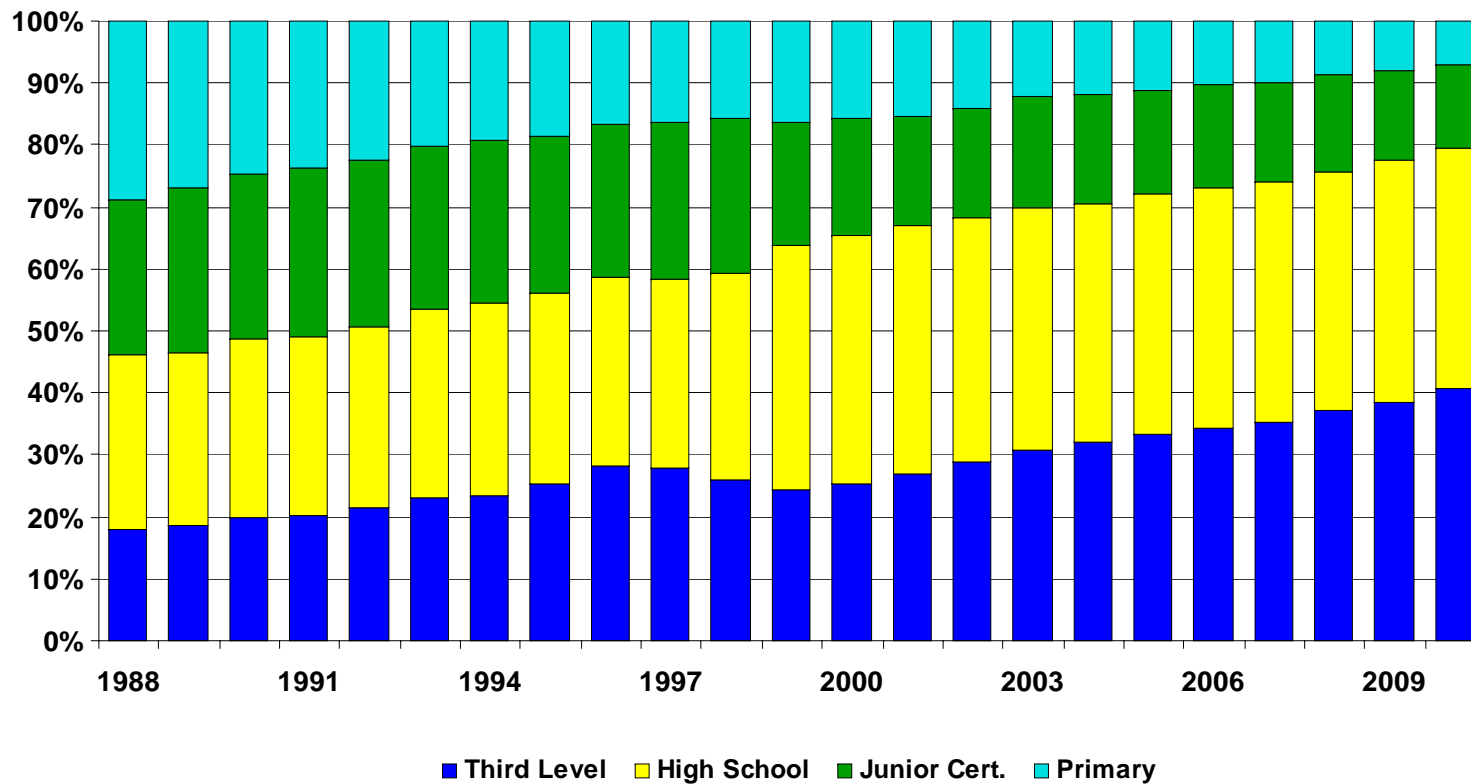
Investment in Human Capital

Ratio of Human Capital Index for 25-29s / 55-59s

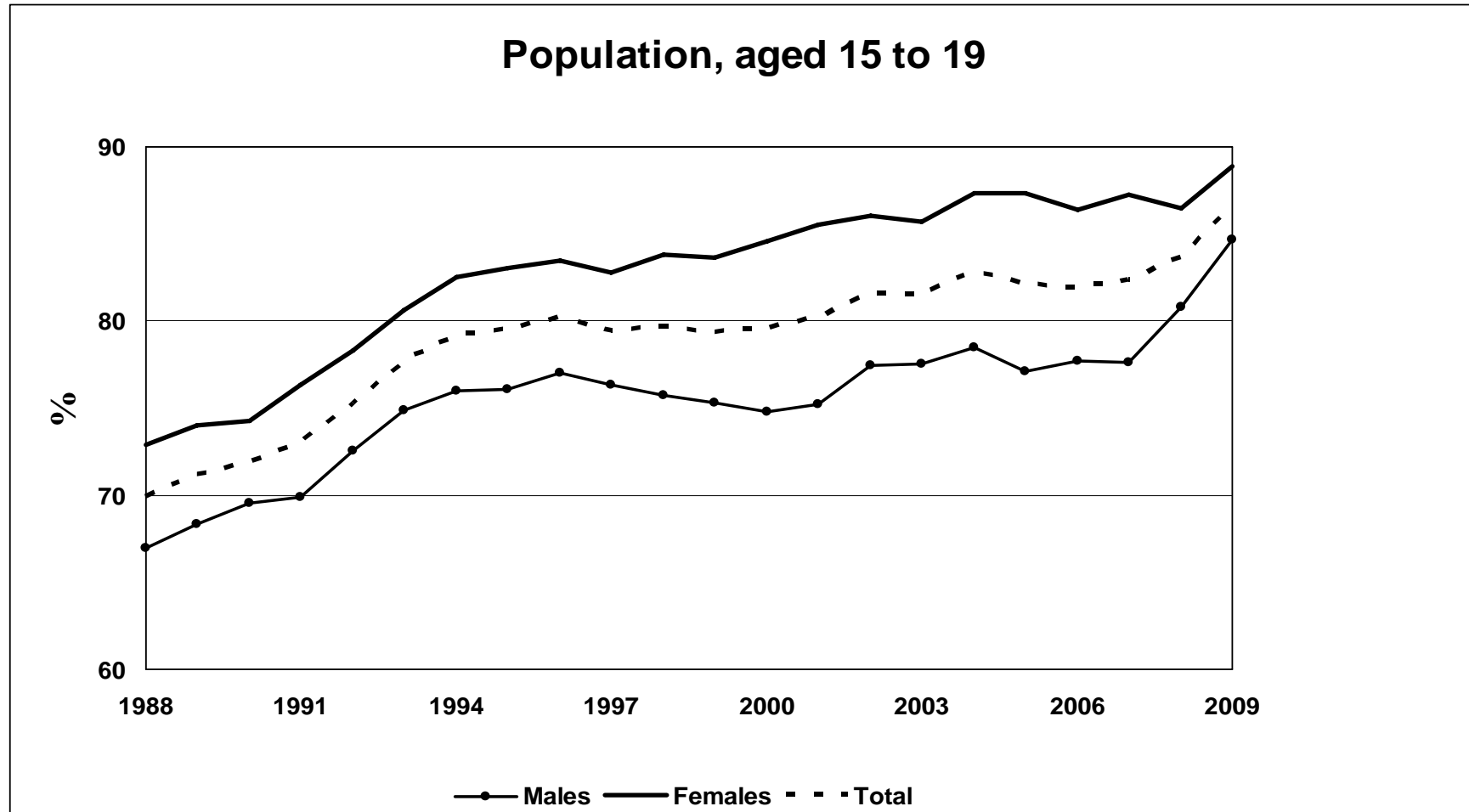


Educational Attainment of Labour Force

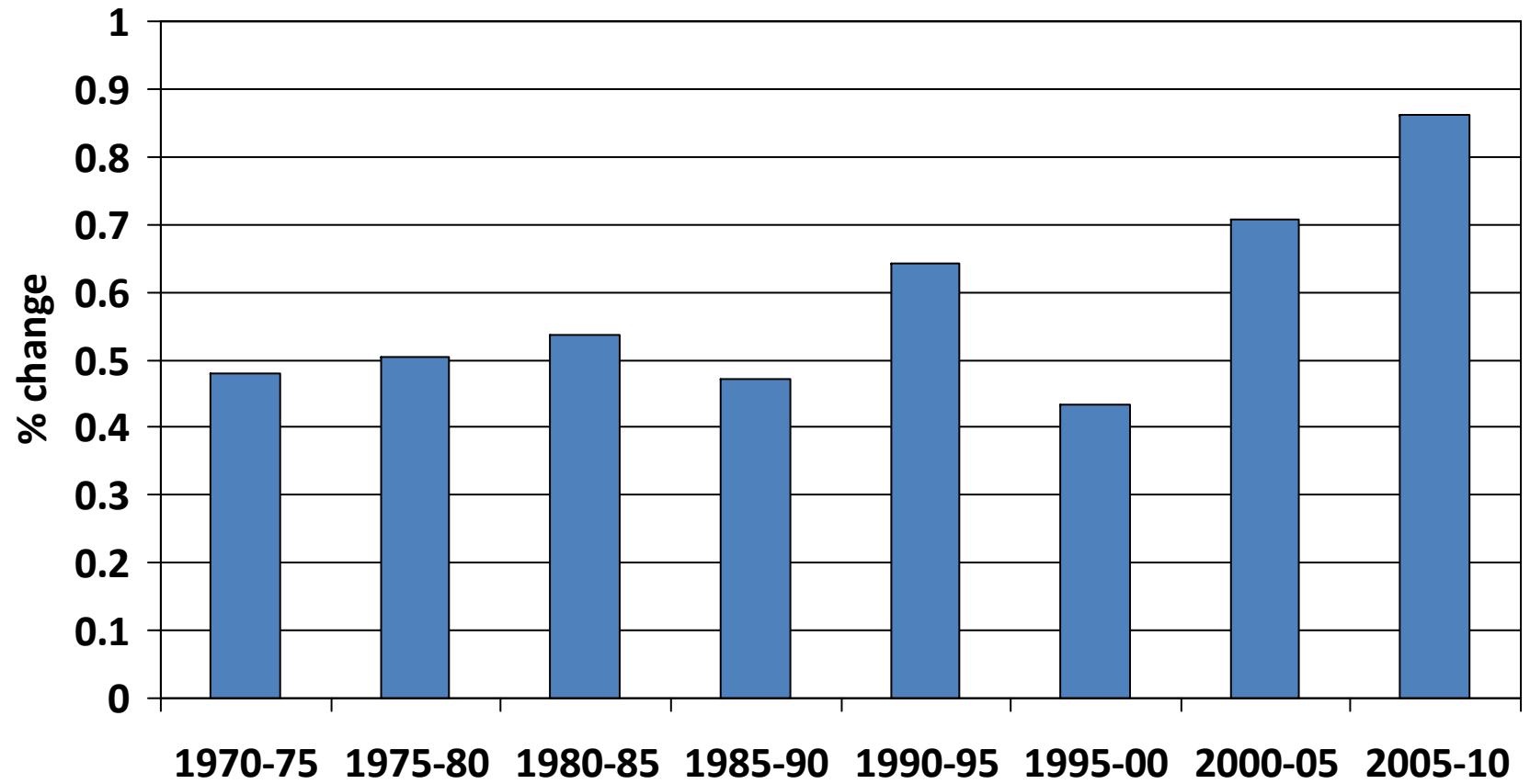
