Promoting inclusive growth in Ireland in the context of population ageing and continued technological diffusion

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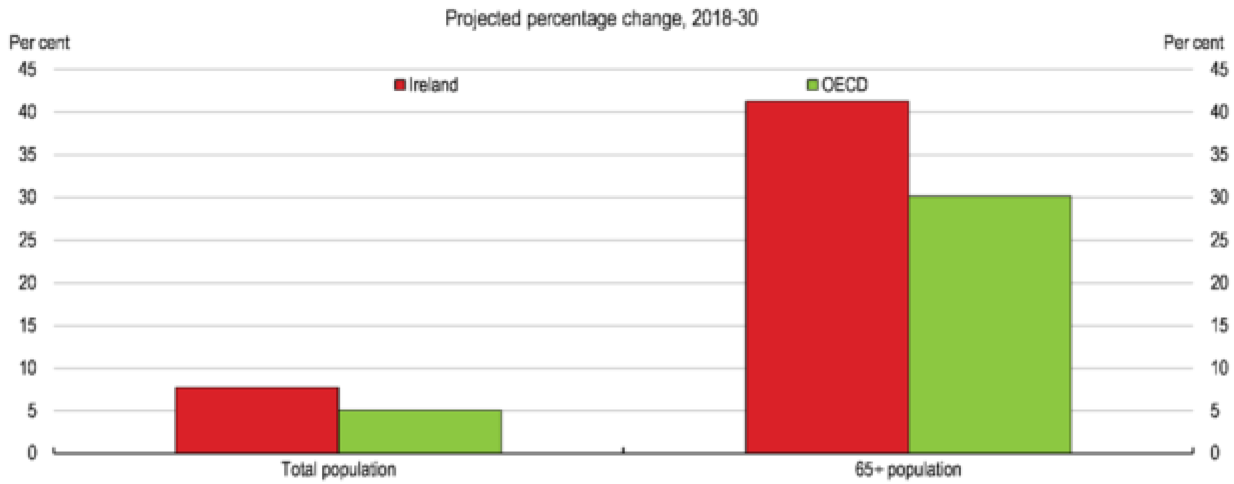
The Irish economy has performed well in recent years. The unemployment rate has plummeted by over 10 percentage points since 2012 to around 5% and the average real wage well exceeds the OECD average. Nevertheless, economic uncertainty is elevated and Irish policymakers face significant challenges from population ageing and in making the most of further technological progress. Ireland is also unlikely to achieve its carbon emission reduction targets in the coming decade based on current policy settings. The 2020 OECD Economic Survey of Ireland explores ways to address these challenges.

First, recent improvements in Ireland's fiscal position have largely reflected unexpected corporate tax receipts and interest savings. Non-recurring receipts have been partly used to fund within-year cost overruns in areas such as health and social welfare. General government debt per capita remains very high compared with other OECD countries, a legacy of the financial crisis. Given the downside risks weighing on the economy, including an increase in barriers to trade between the United Kingdom and the European Union, the government should commit to saving windfall tax receipts and ensuring fiscal prudence.

Second, Ireland’s population is set to age faster than in most OECD countries (Figure 1). Simulations suggest that public health and pension costs could rise by ½ per cent of GDP by 2030 and by 6½ per cent of GDP by 2060. To meet these obligations, opportunities for greater public spending efficiency and revenue sources that minimise economic distortions need to be identified.

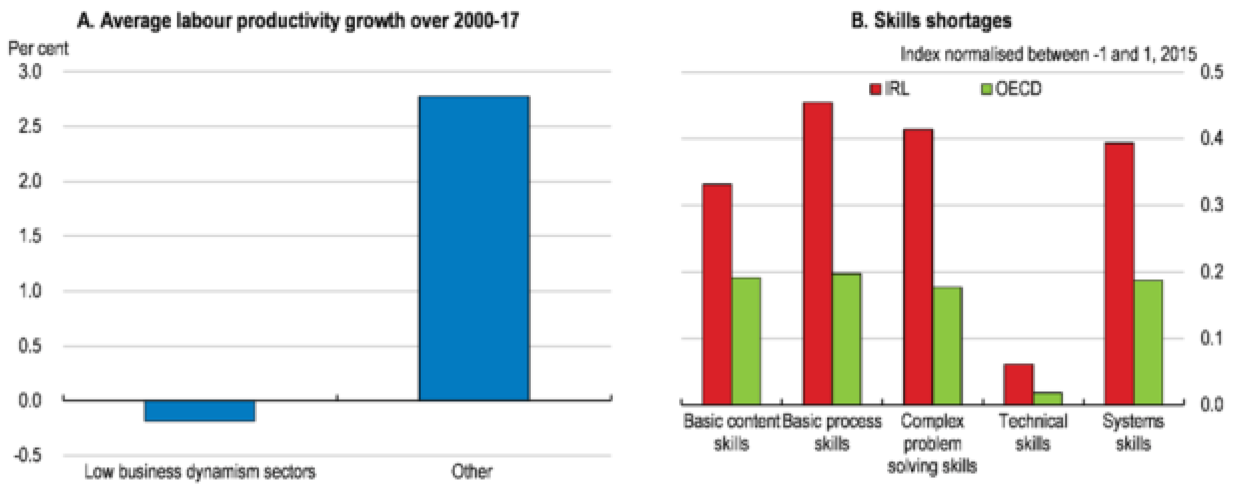
Figure 1. Ireland’s population is ageing fast



Source: OECD (2020).

Third, technological change is transforming Ireland’s economy, leading to new jobs and innovative products that benefit consumers. Nevertheless, the adoption of new technologies has been uneven across sectors and has had scant productivity impact, particularly in sectors with low firm turnover. Furthermore, there is a shortage of the skills needed to ensure that new technologies have the maximum positive impact (Figure 2). Further adoption of new technologies can be encouraged through a reduction in barriers to firm entry and their productivity potential better realised through the cultivation of complementary skills. Policy settings in other areas, including competition and the labour market, also need to be revisited to adapt to features of digitally-intensive markets.

Figure 2. Efficiency has not improved in sectors with low firm turnover while skill shortages are more pronounced



Note: In Panel A, sectors in the bottom third of the distribution for business churn measured by the sum of the firm birth and death rates are deemed low dynamism. In Panel B, positive values represent shortages, while negative values correspond to surpluses, on a scale that ranges between 1 and -1.
Source: OECD (2020).

The Survey's key recommendations to cope with these challenges include:

• Using windfall corporate tax revenues to pay down government debt or to further build up the Rainy Day Fund.
• Broadening the tax base to prepare for future ageing costs, by streamlining the Value Added Tax system and more regular revaluation of the local property tax base. At the same time, public spending efficiency needs to be enhanced through the establishment of universal access to primary care and better health budget controls.
• A gradual increase in the carbon tax rate and other measures that will benefit the environment, including the introduction of congestion charging in the busiest locations, further

investment in public transport, abolition of preferential VAT rates for synthetic fertilisers and greater afforestation.

• Promoting inclusive technological diffusion through improving the licensing process for start-ups, increasing financial assistance for and flexibility of training programmes, harmonising labour market regulations across forms of employment, and enhancing the enforcement powers of the competition authority.

Reference: OECD (2020), OECD Economic Surveys: Ireland 2020, OECD Publishing, Paris.