Opening Statement – Oireachtas Committee on Budgetary Oversight

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Introduction

Let me begin by thanking the Chairman for the invitation to the ESRI to appear before you today. I am Alan Barrett, the Director of the Institute, and I am joined by my colleagues Professor Kieran McQuinn and Dr. Maev-Ann Wren.

This opening statement will be broken up into three main sections. We will firstly discuss the macroeconomy and housing. We will then turn to health. We will end with some briefer remarks on a number of areas that we see as being important.

As you will see, we cover both short-term and longer-term issues. We do so based on the view that a budget in any single year should be framed in the context of short-term and longer-term challenges.

Macroeconomics and housing

The domestic economy looks set to register strong growth again in 2018 and into 2019. Since 2014, Ireland has experienced the largest growth each year across the European Union and the Euro Area. Initially, the recovery in economic activity was primarily export driven. However, over the past number of years growth due to investment and consumption has been more prominent.

The ongoing resurgence of the economy serves as an important backdrop to the formulation of the Budget. The recent publication of the Stability Programme Update provides the outline of the Government's fiscal strategy for the coming years. This comes at a time when the discretion available to the Government in terms of "fiscal space" has increased considerably relative to previous years. This greater discretion applies at a time when the foremost policy challenge is transitioning the economy from the elevated growth rates as the economy experiences a rapid recovery to more sustainable growth rates over the medium-term.

It is clear that there are growing demands on the public purse. The Government launched the National Development Plan (NDP) earlier in the year where significant increases in capital expenditure are envisaged over the medium-term. Also, the significant hardship experienced by many in the aftermath of the 2007/08 financial crisis has resulted in calls for reductions in rates of personal taxation.

Given the very strong economic performance at present, it is imperative that fiscal policy does not risk overheating the economy. Given the clear need for increases in capital expenditure (as articulated in the NDP) and on-going pressures on current spending, it is difficult to see scope for significant tax cuts without adding to the risk of overheating.

It is generally understood that the current high price of housing reflects a substantial shortage of housing units. Although prices are still below their 2007 peak, the sustained increases pose significant affordability issues, particularly for low income earners in the Dublin market. Rising house prices are more likely to affect those at the bottom of the income distribution for whom it is harder to obtain a mortgage and for whom housing costs have a much larger weight in the household budget. Recent data from the Property Services Regulatory Authority indicates that the sharper growth rate in house prices is at the lower end of the price distribution.

Underpinned by strong housing demand, we expect housing completions to grow strongly this year. We expect housing completions (as measured by electricity connections) to increase by 25,000 units in 2018, growing again to 31,000 in 2019. However, this figure is still lower than the estimated structural demand for housing which is approximately 35,000 units per annum.

In an Irish context, it is important to examine the inter-relationship between fiscal sustainability and the financial cycle. At present, given developments in the property market, mortgage credit levels are growing significantly. While overall stocks of credit are still somewhat below the 2008 peak, it is evident that increasing house prices, coupled with growing levels of disposable income, are likely to bring about further increases in the extension of credit. This likely increase in future household credit levels is a further reason for the Government to exercise caution in the formulation of fiscal policy.

At present, while overheating in the economy is a significant "internal" risk, there are also a number of external risks to Ireland's economic outlook. Continued uncertainty as to the future of the European Union, whether through Brexit or issues in other member states, serves to remind us of the exposed nature of the Irish economy to external trade. This exposure is further accentuated given the present volatile trade relations which were evident at the recent G7 meeting. It has been established in a variety of research carried out by economists in the ESRI and elsewhere that any reduction in global trade and in global economic activity have direct negative impacts on the Irish economy.

Health

We will now turn to our discussion of health and in so doing we will take a longer-term perspective. However, in order to meet the longer-term challenges which we will discuss, policy reactions in the near-term are needed.

Our remarks on health are based on our programme of research with the Department of Health, in particular the report titled *Projections of Demand for Healthcare in Ireland, 2015 – 2030*. This was published last October. This report provides annual projections of demand for public and private health and social care services for the years 2015–2030.