aged 20 to 64



Participation in Education



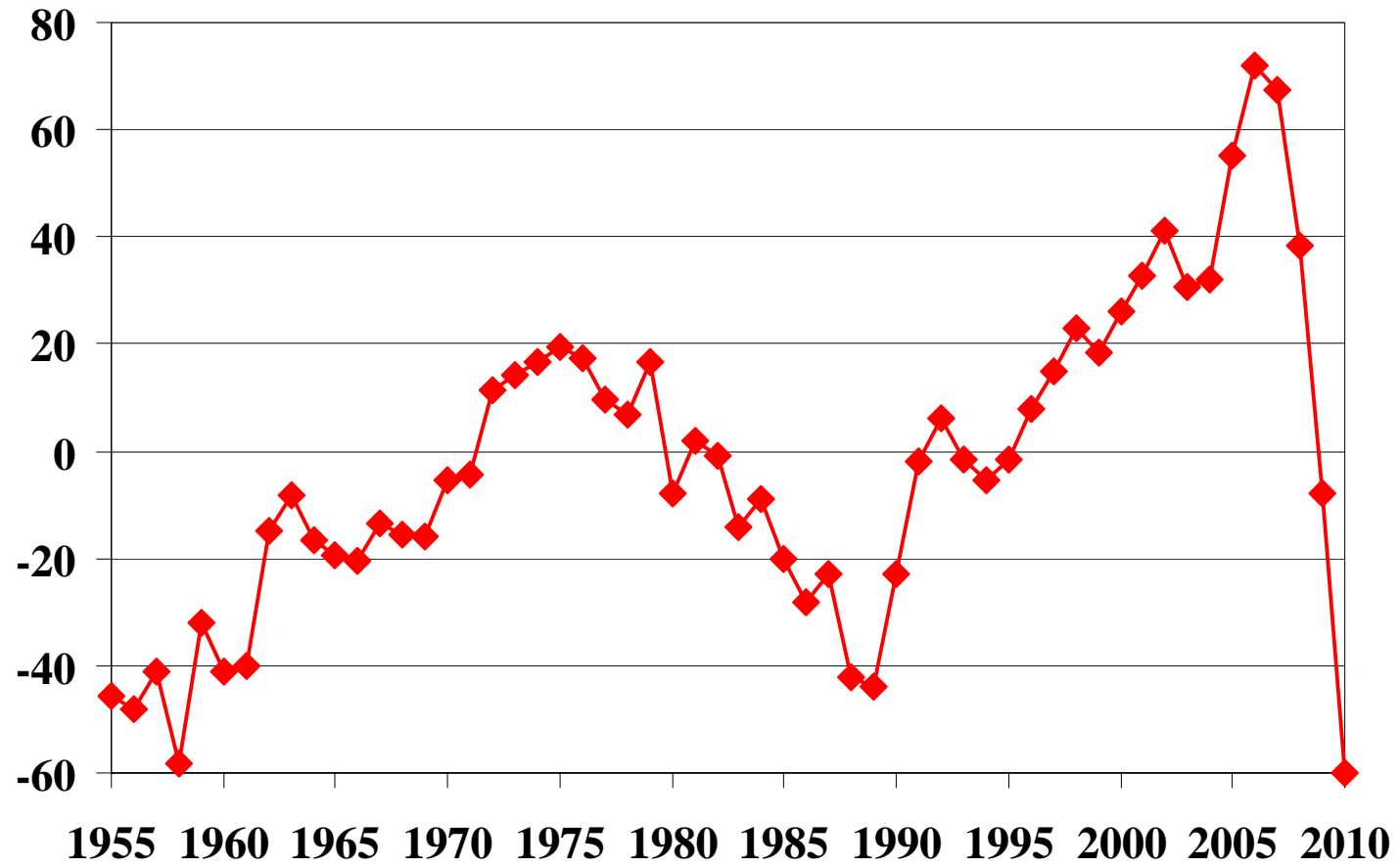
Index of Human Capital



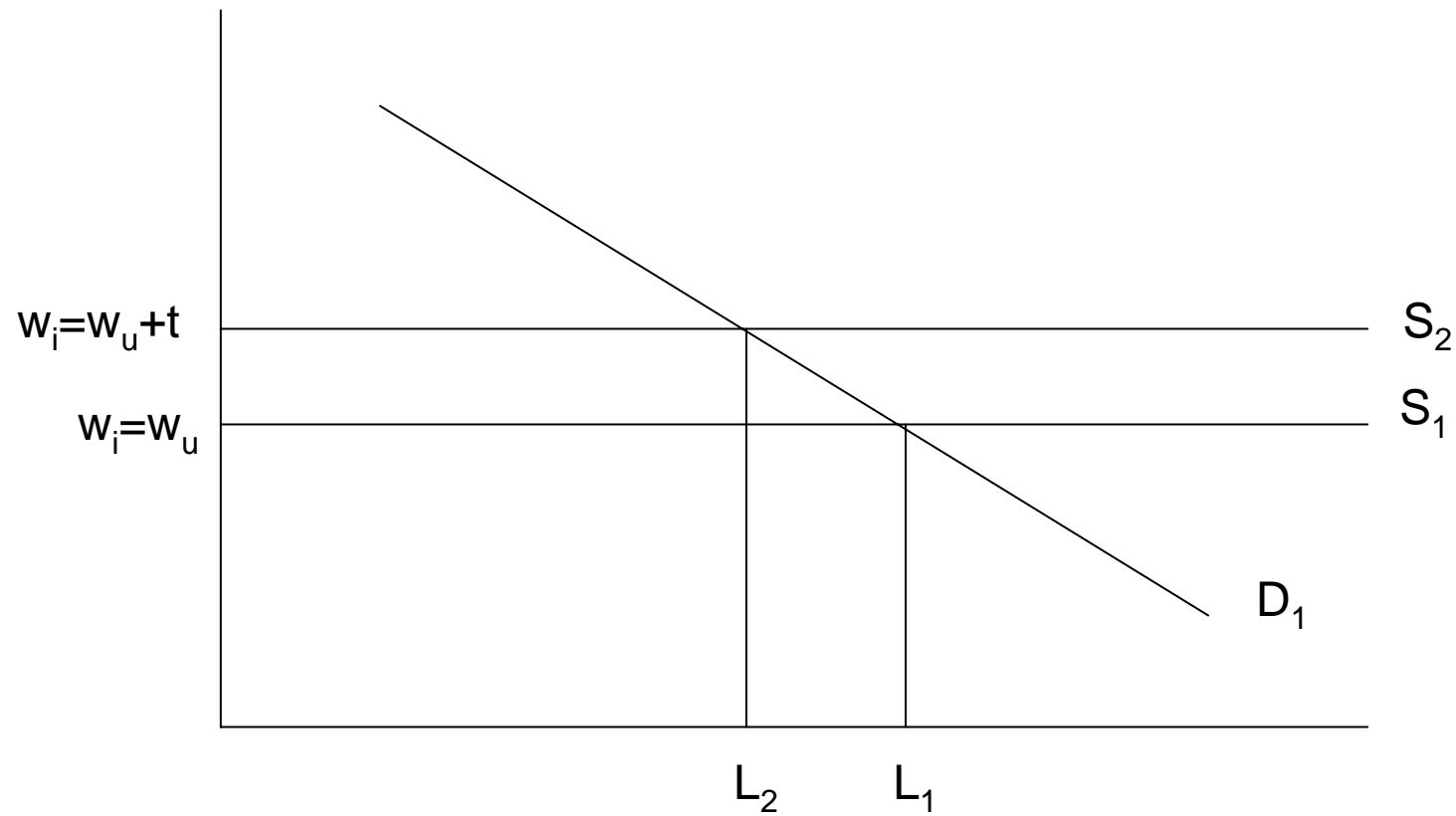
Two labour markets

- Low elasticity of substitution between skilled and unskilled employment
- Skilled labour
 - Migration in and out
 - Flexible – can take less skilled jobs
 - Flexible wage rates
- Unskilled labour
 - Irish do not migrate, foreign workers do
 - Floor to wage rates – replacement rate

