

# DÁIL ÉIREANN

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## AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

### COMMITTEE ON BUDGETARY OVERSIGHT

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*Dé Céadaoin, 18 Aibreán 2018*

*Wednesday, 18 April 2018*

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Tháinig an Roghchoiste le chéile ag 3 p.m.

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The Select Committee met at 3 p.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	
Richard Boyd Barrett,	
Thomas P. Broughan,	
Barry Cowen,	
Pearse Doherty,	
Martin Heydon,	
John Lahart,	
Michael McGrath,	
Jonathan O'Brien,	
Eamon Ryan.	

Teachta / Deputy Colm Brophy sa Chathaoir / in the Chair.

## Business of Select Committee

**Chairman:** I have not received any apologies today. At 3.45 p.m., the committee will meet the Minister for Finance and for Public Expenditure and Reform, Deputy Donohoe, to discuss the stability programme update. I now propose we go into private session.

*The select committee went into private session at 3.03 p.m. and resumed in public session at 3.46 p.m.*

## Stability Programme Update: Discussion

**Chairman:** I welcome the Minister for Finance and Public Expenditure and Reform, Deputy Paschal Donohoe. I remind members and witnesses to turn off their mobile phones due to interference. I thank the Minister and his officials for taking the time to make themselves available to our committee. The committee's role is to carry out the *ex ante* scrutiny of budget 2019 and in this context we are meeting to discuss the latest stability programme update, SPU, published yesterday afternoon. The SPU is the key document to the budget cycle and sets out the three-year forecast for the Irish economy, which must be endorsed by the Irish Fiscal Advisory Council, and updates the fiscal forecasts for three years. I invite the Minister to make his opening remarks.

**Minister for Finance (Deputy Paschal Donohoe):** I welcome the opportunity to be here today to discuss the draft stability programme update. As the Chairman said, this sets out our forecasts for Ireland and is the first update of our projections since budget 2018. It is presented in draft form. I look forward to hearing the views of the committee members. The final version will be submitted to Brussels later this month.

I wish to emphasise that the macroeconomic forecasts underpinning the stability programme have been endorsed by the Irish Fiscal Advisory Council. The council also welcomes the progress my Department has made towards developing alternative models for its medium-term forecast.

Turning first to the economic situation, I am greatly encouraged by the latest data showing that the economy grew by 7.8% last year. However, I want to emphasise that the headline figure can be exaggerated in an Irish context and other indicators I will be tracking are changes in consumer spending, what is happening in our labour market and changes in tax receipts, all of which point to last year being a year of strong economic growth.

My Department has increased its forecast this year to 5.6% reflecting the stronger economic momentum in the second half of last year. For next year, growth of 4.0% is forecast so the economy, overall, is in good shape. However, yesterday I stressed that this growth cannot be taken for granted and I want to emphasise that again today while acknowledging also that, for many, these top-line and overall figures do not match the experience of their own personal economy. The changes and potential changes to which I refer are the UK's impending exit from the EU, changes in the international corporation tax landscape, and rising geopolitical tensions,

all of which could derail the recovery. From 2020 onwards, the economy has the capacity to grow by around 3% per annum. The economic recovery is most clearly evident in the labour market, with employment growth of 2.9% last year, representing the addition of some 61,000 jobs. There are now more than 2.2 million people at work for the first time since 2008. We have now recovered nine out of every ten jobs lost, and the labour market will continue to benefit from strong growth in domestic demand, with employment growth of 2.7% for the year.

On this basis, there will be more people at work in Ireland this year than before. We expect unemployment to fall further to 5.8% and to 5.3% in 2019, down from a peak of 16%.

Public finances continue to move in the right direction. In terms of the underlying general Government deficit, progress continues to be made. I am pleased to outline that, notwithstanding the additional expenditure, as a result of the reclassification of approved housing bodies, the deficit of 0.3% of GDP recorded last year is in line with the budget day estimate. This provides further evidence that the public finances are becoming increasingly sustainable. Furthermore, a careful approach to budgetary policy is being implemented, with tax revenue forecast to grow by 6%, while gross voted expenditure is up by 4.5%. This demonstrates the Government's commitment to maintaining sound and stable public finances.

