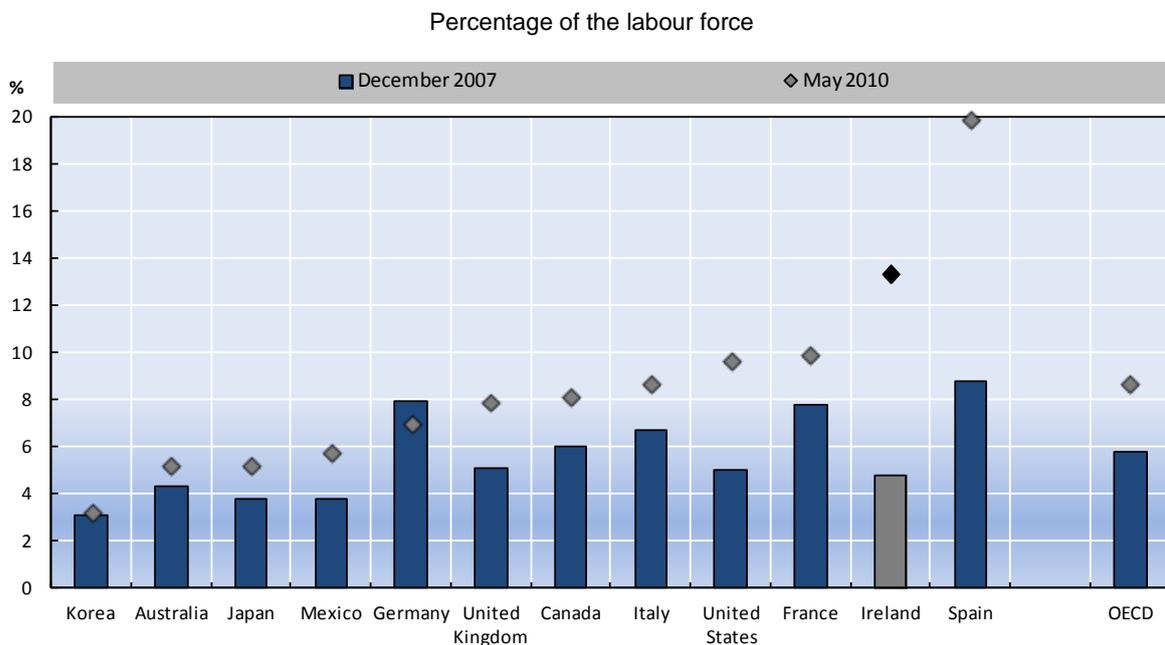




## Employment Outlook 2010 – How does IRELAND compare?

**After one of the most severe recessions in the OECD area the Irish economy is now stabilizing but the recession left significant scars in the labour market that will take time to heal.** In the three years to the last quarter of 2009 real GDP declined by -12.5% and this large drop in output translated into an almost similar drop in labour demand, with total hours worked declining by -11.8%. In contrast with many European countries and Japan, the decline in labour demand was almost entirely accommodated by job losses with average hours worked remaining broadly constant (+0.1%). The limited role of average hours reductions in labour demand adjustment in Ireland is likely to reflect the relatively low cost of hiring and firing and the large concentration of job losses in the highly labour-intensive and low-skilled construction sector. As a result of the large reduction in jobs, unemployment has surged. From its trough of 4.4% in August 2007, the unemployment rate increased by 8.9 percentage points to reach 13.3% in May 2010 (Figure 1). This represents an increase of 174,000 persons to the pool of unemployed. The latest OECD projections suggest that in Ireland the expected recovery is unlikely to be sufficiently vigorous to reabsorb rapidly the current high levels of unemployment. Indeed, there is a significant risk that the temporary hike in unemployment becomes structural and discouraged job losers grow permanently disconnected from the labour market.

### Unemployment rates in December 2007 and May 2010 in selected countries



a. Final month available for the United Kingdom is March 2010.

Source : OECD Main Economic Indicators.

