SIPTU

Services Industrial Professional & Technical Union

Productivity in Ireland's Domestically-Owned Economy: An Update

Michael Taft (SIPTU)

Rationale

- In 2024, my colleague Chris Smart and I published ‘Productivity in Ireland’s Domestically-Owned Market Economy: A Comparative Survey’.
- This paper isolated productivity generated by domestically-owned firms in Ireland and across small, advanced open economies (SAOE) in Europe, in order to better identify areas where Ireland falls behind or exceeds domestic productivity among its peers,. This covered the pre-covid years 2017-2019.
- This presentation updates that comparison, covering the years 2021-2023. This should be treated as a work-in-progress.
- The domestic sector has received increasing interest as questions are raised over the long-term reliability of foreign-owned firms (especially US-based) and the need to develop our own indigenous resources

Method

- This comparison uses Eurostat's Globalisation in Business Statistics, National Accounts and GDP Price Indices to measure business (labour) productivity per hour worked
- The comparator countries are SAOEs, identified by the Irish Government's Economic and Evaluation Service as Austria, Belgium, Denmark, Finland, Ireland, Luxembourg, Netherlands, Norway and Sweden.
- This averages the annual output from 2021, 2022 and 2023 in order to reduce the impact of 'lumpy' data or missing years.
- Productivity equals turnover minus non-labour inputs. Neither labour or capital compensation (wages and profits) are included in inputs. This results in Value-Added which is expressed as per hour worked in nominal and real values, the latter deflated with GDP price level indices (€ PPP). This value-added per hour worked can be referred to as '*business productivity*'.

Revisions and Differences

- Eurostat has recently revised its Globalisation database. Prior to covid, Eurostat only covered market sectors, excluding the financial sector. It now includes the financial sector and the non-market sectors Health, Education and Arts & Entertainment. In these sectors only market producers acting under market conditions are measured.
- Further, Eurostat doesn't publish as many sub-NACE sectors as it did prior to covid. Where it does, comparisons with the pre-covid period are difficult as data combines different sub-NACE categories.
- Real Estate is excluded as this is influenced by property prices. Rental and Leasing which is dominated in Ireland by aircraft leasing is also excluded.

Market Economy Productivity

Market Economy Value-Added per hour Worked 2021-2023 average (€)			
Nominal		**Real**	
Luxembourg	69.9	Luxembourg	53.8
Denmark	67.1	Belgium	51.7
Belgium	58.3	Denmark	50.9
Sweden	55.5	Sweden	44.2
SAOE Average	**50.7**	**SAOE Average**	**42.7**
Netherlands	46.7	Netherlands	40.2
Finland	44.6	Austria	38.5
Austria	43.3	Finland	36.0
Ireland	**40.5**	**Ireland**	**34.4**
% Below SAOE Average	**(-20.1)**		**(-19.4)**

Bottom of the Table

- In the domestic sector Ireland performs poorly, coming in at the bottom of both the nominal and real tables.
- Irish productivity is 19.4% below our peer group average (SAOE) – measured in real terms. This compares to the 2017-2019 period which showed Irish productivity 14.6% below SAOE average. However, we should bear in mind that the current survey adds sectors which were not included in the data prior to covid.
- These are significant deficits. In 2023, if we increased productivity to our peer group level, this would raise value-added by approximately €25 billion. This increase would be divided between wages and profits.
- Sectoral comparisons can help identify where in the market economy Ireland's productivity deficit occurs.

Sectoral Comparisons

Real Value-Added per Hour by Sector 2021-2023 average (€)			
	Ireland	SAOE Average	*% Above / Below SAOE Average*
Professional & Scientific	55.9	43.4	**28.8**
Adjusted Administrative Services *	23.8	25.8	**(-7.6)**
Hospitality	17.6	19.6	**(-10.3)**
Wholesale & Retail	22.5	29.1	**(-22.9)**
Health	22.5	31.2	**(-28.1)**
Information & Communication	33.3	46.5	**(-28.5)**
Financial Services	116.1	161.4	**(-28.1)**
Construction	23.3	33.3	**(-30.1)**
Transport & Storage	27.3	43.7	**(-37.5)**

