

# **The Economic and Social Research Institute**

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## **Ireland – an Ageing Multicultural Economy**

by

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“When I get older, losing my hair, many years from now,  
Will you still be sending me a Valentine, birthday greetings, bottle of wine?  
If I'd been out 'till quarter to three, would you lock the door?  
Will you still need me, will you still feed me, when I'm sixty-four?”  
Beatles album *Sergeant Pepper's Lonely Hearts Club Band*, Words & Music:  
Lennon/McCartney

## **Introduction**

In the 1970s and the early 1980s, like the old woman who lived in a shoe, we had so many children that we did not know what to do. The refrain of “too many people and not enough jobs” had echoed round Ireland for at least a century and a half. However, over the space of a decade, from 1985 to 1995, the public perception of Ireland's demographic challenge was transformed. Instead of worrying about safe jobs for our children in the civil service, the relative youth of the population came to be seen as a major economic benefit and speeches and commentary in the media began to trumpet the relative youth of the population as a source of major strength. Was this apparent transformation a “miracle” or did it have more mundane roots?

Today, it looks as if Ireland will not long enjoy this self-image as a “young” economy. Since the turn of the decade there has been a growing focus on the future problems posed by the “greying” of Ireland. In this paper I will argue that Ireland still faces a window of opportunity arising from a very favourable demographic structure. This window of opportunity should allow us to take a more considered approach to where the economy and society will develop over the next fifty years than is possible in many other EU members.

Some of the visions of the distant future that we see painted today seem to be unduly coloured by the age of the visionaries. It is true that in twenty years time, if still alive, I will be truly old and lucky to be grey and have any hair! However, this will certainly not be true for the majority of the inhabitants of Ireland in 20 years time. Even without an elixir of eternal youth, a range of factors could result in a younger more vibrant Ireland than we can conceive of today. The interesting questions for policy makers concern how should they try and influence the future path of Irish demography and what will be the implications of the changing age structure for the economy and for society as a whole.

This paper will briefly consider how this transformation came about. Then it will discuss the implications for future policy of three aspects of the demographic changes taking place in Ireland:

- The rising average age of the population over the coming thirty years.
- The increasing internationalisation of the labour force.
- The need to create a more family-friendly work place.

## **Belated Success**

In 1922, while Ireland was significantly poorer than the rest of the United Kingdom, it was still one of the richest regions in Europe. It began its existence as an independent

state with this very significant advantage and managed to fritter it away, dropping steadily in the European economic league over the next forty years. With more sensible “European” policies it could have reached and maintained a European average standard of living much earlier.

Over the last decade some Northern Unionists and German Journalists favoured a fairy godparent view of the Irish economy: the structural funds magic wand was waved and all came right. We know that this is very far from the truth and that the seeds of the economic success of the last decade lay in a combination of some good policies, pursued consistently by many governments over a number of decades, and good luck. The EU structural funds were welcome and helpful, but it was the broader process of EU integration, and more specifically the completion of the EU internal market, that has underpinned the radical transformation in the economy.

While some outside Ireland still feel that “it is all done by mirrors”, we know that the success is not a mirage but is very real. Ireland slept through the nightmare of the second world war and it did not wake up to economic reality until the 1960s – fifteen or twenty years after the rest of Western Europe. The result was that Ireland was a failed economic entity by 1960. It was only at the end of the 1950s that there was a gradual dawning of enlightenment in Ireland: free trade and globalisation was the only game in town and it had proved very good for the rest of Western Europe since the Second World War.

The protection of the economy from the outside world was reflected in the insularity of society as a whole. People only left never to come back – the number emigrating in the late 1950s equalled the number born. Writers and artists found it stultifying. It was a very homogeneous society – nearly everyone spoke the same language (English). A high proportion of the population were blood group O, reflecting a similar genetic background. Over 90% of the population were Catholics. The economy and society, in adopting “Sinn Fein” policies had turned its back on the outside world – no trade, no foreign languages, and with censorship a limitation on new ideas.

Ireland’s secret of success was not the discovery of a brilliant strategy, but rather the abandonment of a string of disastrous idiosyncratic policies. Ireland just stopped failing and, as a result, restored itself to where it could and should have been without the disastrous “Sinn Fein” policies of the first forty or fifty years of the state. There are three main factors underlying the turnaround:

### **1. Adoption of Free Trade**

The single most important factor in the movement by Ireland from underdevelopment to an EU Standard of living was the slow move to EU integration. While slow to adopt free trade, the gradual turnaround in policy from 1960 onwards, signalled in *Economic Development*, began the transformation of the economy. The route chosen was unusual, with emphasis being put on foreign direct investment from the very beginning. The creation of a welcoming environment for foreign investors and the sustained approach to attracting such investment marks Ireland out as different. This policy has pursued with consistency for 40 years – consistency counts.

