Job creation: Ireland

Abstract

Between 1995 and 2009, the rate of employment growth in Ireland was the second highest in Western Europe, surpassed only by Spain. These new jobs were mainly in services, though manufacturing employment also increased. Since the mid-1980s to 2008, the country of 4.5 million created more than a million jobs, and changed from being known for exporting people to become a destination for foreigners seeking work. While the crisis has reversed some of these gains, the factors that helped Ireland become a job creation leader remain intact. A good environment for doing business, integration with a large European market accentuated by sensible infrastructural improvements, and aggressive outreach to foreign investors by the Irish government all led to rapid economic growth. A low labor tax wedge and large investments in education and training helped translate this economic momentum into jobs. Ireland now faces the challenge of maintaining macroeconomic stability, but its business fundamentals remain strong, resembling those of East Asian tigers.

While most of Western Europe was struggling to keep jobs at home during the past two decades, Ireland has managed to transform itself from a country known for mass emigration to an attractive destination for foreign companies and jobseekers. Since 1995 immigration has surpassed emigration, reaching nearly 90,000 in 2007, or more than 2 percent of population.[1] The share of the foreign-born doubled in just six years, from 3.1 percent in 1999 to 6.3 percent in 2005.[2] This is particularly striking for a country of about 4.5 million that has had a long history of labor outflows: between 1820 and 1920 more than 4 million Irish migrated to the United States and the population levels stabilized only in 1960s.

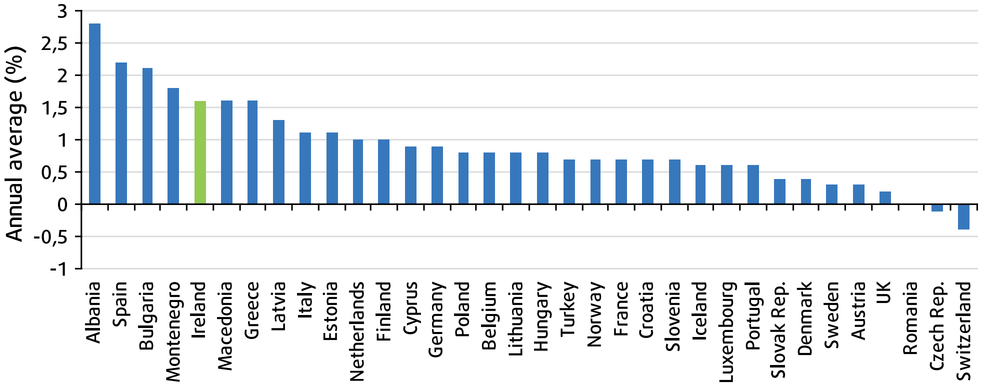
Jobs superstar

In absolute terms, between 1986 and 2008 Ireland created more than a million jobs.[3] Although much of the growth after 2003 resulted from a boom in construction fuelled by cheap credit, the bulk of jobs created during 1990s and 2000s can be considered a genuine economic achievement. Between 1995 and 2008 Ireland increased employment by 1.6 percent annually (figure 20). At an average annual rate of 5.3 percent, GDP growth comfortably outpaced the rest of the EU and OECD.

Ireland experienced a structural transformation. Employment in services grew by 1.6 percent annually between 2000 and 2010, in comparison to a decline of -2.3 percent for industry and -3.8 percent for agriculture.[4] Share of services in total employment increased by 10 percentage points, from 63 percent in 1999 to 73 percent in 2010, while industry's share fell from 30 percent to 23 percent, and agriculture's from 7 percent to 4 percent (figure 21).

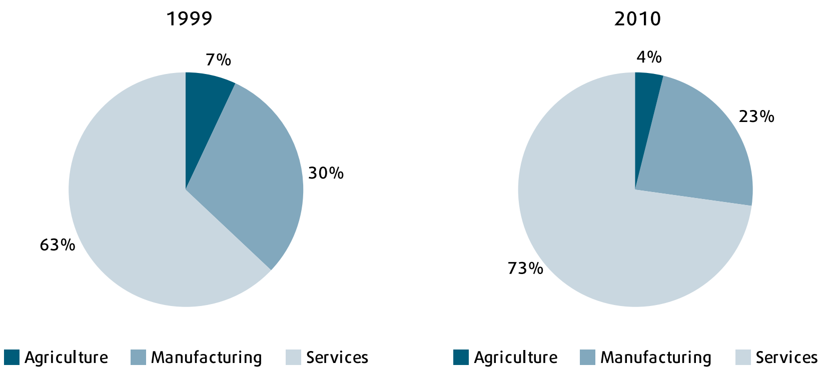
Construction, real estate, renting and business services, financial intermediation, health and social work, as well as hotels and restaurants contributed relatively more to employment growth (see Table 2, in appendix). Finally, most of the jobs were generated by private enterprises: the number of jobs added in the private sector between 1990 and 2008 was nearly nine times higher than that in public sector (the share of public employment in the total fell from 24 percent to 18 percent).[5]

Figure 20: Average annual job creation rate (compound average annual growth rate of employment participation as percentage of working population) in Europe, 1995-2009 (or latest available)



Source: World Bank staff estimates.

