Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Public Service Pensions Bill: Nevin Economic Research Institute

16 October 2013

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Leslie Cree
Ms Megan Fearon
Mr Paul Girvan
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:
Mr Paul MacFlynn Nevin Economic Research Institute

The Chairperson: I welcome Paul MacFlynn to the meeting. He is a researcher with the Nevin Institute. Paul, you are very welcome. I suggest that we go straight to questions because we have a busy agenda of evidence on the Bill.

The Department has issued a response to your paper. It stated:

> *"the Department accepts that pension reform could result in short term labour market impacts but supports what this paper recognises is the view of most economists that the labour market will adjust over time and that there is the potential for long term benefits to emerge."*

Do you have a view on that?

Mr Paul MacFlynn (Nevin Economic Research Institute): Obviously, I looked closely at the Department's response. It harks back to what is mentioned in the paper about the lump of labour fallacy, which basically explains that jobs being prolonged at one end does not lead to job losses at the other. It is an economic theory based on an optimised economic model that the economy can adjust to the increase in supply of workers: demand will increase, new jobs will be created, and those will fill the gap, as it were. In the paper, I was trying to make two points. The first is that that model represents an idealised economic situation. At present, we are in what could be classed as a less than ideal labour market situation. Short-term frictional unemployment, which the Department concedes would arise from this policy, could be transformed into medium-term and long-term unemployment, given the situation that the labour market is in. Evidence from the UK in particular points out that the predictions about the economy being able to absorb extra labour supply are based on an assumption about how businesses will react to increases in labour supply. If anything, the experience of the labour market in the past number of years has shown that businesses do not react in that way immediately, or that there is some disconnect in how they are reacting to higher levels of unemployment. Therefore, there is reason to believe that frictional short-term unemployment could become extended.

Secondly, we are not talking about the whole economy. We are talking about one particular section of the economy, namely the public sector. The Department's response to the discussion paper highlighted that it was protecting front line services and the fact that doctors and nurses were not going to be hired. The point that I was trying to make was that the skill set and the career set within the two sectors are very different, so expecting the private sector to be able to adjust and create the type of opportunities that would be unavailable in the public sector owing to this policy is slightly misconceived.

The Department highlighted the prospect of there being a long-term reconciliation of the disruption caused by this policy, but that could be in the very long term. If the Committee or representatives of the Department of Finance and Personnel are negotiating on the basis of this policy, those types of short-term impacts need to be factored into that calculation.

The Chairperson: There is reference in your submission to the Martins and Novo research paper on Portugal. Can you elaborate on the equality impact of that?

Mr MacFlynn: That was trying to demonstrate that a lot of the studies on the impacts of changing retirement ages have been based on broad measures such as the economy, the unemployment rate generally, and how they manage generally to adjust to broad macro changes. That research looked at a very specific set of female workers in Portugal and followed panel studies on a case-by-case basis. It found more significant impacts than the more general studies. When you are looking at something like public sector pension reform and, more specifically, workers who are not as mobile between different sectors of the economy, there is scope for the impacts to be slightly more acute than they would be if you look at the economy as a whole.

The Chairperson: There is a criticism from the Department in the first paragraph of its response. It says that there is no consideration in the paper as to what the impact will be of not reforming pensions.

Mr MacFlynn: Maybe it should have been set out at the start of my paper that I felt that the discussion note was aimed at highlighting the indirect economic impacts of the proposal that is being made. I assume that the £300 million figure has been estimated by the Westminster Government. Obviously, a £300 million cut would be far reaching and substantial. However, the aim of my discussion note was to set out the case that there are other impacts that are not being anticipated if the policy is implemented. That might give some balance to consideration of both scenarios.

The Chairperson: Do Members have any questions?

Mr Mitchel McLaughlin: You have picked up on the main issues. We are ahead of the curve on the review of longer working times, and people might wonder how a government could proceed while such a review is still being carried out. Have you factored that into your consideration?

Mr MacFlynn: Not in this discussion paper. However, that could be brought into the analysis. We were looking at the policy as proposed.

The Chairperson: There are no further questions. Paul, thank you very much.