Initially the attraction of Ireland as a location to supply the European market was supported by low labour costs. Today it is the ample supply of skilled labour, combined with the attractive environment for doing business that has made Ireland a key location for supplying the EU market.

## **2. Failure to invest in education.**

The second major policy mistake of Irish governments in the immediate post-war era was the failure to invest in education. After the Second World War the rest of Northern Europe, from the Urals to Snowdonia, invested in Education. Ireland was more than 20 years behind the UK education act of 1944, only introducing free second level education at the end of the 1960s.

From the mid 1980s targeting of those with no qualifications as candidates for special support has played a key role in upgrading the human capital of the population. Moving the many individuals from being failed by the education system to a situation where they achieved at least minimal qualifications was very important. Over the last twenty years the proportion of young people completing the Leaving Certificate has climbed to around 80% of the cohort. There is still significant work to be done to further increase participation but the progress to date has played a vital role in enhancing the productivity of the labour force.

In addition to the improvement in second level participation there has been a massive increase in investment in third level – now over half of all girls go on to third level. There is a significant problem, which will dog the economy over the coming decade, in the much lower participation rate for males at third level.

## **3. Demography**

This factor is not a product of policy, but rather of the private decisions made by parents! Having had a very high birth rate over the first 80 years of the 20<sup>th</sup> century, babies went out of fashion in Ireland in 1980 and the birth rate declined steeply over the following decade. While it has stabilised today, it is at a much lower level than in the 1970s. There are also very few old people in Ireland today because so many emigrated in the 1930s, 1940s and 1950s. As a result, there are a huge number of 15 to 25 year olds relative to the other cohorts in the population. After that cohort, there are very much fewer children in the younger cohorts. The result of this population structure will be an exceptionally favourable demographic situation for the next twenty years – a very high proportion of the population in the working age groups and very few dependents.

Female labour force participation was very low in Ireland in 1980. It is now higher than the EU average for those under 30. This factor (rising participation) added at least 1% a year to the growth rate in the boom years.

Migration – Ireland bled through emigration, even in the 1980s. However, these latter emigrants proved to be “homing pigeons”. They brought back skills, experience, and even foreign languages with them. Their productivity and earnings have been raised by 10% through their experience abroad. In many cases they “kidnapped” foreign spouses or partners, enhancing the human capital of the population. In the 1990s the bulk of the immigrants were highly skilled and their presence in the labour market enhanced the productive potential of the economy. The immigration of skilled labour has interacted in an important way with Foreign Direct Investment (FDI).

Walk on parts in the Irish success story have also been played by the “partnership process”, the English language, the structural funds, and the expansion onto a wider stage of Irish cultural activity.

Four years ago I was asked by the Premier of Tasmania what role Irish music had played in the economic success. For once I did not have a set of numbers to offer in reply! However, after a year or two to reflect on it, I think that the success of many aspects of Irish cultural life in achieving prominence on a wider world stage has probably also significantly added to the economic success. For example, while one may not like to think of *Riverdance* as a vital cultural export, it has helped to put Ireland on the map in places such as Beijing! The wider cultural awakening has also helped make Ireland a more exciting place for young foreigners and young Irish people to come and work. Further research is needed as to why so many young Irish emigrants and foreigners found Dublin “cool” in the late 1990s and chose, as a result, to come and work there.

In considering why Galway has been the most successful city in Ireland over the last forty years maybe economists should be looking to the presence of a vital theatre life in that city as much as to the other more quantifiable economic attractions. When we focus on regional policy we need to think more about what makes a place attractive to live in rather than about grants and subsidies.

## ***The Greying of Ireland?***

### **The Age Structure**

While Ireland in the 1990s had a young population, as a result of the high birth rate in the 1970s, the fall in the birth rate after 1980 means that the population is ageing in the sense that the average age is rising rapidly. At the same time, the proportion of the population who are over 65 in Ireland is very low because of past high emigration. In addition, to these domestic forces driving demographic change, the high level of net immigration since the mid-1990s has had an important impact on the demographic profile, in addition to its effects in promoting growth and reducing unemployment. All of these factors will continue to drive change in Ireland for many decades to come.

### **Birth Rate**

Following the post-Second World War baby boom, the birth rate remained uniquely high in Ireland until 1980 (Figure 1), while it fell much earlier elsewhere in Europe. From 1980 to the mid-1990s, the birth rate declined rapidly. While there has been a

limited increase in the birth rate since 1994, we expect it to stabilise at its current level for the remainder of this decade. The falling birth rate since the 1980s means that as the 1980 cohorts enter the labour supply there is, and there will continue to be, a decline in the rate of natural increase in the labour force. This is in contrast to the effect that the high birth rates of the 1960s and 70s had on labour supply.

