Taighde, Idirphlé, Comhairle
Research, Dialogue, Advice

Understanding the Irish Economy in a Time of Turbulence

COUNCIL REPORT

No.160 April 2023

An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

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

Constitution and Terms of Reference

1. The main tasks of the National Economic and Social Council shall be to analyse and report on strategic issues relating to the efficient development of the economy and the achievement of social justice.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Any reports which the Council may produce shall be submitted to the Government, and shall be laid before each House of the Oireachtas and published.

4. The membership of the Council shall comprise a Chairperson appointed by the Government in consultation with the interests represented on the Council, and

    - Three persons nominated by agricultural and farming organisations;
    - Three persons nominated by business and employers organisations;
    - Three persons nominated by the Irish Congress of Trade Unions;
    - Three persons nominated by community and voluntary organisations;
    - Three persons nominated by environment organisations;
    - Four other persons nominated by the Government, including the Secretaries General of the Department of Finance, the Department of Business, Enterprise and Innovation, the Department of Housing, Planning and Heritage, the Department of Public Expenditure and Reform.
    - Seven people possessing knowledge, experience and skills which the Taoiseach considers relevant to the functions of the Council

5. Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairperson to regulate the numbers attending.

6. The term of office of members shall be for three years. Casual vacancies shall be filled by the Government or by the nominating body as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office.

7. The numbers, remuneration and conditions of service of staff are subject to the approval of the Taoiseach.

8. The Council shall regulate its own procedure.

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Membership

Chairperson

Mr John Callinan, Secretary General, Department of An Taoiseach and Secretary to the Government

Deputy Chairperson

Ms Elizabeth Canavan, Assistant Secretary, Department of An Taoiseach

Business and Employers

Mr Gerard Brady, Ibec
Mr Hubert Fitzpatrick, Construction Industry Federation
Mr Ian Talbot, Chambers Ireland

Trade Unions

Mr Owen Reidy, ICTU
Mr Joe Cunningham, SIPTU
Mr Kevin Callinan, Fórsa

Farming & Agricultural

Mr John Enright, ICMSA
Mr Damian McDonald, IFA
Mr TJ Flanagan, ICOS

Community & Voluntary

Fr Seán Healy, Social Justice Ireland
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Dr Nat O'Connor, Age Action

Environmental

Ms Karen Ciesielski, Environmental Pillar
Ms Caroline Whyte, Feasta
Mr Jerry Mac Evilly, Friends of the Earth Ireland

Public Service

Mr John Hogan, Department of Finance
Dr Orlaigh Quinn, Department of Business, Enterprise & Innovation
Mr Graham Doyle, Department of Housing, Planning & Heritage
Mr David Moloney, Department of Public Expenditure & Reform

Government Nominees

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Prof Niamh Moore Cherry, University College Dublin (UCD)
Dr Diarmuid Torney, Dublin City University (DCU)
Dr Chris Van Egeraat, Maynooth University
Prof Colin Scott, University College Dublin (UCD)
Noelle O Connell, European Movement
Nicola Mallon, Ex MLA in the NI Assembly
Colette Byrne, Ex Kilkenny County Council

Secretariat to Project

Dr Larry O'Connell, Director
Dr Cathal FitzGerald, Senior Policy Analyst (Project Lead)
Mr Noel Cahill, Economist
Dr Anne-Marie McGauran, Social Policy Analyst
Dr Jeanne Moore, Social Policy Analyst
Dr Damian Thomas, Senior Policy Analyst

A full list of the NESC Secretariat can be found at **www.nesc.ie**

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Abbrivations

CIB Citizens Information Board

CPI Consumer Price Index

CSO Central Statistics Office Ireland

DWS Developmental Welfare State

EPA Environmental Protection Agency

ESR Effort Sharing Regulation

ESRI Economic and Social Research Institute

EU European Union

FDI foreign direct investment

GDP gross domestic product

GFC Global Financial Crisis

GHG greenhouse gas

GNI* Modified Gross National Income

GVA gross value added

ICT information and communications technology

IPAS International Protection Accommodation Services

ISIF Ireland Strategic Investment Fund

NCPC National Competitiveness and Productivity Council

NESC National Economic and Social Council

NMW National Minimum Wage

NPF National Planning Framework

NPRF National Pensions Reserve Fund

OECD Organisation for Economic Co-operation and Development

PMI Purchasing Managers' Index

PRSI Pay Related Social Insurance

RTB Residential Tenancies Board

SDGs Sustainable Development Goals

SIF Social Insurance Fund

UK United Kingdom

UN United Nations

WFP Working Family Payment

Executive Summary

Since 2020, Ireland's economy has experienced a sequence of significant shocks: the COVID-19 pandemic, the cost of living crisis, and the invasion of Ukraine. Over that time, the public policy system has demonstrated flexibility, responsiveness, and effectiveness.

Government and the policy-making system responded to the immediate pressures that arose from these shocks, and found ways to prioritise and address the needs of the most vulnerable. The National Economic and Social Council (NESC) seeks to complement that ongoing work by focusing, in this report, on both the immediate future and beyond, in order to provide an understanding of the economy in what truly are turbulent and unpredictable times.

First, the report provides an overview of the key forces affecting Ireland's economy today, namely the climate and biodiversity emergencies, demographic shifts, geopolitical change, the rising cost of living, and maintaining national competitiveness.

Second, the report examines the important features of Ireland's enterprise economy, outlining the nature and structure of the enterprise base, its export orientation, the role of foreign direct investment (FDI), and supports for enterprise; and provides a high-level discussion of competitiveness and productivity. It also discusses some of the key performance outcomes, such as growth in employment and incomes, and improvements in equality and poverty.

Third, the report considers challenges and vulnerabilities. The Council highlights the presence and impact of a *capacity challenge* across the Irish economy, which adds to vulnerability and lowers resilience. This includes infrastructure, service, and labour constraints in key areas such as housing, healthcare, childcare, and transport.

Then, building on its long-held belief in the synergy between the economy, society, and environment, the Council argues that there is what might be termed a *cohesion challenge* between the economy and the wider society. An analysis of unemployment, poverty, weak labour-market attachment, low pay and productivity, and precarity of work suggests that cohorts remain that are weakly connected to the enterprise economy due to these issues.

Fourth, the report argues that having a vision and a number of core, supportive lines of action are an essential means of working in this era of turbulence. The report sets out a vision, based on previous NESC work:

> *Ireland will become a resilient, sustainable, thriving net zero economy, environment, and society, using innovation and collective preparedness to shape the future we want to achieve (NESC, 2020a).*

The report argues that three core areas of economic action and ambition will help ensure that Ireland continues to transition towards this vision and the enhanced resilience that it encompasses:

- i Fiscal sustainability and investment;
- ii Acting to realise net zero; and,
- iii Making work attractive.

Finally, the report makes a number of specific recommendations for actions in each of these areas, to be progressed by the policy system to help realise that vision.

- In the area of *fiscal sustainability and investment*, the Council recommends:
    - Maintaining fiscal sustainability, well-regulated financial systems, and well-functioning markets as core elements of macroeconomic policy;
    - Ensuring that there is a framework in place for saving excess tax revenue;
    - Establishing a new National Pensions Reserve Fund (NPRF) to contribute to future costs;
    - Maintaining public investment levels across economic cycles as part of a sound economic approach;
    - Focusing investment in the first instance on meeting the housing challenge;
    - Paying attention to previous NESC analyses of housing policy and to the outcomes of work by the Housing Commission; and
    - Having an openness to new ideas, projects, and pilots that will, over time, change the current system of housing, its institutions, working arrangements, and practices for the better.

- Regarding *acting to realise net zero*, the Council recommends:
    - Ensuring that energy demand reduction measures feature most prominently among policy actions;
    - Devising and implementing further impactful policy action to meet climate action commitments, targets, and ceilings;
    - Examining the societal challenges and opportunities arising from large-scale transformative investment in infrastructure for renewable sources of energy;
    - Working collaboratively to establish the processes that will facilitate addressing challenging issues in a more timely and constructive manner, including consideration of a mechanism for the provision of impartial, factual information on the impact of proposed infrastructure;
    - Reimagining enterprise for net zero by:
        - Becoming a producer and exporter of clean, secure, and cheap renewable energy and fertilisers, and a leader in new technologies;
        - Increasing the proportion of firms that have concrete climate action plans in place;
        - Implementing relevant elements of the new *White Paper on Enterprise 2022-2030*; and,
        - Researching the link between competitiveness and climate action in order to inform policy and programmes.
    - Considering research and ideas on alternative pathways to prosperity; and
    - Considering new mechanisms for a fair and inclusive transition to enable careful consideration of, and insight into, how to respond to emerging distributional issues across key sectors.

- In relation to *making work attractive*, the Council recommends:
    - Examining data on earnings, security, and quality of jobs and the working environment;
    - Undertaking research to better understand the prevalence in, and impacts of 'bad jobs' on, the economy;
    - Transposing the European Union (EU) Directive on Adequate Minimum Wages in order to strengthen the national system of collective bargaining and to increase collective bargaining coverage;
    - Researching the link between low pay and productivity in Ireland;
    - Implementing related actions included in the new *White Paper on Enterprise 2022-2030*; and
    - Re-examining barriers to taking up employment (e.g. literacy, early school leaving, costs, disadvantage).

Chapter 1

Ireland's Economy in a Turbulent World

We are experiencing a fundamental shift in the global economy: from a world of relative predictability—with a rules-based framework for international economic cooperation, low interest rates, and low inflation… to a world with more fragility—greater uncertainty, higher economic volatility, geopolitical confrontations, and more frequent and devastating natural disasters—a world in which any country can be thrown off course more easily and more often. …These shocks have inflicted immeasurable harm on people's lives… and dealing with them is made harder by geopolitical fragmentation (Georgieva, 2022: 1).

1.1 Introduction

Economies around the world are currently navigating a period described variously as an era of 'turbulence' (Ansell *et al.*, 2020), 'polycrisis' (Tooze, 2021), or 'interconnected megathreats' (Roubini, 2023). In Ireland, it has been acknowledged that we are now living in a more shock-prone world (Government of Ireland, 2022b).[1]

Ireland's economic history is a story of flux. From independence to today, the State has moved through economic and social peaks and troughs, in the context of shifting economic approaches. From fiscal conservatism to protectionism, outward orientation, deficit-financed expenditure, 'bubble and bust', and to embracing innovation, investment, globalisation, and competitiveness – Ireland has lived through a century of great change.

During the most challenging periods, the State has taken the time to 'lift its head' from the day-to-day, short-term work and immediate policy responses in order to reflect on the dynamics of the world around us, and has been prepared to change and adapt its economic approach accordingly.

The First Programme for Economic Expansion in the 1950s, the NESC-Telesis study, the Council's Strategy for Development in the 1980s, and the work of the Industrial Policy Review Group in the 1990s, are just four examples of the policy system looking out and ahead, to ensure that the economy was positioned as best as it could be to deal with the changes and challenges facing it.

In those instances, Ireland recognised, analysed, and addressed the limitations of an inward-looking, conservative economic strategy, the barriers to development, and the narrowness of an enterprise policy approach, with significant success.

This involved winding down certain long-standing policies and doubling down on others, introducing new policy measures and incentives, creating new institutions, seeking greater international agreement and co-operation, and broadening Ireland's approach overall.

In the 1990s, serious consideration was given to what economic model was right for Ireland, and comparison was made with other smaller, open, trading economies across Europe. The National Economic and Social Council (NESC) played a leading role in developing the economic model by producing a number of relevant reports in this period.[2]

Today, Ireland's economy is experiencing as much, if not greater, turbulence as it did during those testing periods. Perhaps, 2019 aside, turbulence has become the normal economic context for Ireland in recent times. Yet the policy system can set about positioning Ireland's economy with a degree of confidence, given its resilience during a series of challenges, and taking on board the policy lessons from the experience of the COVID-19 pandemic (NESC, 2022).

A key step now – as it was in 1958, 1982, 1986, and 1991 – is to consider Ireland's policy arrangements in the context of the most impactful shifts in the global economy, and to decide what initiatives are open to the policy system which can help Ireland not just withstand but prosper during this challenging time.

[1] As part of the National Risk Assessment process, the Government has published a list of proposed strategic risks for 2023, prepared following initial engagement with Government Departments and other relevant public bodies. That draft list will be further developed iteratively through a consultation process in 2023.

[2] For example, see NESC, 1989; NESC, 1994; and NESC, 1997.

The current era seems marked by 'compounding and intensifying problems which have cascading or spillover effects' (Head, 2022: 139). There are a number of important trends, briefly described as follows:

- Climate change and biodiversity loss are emergencies that undermine economic resilience. Environmental quality, ecosystems, and natural resources must be protected;
- Globalisation is not reversing but there will be more friction, and an increasingly fragmented global economy is emerging along geopolitical lines;
- Disruptive changes in technology and business models currently underway will change the nature of growth sectors and the location of competitive advantage; and
- Domestic and international geography is changing in a post-COVID-19 world, enabled by technology.

This chapter provides an overview of the key forces – structural and cyclical – that are bearing down on Ireland's economy today, namely the climate and biodiversity emergencies, demographic shifts, geopolitical change, the rising cost of living, and the need to maintain national competitiveness.

1.2 Climate and Biodiversity Emergencies

The realities of our climate and biodiversity emergencies are increasingly evident. Climate change is widespread, rapid, and intensifying (IPCC, 2021). For example, average temperatures have increased in Ireland by 0.9°C since 1900. As well as potentially exacerbating vulnerability, climate change is also a significant driver of biodiversity loss. Biodiversity – the diversity within species, between species, and of ecosystems – is declining faster than at any time in human history (IPBES, 2019).

Ireland's climate is changing in terms of rising sea levels, increases in average temperature, changes in precipitation patterns, and weather extremes. Future impacts could include an increased likelihood and scale of river and coastal flooding; water shortages and deterioration in water quality; increased risk of new pests and diseases; and changes in plant and animal species (Government of Ireland, 2020).

Climate change also has profound impacts for the viability of the State's economy, infrastructure, public health, and ability to produce food sustainably (Government of Ireland, 2022b). The intensity of these impacts will be directly linked to the success of global efforts to reduce greenhouse gas (GHG) emissions, but some level of climate change impact is already inevitable. This must be planned for through adaptation measures, regardless of progress in reducing GHG emissions.

There is extensive literature on the risks posed by the climate and biodiversity emergencies to economic systems and competitiveness. The impact of the climate transition on competitiveness has been examined at European Union (EU) level (Erbach *et al.*, 2022). On the one hand, national climate ambitions generally result in higher costs for business, and if the climate policies of competitor States and industries are weaker, there is a risk of decreased international competitiveness of business and carbon leakage. In that scenario, where production is relocated to countries with lower climate ambition, global emissions could remain constant or even increase. On the other hand, it is argued that 'properly designed environmental standards and carbon pricing could trigger innovation that could partially or fully offset the costs of compliance, possibly even resulting in absolute advantage over firms in foreign countries with less stringent regulations' (*ibid*.: 9). By stimulating innovation, environmental regulations could thus enhance competitiveness.

It is five years since Ireland described itself in the European Parliament as a laggard on climate action, and Ireland is seen to be particularly vulnerable to economic spillovers from the international impact of climate-related risks (Central Bank, 2022b). These risks can be categorised as 'physical' (arising from higher temperatures and more frequent and extreme climate events) or 'transition' (arising from policy- or regulatory-induced changes in the price of emissions). In the latter case, it is the agriculture, electricity, and manufacturing sectors that are most vulnerable as they are the main drivers of emissions (*ibid*.).

