

Resilient and Inclusive Growth:

A policy framework for the Republic of Ireland and Northern
Ireland

Mac Flynn and McDonnell, (2023, Forthcoming)

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Introduction

- New ideas and productivity
 - Lever of riches/innovation inputs
- Participation
 - Removing the barriers
- Equality and Inclusivity
 - Reforming the welfare state/adequacy/collective bargaining
- Enterprise
 - Human capital/innovation systems
- Sustainability/Resilience (across all dimensions)
 - Fiscal
 - Environmental
 - Political

Will not touch on other areas (part 2?)

- e.g. macro policy and regulatory policy



A New ideas and productivity

Breaking the Malthusian Trap

Living standards and long-run growth

- **Breaking the Malthusian trap:**
 - Intensive versus extensive growth
 - Extensive:
 - The raw accumulation and deployment of inputs such as people, land, materials, infrastructure, machinery, and other capital goods
 - Intensive:
 - Productivity gains arising from new knowledge embodied as technological change, from scale economies, from new types of organisation, or simply from more efficient use of resources
- **Acceleration of productivity growth takes off in the 19th century** (starting in the West – annual productivity growth had started to creep up from the 16th century)
 - Systematic production of knowledge itself and new technologies
- **But not all forms of growth are desirable**
 - Environmental degradation/boom and bust cycles
 - Goal is sustainable and inclusive improvements in living standards for everybody

New Ideas and Innovative Capacity

- In practice, the driver of most productivity is the spread or diffusion of technology
 - Fundamental to diffusion is communication
 - How can we facilitate 'knowledge flows' between individuals and organisations?
- The government will always be the most significant actor within the innovation system
 - Direct inputs – spending on science and education, on R&D, and on knowledge infrastructure
 - Sets the legislative and regulatory rules of the game
 - Provide fiscal and other incentives for other actors
 - In this way, governments can counteract the structural market failures leading to slow diffusion and underproduction of knowledge and innovation
- **Key policy levers (innovation inputs):**
 - Investment in education and re-skilling (human capital)
 - Investment in child poverty reduction (human potential)
 - Investment in machinery, equipment and infrastructure (physical capital)
 - Investment in the production and diffusion of new ideas (e.g. through public R&D, facilitating private R&D and technology adoption, building innovation networks, developing capital markets, reducing barriers to technology diffusion – communication)

Knowledge, Education and Skills

- Human Capital:
 - The long-game of development
 - Necessary input and important complement to innovation
 - Positive externalities across the economy
 - The earlier the investment (early childhood) the larger the return
 - Not just about formal education – poverty can have extremely damaging and lasting effects on human capital
 - Skill levels for the population as a whole matter
 - Positive and independent effects on growth, essential for inclusive growth

Annual spending on education per pupil/student based on FTE, 2016/19, PPS (Eurostat)

		2016			2019	
Country	levels 1- 2	levels 3- 4	levels 5-8	levels 1- 2	levels 3- 4	levels 5-8
Belgium	8,350	9,951	13,193	8,850	10,422	14,643
Denmark	8,585	6,720	14,748	9,131	7,285	14,989
Germany	7,518	9,840	12,720	8,396	10,970	13,618
Republic of Ireland	6,634	9,038	10,271^	Na	Na	Na
France	6,500	10,209	11,779	7,226	10,827	12,586
Netherlands	7,466	9,449	14,183	8,144	10,507	14,356
Austria	10,371	11,330	13,309	10,107	10,634	12,304
Finland	8,214	6,073*	12,761	8,798	6,453	12,590
Sweden	8,400	8,407	17,647	9,174	9,014	18,228
UK	8,045	7,969	18,714	8,382	9,485	19,183
Norway	9,336	11,342	15,019	10,290	10,846	16,750
Average	8,304	9,656	13,929	8,902	9,662	14,452
ROI (spending deficit)	(1,670)	(638)	(3,658)	Na	Na	Na
Ratio %	79.9	93.6	73.7	Na	Na	Na
UK (spending deficit)	(259)	(1,687)	+4,785	(520)	(177)	+4,731
Ratio (%)	96.9	82.5	134.4	94.2	98.2	132.7

R&D expenditure per inhabitant, € (2019)

Deficits shown are compared to the unweighted 10-country average excluding the UK and Ireland. The 10-country average is €460 for public R&D and €951 for private R&D

Country	Total	Private		Public		
		Business	Non-profit	Government	Higher ed	Total
Belgium	1,319	973	10	116	220	336
Denmark	1,569	982	6	46	535	581
Germany	1,325	913	-	181	231	412
Ireland	891	664	-	34	194	228
France	795	524	13	98	160	258
Netherlands	1,028	685	0	59	284	343
Austria	1,404	988	8	103	306	409
Finland	1,217	799	11	98	309	407
Sweden	1,579	1,132	2	71	374	445
UK	666	453	15	44	154	198
Norway	1,464	776	-	186	502	688
Switzerland	2,408	1,626	64	23	695	718
EU average	699	466	4	79	149	228
Ireland (deficit)			(€287)			(€232)
UK (deficit)			(€483)			(€264)
Population scaled deficit						
Ireland			€1.4 billion			€1.1 billion
UK			€32.6 billion			€17.8 billion

Productive Infrastructure

- Meta-analyses conclude that efficient investment in infrastructure is strongly related to long-run increases in the economy's productive capacity
- Machinery and equipment represent embodied knowledge that either improves the efficiency of transforming inputs into outputs or enables the production of new types of outputs
- Certain types of investment contribute to knowledge-based growth
 - E.g. school buildings, broadband infrastructure, research institutes such as universities and public labs
- **Private investment:**
 - Tax based incentives can distort investment decisions
 - Better to ensure that potential investors have access to finance (capital markets) and that barriers to investment are low
 - Reduce barriers to firm exit and entry – monopolies as double edged sword
 - Importance of independent regulation of sectors
 - Importance of stable environment
- How should we respond when private investment is lacking – e.g. ROI housing market?

