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for cultural, economic and social relations

**Sustainable Development
- Ireland in 2020**

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While the Republic of Ireland has undoubtedly experienced a period of fifteen years of very rapid growth, Northern Ireland has also experienced a prolonged period of sustained growth. In both parts of this island living standards, measured by the standard of Gross National Product (GNP) (or Gross Domestic Product (GDP)) has seen a sustained rise. Looking to the future it is likely that growth, measured in terms of GNP, will be somewhat slower than in the recent past. Nonetheless there is no reason to believe that the recent experience of economic success is an economic mirage.

However, GDP and GNP are, even in the best of times, a crude measure of welfare. They do not reflect the changes that are happening outside the paid labour market, including what happens in people's 'leisure' time. They also do not reflect changes in the wider environment, which can affect underlying living standards. Finally, economic growth, however measured, is not a good guide to the sustainability of that growth; has the recent spurt in economic activity been unduly dependent on the availability of exhaustible resources, such as fossil fuels?

I am not going to get involved in the economics of happiness; I leave that to my sociologist colleagues! However, in this paper I consider some of the wider measures of welfare and how they are likely to develop over the coming fifteen years. First I briefly consider some of the underlying economics and demographic forces driving change in both parts of the island.

External Environment

The external environment for the island of Ireland is reasonably favourable in the short-term. However, the economic problems of the US pose a medium-term risk for the rest of the world and for Ireland in particular. It is not sustainable for the US to continue to borrow ever increasing amounts from the rest of the world. Weaning the US off borrowing could see a number of years of low growth in the US affecting also growth on the island of Ireland. It would also be likely to be accompanied by a further rise in the Euro relative to the US, causing competitiveness problems for Europe. However, in the context of Ireland in 2020 this is likely to appear as a blip rather than a major trend.

While Ireland faces increasing competition from developing countries, the phenomenon of international competition is not new. The obverse of this story is that Ireland faces growing markets in new locations. While it is true that countries such as China have lower absolute labour costs relative to the EU for skilled as well as unskilled labour, they are also even more short of skilled labour than the EU. They



need the bulk of their well-educated labour force to make their own economy work. Wages are rising rapidly for skilled labour in such countries. For the foreseeable future Ireland's (and Europe's) comparative advantage will lie in producing skill intensive services (and goods) for the world economy. If managed properly Ireland will continue to prosper from trade in the future, as in the recent past.

Demographics

The demographics of the Republic are somewhat more extreme than in Northern Ireland. However, both face a future where the average age of the population will rise, not least because of the rise in life expectancy.

The birth rate in the Republic fell dramatically in the 1980s, which has meant a gradual fall off in the rate of growth in labour supply since the beginning of the decade. This will continue for the next decade. While the cohort of people in their 20s dominates Ireland today, in 10 years time they will be in their 30s. The booming night-club scene will gradually be replaced by a world where those same people will be up all night looking after small children! This will have major implications for society, for consumption patterns and the labour market.

Rising female labour supply was a crucial factor driving growth in the Republic of the late 1990s. However, Irish participation rates for women under 35 are now high by EU standards. There is not much scope to push it up further. Participation rates for women over 45 are still low by EU standards. They will continue to rise for some time to come helping fuel economic growth but by the next decade we will have "run out" of women out of the labour force!

With tightening labour market in the Republic there will be increasing pressure for economic activity to move North of the Border.

Migration has played a very important role in allowing the economy to grow more rapidly. The net immigration of the late 1990s, which was predominantly skilled, allowed the economy to grow more rapidly. In turn this raised the demand for less skilled labour in the service sector. The rise in demand for such labour, combined with the continuing fall in supply as education participation rates rose, led to a significant rise in unskilled wages relative to skilled. This contributed to the reduction in the unemployment rate.



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In the Republic a major part of the immigration success story has concerned returning emigrants. In the case of the North there is a very large stock of highly skilled emigrants living outside the North. If they could be attracted back to the North this could provide a major stimulus. The experience in the Republic has been that they have brought back skills and expertise that has played a big part in economic success. This is a potential opportunity for the North.

