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Productivity in Ireland's Domestically-Owned Market Economy: A Comparative Survey

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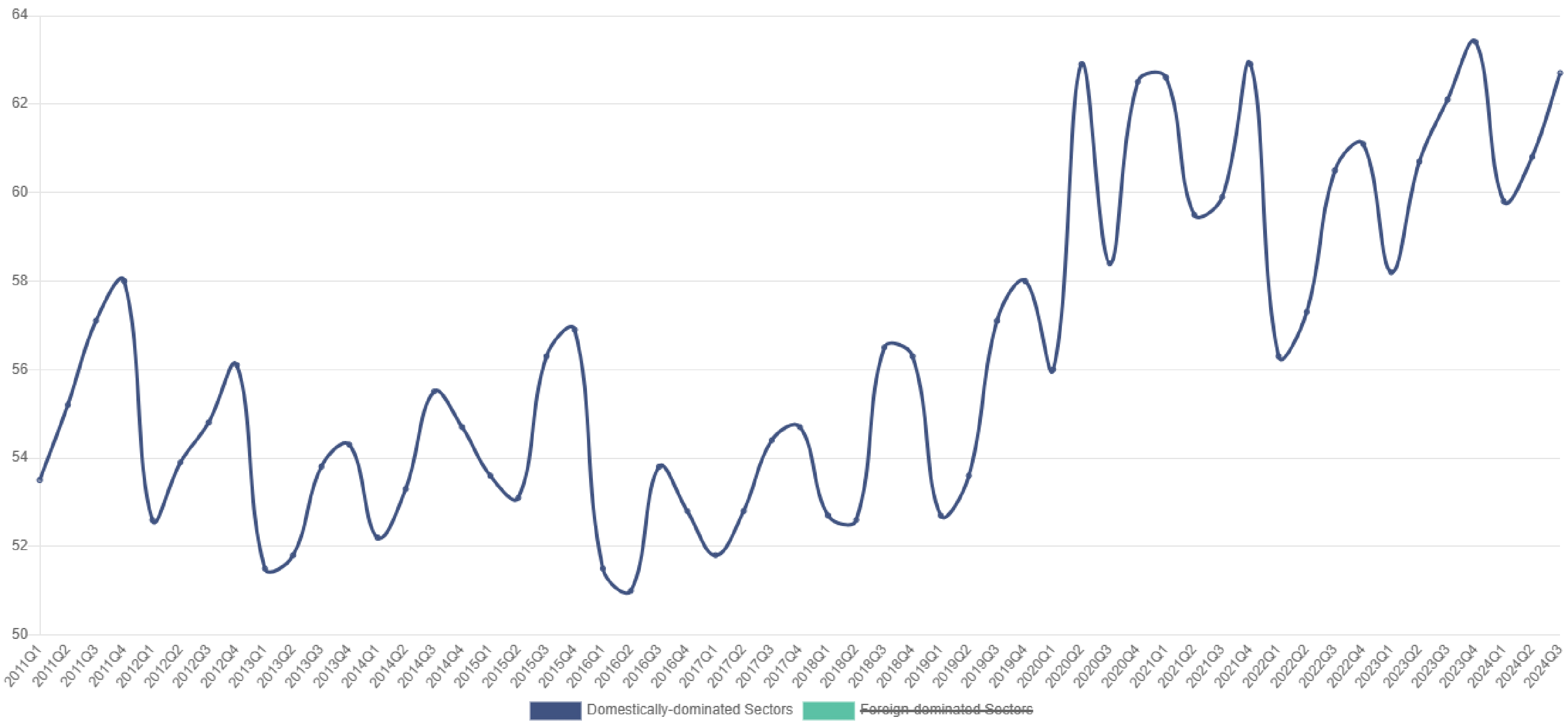
Rationale

- Ireland has a small domestic economy, atypical in that a large majority of value added (GVA) in the market economy is generated by foreign-owned firms, some of whom engage in profit shifting activity.
- This makes understanding productivity in the Irish context particularly challenging.
- To illustrate, the CSO estimate that in Q3 2024 hourly productivity in economic sectors dominated by domestic enterprises is **€61.50 per hour**; hourly productivity in economic sectors dominated by foreign-owned multinational enterprises is **€391.70 per hour**.

CSO methodology ("dominance rule")



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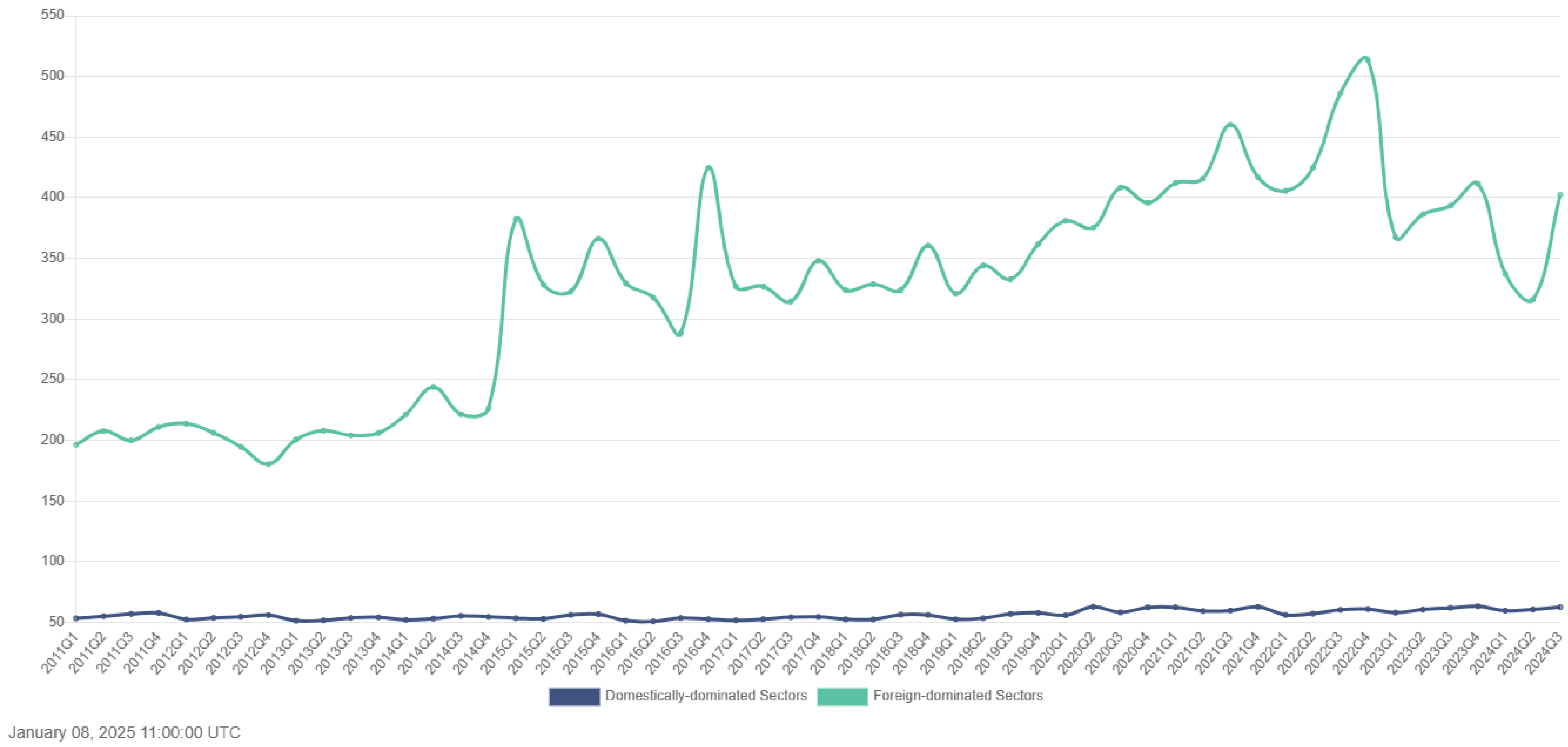

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- This paper isolates value added generated by domestically-owned firms in Ireland and across peer small. advanced, open economies, to better identify areas where Ireland falls behind or exceeds domestic productivity among its peers, and to encourage further analysis in this area.

