Stakeholder consultation regarding the National Recovery and Resilience Plan

Nevin Economic Research Institute (NERI) submission to the Department of the Taoiseach

22 February 2021

Summary

The NERI welcomes this opportunity to make a submission to the Government in relation to the National Recovery and Resilience Plan (NRRP).

We strongly support the Recovery Plan for Europe. It is an appropriate response to the economic recession arising from the pandemic crisis. It also represents an opportunity to help drive a fair and just green and digital transformation of the EU economy.

While the €673 billion package represents a meaningful investment plan for Europe the €853 million in grants available to Ireland in 2021/22 is relatively modest. Of this amount, a minimum of 37% of expenditure (circa €316 million) must go towards climate and green transition and 20% to digital investments and reforms (circa €171 million).

In this context, our view is that a tight and limited focus on a small number of initiatives would be more useful than a wide-ranging approach. Two obvious areas for support are initiatives that increase and improve housing supply and initiatives that up-skill workers attempting to adapt to a just and green transition and to economic change. Indeed, developing skills and the provision of

social and affordable housing are key recommendations of the European Commission's Country Specific Recommendations (CSRs) for Ireland in 2019 and again in 2020.

Finally, we note that the proposals must be in the form of capital spending or more nebulously 'reforms'. They must also contribute to the four dimensions outlined in the 2021 Annual Sustainable Growth Strategy 2021: (i) environmental sustainability, (ii) productivity gains, (iii) fairness and (iv) macroeconomic stability. Our assumption is that the reforms must contribute to at least one of these four goals and must be in the form of non-recurring expenditure.

Housing

In our view, the current housing strategy is unduly focused on demand-side measures. The housing crisis is fundamentally a problem of supply. On current projections, housing supply will remain well below current and future demand for years to come. The pandemic has further slowed the supply of new-builds. This will increase house prices and make affordable housing even more inaccessible to ordinary families.

Housing is an essential public service and a core component of European welfare states. There is a need for a major public house building programme on public land undertaken through public agencies and preferably through a unitary housing body responsible for the provision of social and affordable housing.

Specifically, our view is that establishing a **national cost rental housing programme** of significant scale would contribute positively in at least three of these dimensions, namely environmental and macroeconomic stability and fairness. Our view based on the international evidence is that provision of cost rental at scale is the most effective way of achieving permanent affordability in housing. Cost rental is also a fiscally sustainable model and one that can contribute to macroeconomic stability by operating counter cyclically at scale, and to price stability by operating as an anchor provider in the market.

Such a programme should be accompanied by compulsory purchase orders in relevant urban areas and the homes built should remain under public ownership with affordable rents calculated on a cost rental basis. The funds available under the NRRP are modest (potentially up to 43% of the total, or €366 million). However, the funds could be used by the Land Development Agency or an alternative state-owned but independent body to leverage additional funds at relatively low cost on the international financial markets. The low-interest environment adds to the viability of this strategy.

The NERI's main proposal for use of the NRRP funds is therefore that the 43% of grants not ring-fenced under the climate or digital envelopes should be used to begin a programme of building viable and attractive A-rated public housing on public land, both existing public land and land obtained through compulsory purchase orders. Crucially, the State should not go on to sell this housing and should instead rent it out at affordable rates based on the cost rental principle.

Green and just transition

There is a wide range of viable policy directions in relation to the 37% of the fund allocated to climate (€316 million). Our view is that the 'European green deal' should be mirrored by a green deal for Ireland based on transforming the country into a net zero greenhouse gas emissions economy as soon as is practicable. The green new deal should form the future basis of Ireland's industrial policy as well as the basis of the revamped National Development Plan. This deal should be guided by the principle of a just transition for workers and households. We are proposing that the 37% of the fund allocated to climate (€316 million) should be split in two ways.

(A) **Just transition funding to up-skill workers** whose jobs are negatively impacted by government climate policy. For example, the Bord na Mona workers in the Midlands. In particular, funding should be allocated for courses to provide workers with retrofitting skills. This approach is consistent with the fairness dimension of the Annual Growth Strategy (AGS), would increase the employability of the workers themselves, and would provide a just transition success story. Such a success story will be invaluable as the Government will need political capital in order to attempt economic transformation in the future in other sectors, for example farming.

(B) We propose that the remaining funding under the climate envelope should be allocated to the **green retrofitting of the social housing stock**, as well as funding to up-skill workers with retrofitting skills. This would fit with the Country Specific Recommendations and would be consistent with the environmental and fairness dimensions of the AGS.

Overall, a programme of investment in new builds, green retrofits to meet environmental needs and amenities to build sustainable communities is essential to meet social needs and to spur national recovery as we restart the economy.

Clearly, there are many other worthwhile potential projects that could be considered under the climate envelope and should be considered as part of the revamped National Development Plan. Examples include but are not limited to: (A) re-wilding swathes of public land including land owned by semi-states, (B) expand the public bus fleet and convert it to hydrogen fuel cell electric vehicles, (C) mass tree planting initiatives, (D) expansion of renewable energy infrastructure, (E) green R&D, (F) expansion of the cycle-way network, (G) expand the EV charging network.

Digital investments and reform

While the economic benefits of the digital revolution are unquestionably real, it is equally true that swathes of workers and households risk becoming increasingly left behind economically. It is imperative that workers are insulated from the shock of economic transformation brought on by the digital, automation and AI revolutions.

We believe that Government has a duty of care to ensure that workers and their families are insulated against these future shocks and are not left behind by the changing structure of the 21st century economy, whether because of automation/AI or because of lack of digital skills. The digital transformation will succeed if supported by policies that reinforce labour market inclusiveness and workers' protection. Close to half of European workers lack basic digital skills and Eurostat estimate that just 53% of Irish individuals had basic or above basic overall digital skills in 2019.[1] This was worse than the EU average and well below leader countries such as the Netherlands (79%). Our view is that remedying this basic economy-wide lack of digital skills should be the focus of spending within the circa €171 million envelope of funding for the digital economy and reform. This could be done through a series of online courses and exams. Individuals could be incentivised to take part via financial incentives e.g. for attendance and for scoring well in online exams.

Finally, the pandemic has shown the need to upgrade the quality of our digital infrastructure and the connectedness of our healthcare system. Such a program of modernisation will be particularly important as part of the transition towards Sláintecare.

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[1] Eurostat (2021, Individuals' level of digital skills)

Summation of proposals

(1) Housing Stock (43%)

- Physical capital - seed funding for a national cost rental housing programme

2: Climate (37%)

- Human capital - just transition funding to up-skill workers affected by government climate policies
- Physical capital - green retrofitting of the social housing stock

3: Digital investment and reform (20%)

- Human capital – educational resources to remedy the lack of basic digital skills in the population
- Technological upgrade – upgrade and connect public health service IT systems