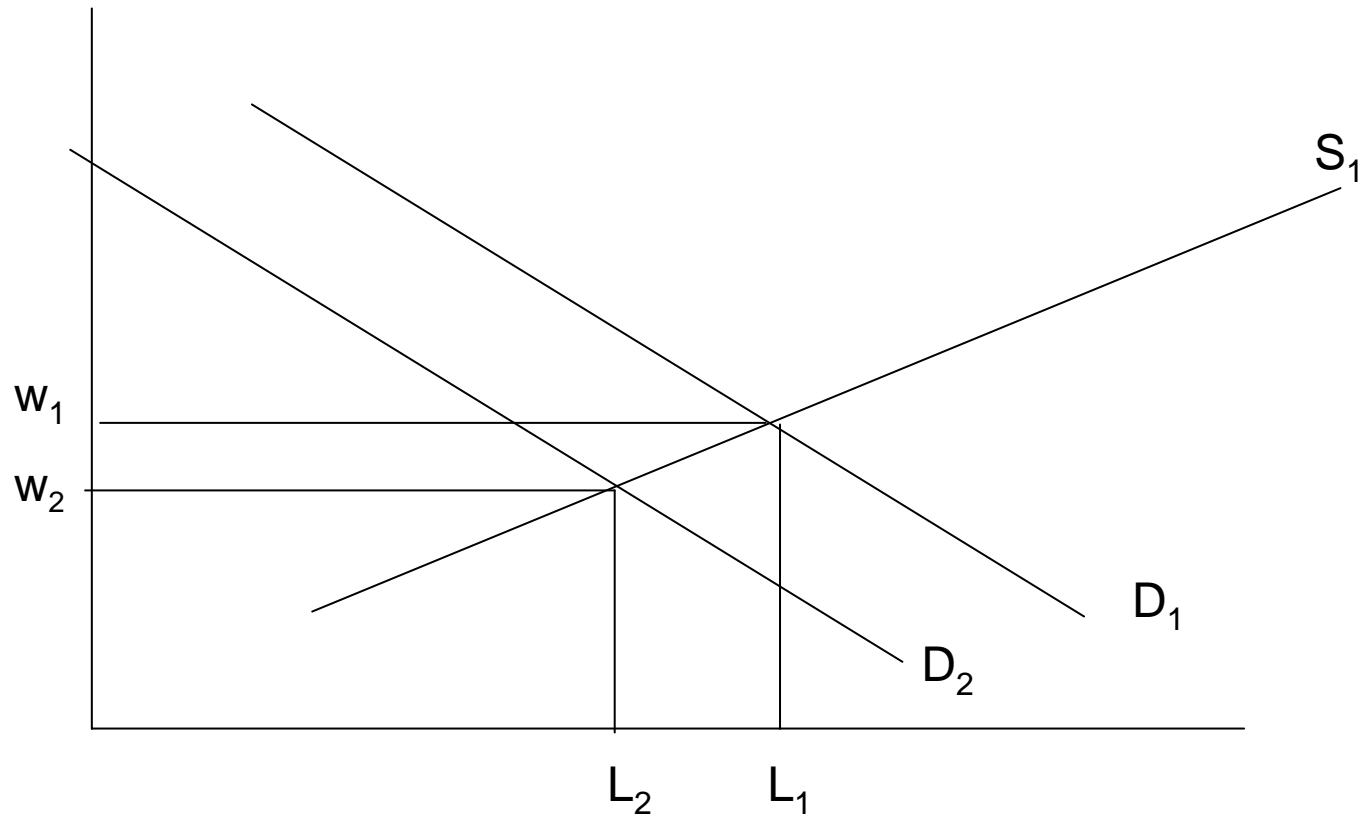
Net Migration



Infinitely elastic labour supply

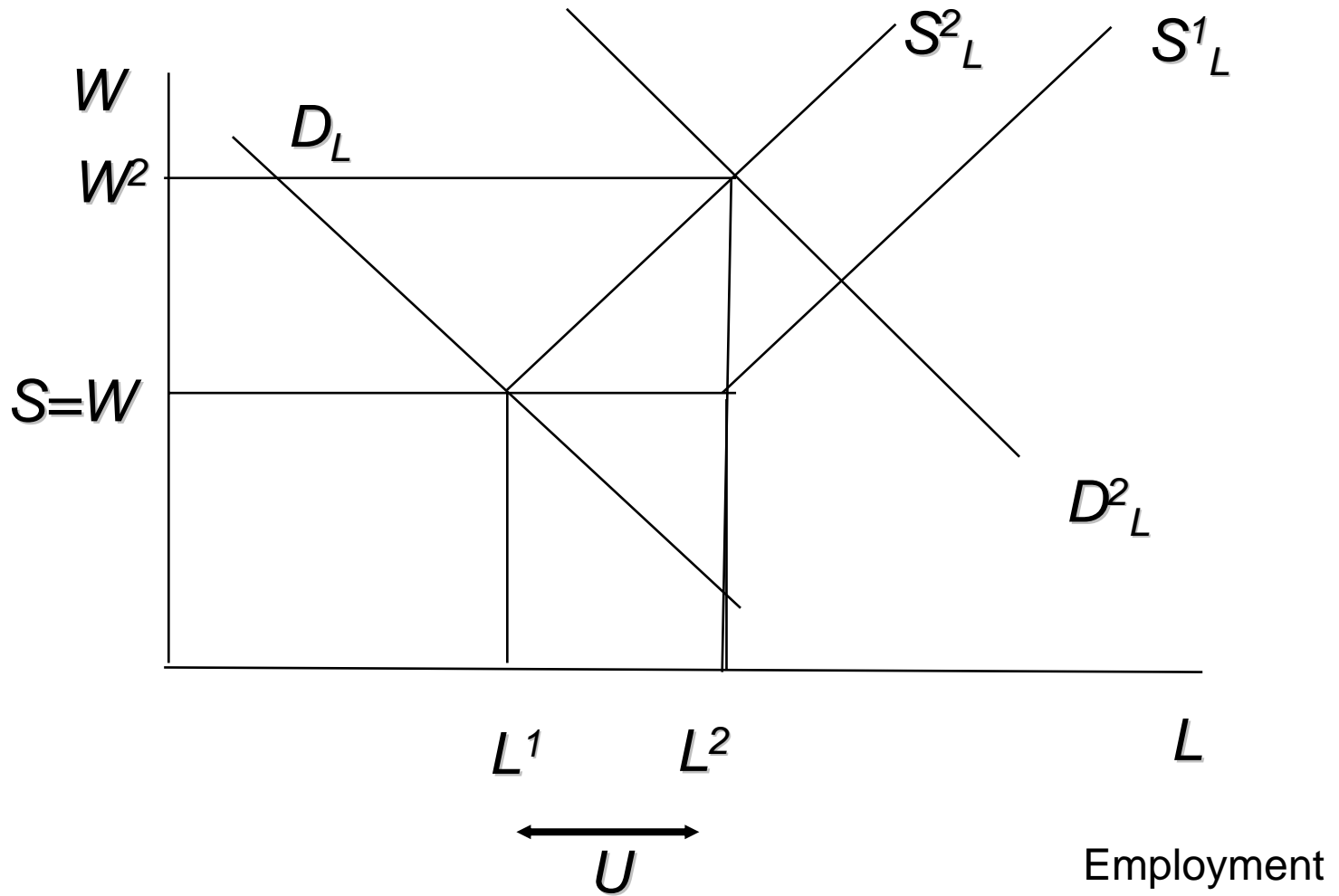


Less elastic labour supply



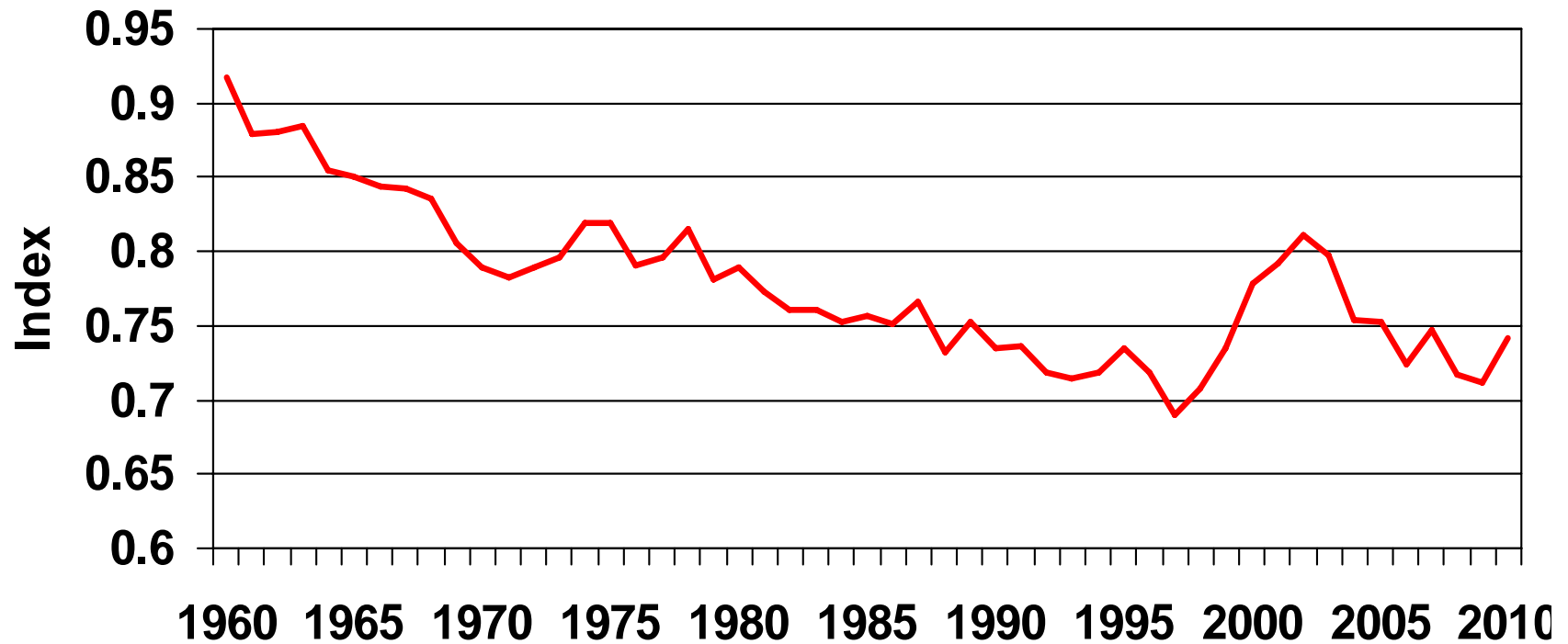
Unskilled Labour