Turning to this year, the latest Exchequer returns to the end of the first quarter show that we continue to deliver on our financial targets and commitments. It is also important to point out that the annual growth has been strong with tax receipts 3.5% higher compared to the same period in 2017 and positive annual growth witnessed across most tax heads.

Turning to expenditure, it is being managed by Departments within their allocations thus far, with overall expenditure slightly below profile by 2.3%. Capital investment to enhance our growth and address key challenges in our society is slightly behind profile but well up on last year.

For next year, an additional €2.6 billion in expenditure has already been committed. Included in this is €1.5 billion for additional capital spending, €0.4 billion to provide for demographic-related costs, €0.4 billion for public sector pay and €0.3 billion for carry-over costs associated with measures introduced this year. A key Government priority is to reduce the level of public indebtedness. However, it must be acknowledged that the recent evolution of the debt to GDP ratio presents an overly benign view of our public indebtedness. The debt to GDP ratio has decreased only because GDP has increased. Other measures, notably the ratio of debt to GNI\* show that while declining, public debt remains high. The legacies of the crisis persist with the total stock of debt now standing at €206 billion, with €40,000 worth of debt for every citizen in our State. It is essential that we begin to reduce this burden.

In conclusion, growth cannot be taken for granted. There are a number of risks domestically, notwithstanding the well-known limitations with gross domestic product. The recovery economically continues to outperform expectations, but this, of course, creates its own challenges. If the economy continues to grow in excess of its potential, capacity constraints will begin to emerge. For these reasons, I want to be careful with budgetary policy to maintain a careful approach to it and look at measures to improve the competitiveness of our economy, while addressing our many social challenges. That is what I and the Government intend to do. Thank you, Chairman.

**Chairman:** Thank you very much, Minister. In line with what we discussed before the start of the public session, I would like to remind members that I propose to group together two or

three questions from each Deputy and ask the Minister to answer them collectively. I ask that members are conscious of time. I call Deputy Michael McGrath.

**Deputy Michael McGrath:** I would like to welcome the Minister and Mr. McCarthy. I will be brief given the circumstances. I will just ask a few key questions. The Government's objective of meeting the medium-term objective, MTO, for 2018 of a structural deficit of not greater than 0.5% is now expected to be missed, according to the stability programme update. Back in the budget of last October, it was expected that the structural deficit would come in at 0.5% in 2018, but the Minister is now forecasting 0.9%. What are the consequences, if any, of missing that medium-term objective in 2018?

In regard to the risks the Minister has identified on pages 35 and 36, I am curious as to why the risks posed by the ongoing efforts at EU-level to introduce changes to corporate taxation are excluded. I refer to the proposals around digital taxation and common consolidated corporate tax. The Minister's Department has assessments about potentially very negative consequences for Ireland, so why are they not listed?

Does the Minister accept the reference in yesterday's IMF report, the global economic outlook report, that a quarter of Ireland's growth last year came from the sale of iPhones? Does the Minister accept that and what are the consequences of that?

Will the Minister confirm when the summer economic statement will be published? Will we then have the update on the estimate of fiscal space that will be available in budget 2019?

**Deputy Paschal Donohoe:** The summer economic statement will be in early July. At that point we will be in a position to provide an indication on how we believe the economy will perform next year. What I will be doing at that point is not just talking about what kind of resources may or may not be available, but I will also be speaking about what I believe will be the right budgetary policy for the economy for next year. We need to be careful, given where the economy stands at the moment, that we do not look at this purely through a rules-based lens. We will say more about that later in the year.

In regard to the observations of the IMF, it is the case, and I acknowledged it in my opening statement, that a portion of the way in which we traditionally manage and measure economic growth is now being significantly affected by contract manufacturing. The degree to which we measure our economy is now affected by how integrated it has become with global supply chains. That is why in the stability programme update, SPU, we have retained the approach of using GNI\* and we have now brought in a further measure called modified domestic demand. We are using that as another way of looking at how we believe the economy is performing in a more appropriate manner.