The Total Fertility Rate<sup>1</sup> (TFR) at 2.0 in Ireland is currently above the EU average of 1.5 and over the coming years it is expected to plateau at this level. However, this

Figure 1: Birth Rate

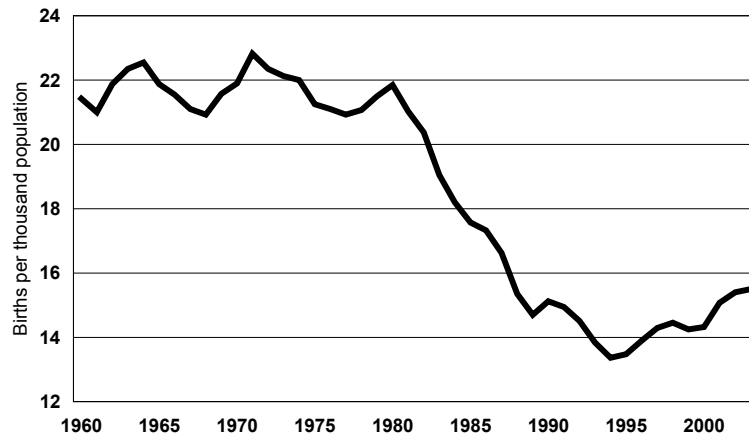


Figure 2: Population Structure 2003

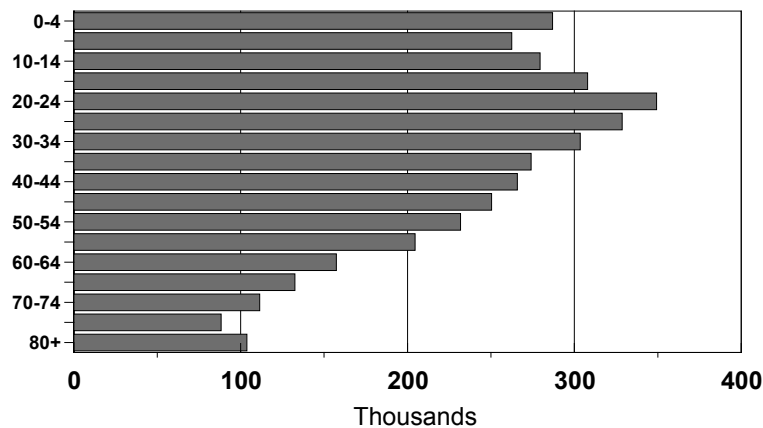
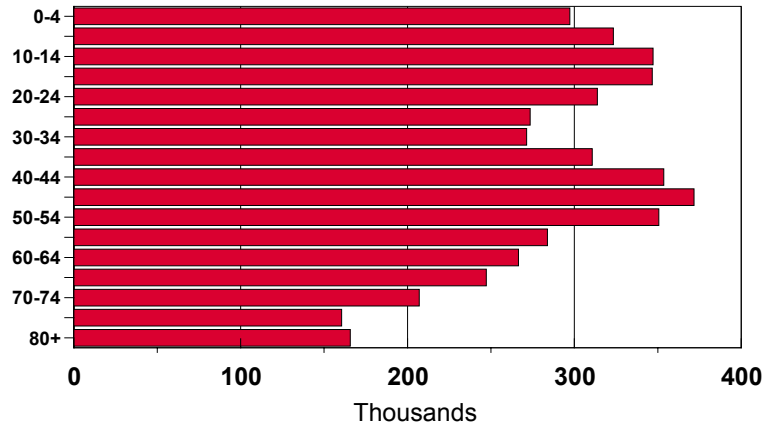


Figure 3: Population Structure 2026

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<sup>1</sup> This is an artificial measure of the average number of children that a woman can expect to have. It assumes that women experience today's average fertility for each cohort of women over their lifetime. This differs from the birth rate, which is the number of children born each year divided by the population. For the population to replace itself it needs a TFR of 2.1



masks two different patterns of fertility that are emerging for women according to age. The birth rate in the 20 to 29 year age group has been declining and the birth rate for women in the 30 to 39 year age group has been increasing. The fact that women are having children later in life has implications for female labour force participation and may help explain why Irish participation rates for 25 to 29 year-old women are already amongst the highest in the OECD area.

### The Demographic Structure in 2026

The problem of the long-term rise in old-age dependency after 2025 (Figure 3 compared to Figure 2) has attracted increasing attention in recent years. By 2026 there will be a major bulge in the population in their 40s and early 50s. There will also be a very much higher proportion of the population aged over 65. This will see a marked decline in the share of the population who are in the working age groups. The resulting change in the dependency ratio will put major pressure on public services. Many of our EU neighbours are already experiencing these pressures today.