Data sources

- Our calculations rely on data from the Eurostat *Globalisation in Business Statistics* release[1], which provides breakdowns of economic statistics by nationality of firm ownership.
- Only firms which are domestically-owned are included in the domestic productivity calculation, with all foreign-owned firms excluded.
- The comparator countries are small, advanced, open economies (SAOEs): Austria, Belgium, Denmark, Finland, Luxembourg, Netherlands, Norway, and Sweden.
- Hours worked is taken from National Accounts data to ensure productivity differences are not muddied by differences in average hours worked in particular countries, and nominal and real output per hour worked is calculated using GDP deflators

1. This data is ultimately derived from the Structural Business Statistics release which is compiled using CSO surveys, namely the Census of Industrial Production, the Building and Construction Inquiry, and the Annual Services Inquiry.

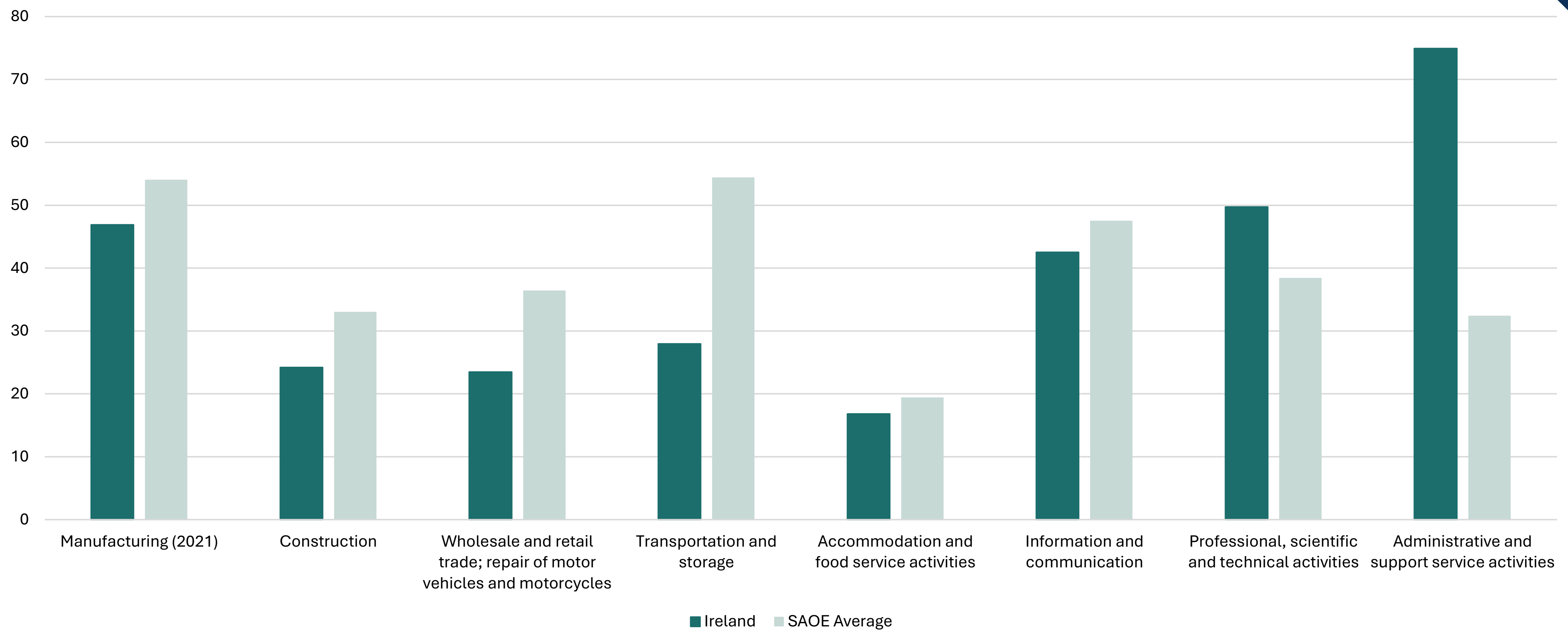
The Market Economy

- The market, or business, economy can be taken as a proxy for the private sector. It excludes agriculture, and non-market employers, typically in public administration, healthcare, and education.
- Changes to the Eurostat definition from 2021 make comparisons before and after this period complicated, as sectors which were previously excluded are added to their definition of the market economy.
- While the initial paper focused on the period before 2019, this presentation will extend the analysis to the most recently available year, 2022; hence, a consistent business economy estimate is not possible, and this presentation will focus solely on sectoral productivity performance relative to our peers.

