



**Taighde, Idirphlé, Comhairle**  
Research, Dialogue, Advice

# Towards a National Better Work Strategy



COUNCIL REPORT

No.165 July 2024

An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta  
National Economic & Social Council

An Oifig Náisiúnta um Fhorbairt Eacnamaíoch agus Shóisialta  
National Economic & Social Development Office NESDO

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# Abbreviations

<b>AI</b>	artificial intelligence
<b>AMWD</b>	Adequate Minimum Wage Directive
<b>AROP</b>	at risk of poverty
<b>AVG</b>	average
<b>ELC</b>	Early Learning and Care
<b>ERO</b>	Employment Regulation Order
<b>EU</b>	European Union
<b>FDI</b>	foreign direct investment
<b>GDP</b>	Gross Domestic Product
<b>GenAI</b>	generative AI
<b>HCIs</b>	Harmonised Competitiveness Indicators
<b>IGEES</b>	Irish Government Economic and Evaluation Service
<b>JLCs</b>	Joint Labour Committees
<b>LEEF</b>	Labour Employer Economic Forum
<b>NCPC</b>	National Competitiveness and Productivity Council
<b>NESC</b>	National Economic and Social Council
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>RCI</b>	Regional Competitiveness Index
<b>SAC</b>	School Aged Care
<b>SILC</b>	Survey on Income and Living Conditions
<b>SME</b>	small and medium-sized enterprise
<b>WIIS</b>	Working in Ireland Survey

# Executive Summary

This report focuses on the policy challenge of supporting and facilitating 'Better Work' in all sectors of the economy.

## Defining Better Work

Better Work is a commitment to improving the quality of work in a way that delivers for all stakeholders.

It is a complex concept that incorporates both extrinsic (material) and intrinsic (non-material) attributes. This report adopts the attributes of job quality outlined in the Geary and Wilson (2023) framework.

Efforts to improve the quality of work should be informed and shaped by ongoing sectoral dialogue and harnessing frontline knowledge. This reflects the view of NESCC (the National and Economic Social Council) that any understanding of how to make work better should reflect the different interests and priorities of employees, employers and the broader society.

## Benefits of Better Work

Better Work has the potential to deepen economic resilience and tackle persistent labour-market challenges. Research demonstrates benefits for employees and employers, as well as for the wider economy and society.

## Addressing Cost Competitiveness Challenges

Making work better can result in potential cost-competitiveness challenges for some firms and sectors.

In sectors and firms characterised by low levels of productivity growth and profitability, increases in personnel expenses can pose a risk in terms of commercial viability. These challenges are discussed.

## Challenges and Costs for Public Services

There are budgetary constraints associated with providing good-quality, person-centred public services. This also raises an important policy dilemma, often linked to 'Baumol's cost disease'. The report acknowledges and challenges this argument; in particular, the failure to appreciate the impact of the indirect benefits of Better Work for the wider economy and society.

## Artificial Intelligence and the Labour Market

The potential impact of rapid developments in artificial intelligence (AI) on both job quality and job quantity is outlined.

The Better Work agenda can provide a means of responding in an agile and prompt manner to the challenges and opportunities associated with this transformative technology.

## National Better Work Strategy

Improving the quality of work will not happen by chance: a balanced and collaborative national strategy is needed to drive this agenda forward.



A national strategy serves as a framework to address potential cost-competitiveness challenges, while ensuring that actions are appropriately targeted and tailored across different sectors.

It should help position Better Work as a central goal of enterprise policy, supporting sustainable improvements in productivity and economic performance.

The proposed National Better Work Strategy encompasses actions across a number of policy areas, including:

- sectoral taskforces focused on building more productive and resilient sectors with the capacity to support Better Work;

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- social partners being given a central role in the co-design and co-delivery of a national strategy for Better Work;

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- a comprehensive and co-ordinated programme of research and survey work to generate robust and timely evidence in support of Better Work; and

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- a strategic focus on workplace innovation in Ireland as a key vehicle for improving skills as well as the productivity and performance of firms.



# Chapter 1

## What Does 'Better Work' Mean?

## 1.1 Introduction

Better Work is consistent with the Programme for Government 2020 and the White Paper on Enterprise 2022-2030. In the former, the Government signalled its intention, as part of updating the Future Jobs Ireland policy framework, to reorientate policy with a greater focus on increasing the number of quality jobs in the labour market.

Covid-19 has highlighted the need to make a deliberate policy shift to increase both quality jobs that will allow for better living standards and sustainable jobs which will be less vulnerable to loss. (Government of Ireland, 2020: 19)

The Government's White Paper on Enterprise 2022-2030 sets out a vision for Irish-based enterprises to succeed through competitive advantage, founded on sustainability, innovation, productivity, and the delivery of rewarding jobs and livelihoods.

Better Work also aligns Ireland's national agenda with key international developments, including the European Pillar of Social Rights, which is designed to advance the social dimension of European integration and strengthen the social market economy. The Organisation for Economic Co-operation and Development's (OECD's) job strategy (2018) also identifies job quality and inclusiveness as central policy priorities, while emphasising the importance of resilience and adaptability for good economic and labour market performance.

This chapter examines what is meant by 'Better Work' and how it shapes the policy dialogue and action around this issue. It is important to note that, for the purpose of this study, 'Better Work' is limited to a focus on paid employment.<sup>1</sup>

## 1.2 A Multi-dimensional Concept

Better Work means looking beyond a simplistic binary classification of good and bad jobs, and recognition that, in practice, all work comprises both positive and negative attributes (Eurofound, 2022; Geary & Wilson, 2023; Gibb & Ishaq, 2020). It is a multifaceted concept that incorporates:

- extrinsic dimensions, such as pay levels, contract status, working hours, and various pecuniary benefits; and
- intrinsic dimensions, such as autonomy and discretion, engagement, career prospects, skills acquisition and training, employee voice and representation, and relationships with other staff and management.

This combination of extrinsic and intrinsic dimensions captures the characteristics of work that can enhance or impair workers' health and well-being (Cazes et al., 2015; Dobbins, 2022; Geary & Wilson, 2023).

While there is a shared understanding of the need to include both extrinsic and intrinsic dimensions, for example in the Government's Well-Being Framework, there remains considerable debate on the exact set of combined dimensions that comprise the essential elements of job quality.

Several frameworks have been developed to describe and monitor the quality of work, each with their own set of dimensions and statistical indicators or metrics (see **Error! Reference source not found.**). These include:

- Geary and Wilson (2023) explore job quality using 5 dimensions and 14 sub-dimensions, as well as a set of 30 indicators or metrics.
- Scotland's Fair Work Framework is based on 5 dimensions and an associated set of 39 statistical indicators.
- Eurofound's 2015 job quality survey used 7 dimensions of job quality and 22 measurement indicators.
- The Carnegie Trust UK-RSA Job Quality Framework is based on 7 overarching dimensions and an associated set of 18 statistical indicators.

<sup>1</sup> This should not be seen as in any way underestimating the considerable social and economic value of unpaid work, particularly household duties or caring responsibilities. There is merit in undertaking a future study that utilises the Better Work framing to explore the relative value of, and relationship between, paid and unpaid work in our economy and society.

The extrinsic and intrinsic dimensions in Geary and Wilson's (2023) framework represent a robust and comprehensive listing of the main issues that contribute to making work better and provides a strong foundation for the focus of any policy action designed to make work better (see Table 1.1).<sup>2</sup>

It is helpful to differentiate between aspects of work that can be classified as demands and those that can be described as resources (Eurofound, 2022; Geary & Wilson, 2023; Karasek, 1979; Karasek & Theorell, 1990).

Demands are the aspects of work that require an effort and can increase the risk of poorer health and well-being. Resources are the aspects of work that support employees by mitigating or reducing the impact of demands, foster well-being, and help workers meet their goals and needs (Eurofound, 2022).

The Council recognises that the dynamic combination and interaction of these demands and resources is the key determinant of relative work quality. If a worker experiences a demanding work context, for example one that is characterised by long working hours and high workloads, the potential negative impacts of these demands can be mitigated through the provision of job resources that afford workers more control and autonomy (Geary & Wilson, 2023).

Conceptualising Better Work in terms of this dynamic interaction of demands (negative attributes) and resources (positive attributes) enables an approach that considers a job as occupying a particular position on a spectrum from poor to excellent (Geary & Wilson, 2023).

Geary and Wilson (2023) also explore the various ways in which the good, bad and mediocre aspects of work combine within occupations or across different sectors of the economy.

### 1.3 An Evolving and Open-ended Process

Rodrik and Sabel (2019) stress that job quality is an imprecise concept that is evolving and context-dependent.

The Fair Work Commission (2019), for example, highlights the need to be attentive to the characteristics of different industrial sectors, firms and occupations. The contextual nature of Better Work is also shaped by the heterogeneity of the workforce, which means that different employees have different needs and aspirations, depending on their individual circumstances.

Stockland *et al.* (2023) find that employees' experience of the same aspect of work can vary considerably. For example, precarious working hours can have detrimental impacts on the financial, personal and social well-being of hospitality workers. Stockland *et al.* found that these problems were most acute for those on zero-hours contracts, although this can also be an issue for some workers on part-time and full-time contracts.

Conversely, other workers may value flexibility, with zero-hours contracts suiting people who require a lot of flexibility, who see their jobs as temporary or secondary to other work or responsibilities, and who can rely on alternative sources of income.

The evolving nature of how work quality is defined was amplified by the COVID-19 crisis. This resulted in new criteria to consider when examining employees' experience of work, including the contact intensity of the work, the risk of infection, the essential nature of the job, and the ability to work from home (FitzGerald, 2020).

The importance of context and the evolving nature of what is meant by Better Work means that there is a need to mobilise sectoral networks of public and private actors to accurately define Better Work. Such networks should be underpinned by a commitment to a process of learning and review based on emerging experience and knowledge. This type of deliberation provides an opportunity for different stakeholders to develop a shared understanding of what Better Work means in practice, the challenges that need to be addressed, and how to collectively progress the Better Work agenda (see also section 6.3).

<sup>2</sup> The UCD Working in Ireland Survey (WIIS) 2021 was a bespoke and comprehensive survey that was focused on identifying and understanding employees' experiences and perceptions of work during the COVID-19 crisis from a quality and well-being perspective.

Table 1.1: Work-Quality Frameworks

Geary and Wilson (2023) Job-Quality Framework		Eurofound Job Quality Index (2016, 2021)	Carnegie Trust UK-RSA Job Quality Framework (2018)	Fair Work Convention (2020)
Job Dimension	Job Sub-Dimensions	Job Dimensions	Job Dimensions	Job Dimensions
Earnings and other pecuniary benefits	Earnings	Physical environment	Terms of employment	Opportunity
	Pecuniary benefits	Work intensity	Pay and benefits	Respect
Security and prospects	Present security of employment and earnings	Working-time duration	Job design and nature of work	Security
	Prospects for future employment and earnings	Social environment	Social support and cohesion	Fulfilment
Work organisation and support	Work effort and intensity	Skills and discretion	Health, safety and psychological support	Effective voice
	Work autonomy	Prospects	Work-life balance	
	Trade union representation	Earnings	Voice and representation	
	Support of line management and quality of line-management relations			
Skills and training	Job training provision			
	Skills utilisation and development			
Work-life balance	Duration of working hours			
	Duration of working days			
	Work-life autonomy			
	Work-life spillage/conflict			

## 1.4 Relevance for All Stakeholders

A shared understanding of Better Work must have relevance and meaning for employees, employers and broader society. The academic and policy literature tends to define and measure the quality of work from an employee-centric perspective. This is not surprising, as it is an individual's experience of their work that is the key determinant of its quality (Carnegie UK Trust & RSA, 2018; Eurofound, 2016; 2022; Geary & Wilson, 2023).

Overell *et al.* (2010), in a study conducted as part of the UK Work Foundation's 'Good Work Commission' project, contend that 'good work' should be defined by considering a broader range of perspectives, including those of employers, businesses and the wider society. These authors highlight that a central tenet of the Good Work Commission was that 'no single perspective' – employees, employers or society – can be taken in isolation from the others.

*For employees, good work provides secure and interesting jobs; choice, flexibility, and control over working hours; control over the pace and timing of work and the working environment; a say in the critical decisions that affect their futures; and an appropriate balance between effort and reward.*

*From a business perspective, good work is productive and efficient; aims to involve and engage employees and to encourage their contribution to organisational success.*

*And from a society perspective, good work is socially aware, ethical, and sustainable. It provides the impetus for wider social gains, including improved quality of family life, social skills, and citizenship (Overell *et al.*, 2010: 12).*

## Chapter 2

# Labour Market Challenges & Benefits of Better Work



## 2.1 Introduction

This chapter examines challenges within the Irish labour market, highlighting structural weaknesses that, in general terms, underline the need to develop the Better Work agenda.

It sets out the potential benefits of Better Work for employees, employers and the economy and society more generally, and describes how the realisation of such benefits can serve to address the cohesion challenges that persist in the Irish labour market.

## 2.2 Poverty, Low Pay and Labour Market Disadvantage

The persistence of poverty and low pay represent a fundamental structural challenge in the context of the Irish labour market. Many households where one or more individuals are in employment continue to experience poverty and deprivation due to low pay and increases in the cost of living.

The Survey on Income and Living Conditions (SILC) found that in 2023 the at risk of poverty (AROP) rate stood at 10.6 per cent nationally. However, the AROP rate for unemployed people was 25.5 per cent, as compared with 5.8 per cent for those in employment (see Table 2.1).

Notably, the consistent poverty rate has fluctuated in recent years, particularly for households where no individuals are in employment. This is due to a combination of factors, including the withdrawal of pandemic-related government supports for households and high levels of inflation.

**Table 2.1: AROP and Consistent Poverty Rates**

	AROP (%)			Consistent poverty (%)		
	2021	2022	2023	2021	2022	2023
State	11.8	12.5	10.6	4.2	4.9	3.6
<b>Principal economic status</b>						
Employed	4.5	5.3	5.8	1.2	2.0	1.5
Unemployed	23.7	32.1	25.5	10.5	14.3	9.4
<b>Number of persons at work in the household</b>						
0	30.2	36.7	22.6	12.7	14.4	8.9
1	13.9	15.3	15.5	4.1	5.4	5.5
2	3.3	3.7	5.3	1.0	1.4	1.3
3 or more	2.0	3.2	1.2	0.0	2.3	0.0

Source: CSO, 2024c.