According to the Environmental Protection Agency (EPA), total national GHG emissions for 2021 are estimated to have increased by 4.7 per cent compared with 2020 levels. This increase was driven by increased use of coal and oil for electricity generation, increases in both the agriculture and transport sectors, and 'highlights that further, transformative measures will be needed to meet national climate ambitions' (EPA, 2022a: 2). Moreover, assessments of the condition and status of Ireland's biodiversity indicate that most Irish habitats listed in the EU Habitats Directive are of 'Unfavourable' status, with almost one-half demonstrating ongoing decline. While more than one-half of the species listed in the Habitats Directive are of 'Favourable' status and are stable, a significant number are assessed as being of 'Bad' status and will require concerted efforts to protect and restore (OPW, 2022).

Ireland's target under the EU's Effort Sharing Regulation (ESR) is to deliver, by 2030, a 30 per cent reduction of emissions compared with 2005 levels. Our national targets under the Climate Action and Low Carbon (Amendment) Act 2021 are to reduce GHG emissions by 51 per cent by 2030 and to achieve a climate-neutral economy by 2050. There is also a commitment to increase the proportion of renewable electricity to 80 per cent by 2030.

It is vital that Ireland meets its targets in the Climate Action Plan, not only to reduce GHG emissions for climate change reasons, but because of the contribution that doing this will make to energy security and supply. Delivery of these targets poses opportunities as well as challenges. As the Sustainable Energy Authority of Ireland (2020) notes, energy security and supply are intrinsically linked with climate change, and global energy consumption makes a significant contribution to climate disruption. Ireland is one of the most import-dependent countries in the EU for energy as well as having one of the highest rates of oil dependency. Recent EU data show that Ireland has the third-highest climate-related economic loss per inhabitant of Member States (€42 per inhabitant), behind only Greece (€91 per inhabitant) and France (€62 per inhabitant).

Biodiversity loss also represents a considerable global threat with economic implications. Both nature and nature's contributions to our world are vital for human existence and quality of life (IPBES, 2019, 2022). Environmental macroeconomic models are increasingly capable of describing the direct economic consequences of nature and ecosystem service loss (Agarwala *et al.*, 2022). Research by the World Economic Forum has estimated that $44 trillion of economic value generation – more than one-half of the world's total gross domestic product (GDP) – is moderately or highly dependent on nature and its services and is therefore exposed to nature loss (WEF, 2020).

1.3 Demographic Shifts

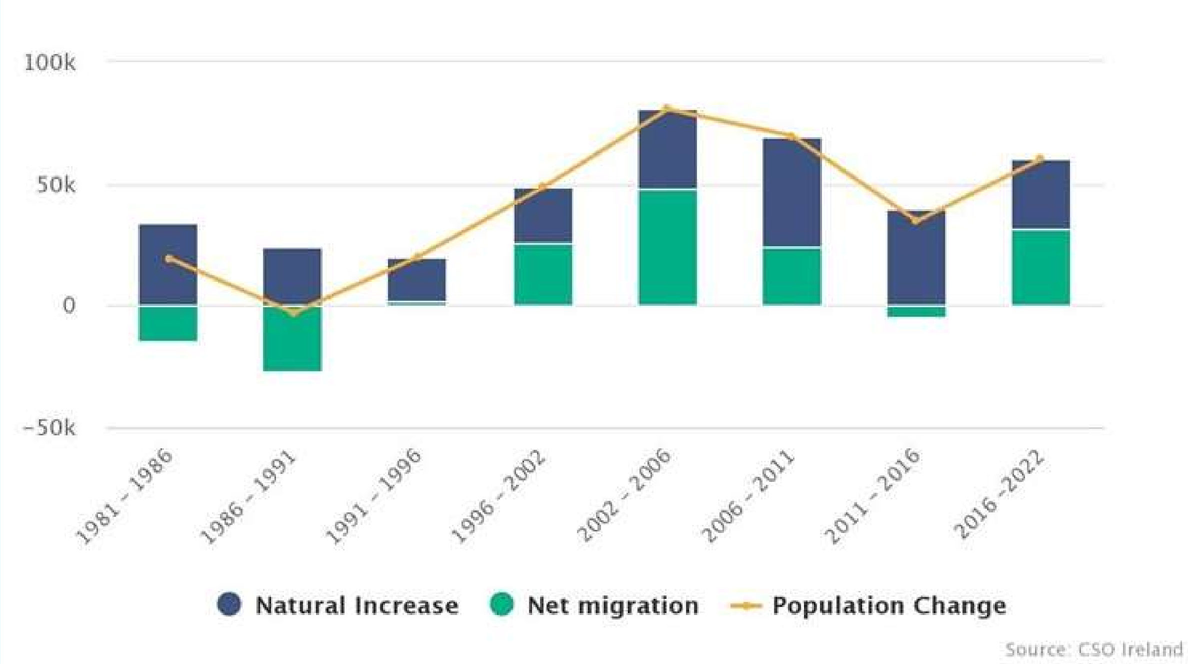
According to preliminary Census 2022 figures, Ireland's population is 5,123,536, an increase of 361,671 compared with 2016 (+8 per cent). This represents the highest population total since 1841, and the first time the population was over 5 million since 1851. The population increase of 361,671 comprised a natural increase (births minus deaths) of 171,338 and estimated net inward migration of 190,333. Of the factors that influence population change, the most influential, volatile, and difficult to forecast from an Irish perspective is migration (CSO, 2017a). Figure 1.1 shows the rate of average annual migration between 1981 and 2022.

Between 2016 and 2022, there was an average annual net inflow of 31,722 persons per year compared with an average outflow of 4,934 persons per year in the period 2011–2016. Separate Central Statistics Office Ireland (CSO) population and migration estimates for April 2022 showed that the number of immigrants to Ireland was the highest since 2007 and consisted of 28,900 returning Irish nationals, 24,300 other EU nationals, 4,500 United Kingdom (UK) nationals, and 63,000 other nationals including Ukrainians.

Immigration has been higher than the 2022 level only once in the last thirty years, in 2007, and population growth is forecast to continue. Informed by Economic and Social Research Institute (ESRI) modelling, the 2018 National Planning Framework (NPF) forecasts that by 2040 there will be roughly an extra one million people living in Ireland.[3] This estimate is also used as the basis for the most recent National Development Plan (Government of Ireland, 2021a).

[3] A review of the NPF is underway and this will include new modelling and forecast work.

Figure 1.1: Components of Population Change (average annual figures), 1981–2022



Source: CSO, 2022b.

CSO population forecasts (based on 2016 Census figures) set out six different scenarios ranging from a population increase of 1,953,300 (+41.2 per cent) over the 35-year period to 2051, to a population increase of 5,578,300 in 2051 (+17.7 per cent) (CSO, 2017).

Ireland's demographic profile is more favourable at present than that of other advanced economies. Demographic factors are an important driver of the economy but must also be central to policy and planning in order to deliver economic resilience in the longer term.

The comparatively rapid increase in Ireland's population offers substantial economic opportunities, such as a growing labour force and fewer immediate ageing pressures than for many other countries.

Crucially, however, it means that there is a need for a significant increase in public investment in economic and social infrastructure. The most obvious current challenge arising from our population growth is in the area of housing. There will also be a need for increased public investment in a range of areas including health and social care, childcare, education, training, energy and water infrastructure, broadband, and public transport.

In addition, projections suggest that dependency ratios will change: from a ratio of around 4.5 people of working age to each older person in 2020, to 3.5 people of working age to each older person in 2030, and then to a ratio of a little over 2 people of working age to each older person by 2050 (Government of Ireland, 2021b); see Box 1.1. The Department of Finance projects that age-related expenditure will cost an additional 3.4 percentage points of Modified Gross National Income (GNI*) per year compared with 2019, an extra €7 billion per year in today's terms.

Box 1.1: The Dependency Ratio

It should be noted that the dependency ratio (the number of people aged 65 years and over as a proportion of the number of people of working age) is a problematic metric. It assumes that everyone over the age of 65 is a dependent, whereas one in nine people in Ireland over that age are in employment. It does not reflect the ability, willingness, necessity, or desire among many older people to continue working. For example:

- In Q1 1998, there were 168,200 older workers (aged 55+), who represented 9.9 per cent of the labour force – 123,000 were men; and
- In Q3 2022, there were 500,300 older workers (aged 55+), who represented 18.7 per cent of the labour force – 288,400 were men.

This illustrates the doubling of older workers as a proportion of the labour force, while, in absolute terms, the number of older workers tripled as the labour force expanded, not least due to more women being in paid employment. Since 2018, the absolute number of older workers has grown by 108,500 (nearly 22 per cent). Within that, the number of workers aged 65+ years has risen from 70,100 in Q3 2017 to 100,700, an increase of 44 per cent in five years.[4]

Given that the number of workers aged 65 years and over has increased by more than 30,000 in the period 2017–2022 (having increased by 35,900 in the period 1998–2017), there is an acceleration of this trend. With the possibility of a deferred State Pension age of up to the age of 70, this trend is likely to continue. In addition, many other older persons may remain economically active and/or net tax-paying in other ways not captured within the labour force category. As such, a 'dependency ratio' that assumes everyone aged 66+ on the State Pension is a 'dependent' is unsatisfactory, and supplementing the conventional dependency ratio with other calculations would be a positive move.

Nevertheless, as discussed in Chapter 4, there is a need to prepare for increased costs to the State arising from an ageing population and other demographic shifts.

1.4 Geopolitical Change

As a small open economy with relatively concentrated economic/export structures, Ireland is particularly exposed to external economic and political dynamics. A number of disruptive geopolitical factors have been highlighted as flattening the intensity of globalisation and impacting on our economy (Skilling, 2022). These factors include:

- *The weakening domestic political consensus around globalisation in many large, advanced economies*: Governments are imposing greater restrictions on trade, investment, and migration flows; the inclination to promote national champions in areas such as pharmaceuticals and sensitive digital and telecoms technology has increased.
- *The more prevalent geopolitical rivalry between the West and China:* This has precipitated more inward-looking economic policies in China and, in the West, a tougher stance on trade and investment flows with China.
- *The appropriate, strong Western response to Russia's invasion of Ukraine*: Although necessary, this creates greater fragmentation in the world's economy.

[4] Data in this section are from the CSO's labour force dataset (QLF18), which reports the percentage and absolute number of people at work by age group. See https://data.cso.ie/table/QLF18.

- *A deficit in global leadership*: The influence of supranational bodies such as the World Trade Organization and the G20 has waned.

While arguably now overshadowed by the pandemic and current war, the ongoing out-workings of Brexit continue to impact Ireland both economically and at societal level, with particularly serious implications for peace and stability in Northern Ireland.

Brexit's potential impacts were well recognised in Ireland at an early stage and extensive and successful preparatory work was conducted by the public and private sectors to mitigate these, both in advance of, and after, the UK referendum.

While the Brexit Withdrawal Agreement and transition period have provided a framework for an orderly adaptation, Brexit has introduced a destabilising element into the politics, economy, and social cohesion of Northern Ireland (Government of Ireland, 2022b), as well as inevitable economic and trade shifts and impacts.

The Common Travel Area, north–south co-operation, and north–south trade are all protected through the Northern Ireland Protocol but there is still uncertainty regarding its implementation. Other potential impacts include future import controls on Irish goods entering Britain; the potential for UK regulatory divergence from the EU, with possible competition and supply chain impacts for Ireland; and increased migration to Ireland (which is already elevated due to the war in Ukraine).

1.5 Rising Cost of Living

Following the COVID-19 pandemic, prices began to rise, although the average annual growth rate in 2021 was still moderate at 2.4 per cent. Inflation then increased very significantly with the commencement of the war in Ukraine (see Box 1.2) and, like many other countries, Ireland is now in the midst of a cost of living crisis, which is happening in the context of already very high domestic costs in areas like childcare and housing.

Inflation grew significantly in 2022, primarily driven by the war and the response to it, with impacts on energy markets leading to particularly high spikes in prices. The annual rate of inflation in 2022 was 7.8 per cent, while inflation of 4.4 per cent is projected for Ireland for 2023 (ESRI, 2022; European Commission, 2023). Energy has been the largest single factor in the upsurge in inflation as well as a contributor to higher prices for other products.

Spillover effects from higher energy prices are being felt in other sectors, such as food (via fertilisers and fuel costs) and consumer goods and services (due to higher energy inputs). Irish property price and rental inflation levels also remain high.

The impacts of this inflation are broadly felt but, as noted above, are having a disproportionate impact on more vulnerable groups. People aged 65 years and over are experiencing inflation at a higher rate than the general measure of inflation, as are certain household groups, including:

- Lower-income households;
- Households that rent their homes from a local authority;
- Households that rent their homes privately;
- Households where the dwelling is owned outright (perhaps reflecting the predominance of older people in this cohort); and
- Rural households.

Box 1.2: War in Ukraine

Russia invaded Ukraine in February 2022, following eight years of conflict and the previous invasion and annexation of Crimea in 2014. While the most devastating impacts of the Russian invasion are on Ukraine and its people, there are also very significant economic and social impacts for Ireland, including a shock to energy prices and broader inflationary impacts, as well as increased pressure on housing and other social infrastructure arising from our role in providing refuge to people from Ukraine fleeing the war.

In terms of economic impacts, although Ireland's direct trade and investment links with Russia are relatively limited, we are seeing higher energy prices and spiralling inflation as well as deteriorating consumer and business sentiment.

There are also considerable impacts on energy security and supply as well as on energy costs. Domestically, the main energy companies increased prices significantly in 2022, with announced increases in the region of 30–40 per cent.

Such increases will impact negatively on all consumers but will have particularly punitive effects on vulnerable groups such as lower-income households, older people, and people with disabilities.

At the European level, loss of access to Russian natural gas supplies has significant negative impacts for the euro area economy, although it could have the benefit of incentivising the transition to renewable energy sources (Government of Ireland, 2022d), contributing to the delivery of our decarbonisation and climate change objectives. There have been falls in household and business demand for energy, which has lessened the impact. Gas demand in Europe fell by around 20 per cent during August–November 2022, without significant economic upheaval – given the scale of fiscal and other supports (Eurostat, 2022).

In terms of the devastating humanitarian impacts of the war, the United Nations (UN) estimated that approximately 17.7 million Ukrainians – nearly one-half of the population – needed humanitarian assistance. Close to 67,500 people had arrived in Ireland from Ukraine, seeking refuge, by the end of 2022.

Over 47,000 of these have sought accommodation from the State, significantly worsening the pre-existing housing crisis. Over 12,500 Ukrainian children have been enrolled in schools for the academic year 2022–2023. There is also significantly increased demand for health and social services.

Price increases require households to either spend more of their income or to use any available savings. While Irish households are saving at a high rate, savings built up during the pandemic are depleting. While many households were able to save substantially more than pre-pandemic, the buffers of some households (particularly lower-income) are more limited and may have already been drawn upon.

Over 14 per cent of households in 2020 (approximately 180,000 families) reported that they already spend all their income on a regular basis and have no savings (Central Bank, 2022b). Current elevated inflation levels are likely to have significantly worsened their situation, and increased the number of households in this category.

At the same time, it must be noted that the State's response has partially mitigated the impact of this spike in prices. Analysis has shown that Budget 2023 left households across the income distribution better off, with the lowest 10 per cent of households experiencing the largest gain (Doolan *et al.*, 2022). The research found that these income gains were driven by one-off State interventions.

Looking ahead, an easing in some of the drivers of rising prices (global supply chain disruption; the shift in consumer spending from services to goods; the exit of significant numbers of workers from the labour force; aggressive macro stimulus/fiscal policy) is expected to reduce inflation in the coming year (Skilling, 2023). On the other hand, the easing of COVID-19 restrictions and an increase in energy demand in China may add to ongoing inflationary pressures globally.

