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South East Technological University

Future Forty

Dr Tom McDonnell responding to Kevin Daly and Rob Barnes

Future Forty Findings

Congratulations to Kevin, Rob and the rest of your team in the Department. Future Forty is an important and well constructed piece of work and one that I hope will anchor public policy in the years ahead.

Strategic foresight and scenario planning are fundamental to good public policy, and the Future Forty report gives us a crucial tool for understanding the longer-term economic landscape.

The report's deep dives, which describe the economic and fiscal implications of the developing megatrends, need to become a wake-up call for current and future governments - especially with regard to the profound implications of the climate transition and ageing demographics.

By modelling various scenarios, and emphasising the need for **long-term** planning, along with the need for proactive policy measures, the report gently – possibly too gently - guides decision-makers towards the type of actions needed for long-run fiscal sustainability, and for greater resilience against future economic shocks.

Significantly, and troubling if unsurprisingly, the report describes a future where each of the main drivers of long-run growth are going to diminish over time. While I am a little more optimistic than the authors with regard to productivity, the findings need to be taken extremely seriously.

Although the report expects living standards to continue growing, the **rate** of growth will slow dramatically.

A developmental slowdown, and what feels almost like stagnation in living standards for many people, has already happened in parts of Europe and North America. The political fallout has not been pretty, and the politics look likely to degenerate further in some places. People **need** to believe that there is a better future, and that their living standards will improve. Failure to respond with the correct policies will simply catalyse further political opportunism.

The Common Good

So, what can be done?

We should begin by acknowledging that we have immense agency over the economy's direction of travel, and that we can influence whom it will be that benefits from that direction of travel. Future Forty's scenarios, valuable as they are, are not destiny, or even a forecast.

Policy matters, but good policy design is complicated, and we should beware of easy answers and special pleading. We need a considered debate about the **common good** and what it is that we want as a society.

With that in mind I would draw your attention to the Irish Congress of Trade Union's developing new economic model work, and proposals, which are intended to contribute to that very debate. The new economic model work is based on 4 complementary pillars.

Productivity

The first of these pillars and the one i would like to focus on is productivity growth. This might seem an odd choice to some but it is no accident. I think it is where much of the policy focus needs to be, and where there is much that can improve. So what does productivity growth have to do with the common good?

Productivity growth isn't just some esoteric concept. It is the lever of riches that enables us to continuously and inclusively improve people's living standards over time. It is the secret sauce at the heart of sustainable economic growth, and indeed it is ultimately the **only** environmentally sustainable form of growth.

The Future Forty report shows that improving the annual growth in Total Factor Productivity by just 0.2% over the time period in question is enough to transform the outlook for the better. The hard choices become much easier when living standards are improving.

So what ought we to do?

First, we will need to **deepen the economy's productive and innovative capacities**, and build out stronger economy-wide foundations through uplifts in the investment in and delivery of infrastructure; increasing investment in public R&D, and investments in people's human and social capital including increasingly through adult education.

Second, we will need to **shift the structure of the economy away from low productivity jobs and sectors**, and promote what we call a 'Good Company' model at enterprise level including through greater workplace democracy. The quality of jobs matters.

Such a transition will not be easy, and will require a very different and much more strategic approach to enterprise policy, and, indeed, a much more discerning attitude to, for example, our lazy use of tax expenditures to try and fix any and all economic and societal problems. Follies such as the 9% VAT rate for food services have a massive opportunity cost, and ultimately weaken our drive for productivity growth and higher living standards.

Third, we will need to consider **a redefined and strengthened role for the state in areas of ongoing structural market failures**, such as in childcare and in housing. These failures act as critical brakes on our economic potential.

Finally, by **combining an entrepreneurial state approach with supports for private sector R&D and for skills development and technology diffusion**, we can radically strengthen our innovative capacity and growth potential.

Of course, it's not **all** about productivity.

Labour Supply

Changes in labour supply will heavily condition our prospects. Working from home; access to affordable care; and flexible working, can all improve participation rates for certain cohorts.

But ultimately it is the demographic transition towards an older population that is going to have profound implications for labour supply.

Our ability to influence this is limited, though resolving the housing crisis will help staunch the flow of outward migration and the problem of delayed family formation.

In general, attempts to increase fertility rates in other countries have been spectacularly unsuccessful, although there is evidence that access to working from home and better childcare services may slow the decline.

So we need an honest conversation about migration. We ***need*** more people coming to Ireland if our economy is to thrive, and we should not be afraid to say it.

The Public Finances

The Future Forty report makes it abundantly clear that on a no policy change basis our public finances are unsustainable over the longer term.

Climate change, healthcare and long-term care stand out for their fiscal costs.

Early climate-proofing is essential. There is also a risk that Ireland's green transition will falter due to short-termist political economy pressures. A strategy based more on carrots than on sticks will be more resilient to a populist backlash and is perhaps more consistent with just transition principles, though of course this will have a higher fiscal cost in the short-run.

Offsetting efficiency gains in healthcare to counter the increased costs will be very challenging if not impossible to achieve, although digitalisation and Artificial Intelligence ; greater emphasis on primary care, and a move away from agency staff all offer potential.

The reality is that we need to have a mature debate and soon about our public spending needs, and about how we might reform our tax policy. In particular, the bleak fiscal outlook ought to force a second look at the findings of the Commission on Taxation and Welfare. The Commission found that we will need to meaningfully increase government revenue as a percentage of economic output.

However, the enormous corporation tax windfall from a tiny number of US multinationals has thus far stalled any progress on reform. The infantilising effect of the windfall on the tenor of the debate exposes us to austerity in the longer-term. Assuming the continuation of the windfall is a big mistake.

In particular, there needs to be a systematic cull of many tax expenditures, along with a much higher yield from taxes on capital and wealth. Certainly, there should not be any further narrowing of the tax base.

The rise of Artificial Intelligence and its impact on the economy may prove to have significant and highly negative distributional consequences. This may prove the catalyst internationally for public debates about shifting tax contributions away from labour and towards capital stocks in particular.

Conclusion

Overall, I really welcome the Future Forty report and I'm pleased it will become an annual fixture. Future iterations could be enhanced with a closer look at distributional issues in particular.

I understand the report will be the theme for the government's forthcoming national economic dialogue in June, and I hope it will be something that political parties become obliged to respond to in the lead up to the next general election.

Thank you once again to Kevin and to Rob.