The ageing of the population will see a gradual change in tastes. The preponderance of young people in the population has had an important cultural impact – for example on music, patterns of entertainment etc. It has made Ireland a more attractive location for other young people in Europe, helping to increase the supply of young skilled labour. As the Irish population ages its tastes will change. The entertainment sector is well attuned to this gradual change. It and other sectors will automatically adjust to meet changing patterns of demand. However, providers of public infrastructure and services should also anticipate the changes in lifestyle that family responsibilities will bring – this is not just a question of providing for additional health services to accommodate an ageing population.

The changing age structure of the population means that, whereas today businesses, such as night clubs, have a large drawing power (and profitability), by 2015 the dancers in tonight's clubs will be pacing the floors with wakeful infants. Maybe by then the entrepreneurs seeking opportunities for profitable investment in Ireland's unusual demographic profile will see crèches and childcare as the new growth industry!

In twenty years time the labour force will, on average, be significantly older than today. It will also be much more cosmopolitan and, on average, it will be better

educated than today's labour force. The result of all of this will be significant changes in tastes, which will be reflected in changing consumption patterns and changing preferences for entertainment and leisure activities. Already the growth in the "café society" in Dublin reflects this. Unless the pub culture moves with the times it may find itself losing out, not to disaffected smokers, but rather to more demanding middle-aged parents seeking a different experience, or even to elderly economists seeking somewhere to relax and read the *Economist* or to entertain their grandchildren.

A further aspect of the changing demography will be that, on present trends, the majority of the most skilled adults will be women. If employers want the "best and the brightest" they will find that a majority of them are women. If they don't adjust to the changing expectations of these skilled employees they will fail in business terms. The wider implications of this for how working life will be organised will be discussed later in this paper.

### **A Population Policy – King Canute?**

A number of years ago I was asked by a foreign diplomat "what is Ireland's population policy?". Having grown up in a period when the fight was on to make the state withdraw from policing population policy through restricting access to contraception, this question came as rather a shock. It is most unlikely that the state will want to get too involved again in the bedrooms of Ireland in the near future. However, it is not a stupid question and already we have begun to consider it, albeit phrasing the question rather differently. Unlike King Canute with the waves, it is not a question of trying to hold back the ageing process! Instead there is a wider sense in which the state has a role in adapting policy to meet the changing needs and wishes of its citizens so as to affect the population structure.

When looking at the greying of Ireland there are a number of strategies that can be adopted to postpone, reduce, or to manage the increased dependency burden that this may entail in the distant future. Firstly, the state can promote a higher birth rate to produce a more balanced population structure. Secondly, it is possible to increase the retirement age and change the proportion of the population actually working. Thirdly, migration can help restore a more balanced population structure. Finally, the state and individuals can save to provide for their financial needs in retirement. The outcome is likely to be (and should be) a mixture of all of these strategies.

While the birth rate has fallen dramatically compared to the 1970s, fertility is still high by EU standards. The population is currently almost replacing itself, with a total fertility rate of around 2. If maintained, in the long run this would lead to a stable population. However, even with stability, there will inevitably be a major deterioration from the current unsustainably favourable demographic structure.

Table 1: Average Age of Mother at First Birth

	1992	2001/2
Denmark	26.4	27.2
Germany		29.1
Estonia	22.3	24.0
Greece	25.4	27.4



France		27.3
<b>Ireland</b>	<b>25.9</b>	<b>27.4</b>
Netherlands	27.5	28.8
Austria	24.8	26.9
Poland		24.2
Portugal	24.6	26.6
Finland	26.5	27.2
Sweden	26.2	28.1
UK	27.2	29.3

Probably more relevant for policy makers is the question as to whether even the current level of fertility is sustainable given the way we organise society. As shown in Table 1, the age at first birth has risen by a year and a half over the last decade (the rise was even higher in the UK). It is now among the highest in the EU and still climbing. The reason Irish fertility is still higher than the rest of the EU, at around two children per completed family, is that fertility is dramatically higher in Ireland than elsewhere for women in their thirties. This pattern may not continue indefinitely and the families, or potential families, who are postponing having children, may have fewer children in the future. The speed with which change in fertility patterns is occurring for people in their twenties suggests that dramatic changes in fertility for people in their thirties could occur over the coming decade.

Experience elsewhere has shown that crude state policies, encouraging people to have children, do not work. A better approach is to consider whether parents, or potential parents, are being constrained in their choices in the way we organise society and, especially, the work place. It may well be the case that the changes occurring in fertility behaviour in Ireland, and elsewhere in Europe, reflect individuals' adaptation to the constraints placed on them by society. If that is the case it is open to policy makers to change those constraints. This issue is dealt with later in the paper.

The option of postponing retirement has already been adopted in Germany and Italy (where retirement was at a very young age). With life expectancy rising rapidly, there is also a rise in the ability of individuals to continue working to a later age than was the case before. This is especially true where the nature of work itself has changed away from manual labour. Any sudden changes in policy in this area could cause major problems as people plan for retirement well in advance. However, with life expectancy rising rapidly, there is a strong case for looking at the pattern of retirement in Ireland and what retirement actually means.

