Oireachtas Joint Committee on European Union Affairs

10 May 2017

Opening Statement by Professor Alan Barrett and Dr. Edgar Morgenroth, ESRI

Let me begin by thanking the Committee on behalf of both Dr. Morgenroth and myself for the opportunity to appear before you today. The European Semester is now an important element in the ongoing examination of Ireland's economy and the challenges which it faces, with the ultimate goal of ensuring that policy is designed and implemented to meet those challenges.

Since the foundation of the ESRI in 1960 by Dr. T.K. Whitaker, the ESRI's mission has been to contribute to the same examination of the economy specifically by providing analysis and evidence to underpin policy design. For this reason, Dr. Morgenroth and I are happy to share some insights with you on the issues raised in the Commission's Country Report and the Government's National Reform Programme.

I should say at the outset that we do not intend to comment on all aspects of the reports but instead we will limit ourselves to areas where we possess some expertise. Also, while our focus will be on economics, you should understand that we see a close alignment between economic success for Ireland and the achievement of social progress.

The Irish economy is clearly performing well at the moment and this is reflected in the Commission's Report. According to the Commission, GDP is estimated to have grown by 4.3 percent in 2016 and is projected to grow by 3.4 percent in 2017 and 3.3 percent in 2018. Such forecasts are in line with forecasts from the ESRI. While headline rates of GDP growth have become increasingly difficult to interpret as indicators of economic activity, developments in the labour market provide firmer evidence of a strong economic performance. Rising rates of employment and falling rates of unemployment will be familiar to you all.

Such a strongly performing economy might generally prompt relative optimism about medium-term prospects but we are in unusual times. Instead of expressing relative optimism, most commentators point to Brexit and the changing internal environment with respect to taxation and trade as real and significant threats to Ireland's economic prospects in the medium-term and we share these concerns. We would also be inclined to include two further threats. First, there are pressures associated with rising expectations which could have impacts on the fiscal situation and competitiveness. Second, the housing crisis is having many impacts including a possible impact on competiveness. It is important that these four threats underpin our thinking on reforms.

I will turn now to some specifics in the documents under discussion.

One of the noteworthy elements in the Commission's discussion of the public finances is a slight shift in emphasis from concerns about the debt and the deficit to concerns around the quality of public spending and the volatility of revenue. This shift in emphasis reflects the success on the Government's part in managing the public finances at an aggregate level since the onset of the downturn.

On the issue of the quality of public expenditure, the Commission writes that “(t)here has been little evaluation of the effectiveness and efficiency of expenditure programmes” (p22). They go on to write how “repeated discretionary changes to expenditure ceilings, which were decided with little or no explanations, have characterised Ireland’s recent budgetary implementation” (p22).

In the National Reform Programme, the Government responds to these criticisms and points out that reviews of both current and capital spending are currently underway. More broadly, we think it is fair to point out that the Department of Public Expenditure and Reform has sought to improve the analysis underpinning expenditure. For example, the establishment of, and subsequent growth in, the Irish Government Economic and Evaluation Service is a reflection of efforts in that area.

While the spending reviews and other on-going efforts to evaluate public spending are to be commended, challenges remain in ensuring that public spending is undertaken on more objective grounds. In that context, the National Planning Framework which is currently being developed may represent a break with previous approaches. It is widely accepted that the National Spatial Strategy suffered from a failure to set priorities so the NPF will be judged in part on the extent to which it overcomes the tendency in Irish policy-making to spread resources in a manner that dilutes impact.

On the issue of tax volatility, the Commission makes some points which we would like to echo. One of the most important lessons from the crisis was the need to ensure that the tax base was broad and, to the extent possible, immune from swings in economic activity. In addition, it is important that volatile revenue streams are not used to fund on-going spending. Dr. Morgenroth recently co-authored a paper on tax volatility and so can elaborate on the issue in questions if needed.

We noted above the Government’s success in managing the public finances and generally we would commend the approach since 2008. However, moves to reduce the Universal Social Charge, the failure to enact broad-based water charges and the tax incentive for first time buyers strike us as being at odds with prudent fiscal management. In addition, the use of stronger than expected corporate tax revenues to fund budgetary measures in recent budgets is a source for concern.

Next, I want to address some labour market issues discussed by both the Commission and the Government.

As the rate of unemployment falls, the Commission’s remarks on the labour market have shifted towards specific issues. For example, they refer to the on-going issue of jobless households and to skill shortages. The National Reform Programme points to a range of initiatives to combat the labour market challenges confronting certain groups and we will not go over that ground. Instead, we will mention two issues which are absent from the reports but which we see as important.

First, work contracts which are part-time and/or temporary appear to be on the rise in many OECD countries. At one level, such contracts can be viewed as proving the labour market with more flexibility but there are clearly downsides for individuals who get stuck in either part-time or temporary work. Recent work by a colleague and I has shown the rise in atypical work in Ireland and points to the need to monitor job quality as opposed to just jobs.

Second, work at the ESRI which is led by Professor Seamus McGuinness has shown that Ireland exhibits a high-level of “over-education” in its workforce – this is a situation in which peoples’ skills exceed those needed for the jobs they are doing. As over-education implies that skills are underutilised, this means that productivity in Ireland suffers. This raises questions about education provision and job-market matching which require further attention.

Before concluding this opening statement, we will refer to two policy areas which are discussed in the Commission's report and in the National Reform Programme.

Childcare has been an area of weak performance in Ireland but it is one where economists have noted significant returns to public investment particularly where high-quality interventions have been directed at disadvantaged children. For this reason, recent positives steps in this area are to be welcomed.

By contrast, the on-going failure to deal with the issue of third-level funding is a disappointment. The failure to adequately resource the third level system is at odds with many policy objectives. However, this seems to be a stark case of the policy-making system failing to deal with a politically-sensitive topic even though the need for some sort of action is clear.

Thank you for your attention and we look forward to your questions.