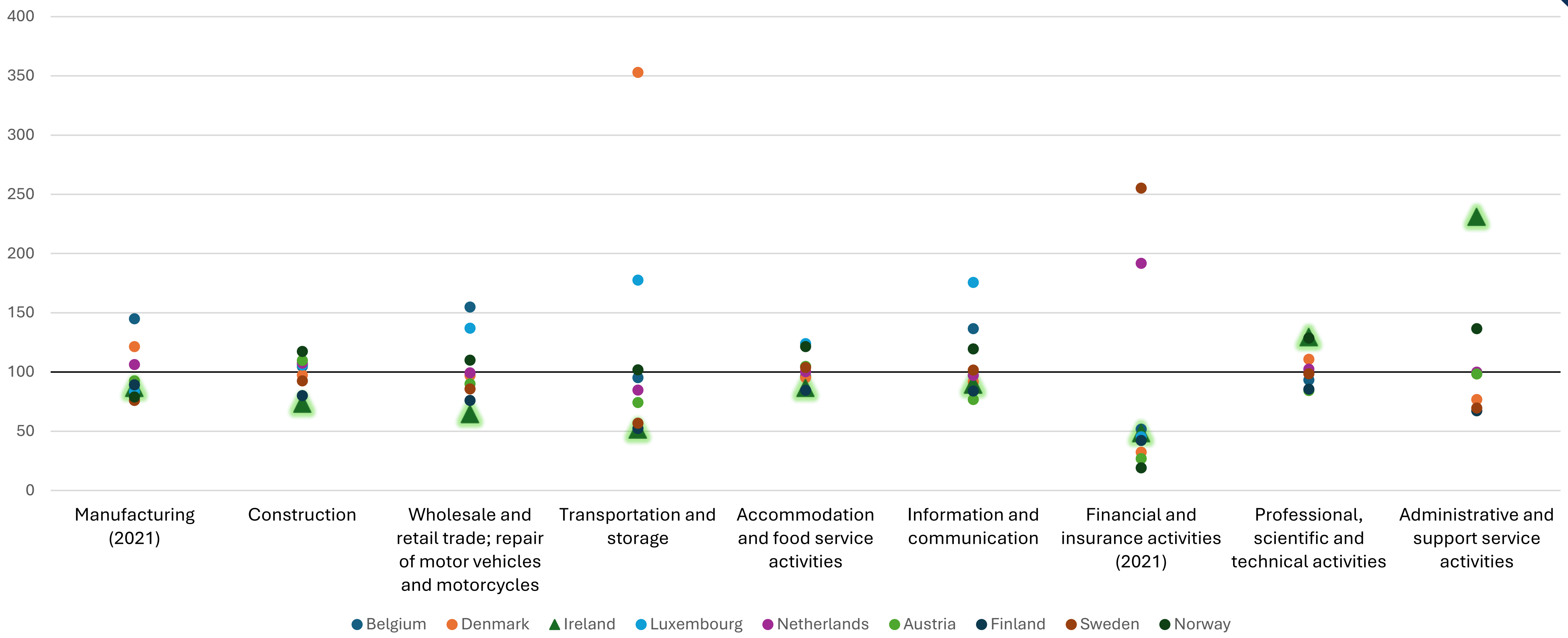
Real value-added per hour by sector, 2022 (€)

	Manufacturing (2021)	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Financial and insurance activities (2021)	Professional, scientific and technical activities	Admin and support service activities
Belgium	78.3	34.6	56.4	51.8	18.7	64.9	145.7	35.8	#N/A
Denmark	65.7	32.2	35.3	192.1	18.5	43.6	91.1	42.6	24.9
Ireland	46.9	24.2	23.5	28.0	16.8	42.5	136.2	49.7	74.9
Luxembourg	45.1	35.0	49.9	96.7	24.1	83.5	127.3	#N/A	#N/A
Netherlands	57.4	35.5	36.1	46.1	19.5	46.2	539.2	39.4	32.4
Austria	50.0	36.3	32.8	40.4	20.4	36.5	75.7	32.4	31.9
Finland	48.2	26.5	27.7	28.4	16.4	40.0	118.5	32.9	21.8
Sweden	41.1	30.6	31.2	30.8	20.2	48.4	718.2	37.8	22.6
Norway	42.7	38.8	40.1	55.5	23.6	56.8	53.7	49.4	44.3
SAOE Average	54.1	33.1	36.4	54.4	19.4	47.6	281.3	38.4	32.4
% increase to reach SAOE average	15.3%	36.5%	55.1%	94.6%	15.7%	11.9%	106.6%	-22.7%	-56.7%

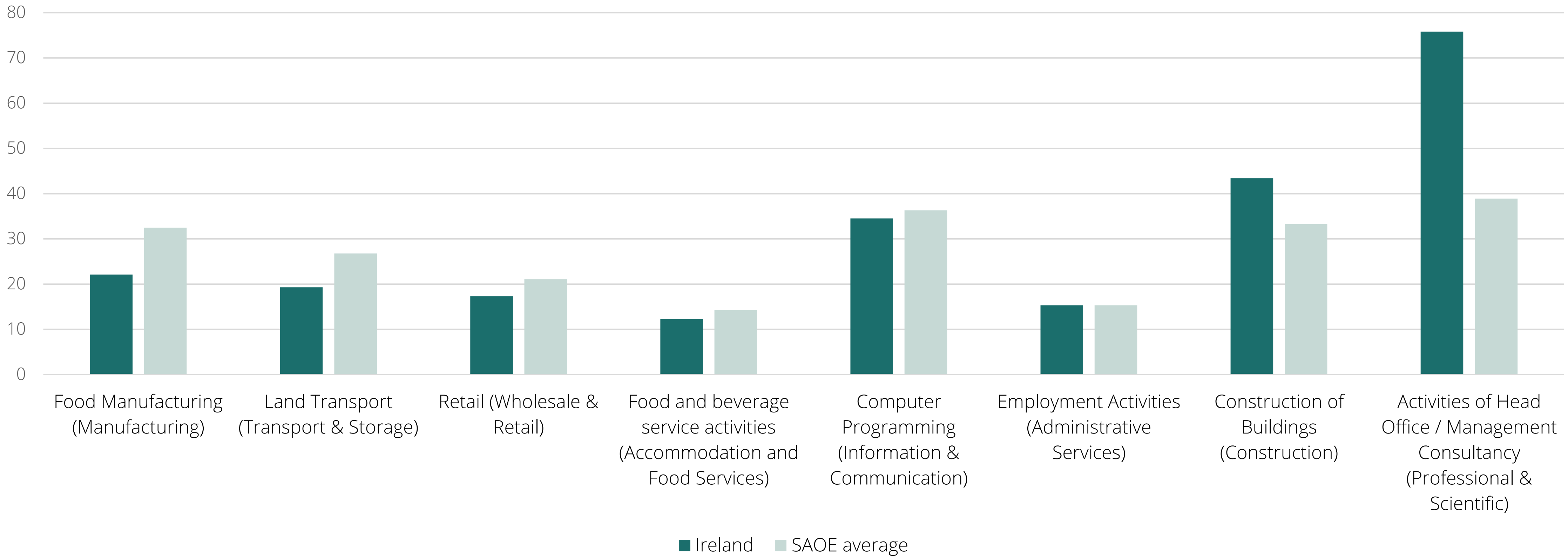
Real value-added per hour by sector, 2022 (€)