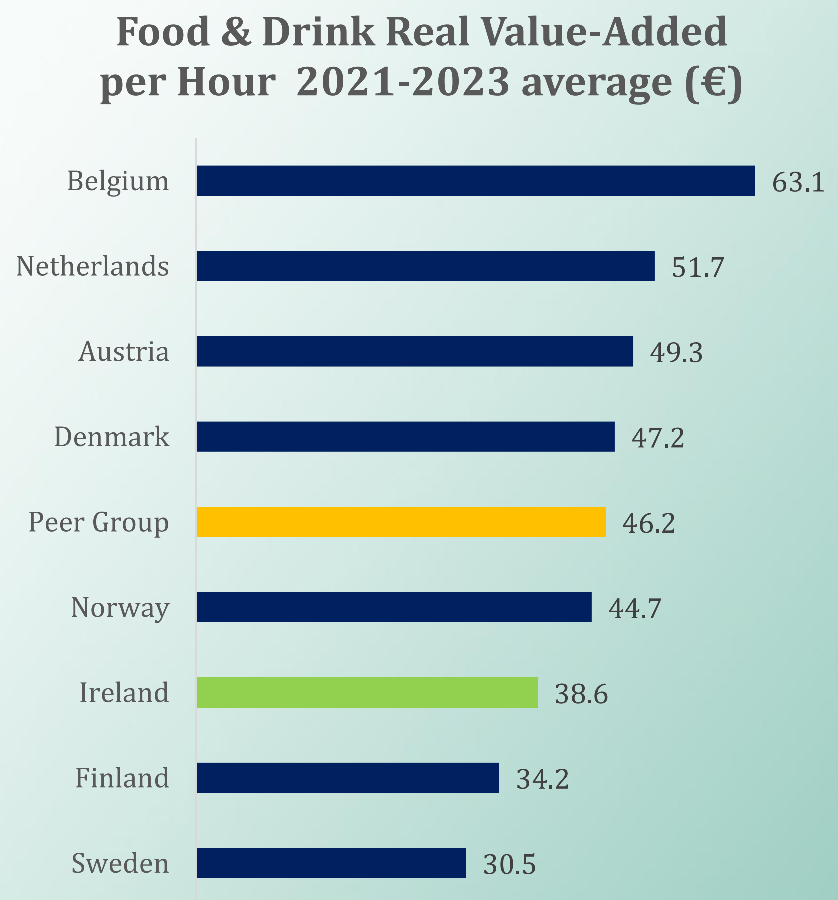
* Excludes Rental and Leasing

The Best and the Worst

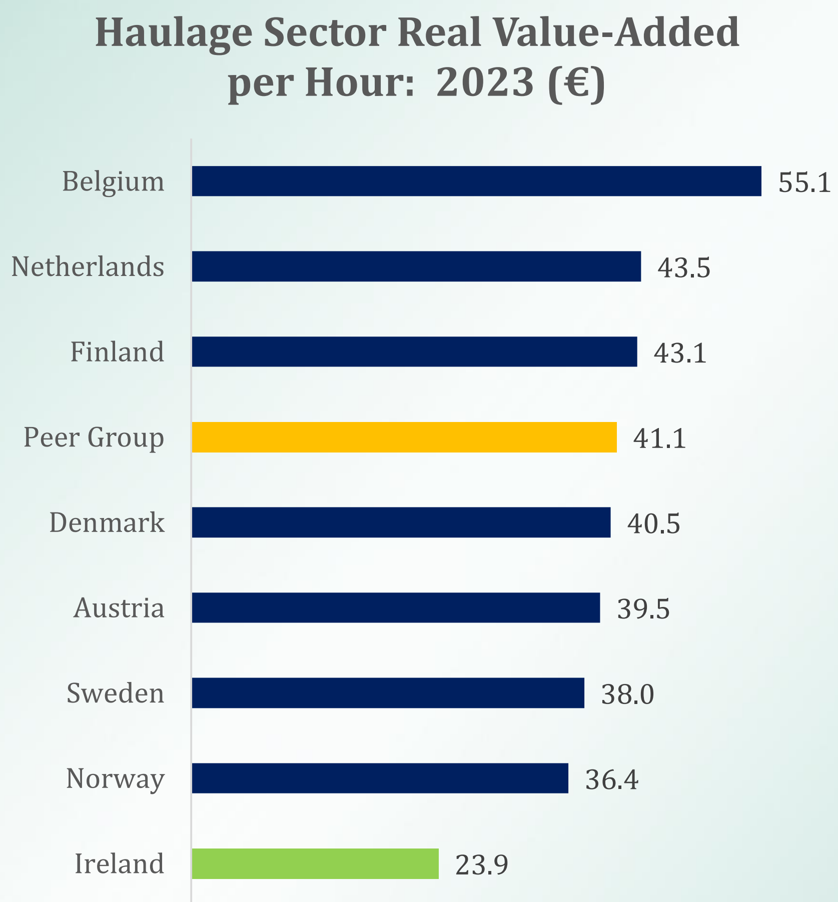
- Only the Professional & Scientific sector generates productivity above the SAOE average.
- Adjusted Administrative Services (business services excluding rental and leasing) and Hospitality are below our peer group average but not significantly so.
- At the other end, Transport and Construction are the worst performing sectors relative to our SAOE peers. Construction outturn (30% below our peer group) is particularly concerning given the need to rapidly scale up housing construction.
- The other sectors are between 20% and 30% below our peer group.
- There is insufficient data to measure Irish domestic manufacturing productivity (it only reports one out of three years); and no data for Education and Arts & Entertainment.