1.6 Maintaining National Competitiveness

Rising prices also affect national competitiveness, with potentially negative impacts on economic prosperity, employment, and standards of living (NCPC, 2022a). Periods of high inflation are damaging to the enterprise sector if otherwise viable firms close due to their inability to absorb a sudden rise in business costs.

Rising costs may also force some firms to reallocate spending to meet current cost increases at the expense of longer-term innovation and investment spending.

Domestically focused small and medium-sized enterprises can be negatively impacted by lower consumer spending, as individuals are forced to allocate more of their household budgets to essential goods and services whose prices have risen.

Although the CPI and Harmonised Index of Consumer Prices indices do not directly measure business costs, other data indicate that business are currently also being significantly hit by inflation, with pressures arising simultaneously (e.g. inputs, energy, wages). Recently, a majority of small businesses surveyed have reported price rises for transport, energy, labour, insurance, technology, banking, and telecoms, with energy and transport costs seeing the largest increases (SFA, 2022). A recent survey of firms shows that average gas and electricity prices increased by 90 per cent and 60 per cent, respectively, in 2022, with further increases expected during 2023 (Ibec, 2022).

These effects are observable in data on economic sentiment, as measured by the Purchasing Managers' Index (PMI).[5] Between July and December 2022, the Manufacturing PMI fell from 51.8 to 48.7, and the Services PMI fell from 56.3 to 52.7. The Construction PMI stood at 43.2 at the end of 2022, having been at 50.2 in September.[6]

Ultimately, the various sectors of Ireland's economy are interlinked and interdependent. High and increasing business costs impact the cost of living, which, in turn, have knock-on implications for wage demands and the potential creation of inflationary cycles. National competitiveness is a multifaceted concept made up of many factors, and is also threatened by the capacity issues discussed in Chapter 3.

1.7 Conclusion

The Council has described a number of sources of turbulence that are affecting Ireland's economy, which must inform necessary, medium-term, strategic thinking today. There are other sources, of course, but the climate and biodiversity emergencies, demographic shifts, geopolitical change, rising cost of living, and maintaining national competitiveness together create enormous, simultaneous pressure for change.

Responding fully to that pressure means creating space to lift our heads from the day-to-day challenges – although these are significant – in order to gain a better understanding of the strengths and weaknesses of our economy, agree a vision, and identify the key challenges to be addressed and how, beyond the immediate issues.

As described above, the policy-system has successfully done this at critical junctures in the past. It is a positive factor that building economic resilience can be undertaken on a foundation of progress delivered by the enterprise economy over recent decades. Thus, before turning to what it sees as the core challenges to enhancing resilience, the Council believes it is instructive to recount where and how that progress has been made.

5 A PMI score of over 50 signals an expectation that activity will expand; 50 signals 'staying the same'; and less than 50 signals an expectation that activity will contract.

6 Weekly Indicators Bulletin for 20 January, Dublin: Department of the Taoiseach (via email).

Chapter 2

The Enterprise Economy:
Key Features and Performance

2.1 Introduction

Ireland's enterprise economy, the focus of this Council analysis, and the resources it generates, have contributed to progress across many key elements of Ireland's societal well-being.[7]

Ireland is a prosperous and successful State, ranking near the very top of international assessments of quality of life based on life expectancy, education, and income (UNDP, 2020).[8] There is a record number of people working; employment is growing strongly in every part of Ireland; female labour-market participation levels are high; incomes – despite inflation – have never been higher; almost 30,000 Irish citizens returned to live and work here in the past year, with a similar number again arriving from the United Kingdom (UK) and Europe; and the national budget remains in surplus. The economy has been remarkably resilient across a number of significant shocks, from the Global Financial Crisis (GFC), to Brexit, the COVID-19 pandemic, the latest cost of living crisis, and war in Ukraine.

Ireland's national enterprise policy has been at the heart of its economic strategy. The competitive enterprise base drives productivity growth, innovation, and investment, and creates jobs, delivering higher standards of living for all. Through exchequer returns, enterprises contribute to the provision of essential public services including infrastructure, healthcare, and education (Government of Ireland, 2015).

Economy-wide tax revenue in 2021 was €68 billion, of which income tax receipts, including Universal Social Charge, amounted to €26.7 billion, and corporation tax €15.3 billion, illustrating how Ireland's focus on competitiveness, trade, investment, and related employment helps generate over 60 per cent of all tax revenue (DoF & DPER, 2022).

Box 2.1: White Paper on Enterprise 2022-2030

In December 2022, the Government published a new White Paper, *White Paper on Enterprise 2022-2030*. This White Paper includes a vision for Irish-based enterprise to succeed through competitive advantage founded on sustainability, innovation, and productivity, delivering rewarding jobs and livelihoods. This aligns well with the vision set out by the Council here for Ireland to have a resilient, sustainable, thriving, net-zero economy, environment, and society; using innovation and collective preparedness to shape the future we want to achieve.[9]

The White Paper focuses on seven priority enterprise policy objectives:

- Integrating decarbonisation and net-zero commitments;
- Placing digital transformation at the heart of enterprise policy;
- Advancing Ireland's foreign direct investment (FDI) and trade value proposition;
- Strengthening the Irish-owned exporting sector;
- Enabling locally trading sectors to thrive;
- Stepping up enterprise innovation; and
- Building on strengths and opportunities.

The Council welcomes this focus and the targets and actions that flow from it, and believes that the implementation of the White Paper, in conjunction with the three lines of action set out in Chapter 4, will enhance enterprise and economic performance and outcomes.

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7 The scope of this Council analysis is necessarily limited to the enterprise economy – activity, firms, and workers linked to the trading of goods and services – noting that this excludes certain activities and factors.

8 The United Nations' Human Development Index places Ireland second (behind Norway) on its annual ranking of 189 countries. The challenges associated with measuring outcomes based on GDP are well rehearsed.

9 'Net zero' is when the amount of emissions produced equals the emissions removed from the atmosphere.

Ireland's economic approach, with enterprise policy at its heart, has delivered tangible social progress over recent decades. This is evident in the available data on employment, income levels and distribution, inequality and poverty rates, education and skills, population, well-being, and trust in institutions.[10]

At the same time, there are challenges to be addressed in relation to low pay, productivity, precarity of work in certain sectors, capacity constraints, and deficits in infrastructure and services (most particularly in affordable housing). Issues persist in relation to weak labour-market attachment, lower levels of educational attainment, poverty, and lower levels of trust among young people.

2.2 Nature of Ireland's Enterprise Economy

The Irish enterprise economy is competitive, innovative, and export-oriented, with a diverse enterprise base. There are over 291,000 active enterprises in Ireland, of which 8,300 are foreign-owned multinational companies and 283,000 are Irish-owned enterprises.

The next four sections explore four features of the enterprise base:

- Export orientation;
- Role of FDI;
- Supports for enterprise; and
- Competitiveness and productivity.

2.2.1 Export Orientation

Ireland's enterprise economy is strongly export-oriented, with around 10,500 companies exporting goods or services.

The State's enterprise agencies directly support around 7,000 firms. These firms account for 80 per cent of Ireland's total exports, and employ 490,000 people directly (CSO, 2017b).[11] They have total sales of €355 billion and total exports of €320 billion.

Agency-assisted firms have direct expenditure in the Irish economy (payroll, Irish materials, and Irish services) of over €57 billion annually. The direct expenditure in the Irish economy by the agency-supported, foreign-owned companies in 2021 was €29.8 billion, while the equivalent expenditure by Irish-owned companies was €27.6 billion.

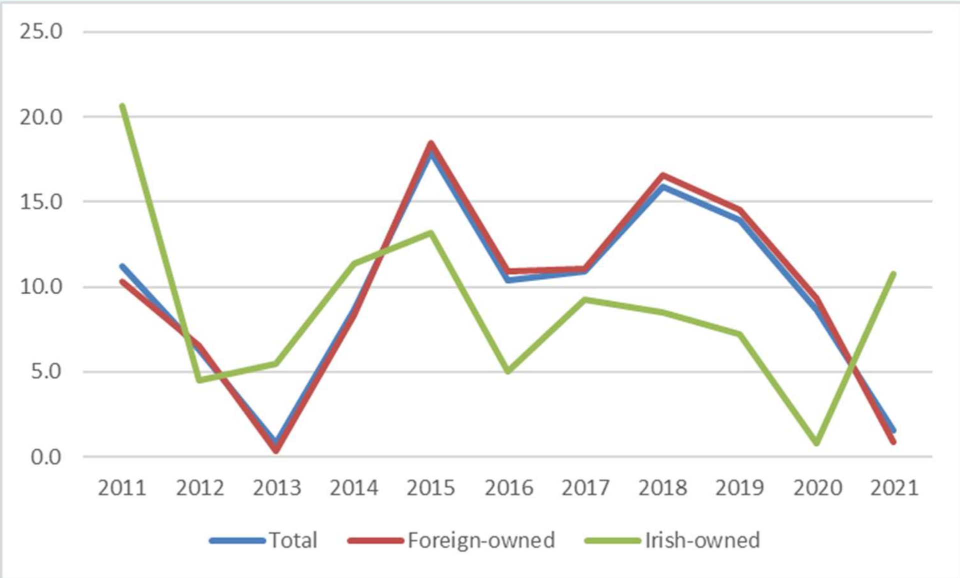
These figures do not include corporation tax revenue, an increasingly important contribution to the economy by foreign-owned companies. In 2020, foreign-owned multinationals paid a corporate tax revenue of €9.7 billion while other companies paid €2.1 billion. Not all of the corporate tax revenue by foreign-owned companies was paid by exporters, although a large share of it was. The concentration risks and volatility associated with this are well recognised within the policy system.

Notwithstanding the difference in the scale of gross exports from Irish- and foreign-owned companies over the period 2012–2021, the growth rates in percentage terms were similar (9.6 per cent annual growth for foreign-owned companies and 8.7 per cent for Irish-owned ones). The value of all exports from Ireland for the first ten months of 2022 exceeded the total for the full year 2021 (CSO, 2022c).

[10] Trust in institutions is quite high in Ireland, generally well above the Organisation for Economic Co-operation and Development (OECD) average (OECD, 2022). Levels of trust have not declined overall since 2000. Comparing 2000 and 2021, trust in some institutions (the justice system and national parliament) has increased, while trust in the EU/EU Parliament, civil service/public administration, and the press/media is relatively stable compared with 2000. Trust declined during the GFC, but then recovered.

[11] Data from the CSO and the Department of Enterprise, Trade and Employment. Figures in this section are rounded and approximate for the purposes of this analysis.

Figure 2.1: Annual Percentage Change in Value of Exports from Irish- and Foreign-Owned Companies, 2011–2021[12]



Source: DBEI, 2020.

Box 2.2: Social Enterprise

When considering Ireland's enterprise economy, it is important to take into account social enterprises. Social enterprises operate by providing goods and services for the market in an entrepreneurial and often innovative fashion, having social and/or environmental objectives as the reason for their commercial activity (European Commission, 2021a). Social enterprises have been identified as a small but growing part of Ireland's enterprise base, with the prospect of providing further job opportunities. In 2013, Forfás estimated that the social enterprise sector employed between 25,000 and 33,000 people in over 1,400 social enterprises, with a total income of around €1.4 billion. It estimated that if Ireland's social enterprise sector were to approach average European Union (EU) levels of output, there could be at least 65,000 social enterprises in Ireland. A data collection exercise on social enterprises is currently underway and we expect to have more up-to-date and detailed information later in 2023. The National Economic and Social Council (NESC) is currently undertaking research on this sector.

[12] Data for 2021 are estimates.

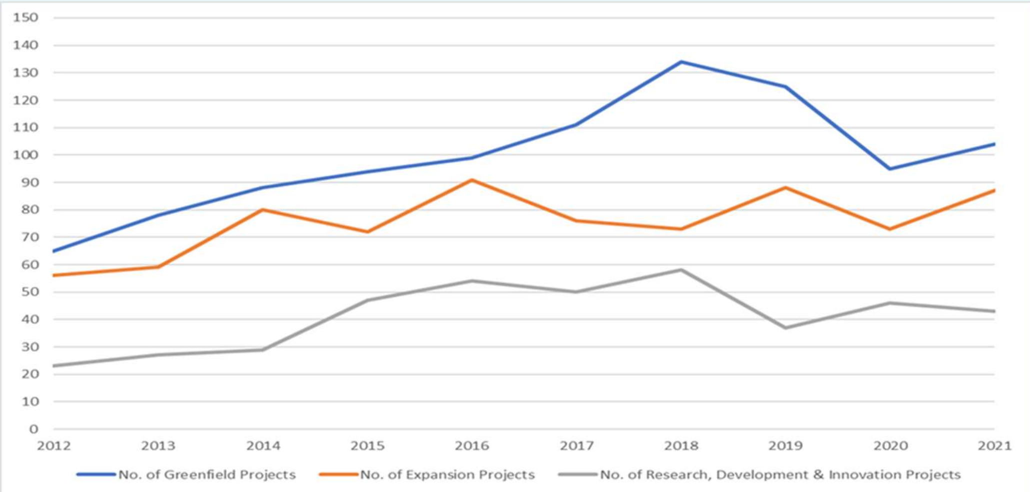
2.2.2 Role of FDI

The level of exports by foreign-owned companies reflects Ireland's strong success in attracting FDI. In 2021, IDA Ireland approved 249 investment projects comprising 104 greenfield investments, 87 expansions, and 43 research, development and innovation investments.

There were gross job gains of just over 29,000 in IDA Ireland companies and a net increase in employment of 16,826. Between 2012 and 2021, the average annual percentage growth in employment in Irish- and foreign-owned companies was 4.4 and 5.6 per cent, respectively.

Wages are relatively high in agency-supported firms. For example, in 2020 the average salary of jobs in those agency-supported companies was €66,979 per annum, and for IDA Ireland-assisted firms was €80,388 per annum, significantly higher than the national average wage of €50,076 per annum (CSO, 2020a).[13]

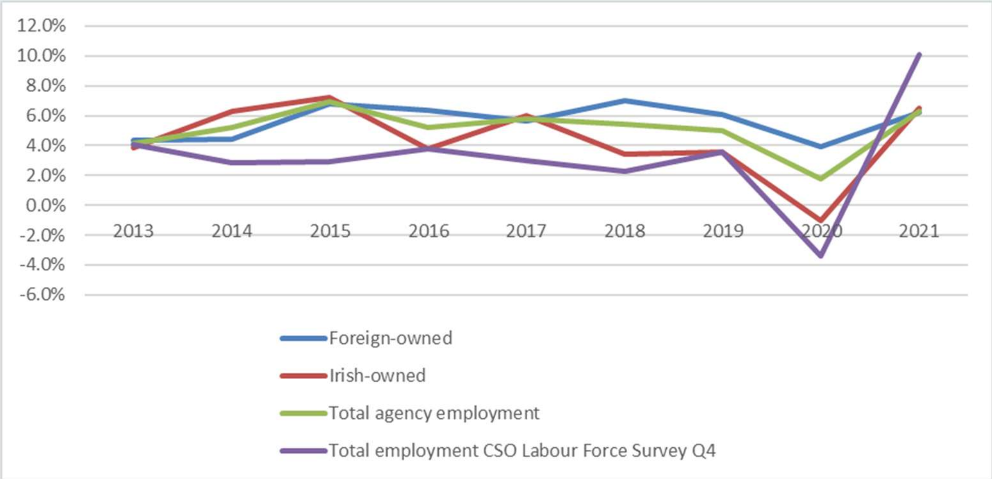
Figure 2.2: IDA Ireland Projects, 2012–2021



Source: IDA Ireland Annual Reports.