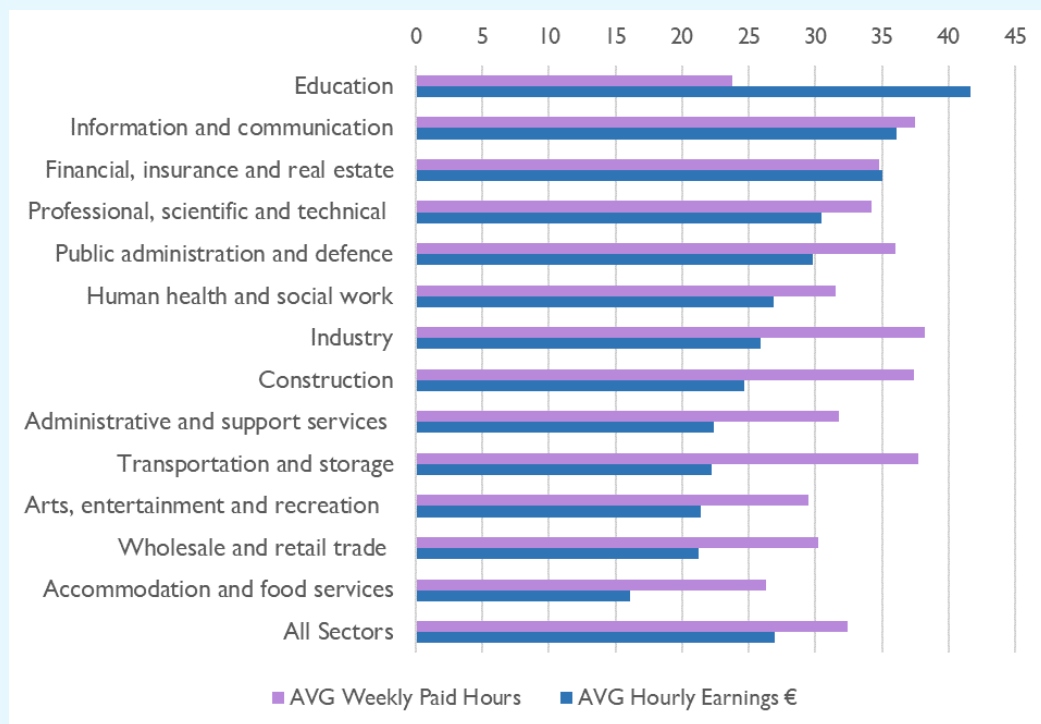
In 2022, some 2.3 per cent of the employed population, amounting to more than 90,000 people, were in consistent poverty, up from under 40,000 people in 2021. In 2023, 17.3 per cent of people were experiencing enforced deprivation, compared with 16.6 per cent in 2022 and 13.7 per cent in 2021 (CSO, 2024d). Individuals who described themselves as 'unable to work due to long-standing health problems' had the highest rate of enforced deprivation (44.7 per cent) followed by the 'unemployed' at 37 per cent. Although the comparable figure for those in employment is much lower, at 12.7 per cent, this figure has increased from 8.7 per cent in 2021. These trends reaffirm the importance

of focusing on the quality as well as the quantity of work when seeking to address poverty in Ireland. Equally, it is evident that ‘work’ cannot do all the heavy lifting and, as such, there is a need to continue to invest in the provision of collective public goods and services in trying to alleviate deprivation.

The National Competitiveness and Productivity Council (NCPC) has highlighted what it calls ‘the problem of low pay’, which it indicates ‘is much greater in Ireland than in most EU countries’ (NCPC, 2022: 64). Average (AVG) hourly earnings in Ireland are lowest in the accommodation and food (€16.13), wholesale and retail trade (€21.22), arts, entertainment and recreation (€21.39), transportation and storage (€22.26), administrative and support (€22.39) and construction (€24.71) sectors (see Figure 2.1).

A study by Remond *et al.* (2023) found that, in comparison with higher-paid employees, minimum wage workers in Ireland are more likely to fear job loss, hold temporary employment contracts, work long shifts of 10 or more hours, work at unsociable times, and work in jobs where their skills are underutilised. These findings highlight the fact that minimum wage workers often endure challenging working conditions across multiple dimensions of job quality other than earnings. While Better Work is about more than just earnings, the Government’s commitment to transition from a national minimum wage to a statutory living wage by 2026 is an important policy development.

**Figure 2.1: Weekly Paid Hours and AVG Hourly Earnings (€), by Economic Sector, Q4 2023<sup>3</sup>**



Source: CSO, 2024b.

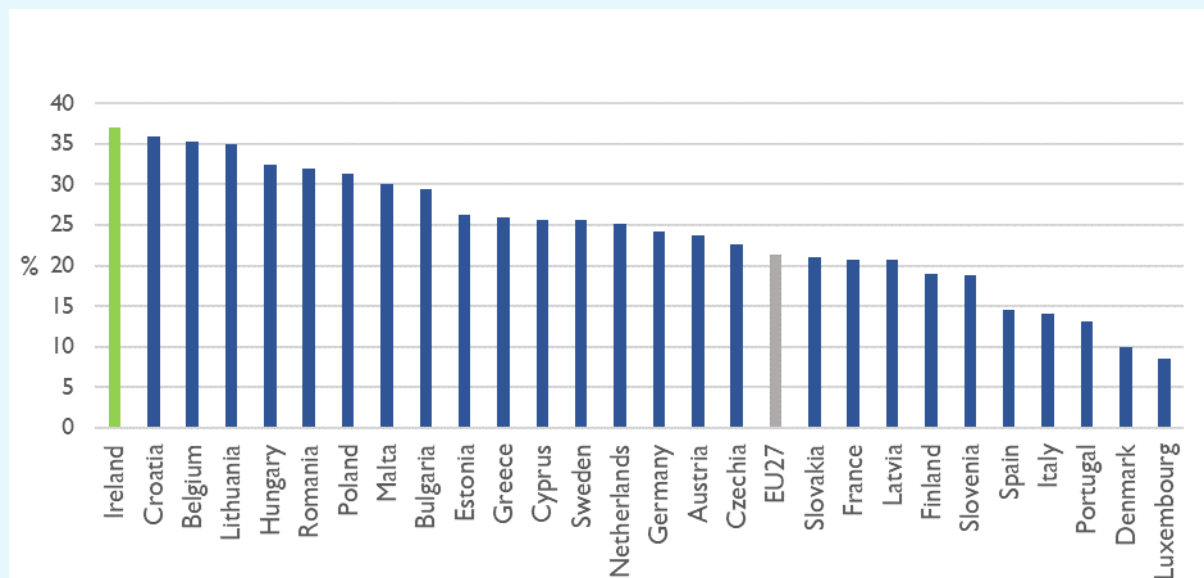
Using the ‘decent work’ framing of the International Labour Organization, McGinnity *et al.* (2021) demonstrate that many groups are overlooked and under-served in the Irish labour market: women; lone parents; young people; migrants; ethnic minorities, including Travellers; and disabled persons. This research shows that these groups are more

<sup>3</sup> AVG hourly earnings exclude irregular earnings.

likely to face restrictions in accessing the labour market; have lower pay, lower security and less stability in work; and are more likely to be exposed to work-related discrimination.

A study by Kelly and Maître (2021) found that having a disability has a negative impact on an individual's likelihood of being in employment in Ireland, with individuals with a *psychological or emotional condition or difficulty with basic physical activities such as walking, climbing stairs, reaching, lifting or carrying* being most severely impacted. According to the latest SILC results, Ireland has a disability employment gap of 37 per cent,<sup>4</sup> the highest in the European Union (EU) (see Figure 2.2). This suggests that there is considerable scope for improving labour market outcomes for this group.

**Figure 2.2: Disability Employment Gap, 2022<sup>5</sup>**



Source: Eurostat (2024).

It is important to consider the differing labour market experiences of younger workers. Drawing on three subjective measures of labour market security, the 2021 UCD Working in Ireland Survey (WIIS) indicated that, while job insecurity was widespread across the age cohorts, younger workers (aged 16–34 years) reported significantly less income and employment security than their older counterparts (Gallagher & Nugent, 2022). This survey, however, also revealed the uneven distribution of labour market security for this younger cohort, where:

- twenty per cent of younger workers were simultaneously worried about job security, income security and future employment prospect; and
- thirty-three per cent reported being secure across all three of these labour market security indicators.

<sup>4</sup> The disability employment gap is defined as the difference between the employment rates of persons with and without a disability (Eurostat, 2024).

<sup>5</sup> Latest year for which Irish data is available.

The large share of professional and associate professional occupations among total employment for young workers (aged 16–34 years) suggests that investment in education is shifting the occupational structure, and that young people are reaping the rewards of tertiary qualification in terms of accessing ‘good jobs’. However, the data on the relationship between educational attainment and earnings within this age group is actually more inconclusive:

- twenty per cent with a tertiary qualification earned more than €40K per annum; and
- seventeen per cent with a tertiary qualification earned less than €20K per annum.

Gallagher and Nugent (2022) contend that these findings are indicative of a degree of polarisation or fragmentation in younger workers’ experience of the labour market.

### 2.3 Uneven Productivity and Variable Job Quality

Higher productivity is generally associated with higher job quality. Productivity<sup>6</sup> is a key determinant of wages, and so by extension is a fundamental determinant of job quality (Cazes *et al.*, 2015).

Increasing added value through higher levels of productivity growth underpins sustainable increases in employee compensation that do not undermine competitiveness (Emanuel & Harrington, 2020; ILO, 2020). The NCPC has identified productivity growth as the main driver of higher incomes and rising living standards (NCPC, 2022).

Conventional measures of productivity in the Irish economy suggest that Irish labour productivity has grown more rapidly in recent years than in any comparator countries in the European Union (EU) and Organisation for Economic Co-operation and Development (OECD) (OECD, 2024; undated). However, Ireland’s comparatively high levels of aggregate productivity growth stem from the activities of a relatively small number of global multinational enterprises within foreign direct investment- (FDI) intensive, high-tech economic sectors (European Commission, 2023c; Government of Ireland, 2022; McQuinn *et al.*, 2023; NCPC, 2022).

At the same time, analysis by the OECD has found a wide dispersion in the productivity of small and medium-sized enterprises (SMEs) as well as a long-standing lack of productivity growth among established SMEs (OECD, 2019b). Similarly, the European Commission has highlighted the significant productivity gap that exists between large and small enterprises in Ireland (European Commission, 2023c). Research has also highlighted a negative productivity gap between Ireland and the euro area in several domestic sectors, such as agriculture, construction, and wholesale, retail, transportation and accommodation services (Papa, 2019).

The comparatively low levels of productivity growth in the SME sector are of particular concern, as smaller firms employ 69.2 per cent of all workers in Ireland (CSO, 2024a). Geary & Wilson (2023: 59) highlight that workers in small firms in Ireland are ‘more likely to have a precarious, low paid, routine job than those in larger firms ... individuals employed in firms with 0-49 employees (have) significantly lower odds of having a secure, moderately good, unionised job compared to those in firms with 250+ employees’.

In contrast, employment in the FDI sector is often characterised by competitive pay and conditions, investment in education and training, a quality work environment, job security and enhanced employee autonomy (CSO, 2020; IDA Ireland, 2021; OECD, 2021).

<sup>6</sup> Across the public and private sectors, labour productivity is a measure of the efficiency with which inputs such as labour, capital and raw materials are converted into outputs (Somani, 2021).

## 2.4 A Fragmented Labour Market

There is a growing concern internationally that multiple disruptive drivers of change, such as climate change, digitalisation, demography and globalisation, have accelerated fragmentation and inequality in the labour market and increased the incidence of ‘bad jobs’ (Rodrik, 2022; Rodrik & Stantcheva, 2021b).

Analysis of the European Working Conditions Telephone Survey 2021 (Eurofound, 2022) reveals the fragmented and heterogeneous nature of the European labour market, with approximately 30 per cent of EU workers in ‘strained, poor-quality’ jobs where the negative aspects outweigh the positive attributes (Eurofound, 2022).

Drawing on data from the 2021 WIIS, Geary and Wilson (2023) identify five distinct clusters or ‘job types’, each of which contains a unique combination of positive and negative work attributes that they have labelled as:

- i demanding, highly controlled, and precarious work (12.1 per cent);

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- ii precarious, low-paid work (14.9 per cent);

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- iii secure, moderately good, unionised work (25.7 per cent);

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- iv secure, moderately good work, with strong management employee relationships (26.3 per cent); and

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- v secure, high-quality work (21.0 per cent).

Geary and Wilson’s study suggests that just over one-quarter of jobs are relatively poor-quality, while the majority – almost 75 per cent – can be considered to be moderately good- to high-quality, in that they impose relatively few demands and provide greater resources to workers.

This analysis indicates that precarious, low-paid jobs are more apparent among females; young workers; those without a third-level qualification; workers in elementary, caring, leisure, sales and customer service roles; and those employed in small firms.

## 2.5 Better Work: A Triple Dividend

Eurofound (2022) argue that the success of EU employment policies in boosting employment levels, prolonging working life, increasing the participation of women, driving productivity and innovation, and adapting to the digital challenge depends not just on changes in the external labour market, but also on developing good working conditions and job quality across all sectors. This highlights the important enabling role of Better Work and suggests that this agenda should be considered as an integral part of a state’s economic, enterprise and labour market policies.

This section summarises the benefits that Better Work delivers for employees, employers and the wider economy and society.

### 2.5.1 Employee Benefits: Summary

Better Work has the potential to result in improved personal well-being, increased engagement, a better standard of living, and better health outcomes.<sup>7</sup> The reverse is also true in that there are clear negative impacts for employees arising from poorer- quality work. Research highlights that having a poor-quality or ‘strained’ job is associated with poorer physical and mental health, lower levels of engagement, diminished well-being, poorer work–life balance and less ability to make ends meet.

<sup>7</sup> There is a large body of research underpinning these outcomes, including Arends *et al.*, 2017; Cazes *et al.*, 2015; Cohen, 2020; Dobbins, 2022; Geary & Wilson, 2023; Rodrik & Sabel, 2019; Saint-Martin *et al.*, 2018; and Taylor *et al.*, 2017.