Wage Rates



Relative Wage Rates

Unskilled Relative to Average

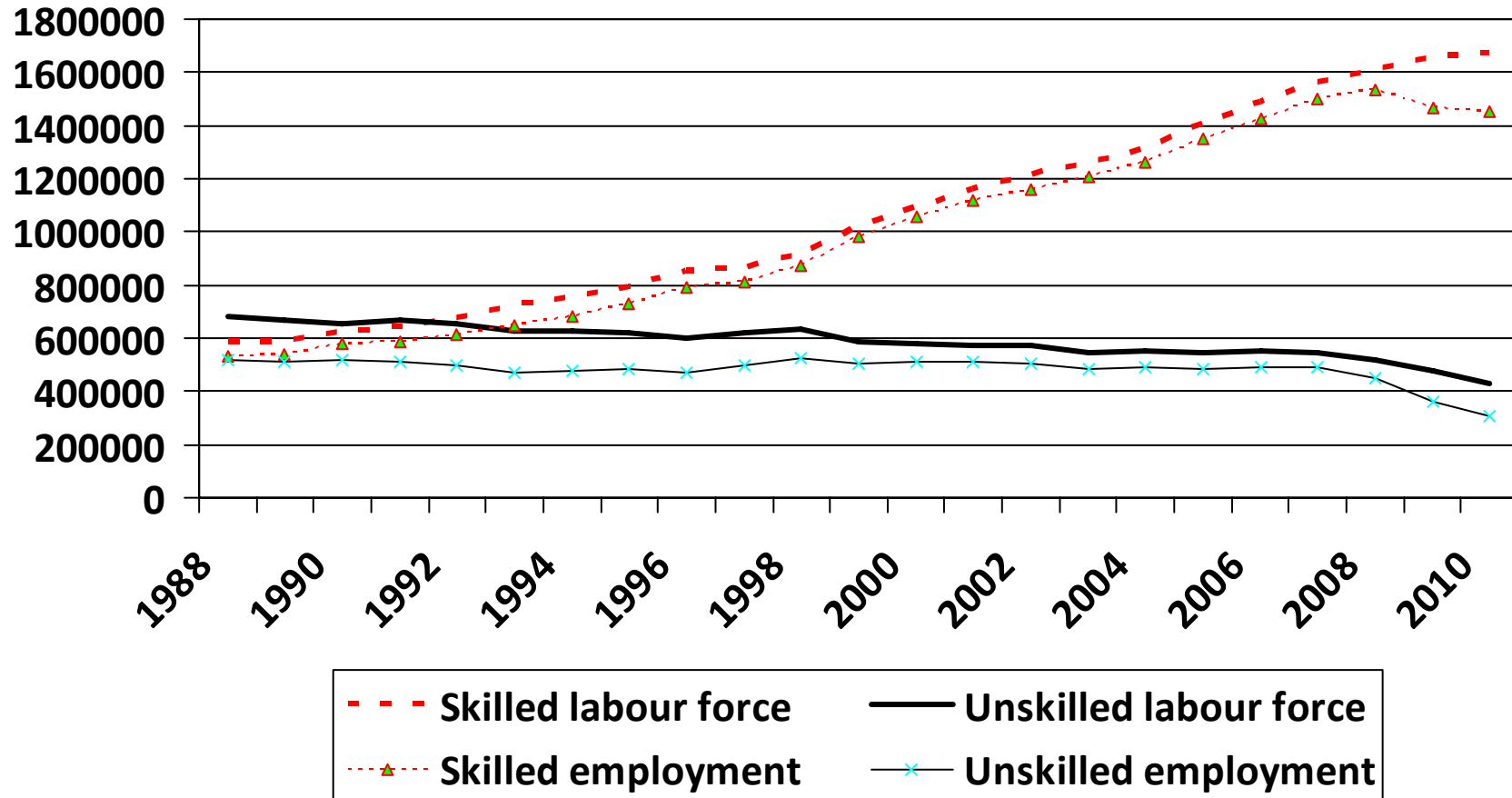


Source: ESRI databank

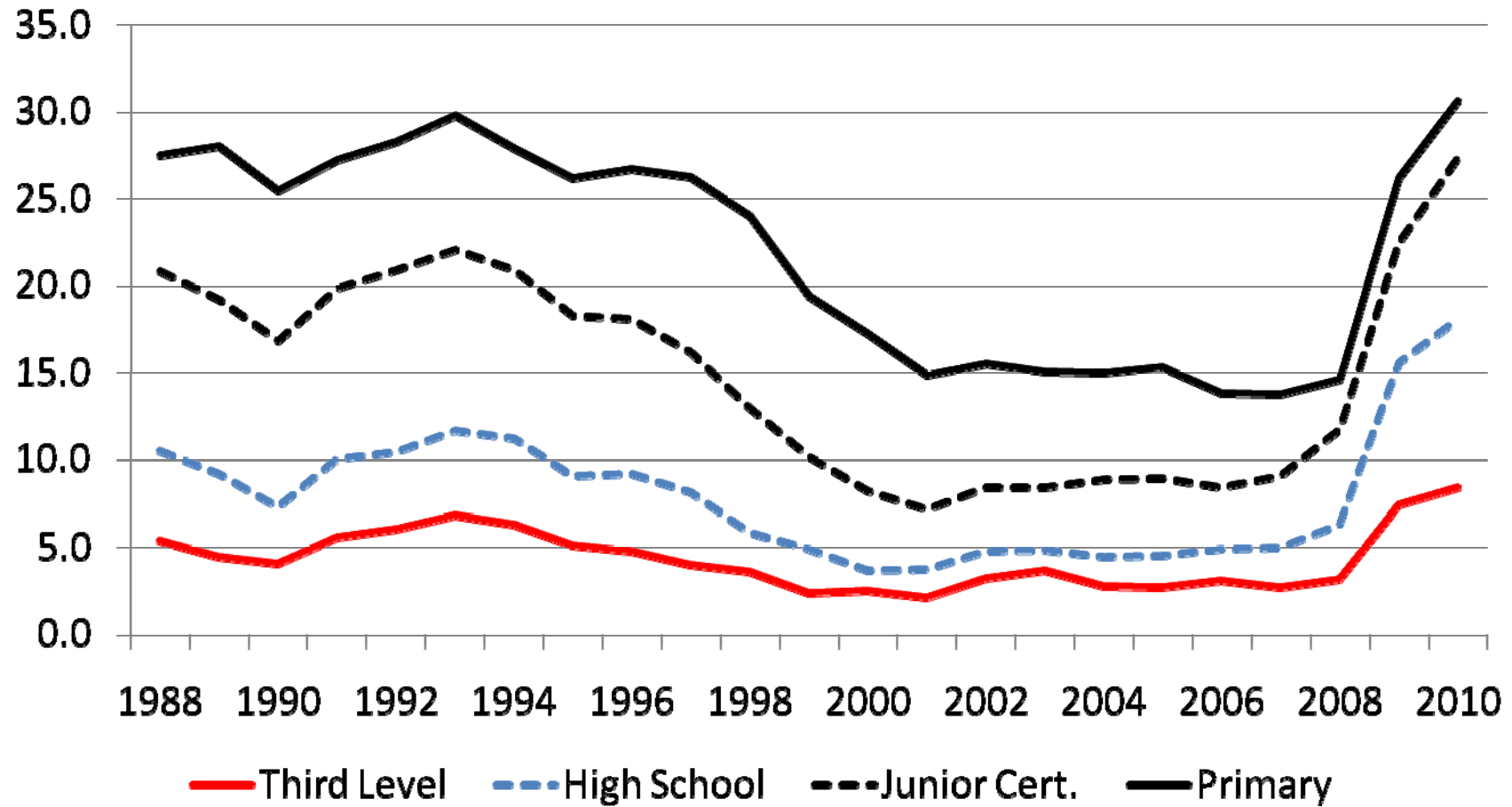
Consequences of Crisis

- Collapse in building and construction & collapse in domestic demand
 - Especially affects unskilled employment
- Unemployment rising
 - Skilled unemployment – because of rising supply
 - Unskilled unemployment – because of fall in jobs
- How will it be resolved?