Food & Drink Manufacturing

- Though the total Irish manufacturing sector doesn't report enough data, there is data for the Food & Drink sector.
- This sector plays a leading role in domestic manufacturing, making up nearly a third of domestic manufacturing employment (in our peer group it's 18%).
- While not the lowest productivity (Finland and Sweden are lower), Irish Food & Drink sector is 16% below the SAOE average.



Road Haulage



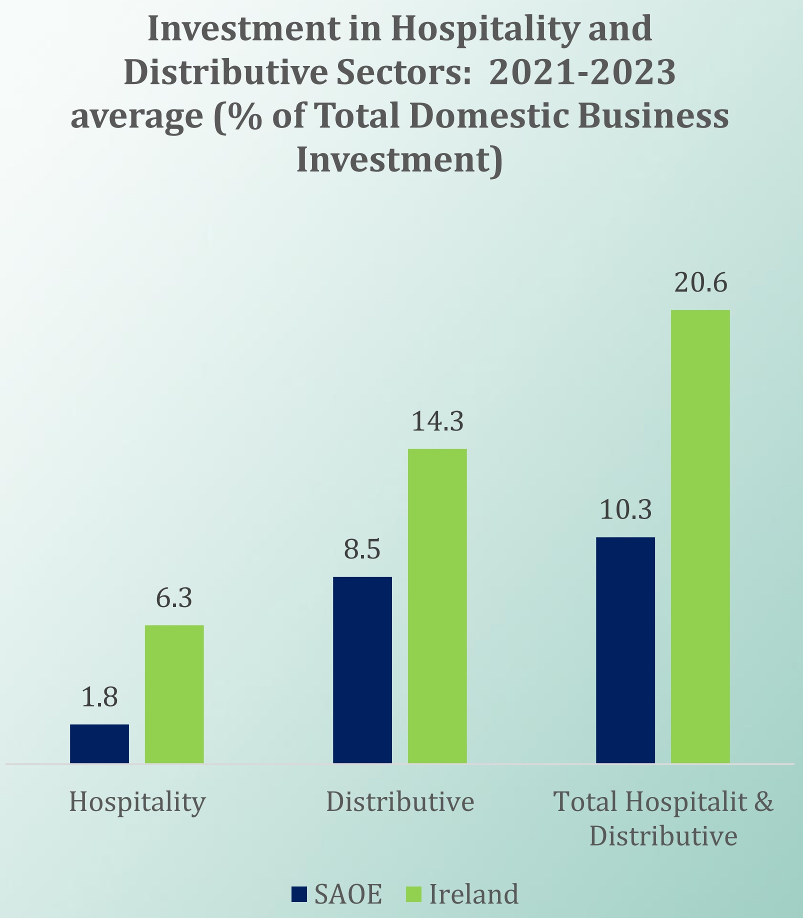
- Given the fuel protests it might be helpful to review haulage productivity.
- The Irish haulage sector lags far behind other SAO economies – 42% below average.
- Ireland’s island status doesn’t help, but low levels of investment (especially in electric vehicles) and a high level of own-account enterprises has created a highly inefficient, low investment, fragmented sector with corresponding low wages.