I refer to the corporate tax reference the Deputy made and the SPU. I said in my statement, and on a number of occasions, that the changing environment in regard to corporate tax policy could at a point in the future affect the environment within which Ireland makes decisions. Given that I have been very clear on many occasions that I will not agree to a form of a consolidated tax base and will not change the rate of corporate tax policy, the way in which we have now captured the risk is on page 36, where we make reference to the fact that there are potential concentration risks in regard to where receipts from corporate tax policy are concentrated.

In regard to the Deputy's first question on the MTO, we are working on this with the European Commission and we believe we will deliver the MTO objective for last year. What hap-

pened was that the performance of the economy in the third and fourth quarters of the year, and particularly the impact of some of the external factors to which I just referred, have affected the calculation of the output gap. Mr. McCarthy can say something about this later on if the committee wishes him to do so. In terms of any impact this is going to have on policy decisions or resources, it will not have any for this year and the reason is that we are delivering the nominal and topline deficit targets that I outlined on budget day.

**Deputy Pearse Doherty:** I welcome the Minister and Mr. McCarthy to the committee. The statement makes for interesting reading in terms of us reaching near full employment in the State, with a booming economy, and yet there are so many demands in society. We need to ensure that this budget meets the needs of society and lifts the pressure off services and off individuals. To shape that, I ask the Minister to give us some more information, based on the statistics that have been published, on the fiscal space that is available. There has been a lot of commentary on the fact that €2.6 billion has been spent and people are extrapolating from that there is about €500 million left to be spent, based on what was announced in the summer economic statement and on budget day. As things stand, knowing that they may change in July when the summer statement is published, what is the fiscal space that is uncommitted at this time?

The Minister said that in terms of the medium-term objective, MTO, it will not have any impact this year. Does that also apply for next year and budget 2019? Given that we have now missed the MTO for this year but somehow we achieved it last year, will a convergence margin be applied and, if so, how will that impact on the fiscal space of €3.2 billion that was identified at the time of last year's budget? The Minister mentioned contract manufacturing in response to Deputy Michael McGrath's question and said it was substantial. Does the Minister believe that it was as substantial as is being stated in the IMF report, that is, that one quarter of our growth last year was as a result of the sale of iPhone products? Does he believe that this will be a recurring theme in the context of this year's 5.6% growth in the economy?

I have serious reservations about what the Minister calls the rainy day fund because a person lying on a trolley today believes it is raining, a person who is homeless tonight knows it is raining, or a child with autism who cannot get a place or even a diagnosis knows it is raining down very heavily. This is a fund for which we will have to borrow €500 million to set aside. It was previously announced that this would only happen when the economy was structurally balanced. Given the fact that we are not now going to be structurally balanced and will be quite significantly off target, at 0.5%, is it the Minister's intention to plough ahead with this and divert €500 million from the types of issues I have just outlined?

In terms of risks, one of the areas that was identified as high risk is related to climate change and the fines that the State could be facing by 2020 because of our failure to meet our targets. Will the Minister give us an update in terms of quantifying that risk in hard euro and cent?

**Deputy Paschal Donohoe:** I will take the last question first. Climate change fines do not form part of any liability that I expect to develop for next year. I will have to come back to the committee with potential scenarios beyond that, which I will do. It is correct to say that the potential for liabilities to be created via potential fines is a factor that I am considering, but I have not put figures against it in this. Were I to do so, I would probably look to do that and to clarify that as a risk in the economic statement, which I will do later on. I will come back to the committee with a horizon in terms of what those fines could be.

Our judgment and information is that the impact of contract manufacturing and some of the

activities associated with it could be affecting our nominal top line rates of economic growth by between 1.5% and 2%. That is why, in this report, I am now talking about modified domestic demand and about GNI\* because I believe it would be a fatal mistake to base tax or expenditure policy on those rates of economic growth, particularly given that the correlation between that kind of rate of economic growth and any increase in tax revenue is negligible. I will ask Mr. McCarthy to address the question about the impact on the convergence factor. On the fiscal space question and what is committed or uncommitted, I will give an update later in the year regarding resources for next year. At that point I will be better able to answer the Deputy's question.

