

Speech by An Taoiseach Leo Varadkar T.D. National Economic Dialogue, Dublin Castle. 27 June 2018

Good morning.

I'm very pleased to be here for the fourth National Economic Dialogue.

I would like to thank Minister Donohoe and his team for organising the Dialogue again this year.

And thanks to Alan for agreeing to chair proceedings today.

Once again, I am delighted to see such a broad range of stakeholders here representing different strands of Irish society.

I particularly want to welcome members of the Oireachtas Committee on Budgetary Oversight chaired by Colm Brophy T.D.

This event is a vital part of the inclusive and rigorous approach we have taken to the Budget in recent years.

We see the benefits of this in the progress we have made in economic terms and also in terms of making social progress and improving the quality of life of our people.

When I spoke to you last year I was a newly elected Taoiseach setting out my priorities for the time ahead.

If anything, the external landscape has become more challenging since then. The economy is powering ahead but the downside risks are increasing.

International developments in areas such as trade and tax have the potential to impact adversely on our economic well-being.

Brexit is still under negotiation.

While these uncertainties persist, I believe our actions over the past year mean that we are in good shape to face these challenges as long as we avoid repeating the mistakes of the past.

The main economic indicators show an economy continuing to perform strongly.

2017 was another year of very strong growth.

We all know however that in the Irish case, GDP is not a good measure of real economic progress.

So it is notable that other indicators such as consumer spending, tax receipts and labour market developments, all confirm that Ireland's economic fundamentals remain strong.

The most recent survey on Income and Living conditions also indicates that for the first time in years we are on the right track again when it comes to poverty, deprivation and inequality.

Unemployment has fallen to 5.3% and the number of people in employment has reached a new all-time high, at 2,237,900. Long-term unemployment is less than 3%.

Our economy is continuing to grow and, more importantly, the growth we are seeing is increasingly spread around the country.

I believe, we are in a good place. But we have been here before and the people of Ireland paid dearly with a lost decade because the Government of the day took their eye off the ball.

Taking account of these objectives, our economic policy is based around six principles. These are:

1. Managing the public finances prudently;
2. Investing in infrastructure;
3. Reforming public services;
4. Taking our place among the nations of the world;
5. Raising living standards; and
6. Achieving full employment with better jobs.

The first is prudent management of the public finances, reducing our national debt, moving towards a surplus in the years ahead and paying down our debt.

We cannot go back to that philosophy of ‘if I have it, I’ll spend it or worse still just borrow it’ or we’ll find out pretty quickly that we don’t have it anymore.

So, the Government is determined to ensure that our budgetary strategy is based on steady increases in public expenditure underpinned by stable and predictable tax revenues. We anticipate Public Expenditure will increase by more than €3bn next year.

Expectations have increased given the remarkable performance of our economy. However, not all expectations can be met.

Excessive levels of expenditure increases in an economy at full employment can only end badly.

So, we must maintain a broad tax base that generates a sustainable revenue stream necessary to fund public services and build new public infrastructure.

We cannot build permanent expenditure commitments on revenues that may not be sustainable.

For this reason, the Government is setting aside some of the historically high levels of Corporation Tax for the purpose of creating the Rainy Day Fund.

Our second principle is investing in the future – specifically our public infrastructure.

Last year, at this event, I spoke about our plans for a new Capital Investment Plan and National Planning Framework.

This has now been delivered in the form of our integrated Project Ireland 2040 plan.

With this plan we have an ambitious ten-year plan to invest €116 billion in our public infrastructure.

This means investment in housing, healthcare facilities, education, transport and climate change. It's a long-term strategic approach and it provides the clarity and certainty that individuals and businesses need in order to be able to plan ahead.

Capital spending on public infrastructure has increased 18% year-on-year this year already, and will increase by 25% next year. We are going from being a country that was a relatively low spending on infrastructure to one that is the highest within the EU in a few years. And that is something we need to do.

We are a young country. We are a country with an expanding population unlike other countries in Europe. We expect to have another million people living in Ireland by 2040, our population hitting about 6 million.

We are also a country that's just become wealthy in the last couple of decades, so in many areas we need to catch up.

Project Ireland 2040 will improve quality of life as well as enhance our competitiveness.

One area where we need to accelerate progress is housing.

Minister Murphy has taken actions including planning reforms, affordable housing schemes and the creation of a new Land Development Agency and Home Building Finance Ireland.

The problem is that these policies take time to show their impact. This gives rise to genuine frustration. However, it is clear from all the indicators that construction is ramping up significantly.

The latest CSO statistics show an increase in new home completions of 45.7% in 2017 compared with 2016, and a further significant increase can be expected this year. This doesn't include student accommodation which is popping up everywhere now vacant homes are brought back into regular use.

This Government is bringing the same determination, the same focus to the housing crisis as the last brought to the unemployment crisis. That focus will bring the same results. These results cannot be achieved overnight, but they will be achieved.

