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NEW ECONOMIC MODEL

More and Better Jobs

New Economic Model: Pillar 2

This is the 12th in the NERI's long-read series. It is also the 3rd in a discussion series outlining a proposed economic framework or model for the twin economies on the Island of Ireland (North and South).

Economic output boils down to the hours worked in different jobs in the economy and the average productivity of those hours worked. Productivity is a function of skills, capital investments, technology, organisation and other factors. Much of the hours worked, most notably care work, is either unpaid or undervalued and therefore not fully reflected in official output statistics. While the productivity side of the equation is discussed in a forthcoming long-read, we focus here on the hours worked part of the equation with particular emphasis on the goal of more and better jobs.

Wages and labour income more broadly will continue to be the main source of income for the vast bulk of the population for the foreseeable future. Real wages will be central to most household's living standards and high participation and employment rates will be necessary for decent average levels of well-being across the population.

But as necessary and desirable as they are, high levels of labour force participation and full employment are not in themselves sufficient to guarantee decent living standards. Almost one in eight people in the Republic with jobs were experiencing enforced deprivation in 2023. Presumably few would disagree that jobs of the present and the future need to be of good quality and capable of supporting household's well-being needs and householders' ability to participate fully in society. But achieving these goals means pursuing a 'high-road' approach to employment, enterprise, and labour market policy that prioritises and supports a good job agenda. While any job might usually be better than no job, an 'any job' approach is far from sufficient. In other words, while we must certainly pursue policies that are supportive of full employment, we must then go further and pursue policies that support an actual good jobs agenda.

'More and better jobs' is one of four mutually reinforcing pillars that underpin the proposed economic framework. The other pillars are addressed elsewhere in the NERI long-read series and in various other NERI outputs. They are:

(A) Productivity, innovation and growth,

(B) Economic security and well-being, and

(C) Economic resilience.

The pillars are complementary and interdependent. More and better jobs anchor people's economic security and well-being. Economic security is, in turn, a necessary if insufficient condition for a sustainable economic and social model. Insecure people make for unstable politics and policies. Economic resilience and dynamism, for their part, enable an environment that is conducive to the high levels of innovative and productive capacity that ultimately allow for the possibility of high-quality jobs.

Our challenge is twofold with regard to more and better jobs. Policymakers must avoid the mistakes that would threaten full-employment and create an environment that ensures workers and businesses are positioned to flourish in a constantly evolving global economy. We need the right combination of policies and these policies need to be stable over the political and economic cycles. The second task is to realise that full employment is not the same or analogous with good or decent work, and to therefore enact a policy suite that uplifts the average quality of employment on the Island while eschewing policies that privilege or incentivise bad jobs.

Some key issues and questions we need to consider include:

(1) The coming trends in the labour market. How can we identify declining and growing sectors and how should policy respond?
(2) The potential impediments to labour demand. Unblocking the barriers, and avoiding the pitfalls.
(3) The major barriers to labour supply. Minimising mismatches between labour supply and labour demand.
(4) Defining job quality and identifying its characteristics.
(5) The key policy interventions to enhance average job quality.

We need a high-road approach to employment. An 'any job' approach to employment will not ensure high living standards.

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The labour market is in constant flux. Available jobs and skill needs are ever-changing. To illustrate, consider the changes in employment on the island of Ireland over just one generation. This was a time when the population rose by 44% from 3.74 million to 5.38 million in the Republic. The Republic's economy went from 1.66 million employed in the first quarter of 1999 to 2.72 million in the first quarter of 2024, an increase of over 1 million jobs, or 64%. The number of females working in the labour market came close to doubling over the period and participation rates for those aged 15 and over increased from 61% to 65.5% with a large upward shift for women outweighing a smaller downward shift for men. Hours worked per week increased from 59.5 million hours to 85.4 million hours.

In Northern Ireland, total population increased 14.4%, bringing the total to 1.92 million. The numbers in work increased over 30% between 1999 and 2024, with over

60% of that new employment female. The employment increases resulted in just over 200,000 jobs and a 23% increase in total hours worked from 23 million to 29 million.

While the shift in population and total employment were dramatic there were equally significant changes in the composition of employment. In the Republic, *Industry* was the largest sector in 1999 with 325,000 in work, followed by *Wholesale, retail and vehicle repair* with 233,000, and *Agriculture, forestry and fishing* with 141,000. In Northern Ireland, Industry and Wholesale and Retail were the largest sectors accounting for just over 118,000 jobs each, followed by *Health* with just over 100,000. However, total jobs in Industry would go on to stagnate over the subsequent 25 years, as indeed it did in many other Western economies. This was due to various factors including technological changes and automation, and especially globalisation and competition from lower cost countries. Northern Ireland lost almost 20,000 industry jobs whereas the loss in the Republic was just 800. While the net loss in the Republic was comparatively modest the marginal decline must be seen against the very large increases in population and in economy-wide employment.