Figure 21: Employment by sector in Ireland, 1999-2010



Source: Eurostat.

Generating employment

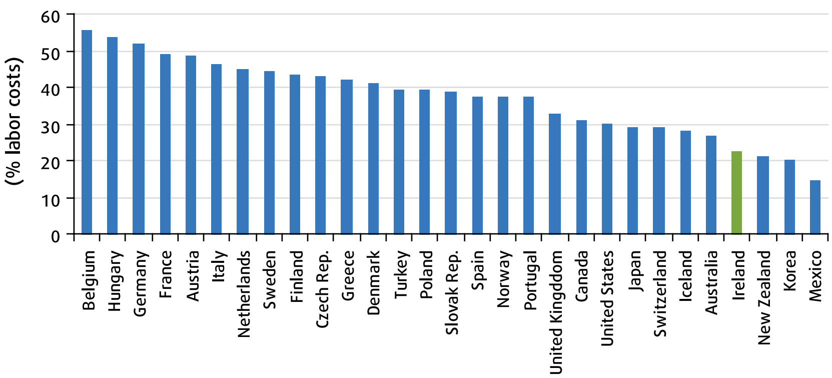
Irish success in creating employment is largely a result of growing foreign direct investment. US high-tech companies seeking a European base opened branches in Ireland and cooperated with local suppliers of research, technical, and professional services. How did Ireland manage to attract so many international investors?

First, macroeconomic stabilization and the anchoring efforts of deepening EU integration helped. After the turbulent 1980s that saw soaring public debt (107 percent GDP in 1987), high unemployment (18 percent in 1987), and rampant inflation (over 20 percent in 1980), the establishment of macroeconomic stability generated big gains. Average annual GDP growth during the 1990s was more than double the rate of the 1980s and contributed to the taming of public debt (less than 20 percent of GDP by 2007), price stability (annual average inflation of 3 percent from 1990 to 2007), and big employment growth (unemployment fell to 3.9 percent in 2001).[6] Ireland's integration with the EU and the adoption of the euro inspired even more confidence in the country. Murphy (2006) suggests that a commitment to the European integration and lack of language barriers were two significant factors behind investments of US multinational companies in Ireland. Indeed, Irish economic policy focused on fostering FDI. By following a trial and error strategy in the 1980s and 1990s, the Industrial Development Authority (IDA) was able to attract high-tech enterprises to Irish industrial clusters. Loewendahl (2001) suggests that the IDA started targeting American pharmaceutical and electronics companies as early as the 1970s. In the late 1980s and 1990s the IDA focused on software and internationally traded services, and then shifted its attention toward investments in e-commerce, information technology, and multimedia in the early 2000s. Apart from attracting foreign companies, Ireland invested in providing adequate linkages between the clusters and the rest of the country: a sizeable share of EU Cohesion funds was spent on infrastructure investments.[7] The IDA also launched the National Linkage Programme aimed at enhancing cooperation between local suppliers and foreign investors.

Companies coming to Ireland have been granted financial incentives, including grants and tax exemptions. Initially, the IDA attracted companies to particular clusters; later, in the first decade of the 2000s, it tried to diversify the locations of foreign entities. For example, the majority of financial enterprises initially went to the International Financial Services Center in Dublin and only later has the growth spread beyond the central location. Currently, there are several major industry and business clusters outside of Dublin: Cork, Shannon/Limerick, Galway, Waterford, Athlone, and Sligo.

Second, a favorable business environment allowed Ireland to become an attractive location for multinational companies. The country scores in the top 10 in the Economist Intelligence Unit's ranking of business environments. According to an analysis by PricewaterhouseCoopers (PWC), compliance with income, corporate, and consumption taxes takes less time in Ireland than in any other EU country except Luxembourg (PWC 2011). Likewise, the World Bank's Doing Business 2010 suggests that Ireland performs particularly well in terms of paying taxes, protecting the investors, and closing a business—major factors for international investors. The tax rates in Ireland proved to be particularly competitive, with one of the lowest total tax wedges among OECD countries (figure 22).

Figure 22: Total tax wedge in 2008 as a percentage of labor costs in OECD countries



Source: OECD.

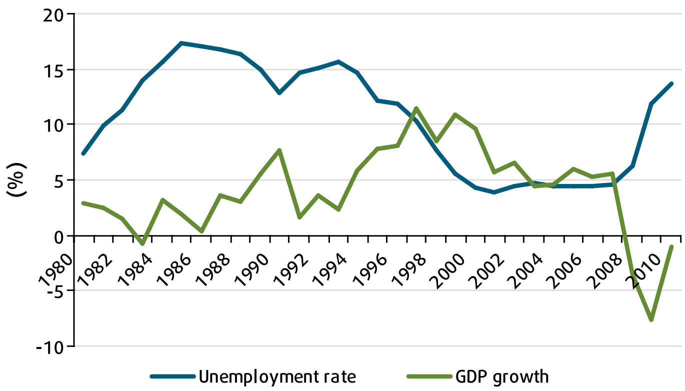
However, Walsh (2000) suggests that Ireland's commitment to a favorable tax regime for businesses came as early as the 1960s. So a low tax rate is not by itself enough of a factor, to explain the inflow of FDIs and generation of employment after 1990.[8]