These are among the main findings:

- The population of Ireland is projected to grow by between 14 to 23 per cent adding 640,000 to 1.1 million people
- The share of population aged 65 and over is projected to increase from one in eight to one in six
- The number of people aged 85 and over is projected to almost double
- Demand for health and social care is projected to increase across all sectors, with the greatest increases for services for older people
- Demand for home help hours is projected to increase by between 38 to 54 per cent
- Demand for residential and intermediate care places in nursing homes and other settings is projected to increase by between 40 to 54 per cent
- Demand for public hospital services is projected to increase by between 32 to 37 per cent for inpatient bed days and between 24 to 30 per cent for inpatient cases.
- Demand for GP visits is projected to increase by between 20 to 27 per cent while demand for practice nurse visits is projected to increase by between 26 to 32 per cent.

The report assumes no change in models of care. However, further research is examining the potential effects of policy developments which could reduce projected demand in some sectors but which could increase projected demand in others.

The report also provides projections of demand for inpatient and day cases in public and private hospitals, maternity services, public hospital Emergency Department and Outpatient services, pharmaceuticals, pharmacy consultations, home care packages, public health nursing, and public community therapy services. The report also includes the effects of unmet need and demand where possible.

There are important policy implications from this report's findings, many of which mirror and complement the implications of the Slaintecare report. The projected increases in the demand for health services, arising from the increases in the population generally and in the older population in particular, come after two decades of rapid population growth, a decade of cutbacks in public provision of care and a consequent build-up of unmet need and demand for care.

The additional demand projected in this report for the years to 2030 will give rise to demands for additional expenditure, capital investment and expanded staffing. This will have major implications for capacity planning, workforce planning and training. Additional investment will be required in most forms of care to meet the needs of a rapidly growing and ageing population.

Additional issues

Before concluding, we wanted to touch on some additional issues which are enormously important and so should not be overlooked. Each issue is part of a global trend and yet domestic policy has a key role to play. Population ageing is one of these issues but has been discussed already in the context of health spending. The other three issues are climate change, inequality and the productivity slowdown.

On climate change, the latest information from the EPA is that Ireland is likely to miss its 2020 target for greenhouse gas emissions and that emissions are projected to continue growing. It has been suggested that the bill for missing our 2020 targets could be in the region of €500 million so there is a clear budgetary implication for inaction. But apart from fines, Ireland needs to make more progress on our climate commitments if we are to be seen as responsible partners in this global effort. Policy announcements such as the climate elements in the NDP and the National Mitigation Plan are to be welcomed but the scale of the challenge may not have reached a wide audience yet.

The issue of rising inequality across many OECD countries has been discussed extensively. Within Ireland, it strikes us that much of the debate in recent times has centred on how income is distributed across households and whether we see increases or decreases in measures of inequality from year to year. According to this analysis, we know that Ireland is a relatively unequal country when judged by the distribution of market income. However, we also know that Ireland's income tax and social welfare system is highly re-distributive and so Ireland achieves a middle ranking in terms of inequality when household disposable income is considered.

With the greater availability of longitudinal datasets – through which the same individuals are tracked over time – we are able to get better insights into the following critical question: to what extent do the same people remain in poorer situations? This question is not answered by the research described above.

We will provide two examples from ESRI research which show the importance of tracking people over time. First, in a study published in January colleagues show how lone parents and the children of lone parents are much more likely to remain in poverty when compared to other groups. Second, research published by colleagues in October 2017 and in May 2018 shows how children differ by socioeconomic group as they transition into primary school and secondary school. These results serve as a reminder that we should think about equality over the life-cycle and design policy accordingly.

As a final note in this section, we will touch on the productivity slowdown which is evident in many western economies. While there is much debate internationally about the nature and causes of this slowdown, we will focus here on the challenge within Ireland. Research from the OECD, the Department of Finance and others has shown that productivity rates in Irish-owned companies are low. ESRI research has shown that Ireland's SME seem to be investing less than might be expected and this is not accounted for by restrictions on lending. Hence, there is an ongoing challenge in developing the indigenous sector and this, of course, is all the more urgent in the context of Brexit.

Conclusion

We have moved across a range of issues and topics and have only touched on many of the complexities involved. However, we hope to develop some of the themes in response to questions from deputies.

As a final point, I should say that I will chair the National Economic Dialogue again on June 27/28. I know that members of the committee have been invited and I want to take this opportunity to encourage your attendance. While many representatives of different groups will be present, it strikes me each year at the NED that the broader public is only represented if public representatives such as yourselves attend and participate actively.