The relative shift away from Agriculture, forestry and fishing in the Republic was even more pronounced, with the absolute numbers falling from 141,000 to 110,000. Industry's employment share declined from 19.5% to 11.9% between 1999 and 2024 while Agriculture, forestry and fishing's share fell from 8.4% to 4%. Agriculture fell from the 3rd largest employment sector to the smallest of the 14 main NACE categories. In contrast, in Northern Ireland, despite the larger fall in absolute jobs, Industry's share of total jobs only fell by 5.4 percentage points from 15.9% to 10.5%.

By 2024, *Health and social work* had become the largest sector by employment in the Republic with 356,000 working in the sector. This was followed by *Wholesale & retail* at 330,000 and *Industry* at 324,000. Similarly, in Northern Ireland, Health is now the largest employer with 152,000 jobs followed by Wholesale and Retail with 140,000. The numbers working in health and social work increased by a remarkable 229,000 (180% increase) in the Republic over the 25 years while in Northern Ireland the increase was not as dramatic, either in raw numbers or as a share of the total. Health increased by over 50%, but its share of total jobs increased from 13.1% to 16.1%. In the Republic, the *Education* sector and the *Professional, science and technical* sector generated 131,000 and 123,000 net new jobs respectively. Both sectors more than doubled their total employment, as indeed did the *Information and Communication* (ICT) sector. In Northern Ireland the Professional Services sector grew by 168% from 25,000 to 57,000 while ICT jobs grew 136% from just under 13,000 to over 30,000. Overall, the broad trend in employment was a shift towards knowledge based and relatively better paid jobs in the services sectors.

It should be emphasised that the employment trends were far from linear. There was significant volatility in employment over the 25 years, with a severe and prolonged retrenchment in the wake of the 2008 crash and a sharp but short collapse in labour demand during the Covid lockdowns. The *Construction* sector was particularly affected by the 2008 crash and the subsequent years of austerity and weak demand. Construction jobs in the Republic increased from 119,000 in 1999 to a peak of 241,000 in 2007 before plummeting to as low as 81,000 in 2013 with half of the net job losses coming in just the first two years of the crash. In Northern Ireland, Construction peaked at 81,000 jobs in 2008, before dropping to 44,000 by 2013. Construction had only partially recovered by 2024. The Republic and Northern Ireland have only recovered to 73% and 72% of their respective peaks, although it is worth remembering that such peaks were the height of an unsustainable boom period for the sector.

Fundamental questions policymakers therefore need to consider include - 'what are the skill sets and job types that will be demanded by the global and domestic economies in the decades to come?' It is obviously impossible to answer this question with any certainty. We can employ strategic foresight to identify some of the main approaching global megatrends and use these insights to tentatively identify broad sectors and job types that may be in greater or lesser demand in the future. An additional task is to identify areas where there may be already existing labour shortages and areas of potential oversupply.

The coming demographic changes on the Island will be characterised by an ageing population. The age shift will increase demand for skills related to healthcare and long-term care and could put downward pressure on employment in education, at least in the absence of policy reforms towards lower classroom sizes or greater provision of adult education. The climate transition to net zero greenhouse gas emissions will increase demand for 'green' jobs, for example construction jobs related to green infrastructure and housing retrofits. On the other hand, there may be less demand for workers in areas such as motor vehicle repair and energy production. There may also be gradual shifts in patterns of land use and associated jobs.

Digitalisation and other technological changes such as Artificial Intelligence (AI) could profoundly affect the labour market and their increased importance suggests greater demand for STEM (science, technology, engineering and mathematics) skills to use advanced technologies and potentially less demand for workers in areas such as sales, accountancy, law, administration, and communications where there are risks that technology may substitute for labour. The Department of Finance's preliminary analysis suggests occupations amounting to 30% of employment are 'at risk' from AI. Females are more exposed due to the type of occupations they tend to have with male dominated sectors such as construction and agriculture relatively unaffected.

The labour market implications of de-globalisation and more volatile and disruptive geopolitics are difficult to assess. A weaker flow of Foreign Direct Investment (FDI) from the United States, were it to transpire, would imply a slower growth in demand for labour in the sectors currently dominated by multinationals, with goods exporters perhaps more exposed than service exporters. Finally, there is the potential for policy induced shifts in demand for certain skills. For example, there is broad policy consensus around the twin goals of a significant increase in housing supply and the provision of green infrastructure. This implies increasing demand for workers with construction related skills, an area where there is already a notable undersupply of available workers in the Republic.