Looking to the future, the immigration of predominantly skilled labour could continue to enhance growth prospects. However, if there was a major immigration of unskilled labour this could adversely affect unskilled wage rates. In addition, the rise in the population is putting upward pressure on infrastructure, especially housing.

The final factor affecting labour supply, and especially labour productivity, is the gradual upgrading of the human capital of the labour force. The replacement of an older generation, which was failed by the education system of the 1960s and 1970s, by a younger much better educated generation, is enhancing productivity. This will continue to be the case for at least another decade in the Republic. In the North, the relatively low proportion completing second level is a problem. There is also a gap in the polytechnic/institute of technology sector.

Quality of Life

There is an interesting debate between US and European economists about working time. In Europe people have generally chosen shorter working hours at the cost of lower income. In the case of France, productivity is at the US level but income per head is substantially lower - because of shorter working hours.

With a rising proportion of the population becoming parents over the coming decade people will face a choice between continuing to work long hours or, alternatively, choosing somewhat shorter hours and more time for themselves at the cost of lower incomes.

The whole issue of flexible working arrangements will become an issue of ever-increasing importance.



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Infrastructure for Living

The current trend towards more and more dispersed living centred around employment in cities - Dublin, Belfast and Cork - is not sustainable. Ireland cannot afford the Los Angeles solution - roads everywhere. If it does not choose the 'Lyon solution' - dense development with very good public transport - it will face major problems. The alternative, steady as you go solution, is not a solution. It will see the major cities on the island gradually choking. The consequent reduction in living standards will render Ireland an unpleasant place to live - and growth will be halted.

Developing sustainable cities is also very important in the context of a world where fossil fuel supply will come under increasing pressure and where there are rising concerns about the problems of global warming.

Regional development in the future must take account of the changing context. With a majority of the population going on to third level education, their expectations are for skilled jobs providing interesting employment. These jobs will increasingly be in the services sector. In turn, the majority of those businesses which provide such employment are found in major urban centres - with populations of 50,000 or more. The old world of getting a factory to move to a village to provide semi-skilled employment is gone. Businesses choose to locate where their potential employees will find attractive living conditions. As a result, in a sellers market they have real concerns that their employees' life-style expectations are met.

Energy and the Environment

The environment is coming under increasing pressure. In the case of energy the dependence of this island on fossil fuels energy renders it vulnerable to price shocks, as we have seen this year, as well as being a major contributor to emissions of greenhouse gases. The current high prices for fossil fuels will provide a significant stimulus to the development of renewable energy. However, it is important that such development takes place gradually. Trying to run before we are ready in this sphere could lead to unnecessarily high cost solutions.

Global warming is the single most pressing environmental issue facing energy policymakers. It is important that a co-ordinated approach is adopted to dealing with this issue on the island of Ireland:



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The EU emissions trading scheme, if suitably reformed, should provide an appropriate instrument for implementing the Kyoto Protocol. However, as currently implemented by the EU it has some serious defects.

Unless Ireland introduces a carbon tax for sectors not covered by emissions trading, it will either miss its emissions reduction target or else the cost of meeting it will be excessive.

Energy efficiency has an important role to play in reducing costs, increasing competitiveness and protecting the environment:

Policies to promote energy efficiency have been directed mostly at the industrial sector, commercial and institutional sectors and at promoting renewable energy. Energy conservation in transport and households is relatively neglected.

The sensitive application of economic instruments would reinforce the benefits of regulations and would encourage the take-up of energy efficiency advice.

It is not just in the field of energy that the environment is coming under serious pressure. There is also serious pressure on domestic water courses, especially from agriculture, and in isolated rural settlements the septic tank problem! There is a need to promote a more sustainable approach to physical development to protect the environment and also to minimise the financial cost to society of harmful development.

Finally, there is a serious problem of dealing with solid waste, especially in the Republic. We will all drown in a sea of waste unless tough decisions are taken. There is also a need for an integrated approach to this on the island. Relying on a wide range of local 'solutions' is a recipe for doing nothing or else if something gets done it will probably be at a much higher cost than is necessary.