It is also possible to replace a policy of encouraging people to have more children by a policy where a society imports its "children" fully-grown as immigrants. On paper this may sound like a good idea. Immigration is an important factor in why the US is keeping itself "young". It avoids the costs of bringing up children, including the necessary investment by the state in education. However, this does not look to be sustainable in the long run. Unless a high proportion of the immigrants are skilled it may not add sufficient to the productive potential of the economy to offset the rising dependency rates. A country that is greying rapidly may also not be very attractive to skilled immigrants; selling a "retirement home" as good place to live to skilled foreigners in their twenties could be a difficult task!

However, migration has in the past played a very important role in stabilising economies and in promoting economic adjustment. In the 1990s it played a significant role in enhancing the growth potential of the Irish economy and it will continue to play a role, albeit a subsidiary one, in developing the Irish economy in coming decades. This issue is addressed further in the next section of this paper.

As part of the preparation for the rising burden in the second quarter of this century, the government has established the National Pensions Reserve Fund. The current plan is to save 1 per cent a year of GNP out of the public finances and put it into the fund. The fund also includes privatisation receipts. The fund is being invested so that the proceeds will part-fund the state's pension liabilities after 2030.

At a time when the economy is enjoying what amounts to a "demographic dividend" it is certainly appropriate that prudent provision be made for adverse changes in demographic structure in future decades. However, there is a wider issue of intergenerational equity that is only beginning to be considered.

Today's generation are paying the pensions of their parents' generation through taxation and social insurance contributions. This burden is very light because the previous generation was decimated by emigration, leaving it very much smaller than today's cohort of working adults. Today's generation is now contributing towards its own pensions through the contribution from the Exchequer to the national pension fund. However, more importantly, today's generation of taxpayers are also funding the exceptional programme of investment in infrastructure out of taxation, representing a very high rate of saving by the public sector. Finally, today's generation are also paying the disruption costs inherent in putting in place the essential infrastructure.

The provision to save out of current income to part-fund the pensions of today's working generation seemed, at first sight, to be appropriate. To the extent that the generation that is working in twenty-five years time will be smaller than the current generation, the burden of a pay-as-you-go pension scheme will rise considerably. This would seem to be unfair to today's generation of children. By part-funding this future liability the burden of old age may be shared more equitably between the generations.

However, what these calculations have to date failed to take into account is that the current generation is also saving at such a high rate in the form of the surplus on current account in the public finances. The exceptionally heavy burden of infrastructure investment today is being funded almost entirely from taxation. The result is that, instead of the public sector saving 3 per cent of GNP, as is the case in mature economies such as Belgium, Denmark and the UK, the public sector in Ireland is saving around 6 per cent of GNP. This saving is going to finance a much higher public investment programme that is essential to build the infrastructure that is already in place in much of the rest of the EU.

By funding major investment in infrastructure out of taxation, the state over the last decade has been building up physical assets without offsetting financial liabilities. The benefits from the infrastructure will continue to flow long after the current generation have retired. Thus future generations will also be significant beneficiaries from these assets.

When the infrastructural programme is largely completed, probably some time in the next decade, the state will then have a large asset that will continue to provide services for future generations. In addition, most of the 5 per cent of GNP that is currently spent by the government on investment will then be available for other purposes. For example, it could be switched from physical investment to investment in financial assets to fund future pension liabilities.

If Ireland's major programme of infrastructural investment were complete by 2015, and if the savings of 3 per cent a year by the public sector funding that investment were then redirected into a pension fund, the value of the fund by 2030 would probably be much greater than will be the value of the current pension fund derived from saving 1 per cent of GNP a year over the full thirty years. On this basis it must be questioned whether the current approach to funding future pension liabilities is consistent with intergenerational equity.

### ***Multicultural Economy – Multicultural Workforce?***

The significance of emigration in Ireland, both as a social and an economic phenomenon, has been reflected frequently in literature and economic and social policy over the last century. Up to the 1930s the American wake was still a feature of Irish life; the family mourned the emigration of one of their children who would probably never be seen again. However, even in the 1930s the nature of the grief expressed at the wake was changing as the emigrants went to England and Scotland rather than to the United States. Even if they would never live in Ireland, they would, in all probability, be seen again on occasional holidays. The attitude of the emigrants was also changing. The contrast in the 1950s between the burgeoning economies of the UK, Germany and France and the economic depression of an Ireland, where they could not find jobs, left them bewildered and angry. This anger and bewilderment was reflected in the literature of the time, for example in the works of Brendan Behan and Edna O'Brien. Whereas in earlier generations emigration was accepted as the natural course for many young people, in a post-war Europe that was thriving it was increasingly seen as a symptom of failure by the Irish State.