The inevitability of workers becoming mismatched and unemployed or underemployed due to their qualifications becoming obsolete or less in demand from employers represents an obvious policy concern. Less obvious is the issue of 'over-qualification' as a form of labour market mismatch. Nugent finds that around three in ten third level graduates in the Republic of Ireland do not require their level of qualifications, mostly in services and clerical roles, with Information Technology (IT) graduates among the least likely to be overqualified. This is amongst the highest rates in the EU and represents between 10% and 15% of Irish workers. Business, administration and law graduates make up the highest share of overqualified graduates in the workforce. The UK's over-qualification rate is a little less pronounced but is still one in four third level graduates.

Increasing third level education among the population is often a policy goal in and of itself and it is one in which the Republic has been very successful. However, these achievements are not translating into good jobs for all graduates. Nugent finds that those from less privileged socio-economic backgrounds are much more likely to be over-qualified for their job. In other words, there is a significant class component to labour market outcomes for graduates. Over-qualification can be costly for individuals. It negatively affects workers through lower job satisfaction and is associated with lower returns to education in the form of earnings. Lower job satisfaction in turn affects firms through staff turnover and lower productivity. Over-qualification is also an inefficient waste of human capital and a partial waste of public spending in so far as educational spending fails to translate into relevant labour market outcomes.

Over-qualification can also manifest where the domestic economy is unable to adequately utilise the human capital of the work force. This may be a particular concern for Northern Ireland, with a relatively weak and low value-added enterprise base unable to provide relevant employment for certain high skill workers thereby leading to over-qualification or to flight of human capital to other economies. Mac Flynn posits that Northern Ireland is caught in 'low skills equilibrium' with a mutual causality between low skills acquisition by the workforce and low skill utilisation by firms. The suggestion is that workers have less incentive to increase their skill levels compared to other European countries and regions. A coordinated approach between government, enterprise, and the education system, including active involvement from workers, is needed to break this equilibrium.

What does the uncertainty and flux around future labour market trends mean for policymakers? The policy system will need to engage in ongoing research and strategic foresight about future labour market trends and future skills needs if we are to succeed in minimising labour market mismatch in the future whether through under or over qualification. We will need to combine future trend analysis with a willingness to evolve policies and structures and supports at government level, including within the education system, and those aimed at the private market.

As a priority we will also need to develop a supplementary model of education focused on life-long learning, with employers and workers given appropriate fiscal and other incentives and opportunities to re-skill or up-skill throughout their working lives. Greater public and private resources will need to be allocated to adult education and skills in order to be sufficiently agile to respond to the changing demands and possibilities of the domestic and global economies. Finally, our social insurance system needs to protect the incomes of workers that do lose jobs in order that they are incentivised to take the needed time to re-skill or up-skill and do not instead find themselves obliged to take the first available job they can find.

The labour market is in constant flux and policy needs to be agile.

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Active short-and-medium-term demand management by government is fundamental to keeping an economy at close to full employment. While sustainable fiscal and monetary policies are discussed in greater depth in the pillar 4 long-read, it's worth here emphasising their significance for employment and unemployment levels. Fiscal and monetary policy should consistently take a stance counter to the business cycle so as to prevent significant fluctuations or 'booms and bust dynamics' in employment and in incomes. Large fluctuations in demand lead to underutilised labour and capital during the downswing and to deteriorating human capital levels as skill sets and confidence erode when unemployment levels rise, particularly if the downswing is prolonged. By maintaining countercyclical fiscal and monetary policies we can diminish the amplitude of fluctuations in demand. Fiscal policy is a particularly important lever as the main elements of monetary policy are decided outside the Island and will not necessarily align with the needs of either the Republic or Northern Ireland. Unfortunately, economic history shows us that countercyclical fiscal policy is politically very challenging to maintain during upswings.

Recent historical examples illustrate the importance of fiscal policy as a demand management tool. The Republic of Ireland engaged in highly procyclical fiscal policy during the first decade of the 21st century. A booming domestic economy, arising in part from an influx of credit from outside the country, was further stoked by extremely loose fiscal policies characterised by large inflationary tax cuts and increases in public spending in excess of sustainable growth levels. There were also failures in the European Central Bank's and domestic regulators monetary policies and a failure of domestic and global banking policy and financial regulation. Policymakers also ignored large current account imbalances. When the domestic housing asset bubble eventually burst the Irish Government found itself unable to stimulate demand in the economy via Keynesian expansion. Instead, its prior fiscal policy choices and a series of bank bailouts in the wake of failed banking regulation had left it with unsustainably large budget deficits and surging debt levels. Income tax and VAT receipts were declining, welfare spending was rising, and bond markets were demanding higher interest rates to finance debt.

Northern Ireland was caught between these dynamics in the Republic and the significant fiscal retrenchment that was enacted by the United Kingdom (UK) government over the same period. Northern Ireland suffered from both the consequences of an unsustainable construction and property boom in the Republic and the consequences of a financial services induced crash in the UK.