[13] Salary data from the Department of Enterprise, Trade and Employment.

Figure 2.3: Annual Percentage Change in Total Employment and Agency-assisted Companies, 2013–2021



Source: DETE, 2022a; CSO, 2022e.

Using a conservative multiplier of 1.8 to estimate the indirect employment generated suggests that Ireland's approach – focused on these agency-assisted firms – contributes to sustaining 882,000 jobs.[14]

At the same time, the new *White Paper on Enterprise 2022-2023* recognises that Ireland's success in attracting FDI can also bring its own vulnerabilities: 'Ireland's strong FDI base is responsible for significant levels of economic activity and employment, but the high share of foreign-owned MNEs presents a potential concentration risk and a concern that this employment could crowd out Irish-owned firms' (DETE, 2022: 24).

2.2.3 Supports for Enterprise

The system of direct assistance from State agencies applies most to 7,000 firms in exporting manufacturing and services sectors such as the information and communications technology (ICT), pharmaceutical, software, and business financial services sectors. The enterprise development agencies provide direct financial and other supports to firms within these export-intensive sectors. This approach 'minimises issues relating to displacement that might occur if financial supports were available to all enterprises that operate on the domestic market', and is in line with the State's policy, which is 'predicated upon growth fuelled by foreign earnings derived from exports in the first instance as distinct from being driven primarily by domestic consumption, which we know is an unsustainable growth model' (Government of Ireland, 2015: 153 and xii).

Ireland's agency-assisted enterprise economy supports at least 36 per cent of all employment (919,000 jobs out of the 2,554,600 total number) (CSO, 2022e). The annual payroll of foreign-owned companies exceeds €17 billion (€79,900 per employee), while the payroll of Irish-owned companies is almost €9 billion (€50,600 per employee).

[14] Multiplier based on Indecon analysis cited in *IDA Ireland Annual Report and Accounts 2021* (IDA, 2022a). More recent studies suggest that as many as three additional jobs are created in a county for each job created in an IDA-supported business in the same county (Brady, 2019).

The wide-ranging supports available under Ireland's enterprise policy contribute to the success of these 7,000 firms and the relatively higher incomes of their 490,000 workers. From start-up to exporting, to scaling, to innovating, and to boosting productivity, the State has long-standing and extensive policy and institutional architectures to assist these firms.

The benefits of this assistance can be significant. For example, research has found that firms availing of State productivity programmes had an annual productivity value that was €37,000 higher per employee than in a control group of businesses (Government of Ireland, 2015).

2.2.4 Competitiveness and Productivity

In terms of the competitiveness of our economy, concerns include declining productivity levels in certain enterprises and sectors and, as noted above, significant concentration risk due to Ireland's dependence on tax revenues from a small number of multinational companies (Government of Ireland, 2019; Government of Ireland, 2022d). These vulnerabilities have received increased attention in light of job reductions in the technology sector, but must be recognised as a risk in budgetary strategy and policy.

In the long run, productivity growth is an important factor in improving living standards, and Ireland's policy approach focuses efforts on achieving 'a step change in enterprise performance in terms of productivity' (Government of Ireland, 2015: xiv). That policy also notes that 'it is important that increases in labour costs are accompanied by productivity improvements', meaning that we must 'sustain the focus on productivity performance in deliberations on wage increases, and emphasise the need, from a sustainability and competitiveness perspective, for wage growth to be underpinned by productivity' *(ibid*., xxxiii).

Productivity in Ireland as measured by gross domestic product (GDP) per hour worked is now more than double the EU average.[15] It is well known, however, that Ireland's aggregate productivity record is dominated by the performance of foreign-owned multinationals and affected by measurement issues. Using a more useful metric (GNI* per hour worked), the level of this measure in Ireland in 2021 was above the EU average (of GDP per hour worked) but lower than the level in Germany and Denmark.

Productivity in the foreign-dominated sectors is, on average, almost ten times higher than in the domestic sectors, and its growth has also been much faster: during the years 2011–2020, productivity in the foreign sector grew by an annual average of 9.9 per cent compared with just 0.7 per cent in the domestic sector.[16] Productivity in terms of GNI* per hour worked grew by an annual average of 0.5 per cent over this period (calculated from the Central Statistics Office Ireland (CSO) database). Ireland's level of productivity is relatively high in manufacturing, information and communications, and professional, scientific, and technical services. These are all sectors with a high presence of multinationals.

There is a very different mix of enterprises in the foreign compared with the domestic sector, meaning that productivity levels in the foreign sector are not an appropriate benchmark for the performance of the domestic sector.

Ireland has had a slowdown in its domestic sector's productivity growth in recent years, with slow or even negative productivity growth in domestic manufacturing, accommodation and food, financial and insurance services, and administrative and support services. The level of productivity for agriculture in Ireland is well below the advanced EU Member State average, while productivity levels in construction are equal to the EU Member State average, although they are at least 15 per cent below those of Germany, France, Austria, and the Netherlands (see Chapter 4 for more on productivity issues).

The measurement issues around productivity are well known but given its centrality to economic and enterprise policy and development, work must continue to probe the issue and underlying trends. For example, relatively low levels of pay in certain sectors are often attributed to low levels of productivity, particularly in the case of domestically controlled

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[15] Given the well-known issues with GDP as a metric of economic performance in Ireland, GNI* is a more appropriate measure, especially for international comparisons.

[16] Here, foreign-dominated sectors include chemicals and chemical products; software and communications; reproduction of recorded media; pharmaceutical products; and electrical equipment and medical supplies.

enterprises. However, gross value added (GVA) per person employed in such firms in Ireland in 2019 was €63,000. This was well above the unweighted average for the EU (14) of €57,300. When expressed in purchasing-power standard terms, this gap was reduced, but Ireland's GVA per person employed was still 3.3 per cent above the average, and similar to the levels for France and Germany. This exemplifies the analytical and policy challenge regarding vulnerability associated with perceived low pay and productivity, especially in domestically controlled enterprises and related sectors.

2.3 Performance of the Enterprise Economy

The economic stance adopted by Ireland over decades has contributed to significant progress and prosperity. This section provides a brief account of key areas of success under the following headings.

- ***Employment***: The number of people employed in Ireland has increased substantially over the last two decades. In Q3 2022, there were 2,554,300 people in employment, compared with 1,818,400 in Q3 2000.

Employment in 2022 reached its highest level since the data series began in Q1 1998. In line with this, Ireland's unemployment rate is low, at 4.4 per cent in January 2023, a level considered healthy for an economy.

- ***Income:*** In 2003, the earliest date for which comparable data are available, mean disposable household income was €34,973. By 2021, it was €54,557 (CSO, 2021) – an increase of 57 per cent.

This growth in income has helped support a rise in the demand for goods and services, another driver of economic prosperity. Net household wealth in Ireland has also grown, from €359 billion in 2002 to €482 billion in 2011, and to €1,053 billion in 2022 (Central Bank, 2022b).

- ***Equality***: The distribution of income in Ireland has become more egalitarian since 2000. The Gini coefficient was approximately 0.29 in 2000, and 0.28 in 2022 (Roantree *et al.*, 2021; CSO, 2023c). The average disposable income of households in all income deciles increased, but it increased more for the lower deciles (see Chapter 3 for more on inequality).[17]

The gender pay gap has also declined, from a 19 per cent gap in average gross hourly earnings in 2002 to an 11 per cent gap in 2020. One factor that influenced this is the introduction of the National Minimum Wage (NMW) in 2000, which reduced the gender pay gap in the bottom wage decile from 24 per cent to 5 per cent (Doorley, 2018).

It is important to note that the declining inequality in disposable income in Ireland over the last 35 years is unusual in Europe, and is the result of deliberate tax and welfare policy decisions (Roantree, 2020). It is of benefit to individuals with low incomes, but also to the wider economy, as lower-income inequality boosts economic growth (Cingano, 2014).

- ***Poverty rates***: The at-risk-of-poverty rate, after social transfers, declined from 20.4 per cent in 2003 to 13.1 per cent in 2022, a positive trend. Particularly positive outcomes were apparent for older people between 2002 and 2020, as a result of a range of policy decisions. However, since the recent increase in the cost of living, consistent poverty and at-risk-of-poverty and deprivation rates have grown particularly strongly for those aged over 65 years, showing the importance of focusing on those on fixed incomes and not in employment, in order to maintain the policy gains of the past two decades.

More generally, Ireland's economic progress has helped reduce the incentive for young Irish people to emigrate, and has helped make the country an attractive destination for immigrants, with net migration of approximately 506,000 people between 2000 and 2022 (CSO, 2022b; CSO, 2016).

[17] The CSO Household Budget Surveys from 2000 to 2015 show that disposable household income increased more than the average for income deciles 1–6, and increased most for deciles 1–4.

Migrants have also helped to increase economic prosperity, ease labour-market shortages, improve output, and reduce earnings inequality (IOM, 2006). Just under one-half of all immigrants are aged between 25 and 44 years (49.6 per cent or 59,900 people), and almost 60 per cent (70,300) immigrants have a third-level qualification. There are over 495,000 non-Irish citizens in the labour force and 470,000 non-Irish citizens in employment (CSO, 2022e). Many of these workers do not require work permits to take up employment here (e.g. EU citizens) but of those who did, and who were issued a permit in 2022, 39 per cent were from India, 11 per cent were from Brazil, 6 per cent were from the Philippines, 4 per cent were from China, and 4 per cent were from Pakistan. Work permits are issued across 25 sectors with 27 per cent of permits issued in ICT, 25 per cent in health and social care, and 11 per cent in farming/fishing/forestry.

2.4 Conclusion

Ireland's economy is driven by a diverse and innovative enterprise base. A policy emphasis on exporting, FDI, indigenous-firm development, and innovation has shaped the extensive suite of supports available to many firms in order to boost their competitiveness and productivity. This has, in turn, helped deliver significant progress in terms of employment, incomes, and poverty.

Recognising this progress is important, but so too is attending to vulnerability. Doing this is a key aspect of building and maintaining economic resilience and is expanded upon in the next Chapter.

Chapter 3

Economy and Challenges

3.1 Introduction

The success of Ireland's enterprise economy is clear, yet – in the context of the key forces of change discussed in Chapter 1 – the National Economic and Social Council (NESC) encourages the policy-system to maintain a focus on the challenges.

In doing so, NESC restates the fusion of economic and social policy: good economic performance can support good social policy, and good social policy provides a strong basis for economic development. This fundamental understanding has been articulated by NESC since 2005 as a central underpinning of the Council's Developmental Welfare State (DWS) framework (NESC, 2005). The Council's analysis argued that income supports, the provision of services, and a system of innovation to identify new ways of addressing vulnerability, all support economic development. These core concepts of the DWS are helpful as a means of understanding challenges in today's turbulent world, alongside a recognition of the inescapable interconnectedness of our economy and our environment – a recognition that was lacking in the 2000s.[18]

The Council highlights the presence and impact of a *capacity challenge* across the economy, which adds to vulnerability and lowers resilience. The provision of infrastructure and services – housing, healthcare, childcare services, and transport and energy infrastructure – underpins not only economic performance and resilience but societal well-being.

In addition, the Council believes that there are a number of issues, which, taken together, suggest what might be termed a *cohesion challenge* between the economy and wider society. An analysis of unemployment, poverty, weak labour-market attachment, low pay and productivity, and precarity of work, suggests that some cohorts continue to be weakly connected to the labour market due to these key issues.

These two challenges, and the factors contributing to them, are discussed in the remainder of this chapter.

3.2 Capacity Challenge

The resilience of Ireland's economy is evident in its export, employment, and revenue-generating performance after the economic crash, through Brexit, the COVID-19 pandemic, and the current inflation crisis.

Yet this resilient performance is threatened by significant capacity constraints that persist in transport and energy infrastructure, housing, and health and childcare services. Such constraints present a vulnerability to society as well as to the economy, impacting well-being and Ireland's attractiveness to investors. The National Competitiveness and Productivity Council (NCPC) refers to what it calls the 'carrying capacity of the Irish economy and the public sector' (NCPC, 2022a: 8).[19] Vulnerabilities in physical and social infrastructure create 'delays and blockages which can impede Ireland's competitiveness and productivity' (*ibid*.).

Capacity constraints and limitations are, of course, not peculiar to Ireland. In the Netherlands – another prosperous economy – the population is growing rapidly, labour shortages are worsening, and access to affordable housing is constrained, leading the Netherlands to be described as 'probably the first country to hit the limits of economic growth' (Kuper, 2022: 1).

The majority of Government Departments report underspending their capital allocations. At the end of June 2022, there was a €584 million underspend on capital investment, with the two largest capital spending sectors accounting for one-half of that underspend: housing (€153 million unspent) and transport (€151 million unspent) (DPER, 2022). It is considered probable that overall capital spending will come in under forecast for 2022 (IFAC, 2022a).[20] This underspend and delays in projects are due, in part, to price inflation in construction materials, fuel, and energy.

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[18] Over the intervening decades, the Council and the NESC Secretariat have examined in great detail the governance and institutional framework for policy-making in the realm of sustainability and the environment, and continue to probe these issues. See www.nesc.ie.

[19] This issue is to be revisited in a future NCPC publication.

[20] It should be noted that, due to the uneven nature of drawdown across the year, the final outturn profile may differ.

Capacity to deliver is also constrained by supply chain disruption and the availability of labour, all of which have been shaped by the pandemic. In general, shortening supply chains has the potential to improve resilience.

IDA Ireland has pointed out that Ireland's future success will depend on improving the carrying capacity of the economy in the immediate and medium term (IDA, 2022b). The agency highlights housing, energy, water, and wider infrastructure as key areas. It acknowledges that managing costs in the current inflationary environment and executing planned capital projects will be challenging, but policies that support the continued availability of talent are critical to maintaining Ireland's competitiveness.

There are skills shortages or potential shortages among quantity surveyors, civil engineers, construction project managers, plumbers, and carpenters. Demand for healthcare workers is evident in the almost 5,000 new employment permits issued for the sector in 2021 (McNaboe *et al.*, 2022).

Demographic change and the war in Ukraine are increasing the demand for teachers. Primary school principals in Dublin city describe a chronic shortage of teachers, which is having a 'devastating' impact on vulnerable children including those with special educational needs (O'Kelly, 2022: 1). Difficulty is reported in sourcing substitute teachers to cover staff absences, and for filling permanent teaching positions.

SOLAS also reports skills shortages among healthcare assistants, and labour shortages among care workers. The vacancy rate in the retail sector has risen from 0.5 in 2019 to 1.1 in 2021. In the transport sector there are potential skills shortages among heavy goods vehicle drivers, and labour shortages among taxi drivers (McNaboe *et al.*, 2022).

The housing crisis is impacting labour supply across sectors. For example, almost two-thirds of large American firms in Ireland expect to hire staff over the next twelve months, but say that housing for workers is an issue if they want to expand (American Chamber of Commerce Ireland, 2022) – see Section 3.2.1 for more on this issue.

In the health sector, the shortage of affordable housing is also impacting the recruitment and retention of staff. It is claimed that in one large nursing teaching hospital, only 43 per cent of the most recent graduating class now remains in the hospital, with the lack of affordable housing being a major factor in nurses not choosing to work in that hospital (INMO, 2022).

Service constraints and deficits are apparent in the economy. In relation to healthcare, for example, the proportion of intensive care and acute care beds in Ireland is well below the Organisation for Economic Co-operation and Development (OECD) average, while occupancy rates are too high (Shine & Hennessy, 2022). Waiting lists are long for some services, such as out-patient services, and other services such as speech and language therapy, ophthalmology, and psychology (*ibid*.).