Domestic Business Investment

- Business investment is indispensable to increasing productivity and competitiveness.
- Eurostat provides data on investment per employee.
- The headline rate shows Ireland at the bottom of the SAOE table.
- Irish domestic businesses would need to more than double investment to reach our peer group average – an increase of €13 billion.

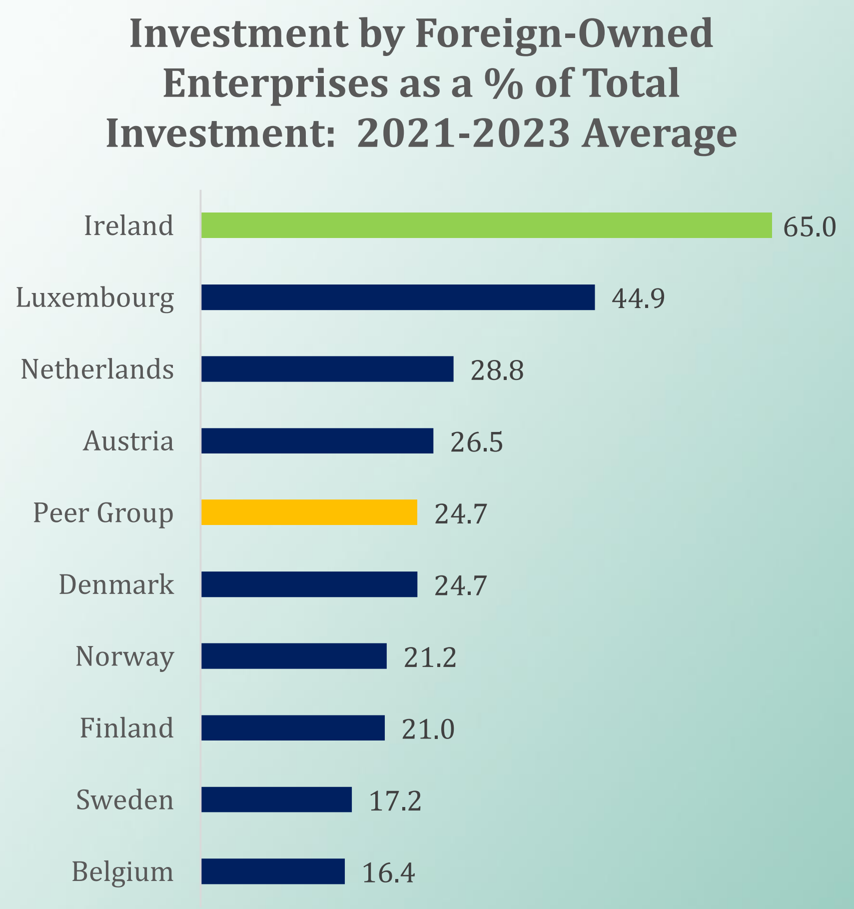
Where Investment Goes

- It's not just the level of business investment; there is the issue of where those investments are made.
- Investment by Irish capital is heavily directed towards low-value added and low-waged sectors.
- A fifth of total domestic business investment in Ireland goes to the hospitality and distributive sectors – compared to 10% in SAOE.