As a consequence, both Governments engaged in procyclical austerity reducing aggregate demand by means of tax increases and spending cuts, with particularly large cuts to spending on infrastructure. A vicious cycle was created as job losses and declining incomes, initially from the exposed construction sector, precipitated further falls in demand which then caused further job losses in demand sensitive sectors including retail. Over 390,000 jobs were lost between 2008 and 2012, 320,000 in the Republic and 70,000 jobs in Northern Ireland. Similar depression dynamics were playing out in other European countries. The crisis caused ongoing damage to European economies in the form of the weaker productivity growth that results from lower spending on investment. Innumerable similar examples of procyclical boom and bust debt crisis dynamics can be cited from economic history.

In contrast to 2008, European and North American governments were able to shut down much of their economies in 2020 to fight the Covid-pandemic and yet were then able to bounce back quickly when the pandemic abated. The reason for the bounce-back was that governments were collectively willing and able to countercyclically deploy fiscal and monetary policy to provide trillions in supports to protect household incomes and the productive capacity of business. Similarly, governments in many countries were able to dampen the income shock from the 2022 energy and cost of living crisis by deploying billions in fiscal supports. In both cases employment levels were broadly protected. The critical importance of countercyclical macroeconomic policies was evident. Any credible strategy for protecting jobs is predicated on the hardwiring of stable and appropriate fiscal and monetary policy stances across the economic cycle and a willingness to take pre-emptive steps to correct unsustainable imbalances in the balance of payments, in the public finances, or in the extent of credit creation and private debt.

To maximise employment and incomes potential we also need to maximise our access to external demand. Exports are of particular importance to small economies such as those on the Island of Ireland as the small domestic markets are not capable of generating sufficient high-value jobs. Openness to free trade has been core to the Republic's economic model since the late 1950s. Following decades of economic protectionism and failure the Government shifted to an export-oriented industrial policy predicated on tariff reductions and ultimately to free trade, along with generous grants and tax reliefs for foreign investment and for exporters. The Republic's subsequent transformation from having an average income per capita of less than half of Europe's best performers to becoming one of the richest countries in the world is a function of its subsequent phenomenal success in attracting US Foreign Direct Investment (FDI) in increasingly higher value-added sectors. Arguably the main causal factor underlying the 1990s Celtic Tiger was the Republic's ability to leverage EU Single Market access to attract FDI and FDI related employment from the US. Indeed, the Republic arguably leaned too far into its low tax model and has attracted significant criticism for its 'tax games' wherein it operated as a de-facto tax haven conduit for US multinationals.

While we will never know the counterfactual, it is unlikely the Republic would have prospered to anything like the extent that it did were it not for its free trade stance. Notwithstanding the neo-protectionism of the Trump administration, policymakers in both jurisdictions should ensure their economies are fully open to free trade, with the caveat that trade agreements need to be consistent with high labour, environmental and human rights standards.

A final point in relation to labour demand is the need for a deep and high-quality domestic enterprise base. The issue of productivity failings in the domestic sectors and potential remedies are discussed in the pillar 1 long-read and a large number of factors influence the quality of the domestic enterprise base which goes well beyond the scope of this long-read. Some of the most important factors include access to finance, a supportive regulatory environment, public investments in infrastructure, financial and other supports to assist exporters, a balanced tax policy based on lower rates rather than distortive tax expenditures, willingness to accept business churn and to not protect zombie firms or low value-added sectors, and generous supports for technology diffusion, innovation and managerial up-skilling.

Procyclical policies can do immense long-term damage to labour demand and employment.

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In order to maximise labour supply we need to incentivise workers through decent wages and good working conditions. There needs to be a financial incentive to work. This has implications for the design of the tax and welfare systems, and of course for the setting of minimum wages. On the tax side we need to consider the scale of the tax wedge, as this could potentially create an employment disincentive for employees and/or employers. The tax wedge may be particularly salient for workers with tenuous attachment to the labour market, which tends to be lower paid workers and second earners, although very high marginal rates might also create employment disincentives, particularly for mobile high skilled workers.

As it happens, tax wedges in the Republic and in the UK are both relatively low compared to other OECD economies. Tax wedges as a percentage of labour cost for a single worker on the average wage in 2023 in Europe ranged from 52.7% in Belgium to 23.5% in Switzerland. The OECD median was 37.4% (mean was 34.8%) with the tax wedge at 31.3% in the UK and 35.1% in the Republic. Low rates of employer social contributions explain the low tax wedges in the two jurisdictions. The OECD average employer social contribution was 13.4% compared to 10.1% in the UK and 10% in the Republic. This suggests there is limited disincentive for employers to hire workers at least when compared to other advanced economies.