Difficulties accessing housing and suitable childcare, and the costs of medical care once medical cards expire, are a disincentive to entering the labour force (NESC, 2018).

Overall, access to services such as health, transport, education, and housing is often more important in securing people's living standards and participation in the economy and society than having a higher monetary income (NESC, 2005).

3.2.1 Focus on Housing

Housing is a vital supporting service for the economy, as well as a key dimension of inequality and inclusion (OECD, 2020). Bowman *et al.* (2021) argue that the impact of housing shortages is profound and wide ranging, not just preventing many from ever affording their own homes but also driving inequality and climate change, and negatively impacting on productivity.

Housing markets that do not work well undermine sustainable and equitable economic progress. Property markets can be large and subject to sharp swings, shaping, to a significant degree, a country's exposure to crises, economic resilience, and capacity to recover from shocks. Housing market developments also influence the business cycle and macroeconomic trends. Housing affordability affects Ireland's ability to retain and attract skilled workers, with rising costs reducing real incomes for workers and standards of living (NCPC, 2022b). A recent report showed that over 70 per cent of companies identified the availability of housing for staff as a challenge to their business operations in 2023, with 30 per cent identifying it as a major challenge (Ibec, 2023). Over 27 per cent of businesses identified the impact of housing availability on employees as one of their top three external priorities for their business.

The Irish housing market has been exceptionally volatile over the past three decades. Ireland's property bubble in the years up to 2007 and the subsequent economic collapse arising from the global economic crisis had a devastating impact; since then, recovery in housing supply has lagged behind demand. While the number of housing units has risen from 1.46 million in 2002 to 2.12 million in 2022, between 2011 and 2022 the increase in the number of housing units did not keep pace with population growth. The growth in population was 12 per cent in this decade, but the number of housing units increased by 7 per cent, leading to a shortage of housing, particularly in urban areas.

The COVID-19 pandemic had a significant negative impact on supply chains, skills, materials costs, and the funding environment, and hence on the delivery of new housing supply – again showing how separate but parallel crises can interact to create more negative outcomes overall.

Today, housing is being described by Government as the single most urgent and important social issue facing our country, and homelessness is at record levels. There have been strong increases in average house prices, from €180,000 in 2000 to €270,000 in 2010, and to €340,000 in 2022 (Duffy, 2002; BPFI, 2022), with the financial crisis leading to volatility in these prices. The overall price increase, coupled with regulation of mortgage approvals and a shortage of supply, has been felt differently by those in different tenures over time, for the following reasons:

1. First, home ownership has become more expensive and difficult to access, particularly for those on lower incomes. It has fallen to its lowest levels in four decades, from 77 per cent in 2002 to 68 per cent in 2016. Ownership rates among those in the lowest socio-economic classes have fallen the most, and only 30 per cent of lone parent households own their home. The age at which people are buying their first home is also increasing.

2. Second, the shortage of supply and difficulties accessing mortgages has contributed to problems in the rental market, with average advertised rents more than doubling since 2011 (Lyons, 2022), and advertised supply at its lowest ever. While the price of housing has risen for all, it is renters who carry the highest cost burden.

For social renters, the amount of household expenditure devoted to housing increased from 7 per cent in 2000 to 17 per cent in 2016, and for private renters this increased from 21 per cent to 27 per cent.[21] Mortgage holders, in contrast, spent 10 per cent of household expenditure on housing in 2000 and 17 per cent in 2016 (Fahey, 2018). In 2021, 16 per cent of those renting were in arrears with rent (approximately 81,000 households), compared with 5 per cent of owner-occupiers (CSO, 2022f).

Those most affected by the stress of renting accommodation, and the decline in housing wealth, are young people, people on lower incomes and on social welfare, single people, people with children, and migrants (Threshold & CIB, 2022). Many of these are key groups that drive economic and population growth, suggesting that the vulnerability that these groups experience personally could also impact economic prosperity in Ireland.[22]

Increases in house prices, rents, and mortgage interest rates impact household wealth, income, and expenditure, which can feed through to aggregate demand and inflation. Furthermore, house price fluctuations affect residential investment, and thereby gross domestic product (GDP / GNI*), as well as living standards (OECD, 2019a).

[21] These data cannot be updated for 2021 because of delays in conducting the CSO Household Budget Survey 2019–2020, due to the COVID-19 pandemic.

[22] The Council has published a report *Private Rental in Ireland* (NESC, 2023) which outlines measures to alleviate pressures in this sector.

Box 3.1: Selected Housing Data

Homelessness:

- There were 11,542 homeless people in Ireland in November 2022, a record high for the State.

Housing completions:[23]

- Increased from 14,299 in 2017 to 20,553 in 2021;
- Stagnated in 2020 and 2021 due to the COVID-19 pandemic; and
- Reached 29,851 in 2022, ahead of the target in *Housing for All* of 24,600.

Tenancies:

- There was a fall of almost 44,000 (13.6 per cent) in the number of registered private rental tenancies between 2016 and 2021 (the number of tenancies for 2021 is a Residential Tenancies Board (RTB) estimate); and
- There were 2,798 notices of intention by landlords to terminate tenancies received by the RTB in the first half of 2022, more than was the case for all of 2021.

Rents:

- Rent in new tenancies increased by 8.2 per cent in the second quarter of 2022, relative to the same quarter in 2021.

Residential property prices (houses and apartments):

- Residential property prices increased by 8.6 per cent nationally in the year to November 2022. The national index is now 3 per cent above its highest level at the peak of the property boom in April 2007.

Migration:

- There were an estimated 67,448 arrivals from Ukraine by December 2022;
- There were 19,878 applicants in International Protection Accommodation Services (IPAS) accommodation (including 81 people in tents) in January 2023, compared with 10,447 in March 2022; and
- There were 4,625 people with immigration status living in IPAS due to lack of alternative accommodation at the end of October 2022.

Source: DHLGH, 2023; CSO, 2023a; RTB, 2022a; RTB, 2022b; CSO, 2023b; CSO, 2022a; DCEDIY, 2023; Minister for Children, 2022.

Housing supply is now increasing, and 2022 saw the highest rolling 12-month total for completed dwellings since the Central Statistics Office Ireland (CSO) series began in 2011 (Government of Ireland, 2022a). The number of completions reached 29,851 in 2022, ahead of the target in *Housing for All* of 24,600 for 2022. However, this is well below the 33,000 annual new homes that the *Housing for All* strategy estimates is required.

[23] The CSO issued a statement in February 2023 about data issues related to the estimation of 'New Dwelling Completions'. See www.cso.ie.

Furthermore, some commentators foresee a slowdown and estimate much higher demand for housing: for example, up to 49,000 units per year under certain assumptions regarding future household size and migration (Lyons, 2021). Whatever the specific figure, demographic trends will shape the scale, type, and location of housing required, and responding adequately is inextricably linked to Ireland meeting the *capacity challenge* and improving overall economic resilience in the medium term.

3.3 Cohesion Challenge

The State has taken significant steps in recent times to support the most vulnerable in society. These include extraordinary supports provided during the pandemic as well as cost of living packages, alongside broader improvements in welfare payments and services. Budget 2023, at €11 billion, was, in both relative and absolute terms, the largest ever programme of direct State support for families and businesses. In February 2023, a €1.2 billion package of additional cost of living measures for families, businesses, and the most vulnerable was announced. There have also been positive changes for workers in the areas of statutory sick pay, flexible working, and the move to a living wage.[24]

However, while there are overall cyclical patterns in the unemployment rates, there are certain cohorts for which there is little change. The population living in jobless households has also followed something of a cyclical pattern, but the proportion is higher than the proportion unemployed, with 10 per cent of adults living in jobless households in 2004, 16 per cent in 2012, and 10 per cent in 2019 (CSO, 2022e; CSO, 2012; Watson *et al.*, 2015).

The unemployment figures for people with a disability have hardly changed since the early 2000s (when 33 per cent of people with a disability were in employment), while employment rates have declined for those with a history of low education (Roantree, 2020).

Some 34 per cent of Irish lone parents with at least one child under the age of 15 were working full-time in 2019, and 28 per cent part-time (OECD, 2019b); that is, 62 per cent were working in 2019 versus 35 per cent in 2000 (NESF, 2001). However, the high proportion working part-time is a concern for income adequacy.

The proportion of adults living in very low-work-intensity households in Ireland, at 13 per cent in 2019, is the third-highest in the European Union (EU). The proportion of women and lone parents in such households is over twice the EU average; for low-educated women, it is 2.5 times the EU average (Nugent, 2021). These groups are all strongly impacted by poverty. Approximately 42 per cent of single parents (mostly mothers) were in a very low-work-intensity household in 2019 (*ibid.*).

The vast majority of firms and almost 80 per cent of workers do not receive the full suite of direct enterprise supports for the reasons set out in Section 2.2.3. Low pay, low hours of work available, and precarity are features in many firms and sectors, and are a reality of life for many workers.[25]

The National Competitiveness and Productivity Council's (NCPC) latest report highlights what it calls 'the problem of low pay', which, it indicates, 'is much greater in Ireland than in most EU countries' (NCPC, 2022b: 64). Using the OECD threshold for low pay, defined as the share of workers earning less than two-thirds of median earnings, the Irish figure of 18 per cent of workers is the ninth-highest in the EU and the fourth-highest in the euro area. This figure also exceeds the average for both the OECD and the EU (27).

The UCD Working in Ireland Survey 2021 – a nationally representative sample of 2,076 working adults – shows that one in five full-time workers under the age of 35 earn less than €20,000 per annum, which approximates to the National Minimum Wage (NMW) hourly rate (Gallagher & Nugent, 2022). This comparatively high incidence of low pay equates

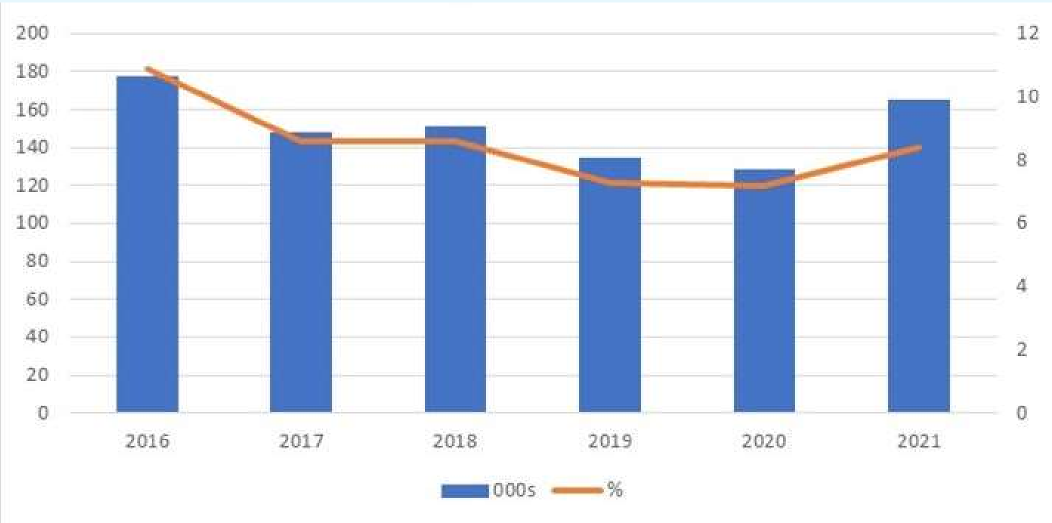
[24] The introduction of a living wage was announced in 2022, and will see annual increases in the minimum wage until it reaches 60 per cent of the median wage, in line with the recommendations of the Low Pay Commission. In 2023, it is estimated that 60 per cent of median earnings would equate to approximately €13.10 per hour.

[25] It is important to note here that the number of precarious workers will include students working part-time. Furthermore, there are strong environmental and social cases to be made for fewer working hours in certain instances.

to approximately 450,000 individuals and is indicative of both social and economic vulnerabilities within the Irish labour market, notwithstanding its resilience in terms of its capacity to create employment opportunities.

The number of employees reported earning the NMW or less fell from 177,800 to 128,800 between 2016 and 2020 (Figure 3.1). This downward trend was reversed in 2021 as the numbers earning the NMW or less rose sharply to 164,700. In terms of the share of employees earning the NMW or less, this fell from 10.9 per cent to 7.2 per cent between 2016 and 2020, before increasing again to 8.4 per cent in 2021.

Figure 3.1: Total Number/Share of Employees (aged 15+) Earning NMW or Less, 2016–2021



Source: LPC, 2022b.

Although modest, this increase in the share of employees earning the NMW or less does warrant consideration in the context of the Government's commitment to promoting better-quality, sustainable, and rewarding employment. It is worth noting that the current NMW of €10.50 per hour for 2022 equates to just 50.2 per cent of the median wage for this year – and this assumes that adequate hours can be secured.

The gender breakdown of all NMW employees has rarely deviated from a 55/45 split between women and men. Although previous research suggests that a disproportionate number of non-Irish nationals earn the NMW, this difference has declined significantly over time.

In 2021, 17.6 per cent of NMW workers were non-Irish nationals, which is only marginally higher than their share of all workers (17.5 per cent).

Young people (aged 15–24 years) remain the most highly represented group, accounting for 54.3 per cent of all NMW employees while making up only 12 per cent of all employees. Among employees aged 15–24 years, over one-third (37.8 per cent) are on the NMW compared with just 3.4 per cent of employees in the 25–34-year-old age group.[26]

[26] Note that while one is not a sub-set of the other, those sectors with a significant number of employees on the NMW are also those that have a significant number of employees who are students. For example, in Q3 2022 there were 6,000 students employed in agriculture, 37,200 in wholesale and retail, and 42,300 in accommodation and food services.

At the same time, it is worth noting that nearly one-third of NMW employees are older than 34 years of age. Recent research commissioned by the Low Pay Commission suggests that almost one in every six workers aged over 50 are on low pay, a group totalling approximately 80,000 individuals in 2018 (Collins & O'Dare, 2020). These low-paid older workers comprise one-fifth of the total low-paid population.[27]

Relative to all employees, older workers carry a lower risk of being low-paid, with one in six earning less than the hourly low-pay threshold (€11.65 per hour in 2018), compared with one in four of all employees.[28]

This analysis confirms the relationship between earnings and education in the Irish labour market, as 63 per cent of older low-paid workers (50,000 people) have not completed education beyond secondary school level.

Furthermore, research shows that non-Irish nationals are generally more likely to be found in lower-quality jobs, and that a *migrant wage gap* exists in Ireland (Laurence *et al.*, 2023). Analysis reveals that non-Irish nationals earn, on average, 22 per cent less per hour than Irish nationals – for every euro an Irish worker earned, a non-Irish worker earned 78 cent. It also shows that this earnings gap differs significantly, depending on country of origin. For example, even when specific characteristics (e.g. education level; nature of job and firm) are controlled for, eastern Europeans still earn 20.5 per cent less than Irish nationals. Laurence *et al.* also find that non-Irish women experience a double earnings penalty: for being female and for being migrant: 'Non-Irish women earn 11 per cent less than non-Irish men, and non-Irish men earn 18 per cent less than Irish nationals. In fact, non-Irish women earn 30 per cent less than Irish men' (Laurence et al., 2023: viii and ix).

There is a strong sectoral pattern to the distribution of minimum-wage employees with two sectors, *accommodation and food* and *wholesale and retail* accounting for approximately 54.4 per cent of all NMW employees in 2021 (see Table 3.1). This equates to slightly more than 89,000 workers. The fact that these two sectors combined have consistently accounted for more than 50 per cent of all NMW workers reveals the intrinsic low-pay characteristic of employment in these sectors (LPC, 2022b).