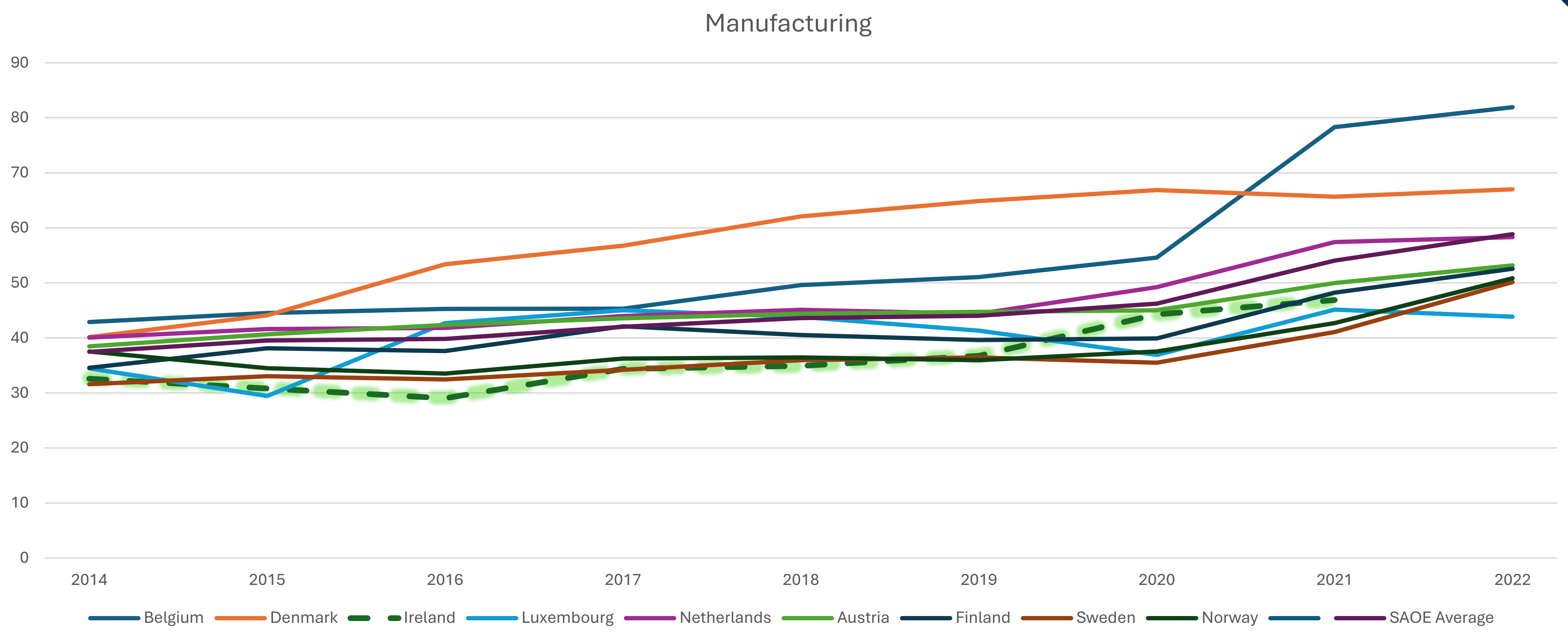
Real value-added per hour by sector, 2022 (SAOE average = 100)



Real value-added per hour by sub-sector, 2017-2019 average (€)



Trends in Irish Productivity



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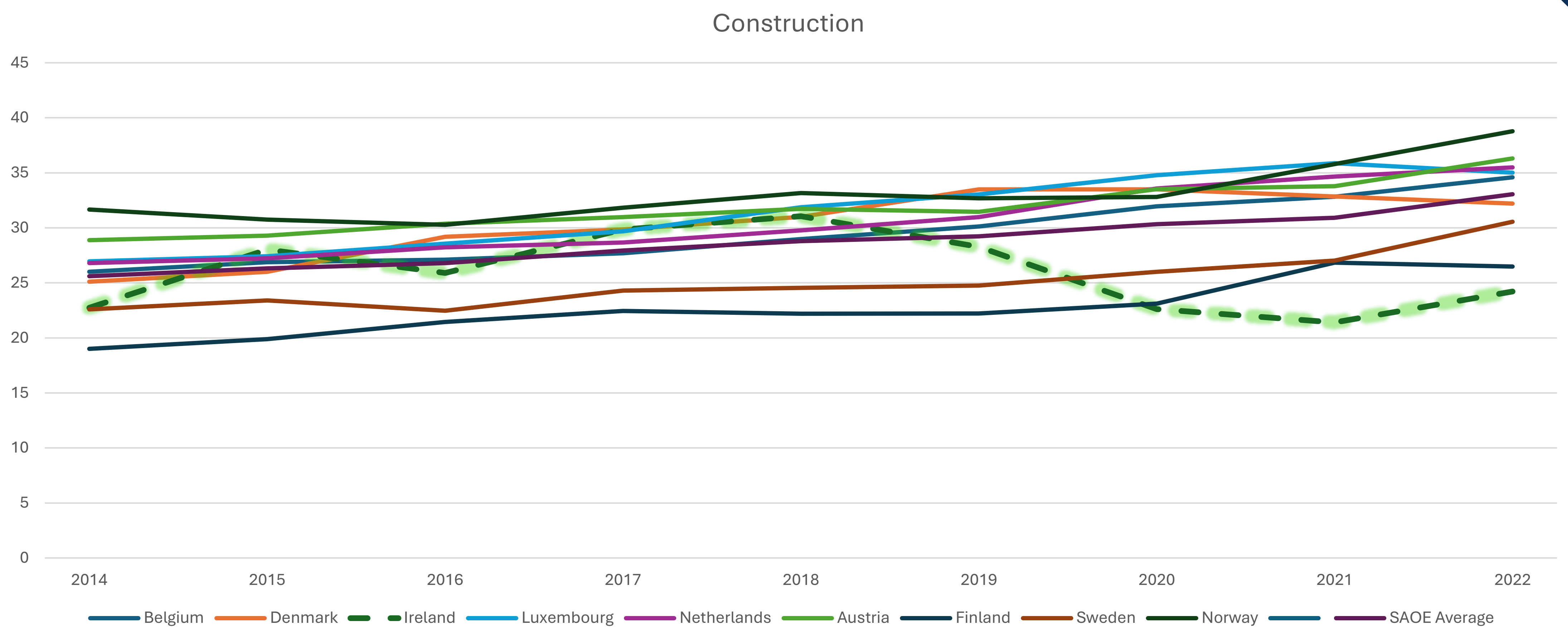

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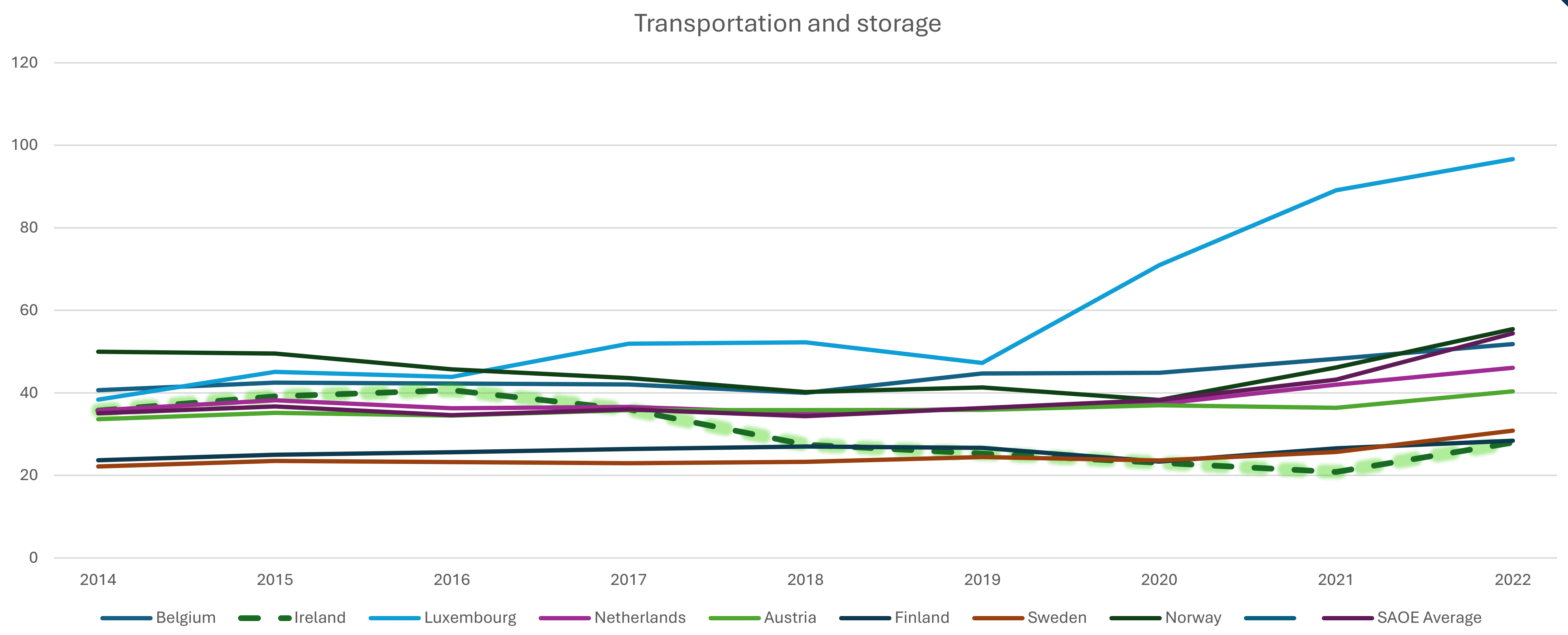