**Deputy Pearse Doherty:** I know the Minister cannot be definitive now and I have specifically said that, but I have asked for an answer based on the information that is available at the minute. There is a view out there that fiscal space was at €3.2 billion but that when a number of things that have been committed are factored in, the budget space for next year is reduced to something like €500 million. On today's figures, what is uncommitted or not committed? We have budgets saying €3.2 billion of fiscal space. We know that may change in the summer but how much of that is committed at this point?

**Deputy Paschal Donohoe:** I will have Commission figures on that in two weeks. If I use the benchmark of the figures that were available last year in the economic statement, then we are talking about a gross figure of €3.7 billion dropping to €3.2 billion because of the rainy day fund, to which I am still committed. If I look at the fiscal smoothing effect of the figures that I communicated yesterday, they are equal to between €2 billion and €2.1 billion, in the context of smoothing capital expenditure into space. Those figures are very approximate at the moment.

**Deputy Pearse Doherty:** That is an uncommitted €1.1 billion plus €500 million that the Minister is putting into the rainy day fund.

**Deputy Paschal Donohoe:** That is very approximate but all of this will change as we move through the year.

**Deputy Pearse Doherty:** Yes, but the point is that potentially, within the rules, there is €1.6 billion that the Minister could spend in next year's budget. Those figures may change as we get closer to the budget.

**Deputy Paschal Donohoe:** Potentially, yes, but all of these things also depend on what kind of budgetary policy one wants to take at that point. It is conceivable, for example, that if all of that money were to be spent, there would be a need for the State to borrow more to do it. The question is, with those kinds of resources available, whether it is correct to put that into additional capital expenditure when capital expenditure next year alone is increasing by one quarter. As I explained to the Deputy and as he understands, I will be able to crystallise these matters as we move through the year.

On the rainy day fund, it is my intention to implement that in the way I have outlined and I believe we will deliver the MTO.

**Mr. John McCarthy:** The Minister asked me to comment on the convergence margin. The assessment is not done on the basis of our numbers, which show a structural deficit of -0.9, but on the basis of the Commission's numbers. Typically, the Commission would have a lower growth forecast, so potentially a lower output gap. I would not rule out the possibility that when we get the Commission's numbers, we may be closer to the MTO than the Department's



numbers would suggest. We went through an iterative process with the Irish Fiscal Advisory Council and came up with our figure of 5.6%. The Commission does not have to do that so it is conceivable that when we get the Commission's assessment of MTO achievement or not, the picture may be different.

**Deputy Pearse Doherty:** Will there be a convergence margin if it is not different?

**Mr. John McCarthy:** If we do not achieve the MTO, we still have wriggle room. It is set at 0.5 or, rather, -0.5 but there is a quarter point either side of that to allow for uncertainty attached with estimates of the output gap.

**Chairman:** Deputy Lahart is next.

**Deputy John Lahart:** I welcome the Minister and Mr. John McCarthy. Some of the questions I wanted to ask have been asked. What figure, if any, has the Minister set aside to deal with the public sector pay issue or what does he anticipate having to set aside?

A number of the tax profiles are below target and I ask the Minister to comment on that. The one I am particularly interested in is the motor tax receipts, which are down by €6 million. I read an article in one of the newspapers this morning, and while it is not strictly a budgetary issue, I would like to hear the Minister's views. I refer to the worldwide harmonised light vehicle test procedure, which his Department is examining, in part to try to deal with carbon emissions issues that arose with some of the major car manufacturers in the United States. This would more accurately reflect the emissions. I would like to know where that is at, where the thinking of the Department is on this issue, and whether there will be any impact on tax rates on various engine sizes as a result.

**Deputy Paschal Donohoe:** Regarding overall tax performance, I note that for the first quarter of this year we collected €12 billion overall, which is an increase of 3.5% on the same quarter a year ago. It is a gap versus profile of €140 million. A sum of €140 million is a lot of money of course, but there is a gap of -1.2% compared with what we were due to collect. That is well within the kind of variance in tax collecting we would expect to have at this point in the year. We are strongly of the view that we will collect our annual target.