These benefits and drawbacks highlight the extent to which the nature and quality of work is a key influence on an individual employee's health and well-being (Carnegie UK Trust & RSA, 2018; Cazes *et al.*, 2015).

## 2.5.2 Employer Benefits and the Impact on Productivity

Research has shown that job quality is not only positive for employees but can also bring benefits for employers. The potential positive impacts of Better Work for employers include improved productivity; enhanced financial performance; improved service and product quality; increased innovation; greater employee engagement; improvements in recruitment and retention; enhanced customer service and organisational reputation; and reduced disciplinary problems (Arends *et al.*, 2017; Cazes *et al.*, 2015; Dobbins, 2022; Findlay *et al.*, 2019; Rodrik & Stantcheva, 2021a; 2021b; Saint-Martin *et al.*, 2018).

There is evidence that, under the appropriate conditions, improving the quality of work and the well-being of workers can generate direct improvements in labour productivity (Isham *et al.*, 2021). While noting that, at the firm level, it is productivity gains over time that 'pay' for real pay rises, Haldane indicated that the link between pay and productivity also runs in the reverse direction:

*A higher rate of pay can spur worker satisfaction and motivation, leading to higher levels of productivity. This is called efficiency wage theory. It suggests that higher pay can itself hold the key to higher levels of productivity (Haldane, 2021: 1).*

Similarly, in highlighting the pivotal role of productivity in driving medium- to long-term growth and improvements in living standards, the NCPC (2022) also recognises that good wages and working conditions can promote productivity growth. It is argued that reducing the number of low-paid employees can boost an enterprise's net business income and can improve productivity, by reducing both the productivity losses and additional recruitment, administrative and training costs associated with high staff turnover (LPC, 2022; Ní Bhrógain & Taft, 2022).

Drawing on evidence from over 20 research studies, Wolfers and Zilinsky (2015) demonstrate that increasing the pay of low-skilled workers can generate a range of productivity and organisational performance benefits, including:

- the attraction of more capable and productive workers;
- lower staff turnover, reducing the costs of hiring and training new workers;
- enhanced quality and customer service;
- increased employee motivation;
- reduced disciplinary problems and absenteeism;
- fewer resources devoted to monitoring employee performance; and
- reductions in employee stress, resulting in improvements in health and stamina.

Although Cazes *et al.* (2015) stipulated that productivity is a key determinant of wages, and an important driver of job quality, they also acknowledged that productivity can be an outcome of job quality.

*For example, to the extent that workers in safer, healthier and engaging and rewarding jobs feel more motivated, they will be more productive. This may in turn translate into higher wages, thereby creating a positive relationship between the quality of the working environment and the levels of earnings (Cazes *et al.*, 2015: 20).*

A review of the evidence base by Bosworth and Warhurst (2021) found that the link between good work and productivity was generally positive. The same study used a large sample dataset, including multidimensional indices of job quality, to test the extent and nature of the causal relationship between job quality and productivity. What is most noteworthy about the findings of this analysis is that three of the four indicators of work quality that have the strongest association with higher productivity do not necessarily result in substantial or ongoing costs from the perspective of employers (see Table 2.2).

Felstead *et al.* (2020) contend that employee involvement, exercised individually or collectively, is positively associated with employees' capacity and willingness to offer productivity-enhancing ideas.<sup>8</sup> Their findings also suggest that training and learning that encourage creative thinking have a strong link to innovation, as does the presence of target-setting and appraisals linked to pay or training opportunities. Such productivity- and performance-enhancing benefits associated with strengthening employee voice, increasing levels of employee engagement and enhancing employee participation in decision-making are not limited to high-skilled jobs, but are, in fact, relevant to all jobs across the economy (Saint-Martin *et al.*, 2018).

**Table 2.2: Individual Level Regression with Good Work Indices**

Variables	Change in Productivity
Voice and representation	14%
Pay and benefits	8%
Job design and nature of work	8%
Social support and cohesion	8%
Work-life balance <sup>9</sup>	2%
Terms of employment	-7%
Health, safety and psychosocial well-being	-9%

Source: Bosworth & Warhurst, 2021.

In addition, Emanuel and Harrington (2020) examined case studies where raising the pay of low-paid warehouse and call centre staff resulted in positive outcomes in terms of turnover, recruitment and overall productivity. This study found that approximately 50 per cent of both the reduction in staff turnover and productivity increases were due to changes in worker behaviour that were responsive to improvements in their pay. Importantly, this study indicates that not only was the impact of higher pay on productivity substantial, but that 'the increase in productivity caused by raising wages fully pays for itself ... productivity shifts are instrumental in offsetting the costs of higher wages' (Emanuel & Harrington, 2020: 3, 22). While the findings of this study are not generalisable for all job types and sectors, the findings do illustrate the potential for improvements in job quality to pay for themselves under the right conditions.

Lower-quality work is also 'bad' for employers as it is associated with high levels of labour turnover and absenteeism, reduced engagement and commitment, poorer customer service, slower innovation, recruitment challenges and lower productivity.

Bosworth and Warhurst (2021) found that poor-quality work and low productivity are more strongly correlated than good-quality work and high productivity.

A comprehensive review of the existing evidence on the relationship between the quality of the work environment and individual-at-work productivity also indicates a strongly negative relationship between job strain and individual-at-work productivity (Arends *et al.*, 2017).

<sup>8</sup> One limitation of this study is that the indicators of employee-driven innovation are based on employees' assessments and may therefore be subject to measurement biases.

<sup>9</sup> Work-life balance was found to have a positive relationship with productivity, but the results for this indicator were not statistically significant.

### 2.5.3 Benefits for the Wider Economy and Society

Better Work delivers multiple dividends for the wider economy and society.

In terms of macro-economic performance, there is no discernible trade-off between job quality and job quantity, but rather potential synergies. Countries that do relatively poorly with respect to job quality tend to have relatively low employment rates, and vice versa (Cazes *et al.*, 2015). Indeed, the OECD maintains that:

*Countries perform better with policies that support job quality, job quantity and greater inclusiveness rather than countries where the main focus is labour market flexibility (OECD, 2019a).*

Better-quality work is positively associated with increased labour force participation, more inclusive growth, enhanced productivity growth, increased innovation, improved aggregate economic performance and increased domestic demand (Cazes *et al.*, 2015; Gesualdi-Fecteau *et al.*, 2023; Murray *et al.*, 2023; OECD, 2019a; Rodrik & Stantcheva, 2021a; 2021b; Saint-Martin *et al.*, 2018).

In contrast, an increased incidence of 'bad jobs' is a problem for economic efficiency and growth insofar as it slows down the dissemination of innovation from the more advanced sectors and firms to the rest of the economy, reducing aggregate productivity growth in the economy (Rodrik & Stantcheva, 2021a; 2021b).

Murray *et al.* (2023) contend that focusing on Better Work rather than job quality represents a more holistic approach, which seeks to identify how aspects of work connect to broader societal issues such as well-being, equality, life opportunities and democratic participation.

Increasing the incidence of Better Work benefits broader society by improving living standards, creating more sustainable jobs, reducing inequality and poverty, and supporting social cohesion (Cazes *et al.*, 2015; Cohen, 2020; Dobbins, 2022; Rodrik & Sabel, 2019; Saint-Martin *et al.*, 2018).

Society also harnesses the benefits of Better Work in the form of higher tax revenues to fund other public services and reductions in the levels of welfare expenditure, particularly income transfers and health spending, that are required to mitigate the impact of poorer-quality work (Saint-Martin *et al.*, 2018). Although the total cost of inaction and the benefits resulting from better policy and practice are difficult to evaluate precisely, there are indications that private and public investment in better-quality work environments can be both welfare-enhancing and economically efficient (Saint-Martin *et al.*, 2018).

Better-quality work also has the potential to deliver a significant political benefit, as greater economic and social cohesion can counteract political populism and extremism (Rodrik & Sabel, 2019). The momentum around the implementation of the European Pillar of Social Rights reflects the political imperative of creating a 'Social Europe', and an increased focus on addressing concerns over a perceived lack of legitimacy in regard to the European project.



## Chapter 3

# Better Work, Resilience and Cost Competitiveness

## 3.1 Introduction

The National Competitiveness and Productivity Council (NCPC) Competitiveness and Productivity Framework (NCPC, 2024) recognises the need to strike an appropriate balance between the interests and needs of both employees and employers. The Council's approach to Better Work also acknowledges the need to maintain competitiveness while seeking to improve employee well-being.

This chapter reviews recent research assessing the potential impacts of labour market policy reforms (IGEES, 2024), examines the performance and resilience of the Irish labour market, and assesses the competitiveness of the Irish economy and labour market.

## 3.2 Assessing the Impact of Labour Market Policy Reforms

In response to a recommendation from the NCPC (2022), the Irish Government Economic and Evaluation Service (IGEES, 2024) undertook an assessment of the cumulative impact of recently implemented or proposed labour market reforms, with a focus on:

- the transition from the national minimum wage to a statutory living wage;
- planned increases to Pay Related Social Insurance (PRSI);
- Statutory Sick Pay (mandatory paid sick days);
- the auto-enrolment retirement savings system;
- Parent's Leave and Parent's Benefit;
- the right to request remote work; and
- an additional public holiday.

The IGEES report examined the economy-wide impacts of these measures and their specific impacts on employees and employers. In considering the changes to wage policies, the analysis differentiated between the policy-driven costs associated with the transition to a Living Wage and any potential upward pressures on wages that would arise in the absence of any policy change.

Using firm-level evidence, the study considered the potential impacts of policy changes on different sectors, as well as their impact based on factors such as firm size and whether firms were domestic or foreign-owned. An important aspect of the evidence is not simply the degree of asymmetry in terms of impacts across sectors – with some sectors likely to be unaffected by many of these changes – but also the degree of heterogeneity within sectors and how different firms within the same sector can experience different outcomes.

The IGEES assessment found that many sectors were likely to be largely unaffected by the changes, as wage levels and employee benefits already exceed those provided for in recent or proposed policy changes. Sectors least affected include financial services, real estate, professional services, healthcare, and the commercial semi-State sector.

However, while many firms and sectors will be largely unaffected, the analysis found that the policy changes would 'give rise to increased operating costs for some firms over the coming decade, particularly those in labour-intensive, relatively low-wage sectors typically characterised by low profit margins' (IGEES, 2024: 5).

The impact of increased costs for businesses is examined using stylised examples, illustrating the expected cost impacts for firms with differing characteristics, such as varying personnel cost ratios and minimum wage-intensity levels.<sup>10</sup> The estimated impact of the statutory living wage in such stylised examples is outlined in Table 3.1.

On an economy-wide basis, the payroll cost impacts are estimated to range from 1.8 per cent to 2.2 per cent by 2026, with the largest impacts stemming from the introduction of a Living Wage and the auto-enrolment retirement savings scheme. If firms are unable to absorb the costs arising from these reforms, this could result in higher prices, reductions in working hours, and job losses. Firm viability may also be negatively impacted in the worst-case scenarios.

However, the IGEEES analysis points out that such additional payroll costs are

*not a cost to the economy. Rather, these are a transfer from an employer to an employee and will lead to benefits that accrue to both the individual employee and to broader society. The central trade-off from a policy perspective then, is on the one hand, the benefits that will accrue to low-income employees and to society more broadly, versus the costs to be borne, in large part, by relatively low-margin businesses (IGEEES, 2024: 5).*

**Table 3.1: Estimated Impact of Living Wage Policy on Cost of Employing a Worker (for Stylised Firms)**

Living Wage	Small Hospitality Firm		Mid-sized Retail Firm			Large ICT Firm	Construct ion Firm	Legal Services Firm
	Firm 1a	Firm 1b	Firm 2a	Firm 2b	Firm 2c	Firm 3	Firm 4	Firm 5
Increase in 2024 (versus 2023 baseline)	12.39%	12.39%	9.81%	8.65%	8.65%			
Minus estimated broader wage developments	(7.88%)	(7.88%)	(6.52%)	(6.52%)	(6.52%)			
Living wage policy-driven increase	4.51%	4.51%	3.29%	2.13%	2.13%	~0 0%	0 0%	~0 0%
Increase in 2026 (versus 2023 baseline)	32.75%	32.75%	27.1%	27.1%	23.1%	~0 0%	0 0%	~0 0%
Minus estimated broader wage developments	(17.26%)	(17.26%)	(15.8%)	(15.8%)	(15.8%)			
Living wage policy-driven increase	15.49%	15.49%	11.30%	11.3%	7.3%	~0 0%	0 0%	~0 0%

Source: IGEEES, 2024.

<sup>10</sup> The stylised examples examined range from a small hospitality firm where all staff are on minimum wage to firms in sectors such as information and communication technology and legal services.

The IGEES study points to a range of benefits for employees resulting from the proposed policy measures, including enhanced well-being, improved motivation, higher disposable income and reduced levels of deprivation. Greater availability of sick leave is an effective means to improve participation rates for persons with disabilities, while enhanced parental leave promotes female participation in the labour market.

The analysis also found that improving working conditions benefits employers due to productivity improvements and reductions in staff turnover.

In terms of wider societal benefits resulting from recent labour market reforms, the IGEES study highlights reductions in levels of poverty, increased labour market participation for underrepresented groups, increased spending across the wider economy and greater sustainability of Ireland's social insurance fund. The adoption of remote working is viewed as encouraging more balanced regional growth in employment and driving higher levels of footfall in regional localities. The expansion of statutory sick pay serves to reduce presenteeism among unwell staff, resulting in the avoidance of potential infection for other staff members.

The study suggests that higher costs will have an impact upon the competitiveness of some firms, but this would be mostly felt in smaller firms that trade internationally, as domestic-facing firms will be subject to the same set of policy changes.

### 3.3 The Resilience of the Irish Labour Market

The Irish labour market is resilient and adaptable, sustaining low levels of unemployment<sup>11</sup> despite multiple crises, including Brexit, the COVID-19 pandemic, supply chain disruption, the climate and biodiversity crises, and high levels of inflation.