Table 3.1: Employees Earning the NMW or Less, by Sector, 2019–2021

Sector	Average no of employees earning NMW or less (000s)			Proportion of employees within each sector earning the NMW or less (%)		
	2019	2020	2021	2019	2020	2021
Agriculture, Forestry & Fishing	4.6	5.7	6	3.3.	4.4	3.6
Industry (inc. construction)	16.1	17.1	21.5	11.9	13.3	13
Wholesale & Retail	37.3	37.8	50.4	27.7	29.4	30.6
Accommodation & Food	39.5	31.1	38.8	29.5	24.1	23.8
Administrative & Support Services	5.8	6	7.8	4.3	4.8	4.3
Human Health & Social Work	7.5	11.1	10.4	5.6	8.6	6.2
Other NACE sectors	11.7	8.9	10.5	8.8	6.9	6.5

Source: LPC, 2022b: 38.

The Citizens Information Board (CIB) (CIB, 2022) states that there continues to be a significant proportion of people who can be defined as working poor, i.e. people with jobs who are still at risk of poverty. It observes that there is only a marginal difference in the risk of poverty experienced by a significant number of people at work and those who are unemployed. Feedback from CIB-funded services consistently points to the fact that having paid work does not, by itself, necessarily guarantee a poverty-free existence.

[27] See Chapter 4 for more on pensions and the auto-enrolment scheme.
[28] Low pay is defined as less than two-thirds of hourly median earnings.

Doorley *et al*.'s (2022) analysis of Survey on Income and Living Conditions data shows that adults at risk of poverty have not only the lowest number of hours worked, but also the lowest mean hourly wage. Children growing up in households at risk of poverty have subsequent poorer outcomes in cognitive and educational attainment, school engagement, socio-emotional development, life satisfaction, self-concept, and health (Maître *et al.*, 2021). The consistent poverty rate of children is now higher than in 2001.

The number of workers living at risk of poverty is put at 93,000 (SJI, 2022). At least 45,000 workers with 103,000 children have a weekly family income below the threshold of adequacy for the family's size (DSP, 2022b).[29] These working families avail of an average weekly payment of €140 (Working Family Payment (WFP)) from the State to supplement the wages from their employers, despite Ireland's NMW policy and other workplace regulations.[30]

Pembroke (2018) argues that the Irish labour market is characterised by the increased incidence of precarious work – income unpredictability, employment insecurity, and limited access to social security – and contends that this trend will continue both in general and within certain sectors.

Research by McGuinness *et al.* (2018) found that 'contingent' or non-permanent employment has decreased to pre-recession levels to below the EU average. To an extent, the evidence on the prevalence and growth of at-risk categories of precariousness in Ireland is mixed (Nugent *et al.*, 2019). These authors do contend, however, that there is evidence of a growth in the share of several at-risk categories of precarious work, including underemployment, marginal part-time work, part-time temporary contracts, and involuntary temporary contracts.[31]

Certainly, it would appear that there are specific sectors, notably wholesale and retail, accommodation and food services, and tourism and care, in which low pay and less favourable terms and conditions of employment are more prevalent. The COVID-19 experience highlighted the less than favourable terms and conditions of many essential workers in Ireland and indeed across the EU (FitzGerald, 2020).

Drawing on subjective measures of security, the UCD Working in Ireland 2021 Survey indicates that one in five young workers (aged 16–34) are simultaneously worried about losing their jobs, a reduction in pay, and their ability to secure a new job (Gallagher & Nugent, 2022). These insecure young workers are at significant labour-market disadvantage compared with their more secure contemporaries.

Low levels of employment, low levels of work, and high precarity lead to low levels of market income, and the groups with the lowest employment rates were among those most affected by poverty in the early 2000s, and remain so.

Table 3.2: Consistent Poverty Rates of Various Groups, 2001–2022[32]

	2001	2011	2022
Lone parents	23.7	16.4	14.1
Unable to work due to long-standing health problems	22.5	11	19.7
Unemployed	17.8	16.5	18.0
Children (under 18 years of age)	6.5	9.3	7.5
Older people	3.9	1.9	3.3
National rate	**5.2**	**6.9**	**5.3**

Source: CSO, 2023c; CSO, 2019; CSO, 2013b; CSO, 2003; Callan et al., 1999.

[29] For example, the threshold for a working family with two children is €652 per week (or €33,904 per annum).

[30] The Council has already stated that there is a need to support low-paid workers without children who are at risk of poverty, by amending the WFP or by introducing a refundable element to personal and employee tax credits (NESC, 2020b). In December 2022, the Government published a proposal for a Working Family Payment model to address welfare and work issues (DSP, 2022a).

[31] Important actions have been taken by Government: the Employment (Miscellaneous Provisions) Act 2018, in particular, is designed to improve the security and predictability of working hours for employees on insecure contracts and those working variable hours.

[32] The 2019 figures are used as the changes in welfare income during 2020 and 2021 may not provide a consistent picture of poverty levels.

The data show that the consistent poverty rates of the unemployed, lone parents, and those unable to work due to a longstanding health problem were the highest poverty rates in 2001, and are again in 2022, despite the valuable work done by social transfers. Also of note is the increase in consistent poverty among older people, after a long period of significant improvement between the early 2000s and 2020.

These groups also have very low wealth. In 2020, the median net wealth of lone parents was €4,000, and that of the unemployed was €5,000, compared with €193,100 on average (CSO, 2022d). Low net wealth means low resilience and little or no 'cushion' that can be relied on during periods of economic stress, illness, etc.; from a developmental point of view, it reduces the capacity of these groups to take part in, for example, furthering their education. Low net wealth weakens the sense of connection to the economy and overall cohesion.

More broadly, income inequality is high in Ireland before the tax/welfare redistribution system is applied. The ability of welfare systems to top up market income across economic cycles is a limitation of economic strategies. CSO data for 2022 found disposable income equality (measured by the Gini coefficient) to be 28 per cent but, if calculated using market income only (i.e. employment, pension, and other income), it would have been over 48 per cent (CSO, 2023c). Concerns have been raised about the sustainability of progress on poverty reduction, should the focus of policy shift away from welfare increases and supports for those households on the lowest incomes (SJI, 2022).

Thus, while income distribution has become more egalitarian during the period of economic growth, the distribution of wealth has become more unequal. Comparable data from 2000 are not available, but data from 1987 show that the Gini coefficient for net wealth was 0.52 in Ireland, increasing to 0.68 in 2022 (Nolan, 1991; Daly, 2022).

The growing inequality is linked partly to increased ownership of financial assets and businesses among the wealthier, and linked particularly to falling rates of home ownership, which is most evident among those with lower incomes and less wealth.

There are also some regional disparities with, for example, the proportion of people in consistent poverty ranging from 4.1 per cent in the northern and western region to 4.5 per cent in the eastern and midland region, and to 5.1 per cent in the southern region (CSO, 2020b). These outcomes have implications for trust and social cohesion.

3.4 Conclusion

Overall, Ireland's enterprise economy has proven remarkably resilient through a variety of crises. By many metrics, Ireland today is a prosperous and successful country. The policy focus on an competitive, innovative, and export-orientated enterprise base has generated record levels of employment and higher living standards, and has provided significant tax revenue to the State in order to meet wider, societal ambitions.

However, for that policy to remain sound, persistent vulnerabilities must be named and tackled. The Council has outlined two core challenges – regarding capacity constraints and the cohesion between the economy and society – which interact to create economic vulnerabilities. Unemployment and income insecurity within the labour market are associated with growing levels of societal inequality. This has the potential to generate substantial negative externalities for the State in terms of both the loss of tax revenue and increased welfare expenditure to mitigate the effects of 'bad jobs', particularly in terms of higher levels of income transfers and health expenditure.

The potential impact of low pay and precarious employment on social spending was highlighted in a review of the operation of the WFP (DEASP, 2018). This review noted that the rapid and sustained increases in the number of families in receipt of supports, coupled with the dangers associated with any growth in the incidence of precarious employment, make it all the more important to ensure that the income support system does not inadvertently contribute to a rise in the number of people in low-paid, insecure employment.

Therefore, concerted policy action in the context of an overall vision is necessary.

Chapter 4

Vision and Action in Turbulent Times

4.1 Introduction

Economic resilience is the capacity of an economy to reduce and absorb shocks, and to recover quickly from them. The Irish economy is showing itself to be resilient in a context of enormous uncertainty and turbulence. The policy system is quite rightly focused on the ability to prioritise and respond to the varying demands that this turbulence creates.

This report concentrates on the medium- to long-term challenge of ensuring that the Irish economy aligns with a vision and ambition to create and shape a better future for Ireland.

That vision for Ireland is one previously developed by the Council, namely:

> *A resilient, sustainable, thriving net zero economy, environment, and society, using innovation and collective preparedness to shape the future we want to achieve (NESC, 2020a).*

Resilience is at the heart of this vision and is a key concern in this report, given the recent and ongoing upheaval. Resilience refers to the capacity at the individual, local, regional, and national level to cope with forces of change and general uncertainty, and to undergo transitions in a sustainable and fair manner (Weichselgartner & Kelman, 2015; FitzGerald, 2019).

Place-based approaches to economic development can only enhance national resilience and, over the past five years, a strong hierarchical framework has been installed via the 2018 National Planning Framework (NPF). This includes an enhanced role for the regional assemblies through their Regional Spatial and Economic Strategies. The upcoming review of the NPF creates a window of opportunity to ensure that the work of central government and its agencies is complemented by regional and local bodies in order to maximise resilience.

One way of working towards resilience is by performing 'futures and foresight' exercises. These can provide useful guidance insofar as they help identify early signs of disruption and broaden the scope of what is considered relevant; stress-test plans; and generate shared language for action (OPSI, 2021: 3). Foresight exercises are ongoing within the Irish governmental system, such as the National Risk Assessment process and the Department of Public Expenditure and Reform's work on strategic foresight.

The Council's analysis complements, rather than substitutes for, that type of work: this report is a future-facing reflection based on research and dialogue with stakeholders about key medium-term issues and the effort to generate a shared language for action.

The report focuses on three core economic components that the Council argues are central to ensuring Ireland continues to transition towards this vision and the enhanced resilience that it encompasses:

- i Fiscal sustainability and investment;
- ii Progress to net zero; and
- iii Making work attractive.

4.2 Fiscal Sustainability and Investment

Fiscal sustainability is critical to achieving the Council's long-term vision. Resilience in the face of uncertainty depends upon 'the ability of a government to sustain its current spending, tax, and other related policies in the long run without threatening its solvency or defaulting on some of its liabilities or promised expenditures' (European Commission, 2017).

Public policy faces a challenging balancing act between the need to respond to short-term pressures, and the imperative of building a more resilient economy in the face of medium- to longer-term economic transitions (Central Bank, 2022a). Policy action is clearly needed to relieve short-term pressures. The Central Bank argues that to build economic resilience across households, businesses, and the wider economy, it is necessary to have:

- Stable and sustainable macroeconomic frameworks and sound monetary policy that deliver low, stable, and predictable inflation;
- Well-regulated financial systems and well-functioning markets; and
- A framework for saving excess tax revenue.

These factors contribute to economic resilience by creating buffers in the public finances, enabling the State to respond appropriately to negative future shocks, and facilitating necessary capital expenditure both now and in the future. This can deliver economic resilience and reduce the ultimate cost of adverse shocks when they occur. Importantly, maintaining investment levels over time must be seen as inherently countercyclical and as sound economic policy.

The Council supports such an approach to fiscal sustainability as a core tenet in creating and securing a better future for Ireland.

4.2.1 Meeting Future Costs

Ireland is projected to have one of the largest increases in annual age-related expenditure in the European Union (EU) over the coming decades, behind only Luxembourg and Slovakia. Overall, projected age-related expenditure in Ireland, as a proportion of GNI*, is set to overtake the EU and euro area average over the next 20 years (DoF, 2021).

In the longer term, annual age-related expenditure is projected to increase by 31.5 per cent of GNI* by 2070, an increase of 6.2 per cent of gross domestic product (GDP), or 10.1 per cent of GNI*, compared with annual expenditure in 2019 (*ibid.*). Expenditure on healthcare and long-term care is projected to increase by 2.3 and 3.1 percentage points of GNI*, respectively, under the baseline scenario.

In particular, it is well recognised that the Irish pension system faces significant demographic, adequacy, and sustainability challenges arising from an ageing population. The largest single component of ageing-related expenditure – pension-related expenditure (approximately 7 per cent of GNI* in 2019) – is projected to increase by 4.9 percentage points, accounting for around one-third of all age-related expenditure by 2070.

Demographic change means that funding for pension spending will be sourced from a smaller share of the working population (see Chapter 1), resulting in pressure on the Social Insurance Fund (SIF). Furthermore, Ireland has a very low level of private pension coverage, with only around 35 per cent of the private sector-employed population covered by a supplementary pension (Government of Ireland, 2022b). To address this, the introduction of auto-enrolment, which has long been in the pipeline, is now significantly advanced, with a view to commencing in 2024.

Apart from impacts on expenditure, population ageing will also affect key fiscal indicators such as the debt-to-income ratio. Age-related increases in public expenditure and a slower pace of revenue growth are projected to lead to the emergence of a significant deficit by the end of the next decade, reaching just below 3 per cent of GDP (-4.7 per cent of GNI*).

This deficit is projected to continue to increase sharply thereafter, reaching just below 6 per cent of GDP (-9.3 per cent of GNI*) by 2070, unless there is some policy intervention.

As a result of these developments, the debt-to-income ratio is projected to increase by 54 percentage points of GDP, or 85 percentage points of GNI*, to reach 111 per cent of GDP (180 per cent of GNI*) by 2070. This does not take into account second-round effects such as a likely associated increase in our risk premium, with adverse implications for sovereign borrowing costs and the cost of interest.

It should be noted that expenditure will decrease in some areas, such as education and childcare, due to population ageing. For example, projected expenditure on education is expected to decrease by 0.2 percentage points over the projection period, to 5.1 per cent of GNI*.

Nonetheless, both the revenue and expenditure side of Ireland's fiscal accounts will be adversely affected by this demographic change. Without significant structural reforms, a large deficit will emerge, and the debt ratio will move onto an unsustainable path, with significant effects on our fiscal and economic resilience.

The Council's view is that there is value in establishing a fund to make a contribution towards future costs. There is a case for planned annual increases to such a fund, while there would also be benefits in investing possibly temporary corporate tax windfalls in it (Box 4.1). The Council recommends actively exploring options for doing this as one element of bolstering economic resilience.

Overall, a comprehensive approach to this challenge is needed, one that goes beyond fiscal sustainability, funding, and equity in order to consider the system as a whole. It could, for example, look ahead to the proportion of workers required to deliver adequate health and social care.

Box 4.1: Preparing for Future Costs

The challenge of meeting the projected rise in the cost of the State Pension was recently examined in a report by the Commission on Pensions. It recommended meeting rising costs through a combination of: (i) increasing Pay Related Social Insurance (PRSI) contributions from employees, employers, and the self-employed; (ii) broadening the base for PRSI; (iii) gradually increasing the pension age; and (iv) a permanent annual contribution by the Exchequer to the SIF. The Commission recommended establishing a dedicated State Pensions account within the SIF to which Exchequer contributions would be made.