In regard to the Deputy's second question, we are considering that at the moment. Would there be any impact on the way we tax if we took account of the developments that occurred last year because of a better understanding of the effect of certain engines and fuels on our environment? The answer to that question is "yes". We will have to look at how we will change tax policy, but we are at a very early stage in doing that.

**Deputy John Lahart:** When the Minister says an early stage, does he anticipate that it will be considered in the 2019 budget?

**Deputy Paschal Donohoe:** At this point it is unlikely that there will be any significant change in that budget. If we were going to make a very big change we would have to allow some lead-in time.

**Deputy John Lahart:** Very well. Will the Minister comment on pay equality?

**Deputy Paschal Donohoe:** The overall amount that we have factored in for additional public pay next year is €400 million. Do we have a figure factored in for dealing with new entrant pay? We do not have an additional figure beyond that €400 million. That is entirely consistent

with the wage agreement that we published in which we said we would put a process in place, which we are doing. Indeed, we have done that. The meetings with the unions on that matter began in October. I published a paper that outlined the various costs a number of weeks ago, and on the basis of that pay plan and the scoping exercise we have done on this issue, we will be meeting the various public service unions in the next couple of weeks.

**Deputy John Lahart:** To clarify, there is no additional amount to bridge the estimated figure of €200 million. The Minister has not set anything aside.

**Deputy Paschal Donohoe:** Any further change would have to be a budget day decision.

**Deputy Thomas P. Broughan:** I welcome the Minister and his official. I know the Minister has an agreement with Fianna Fáil concerning the October budget. On the issue of Brexit, when does he expect to know what we will be facing from 2019 onwards? There are 11 months until 29 March 2019. How does that influence the Minister?

Second, looking through the Minister's risk and sustainability analysis of the report, I see that there is a reference to bond market conditions. In regard to the €206 billion debt the Minister mentioned, what progress has been made in 2018 and 2019 in refinancing through the NTMA, which we have discussed before a few times? I know the agency took a few actions early this year. What impact has that had on the national debt? The Minister said it is essential that we start to reduce this burden. What exactly will that mean in 2018 and 2019?

I will refer briefly to non-tax revenue. There is a reference here to the Central Bank, the floating rate notes and revenues in that area. What might happen to our bank shares is referred to in the risk analysis. Does the Minister expect any other positive developments on the non-tax revenue side?

Colleagues made several references to that extraordinary statistic about Apple. I recently bought a new iPad. This is having such a profound impact on our economy that it accounts for a quarter of 2017 growth. This raises the issue of corporation tax. The Minister does not highlight a major risk in this area, in spite of the common consolidated corporate tax base, CCCTB, and the European plans in this regard.

**Deputy Paschal Donohoe:** In answer to the first question about when the Brexit-associated risks will become clearer, I note that there will be a meeting of the European Council in June and another one in October. We will need to make progress on many of the key issues that matter to Ireland there. However, my expectation is that many of the things that will affect our economy's performance will begin to crystallise towards the end of this year. Things that will happen in the UK will affect the British economy and could in turn have a spillover effect beyond what we are considering at the moment. There are certain things we will be able to influence. We can do that politically, via the two engagements to which I have referred. However, there are other things that could happen in the British economy and British society which might well affect the prospects for 2019, 2020 and beyond. I think that those things will become clearer to us towards the end of the year. One thing that is worth saying, however, is that it is now far more likely than not that there will be a transitional agreement between the UK and the EU. It is for that reason that we have increased our growth forecast for next year now to approximately 4%. That is a change from when we last looked at this.

Regarding the figure of €206 billion and the effect of the NTMA thereon, I note that the agency's recent marketplace activity and what has happened over the past year has had two



particular effects. The first is that our real interest rate has now been reduced. That currently stands at 2.7%. We expect that figure to decrease to 2.5% in 2019, and to reach 2.4% in 2020 and beyond. The second impact is that the period over which we will be repaying the debts has been pushed out.

In regard to any impact on floating rates within the Central Bank or any other non-traditional sources of revenue, we not expecting any other further change beyond what I have indicated already.