Policymakers also need to consider the marginal effective tax rate (METR) experienced by potential workers. The METR is the combined effect on a person's earnings from taxes on income and the withdrawal of welfare supports as the person's income or employment status changes. A high METR creates a potential disincentive to work. Implications for policy in the Republic are discussed at length by the Commission on Taxation and Welfare (COTW) and in previous NERI research. One obvious principle is that average effective tax rates should be kept low for low paid workers.

Reforms to the welfare system are also needed. Most importantly, welfare systems should transition to a system of tapered working age payments based on household income rather than employment status or any other arbitrary threshold such as age or days worked. Such a reform would help minimise employment disincentives by ensuring METRs remain low, while simultaneously protecting against income inadequacy and deprivation.

Second, policymakers need to simplify welfare systems and make them more coherent by eliminating *all* cliff-edges, discontinuities and step-effects from the system. Cliff-edges generally occur where benefits are withdrawn sharply (or where taxes increase sharply) when income rises, but can also happen where benefits are withdrawn based on other eligibility criteria. Examples of benefits with cliff-edges in the Republic include the medical card, third-level student grants, and housing and childcare supports. In the UK, this applied to Child benefit while Universal Credit, one of the main income support payments, has a particularly sharp taper rate of 70% once the income tax and National Insurance thresholds are reached. Finally, the entire welfare system including secondary benefits should be designed on a cross-departmental basis in order to ensure overall coherence.

There are a number of structural barriers to labour supply that need to be considered. Notable barriers in the Republic include lack of access to affordable childcare and the inadequacy of housing supply. Also noteworthy on both parts of the Island are the weak employment outcomes for people experiencing disability.

The Republic's ongoing market failure in housing provision is a barrier to labour mobility and to labour market matching because it prevents workers from moving to where job opportunities are located. A lack of housing supply acts as a disincentive to FDI because it creates a barrier to bringing in employees with needed skills from outside the country. The NERI has argued that a decisive public intervention on the supply-side is required. Instead of temporary supply constraints derailing an otherwise functional market, we see fundamental structural issues that warrant a structural response. The NERI has proposed building out a unitary cost rental network to bring about a transformative increase in supply and reduction in rents with the preferred institutional design (e.g. local authority or public enterprise body) based on what can be expedited in the shortest amount of time. The market failure in housing will take years to reverse with labour shortages in the construction sector a considerable obstacle in the short-run. The policy focus should be on fixing the medium-to-long term structural issues with supply that include financing, planning, labour supply and productivity, and not on reactive and costly tax breaks that simply push up house prices and embed further distortions in the market.

The NERI has also long argued that the lack of affordable access to childcare will continue to affect the ability of workers to participate in the market unless there is significant and ongoing government intervention. Net childcare costs in the Republic in 2022 were the 2nd highest in the OECD for a single person with two children while Northern Ireland has seen increasingly steep increases in fees and by as much as 14% in 2023. The current manifestly failed childcare model is not only a barrier to participation in the labour market, particularly for women, but an unnecessary and damaging limitation on the potential of the economy. Childcare should be treated as a universal basic service with a public option gradually rolled out across the Republic of Ireland and Northern Ireland beginning with the most deprived areas. Childcare workers in the public option would become public sector employees.

Also, of concern are the low participation rates among certain socially disadvantaged groups. For example, women in the Republic with primary education have an employment rate of less than half the overall average. Another disadvantaged group are those with disabilities. The disability gaps (i.e. the gap between the employment rate of those with disabilities and the total employment rate) are higher in Northern Ireland and the Republic of Ireland than they are in other parts of Europe. The lack of employment opportunities effectively means that people with disabilities are driven into poverty with their human capital squandered.

Incentivising businesses to enable and encourage their workers to work from home could help improve on the weak employment rates of cohorts experiencing particular barriers to labour force participation such as a disability or a caring responsibility. Greater working from home opportunities would also support more balanced regional development and ease pressure on the Dublin and Belfast housing markets. Greater flexibility around core working hour schedules would help reduce labour market barriers for cohorts with a disability and/or caring responsibilities. The public sector could and should lead in this respect. Finally, there needs to be an expansion of labour market and community development programmes that target socially disadvantaged constituencies, with full pay for programme participants in work training, education and skills development.

Some degree of mismatch and structural job loss is inevitable. What matters is that we have the structures in place to enable workers to re-or-up-skill and find new and good jobs. Well-designed Active Labour Market Policies (ALMPs) whether through public training schemes or employer financed training funds are crucial to the operation of a well-functioning labour market. While employer of last resort programmes could be considered, particularly during times of prolonged recession, there is a concern that such programmes might become punitive over time. Policy should also avoid something that has plagued many of the attempts at welfare to work schemes in the UK. Much of the evidence now suggests that while such schemes did incentivise people to return to work, in many cases it was to part-time and lower paid work. This prevented people from either progressing directly or subsequently to high-paid, full-time work which is not only more beneficial to the person in question, but also contributes to higher productivity for the economy as a whole.