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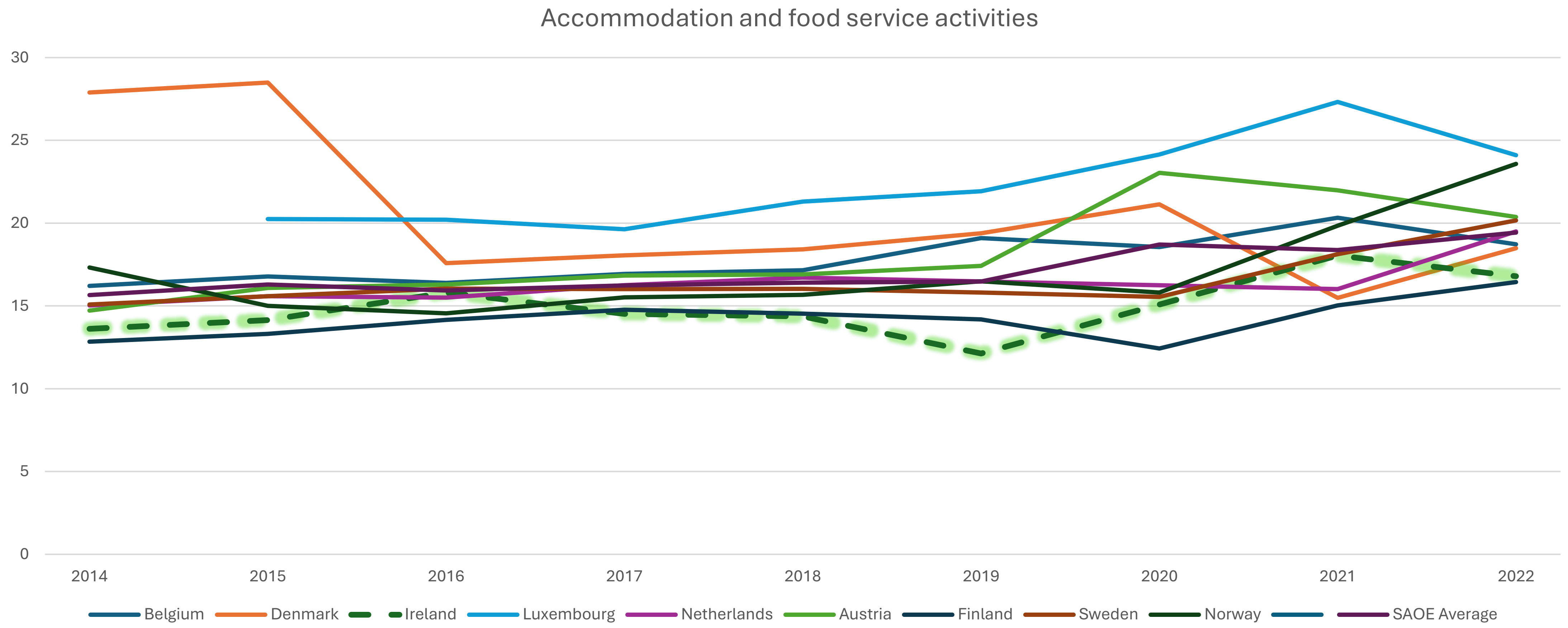

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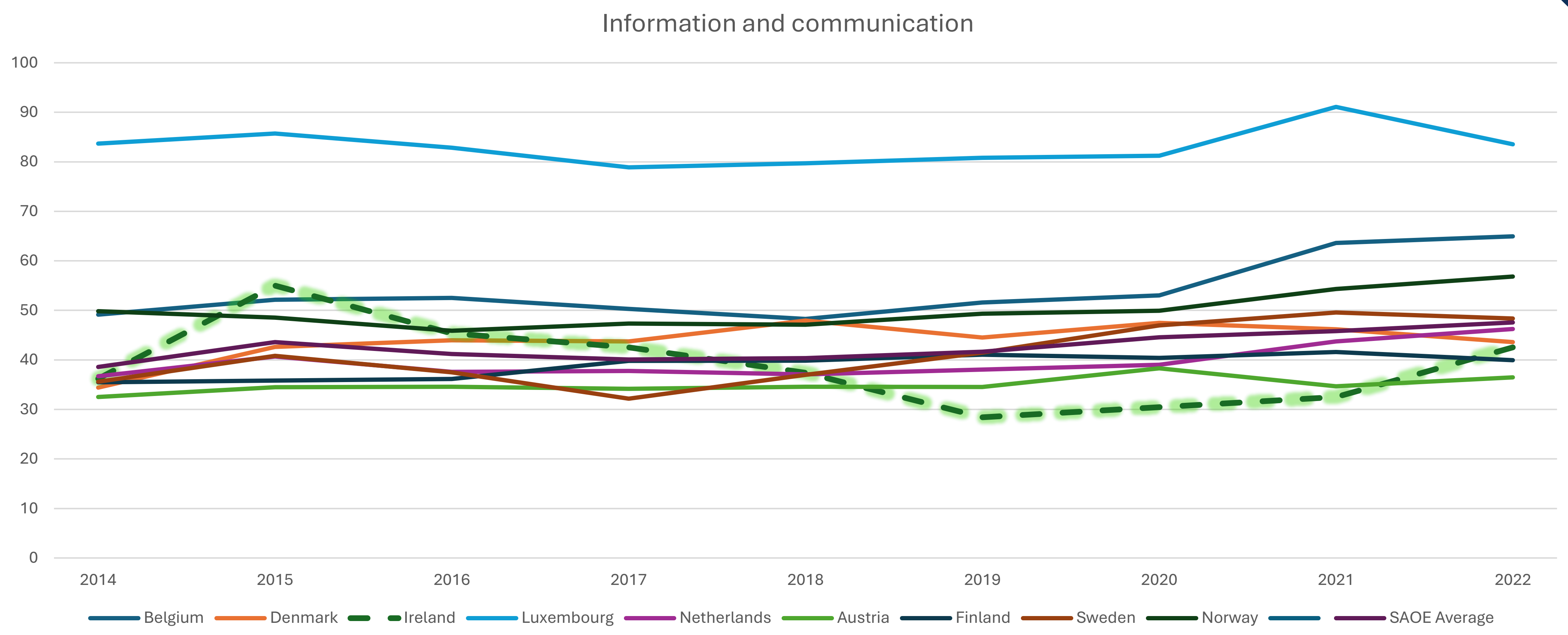