Since the 1950s, the experience of emigration has changed greatly. To-day emigration is still part of the experience of up to a third of each generation (and of every family) but the difference is that the emigrants of today are seen more as homing pigeons. The "best and the brightest" may still emigrate but the expectation and the experience suggests that the bulk of them will return. This is a very different situation from the first 50 years of independence.

In the 1980s, high unemployment rates in Ireland, when compared to other labour markets that Irish people had access to, encouraged many people to emigrate. The bulk of those who emigrated were young and better educated than the typical emigrants of the past, leading to fears of a "brain drain". In the first half of the 1990s there was little net migration as employment prospects abroad deteriorated relative to Ireland. In the second half of the 1990s, strong economic growth and a tighter labour market encouraged inflows into the country and net immigration contributed around 0.75 percentage points to growth in the labour supply, about half of whom were foreign nationals. The majority of immigrants, Irish or foreign, over this period were

highly skilled. From 2000 to 2003 there has been a significant level of immigration of unskilled labour with work permits.

For a century and a half, many in the Irish population sought, and were granted, access to the best labour markets in the world. Over the 1990s this process was reversed and Ireland was transformed into a sought-after location for foreign migrants. The bulk of the immigration into Ireland, over the 1990s was skilled labour, about half being returning Irish emigrants; the majority of the rest were EU citizens with a high level of education. Many of those coming to Ireland were spouses or partners of Irish citizens.

This influx of skilled labour played an important role in expanding the productive capacity of the economy, allowing the economy to grow more rapidly and helping to solve the problem of long-term unemployment (Barrett, Fitz Gerald and Nolan 2002). In addition it has been shown that returned emigrants have higher productivity and higher earnings because of their experience abroad. (Barrett and O'Connell 2001.) With almost a third of the younger cohorts being returned emigrants, this effect on individual productivity is affecting the economy as a whole. This improved the welfare of the least skilled in the labour force at the expense of lower wages for skilled labour. The immigration had wider benefits, making the economy more cosmopolitan and increasing productivity.

The substantial influx of less skilled migrants over the last four years potentially has rather different effects. While also enhancing the cosmopolitan nature of the economy and relieving unskilled wage pressures, if continued indefinitely it could push unskilled wage rates down and raise the rate of unemployment.

What is required is an explicit policy on immigration that is seen to be both transparent and fair. There is a choice between two different approaches: allowing limited immigration of unskilled labour through a transparent programme or, alternatively, an open door policy that allows fairly free inward movement. A policy of limited immigration of unskilled labour would be consistent with the maintenance of a substantial domestic social safety net. Evidence from the US suggests that an open door policy on unskilled immigration would probably enhance the growth potential of the economy and would be good for skilled Irish citizens, but it would have an adverse impact on unskilled labour and place the welfare system under pressure. On the basis of past experience, skilled immigration is likely to enhance both the output potential of the economy and the labour market prospects of unskilled labour. As such, it should be encouraged.

From an economic point of view any immigration system should have a number of characteristics. First, it should be transparent: a points based system, such as that operated by Canada, could allow necessary free immigration of skilled labour, while also allowing whatever inflow of unskilled labour that was deemed appropriate. Second, such a scheme should be administered by the state in a transparent fashion, along the lines of the Canadian or US systems. Where it is not done on a points system it should involve a lottery. Applications for entry should be made directly to the state, not through intermediate private agencies. Third, the visa (work-permit) should not be tied to a particular employer or sector; conditions of employment should be the same as for existing residents.

Such a policy would be an improvement on the current economically inefficient approach to unskilled immigration where individuals are sponsored by companies. The economy has grown and prospered through Irish employees seeking out the most profitable places of employment. In so doing they increase production in the firms that are making the maximum contribution to growth. By tying immigrants to particular firms, whatever the firms' level of efficiency, national productivity is impaired.

The current practice carries the danger that the rights of immigrants may be abused. It leaves a wide opportunity for sponsoring agencies abroad to charge substantial fees. This can give rise to abuse, with potential immigrants borrowing heavily to buy entry, leaving them in the position of "bonded labourers". It introduces the danger that such debts would be enforced through illegal means.

The current provisions allow work permits to be withdrawn should economic circumstances change. This was the policy in Switzerland during the recession of the mid-1970s. If implemented here it could prove disruptive for both firms and workers. While such a policy might, under some circumstances, reduce the direct economic impact of a downturn, it would not take account of the reasonable expectations and rights of the immigrants.

The current EU system on migration also poses wider economic and social problems for Ireland. The failure to have a fully integrated system across the EU makes it a serious barrier to the operation of the internal market. It is also a significant disincentive for those with special skills to visit the EU and participate in its intellectual, economic and social life. The failure to join the Schengen zone is now impacting on the competitiveness of the Irish economy, as well as causing social dislocation.