The Commission considered the merits of pre-funding the increase in State Pension costs through a reserve fund along the lines of the earlier National Pensions Reserve Fund (NPRF). It acknowledged that doing this would have some advantages but did not recommend it. Its concern was that 'in practice it is likely that the money in a new pensions reserve fund would be used by the State for reasons other than its intended purpose (for instance, during a major economic downturn)' (Pensions Commission, 2022: 72).

The possibility of this happening in the event of introducing a reserve fund cannot be dismissed, as the experience of the NPRF demonstrates. It can be argued that it was nonetheless advantageous to have such a fund in place. While the NPRF no longer exists, the State still owns assets in the Ireland Strategic Investment Fund (ISIF) that originated from the resources of the NPRF, including the State's remaining shares in Allied Irish Banks. The use of the money in the NPRF for other purposes took place in what was an exceptionally severe economic crisis. Economic downturns are to be expected, but contractions on the scale experienced in Ireland in the years 2008 to 2012 are rare events.

Ireland has a rainy-day fund, formally known as the National Reserve Fund. This was created in 2019 to deal with economic shocks, using money from the ISIF. This fund was used during the COVID-19 crisis. In 2022, €2 billion was put into this fund and a further €4 billion will be allocated to it in 2023.

A fund to address the future cost of ageing would have a different remit. The Irish Fiscal Advisory Council has recently suggested a reconsideration of the National Reserve Fund.

The fund's importance as a tool is diminished by the more important roles of the Government's 5 per cent Spending Rule and the adjusted general Government balance (i.e. adjusted for excess corporate tax receipts). A fund with liquid assets could prove helpful in future downturns, but the State has already amassed large cash buffers elsewhere, with further surpluses adding to these. In addition, the current design shortcomings of the National Reserve Fund will limit its effectiveness.

One option for the Fund might be to redefine it as a new Pension Reserve Fund. This would set a new goal for the large assets that are being accrued, give it a mandate to invest in assets with potentially greater returns, and help deal with a longstanding problem – the expected shortfall in pension funding over the coming decades. In particular, it could take some of the pressure off the tax system having to raise additional revenues to meet these shortfalls (IFAC, 2022b: 87).

4.2.2 Sustained Investment

The Council's stated vision for Ireland (NESC, 2020a), and the resilience it emphasises, also depends upon accepting the need to invest in capital and infrastructure, supportive services, human capital, energy security, and enterprise development.

The Council believes that this wider investment needs to be sustained and targeted such that it would enhance and improve economic resilience. The National Economic and Social Council (NESC) argues that maintaining investment levels over time must be seen as inherently countercyclical and as sound economic policy. At the same time, private investment has played an important role in areas such as housing, infrastructure, and enterprise. Attracting private investment will remain a core requirement if we are to address the *capacity challenge* described in Section 3.2.

Chapter 3 highlights the need for investment in housing, demonstrating that housing is now a critical constraint on economic progress. The challenges to society posed by the issues of access to, and affordability of, housing are also a challenge to foreign direct investment (FDI), labour availability/costs, and economic prosperity.

The Council's overarching message on the ongoing housing emergency is that the challenges must be tackled in the context of the system. Ireland must change its system of urban development, land management, and housing provision, as the system is dysfunctional and a wide range of actions are required to fix it.[33]

The work of the Housing Commission, established at the end of 2021, will be important in this regard. The Commission is mandated to explore options for creating a long-term sustainable housing system, including provision of an appropriate level of housing supply that meets requirements and is affordable to buy or rent. In addition, the Commission will examine areas such as the capacity of the construction sector, sustainability, and the future of the social housing sector. The Commission is also examining potential wording in relation to a referendum on housing. The Commission is expected to report in July 2023.

The Council has been at the fore in arguing that a better housing system must be stable, affordable, and sustainable, in economic, social, and environmental terms. It sees a better housing system for Ireland as one that more proactively manages land and other resources in order to deliver permanently affordable homes. This means ensuring that development takes place and engineering affordability into that development (NESC, 2020c). The proactive role of the Land Development Agency in bringing forward large-scale housing developments, and developing the cost-rental model at scale, are crucial in this regard. Most recently, the Council made policy recommendations to ease pressures in the private rental sector (NESC, 2023).

Furthermore, there must be an openness to new ideas and projects and pilots that will, over time, move the current system of housing, its institutions, working arrangements, and practices, more in line with an overarching vision. Making rapid and substantial progress on this agenda is a cornerstone in enhancing economic resilience and societal well-being.

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[33] The Council has made recommendations in this regard in Report No. 150, *Housing Policy: Actions to Deliver Change* (NESC, 2020c).

4.3 Acting to Realise Net Zero

4.3.1 Introduction

The current climate and biodiversity emergencies demand change. The fundamental structural change associated with the move to net zero has the potential, in the medium to long term, to enhance Ireland's economic resilience by shielding consumers and firms from price spikes, enhancing security of energy supply, supporting the achievement of our climate objectives, and helping protect the economy for the undoubted impacts of climate change and biodiversity loss.

A climate-neutral economy or an economy with net-zero greenhouse gas (GHG) emissions is also required under law. Ireland has a legally binding national objective of achieving net-zero emissions by 2050. Such a transition in Ireland will become far easier if there is a reduction in overall energy demand, meaning that demand-reduction measures must feature most prominently among policy actions.

As noted in Chapter 1, Ireland's target under the EU's Effort Sharing Regulation (ESR) is to deliver a 30 per cent reduction of emissions compared with 2005 levels by 2030. Our national targets under the Climate Action and Low Carbon (Amendment) Act 2021 are to reduce GHG by 51 per cent by 2030 and to achieve net zero by 2050. There is also a commitment to increase the proportion of renewable electricity to 80 per cent by 2030.

However, the latest emissions data published by the Environmental Protection Agency (EPA) in July 2022 show that major developments and advances are required if Ireland is to meet these climate change targets (EPA, 2022b). In 2021, Ireland's provisional GHG emissions were estimated to be 2.92 per cent higher than emissions in 2019.

The latest EPA projections (EPA, 2022a) indicate that Ireland can achieve compliance with the EU's overall Effort Sharing Regulation (ESR) over the period 2021–2030, but – crucially – this assumes full implementation of the 2021 Climate Action Plan and taking advantage of available flexibilities.

Ireland's first carbon budget programme came into effect in April 2022 and comprises three 5-year budgets: 2021–2025, 2026–2030, and 2031–2035. These budgets represent the total amount of emissions, measured in tonnes of CO_2 equivalent, that may be emitted during a specific time period, and the first two budgets must lead to a reduction of our total emissions to 33.5 $MtCO_2$ equivalent by 2030.

As the EPA notes, to put Ireland on a linear trajectory towards achieving the Climate Action and Low Carbon (Amendment) Act 2021 target of a 51 per cent reduction in emissions by 2030 would require an annual average emissions reduction of 7.5 per cent over the remaining years until 2030 (EPA, 2022b).

Ireland's overall GHG emissions are up by 4.7 per cent compared with 2020 (and are 1.1 per cent above the pre-pandemic level). Focusing on direct economic activity, manufacturing combustion is responsible for 7.5 per cent of total GHG emissions (increased by 0.9 per cent). Industrial processes account for a small, direct proportion (4 per cent) of the total level of emissions, although industrial emissions have increased by 16.8 per cent, primarily due to the cement sector. Also, data consistently show that Ireland seems unable to decouple economic growth from waste generation (EPA, 2019).

The Council identifies four areas that are critical to transforming to a net-zero economy:

- Clean energy infrastructure;
- Reimagining enterprise;
- Developing alternative pathways to sustainable prosperity; and
- Advancing mechanisms for a transition that is just.

The remainder of this section briefly discusses each.

4.3.2 Clean Energy Infrastructure

Ireland needs to reduce its reliance on fossil fuels as quickly as possible. Reducing energy demand guards against lock-in and stranded assets. It is also vital that Ireland meets its targets in the Climate Action Plan, not only to reduce GHG emissions for environmental reasons but because of the contribution this can make to energy security and supply.

Ireland is one of the most import-dependent countries in the EU for energy, as well as having one of the highest rates of oil dependency. Energy security and supply are intrinsically linked to climate change, and global energy consumption makes a significant contribution to climate disruption and biodiversity loss (SEAI, 2020). The war in Ukraine highlights the EU's and Ireland's dependence on fossil fuels, along with the societal and economic exposure to volatile and high prices, and implications for energy security. The EU has described the clean energy transition as the best insurance against future shocks, and this transition needs to be accelerated (European Commission, 2021b).

Ireland's move to net zero will require the rapid build-out of renewable generation including wind energy; increased electricity storage; acceleration of the electrification of road transport; and a shift to transport modes with lower energy consumption, including walking, cycling, and public transport. It means ramping up delivery of retrofitting, rolling out district heating in our cities, and scaling up zero-emissions heating in commercial buildings.

All of these activities require investment at scale in infrastructure (see Section 4.2). In tandem, there must be a fundamental shift in mindsets and an openness at national and local level to ensure that the required investment and infrastructure are delivered. Research on Irish planning and social acceptance of electricity transmission and renewables indicates that significant costs are likely to occur when public acceptance is not sufficiently understood or factored into decision-making (Koecklin *et al.*, 2021). In addition, the IEA noted in 2019 that while Ireland had the support of citizens and stakeholders for the energy transition to a low-carbon economy, the construction of critical infrastructure, including renewable generation assets, is experiencing delays (IEA, 2019)

In 2014, the Council examined how social support for the transformation of Irish energy, wind energy in particular, could be better understood and achieved (NESC, 2014). The Council recommends that similar work now be undertaken to examine the societal challenges and opportunities arising from large-scale transformative investment in infrastructure for renewable sources of energy.

Ireland must tackle the barriers to necessary scale and enhance its power and capacity to build the infrastructure required for transitioning to a low-carbon world. Collaboration will be required to put in place the processes that will facilitate working through challenging issues in a more timely and constructive manner, including considering a mechanism for the provision of impartial, factual information on the impact of the proposed infrastructure.

4.3.3 Reimagining Enterprise

In 2022, the Government agreed on a sectoral emissions ceilings plan in order to meet an agreed budget of total emissions, measured in tonnes of CO_2 equivalent ($MtCO_2$ equivalent). Total emissions in Ireland were 68 $MtCO_2$ equivalent in 2018, of which industry was 7 $MtCO_2$ equivalent. Emissions from industry are to reduce to 6 $MtCO_2$ equivalent by the end of 2025, and to 4 $MtCO_2$ equivalent by the end of 2030 (Government of Ireland, 2022c). Thus, under these sectoral targets, the enterprise sector must reduce its emissions by 35 per cent by 2030.

A number of core measures have been identified to help the enterprise base make progress on these targets and towards net zero in the medium term (DoT, 2021). These measures include the faster uptake of carbon-neutral heating in industry, enabling the electrification of high-temperature heating, and the phasing out of high global warming-potential gases. Further measures include the blending of zero-emission gas and reducing embodied carbon in construction materials. In addition, there may be a role for carbon capture and storage in hard-to-abate industry sectors.

There is also an opportunity for Ireland to become a producer and exporter of clean, secure, cheap, renewable energy and fertilisers, and a leader in new technologies such as synthetic aviation fuels, autonomous vehicles, electric aircraft, and robotics (DoT, 2022).

There has been some work undertaken at the European level to explore the linkages between economic production, the environment, and environmental policy (Fazekas *et al.*, 2019). That research considers the impact of environmental policy on sectors. For example, consumer preferences and choices play a substantial role in reducing the environmental impact of the food and drink sector, and new technologies, in terms of electrification and automation, etc., will shape the environmental impact of the transport sector.

Productivity of firms is positively linked to climate action steps such as measuring CO_2 emissions. New research finds that larger and more productive firms are more likely to have climate action plans in place. However, the analysis also finds that a reasonably large share of firms have positive attitudes to the importance of climate planning, but do not report corresponding concrete actions. This suggests a gap that policy must address (Kren & Lawless, 2023). Research is also underway by the Department of Enterprise, Trade and Employment/Economic and Social Research Institute (ESRI) on a detailed model of economic activity and emissions at the sectoral level.

The National Competitiveness and Productivity Council (NCPC) has called for research on the interaction between competitiveness and measures to address climate change and biodiversity loss, with the aim of ensuring that Ireland improves competitiveness and productivity, while simultaneously meeting emission reduction targets (NCPC, 2021).[34]

Understanding the link between the particular nature of our enterprise base and our transition to net zero will become more important as the policy system devises further actions at the sectoral level in order to meet the agreed emissions ceilings and national targets, while maintaining the ability to create more good jobs.

The Council believes that research focused on shaping enterprise for net zero would be valuable as an input into national economic enterprise and climate action policy. The output of such research would complement the new *White Paper on Enterprise 2022-2023*; help ensure that the full relationship between Ireland's economy and our ambitious sustainability objectives is well understood in the policy system; and underpin future climate action plans and economic policy, thus supporting the move to net zero by 2050. This, in turn, will contribute to our overall economic resilience.

4.3.4 Alternative Pathways to Sustainable Prosperity

While there is not scope in this report to fully explore them, it is important to note some ideas around alternative pathways to sustainable prosperity. There is an extensive literature on the need for growth of a different kind, and on alternative economic paradigms such as doughnut economics and degrowth. These approaches prioritise social and ecological well-being above economic growth, or at least 'strongly signal the abandonment of the target of growth for the sake of growth' (Latouche, 2010: 519). The essence of doughnut economics is that a safe and just objective lies between a floor of well-being and a ceiling of planetary pressure (Raworth, 2018).

The Council believes that these approaches and others that will emerge over time require further exploration and policy debate to examine what they can contribute to Ireland's future development, prosperity, and progress towards net zero.

4.3.5 Mechanisms for a Fair and Inclusive Transition

When developing and implementing measures to meet demanding targets, it is vital that the societal transition is fair and inclusive, and that impacts on more vulnerable groups are considered and addressed.

The Council has detailed how groups that are more affected by the transition may include individuals who own emission-intensive household assets; communities or regions where emissions-intensive industries account for a large share of employment and economic activity; and enterprises that own emission-intensive business assets (NESC, 2020a).

[34] The Government, through the Department of Enterprise, Trade and Employment, has signed an agreement with the ERSI to put in place a joint research programme. Research to date under that agreement has not covered the specific topic raised here by NESC.

Specifically regarding fiscal measures, research has shown that unless distributional impacts are addressed, carbon taxes increase fuel poverty and income poverty through a number of different channels: current energy consumption, energy prices, existing levels of poverty, and changes in the number of households experiencing fuel poverty (ESRI, 2021). This is in the context of already very challenging economic conditions for many households.

We must not assume that a fair and effective transition will emerge and progress naturally. The Council believes that transition governance mechanisms need to be established, which would enable careful consideration of, and insight into, how to respond to emerging distributional issues across key sectors. Further research is required to inform this action, and previous work by the Council can contribute to policy progress.

4.4 Making Work More Attractive

4.4.1 Introduction

The recovery in the labour market has possibly been the single most remarkable aspect of Ireland's economic rebound following the end of the pandemic (Government of Ireland, 2022d). Data from the Labour Force Survey show that 2,554,300 people were in employment in Q3 2022, an increase of 83,000 in one year. This is an extremely positive achievement that highlights not only the relative strength of the economy but also the resilience of the Irish labour market in terms of its capacity to generate employment opportunities (*ibid.*).

At the same time, there is what could be termed a *cohesion challenge* in the Irish labour market caused by low pay, productivity, and precarity of work in certain sectors (see Section 3.3).