One ALMP model worth examining is the Swedish Employment Security Councils (ESCs). These councils are managed by employer and employee representatives at a regional level, financed through a small employers' social insurance levy, and based on strong sectoral collective bargaining structures. These provide (re) training and skills programmes geared towards the abilities of the employees and the needs of the national and regional economy. They have a highly successful job placement rate with the vast majority of laid-off workers placed in new employment.

One reason for the programme's success is the strong pay-related unemployment benefit that can last for up to one year. This ensures that employees have the time to engage in job searches, re-training and re-skilling. It thereby reduces the incidence of over-qualification or skills mismatch whereby workers take up employment that doesn't match their skills. A second reason is that redundant employees get a personal advisor. The council staff assesses the individual's position in the labour market, places them in appropriate re-training schemes and helps them find a new job from the network of employers linked to the council. Such a coordinated approach has the ability to help successfully manage the various shocks and transitions facing the economy.

Finally, a major unknown in relation to future labour supply is the scale of net migration. Inward migration is a sign of economic success. Migrants are generally attracted to the prospect of participating in a successful economy leading to a positive feedback loop of greater prosperity which increases attractiveness further. Social and cultural factors are also important with more open and tolerant societies generally proving more successful at attracting inward migration. Inward migration has a range of benefits for the economy in particular where there are existing skill shortages. This is certainly the case in construction, healthcare and ICT to name just three sectors where the presence of migrant workers and their various skill sets contribute significantly to productivity and economic growth. Migrants also tend to be of prime working age and are therefore disproportionately likely to be contributing to income tax and disproportionately unlikely to be drawing on public services such as healthcare and long-term care. Over the medium-to-long term inward migration will improve the working age ratio and reduce pressure on the public finances from an ageing population.

Fixing Ireland's broken childcare system would remove a major barrier to labour supply

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Labour market performance is not just about jobs and job opportunities, Its also about the quality of those jobs. A good economic performance from the perspective of workers is a situation where unemployment is generally low, and where employment and real hourly wages are both high. In the Republic, close to 12% of in-work households are officially categorised as living in enforced deprivation while nearly 22% of households with one person working suffer deprivation. In Northern Ireland the majority of those in relative poverty belong to households where someone works. Employees in the Republic work longer hours than most employees in the EU with 125,000 working an average of 50 hours or more per week while the Republic has a low level of protection against exploitation in the workplace (easy dismissal regulations, low protection for those on temporary contracts). Clearly there is a job quality problem.

The OECD notes that job quality…*'improves productivity and innovation. Quality jobs also reduce inequality, and foster social cohesion…. countries must therefore prioritise job quality as well as increasing overall employment.'* NESC have argued that research demonstrates benefits for employees, employers and the wider economy and society with better work having the potential to deepen economic resilience and tackle persistent labour market challenges. Geary and Wilson argue that job quality is a complex and multi-faceted concept. Job quality goes beyond pay or even satisfaction with one job and they see it as a combination of two forms of indicator. The first are economic indicators such as pay and other benefits. Second, there are non-economic indicators such as job security and prospects, skill acquisition and training, autonomy of work and work intensity, access to trade union support, and work-life balance including length of working hours and weeks, work life flexibility and work life spill-over. Geary and Wilson estimate that precarious, low-paid jobs (14.9%) and demanding, highly controlled, precarious jobs (12.1%) together amount to more than one in four jobs in the Republic of Ireland. Precarious low-paid jobs are more apparent among females; young workers; those without a third-level qualification; workers in elementary, care, leisure and sales and customer service roles; and those employed in small firms.

In terms of what can be done about 'bad' jobs, Geary and Wilson notes that: '*one broad occupational category – care and service work – is associated with precarious, low-paid employment and this work is highly feminised. For this to change requires government, employers and unions to work together to increase pay levels and the quality of jobs in this broad professional category. This, too, is ever more important with Ireland's ageing population which will require an increase in the number of care workers.'* They further note that the current model (gendered, peripheral) of care work is no longer sustainable and that change will require centring care work as valued work and central to the productive and sustainable performance of an economy. Care work needs to be appropriately recognised and rewarded as part of what Mary Murphy calls a new eco-social contract. A public care option characterised by good pay, working conditions and career prospects will be a central component of the needed reform.