In answer to Deputy Broughan's fourth question about the impact of contract manufacturing on our national income, I add the very big caveat that while it is impacting the top-line figures that we are aware of - I said a moment ago that it could be between 1.5 and 2 points - it is not affecting the things I use to determine how much tax revenue we are likely to gain, or what the right tax policy is. That is why, for example, I do not say we should have increased Government expenditure last year by 7% or 8%. That is not how our real economy grew.

**Deputy Eamon Ryan:** I thank the Minister. We received a very good presentation from our excellent budget advisory office team on the issue of rainy day funds. I cannot recall the exact details, but if I remember our discussions rightly, the key issue affecting the application was whether European rules would allow us to use funds we set aside in subsequent budgets in a proper counter-cyclical manner to give the Minister extra fiscal leeway. The officials seemed to advise that if there was not certainty around that, they did not see the benefit of a rainy day fund. I think that if the Government can get such certainty, a rainy day fund makes sense. Particularly in circumstances where our economy is going full throttle, previous experience suggests that we need to become counter-cyclical rather than cyclical as best we can. That is one of the lessons it is to be hoped we will learn from our economic past. Has there been any clarity from European authorities about how the application of the fund would apply in future budgets, when we came to spend it in that counter-cyclical way?

I have a second, very broad question. This is a very general question in a sense. There is a historic analysis of the past 20 or 30 years in the Western world, and maybe in other parts of the world too, which posits that there has been a shift towards capital, away from payment to labour and wages. The power of capital has increased because of globalisation; capital can move very fast and a variety of different issues arise. The relative share of national income going to wages has fallen in a way that is detrimental in a whole range of ways. I mean in terms of providing for the needs of our people but there are also political and other knock-on effects, which we do not want. Does the Minister have a strategic sense in that regard that we, as a country, want to increase pay levels? I know that he cannot say so in light of pay negotiations. Let us consider the private sector as well. Is there an objective that goes against the trend, which has been in place for so long? One of the ways we could achieve the objective, where we would not economically damage the country, is if we had sufficient productivity growth to allow such pay. Productivity is often forgotten about in our economic statistics. Can the Minister outline, if not now then later, what productivity statistics are used? Where is the analysis on productivity returns? Where are the productivity accounts? I attended a meeting this morning and heard a figure for Northern Ireland's productivity, which showed a deeply worrying decline in productivity in the past year and is a sign of the political failure in that jurisdiction. Where are our productivity statistics? Where can I find out what is happening to Irish productivity?

**Deputy Paschal Donohoe:** First, we do believe that we are going to get agreement from the European institutions to spend the rainy day fund in a counter-cyclical way. We are engaging with the Commission on that matter at the moment. It is doing some work across the EU in

terms of developing these funds. Even within the current legal framework there is recognition of an exceptional circumstances clause. If we consider how that clause could be triggered, let alone how the policy in this area will evolve across the coming years, we believe we will be able to get agreement to use this fund in a counter-cyclical way.

Second, I would evaluate the labour share of income on the basis of the GNI\*, as opposed to gross domestic product, GDP, or gross national product, GNP. As I have said on a number of occasions, I believe that GNI\* is a more appropriate way to look at our income. If I consider it on that basis then the labour share of GNI\* has not fallen as much as elsewhere. It would be my intention, across coming years, to see the labour share of the gross national income stabilise and then grow again. GNI\* has been at the heart of many of the recent political difficulties that are being grappled with elsewhere at the moment.

In terms of how we do such work, I shall outline the two most obvious ways. First, we need to get more people working for longer and get more people back at work. Second, as the Deputy has said, we need to grow productivity. I am pleased to tell him that only a few weeks ago my Department and the OECD published a paper on how we measure productivity in Ireland at a micro level. We looked at what we think the productivity frontier is in Ireland and how that stacks up on the basis of firm size. We have all of those figures. He will see some trends that are positive and other things that must be addressed, particularly the gap between the growth in productivity in some companies versus smaller companies in different sectors. I shall forward the paper to the Deputy.

**Deputy Eamon Ryan:** I wish to comment on the first option to get everyone working and working all of the time. We are nearly at full employment. The Minister sounded like he will crack the whip and hunt people into work. We must start thinking about our economy in a different way.