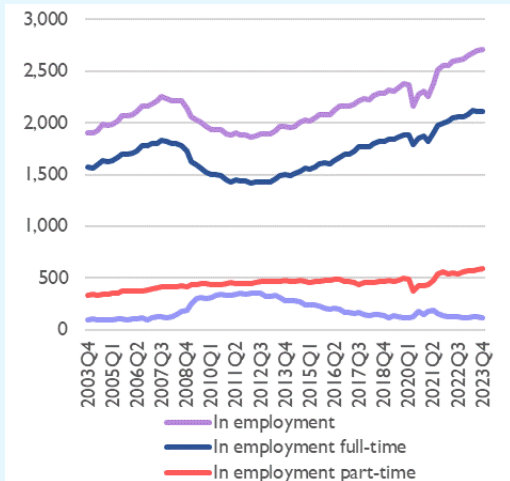
Employment levels have, nonetheless, reached an all-time high, with 2,706,400 persons in employment in Q4 2023 (see Figure 3.1). While the effects of the COVID-19 pandemic are evident in the fluctuations in the total number of persons employed and in labour force participation rates, the labour market has rebounded strongly and remains resilient (see Figure 3.1 and Figure 3.2).

The seasonally adjusted monthly unemployment rate stood at 4.4 per cent in April 2024, marking a considerable recovery from the COVID-era peak of 7.7 per cent in March 2021 (see Figure 3.3).

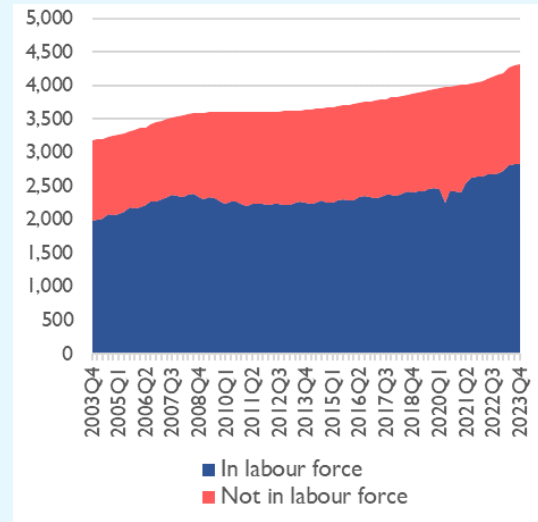
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<sup>11</sup> The seasonally adjusted monthly unemployment rate has remained below 5% since January 2022. See: [Seasonally Adjusted Monthly Unemployment Rate \(ILO\)](#) [accessed 05/07/24].

**Figure 3.1: Number of Persons (000s) by ILO Economic Status**



**Figure 3.2: Number of Persons in the Labour Force (000s)**



Source: CSO data online at [LFS Quarterly Series](#) [accessed 05/07/24].

**Figure 3.3: Monthly Unemployment Rate (%)<sup>12</sup>**



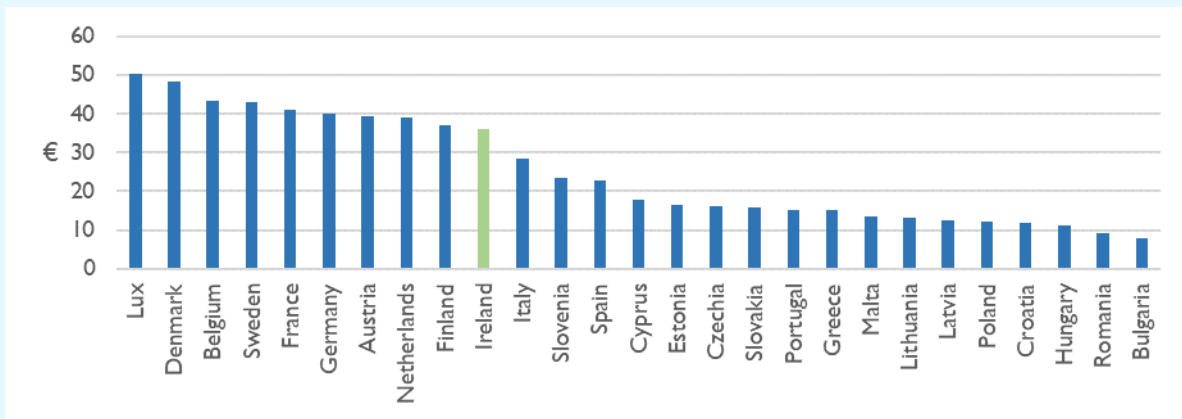
Source: CSO data online at [Monthly Unemployment Rate](#) [accessed 05/07/24].

<sup>12</sup> Seasonally adjusted monthly unemployment rate. All persons aged 15–74 years.

### 3.4 The Competitiveness of the Irish Labour Market

The Irish labour market is characterised by relatively high wage levels compared with most European Union (EU) peers, although this is less pronounced in terms of hourly labour costs (DETE, 2023). In 2022, Ireland had the tenth highest average (AVG) hourly labour costs in the EU (see Figure 3.4). AVG hourly labour costs have risen broadly in line with the EU-27 over the period since the economic crash (see Figure 3.5). However, non-wage labour costs such as employers’ social insurance contributions and taxes on wages continue to make up a smaller share of total labour costs in Ireland as compared with the EU-27 (see Figure 3.6). As a result, Ireland could be described as having both a relatively high wage-cost labour market and a relatively low non-wage cost one.

**Figure 3.4: EU-27 Business Economy AVG Hourly Labour Costs, 2022 (Compensation of Employees Plus Taxes, Minus Subsidies)**

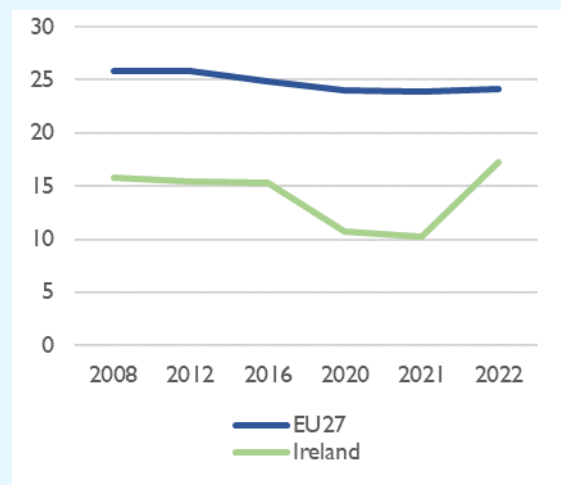


Source: Eurostat data online at [Business Economy Labour Costs](#) [accessed 05/07/24].

**Figure 3.5: Business Economy Components of AVG Hourly Labour Costs (€)**



**Figure 3.6: Business Economy Non-Wage Labour Costs as Share (%) of Total Labour Costs**



Source: Eurostat data online at [Business Economy Labour Costs](#) [accessed 05/07/24].

### 3.5 Increasing Labour Costs and National Competitiveness

Increasing wages can negatively impact a firm's cost competitiveness vis-à-vis other firms in the market.

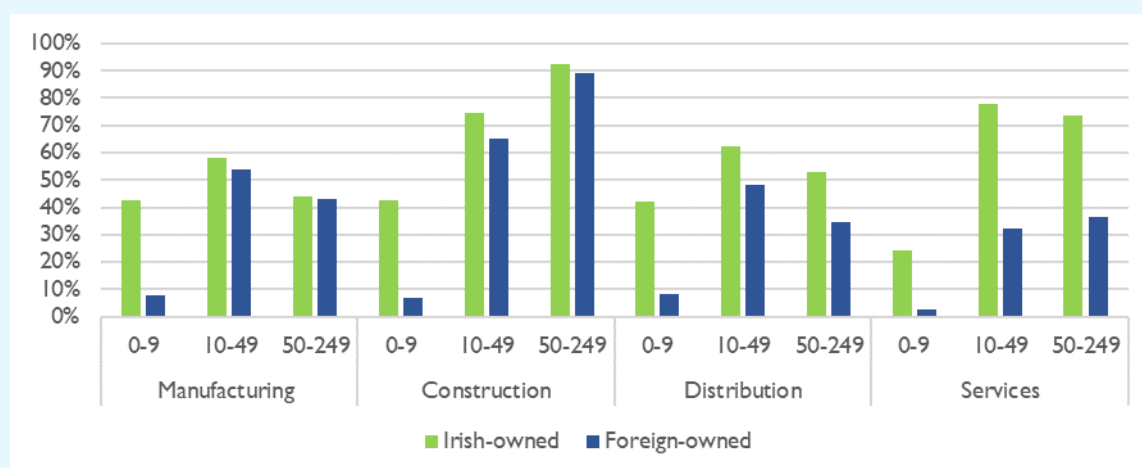
In making wage decisions, firms must balance the direct costs associated with increasing employee compensation against the potential gains, in areas such as increased employee effort, higher-quality job applicants, increased productivity levels and lower staff turnover costs (Emanuel & Harrington, 2020).

While pay increases can potentially be fully offset by the gains arising from resulting productivity improvements (Emanuel & Harrington, 2020), 'raising wages to improve productivity will only work up to a certain point' (Vandenberg, 2004: 7).

An important consideration in evaluating the competitiveness of the Irish labour market is the level of personnel costs<sup>13</sup> borne by employers relative to the value of goods and services produced. The personnel expense ratio provides an indication of the comparative efficiency of labour utilisation across sectors and illustrates the degree of sensitivity to changes in personnel costs.

Figure 3.7 displays results for small and medium-sized enterprises (SMEs) in the manufacturing, construction, distribution, and services sectors in 2021.<sup>14</sup> Although results were affected by the COVID-19 crisis, key structural characteristics remain noteworthy. The level of personnel costs borne by employers relative to production values varies across economic sector and firm size. Personnel costs are generally higher relative to production values for Irish-owned firms compared to foreign-owned firms.

**Figure 3.7: Personnel Costs Relative to Production Value, by Sector and SME Firm Size (in Employees), 2021<sup>15</sup>**



Source: (CSO, 2024a).<sup>1</sup>

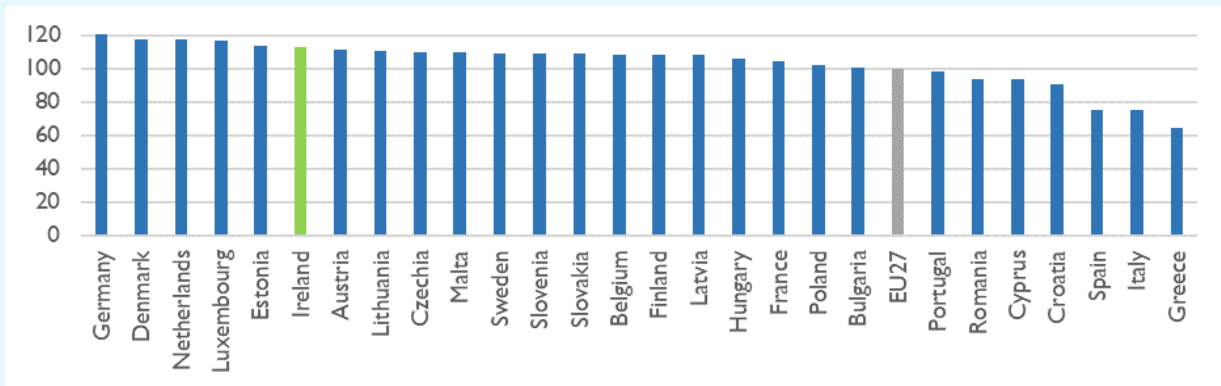
<sup>13</sup> Personnel costs are made up of wages, salaries and employers' social security costs; insurance premiums; employers' liability insurance; and private health premiums paid on behalf of employees (CSO, 2024a).

<sup>14</sup> Latest year for which data was published at the time of writing. Selected sectors exclude non-manufacturing industries (NACE Rev.2 B, D, and E) and financial and insurance activities (NACE Rev.2 K) (Eurostat, 2008).

<sup>15</sup> Latest detailed results available, published January 2024.

The EU’s Regional Competitiveness Index (RCI) captures a set of labour market performance indicators that include the employment, unemployment and long-term unemployment rates; labour productivity; gender balance of employment and of unemployment; and those not in education, employment or training (European Commission, 2023b: 32–3). In 2022, Ireland was found to have the sixth most competitive labour market in the EU (see Figure 3.8).<sup>16</sup>

**Figure 3.8: EU Labour Market RCI, 2022 (EU-27=100)**



Source: European Commission data online at [Regional Competitiveness Index](#) [accessed 05/07/24].

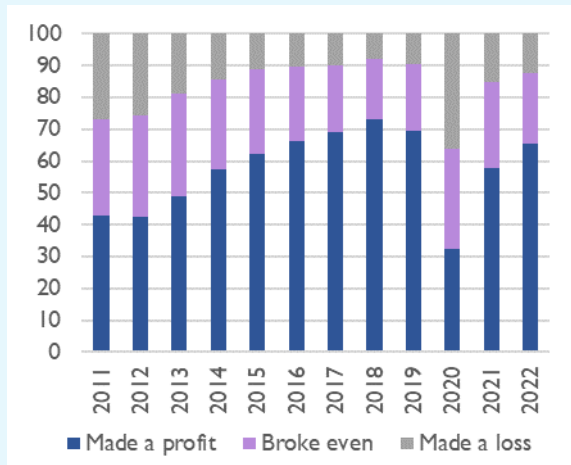
The performance of the Irish labour market as measured by the RCI has improved relative to the EU-27 since 2016, rising from a value of 98 in 2016 to reach 113 in 2022. Results vary considerably across regions, with the Northwest region performing much less strongly than the Southern or Eastern and Midland regions (European Commission, 2023b). While the labour market RCI does not provide a direct indication of the international cost competitiveness of the Irish labour market, it does illustrate its extraordinary resilience and overall strength of performance relative to most EU comparator countries.

A further consideration when evaluating Ireland’s competitiveness is the share of SMEs that realise a profit. The results of the Department of Finance SME Credit Demand Survey 2022 suggest that the share of SMEs reporting a profit has broadly returned to pre-pandemic levels (see Figure 3.9). The share of firms reporting either a profit or a break-even financial result has also remained comparable across medium, small and micro firms (see Figure 3.10).