Wage adequacy is central to any notion of a good job. Government can therefore actively promote job quality by raising the minimum wage to the level of the living wage as determined by a minimum essential standard of living 'basket of goods' approach. This means going beyond the 60% of median wage target set as a target by the Republic's government for 2026 and misleadingly described as a living wage. Raising the minimum wage to 65% of the median wage would help ensure that it becomes a genuine living wage. Of course, a singular focus on low pay is in itself insufficient. In Northern Ireland, the UK National Living Wage which is currently set at 65% of average Uk earnings, but is closer to 75% of the Northern Ireland average hourly earnings. Minimum wages and living wages are important tolls for relieving pay pressures at the lower end of the earnings distribution, but in order to achieve greater progress in wages, we must go further.

Beyond pay, other measures such as hours worked also need to be considered before low-pay can effectively be eliminated. Bogus self-employment, temporary contracts and underemployment all contribute to high levels of precariousness. Precariousness takes different contractual forms, so there is no single policy initiative that can address the range of precariousness activities. One reform would be to introduce a presumption of an employer-employee relationship in all contracts with the burden of proof that any particular contract does not entail such a relationship lying with the employer.

The costs of poor job quality include worse health and well-being outcomes. These costs are mainly borne by the worker but also affect their family, employer and society more generally. Greater resources for workers can help mitigate such problems including by giving workers themselves greater agency and control over the conduct of their work along with better skills training. Worker rights such as sick pay, maternity leave and flexible working are all important as is proper regulatory oversight of minimum decent standards in work.

The extension of workplace democracy – in particular, collective bargaining and trade union presence - will improve job quality. In Northern Ireland the Minister for the Economy has brought forward the Good Jobs and Employment Bill which aims to broaden collective employment relations and embed good quality employment. The bill's aim is to modernise laws and regulations across four areas; terms of employment; pay and benefits; voice and representation; and work-life balance. In this context, the Government in the Republic should expedite the legislative and other measures necessary to meaningfully realise the goals of the EU directive on adequate minimum wages (AMWD) The AMWD's two main goals are 1) to improve the adequacy of minimum wages and 2) to promote collective bargaining on wages. The AMWD requires member states to facilitate the exercise of the rights of workers to collective bargaining and to safeguard workers and trade unions from interference and negative consequences from employers. Possible examples of supporting measures could include less restrictive criteria for establishing sectoral agreements and extension mechanisms, protection against victimisation of workers that exercise their rights to collective bargaining or union membership, and a right of trade union access to the workplace.

Collective bargaining provides an important bulwark against bad jobs. Collective bargaining is synonymous with what we might consider the 'high road' approach to the economy. The inclusive high-road approach to growth focuses on raising productivity, whereas the low road approach focuses on driving down costs in order to boost competitiveness. The low-road's race to the bottom approach can be consistent with low average unemployment rates, but, if so, will have been achieved based on lower wages and lower disposable income for workers, along with greater market inequality. A sectoral collective bargaining approach avoids the low-road trap because it becomes much more difficult for individual bad employers to pursue a strategy of driving down pay to enhance competitiveness. Instead, firms must improve their productivity if they wish to gain a competitive edge. The efficient 'good' company will invest in productivity, bargain over 'efficiency' wages, avoid precariousness, address gender pay gaps, eliminate excessive hours and create pathways to career development.

Trade unions are an important element of the high-road policy package. Where there is worker voice and a constructive relationship with employers, better working conditions can be exchanged for higher productivity. The governments of the Nordic countries recognise trade unions and employers as key stakeholders in the management of the economy. Common wages are set for particular types of work. In a competitive globalised market, this will advantage high value-added activities and more productive firms, and will disadvantage low value-added activities. As such, firms and workers have an incentive to take steps to increase productivity, to support occupational retraining and up-skilling, and to support funding for productivity enhancing spending on education and research and development (R&D). Over the long run, a high skill and high wage equilibrium took hold in the Nordic economies as their comparative advantage gradually shifted over time towards higher value activities and better jobs.

The European Commission notes that countries with high collective bargaining coverage tend to display a lower share of low wage workers, lower wage inequality and higher wages than others. For example, the Republic and Northern Ireland have gender pay gaps of nearly 18% and 16% respectively in the private sector while the collectively bargained public sector have much lower rates. This illustrates the successful trade union focus on policies of wage compression and more equal wage distributions. Similarly, the OECD has pointed to the contribution that collective bargaining and employee voice can make to employment growth, labour market inclusiveness, inequality, and job quality. The OECD's research also suggests that the Irish and the United Kingdom systems of collective bargaining will tend to produce inferior economic performance compared to the organised decentralised systems in place in countries like Austria, Denmark, Finland, Germany, the Netherlands, Norway and Sweden.

Collective bargaining provides an important bulwark against bad jobs and is central to the high road focus on productivity rather than cost.