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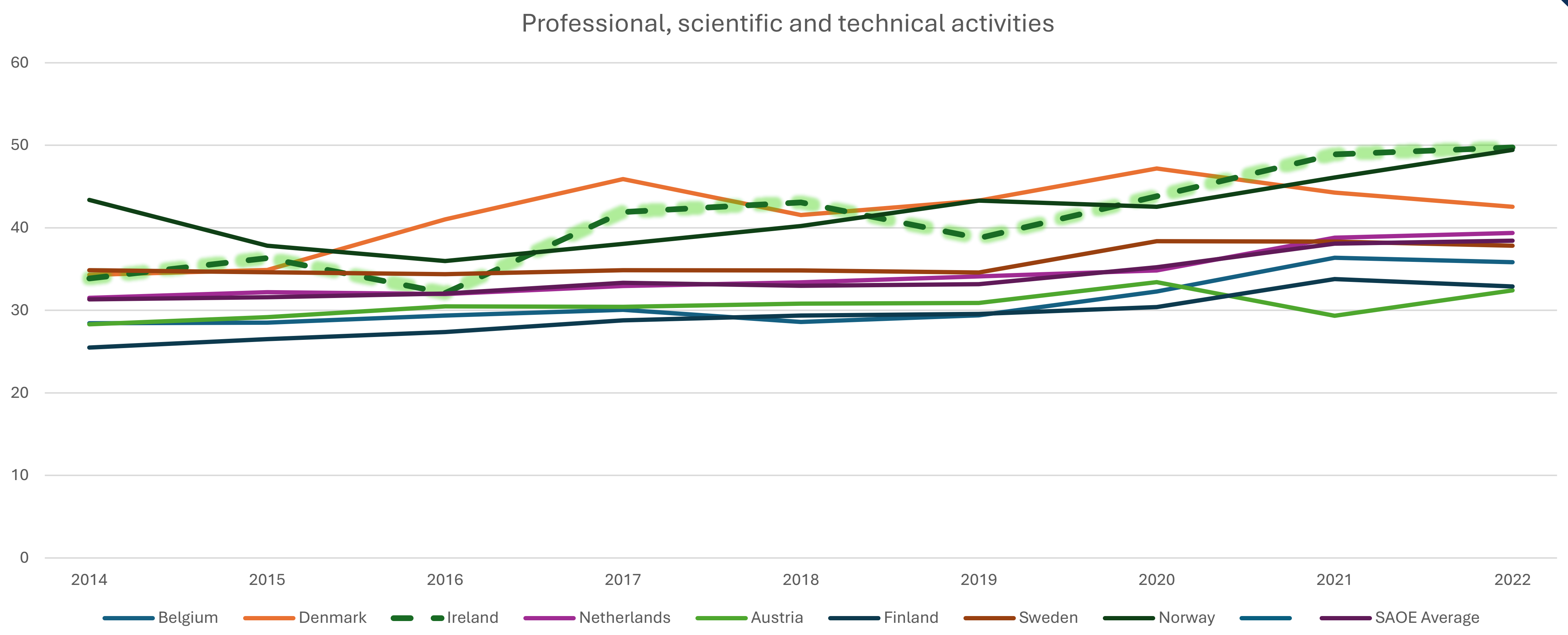
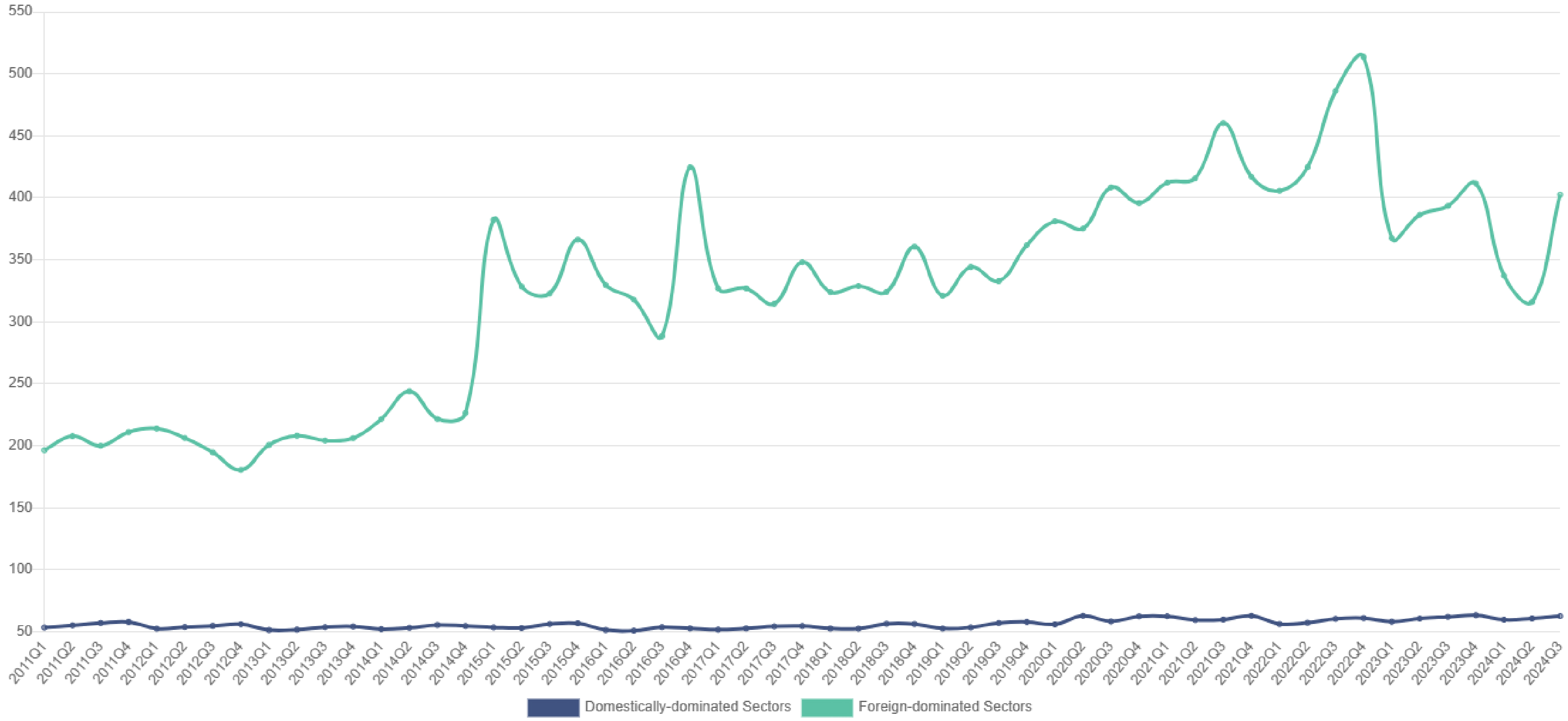