**Deputy Paschal Donohoe:** In terms of the way I said it, I hope that I did not create a whip sensation.

**Deputy Eamon Ryan:** The Minister knows what I mean.

**Deputy Paschal Donohoe:** I hope that people might be willing to work for longer-----

**Deputy Eamon Ryan:** I have to get out of here.

**Deputy Paschal Donohoe:** -----and are willing to work if jobs are created for them.

**Deputy Eamon Ryan:** Many OECD and European Union policies are all about labour activation and getting as many people as possible in work to stop migration. Such policies have knock-on social consequences that we should not ignore. That objective is what drives OECD and EU policies and we should be careful.

**Deputy Paschal Donohoe:** Something that I would like to address later this year is one of the things that we need to think through. If we keep on looking at how we drive economic growth sector by sector, and do not have a holistic appreciation of what that is, then we will get to a point where we will begin to hit pressures and contradictions even sooner than we should. If we keep on considering ways to drive employment purely on the basis of what is happening in a particular policy area, or a particular sector of the economy, we are going to get to a point where that begins to conflict with other things we want to do in other parts of our economy. If we get to that point later in the year, and I believe we will have more people in work than we

have ever had before, maybe that might be an appropriate point to kick off that debate.

**Chairman:** I thank the Minister. I appreciate that we were working towards this time. No one else has indicated a wish to contribute.

**Deputy Michael McGrath:** I indicated.

**Chairman:** Sorry, I did not see the Deputy offer earlier.

**Deputy Michael McGrath:** I wish to ask a supplementary question.

**Chairman:** Deputy Boyd Barrett can go ahead. I just did not see Deputies offering.

**Deputy Richard Boyd Barrett:** I was debating whether I would comment-----

**Chairman:** The Deputy has reassured me slightly because I did not think I had missed people.

**Deputy Richard Boyd Barrett:** -----partly because this debate seems like a box ticking exercise and people seem to think it is enough to simply mention all of the risks. From what the Minister has said the policy seems to be to keep the ship steady and everything will be all right. I did not get that sense from reading the risk assessments. He has identified three risks as highly likely to happen in housing; changes in corporate tax risks; and EU climate change and renewable energy targets.

I find it slightly disturbing that the Minister must come back to us on the last matter. To my mind, that is the typical approach adopted by the Government. I mean the risk is galloping towards us but the Government has not taken it seriously, including its impact. The matter has been identified as high risk but the Government has decided not to do a lot about it.

On the issue of corporate tax risks, there is a contradiction. I was slightly heartened to hear about an increase in wage share. On several occasions I have mentioned the wage gap and the reduction in wage share as against money going to profits and so on. The drop in wage share is a historical trend across the world since the 1980s. Sadly, Ireland is the worst because the wage share has dropped more dramatically here than everywhere else. The drop in wage share does not surprise me given the policies that we have pursued. We have been particularly enthusiastic supporters of a neoliberal policy of low taxes, particularly on the corporate sector and on wealth. The wage situation feeds into the housing difficulty because people cannot afford to buy houses. Even if we build houses people cannot afford to buy them. We resolved that contradiction the last time by allowing people to borrow crazy amounts of money even though their wages would not allow them to pay for the stuff that they were buying. Now, we or the banks are reluctant to do so. As a result we are caught in a bind where housing is a problem.

Let us remember that the Minister has identified housing as a high risk. Housing could become a major problem in terms of our capacity to grow given that the economy is moving towards full capacity. How are people going to pay for the stuff? The solution is to address the wage share and break from the policy of low corporate taxes and low taxes on wealth. The Government is not interested in doing so. The Minister has identified housing as a high risk yet the Taoiseach travelled to Washington and commended Donald Trump on joining the race to the bottom on that issue. Incredibly, the Taoiseach boasted in Washington that Trump is copying us.

**Deputy Eamon Ryan:** Yes.

**Deputy Richard Boyd Barrett:** Aside from the madness of that politically, does the Minister not see the contradiction economically? Unless we address the distribution of wealth, which can only be addressed by breaking from the policy of low taxation on corporations and wealth, in the hope of spurring-----

**Chairman:** We agreed to keep questions concise to give all members time to ask questions. Conscious that other Deputies observed the time constraints, I ask the Deputy to conclude.