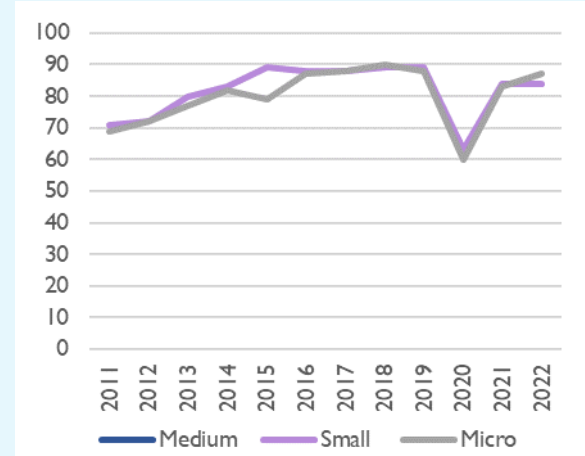
<sup>16</sup> The efficiency of the labour market as measured in the RCI includes Gross Domestic Product (GDP) relative to the number of hours worked, meaning this measure is at least partly affected by the large contribution of capital towards growth in Gross Value Added (GVA) in the foreign direct investment (FDI) sector in Ireland, as distinct from labour.



**Figure 3.9: Share (%) of SMEs Reporting Profitability, Breaking Even and Loss**



**Figure 3.10: Share (%) of SMEs Reporting Profit/Breaking Even by Firm Size**



Source: DoF, 2023.

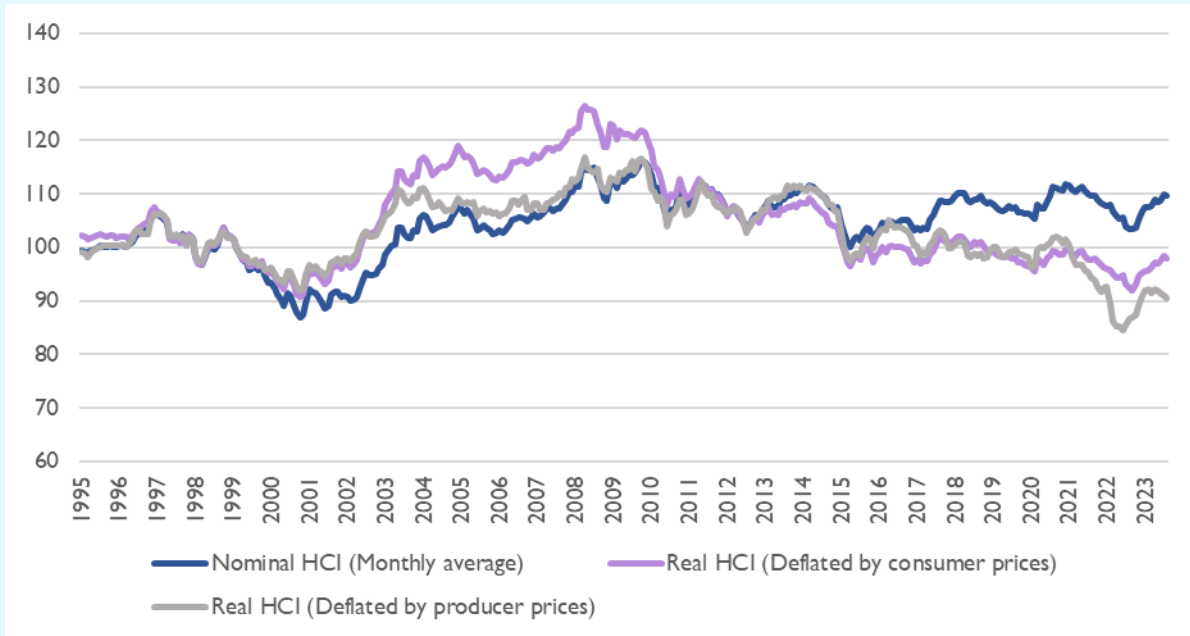
### 3.6 The General Cost Competitiveness of the Irish Economy

The Harmonised Competitiveness Indicators (HCIs) published by the Central Bank of Ireland provide an indication of the cost competitiveness of countries within the Eurozone (ECB, 2024).

Figure 3.11 presents the nominal HCI and real HCI (deflated by consumer prices and producer prices) over the 1995–2023 period, with the base period of Q1 1999 equalling 100. The NCPC (2023: 11) notes that the HCIs for Ireland illustrate that ‘between 2003 and 2008 the Irish economy experienced a substantial loss of cost competitiveness, with Irish prices increasing much faster than prices in other jurisdictions ... since 2008, the Irish economy has experienced substantial improvements in cost competitiveness’.<sup>17</sup>

<sup>17</sup> The HCI based on unit labour costs in the total economy is measured as the ratio of total compensation per employee to labour productivity, with labour productivity measured as GDP at constant prices divided by the total number of persons employed (ECB, 2024).

Figure 3.11: Nominal HCI and Real HCI Deflated by Consumer Prices and Producer Prices (Q1 1999=100)



Source: Central Bank of Ireland data online at [Harmonised Competitiveness Indicators for Ireland](#) [accessed 05/07/24].

The Irish economy remains competitive vis-à-vis its main trading partners, despite being a relatively high-wage economy. However, personnel expense ratios are also relatively high for Irish-owned SMEs in sectors where productivity growth levels remain low. Sensitivity to increases in personnel costs differ considerably across sectors and will inevitably differ across firms within the same sector. Improving the quality of work provides an opportunity to address the issue of low productivity growth in addition to generating other benefits for firms and sectors. Importantly, as discussed in Chapter 2, making improvements in areas such as employee voice and representation, job design, the nature of work, and social supports can improve employee well-being and enhance productivity without imposing substantial or ongoing costs from the perspective of employers (Bosworth & Warhurst, 2021).

## Chapter 4

# Quality Public Services and Better Work

## 4.1 Introduction

The focus of this chapter is on the challenges and potential benefits of making work better for those providing collective public services, particularly people-centred services. It is structured as follows:

- Section 4.2 outlines the challenges of Better Work in public services.
- Section 4.3 considers funding of Better Work and fiscal sustainability.

## 4.2 Quality of Public Services and Better Work: Challenges

The quality of people-centred services and the quality of work for those who are employed in these sectors are intrinsically linked. Investing in making work more attractive is pivotal to addressing the growing problem of staff recruitment and retention in areas such as healthcare, social care, education, childcare and long-term care.

For example, it is widely recognised that a sustainable professional workforce is an essential building block for a well-functioning Early Learning and Care (ELC) sector, and that staffing is the most significant factor in terms of well-being and development outcomes for children in care (European Commission, 2023a; Government of Ireland, 2020). Box 4.1 provides an overview of the challenges within that sector and the ongoing policy work to support improvements in pay and conditions.

This example, which highlights the ongoing challenge of making work better while also seeking to improve affordability, access and quality, reaffirms the need for the continuation of a multi-pronged approach.

Better Work can drive improvements in organisational productivity and performance – however, achieving productivity gains in person-centred services is notoriously difficult.

In the area of long-term care, investment in improving pay and conditions needs to be coupled with efforts to increase productivity and efficiency by enhancing the use of technology, ensuring better utilisation of skills and greater task delegation, investing in prevention, and closer integration of formal with informal care (Llena-Nozal *et al.*, 2022; OECD, 2019a; 2020).

Studies in the United States (Osterman, 2019; Rodrik, 2022) suggest that improving the nature of jobs for healthcare aides requires a rethinking of their roles and the introduction of measures designed to make them both more productive and a more central part of healthcare teams. This would involve:

- investing in the training and upskilling of direct-care workers;
- increasing employee voice, discretion and autonomy; and
- greater task delegation, including affording staff more responsibility for quality-of-service provision.

This would create a working environment where care workers have the scope to use their knowledge to provide more customised and flexible forms of service.

It would also facilitate the introduction of new technologies that complement caregivers' skills. It is argued that these actions can generate productivity improvements that reduce costs, thereby facilitating investment in improving wages and working conditions, and the development of more sustainable career paths (Osterman, 2019).

#### Box 4.1: Public Services and Better Work: An Example

The Early Learning and Care/School Aged Care (ELC/SAC) sector in Ireland has traditionally been characterised by low pay and poor working conditions. The prevalence of low pay and precarious working conditions negatively impacts the material and personal well-being of employees and is a primary driver of recruitment and retention challenges.

These issues are not unique to Ireland: low wages and lack of recognition present recruitment and retention challenges in this sector within most advanced economies (Frontier Economics & DCEDIY, 2020; OECD, 2019a). Since 2010, successive governments have introduced a range of reforms and changes that have contributed to improvements in the quality, accessibility and affordability of ELC/SAC services (European Commission, 2023a). Government has also sought to improve pay and conditions through the establishment of the Early Years' Service Joint Labour Committee; the adoption of a workforce development plan; increased and targeted public funding; an emphasis on the professionalisation of the workforce; extensive stakeholder engagement; and a strong commitment to evidence-informed policy development.

The JLC (Joint Labour Committee) is an innovative development that has demonstrated its capacity to deliver legally binding improvements in pay for employees. The Government's clear stipulation that the provision of the proposed core funding strand was conditional on the parties agreeing an Employment Regulation Order (ERO), to set legally binding minimum pay and conditions, was pivotal in persuading the parties to reach agreement on the first two EROs after quite slow and protracted negotiations (Joint Committee on Tourism, 2022). A new ERO, which will provide hourly pay increases for 33,000 employees (approximately 53 per cent of the workforce), was approved in June 2024 (DETE, 2024b).

The range of actions undertaken by the State has contributed to tangible improvements in the pay and conditions of employees in the ELC sector. At the same time, there is broad agreement among stakeholders that recruitment and retention remain significant problems in the early childhood care and education sectors, which is a major concern given its impact on both service capacity and service quality (Joint Committee on Children, Equality, Disability, Integration and Youth, 2024). A subgroup of the Early Learning and Childcare Stakeholder Forum has been convened to consider the ongoing recruitment and retention issues in the sector and the additional measures that may be required.

It is important to note that overall State investment in the ELC/SAC sector has grown to approximately €1.1bn. However, the Dáil Joint Committee on Children, Equality, Disability, Integration and Youth (2024), has called for additional support, including:

- an improved ERO to address low pay and the provision of additional State funding to help providers meet increased pay; and
- the Government will publish a five-year plan for implementing additional investment in early years and school-aged care, to reach €4bn by early 2029 (approximately 1 per cent of GDP).

### 4.3 Making Work Better and Fiscal Sustainability: A Policy Dilemma?

There is a broader policy dilemma in relation to the rising costs associated with the provision of the type of quality, affordable and accessible collective public services that are necessary for a prosperous, sustainable and inclusive economy and society.

The question arises as to how to fund Better Work for those who provide these services while maintaining fiscal sustainability. This includes services that are directly funded and provided by the State, as well as those that are provided by a third party, such as the private sector or the community and voluntary sector but where the State is the primary funder.

Baumol (2012) described the risks associated with wage increases in lower-productivity sectors in terms of a 'cost disease'. According to Baumol, workers in sectors with low labour productivity tend to demand wage increases when these occur in other sectors where labour productivity is higher. As workers are free to seek new employment where wages and other conditions of employment are more attractive, employers in low-productivity sectors are compelled to pay competitive wages to attract and retain workers. This dynamic results in wage increases within low-productivity sectors despite the absence of productivity improvements, meaning that employers must charge higher prices to consumers to cover their wage expenses and ultimately realise a profit.

In the context of public services, Baumol's theory suggests that wage inflation in labour-intensive welfare service sectors such as health, education and care services may be driven by wage developments in more dynamic and capital-intensive industries within the private sector, resulting in more costly public services.

Baumol's theory can assist in understanding patterns of wage inflation in lower-productivity economic sectors and rising service provision costs in the public sector. However, Baumol's theory has been challenged on the grounds that it fails to take account of the increasing importance of services as intermediate products (Oulton, 2001). Atanda and Reed (2020) have examined whether Baumol's theory of cost disease might explain increases in the cost-of-service provision in the health sector. The results of their study indicate that 'it is not the surplus of wages over productivity that is responsible for increases in health care expenditures in (the) OECD' (Atanda & Reed, 2020: 7).

Hemerijck (2013) maintains that the 'Baumol cost disease' concept does not stand up to the empirical evidence of the competitive success of Nordic, service-intensive welfare states.

*This is because the reasoning behind the Baumol cost-disease largely ignores the important indirect effects of high-quality labour absorbing and employment intensive public services in health and education contributing in decisive ways to productivity growth in the dynamic private sector by providing them with high quality capital input (Hemerijck, 2013:12).*

Further, Hartwig and Kramer (2023) contend that rising levels of expenditure in relation to healthcare, education, public transport and other personal services is indicative of the continued relevance of 'Baumol's Disease'.

This raises a number of complex policy challenges, including how to ensure that less affluent households can continue to access affordable and quality services. The authors also highlight the challenges related to the financing of consistently increasing unit labour costs in publicly funded services. They view disputes about pay increases for workers in sectors such as health, education and transportation in many countries as indicative of the potentially conflictual and distributional nature of this policy challenge. Interestingly, they have the following practical advice for economic policy-makers:

*If society does not want to allow an ever-larger low-wage sector to develop, lawmakers must realise that cost increases in low-productivity services are unavoidable and must be adequately financed by the public sector (Hartwig & Kramer, 2023: 324).*

Hartwig and Kramer state that, rather than trying to combat rising costs in public services through imposing quality restrictions or cost limits, governments should acknowledge this fact and address the inevitable price increases in stagnant sectors in a suitable manner. In other words, there is a need to embrace the 'Baumol effect'.

Embracing the 'Baumol effect' by accepting the rising costs of making work better in people-centred services while maintaining fiscal sustainability will require a mature and robust political and societal dialogue that recognises the full costs of such services, but also the interrelated economic and social benefits.

The authors proposed that fee or tax increases would be a 'suitable' way of addressing rising labour costs but accepted that this is politically very difficult to achieve and indeed may be unpopular. Danny McCoy, Chief Executive Officer of Ibec, has strongly championed the need to increase the size of the public service sector, arguing that this is necessary in order to provide the improved services people need and expect along with the public system of administration that is required by the business community (Malone, 2023). Interestingly, McCoy notes that this will necessitate tax increases and greater levels of government expenditure.

Population ageing also increases the interdependency between care and the world of work due to the increase in the number of 'working' caregivers in the labour market (Ibec, 2024). In highlighting the difficulties that employed primary caregivers face in balancing work and care commitments, Ibec recommends that the Government introduce a fully funded 'Carer's Guarantee' to provide a core basket of services for carers, including access to emergency respite care, training and support.

