Two Labour Markets but the Same Policy Goals

A RESPONSE TO 'ONE ISLAND, TWO LABOUR MARKETS' BY JOHN FITZGERALD

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Thank you to John for an *excellent* and thought-provoking presentation; to Paul for Chairing; to all of you for being here today, and to Lisa, Louisa and the great staff here at Queens for organising the conference.

John's research and analysis make a *significant* contribution to our understanding of our economic history, and of labour market trends on both constituent parts of the island of Ireland.

He *engagingly* describes the evolution of education, wage and migration trends, and develops a theoretical framework to explain each of these trends, and the links between them. Ultimately people move to where they can have a better standard of living.

John also shows that each economy *effectively* operated as a sub region within a wider British Isles economy, but that in the main, each remained distinct from and, perhaps surprisingly, did not largely interact with the other, despite the potential economic opportunities that were available.

Will there continue to be a British Isles labour market? In my view the answer is yes. At least over the foreseeable time horizon.

Language, cultural links and economic opportunities will all continue to be strong binding agents.

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However, the implications are much more significant for Northern Ireland than they are for the Republic of Ireland.

In particular, there is a concern that the ongoing brain drain out of Northern Ireland will continue to enfeeble the province's economy.

Such an outcome would obviously have *profoundly* negative consequences for Northern Ireland's economic and productive capacity, as well as for the quantity and quality of employment available.

What can Northern Ireland policymakers do to avoid this fate?

The solutions are complex. But John's review of the education system in Northern Ireland points to an at least partial answer, albeit one that will take many years to yield tangible labour market benefits.

John correctly and compellingly makes the case that Northern Ireland's economic policy should increase its focus on improving population-wide human capital levels through various educational reforms including the ending of streaming in secondary schools.

Alongside this is the need to provide more third level places in order that the early adulthood social and economic relationships that help determine career trajectories are cemented in Northern Ireland and not in England.

Fiscal devolution in Northern Ireland could provide an opportunity to add revenue streams in order to to *support* the necessary reforms to the education and training systems, and indeed to the composition of, and to the overall level, of education spending.

However, even with these reforms the problem of adequate opportunities for graduates will remain. And anyway, revenue raising opportunities are far from a pot of the gold at the end of the rainbow.

As it is, Northern Ireland is caught in a 'bad equilibrium' - a weak supply and demand for high skills are mutually reinforcing each other and generating a low productivity equilibrium that is hard to escape.

We need to develop high-value added skill-sets in areas such as STEM while simultaneously creating reasons for graduates to stay in Northern Ireland. Of course, it's not just high-level education that is required. Northern Ireland has a real early school leaver problem.

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The Republic of Ireland finds itself in a much different position.

The onset of the single market, combined with previous education reforms and an internationally controversial albeit wildly successful foreign direct investment strategy, catalysed a transformation of the Republic of Ireland labour market amid the first Celtic Tiger at the beginning of the 1990s.

Returning migrants have in many ways symbolised this success, and they have been a further boon to the economy and to technology diffusion into the Republic.

The overall standard of living and extent of economic opportunities in the Republic, now match those of Great Britain.

This means that the gravitational pull of higher gross wages that existed at many various times over the last century or so, is no longer a meaningful factor driving migration into Great Britain.

Job specific and sector specific migration will continue to flow in both directions – East and West. However, this is a very different path from the ongoing net outflow likely for Northern Ireland.

The danger for the Republic of Ireland is that it's extremely high cost of living, particularly in relationship to housing and childcare costs, will make inward migration increasingly unattractive or unviable.

These structural and long-lasting market failures are likely to require much greater direct state intervention in the years ahead if we are to avert long-term damage to the growth potential of the labour market and the economy.

We are already seeing signs that the housing crisis is leading to younger workers leaving the Republic for more affordable opportunities. Will they feel they can return? It hinges on housing supply.

More positively, the 'claustrophobic atmosphere' described by John as leading to an outflow of people such as artists and writers from the Southern state, has gradually but meaningfully being replaced by a much more tolerant legal and cultural environment.

The improving tolerance and openness of Republic of Ireland society may become an important pull factor for migrants in a world characterised by increasing authoritarianism.

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This contrasts with the Brexit debate in the United Kingdom, characterised as it was by an intolerance of migrants and a disparagement of their contributions to the British economy and society.

Brexit itself creates obstacles that might reduce labour supply into Great Britain, in particular due to reduced migration from continental Europe.

Counterintuitively, it's possible that a reduced labour supply into Great Britain, if sufficiently large enough, could potentially increase relative opportunities and wages in Britain, and therefore enhance Great Britain's economic attractiveness to workers coming from the Republic.

On the other hand, we may see a structurally weaker post-Brexit UK economy that continues to be characterised by slow productivity growth and relatively weak wage growth. This could generate significant migratory flows from Britain to the Republic.

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Will the two Irish labour markets interact more with each other in the future?

Perhaps.

Northern Ireland is well positioned to benefit from being a conduit between the EU and Great Britain as it remains in the single market for goods. It needs to capitalise on this opportunity.

So far, we have seen that Brexit has led to an increase in trade between Northern Ireland and the Republic. This may prove to be a harbinger of broader economic linkages*, including* labour market linkages, between the two constituent parts of the island.

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Ultimately, developments in real wages and the labour market in each part of the Island and in Great Britain will be a function of the economy's physical capital and human capital stocks, and underlying productivity and innovative capacity.

Unfortunately, productivity growth has been on a generally downward trend in many advanced economies for close on 40 years.

What can be done to reverse this?

Well, the policy prescription is the same for both parts of the island, and indeed Great Britain – investment.

The best way to sustain higher productivity growth is via investment in human capital, i.e. investment in education and skills, particularly in early-years learning, and in alleviating child poverty which we know to be a particularly pernicious barrier to human development.

We also need to invest more in preparing for climate change, in R&D, in our innovation systems, in the development of high-potential start-ups, and of course we need to invest more in productivity-enhancing infrastructure.

Economic decline is not inevitable.

The border doesn't matter when it comes to good economic policy. Both economies and labour markets can thrive in the 21st century.

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So, I warmly thank John again for his paper and for his presentation and I look forward to listening to and taking part in the very interesting programme of work we have for the rest of the day.