For example, if an employer hires a skilled person from India or Argentina to help expand the scope of existing business, that person will not be able to operate freely within the EU. If they need to attend a meeting in Brussels they will need a visa to do so. If they need to attend a meeting in Riga and have to change planes in London they will need two additional visas. Each visa takes a minimum of two weeks, a serious period to be without a passport. To attend a meeting in Brussels and Riga, changing in London, would necessitate being without a passport for six weeks as all the visas are processed.

We like to moan about the inefficiency and bureaucracy of the US immigration system but our own is much worse. At a time when we are promoting Ireland as a centre for world-class research we are simultaneously doing our best to discourage world-class researchers from ever setting foot in Ireland. For example, if a skilled visitor from outside the EU, who needs a visa, is invited to Ireland to advise us or to speak at conferences one then enters a particularly bureaucratic and dispiriting process. This seems designed to discourage any one with skills and a tight schedule from ever setting foot in Ireland. The Irish visa process is billed<sup>2</sup> as being even more

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<sup>2</sup> Of course, as is the Irish way of doing things, it is possible to speed the process by personal intervention with the authorities.

time consuming than either the UK or Schengen process, necessitating a four-week period without a passport.

The best case would be full accession by all EU members to the Schengen process, ensuring the full implementation of the EU single market. What is needed is at least a limited accession to the Schengen process:

If any Schengen country issues a visa to someone with special skills to visit the EU on a temporary basis that visa should be valid for all other countries in the EU. Where someone is deemed to have special skills and has a work permit for one Schengen country they should be entitled to visit all other EU countries on that visa as a tourist (to allow transit) or for short business trips. This would still leave control on permanent residence with national authorities but would allow such individuals to have a normal working life (and social life) within the EU.

If Ireland fails to embrace and build on the benefits of becoming a multicultural economy, through allowing appropriate migration in and out, it will rapidly fall behind its competitors. Those cities and surrounding regions that have gone this route are among the most successful in the world. By accident rather than design we have turned what was the curse of emigration in the past into a major asset. The experience gained abroad by up to a third of our labour force has helped transform the economy. This expertise has been supplemented by the influx of skilled non-Irish workers, especially in the late 1990s.

There are scale issues here. Being an isolated foreigner working in a new country can be dispiriting and lonely. However, if there are enough foreigners and if they are welcomed and integrated, not just economically but also socially, then the chosen location can become attractive for more skilled workers to gather there. The move by Dublin to becoming a cosmopolitan city was greatly aided in the late 1990s by the returning Irish. In quite a number of cases the foreigners came as spouses and partners of Irish people. As a result, the influx of skilled foreign labour was not noticed by anyone at the time.

The attraction of such skilled individuals depends on making it attractive to live and work in a city or country. Ireland, especially Dublin, has become somewhat less attractive in recent years because of the high cost of accommodation and the very poor urban public transport infrastructure compared to that available elsewhere in competing locations in the EU. If we are to grow as a centre for successful business activity we will have to address these factors that make us unattractive to outsiders, and to our own children who are still residing abroad.

### ***A Family Friendly Work Place?***

Already in Ireland the female participation rate for those under thirty-five is well above the EU average. For women in their twenties, controlling for education, our participation rate is the highest in the EU. This reflects the high level of educational attainment for women (higher than for men) and the relatively late (and rising) age of first births. For older women the participation rate is currently much lower than for their younger sisters. However, we are likely to see significant further change over the coming decade as the cohort in their late twenties and early thirties age. As the current

cohorts age, women will gradually come to form a majority of the best-educated segment of the population in the older age groups. This will bring significant economic and social change and society will have to adjust to the new circumstances.

With a majority of women now going on to third level education they have the education and skills to have successful and remunerative careers. In addition, the Irish economy will seek them out and encourage them to join and remain in the work force. As a result, one can anticipate a continuing rise in participation among women in their thirties and forties.

Research has shown that while there was significant discrimination in earnings against women in the late 1980s, the discrimination against women *qua* women had largely disappeared by the end of the 1990s (Russell, H. in Fitz Gerald, McCarthy, Morgenroth and O'Connell, 2003). However, the research also shows that there was a very heavy penalty paid in lost earnings for anyone who spent significant time out of the labour force. As it is nearly always women who are in this position it means that women, on average, still earn significantly less than men if they take time off to look after children. The cost of having children is now very high when this opportunity cost of parents' time is taken into account.

This high cost of children faces many potential parents with a dilemma. Do both partners pursue successful full-time careers and how can they reconcile this with having a family? At present, research evidence suggests that if either or both partners take time off to look after children they are likely to be heavily penalised in their career. This not only raises the cost of having children but also, given the importance of work in society, imposes a heavy social penalty in terms of status. As a result, there is an increasing pressure on potential parents to postpone having children until their thirties, possibly their late thirties. This can allow both partners to establish their careers with the hope of paying a smaller penalty for becoming parents later in their career. It also reduces the likely number of children in the long run.

