Oireachtas Committee Speech

Remarks by Angel Gurría

Secretary-General, OECD

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(As prepared for delivery)

Ladies and gentlemen

It is a pleasure to be back in Ireland to share the main conclusions from our Economic Survey with you. Ireland could in fact be said to be at the origin of modern economic surveys. Back in the 17th century, William Petty's efforts to collect and collate data put Ireland at the forefront of what we now call evidence-based policy making, even if the policy was made elsewhere.

What evidence would he find today?

Ireland is doing well, and the recovery in economic output since the crisis has been stronger than in any other OECD country. The unemployment rate has dropped from over 15% in early 2012 to around 6% today. Domestic demand is growing at around 5%, while inflation is still only 0.2%.

The overall growth outlook is good too, and we expect Ireland's GDP to expand strongly, albeit at a more sustainable pace, by around 3% this year, and 2.5% next year.

The economic successes of recent years owe much to the government's efforts to address the legacy of the crisis. The fiscal deficit declined from 11.5% of GDP in 2009 to only 1% five years later and the reforms of the banking sector are starting to bear fruit.

Parliament played a role in this. Three years ago we produced a report with some ambitious recommendations about how the parliament scrutinises and influences the annual budget. Many of these recommendations have now been implemented. Today, in addition to the work of the Committee on Finance, Public Expenditure and Reform, the new Budgetary Oversight Committee is established with an intensive work schedule that includes reviewing the fiscal position of the government and examining the expenditure policy proposed by the government. In addition, a new Irish Parliamentary Budget Office is up and running.

The tax and transfer system continues to be highly redistributive, so that the benefits of growth are shared more widely.

The Irish people report a high level of satisfaction with their work-life balance, and social indicators such as number of social connections are also favourable.

But a parliament's work is never done. You still have to tackle some of the legacies of the crisis and build resilience to future shocks.

That means reducing debt. Ireland's gross public debt was around 75% of GDP in 2016, and in per capita terms is one of the highest in any OECD country.

Reducing public debt would create scope for budgetary policy to support the economy in the event of a negative shock - such as a disorderly Brexit. This could be achieved through broadening the tax base in a growth-friendly manner. For example, VAT preferential rates and exemptions should be phased out and the property tax yield raised through more regular revaluations of the tax base.

Financial sector vulnerabilities also need to be further addressed. While non-performing loans on bank balance sheets have declined by around 60% from their peak, the stock remains high.

The OECD Economic Survey has a special chapter on productivity. It paints a contrasting picture, showing that foreign-owned companies outperform local businesses by a wide margin, and that margin is getting wider. The labour productivity index of locally-owned firms has remained practically flat over the past 10 years, while for foreign-owned firms, with a baseline of 100 in 2006, it has risen to almost 400 in manufacturing and nearly 800 in services.

Regional disparities are large too, and Data from the Central Statistics Office show that the gap in disposable income per head between the Border, Midlands and Western region and the rest of the State has not been reduced since the early 2000s, and is still around 10%.

The resilience of the Irish economy and the fight to make growth inclusive hinge on boosting the productivity of local businesses and equipping workers with the skills to improve their outcomes.

Only around 6% of the population aged 25 to 64 participated in education and training in 2015, compared with over 15% in Britain and nearly 30% in Sweden. Irish-owned companies in most sectors have reduced employee training since 2000.

The government could allocate a greater share of funding under the National Training Fund to training for those in employment. Online education could help here, but some workers and job seekers may be caught in a vicious circle: only 48% of Irish individuals had basic or above basic digital skills in 2017, 9% below the EU average.

Obstacles to entrepreneurship you could address include high regulatory barriers that make it hard for innovative new firms to gain a foothold and reinforce the position of incumbents. There are costly regulations relating to commercial property and legal services.

The costs of business failure are high too, but modern entrepreneurship means being able to learn from experimentation and that means learning from failures and mistakes – being allowed to fail and learn fast.

The firms have to make an effort too, to improve their management skills and invest more in research and development, but here again you can help by creating an enabling environment.

You can also help citizens through reforms focused on housing, health and getting people into work:

Ten years ago, ghost estates and unsellable property were making the headlines. Today, housing affordability is an issue for many people. I see that one of the national policy objectives of the Ireland 2040 plan is to "Prioritise the provision of new homes at sustainable locations and at an appropriate scale relative to location."

The government has implemented several policy measures to improve affordability, but any long-term solution has to focus on increasing housing supply. Doing away with unnecessary housing regulations that raise costs and reduce the potential for greater density is a priority. But so too is pushing the market to put well-located – but underutilised - swathes of land to good use. To achieve this, the introduction of a broad-based land tax would be a useful weapon.

The health system is another area of concern. We see worrying trends in in terms of cost, patient satisfaction and waiting times. The absence of universal coverage for primary healthcare contributes to poor access and high health costs for households that cannot afford private insurance. While there is scope for further improvements in health spending efficiency, a path to providing universal coverage should be laid out, keeping in mind the likely impacts of population ageing.

Apart from housing and health, employment is a concern. That might sound surprising given the way unemployment rates have been falling, but some groups – such as young, low-educated individuals and women – must be encouraged to further participate in the labour market. One way to do this is to change those aspects of the social welfare system that make people worse off when they take a job.

Ladies and gentleman, the financial crisis is now behind you and that is in no small part thanks to your dedication to promoting better policies for better lives. The OECD looks forward to working beside you in fulfilling this mission, and showing how, in the words of

William Petty, “a small Country and few People, by its Situation, Trade, and Policy, may be equivalent in Wealth and Strength, to a far greater People and Territory”.