These policy challenges highlight the need to focus not only on what is required of the State, but also of other stakeholders in society, including social partners. This will involve exploring the policy trade-offs that may be needed to ensure sufficient investment in collective public goods and services. Making work better for those who provide such essential services, and to meet the associated challenges, must be front and centre of this critical and ongoing policy dialogue.

## Chapter 5

# Artificial Intelligence: Benefits and Risks



## 5.1 Introduction

While the Irish economy and labour market are resilient, the broader environment is turbulent and uncertain, in part due to growing concerns about the potential impact of artificial intelligence (AI).

The relentless pace of development in this technology, particularly with regards to generative AI (GenAI), means that it has become a key issue that the policy system and wider society must grapple with.

This chapter considers the potential impact of AI on the labour market while recognising that there is a need for a deeper and broader social dialogue on the potential economic, social, political and environmental issues raised by this transformative technology. It is structured as follows:

- Section 5.2 provides an overview of recent literature on the potential impact of AI on job quantity and quality.

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- Section 5.3 considers the potential impact that AI will have on the Irish economy and labour market.

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- Section 5.4 highlights the key role of public policy in shaping the potential labour market outcomes associated with AI.

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- Section 5.5 considers responses to the challenges and opportunities of AI

## 5.2 AI: Potential Impacts on Job Quantity and Quality

AI is technology that enables computers and machines to simulate human intelligence and problem-solving capabilities. The period from 2011 onwards saw the rise of deep learning applications for use in language processing, image recognition, the production of algorithm-based recommendations, and fraud detection (Albanesi *et al.*, 2023).

More recently, more advanced applications have been developed based on generative AI (GenAI), most notably ChatGPT and DALL-E, which are capable of creating new content, including audio, images, text, simulations and videos. The emergence of AI, and in particular GenAI applications, is different from previous technological developments because:

- It significantly expands the range of tasks that can be automated beyond routine, non-cognitive tasks.

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- AI is a general-purpose technology, meaning that nearly every sector and occupation will be affected, and it is expected to have significant impact on economic output and productivity.

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- Unlike previous technological breakthroughs, it has the potential to affect high-skilled jobs.

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- The speed of its development is unprecedented (Albanesi *et al.*, 2023; OECD, 2023a).

AI clearly has the capacity to reshape the global economy, especially labour markets (Cazzaniga *et al.*, 2024; OECD, 2023a). Its vast and flexible application across multiple domains, allied to the speed of its development, however, ensures that its impact on societies and economies remains contested and uncertain (OECD, 2023a).

As with previous technological revolutions, AI has the potential to both transform and disrupt, creating opportunities and challenges (DoF & DETE, 2024a). On the one hand, it has the potential to boost productivity, innovation and efficiency, raise incomes and solve complex problems (Cazzaniga *et al.*, 2024; Georgieva, 2024), while on the other, AI deployment may result in increased inequality and high levels of labour market displacement. Assessing the impact on employment is also complex given the speed of change, uncertainty over integration into production processes, and changing societal preferences (Cazzaniga *et al.*, 2024).

The current literature, which mostly predates the latest wave of GenAI, suggests little evidence of significant negative employment effects from AI thus far, and that, as with previous technological advancements, the resulting job formation could be greater than job loss over time (Acemoglu & Johnson, 2023; Green, 2023).

The World Economic Forum's *Future of Jobs Report 2023* (WEF, 2023) found that the number of companies expecting AI to be a net creator of jobs is greater than those expecting AI to be a net displacer of jobs. While many jobs may be exposed to AI, relatively few are at risk of disappearing completely (DoF & DETE, 2024a).

The lack of impact on overall employment levels thus far may be because AI adoption is still relatively low, or because firms still prefer to rely on voluntary workforce adjustments (OECD, 2023a). This suggests that some negative employment effects of AI may materialise in the future.

Furthermore, the emergence of GenAI, with its capacity to perform complex tasks, has no historical parallel, which is causing considerable debate about the potential of this technology to drive unprecedented labour market displacement and high levels of structural unemployment.

Cazzaniga *et al.* (2024) suggest that, on average, 60 per cent of employment in advanced economies is highly exposed to AI and that a nuanced landscape is potentially emerging. Although AI poses risks of labour displacement due to task automation, it also has the capacity to enhance productivity and complement human labour, especially in occupations that require a high level of cognitive engagement and advanced skills.

The potential impacts of AI on employment will inevitably vary considerably by occupation and sector. The fact that even high-skilled jobs reliant on complexity and deep expertise now face potential disruption suggests a broader and deeper transformation than in previous technological revolutions. Cazzaniga *et al.* (2024) indicate that women and college-educated individuals are more exposed to AI, but also better poised to reap its benefits. Conversely, older workers are potentially less able to adapt to AI deployment.

To date, AI has had a bigger impact on job quality than job quantity (Green *et al.*, 2023). Some of the key impacts of AI on job quality are outlined as follows:

- AI can automate tedious and repetitive tasks, and create time for work that is more rewarding, team-based and creative.

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- It can improve occupational and workplace safety.

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- It is associated with increased job satisfaction and engagement.

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- AI automation can create a more intensive, high-pressure work environment.

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- There is evidence of intensive monitoring and management using AI posing risks to workers' privacy and autonomy.

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- AI can introduce or perpetuate biases in the workplace.

The development and adoption of AI will likely have a profound impact on how work is organised and on the type of tasks workers perform, and therefore on the skills that will be needed (Lassebie, 2023). AI's increasing capacity to replicate skills, particularly cognitive skills, will modify the task and skill composition of jobs and the distribution of occupations in the economy. At the same time, it is also increasing demand for other skills such as prompt engineering, AI systems management, and complementary skills such as social and management skills.

### 5.3 AI and the Irish Labour Market

The Department of Finance and the Department of Enterprise, Trade and Employment have recently published a series of reports examining the potential impact of AI on the Irish economy and labour market (DoF & DETE, 2024a; 2024b; 2024c).

Utilising methodologies developed by Felten *et al.* (2021) and Pizzinelli *et al.* (2023), this new research seeks to estimate Irish occupations' relative exposure to AI and to determine whether AI is likely to have a complementary (positive) or substitution (negative) effect on employment levels in those occupations. Certain tasks within people's occupations may be done entirely using AI, while others may benefit from AI assistance, thereby enhancing productivity and augmenting human capabilities (DoF & DETE, 2024a). Occupations that have both relatively high exposure and high complementarity to AI have the most potential to gain from AI applications, while occupations that have relatively high exposure but low complementarity can be viewed as being most at risk of technological displacement.

Complementarity can only be leveraged, however, if workers develop the skills required to take advantage of AI as a supporting technology. It should be noted that the measures of exposure and complementarity are both relative measures, describing which occupations are comparatively more exposed or complementary than others. Furthermore, the measure of exposure focuses on 10 specific AI applications (narrow AI) and as such does not capture the potential impact of recent advancements such as GenAI, document summarisation and large, language model-based applications. With these caveats in mind, the analysis assesses each occupation included in the 2022 Census, assigning them to one of four categories:

- High Exposure, High Complementarity;

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- High Exposure, Low Complementarity;

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- Low Exposure, High Complementarity; and

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- Low Exposure, Low Complementarity.

The key labour market findings from the DoF and DETE analysis are outlined below:

- Ireland's labour market is marginally more exposed to AI, at 63 per cent compared with 60 per cent for advanced economies, although Ireland also has a higher-than-average share of persons working in highly complementary roles.

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- Of these high-exposure occupations, 33 per cent of employment is in occupations where AI is likely to complement labour and 30 per cent of employment is in occupations where there is a risk that AI could substitute for labour.

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- This study suggests that females are far more likely to work in highly exposed roles than males (76 per cent vs 51 per cent), including in roles considered to be most at risk of disruption (38 per cent vs 23 per cent). These trends are a result of higher levels of female employment in highly exposed occupations, such as customer service and administration.

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- Highly skilled occupational groups such as 'Managers, Directors and Senior Officials' and 'Professional Occupations' are highly exposed to AI, but also typically benefit from high levels of complementarity.

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- At the sectoral level, persons working in the 'Financial and Insurance' and 'Information and Communication' sectors are most exposed to AI. The 'Agriculture, Forestry and Fishing' sector is the least exposed.

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- From a regional perspective, persons working in urban areas are relatively more exposed to AI than people in rural areas.

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- Younger workers appear to be slightly more exposed to AI compared with older workers, with greater shares working in both ‘at risk’ and ‘high gain’ roles, while older workers are less likely to engage in lifelong learning and are typically less proficient at using digital technologies.
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- Preliminary analysis also indicates that there is a positive correlation between AI exposure and earnings, suggesting that higher earners stand to benefit most from increased AI adoption. A similar correlation is observed for educational attainment.

It should be noted that, if an occupation falls into the high exposure and low complementarity classification, it does not necessarily mean that a job will be substituted or transformed; rather it is an indication of risk based on current understanding of AI’s application in the labour market.

Eurostat’s ICT Usage survey shows that, as of 2023, fewer firms report a low/very low digital intensity in Ireland compared with the EU-27. However, there is a sizeable gap between Irish small and medium-sized enterprises (SMEs) and larger firms, with almost 70 per cent of SMEs reporting a low/very low digital intensity, compared with 25 per cent of large firms. Eurostat data in relation to two categories of AI technology indicates a greater share of Irish firms reporting using these technologies than in the EU-27, regardless of firm size.<sup>18</sup> There is, however, a significant gap in usage between SMEs and large firms in Ireland across these two AI categories. This divergence in adoption could have a potentially important impact on productivity patterns across the economy.

*If heterogeneous patterns of enterprise digitalisation persist, and hold also for the adoption of AI technology, this could exacerbate the productivity gap between large and small firms, between foreign-owned and domestic-owned firms, and between certain sectors (DoF & DETE, 2024c: 11).*

The deployment of AI is also changing the demand for skills within the labour market. Analysis by the Expert Group on Future Skills Needs (EGFSN, 2022) of the skills that will be needed for the deployment, management and regulation of AI indicates that AI skills will be required by a broad range of people and not just AI experts and specialists. LinkedIn predicts that skills in Ireland will change by 54 per cent by 2030, with GenAI expected to accelerate this change to 73 per cent (IDA Ireland, 2024). As GenAI tools are adopted by industry, the skillsets required will continue to change, moving from routine tasks to more complex and creative, unique work.

While the Department of Finance and Department of Enterprise, Trade and Employment’s study provides some initial and important insights into the potential impact of AI, it also recognises that the extent to which this transformative technology augments or replaces human labour in the medium to long term will depend on a combination of economic, social and policy factors. Consequently, the study concludes that the future impact of AI on the Irish labour market and broader economy is uncertain and will require ongoing research in order to anticipate the potential effects.

## 5.4 Policy Response

### 5.4.1 The Role of Public Policy

The pace at which AI is being integrated into businesses, and the fact that it can develop in potentially different directions, underscores the role not only of technology but also of politics and society in actively and collectively determining its future (Bhatt, 2023). Crucially, it is argued that the macroeconomic impact of AI in Ireland will depend not only on technological developments and the pace of adoption but also on the policy environment (DoF & DETE, 2024c).

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<sup>18</sup> The two categories of AI technology usage that were monitored are Category A, which refers to the analysis of big data using machine learning, natural language processing, natural language generation, or speech recognition, as well as the use of service robots, chat bots or virtual agents, and Category B, which refers to the use of AI to analyse written language (text mining), convert spoken language into machine-readable format (speech recognition), generate written or spoken language (natural language generation), identify objects or persons based on images (image recognition, image processing), automate different workflows, assist in decision-making, or enable physical movement of machines via autonomous decisions based on observation of surroundings (autonomous robots or drones, self-driving vehicles). (See DoF & DETE, 2024c.)

The whole-of-government National AI Strategy (Government of Ireland, 2021), whose overall goal is to drive the adoption of trustworthy, person-centred AI for our collective good, is currently being updated, while the forthcoming European Union (EU) Artificial Intelligence Act aims to protect fundamental rights while promoting responsible innovation. The Government has also established an Artificial Intelligence Advisory Council to provide independent expert advice to Government on AI policy (DETE, 2024a).

Cazzaniga *et al.* (2024) highlight the need for a proactive approach geared towards maintaining social cohesion, given the potential for disruption in the labour market. The Organisation for Economic Co-operation and Development (OECD, 2023a) asserts that the potential risk of AI in the workplace coupled with the rapid pace of development and deployment highlights the need for decisive action to develop policies that can both harness the benefits of AI while also mitigating the risks for employees' rights and well-being.

Similarly, it is stated that the policy challenge for Ireland is one of maximising the opportunities while minimising the challenges (McCarthy, 2024). Indeed, while there is considerable uncertainty surrounding the development path of AI technology, and the macroeconomic impact that this technology will have, greater certainty is suggested regarding the role of public policy in determining more positive outcomes (DoF & DETE, 2024c). It is suggested, for example, that public policy and regulation can influence the balance of investment between labour-augmenting and labour-replacing AI technology (DoF & DETE, 2024a). In this context, the literature highlights a key role for skills development; social dialogue and collective bargaining; employee voice; and research and knowledge development (OECD, 2023a).

#### 5.4.2 Upskilling and Reskilling the Workforce

AI is already changing the demand for skills in the labour market and this trend is likely to intensify as the technology becomes more widely deployed. IDA Ireland has identified upskilling and reskilling the current and future workforce as being vital to harnessing the opportunities presented by GenAI and to maintaining Ireland's competitiveness in an era of rapid technological change (IDA Ireland, 2024). The Department of Finance and Department of Enterprise, Trade and Employment (DoF & DETE, 2024b) stipulate that taking full advantage of the labour-augmenting benefits of AI technology will require access to AI-relevant skillsets, and that education, tailored training and life-learning systems must be equipped to supply the relevant AI-related skills.

While companies using AI say that they provide training for AI, lack of skills remains a major barrier to adoption (OECD, 2023a). Public policies will, therefore, have an important role to play, in terms of incentivising employer training and encouraging employee participation. Furthermore, given both their lower levels of engagement in lifelong learning and the fact that they may already be facing a 'digital divide', older workers may need to be specifically targeted by upskilling and reskilling interventions to ensure they are not left behind (DoF & DETE, 2024b). AI itself may present opportunities to improve the capacity to provide tailored, targeted and flexible training at scale. This could be particularly important for SMEs, which are often time-poor in relation to participating in training. The use of AI in training could exacerbate inequalities and perpetuate human biases and these challenges must be addressed.