Reasons for low productivity

- Low infrastructural quality
- Low levels of investment
- Peripherality and transport costs
- Fragmentation and lack of scale
- Managerial deficits and a crowding-out effect of foreign-owned companies
- Access to, and cost of, capital
- Input costs and supply chain management
- Entry barriers and reduced market competition
- Low expenditure on education, training, and R&D
- Low level of employee voice (collective bargaining, employee participation)
- Differences in social security systems (ALMPs, presenteeism)

Looping back to our initial look at the CSO domestic productivity approach…

CSO methodology ("dominance rule")



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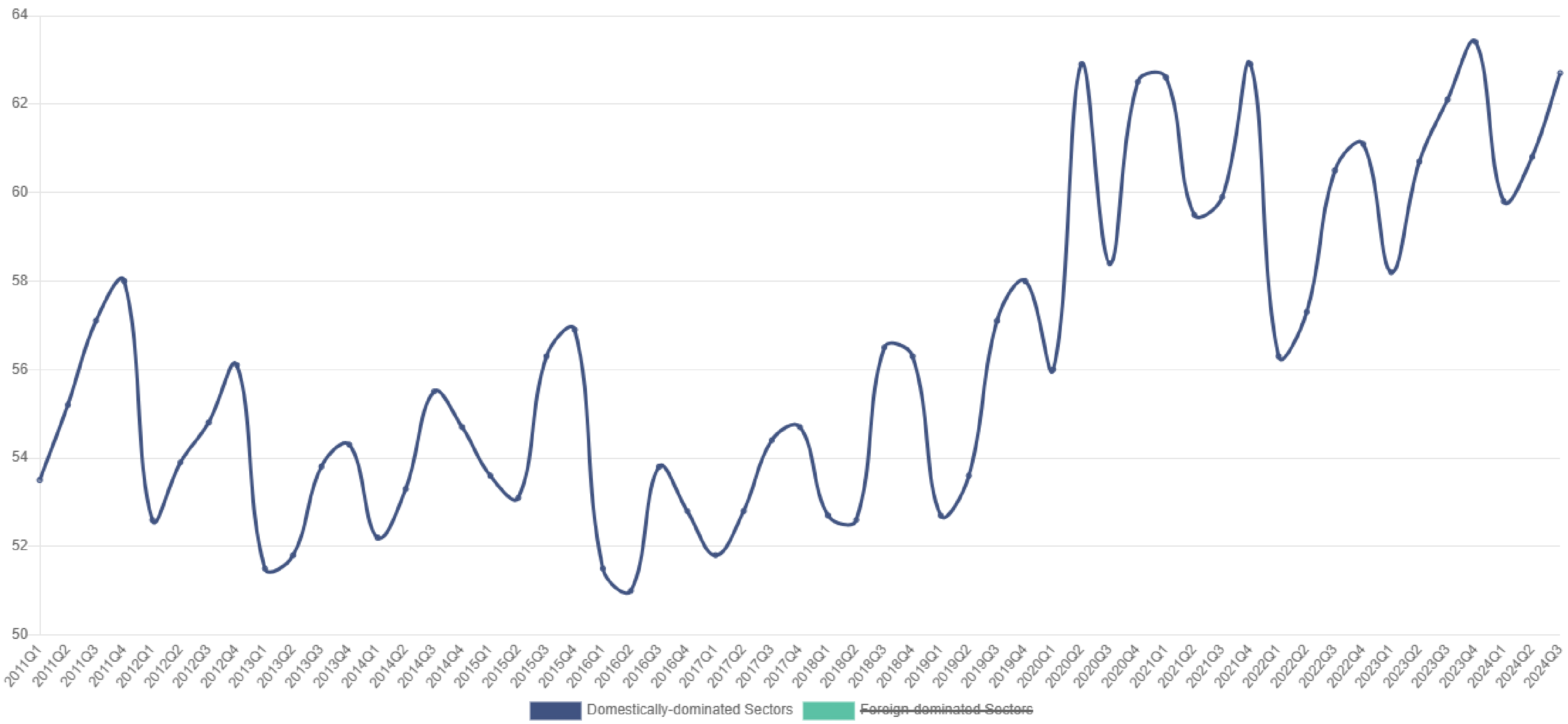

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CSO approach

Pros

- Fulfils need to produce timely, consistent, and accurate economic statistics
- Removes subsectors most likely to exhibit large swings in output due to decisions of small number of firms

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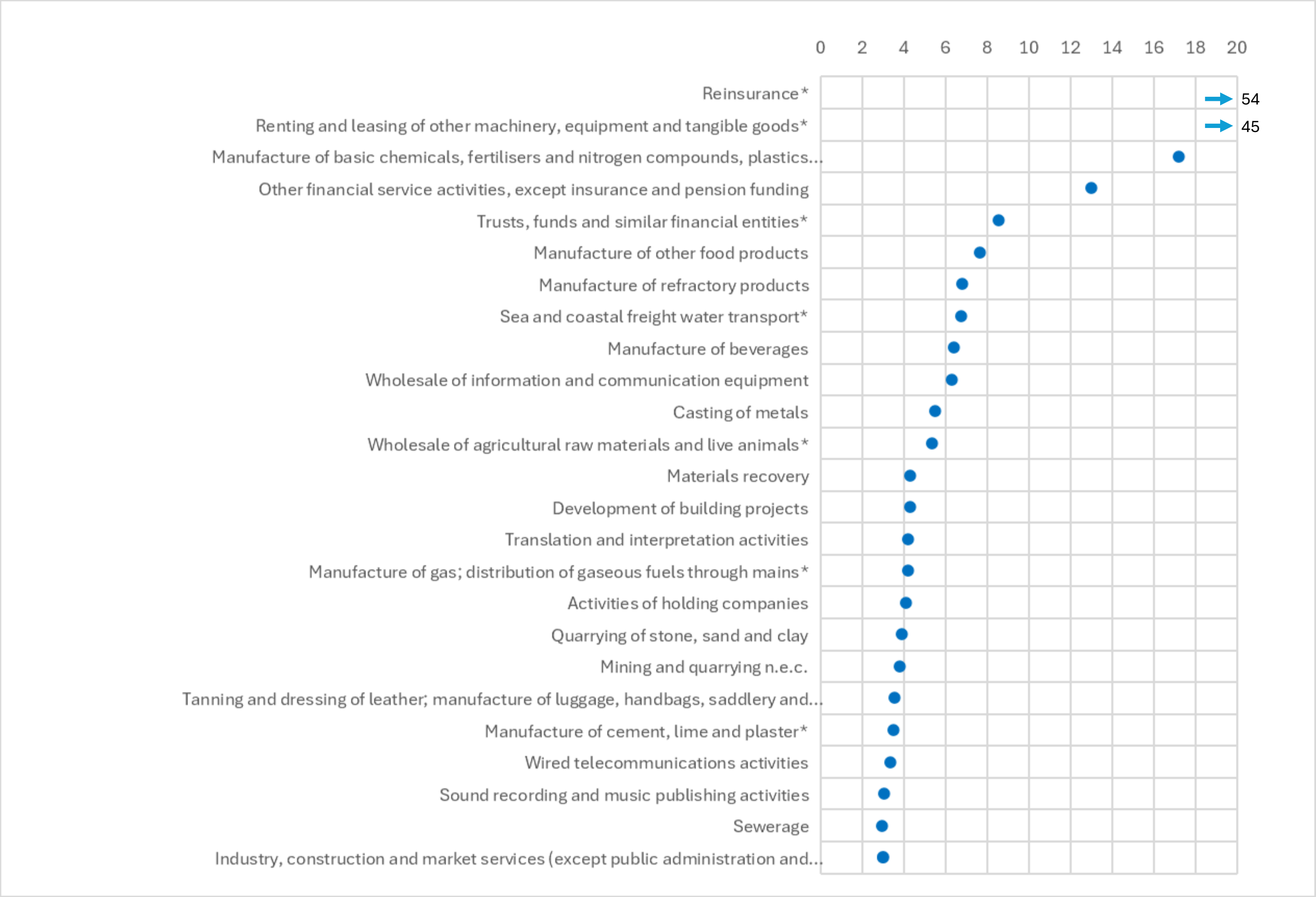
Cons