There is also growing concern internationally that a combination of the forces of change (e.g. climate and biodiversity emergencies, digitalisation, demography, and globalisation) are accelerating fragmentation and inequality in the labour market and increasing the incidence of 'bad jobs' (Rodrik, 2021). These forces are interlinked. For example, research indicates that, in more equal societies, both individuals and governments are more likely to make responsible choices about the environment (Jani, 2017). Furthermore, the United Nation's (UN) Sustainable Development Goals (SDGs) adopted by Ireland to 'end poverty, protect the planet and ensure prosperity for all' include the goal of decent work and economic progress (SDG 8).

Rodrik and Sabel (2019) argue that failure to address the increased proportion of 'poor jobs' within the labour market has the potential to undermine democratic institutions and political stability.

The Council highlights three areas of work that will help in the medium term to make work more attractive, namely:

- The exploration of 'good jobs';
- The low pay-productivity nexus; and
- Re-examining barriers to rewarding work.

The remainder of this chapter briefly discusses each.

4.4.2 Exploration of ‘Good Jobs’

The Council believes that acting and investing to ensure that work becomes more attractive is a key priority. In practical terms, this means a greater focus on the quality as well as the quantity of jobs. The Council believes that this will help make work more attractive and therefore strengthen Ireland’s economic resilience. To understand why economic resilience might equate to more ‘good jobs’, the negative consequences of ‘bad jobs’ must first be understood, along with why they have become more prominent.

Bad jobs are associated with high levels of labour turnover, slower innovation, lower productivity, and extra costs. In addition to the costs for firms, bad jobs also have significant negative impacts on workers in terms of their health, well-being, quality of life, and access to credit.

Bad jobs harm workers’ physical and mental well-being, cause productivity losses via increased absenteeism and presenteeism at work, and reduce profit margins of both public and private companies.

In addition, job quality is not only a key determinant of the well-being of individuals and of the households in which they live (an end in its own right), but also an important driver of increased labour force participation, productivity, and aggregate economic performance (Cazes *et al.*, 2015: 6).

Although the total cost of inaction and the benefits resulting from better policy and practice are difficult to evaluate precisely, there are solid indications that private and public investments in better-quality work environments might be both welfare-enhancing and economically efficient (Saint-Martin *et al.*, 2018).

The transposition of the EU’s new Directive on Adequate Minimum Wages provides an opportunity to strengthen national systems of collective bargaining and increase collective bargaining coverage (Thomas, 2022). It is recognised that countries with high collective bargaining coverage tend to have a lower share of low-wage workers, higher minimum wages relative to the median wage, lower wage inequality, and higher wages than others (European Commission, 2020: 3). The adoption of this Directive is viewed as supporting a model of competition in the European single market predicated on high social standards, innovation, and productivity improvements rather than on a ‘race to the bottom’ in terms of pay and conditions.

The Council recommends that further research be carried out to explore how work can be made more attractive and rewarding. The extensive literature and research on ‘good jobs’ and the emphasis placed on earnings, security, and quality of the working environment are key starting points (Cazes *et al.*, 2015). For example, Wolfers and Zilinsky (2015) draw on approximately 20 studies to highlight how improvements in pay can contribute to productivity gains and improved organisational performance. They argue that higher wages attract more capable workers, reduce turnover, enhance quality and customer service, and reduce monitoring costs. Higher wages are also associated with better health. In overall terms, the studies find a strong link between high pay and productivity.

Critically, Criscuolo *et al.*’s work (2022) also highlights the pivotal role of firms’ wage-setting practices in determining employee compensation and in shaping wage inequality within labour markets.

Placing employers at the centre of analysis serves to broaden the scope of the policies that can be adopted to address wage inequality while continuing to promote economic growth and productivity (*ibid.*).

In particular, a focus on enhancing the skills and qualifications of all workers needs to be combined with firm-based policies that help lagging firms narrow productivity gaps, measures to promote job mobility between firms, and actions to strengthen collective bargaining and raise employment standards.

It is also important to consider that the relationship between pay and productivity may be richer, more nuanced, and multi-directional. It can be argued that having fewer employees on low pay can serve to boost an enterprise’s net business income and improve productivity by reducing both the loss of productivity and the considerable recruitment, training, and financial costs associated with high rates of staff turnover (LPC, 2022a; Ní Bhrógáin & Taft, 2022).

Productivity growth, or more pay and hours, is not the goal per se, rather the objective is prosperous, sustainable, and equitable living standards. Furthermore, the National Economic and Social Council's (NESC) recent report, *The Future of the Irish Social Welfare System: Participation and Protection*, recommended piloting a 'participation income', which would recognise work that is currently unpaid but that is of societal value (NESC, 2020b). Participation in the pilot would be available to people not currently in the labour force but who make a contribution to their local community or society (e.g. qualified adults, people with disabilities). Taking part would be voluntary and would also offer opportunities for education and training.

In addition, the specific concerns and issues within sectors should be examined in order to understand the means of, and barriers to, making work more attractive. This is likely to bring to the surface wider issues such as education and training (including on-the-job training), apprenticeships, career pathways, and pension coverage and models. Another issue that might be explored is the care and management of staff, such that workers always know what is expected of them, are supported to do their job to the best of their ability, and have a point of contact for concerns about their workplace and their role.

As previously noted, the provision of services such as housing, healthcare, childcare, and transport is also key for economic performance and resilience, and for societal well-being, but is not suggested in this research, whose focus is on the quality of jobs.

4.4.3 Low Pay-Productivity Nexus

There is ongoing debate in the research on the link between low pay and productivity, i.e. the extent to which low pay can be explained by low productivity in firms and/or sectors.

On the one hand, research suggests that the direct relationship between low pay and productivity has effectively decoupled over recent decades (Bivens & Mishel, 2015; OECD, 2018a). Under this assessment, there has been a growing gap between overall productivity growth and the pay of the vast majority of workers since the 1970s.

A slowdown in real average wage growth relative to productivity growth has been experienced across developed economies. The Organisation for Economic Co-operation and Development (OECD) (2018) has found that productivity gains no longer translate into broadly shared wage gains in 24 countries, with Ireland having the fifth-highest 'decoupling' rate of these economies.

On the other hand, there is research claiming that there has been a divergence between pay and productivity – rather than a decoupling – and arguing that the link between the two remains intact (Strain, 2019; Stansbury & Summers, 2017). Greenspon *et al.* (2021) find that, in years with a one-percentage-point-higher productivity growth rate, the growth rate of pay was faster by approximately 0.7 of a percentage point.

Overall, it is important to understand the extent to which decoupling is occurring. Boosting productivity may not on its own necessarily lead to broad-based wage gains, unless policies are adopted that reconnect productivity growth with the pay of the vast majority of workers (Bivens & Mishel, 2015). Instead, it will require policies such as raising the National Minimum Wage (NMW) (or the proposed living wage), strengthening collective bargaining rights, and improving employees' terms and conditions; for example, increasing access to earned sick pay.

Understanding these issues in sectors where productivity is low, such as retail, care, tourism, agriculture and construction, would provide a key insight into enhancing economic resilience.

The Council believes there is value in investigating the connection in Ireland between low pay, working conditions, and productivity on an empirical basis, with a specific focus on sectors where pay is relatively low (e.g. retail and hospitality) but where reported profits are high.

4.4.4 Re-examining Barriers to Rewarding Work

A necessary input into making work attractive is a deeper understanding of why certain cohorts of people are less connected to their work or are poorly rewarded in economic terms for their work. This acknowledges that for many people there are personal circumstances that mean they find it harder to access good work. This focus on individuals complements and reinforces the need for research into good jobs; indeed, increasing the number of jobs in the labour market can help to (re)connect individuals to the labour market and provide incentives for engaging in education, training, and lifelong learning.

NESC has researched the issues encountered by those in low-work-intensity households looking to move to fuller employment (NESC, 2018). The research concluded that:

- There is a need to expand activation supports to adult dependents, people with a disability, and carers who wish to enter employment;
- Co-ordination needs to be resourced and improved between employment support services, employers, and the wide range of services supporting jobless households; and
- Greater intensity of support should be made available to those most distant from the labour market, such as lone parents, people with a disability, those with literacy and language difficulties, and those lacking labour-market experience. The importance of affordable childcare, access to healthcare, support for the full costs of undertaking training and education, and greater certainty of income, particularly for those with families, was underlined.

The Council believes it is time to reconsider these conclusions (and other relevant information); in particular to explore how best to provide the greater quantity of supports suggested.

Despite the strong general improvements in education since the turn of the century, some groups are not achieving their potential in the education system. One issue is that there is still quite a high proportion of young people with poor literacy. In 2000, 11 per cent of 15-year-olds in Ireland scored at or below Level 1 (the lowest level of literacy) on the OECD's Programme for International Student Assessment for reading literacy, and in 2018 this figure was 12 per cent (Cosgrave *et al.*, 2010: Figure I.5.1; OECD, 2018b).

The most recent study of adult literacy levels, in 2012, shows approximately 15 per cent of those aged between 15 and 40 years of age in Ireland were at or below Level 1 (CSO, 2013a). This represents approximately 240,000 people (based on 2016 Census figures).[35]

There is a strong link between poor literacy and early school leaving. For example, 49 per cent of those in the *Growing up in Ireland* study who left school early were in the lowest reading ability group at the age of 9 (Growing up in Ireland Study Team, 2019). There is still quite a large group – 13 per cent in 2020 – of young people not in employment, education, or training (Lawlor, 2021).[36]

There is a strong socio-economic gradient to these patterns. Educational achievements are lowest for people from disadvantaged backgrounds, with those from lowest-skilled social classes and lone parent families gaining lower Leaving Certificate scores than their peers, and having lower literacy scores at the age of nine. Literacy levels are lowest among boys, migrants, and the most disadvantaged. Those whose mothers had a degree were almost twice as likely as those whose mothers had Junior Certificate or below as her highest level of education to participate in higher education themselves (Growing Up in Ireland Study Team, 2019).

[35] Calculated based on Table E3001, Census 2016.
[36] The figure in 2006 was 12 per cent, rising to 24 per cent in 2011 (Kelly & McGuinness, 2013).

Levels of lifelong learning for the disadvantaged are also lower – for example, only 25 per cent of those who had attained primary school level or below were participating in lifelong learning in 2017,[37] with 41 per cent of those in skilled trades, while the corresponding figure for those who had attained a third-level honours degree or above was 72 per cent (CSO, 2018).

These patterns suggest the danger that low employment and high poverty rates among those with lower levels of education will continue into the next generation, with attendant costs for these individuals and society.

This also weakens economic resilience and represents a financial burden on the economy, which is unable to benefit from the abilities and skills of those affected, and bears the cost of supporting them if they are not in the labour force. It is also important to recognise that people with these lived experiences internalise their exclusion, meaning that the pursuit of good jobs requires an increasing number of employers giving people currently excluded from the labour market a real and lasting opportunity to access a decent job.

The Council recommends re-examining the specific barriers that limit people from more meaningful and rewarding engagement in quality employment. This should include revisiting the conclusions of NESC's 2018 work and other relevant research.

In light of the *capacity challenge* outlined in Chapter 3, there may also be an opportunity to examine retraining and mobility opportunities and processes across sectors (e.g. opportunities arising from recent developments in the technology sector to boost skills in innovative construction, or digital skills and literacy in other sectors where there is demand).

[37] The most recent CSO data available.

Chapter 5

Conclusion

Like other countries, Ireland is currently operating in an increasingly uncertain environment. Our economic approach should seek to give certainty to the people who need it most, protect against the greatest risks, offer stability, and help us better absorb shocks, while also promoting innovation, prosperity, and fair competition – what has been termed a 'social market economy' (von der Leyen, 2021). This requires greater responsiveness to specific challenges as they arise in the short term. The State needs capacity, resources, and accountability mechanisms in order to make progress, and the importance of being willing and able to 'step in' has been previously described by the Council (NESC, 2022).

However, short-term actions must be complemented by periodic efforts to look up from the day-to-day and to consider the longer-term logic associated with those actions. The Council argues that a singular focus on today's challenges, or on a nostalgia for the way things were, will hinder planning and investing as boldly as we need to for the future. The evaluation of that long-term logic must be informed by some shared vision of progress. NESC's vision of Ireland becoming more resilient and more sustainable is rooted in the ambition, now a legal requirement, to become a net-zero economy.

> *Ireland will become a resilient, sustainable, thriving net zero economy, environment, and society, using innovation and collective preparedness to shape the future we want to achieve (NESC, 2020).*

The Council's vision can inform debate as well as action, encouraging awareness of future generations, and promoting long-term development over short-term considerations, i.e. 'cathedral thinking' – a collective mindset to plan and initiate large-scale projects that will take a very long time to complete, knowing we will never see the fruits of our labours as the benefits mainly go to future generations (King, 2020). This can be done in a manner that is constructive and place-based, that fosters rather than vetoes responsiveness, that furthers the common good in areas such as housing and clean energy infrastructure, that encourages investing sensibly for the future, and that ultimately supports societal trust.

The forces creating turbulence and the necessary policy response will change over time. Foresight and futures work are an important guide to achieving any vision. As a deliberative forum of stakeholders and experts, the Council can also help guide the journey towards that vision. This report does so by suggesting three priorities for right now that can, and should, shape day-to-day decision-making.

First, the Council endorses the need for fiscal responsibility and the need to sustain and target investment in key areas, including housing. Specifically, the Council:

- Supports a focus on fiscal sustainability as a core tenet in creating and securing a better future for Ireland;
- Recommends that options for establishing a fund to make a contribution towards future ageing costs be actively explored as one element of bolstering economic resilience; and
- Believes that investment needs to be sustained and targeted such that it will enhance and improve economic resilience, with particular emphasis on housing, in order to ensure the delivery of affordable, sustainable, and quality housing, particularly in large urban areas.

Second, the Council argues for further action to stimulate the progress towards a net-zero economy, drawing particular attention to the scale of investment needed in clean energy infrastructure, reimagining enterprise, alternative pathways to prosperity, and mechanisms for a fair and inclusive transition. Specifically, the Council:

- Recommends conducting research to examine and overcome the societal challenges that confront, or may confront, large-scale transformative investment in infrastructure for alternative renewable sources of energy;
- Supports calls by the National Competitiveness and Productivity Council (NCPC) to research the interaction between competitiveness and measures to address climate change and biodiversity loss; and

- Argues that the mechanisms and institutions required for a just transition need to be established, which would enable careful consideration of, and insight into, how to respond to emerging distributional issues across key sectors.

Third, the Council highlights the critical importance, from both an economic and social perspective, of making work more attractive, drawing attention to issues such as job quality, pay, terms and conditions, collective bargaining, and the impact on productivity, as well as wider issues such as pensions, education, and apprenticeship training.

Specifically, the Council recommends:

- Further research to explore the potential in Ireland of the 'good jobs' agenda, with an emphasis on earnings, security, and quality of the working environment;
- Investigating the connection between low pay and productivity on an empirical basis for Ireland, with a specific focus on sectors where pay is relatively low (e.g. retail and hospitality) but where reported profits are high; and
- Re-examining the specific barriers that limit certain cohorts from more meaningful and rewarding engagement in work.

By taking these steps, the Council believes the State can proactively address the capacity and cohesion challenges detailed in this report, and bolster the Irish economy's resilience in the face of the ongoing turbulence arising from the key forces of change: climate and biodiversity emergencies, demographic shifts, geopolitical change, the rising cost of living, and maintaining national competitiveness.

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Publications

Council Reports

No.	Title	Year	No.	Title	Year
1	Report on the Economy in 1973 and the Prospects for 1974	1974	14.	Population Projects 1971-86: The Implications for Social Planning—Dwelling Needs	1976
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An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

National Economic & Social Council

Parnell Square
Dublin 1
D01 E7C1

+353.1.814.6300
info@nesc.ie
nesc.ie