**Long-term unemployment has increased sharply raising major concerns about the persistence of joblessness well into the recovery.** While the share of long-term unemployment initially declined during the recession due to large inflows into unemployment, its share has increased significantly during the second half of 2009, reaching 38% in the last quarter of 2009, well above the pre-crisis share. The rise in long-term unemployment in combination with a reduction in the maximum duration of Jobseeker's Benefit payments (UI) has resulted in a major shift in the registered unemployed from UI benefits (-15% over the year to May 2010) to unemployment assistance benefits (+13%). This indicates that the large majority of jobseekers who are confronted with expiring UI entitlements qualify for Jobseeker's Allowance. Since Jobseeker's Allowance payments are generally close to Jobseeker's Benefit payments, the rise in long-term unemployment by itself does not raise major social concerns related to the adequacy of available income support. However, the rise in long-term unemployment does raise important concerns over its possible incidence on structural unemployment and the extent to which it reduces effective labour supply with potential negative effects on potential economic growth. These concerns are compounded by the relatively generous and time-unlimited nature of Jobseeker's Allowance, which provides weak incentives for work, especially for low-skilled workers.

**Wage flexibility has a crucial role to play in boosting the demand for Irish workers and to prevent unemployment from persisting at high levels.** As a eurozone economy, Ireland does not have the luxury of restoring competitiveness through a devaluation of its currency. Moreover, the need for fiscal tightening means that only limited resources are available to help jobseekers back into work. While cutting pay is painful for workers and households, this may well be necessary to spur an export-led recovery that is sufficiently strong to reabsorb the slack in the labour market and to prevent the current hike in unemployment from becoming structural. There are clear signs that wages have already started to adjust. Average nominal wages have already declined significantly, falling by 5.3% over the year to the last quarter of 2009. While nominal wage declines of this magnitude are rare by OECD standards, they do not necessarily contribute to comparable increases in competitiveness and employment. For example, concurrent changes in the composition of the workforce, due to the concentration of job losses among low pay workers, mean that wage pay cuts are likely to be partially offset by changes in the composition of the workforce. However, if benefit levels are not cut simultaneously, the decline in nominal wages and prices would also imply that available income support to the unemployed is increasing in real terms, further reducing already weak work incentives for low-skilled workers.

**In order to avoid growing benefit dependency job-search incentives need to be strengthened.** This can be achieved through a combination of measures. First, to ensure that incentives for work do not fall any further, the government decided to adjust social welfare transfers (including Jobseeker's Benefit and Jobseeker's Allowance) in line with recent trends in prices and market wages, and particularly for youth under 25 years of age. Second, job-search requirements need to be enforced more effectively. Ireland made some progress in the late 1990s with the implementation of activation policies where, in return for receiving benefits and re-employment services, recipients are required to participate in job search and training. While before the recession the emphasis on conditionality may have weakened somewhat, it looks likely that the extensive social welfare reforms that are currently underway will result in stricter job-search requirements as well as their more effective enforcement. Third, the effectiveness of job-search assistance needs to be maintained also in the recovery period. Given the surge in the pool of jobseekers during the crisis, maintaining an adequate level of assistance necessarily requires some increase in resources. However, while the number of jobseekers registered with the national placement organisation FAS has increased by 45% between 2007 and 2009, staff levels at FAS have only increased by 5%. This has implied a sharp reduction in the resources available per registered job-seeker to help them find their way back into employment. This raises the question

whether the available job-search assistance to jobseekers is adequate to prevent the hike in unemployment from becoming structural.

**For those at risk of long-term unemployment and losing contact with the labour market a greater emphasis on labour market programmes is needed.** Despite significant fiscal tightening, the Irish government has taken a number of initiatives targeted at the long-term unemployed. Amongst others, it has substantially expanded the number of training options available to unemployed jobseekers and has introduced a new work-experience programme (*Work Placement Programme*) targeted at unemployed for over three months. To promote a job-rich recovery, the government of Ireland has revamped its *Employer Jobs Incentive Scheme* which seeks to encourage new hires of long-term unemployed by exempting employers from employer social security contributions for the first year. These initiatives play a crucial role in ensuring that the long-term unemployed stay in touch with the labour market in a context where their prospects of regaining employment are severely restricted due to the intense competition for a limited number of vacancies. They will also help to equip the unemployed with the appropriate skills and experience for finding a job during the recovery. The latter is particularly important in Ireland as the collapse of the bubble in housing markets means that many of the construction jobs lost during the crisis are unlikely to come back in the recovery.

*OECD Employment Outlook 2010* is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on Ireland, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: [stefano.scarpetta@oecd.org](mailto:stefano.scarpetta@oecd.org)) or Alexander Hijzen (tel: +33 1 45 24 92 61 or e-mail: [alexander.hijzen@oecd.org](mailto:alexander.hijzen@oecd.org)) from the OECD Employment Analysis and Policy Division. For further information: [www.oecd.org/els/employment/outlook](http://www.oecd.org/els/employment/outlook).