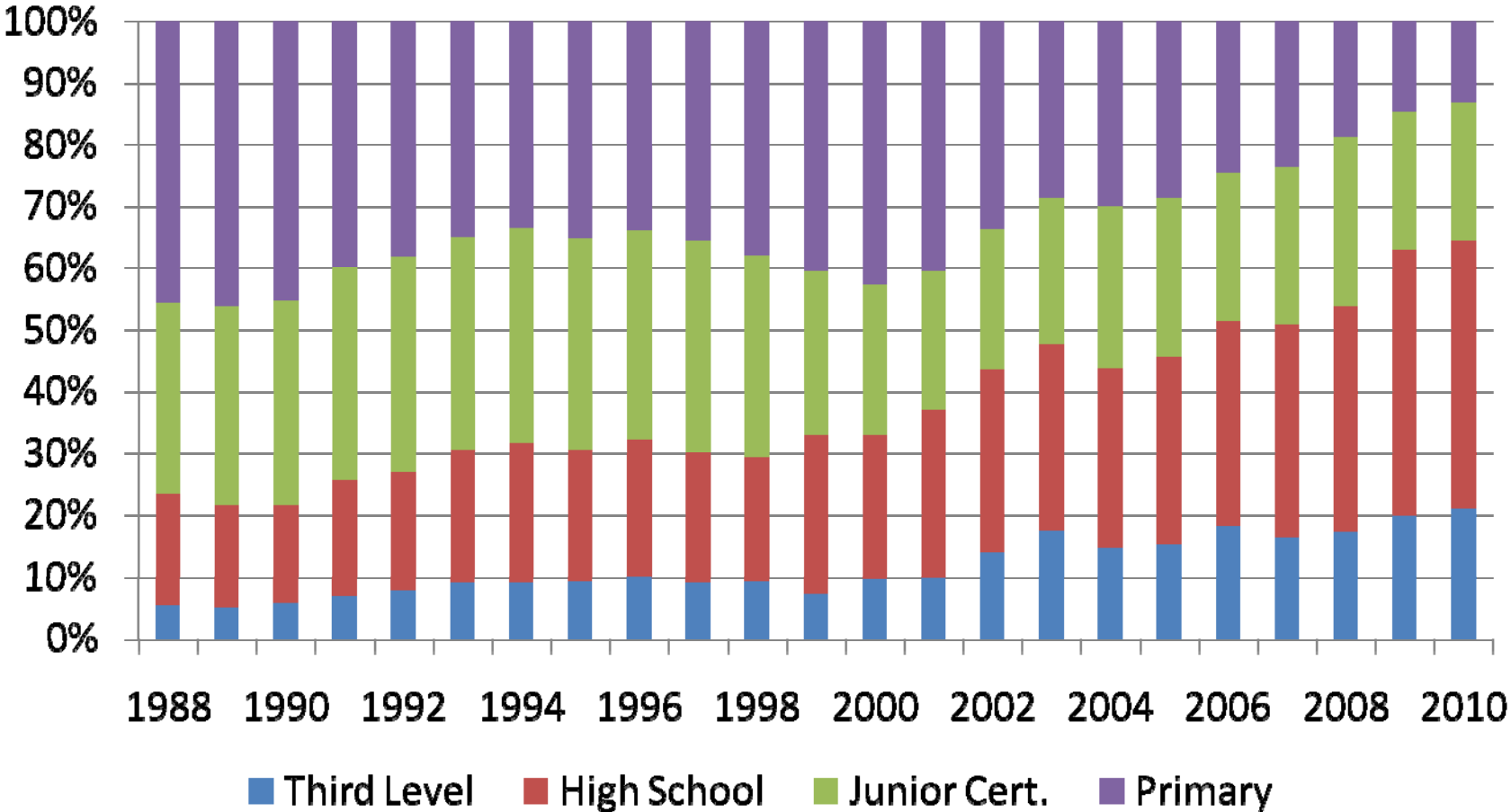
Employment and Labour Force



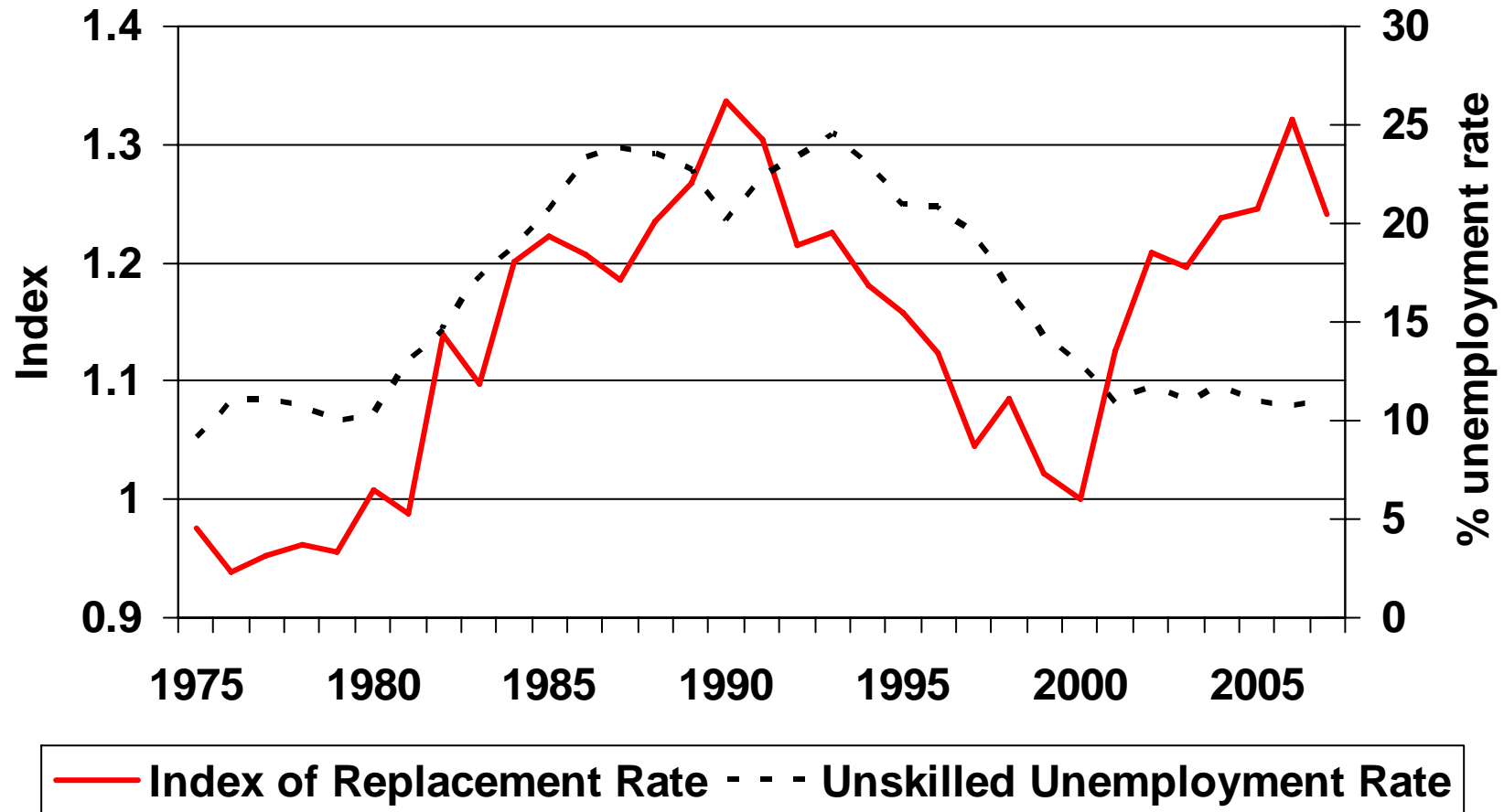
Unemployment Rate by Education



Composition of Unemployed



Replacement & Unskilled Unemployment Rates



Source: ESRI databank

Skilled Labour Market

- No major loss of employment – but supply rising
- Flexible work force & “potential” productivity
- Unusually high unemployment
 - Because speed of adjustment & world recession?
- Will either get jobs or emigrate
 - Question of speed of adjustment
- What drives migration
 - Relative earnings
 - Burden of macro adjustment could affect this
 - Possible downwards spiral – most unlikely

Unskilled Labour Market

- Major loss of employment
 - Emigration by non-Irish workers
 - Still leaves very high unemployment
- Unskilled employment
 - When domestic demand grows again - will fall
- Preventing long-term unemployment
 - Retraining/education – less building jobs
 - Some increase in education. What training will work?
 - Activation measures
 - Replacement rates and

Conclusions

- Skilled unemployment will tend to adjust
 - Either get jobs or migrate
- When domestic demand recovers
 - Will see some increase in unskilled employment
 - May not be enough
 - Measures needed to prevent unemployment becoming endemic
- Recovery likely to see fall in unemployment
 - but
- Reaching full employment may require new policies