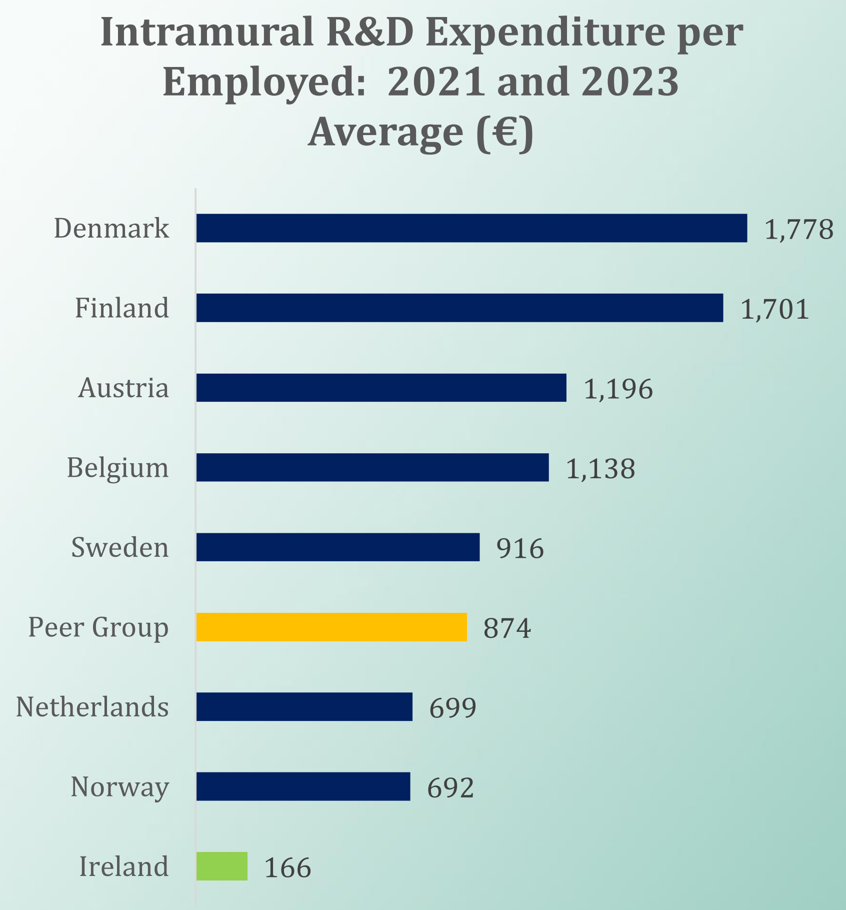
Reliance on Foreign Capital

- Ireland has the highest level of reliance on investment by multi-national enterprises.
- Eurostat measures investment in tangible assets – 'see and feel' assets. This excludes IP so it should be a better reflection of actual investment by foreign-owned multinationals.
- Two-thirds of business investment in Ireland comes from foreign-owned enterprises compared to 25% in our peer group.



Enterprise R&D Expenditure

- Intramural R&D refers to all R&D activities performed within an enterprise (in-house).
- Eurostat only measures intramural R&D in the industry and construction sectors. Given Ireland's low level of domestic enterprise investment, it is not surprising that it is at the bottom of the R&D table.
- Irish companies would have to increase their R&D expenditure by 5-fold to reach our peer group average.



Goods Exports

- When goods exports are measured per employed in the domestic enterprise sector, Ireland falls well below our peer group average.
- Ireland ranks above Luxembourg but well behind the SAOE average. We would have to double the value of our good exports from the domestic enterprise sector to reach the SAOE average.

Reasons for Productivity Output

- This has focused on measuring productivity in domestically-owned sectors in Ireland and SAO economies, along with investment, R&D expenditure and goods exports. This does not attempt to interpret the data. There can be a number of causes for sub-optimal performance at national, sectoral and firm level. A non-exhaustive list could include:

  *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).*

Summary

- The Irish domestically-owned sector continues to experience low productivity relative to other European small, advanced open economies. Only one sector – Professional & Scientific - exceeds the SAOE average.
- Domestic enterprise investment is low. It would have to more than double to reach the SAOE average. Of the little investment Irish business makes, 20% is directed into low-value sectors (e.g. hospitality, distributive) compared to 10% in other countries.
- R&D expenditure and the value of goods exports, again, sees Irish domestic enterprises coming last in the SAOE table.
- The challenge is to define the extent of our deficits, investigate their causes and begin developing strategies with the full and equal participation of all the main stakeholders. As a matter of urgency.

SIPTU

Organising for Fairness at Work
and Justice in Society

www.siptu.ie