Finally, by the 1980s the country had an abundant and relatively cheap labor force when compared with other European economies. Compared with Spain, Portugal, and Greece, it invested the largest share of EU Cohesion funds in training and education, including computer skills. Thanks to those investments, innovative companies like Google, Yahoo, and eBay decided to have their European base in Ireland. The availability of skilled human capital is still an advantage in Ireland; in 2007, at the height of the boom, the Talent Shortage Survey by ManpowerGroup indicated that only 17 percent employers in Ireland reported having problems filling jobs, in comparison to 31 percent average in EMEA.[9] The university base seems solid: two Irish universities were listed in the top 100 of the Times World University Ranking 2010. Dublin area serves as an important education center. According to Dublin Chamber of Commerce, three out of four Irish PhDs come from Dublin County.

Surviving the crash

During the recent crisis of 2008-09 GDP contracted in three consecutive years (by -3.5 percent in 2008, -7.6 percent in 2009, and -1.0 percent in 2010), and the country required a joint bailout by the IMF and the EC.[10] Employment suffered as well: the harmonized unemployment rate tripled, from 4.6 percent in 2007 to 13.6 percent in 2010 (figure 23). The gross government debt was estimated at 96 percent GDP in 2010 and is forecasted to shoot up to 125 percent GDP in 2013.[11]

Figure 23: Irish GDP growth and unemployment rate, 1980-2010



Source: IMF WEO.

Apart from dealing with problems at home, as a small, export-led economy Ireland depends on the performance of its trading partners. A recent study by Kanda (2008) suggests that shocks to quarterly US GDP have a significant impact on quarterly Irish GDP.[12] The inflow of foreign investments in the ICT sector does not necessarily transform to technological advancements at home, as technology is often imported. Additionally, the competition between FDI locations, especially in terms of services, is becoming more intense: the A.T. Kearney Global Services Location Index 2011 ranks Ireland only at 49 among 50 surveyed countries in terms of attractiveness.

However, given Ireland's stellar record in putting people to work, the situation of the Irish may be not as grim as it seems. Despite the recession, on average more than 1,000 new businesses were set up each month in 2009. In 2010 HP announced adding 105 new jobs for highly skilled individuals in Global IT in Galway. Finally, in the past couple of decades the country has shown its ability to transform itself and benefit from global processes and international integration. Returning to high economic growth may require time: GDP growth is forecast to surpass 3 percent only in 2015.[13] In order to re-attain a high competitiveness rating, Ireland has to regain fiscal stability and the trust of international investors. Be that as it may, the transformation its economy underwent in the last three decades is remarkable-in 2010, at the depth of the economic crisis, GDP per capita was more than seven times the level in 1980.[14]

Sources

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Notes

1 2009 was the first year of net outflows since 1995.

2 OECD estimates, no data after 2005.

3 According to the International Labour Organization, Labor Force Survey, total employment (in thousands) amounted to 1,095.1 in 1986, in comparison to 2,108.5 in 2008.

4 Eurostat.

5 ILO.

6 Public debt data reflects central government debt reported by the OECD. Data for growth, inflation (CPI), and unemployment reported in the IMF World Economic Outlook.

7 Though successful, those investments are not sufficient: the Global Competitiveness Report 2010 enumerates inadequate supply of infrastructure among the top three most problematic factors for businesses in Ireland. The other two are the access to financing and inefficient government bureaucracy.

8 Ireland gradually shifted its policies from protectionism toward industrial development since the 1930s to active encouragement of FDIs since the 1960s.

9 The group of Europe, Middle East, and Africa countries, includes following countries: Austria, Belgium, France, Germany, Ireland, Italy, Netherlands, Norway, South Africa, Spain, Sweden, Switzerland, and the UK.

10 IMF WEO.

11 IMF WEO.

12 Impact of the change in US GDP affects Irish GDP with one to three quarters lag.

13 IMF WEO.

14 1980: US$6,243.42; 2010: US$45,688.76. IMF WEO, constant prices.

Appendix

Table 2: Employment by selected activities in Ireland in 1986, 1995, and 2008: level and share of total employment

	Level (in thousands)			Share of total employment		
	1986	1995	2008	1986	1995	2008
Agriculture, Hunting and Forestry	169.9	146.2	119.2	15.5%	11.4%	5.7%
Manufacturing	212.2	245.1	262.5	19.4%	19.1%	12.4%
Construction	72.7	96.6	255.0	6.6%	7.5%	12.1%
Hotels and Restaurants	27.8	70.6	128.6	2.5%	5.5%	6.1%
Financial Intermediation	34.3	48.1	94.0	3.1%	3.8%	4.5%
Real Estate, Renting and Business Activities	45.6	78.3	202.4	4.2%	6.1%	9.6%
Health and Social Work	75.2	103.8	223.9	6.9%	8.1%	10.6%

Source: ILO, Labor Force Survey.