The third principle is our commitment to reforming and modernising our public services. Better value for money for the tax-payer, for patients, for students, for families.

Each year, the Government spends over €60 billion. I am convinced that there is scope to improve the efficiency with which this is allocated. The spending review, which will be published in July, will be critical in this regard.

Of all areas of Government expenditure, health demands the greatest level of reform. This year we will spend more than €15 billion on our Public health services. That is more money

that the State will receive from VAT this year. It represents 70% of all income tax receipts. It is one of the highest levels of expenditure per head of population anywhere in the world, which given our relative youthful population is hard to justify.

We have now been spending above the OECD average on healthcare for 20 years even throughout the recession.

Therefore, reform of healthcare is surely the biggest public service challenge and we will shortly publish the implementation of Sláintecare.

The fourth principle relates to our role internationally.

We see ourselves not as an island at the edge of a continent, but an island that's at the centre of a connected and globalised world.

We are at the heart of the common European home we helped to build, committed to multilateralism as the best way to solve the world's many problems.

Earlier this month, the Government published Global Ireland 2025 - an ambitious plan to double the scope and impact of Ireland's global footprint over the next seven years.

This is the most ambitious renewal and expansion of Ireland's international presence ever undertaken.

It focuses on advancing our diplomatic, economic and political objectives.

And crucially it also reaffirms our commitment to greater global justice, free markets, free trade and promoting peace through a commitment to increasing ODA and continuing our strong track record as peacekeepers.

This will continue to be a priority even at a time when we face a number of external risks and challenges, some universal, others more specific to us here in Ireland.

The fifth principle is that we want to raise living standards for all our citizens in a sustainable way.

- Better pay
- Lower Income taxes
- Reduced costs when it comes to public services

Income tax changes made in Budget 2018 focussed on reducing the tax burden on middle-income earners.

We have already committed to amalgamating USC and PRSI to ensure the sustainability of the Social Insurance fund while making sure contributions are fair and reasonable and matched to the benefits received.

An Inter-Departmental working group is currently exploring options for this and is due to report this summer to inform our Budget deliberations.

We are reducing cost of living for people, through the phase in of subsidised childcare, 2 years free pre-school; in the expansion of free GP care; lower prescription charges; and the restoration of dental and optical benefits.

In the public sector, the phased unwinding of the emergency FEMPI legislation commenced with the Lansdowne Road Agreement and will be further assisted by the Public Service Stability Agreement running from 2018 to 2020.

And we are experiencing sustainable increases in private sector pay as a result of our growing economy.

The sixth is achieving full employment with good jobs. We are approaching full employment, so our emphasis now is on good jobs, jobs that pay the bills, jobs that allow people to aspire to home ownership, create security, more family friendly work and access to pensions so they can plan for the future.

Our five-year ‘Roadmap for Pensions Reform’ sets out policies which will improve our pension system’s sustainability, adequacy and equity.

This includes the introduction of a ‘Total Contributions Approach’ from 2020, which ensures that your pension outcome reflects your social insurance contributions.

It also provides for the introduction of an auto-enrolled occupational pension system by 2022 to deal with poor coverage rates in the private sector. This will be paid, in addition to the state pensions.

Minister Doherty and her officials are working hard on implementation of the Roadmap and will be reporting to the Cabinet Committee on progress in the next fortnight.

Finally, I want to say something about Future Jobs, and I’ll begin with a quote:

‘Productivity isn’t everything, but, in the long run, it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.’

Paul Krugman said that and, while he does not get quoted much by the Irish Government, it does highlight what must be at the core of how we raise living standards and provide better jobs. Ultimately, it all depends on productivity increases across all sectors of the economy.

Sustainable growth and its benefits must be achieved through productivity. While Ireland has one of the highest levels of productivity amongst advanced economies, there is a widening gap between the most productive firms – often high-tech services and cutting edge manufacturing in the multi-national sector and the rest - many domestic firms and these outside the trade sector.

So, we must focus on enhancing business dynamism, encouraging the entry of new firms, as well as targeting R&D and improving managerial skills to maximise productivity spill overs from foreign firms.

Furthermore, as we look to the future we can clearly see that we are at the early stages of the next industrial revolution – the era of digital transformation. Robotics and artificial intelligence will alter the workspace in ways we cannot imagine. We must start preparing for now if we wish to maintain our relative prosperity.

Therefore, we must continue to implement policies and programmes to increase labour market participation and to enhance talent and skills availability.

These are tools to increase productivity. And crucially they also improve quality of life and employment for our people.

This is how we ensure every person has the opportunity to succeed and have an equal chance to share in the nation's prosperity, not just today but for the next generation and the generation after that. This all requires action now and this will be a particular focus for Government in the time ahead.

The purpose of this Dialogue, and the debate which will continue in the Oireachtas and elsewhere between now and the Budget, is to ensure we make the best choices informed by a wide range of views.

I want to again thank you for your participation and I look forward to the discussion over the next two days.