#### 5.4.3 Collective Bargaining, Social Dialogue and Employee Voice

The OECD (2023a) identifies collective bargaining and social dialogue as having an important role to play in supporting workers and businesses in the AI transition. Previous OECD evidence has shown that when social partners work co-operatively, social dialogue can support and usefully complement public policies in easing technological transitions; for instance, by identifying pragmatic solutions to labour market challenges at the firm level and by anticipating skills needs.

OECD research suggests that AI adoption tends to result in better outcomes for workers when their representatives are consulted on the matter. Recognising that AI can lead to increased productivity, but not shared prosperity, Acemolgu and Johnson (2023) contend that employee voice can direct AI away from an overt focus on pure automation towards a human, complementary path that creates higher-quality tasks. The rapid speed of diffusion allied to the capacity of this technology to learn, however, is potentially changing power dynamics and putting pressure on established mechanisms for collective bargaining, dialogue and voice.

#### 5.4.4 Research and Data

The rapid pace of change combined with the degree of uncertainty over AI's impact highlights the need for further research into understanding the dynamic relationship between AI-enabled technology and the labour market (Cazzaniga *et al.*, 2024). The OECD indicates the need to gather new and better data on AI uptake and use in the workplace, including which jobs will change, be created or disappear, and how skills needs are shifting (OECD, 2023a). It recognises, however, that it is extremely difficult for research to keep up to date with the pace of change being generated by this technology.

The recent analysis by the Department of Finance and the Department of Enterprise, Trade and Employment is viewed as being the start of a process and that ongoing research is required to deepen our understanding of this technology and to mobilise better evidence to inform future policy direction, especially given the exponential pace of development (DoF & DETE, 2024b; McCarthy, 2024).

As investment in AI technology grows, it will be necessary to ensure that the right data is collected so as to provide robust and timely insights into trends by firm size and sector; the obstacles to AI adoption faced by firms and the implications of the technology for firm-level productivity; work patterns; and the nature of work (DoF & DETE, 2024b). Effective monitoring of technology-related change is also important in addressing the issues of inclusiveness and social cohesion (OECD, 2023a).

It is also worth noting that the Department of Finance and Department of Enterprise, Trade and Employment's research has indicated that, in addition to the potential impact on job quantity, labour productivity, and education and training, this transformative technology also raises other important policy dimensions, including:

- its potential impact on socioeconomic, regional and/or demographic inequality;

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- the need to ensure that the social safety nets are fit for purpose;

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- that public finances are in a position to absorb any structural changes; and

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- the need for international co-operation in order to avoid a 'race to the bottom'.

### 5.5 Responding to the Challenges and Opportunities of AI

AI has the potential to transform the labour market and the world of work but the jury is out as to whether its impact on job quantity and quality will prove to be a net positive or net negative development (Albanesi *et al.*, 2023).

This discussion has highlighted that public policy has a key role to play in shaping the labour market outcomes associated with AI and that governments should seek to design policies that harness the economic benefits of this technology, while also protecting or enhancing employees' rights and experiences. These objectives are consistent with the Better Work agenda, given its emphasis on an approach to work that benefits employers, employees, and the wider economy and society. This suggests that, despite the rapid pace of change, there is potential for the State to capture the benefits of this transformative technology by responding in an agile and timely manner to the challenges and opportunities it poses.

The type of policy actions that have been proposed to address the potential labour market implications of AI include the provision of tailored training for all workers; an emphasis on collective bargaining, social dialogue and employee voice; and further research using robust data on the impacts of this technology. The Better Work agenda can play a key role in responding to the challenges and opportunities associated with AI's impact on the labour market.

## Chapter 6

# A National Better Work Strategy

## 6.1 Introduction

This report has highlighted how a focus on Better Work can serve to support economic resilience and social cohesion, and this chapter outlines a national strategy to support the Better Work agenda in Ireland.

Some of the potential benefits associated with Better Work are external to the firm, while the costs are internalised. Consequently, in some instances the social value of Better Work may be higher than its value at the level of the firm and may require targeted State intervention to be realised.

In addition, the potential economic, social and political costs associated with low-quality work are not necessarily considered when firms make their managerial and investment decisions, unless otherwise prompted to do so by the State (Rodrik & Stantcheva, 2021a; 2021b).

Rodrik and Stantcheva argue that this widens the scope for public interventions to create the enabling conditions to support and complement private sector initiatives. It also indicates the need for State action encouraging employment, investment and innovation decisions that enhance employee well-being and contribute to improvements in firm-level performance and productivity.

Achieving these complementary benefits requires the distinct policy tracks of social policy, productivity and competitiveness to overlap. This deepening interrelationship creates a context in which employment policies look more like innovation and industrial policies, and industrial and innovation policies look more like labour market policies. It also recognises that public initiatives and supports are of critical importance for many small and medium-sized enterprises (SMEs) with limited resources to invest in employee-centred policies.

The Council, in this chapter, outlines the core components of a national strategy that can position Better Work as a driver of economic prosperity, as well as social and individual well-being. It argues for integrated action across the following key policy areas:

- Social Dialogue and Voice;

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- Employee Rights;

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- Sectoral Approach;

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- Investing in Skills;

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- Knowledge Development and Advocacy; and

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- Institutional and Policy Support.

## 6.2 Social Dialogue and Voice

This includes three areas of policy action.

### 6.2.1 Social Dialogue

International evidence indicates that State action to improve work needs to be underpinned by a strong commitment to effective and robust social dialogue at the national, sectoral and enterprise levels (Eurofound, 2019).

Collaboration between governments and social partners serves to improve co-ordination between government agencies, relevant experts and frontline actors in promoting better-quality working environments (Saint-Martin *et al.*, 2018).



The forging of a more robust societal consensus has the potential to support more effective policy implementation. Social dialogue as a key enabler of many of the other policy actions in this proposed strategy can function as the engine of the process.

This highlights the importance of affording social partners a central role in the co-design and co-delivery of a national strategy for Better Work.

## 6.2.2 Collective Bargaining

Collective bargaining and employee voice are essential elements of quality work. In this context, the transposition of the Adequate Minimum Wage Directive (AMWD) (see Box 6.1) and the implementation of the Labour Employer Economic Forum (LEEF) High-Level Working Group's policy recommendations provide an opportunity to support making work better by enhancing collective bargaining and employee voice.

The potential implications of the AMWD was one of the main reasons for the Government's decision in 2021 to establish the High-Level Working Group under the auspices of the LEEF, in order to review collective bargaining and the industrial relations landscape (DETE, 2021).

The Group's final report focused on four key principles: 'good faith' engagement; reform of Joint Labour Committees (JLCs); the use of technical assessors in cases taken under the 2001–2015 Industrial Relations Acts,<sup>19</sup> and an education and training initiative for local-level enterprise bargaining (LEEF High-Level Working Group on Collective Bargaining, 2022).

The Group stipulated that the full implementation of their recommendations will improve both the functioning of collective bargaining and the industrial relations landscape in Ireland, as well as ensuring that Ireland is well placed to fulfil upcoming European Union (EU) legal obligations in the context of a genuine tripartite approach that respects the autonomy of the social partners.

The Group noted that, as any AMWD action plan to promote collective bargaining would need to support sectoral-level collective bargaining, Ireland is ideally positioned to meet these provisions as it has *in situ* a key legislative mechanism for supporting sectoral collective bargaining, namely JLCs. In recent years, a combination of legal challenges, legislative 'fixes' to various judicial rulings, the operation of a *de facto* veto on their functioning in certain sectors, and increased divisions among employers has served to weaken the effectiveness of JLCs in setting minimum employment standards (Doherty, 2016; Eustace, 2021; Labour Court, 2018). Although there are currently nine JLCs in existence, only three are functioning: the Security Industry, Contract Cleaning, and Early Years' Services. Significantly, the Group suggests that reformed and effective JLCs can make an important contribution to sustainable economic development premised on quality employment.

*The Group considers that properly functioning JLCs can be an effective, evolving, and flexible system of sectoral regulation, that can contribute to the progressive development of different sectors of the economy, support more sustainable and inclusive high-quality employment, and also help address other employment challenges (LEEF High-Level Working Group on Collective Bargaining, 2022: 7).*

<sup>19</sup> The provision of technical experts to assist the Labour Court in independently assessing and verifying economic and comparator data for the parties was viewed as a practical way of addressing some of the challenges encountered by parties referring disputes to, or defending disputes at, the Labour Court under Part 3 of the Industrial Relations (Amendment) Act 2015.

### Box 6.1: The Adequate Minimum Wage Directive

The Adequate Minimum Wage Directive (AMWD), which is due to be transposed into Irish law by November 2024, aims to improve living and working conditions in the EU by establishing a regulatory framework for:

- achieving adequate statutory minimum wages with the aim of achieving decent living conditions;
- promoting collective bargaining on wage setting; and
- enhancing the effectiveness of workers' rights to minimum wage protection where provided for in national law and/or collective agreements (European Union, 2022).

The focus on promoting collective bargaining on wage setting reflects the key institutional role that collective bargaining plays in ensuring adequate minimum wage protection for workers.

The countries with high collective bargaining coverage tend to display a lower share of low-wage workers, higher minimum wages relative to the median wage, lower wage inequality and higher wages than the others (European Commission, 2020: 3).

The AMWD seeks to give effect to this institutional relationship through a series of provisions that are designed to strengthen national systems of collective bargaining and increase collective bargaining coverage. It is designed to improve living and working conditions and the European Commission has argued that it has the potential to reduce wage inequality and in-work poverty, stimulate productivity, sustain domestic demand, reduce the gender pay gap and protect employers who pay decent wages (European Commission, 2020). Furthermore, the adoption of this Directive is viewed as supporting a model of competition in the Single Market that is premised on high social standards, innovation and productivity improvements, rather than a 'race to the bottom' on pay and conditions.

The recommendations of the High-Level Working Group are currently being considered by a subgroup of LEEF, which was established to explore mechanisms to encourage greater collective bargaining coverage.<sup>20</sup> Importantly, the Government has also indicated the value of efficient collective bargaining.

*An efficient collective bargaining system is not just in the interest of the workers but also in the interest of the employers, and, most importantly, the interest of the economy and society as a whole (Neale Richmond TD, Minister of State at DETE, 2023).*

As discussions at a recent Dáil Committee demonstrate, there are differences of opinion between the Irish Congress of Trade Unions (ICTU) and Ibec regarding the need for legislation to effectively transpose the AMWD. The General Secretary of ICTU has suggested that stronger, sectoral, collective bargaining provides an opportunity to address some of the concerns of employers regarding productivity and that 'productivity is important for everyone. It is not just a concern for the employers. It is a concern for workers too.'<sup>21</sup>

<sup>20</sup> This subgroup is chaired by Minister of State Neale Richmond TD. See <https://www.oireachtas.ie/en/debates/question/2023-02-23/90/> [accessed 08/07/24].

<sup>21</sup> See: [https://data.oireachtas.ie/ie/oireachtas/debateRecord/joint\\_committee\\_on\\_enterprise\\_trade\\_and\\_employment/2024-01-24/debate/mul@/main.pdf](https://data.oireachtas.ie/ie/oireachtas/debateRecord/joint_committee_on_enterprise_trade_and_employment/2024-01-24/debate/mul@/main.pdf) [accessed 05/07/24].

Without underestimating the complexities associated with the transposition of the AMWD and the implementation the LEEF subgroup’s deliberations, the Council believes that they provide an opportunity to reframe collective bargaining and voice around a concerted focus on productivity, economic resilience and Better Work.

### 6.2.3 Employee Engagement

Another critical element is employee engagement. While somewhat dated now, research by Forfás (2009), which emphasised that employee involvement and engagement are the key building blocks of a more productive workforce, remains relevant. The findings suggested that the adoption of innovative, employee-centred, human resources management practices and policies could assist companies in making real gains in productivity and performance.

Fáilte Ireland’s structured programme for building employer capacity in relation to employee engagement – the Fáilte Ireland Employer Excellence Programme – has been the catalyst for experience-based innovation that has delivered tangible benefits for employees, companies and customers, including:

- the co-design of ‘tailored’ rosters to support better work–life balance;

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- enhanced employee voice;

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- improved staff motivation and participation;

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- better communication;

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- better identification of training needs and career pathways;

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- the adoption of well-being initiatives;

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- improvements in products and services;

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- more supportive management–staff relationships;

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- staff feeling more appreciated and valued; and

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- improved business performance.

Approximately 248 businesses, comprising approximately 27,500 employees, have engaged with the Fáilte Ireland Employer Excellence Programme, with 2,500 managers undertaking the Fundamentals of People and Performance Management training.

As part of the next phase of the Programme, Fáilte Ireland will specifically target smaller tourist businesses that may have limited human resources capacity. Although the Programme has demonstrated its capacity to improve employee engagement, trade unions have been critical of the lack of focus on collective voice and the absence of any meaningful engagement with employee representatives. In 2022, the Joint Committee on Tourism, Culture, Arts, Sport and Media recommended that Fáilte Ireland further enhance its employer development and Employer Excellence programmes in order to encourage employers to grant uninhibited access to trade unions.

This suggests there is merit in supporting the development of a series of tailored sectoral programmes designed to foster and deepen the quality of employee engagement.

## 6.3 Employee Rights and Benefits

The Government has introduced, or is progressing, a range of labour market reforms that will strengthen employee rights and bring Ireland into line with practice in comparator economies within the EU (NCPC, 2022).

While these reforms do place additional costs on businesses, impacting some firms and sectors more than others, the Council believes that embedding them within a broader Better Work strategy provides an opportunity to address or mitigate some of the perceived costs and challenges facing firms. This would also more fully realise the potential of these reforms to contribute to improvements in employee well-being and firm-level productivity.

## 6.4 Adopting a Sectoral Approach to Better Work

The Council argues that by facilitating extensive engagement with frontline actors, sectoral initiatives can generate insightful data and highlight the sector-specific issues and challenges of Better Work.

Collaborative problem-solving at the sectoral level has the potential to result in more customised and tailored policy interventions (Fair Work Commission, 2019; Rodrik & Sabel, 2019).