- Entire footprint of multinational-dominated sectors removed, not just the firms causing distortions
- Most productive sectors and firms in the Irish economy (notwithstanding profit shifting behaviour) are removed entirely
- Some sectors which don’t meet the threshold for exclusion under the multinational-dominated criteria could reasonably include tax planning activity, which flatters Ireland’s productivity performance

Compensation of employees/Gross operating surplus ratio (2022 or 2021*)



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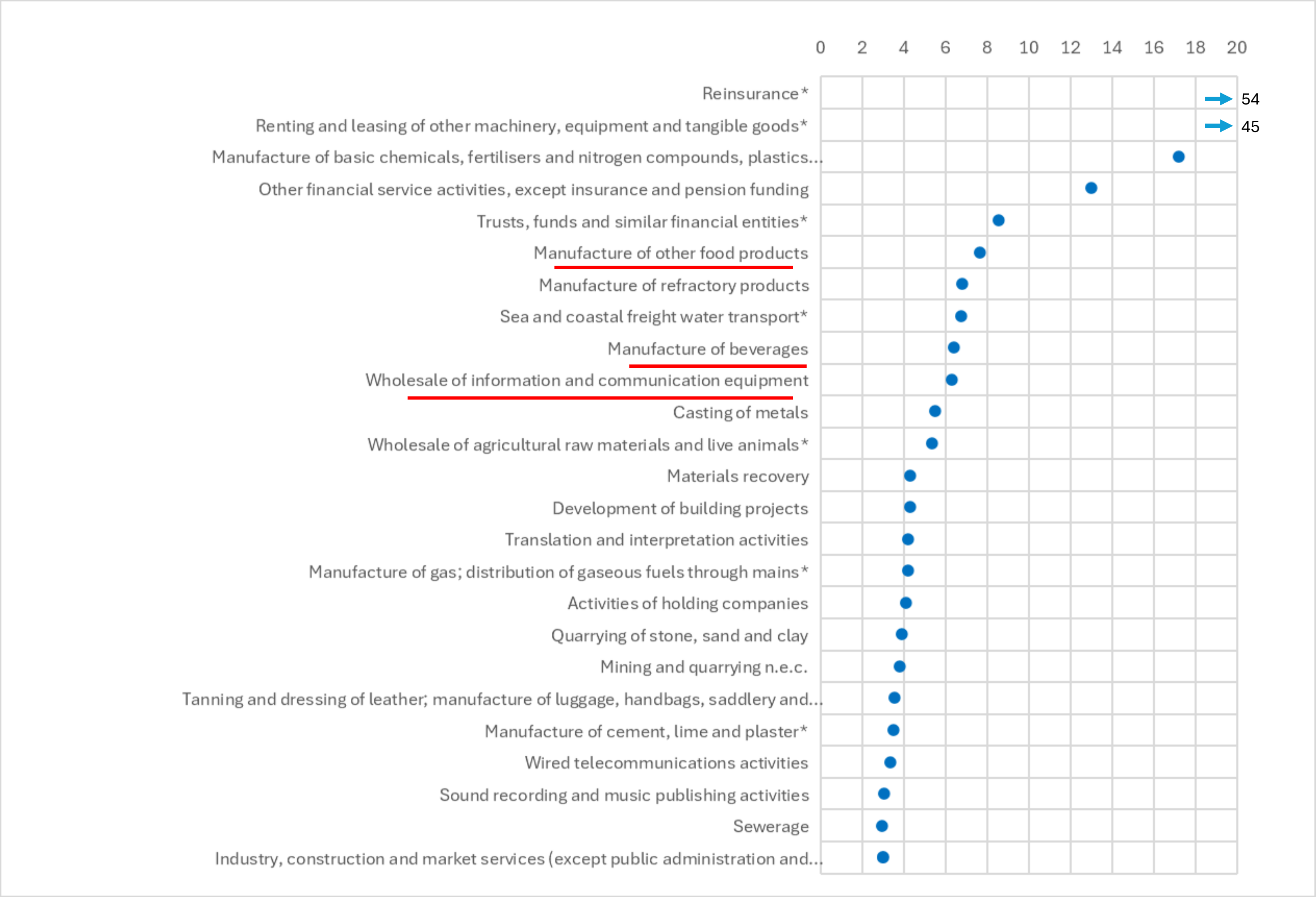

How does our method compare?

Domestic ownership approach

Pros

- Does a better job of excluding firms registering output in Ireland which is the product of tax planning rather than due to domestic labour and capital inputs
- Highlights the significant productivity deficit across the spectrum of economic sectors, demonstrating need for policy to strengthen domestic firms

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Cons

- Not only are we excluding pharmaceutical and tech firms engaging in tax planning activities, we are also excluding every firm which does not have Irish ownership
- Many of these firms create significant employment in the Irish economy, and have genuine productivity advantages over domestically-owned competitors which manifest in better working conditions, consumer surplus, etc.

Why does this matter?

- Economic analysis using the dominance criteria flatters Ireland and leads to comparisons, either with the past or with peers, which are not meaningful.
- On the flipside, while focusing on domestically–owned firms allows us to see where we are falling behind peers in creating and nurturing Irish enterprise, it also cuts out a lot of activity which is part of the Irish economy and isn't distorting statistics in the way certain firms and sectors are.

Conclusion

- The Irish economy's over-reliance on the multinational sector and the performance of domestic firms has been noted as a significant public policy concern, particularly in recent times.
- We estimate productivity in Ireland's domestically-owned market economy trails comparable sectors in our European peer group.
- Explanations include relatively high concentration in low productivity subsectors, crowding out by multinational firms, among others.
- Much like other economic indicators which attempt to deal with Ireland's unique statistical issues, this approach is not a panacea but provides an alternative means to examine Ireland's domestic economy and provides direction to further research in this area.