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Summarising the previous discussion we can point to a number of policy recommendations:

A) The 'any job' approach to employment should be abandoned in favour of a 'good job' approach. This implies eliminating preferential supports for low value-added low job quality sectors;
B) Minimising labour market mismatch whether through under-or-over-qualification needs to be prioritised. Policymakers will need to engage in an ongoing research programme about future labour market trends and future skill needs with a willingness to evolve policies at government level, including within the education system, and those aimed at the private market;
C) We will need to develop supplementary models of education focused on life-long learning, with employers and workers given appropriate fiscal and other incentives and opportunities to up-skill or re-skill throughout their working lives;
D) Greater public and private resources will need to be allocated to adult education and skills so that labour supply can respond to the changing demands of the domestic and global economies;
E) The social insurance system needs to protect the incomes of workers that do lose jobs in order that they are incentivised to take the needed time to re-skill or up-skill and do not instead find themselves obliged to take the first available job they find;
F) Active demand management is crucial. Fiscal and monetary policy should consistently operate counter to the business cycle so as to prevent significant fluctuations or 'boom and bust dynamics' in employment and in incomes;

G) Small economies need to remain as open to external demand and external investment (FDI) as possible. Openness to free trade has been fundamental to the success of the Republic's economy and free trade without barriers should continue to be the policy position regardless of whether trade barriers are raised by trading partners;
H) Policymakers should ensure that the proper enabling conditions are in place to enable the domestic enterprise base to prosper including access to finance, public investments in productive infrastructure, financial and other supports to assist exporters, a balanced non-distortive tax system, willingness to accept churn and not protect zombie firms or low value added sectors, and generous supports for technology diffusion;
I) The tax and welfare system need to avoid creating disincentives to work. In particular, marginal effective tax rates (METRs) need to be kept low for low pay workers. Welfare systems should transition to income tapered working age supports. This would minimise METRs while simultaneously protecting households. In addition, all cliff edges, discontinuities and step-effects should be eliminated from the welfare system. This has implications for the design of the medical card, third-level grants as well as for other supports;
J) The housing crisis is creating barriers to domestic labour supply and to inward FDI. A decisive public intervention on the supply-side is required. The policy focus should be on fixing the medium-to-long term structural issues with supply including financing, planning and planning laws, insufficient numbers of construction workers, and weak productivity, and not on reactive and costly tax breaks that push up house prices and embed further distortions;
K) The current manifestly failed childcare model is a barrier to participation in the labour market, particularly for women. Childcare need to be made a universal basic service with a public option gradually rolled out beginning with the most deprived areas;
L) Policy should incentivise employers to enable and encourage their workers to work from home and provide greater flexibility around core hours. This could help improve weak employment outcomes for certain cohorts, notably people experiencing disability or with caring responsibilities. Greater working from home opportunities would also support more balanced development and reduce pressure on urban housing markets;
M) There needs to be an expansion in funding for community development projects and other labour market programmes targeting socially disadvantaged communities, with full pay for programme participants in work training or education and skills development;

N) Well-designed Active Labour Market Programmes (ALMP) whether through public training schemes or employer financed training funds are crucial. Consideration should be given to Swedish Employment Security Council (ESC) model. A coordinated approach of this nature has the ability to successfully manage the various shocks and transitions facing the economy;

O) Inward migration is an enormous benefit to the economy particularly where there are labour shortages. Policymakers should adopt a welcoming, open and tolerant migration policy for ethical reasons but also for practical economic reasons;

P) Governments should define what is meant by job quality and all cost benefit analysis of policy proposals should weight the value of job creation or protection schemes against the value of those jobs from a job quality perspective;

Q) Care and service work is particularly associated with precarious low-paid employment. Root and branch reform of the sector is required with government, employers and workers working together to increase pay levels and job quality. Care work needs to be recognised and rewarded as part of an eco-social contract;

R) Pay is central to any notion of a good job. In order to reduce in-work poverty the minimum wage needs to be upgraded to a genuine living wage based on a minimum essential standard of living. A 65% of the median wage in the Republic should be set as a target, but enduring progress will only be realised with greater access and vindication of collective employment rights;

S) In order to combat bogus self-employment a presumption of an employer-employee relationship in all contracts should be assumed with the burden of proof on the employer to show that such a relationship does not exist;

T) There needs to be proper regulatory oversight of minimum decent standards in work in order to protect job quality;

U) Workplace democracy – in particular, collective bargaining and trade union presence – is fundamental to protecting and enhancing job quality. Policymakers should expedite the legislative and other measures necessary to meaningfully realise the goals of the EU Directive on Adequate Minimum Wages with similar measures taken in Northern Ireland and the UK. Examples of supporting measures include less restrictive criteria for establishing sectoral agreements and extension mechanisms, protection against victimisation of workers, and a right of trade union access to the workplace.

Workplace democracy – in particular, collective bargaining and trade union presence – is fundamental to protecting and enhancing job quality across the economy