Sectoral forums have been an integral part of the approach to supporting 'Fair Work' in Scotland and Wales, with multi-stakeholder forums established in social care, retail, hospitality and construction. In the case of initiatives such as the Retail Forum in Wales, the primary focus of the group's work is not Fair Work per se, but rather on how to create a more sustainable and resilient retail sector (Welsh Government, 2023a; 2023b). This ensures that Fair Work is not only an outcome but also an enabler of progressive change in a sector.

The Council reiterates that the benefits of a stronger sectoral approach to Better Work is not limited to low-pay, low-productivity sectors. A stronger focus on increasing the incidence of Better Work across a broader range of sectors could serve to maximise the economic efficiency and economy-wide diffusion of existing policy measures designed to enhance productivity, including increased investment in innovation, digitalisation, skills development and managerial capacity.

The adoption of a strong sectoral focus should be a critical part of any proposed strategy for Better Work. Sectoral initiatives facilitate the positioning of Better Work within the broader context of supporting the development of more resilient and productive sectors in the labour market.

It is proposed, therefore, that the Government and social partners should establish a series of sectoral taskforces focused on building more productive and resilient sectors with the capacity to support Better Work. This should include, but not be limited to, sectors that are traditionally characterised by lower-quality jobs and lower levels of productivity and innovation.

## 6.5 Investing in Skills

Skills are a mechanism for ensuring that individuals can access a good job. At the same time, the skills requirement of a job is also an indicator of its relative job quality.

There is need for a concerted focus on ensuring that those both inside and outside the labour market have the appropriate set of skills needed to meet the changing demands generated by globalisation, demographic change, and the green and digital transitions (Zwysen, 2023).

A recent Organisation for Economic Co-operation and Development (OECD) assessment of Ireland's national skills strategy highlighted the fact that skills development has been a consistent public policy priority (OECD, 2023b). The OECD's generally positive assessment indicates that Ireland has achieved relatively strong outcomes, including:

- a high level of skills performance for young people;

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- a high tertiary attainment among young adults; and

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- a better-than-EU average in terms of digital skills.

However, this review also expressed concerns that many adults do not have the skills to succeed in the future and highlighted the need to increase participation in lifelong learning. In 2021, 14 per cent of adults participated in formal and non-formal education and training. Although higher than the EU average (10.8 per cent), it is well behind the top performers such as Finland (31 per cent) and Sweden (35 per cent). The OECD report identifies four priority areas of action to improve the national skills strategy:

- Priority 1: Securing a balance in skills through a responsive and diversified supply of skills;

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- Priority 2: Fostering greater participation in lifelong learning in and outside the workplace;

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- Priority 3: Leveraging skills to drive innovation and strengthen firm enterprises; and

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- Priority 4: Strengthening skills governance to build a joined-up skills ecosystem.

In the context of the Better Work agenda, Priority 3 is especially relevant given its focus on improving policies and practices at the workplace level rather than on the supply side. Under this priority, the OECD suggests that there is an opportunity to incentivise and enable enterprises to make better use of the skills of their workers through innovative workplace solutions.

The Council endorses the OECD's recommendation that Ireland reinvigorate its strategic focus on workplace innovation as a key vehicle for improving the productivity and performance of firms.

It also recognises that strong leadership and management capabilities are key to optimising the use of skills in workplaces to drive innovation, productivity, and firm performance. Previous studies have highlighted the necessity for improving management capability in Ireland, particularly among SMEs, in order to increase productivity. The White Paper on Enterprise 2022-2030 has highlighted the need for investment in building leadership and management capabilities.

Despite previous initiatives and a well-developed landscape of management training, the OECD review suggests there is an unmet need for management development. Addressing this gap will require a suite of actions to support managerial capacity-building, including scaling up existing programmes; expanding more flexible, customised and subsidised training; and strengthening the incentives for participation in management development. Building managerial capability is also supportive of the Better Work agenda as it facilitates the development of workplace practices and culture that can enhance productivity and employee well-being.

It is particularly important that any renewed focus on management development recognises the importance of 'soft skills' that can strengthen employee engagement, improve management–employee relations and create more supportive and inclusive working environments.

## 6.6 Knowledge Development and Advocacy

This area includes two actions.

### 6.6.1 Research Programme

Supporting Better Work across all sectors of the economy is a complex and ambitious policy objective, which would benefit from a comprehensively co-ordinated programme of research designed to deepen our knowledge and understanding of Better Work and the challenges and opportunities posed by the changing nature of employment.

The Council believes that we need ‘more work about work’. Placing an emphasis on harnessing the insights, knowledge and experience of employees, and identifying the key challenges in a sector, ensures having a strong research component to the proposed sectoral taskforces. Furthermore, there are practical examples already in place that highlight the value of quality research in driving a Better Work agenda (see Box 6.2).

#### **Box 6.2: ‘Work about Work’**

Fáilte Ireland’s ongoing research on employees’ and employers’ attitudes and experiences has provided robust evidence on recruitment and retention challenges and skills shortages in the tourism sector. The initial survey and subsequent engagement with employers informed the development of Fáilte Ireland’s multifaceted Tourism Careers Strategy. Bord Fáilte continues to monitor progress in relation to pay, conditions and employees’ experiences in the sector.

The Department of Children, Equality, Disability, Integration and Youth’s participation in the OECD Starting Strong Teaching and Learning International Survey, as well as the CSO’s research on graduate outcomes, highlights their commitment to evidence-informed policy development, as both of these research initiatives will directly inform their review of the workforce development plan and support ongoing actions designed to support Better Work in the Early Learning and Care (ELC) sector.

The Low Pay Commission has commissioned a major research project on homecare workers that will make policy proposals to address recruitment and retention challenges in the sector.

The Department of Finance and Department of Enterprise, Trade and Employment have published a series of reports examining the potential impact of artificial intelligence (AI) on the Irish economy and labour market.

The Department of Finance and ESRI (Economic and Social Research Institute) are undertaking a research project examining the incidence of green and brown occupations, the characteristics of these workers, and the task and competency content of such jobs.

Within the academic and policy literature there is a strong emphasis on having an agreed framework in place for measuring and monitoring job quality (Carnegie UK Trust & RSA, 2018; Eurofound, 2016; 2022; Fair Work Convention, 2020; Geary & Wilson, 2023; Leschke *et al.*, 2008; Ormston *et al.*, 2018).

A key theme across a number of these studies is that, given the gaps in existing national data sources, investment is needed in the national data architecture in order to improve the capacity to monitor progress in the specific areas of job quality and Fair Work (Carnegie UK Trust & RSA, 2018; Fair Work Commission, 2019; Fair Work Convention, 2020; Irvine, 2018).

In this context, the Council highlights the example of the 2021 UCD Working in Ireland Survey (WIIS) (UCD Michael Smurfit Graduate Business School, undated). Rather than relying on existing data sources, this was a bespoke, comprehensive survey that was designed to identify and understand employees' experiences and perceptions of work during the COVID-19 pandemic, from a job-quality and employee well-being perspective (Geary & Wilson, 2023).

This study has provided a rich and robust source of data on employees' experience of work during the COVID-19 crisis and has generated a number of thematic research outputs, including a major report on job quality (Geary & Wilson, 2023). Geary and Wilson indicate that a vital part of any strategy for improving job quality is recognising the varying ways in which the good, bad and mediocre facets of a job combine within occupations or across certain sectors, so that targeted interventions can be pursued.

In terms of comparative practice, the Scottish Fair Work Convention's research and analysis underpin its advocacy and promotion of Fair Work to the Government. The Scottish Government has also stipulated that the effective delivery of its Fair Work Action Plan requires drawing on a wide range of evidence to ensure that the measures undertaken are responsive to ongoing changes in the economy and labour market (Scottish Government, 2022b).

Policy action to support Better Work should incorporate a comprehensive and co-ordinated programme of research designed to generate robust and timely evidence, using data drawn from multiple sources. As part of this, consideration should be given to supporting a national survey on Better Work/job quality, which could potentially be undertaken on an all-island basis.

This proposed programme would serve to inform and enhance the design, implementation and monitoring of policies to support Better Work, including the revision and redesign of such actions based on new learnings and evidence.

## 6.6.2 Advocacy and Knowledge Transfer

It has been argued that a lack of basic knowledge about what constitutes a quality working environment, as well as insufficient understanding of the net benefits of action and the costs of inaction, are key implementation barriers (Saint-Martin *et al.*, 2018). This is most notably the case for start-ups and small organisations that often cannot afford to have a dedicated human resources function. There are also concerns about the potential upfront costs to businesses of investing in Better Work.

This emphasises the need for public agencies and social partners to work collaboratively to advocate for Better Work, raise awareness of the positive outcomes of investing in it, and facilitate knowledge transfer in relation to how to make it happen in practice.

## 6.7 Institutional and Policy Support

It is important to consider the appropriate policy and institutional arrangements that would drive the design, implementation and monitoring of an ambitious national strategy for Better Work.

The devolved Scottish and Welsh administrations have established dedicated policy units, as well as an independent Fair Work Convention in the case of Scotland (Fair Work Convention, undated), to progress their respective Fair Work agendas. These developments provide strong policy, institutional and political support for Fair Work in both jurisdictions.

The experience of other jurisdictions suggests the need to examine how existing policy and social dialogue institutional arrangements can best provide sustained support for the design, delivery and monitoring of a national strategy for Better Work.

Better Work and improving the quality of public services are interrelated. The relationship is indicative of a broader policy dilemma, noted in Chapter 4, in relation to balancing the expected rising costs associated with the provision of good-quality, affordable and accessible public services while maintaining fiscal sustainability.

Resolving this challenge requires mature, ongoing and open conversations in the relevant sectors that acknowledge both the potential impact of rising public expenditure on fiscal stability and the full economic and social benefits of increased investment in collective public services and goods.

The Labour Market Advisory Council's mid-term review of Pathways to Work 2021-2025 (LMAC, 2023) indicates that, despite our remarkably strong labour market performance, there is scope for further growth in Ireland's employment rate. Certain groups face particular barriers and challenges in accessing employment opportunities and require tailored supports to compete in the jobs market. Eurofound (2023) recognises that activating underutilised labour and increasing the attractiveness of certain occupations and sectors should be part of any integrated strategy for addressing labour market shortages across the EU.

The Labour Market Advisory Council (2023) recommended that greater attention needs to be paid over the remaining lifespan of the Pathways strategy to the quality, as well as quantity, of jobs. Assisting individuals transition into quality employment is central to alleviating poverty, reducing inequality, and improving lives, while also delivering broader social and economic benefits. It also reaffirms that job quality is determined by a broad range of factors, including wages, career prospects, employment duration, and upskilling and reskilling opportunities.

The Labour Market Advisory Council's *Mid-Term Review* (LMAC, 2023) highlights the need to devote more resources and tailored interventions to help marginalised groups overcome the barriers preventing them from accessing employment. It also stipulates the need for partnership between employers, trade unions, advocacy groups, non-governmental organisations, the Public Employment Services and the Further Education and Training sector in ensuring greater and higher-quality employment opportunities for disadvantaged people. It is suggested that the proposed national strategy for Better Work would support this greater focus on quality work and complement the Pathways to Work Strategy by:

- maximising the benefits of targeting underutilised groups with wraparound supports designed to overcome barriers to labour market participation;

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- moving more jobs in the right direction along the job-quality spectrum, which includes jobs taken by those who are entering or re-entering the labour market;

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- collecting reliable and up-to-date data on the key dimensions associated with Better Work in order to inform labour market activation policy;

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- linking active labour market policies to the proposed suite of sectoral initiatives or taskforces, facilitating these sectors in accessing underutilised pools of labour while providing Better Work opportunities for those seeking to access work; and

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- facilitating engagement with employers in the context of activation policies as an opportunity to have an open conversation about making work better.<sup>22</sup>

It will be critical that the various actions and measures to support Better Work incorporate the needs and interests of migrant workers, who account for approximately 20 per cent of employees in Ireland. At one level, the general drive to make work better across all sectors and for all employees provides an opportunity to improve the material and personal well-being of migrant workers. Policy measures in areas such as collective bargaining and voice, employee engagement and investment in skills need to be designed in an inclusive manner. Similarly, any revamped managerial development programme should incorporate a focus on building capacity for managing diverse, multicultural workforces.

The Scottish Government's revised Fair Work Action Plan (2022b) includes both the new *Anti-Racist Employment Strategy – A Fairer Scotland for All* (2022a), which aimed to address the issues and labour market disadvantages experienced by people from racialised minorities, and its pre-existing Gender Pay Gap and Disabled People's Employment action plans. The expansion of the Fair Work Action Plan to incorporate these various labour market

<sup>22</sup> The Social Partnership, Employability and Fair Work Directorate in Wales, for example, has sought to build advocacy and awareness-raising of Fair Work into their employability programmes. This is particularly important because many of the employers who are involved in such programmes are from sectors in which Fair Work characteristics are less prevalent.



inclusion strategies reflects the Scottish Government's view that a holistic approach to addressing inequality has the potential to ensure that as many people as possible benefit from actions introduced to progress Fair Work. This suggests that there may be merit in further exploring how a Better Work focus can enhance and add momentum to existing strategies and actions aiming to address the labour market disadvantage experienced by particular groups in Irish society.

### **Enterprise Development Agencies**

Both the Scottish and Welsh Fair Work units have worked with their enterprise development agencies to build a focus on Fair Work into their business support programmes and resources. Consequently, the Scottish and Welsh enterprise development agencies actively promote the benefits that Fair Work can deliver in terms of recruiting and retaining talent, increasing employee engagement and enhancing productivity.<sup>23</sup>

The experience of Fair Work in Wales and Scotland shows that actively supporting the mainstreaming of a commitment to Better Work across a range of policy domains is a challenging task. At the same time, having in place dedicated policy divisions and institutions for Fair Work has provided institutional and policy support for mainstreaming activity in both jurisdictions.

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<sup>23</sup> Scottish Enterprise, in conjunction with the Fair Work Policy Team, Fair Work Convention and other partners, has developed an online 'Fair Work Employer Support Tool' to assist employers to better understand and embed Fair Work practices within their organisations. This has proven to be a mutually beneficial relationship as the feedback from the agencies on the views and experiences of businesses is a valuable source of policy learning for the central policy teams.



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