**Deputy Richard Boyd Barrett:** I have made my point and I am interested in hearing the Minister's response. The contradiction I have raised is central to this matter. Will the Minister provide figures on productivity? Will he comment on the fact, not unlike the figures for GDP, Ireland's productivity figures are completely meaningless because they are grossly distorted by transfer pricing?

**Deputy Paschal Donohoe:** On the effect an increase in corporate tax rates would have on the resources available to us and the choices we would be able to make, my view is that reducing corporation tax would result in job losses and reduced tax revenue. Deputy Boyd Barrett and I have differing views on the matter. I will not reduce the corporate tax rate beyond the current level and the top line rate of 12.5% will not be changed. As other countries, for example, the United States and France, are reducing their corporation tax rates, it would be a grave mistake if we were to increase our corporation tax rate as it would result in job losses and reduced tax revenue.

We will circulate the paper on productivity to the Deputy. In recognition of the difficulty with measuring productivity, the paper seeks to assess productivity on a micro-level - in firms - to try to give us a better read of how it is developing in companies in sectors of the economy that are not integrated into global supply chains. I will send a copy to all members.

**Deputy Richard Boyd Barrett:** I have one brief supplementary question.

**Chairman:** I will allow Deputy Michael McGrath to ask a question first as he has been waiting patiently.

**Deputy Michael McGrath:** The Minister gave a breakdown of the additional expenditure of €2.6 billion for 2018. The impression given is that this will also come out of the fiscal space next year. My understanding is that at least some of this money is in the base. For example, €400 million has been allocated for demographic related costs. I understood that was related to the reconciliation of gross to net fiscal space. Is that correct?

**Deputy Paschal Donohoe:** The Deputy asked me for figures on gross fiscal space and I answered him on that basis.

**Deputy Michael McGrath:** If we can relate the €2.6 billion to the net fiscal space, the €400 million for demographic related costs does not impact on the net space because it has already been provided.

**Deputy Paschal Donohoe:** I will revert to the Deputy on that because we have to find the money to pay for all of this next year. I will provide further detail afterwards if the Deputy wishes.

**Deputy Michael McGrath:** I ask the Minister to do so. We were meant to have sufficient funding for demographic changes in the base. Perhaps new changes have emerged, of which

the Minister must take account. Similarly, I understood public sector pay had already been factored into the figures.

**Deputy Paschal Donohoe:** I will revert to the Deputy on that matter.

**Deputy Michael McGrath:** I ask the Minister to outline what impact the additional €2.6 billion of expenditure will have on the already published net fiscal space, taking account of the smoothing effect. I am not seeking an update but information in respect of the position as published.

**Deputy Paschal Donohoe:** I will share that information with the Deputy. The purpose of the next economic statement will be to relate the position next year to the resources available to us next year.

**Chairman:** I ask the Minister to share the relevant information with the committee. Deputies Broughan and Boyd Barrett have indicated they wish to make quick points.

**Deputy Thomas P. Broughan:** The Minister is providing €50 million to the Minister for Health, Deputy Simon Harris, to address waiting lists and other contentious issues that we address daily to the Taoiseach in the Chamber. From where does this money come and why can more not be provided?

**Deputy Paschal Donohoe:** The reason more cannot be provided is that we have to spend what we collect in taxes. There will be very little carried forward next year.

**Deputy Thomas P. Broughan:** Was the €50 million pencilled in already or is this completely new funding?

**Deputy Paschal Donohoe:** To which €50 million is the Deputy referring?

**Deputy Thomas P. Broughan:** It is a sum allocated to the Department of Health to deal with waiting lists.

**Deputy Paschal Donohoe:** That money was pencilled in for this year and has been paid for this year.

**Chairman:** The meeting has run slightly over time. I thank members, the Minister and his official, Mr. McCarthy, for their attendance. Members appreciate the opportunity to interact with the Minister.

The select committee adjourned at 4.35 p.m. until 4 p.m. on Tuesday, 24 April 2018.