If the decision to have children at a much later age than in the past were freely made by parents without economic and social constraints placed on them by society, then there would not necessarily be any implications for public policy. However, there are strong *a priori* grounds for believing that this is not the case. If individuals are being seriously constrained in their choices of when and if they become parents, then there is a case for looking anew at how we organise society and, specifically, the work place.

To some extent in a competitive economy, adjustments will be made automatically as market forces operate. With the sheer size of the cohort of women involved and the need of business to attract and hold skilled women in the labour force, employers will be forced to look anew at the penalty they are exacting for time out of the labour market. Continuing to ignore the abilities of parents who take time off to look after children may be too costly for business when so many of their potentially most productive employees are in this position.

However, there is no certainty that the market will deliver a suitable solution to this dilemma. Society has a wider interest in ensuring that, where parents want to have children, the timing of this decision is not unduly constrained by short-term economic factors.

The issue of how best to meet the needs of families in today's economy is a much broader issue than one of labour supply. Instead it concerns the quality of life for both parents and children. If it is the case that parents are currently constrained in their choices then, just as in the choice of leisure over work, Irish society may choose more family friendly policies at the expense of some reduction in measured income. This could include the provision of greatly improved childcare facilities, as well as a wider acceptance that both parents should be free to take time off to care for their children. For example, in Sweden some of the parental leave after birth is only available to fathers.

A possible objection to increased support for families through flexible working arrangements, or increased provision of childcare facilities, is that they will place further burdens on business. Whether businesses directly fund the changes or whether they are funded through taxation may ultimately make little difference to who pays. Whichever route is chosen, in an open economy such as Ireland's, it is likely that the result of the wage bargaining process will see the bulk of the financial cost ultimately falling on employees who will, in turn, be the beneficiaries. This is not a reason for forgoing a change in policy, which improves the welfare of many citizens, but the fact that it is not costless must be recognised.

The economics of caring, both for children and the elderly, are very complex and I don't have the space to treat it in detail. However, it is clear that someone will have to pay for childcare. This payment can be made directly by parents forgoing working time at a cost in terms of lost lifetime earnings; parents can pay others to look after their children; or the state can make provision, recouping the cost from taxation. It is not a question of choosing one of these models but rather of choosing the appropriate mix.

In the United States, where there is a very wide dispersion in earnings, there is a very wide use of paid child-care. With many parents on high incomes they can afford to pay the low wages that those at the bottom of the income distribution can earn looking after their children. This arrangement is profitable for both parties. However, in Europe, with typically a much narrower dispersion of earnings, the margin between what those on high incomes earn after tax and what potential carers need to earn to make it worth their while looking after children is much narrower. Thus European families tend to spend a greater amount of time caring for their own children through time out of the work force than is the case in the US (Freeman *et al.*, 2004). They may also prefer this arrangement, even if the costs were identical.

In the case of Ireland over the last twenty years we have relied more than other EU countries on one parent (generally the mother) taking time off work (or on grandparents who are not working or take time off work). However, as outlined above the economic pressures are mounting for a change in the pattern in Ireland.

While the distribution of earnings in Ireland is also quite uneven, it has narrowed in recent years (Barrett *et al.*, 2002). This makes the option of paying someone else to look after one's children more costly. For the future, with limited immigration of unskilled labour, this dispersion is likely to narrow – childcare will not become cheaper. While it is a possibility that society could choose to rely on an increasing number of foreign childcare workers on low incomes, as argued above, this could have serious labour market consequences. It also does not sound like a very caring



society where “caring” jobs are increasingly contracted out to foreigners on low incomes. (The model adopted by wealthy families in pre-Norman Ireland involved having their children “fostered” by someone else – even in childcare the economic models change little over time!)

The discussion to date on this issue has centred on the increased provision of childcare services, possibly by the state. However, if European experience is anything to go by, we should also be looking at the increased use of flexible working arrangements and how these can be increased, while reducing the market penalty for time out of the labour market.

The group who probably have the biggest problems today are single parents. Previous research (Fahey, Fitz Gerald and Maitre, 1998) indicates that lone mothers in identical circumstances to married mothers had a stronger desire to participate in the labour market. However, they face much greater obstacles and it is difficult to see how they can compete with couples with two incomes in buying childcare unless there is an increase in state provision for childcare.

My own view is that until both parents are required to share the time off work the penalty paid in lost future earnings for time out of the labour market will remain. It is only if all employers know that all of their employees under forty will be taking some time off work to look after children that it will be treated as normal. It may be argued that introducing compulsory paternity leave for fathers smacks of social engineering. Even if it does, while past it, I am for it.