Per capita Gross Fixed Capital Formation at current prices, € (Ameco, Eurostat)

Average excludes Ireland & UK

Country	2015	2016	2017	2018	2019	Average
Belgium	923	918	940	1,059	1,088	986
Denmark	1,743	1,867	1,733	1,796	1,721	1,772
Germany	793	833	881	959	1,000	893
Ireland (Republic)	979	1,113	1,143	1,355	1,623	1,303
France	1,125	1,126	1,142	1,198	1,323	1,183
Netherlands	1,452	1,450	1,483	1,538	1,592	1,503
Austria	1,192	1,213	1,307	1,335	1,396	1,289
Finland	1,442	1,636	1,670	1,812	1,902	1,692
Sweden	1,983	2,056	2,197	2,250	2,257	2,169
United Kingdom	1,083	973	954	972	1,060	1,007
United States	1,743	1,784	1,815	1,816	2,010	1,834
Japan	1,155	1,308	1,268	1,266	1,419	1,283
10 country average						1,460
Deficits						
Ireland						(€157)
United Kingdom						(€457)
Population scaled deficit						
Ireland						€0.8 billion
United Kingdom						€30.5 billion



B

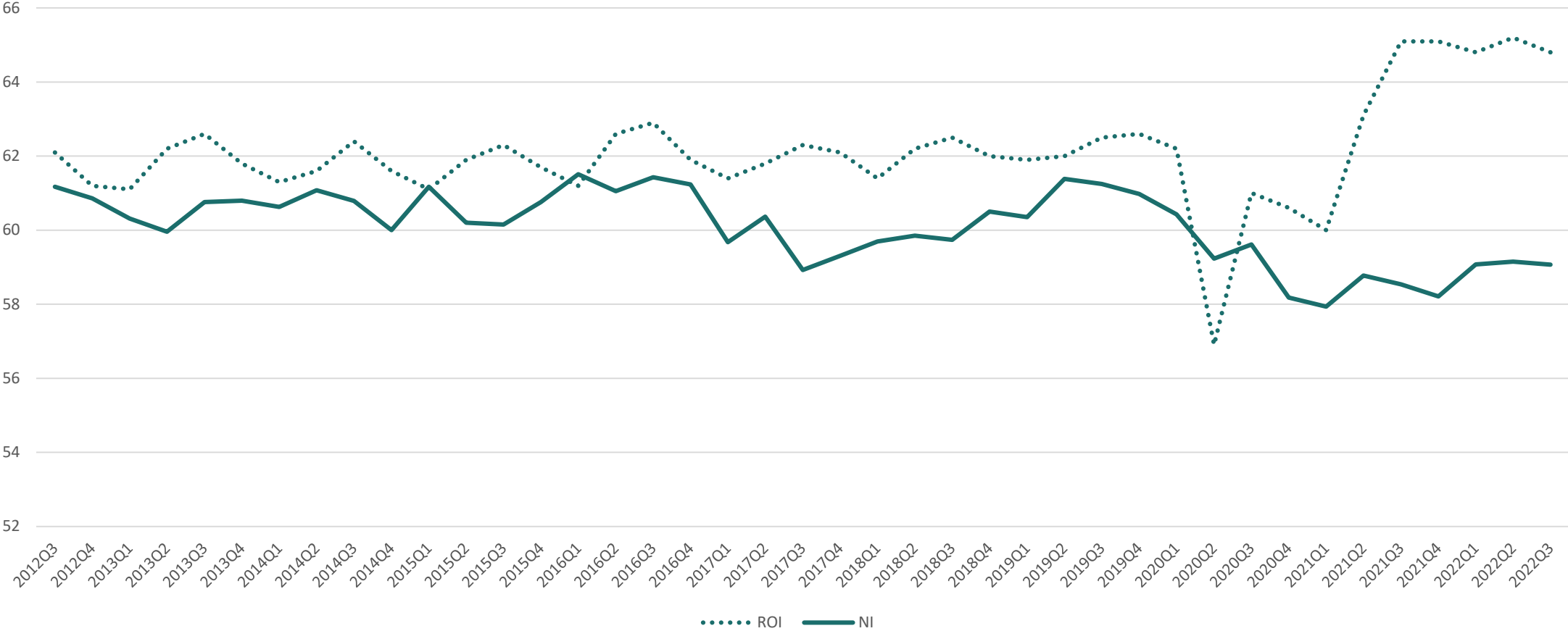
Participation

Underwhelming Performance?

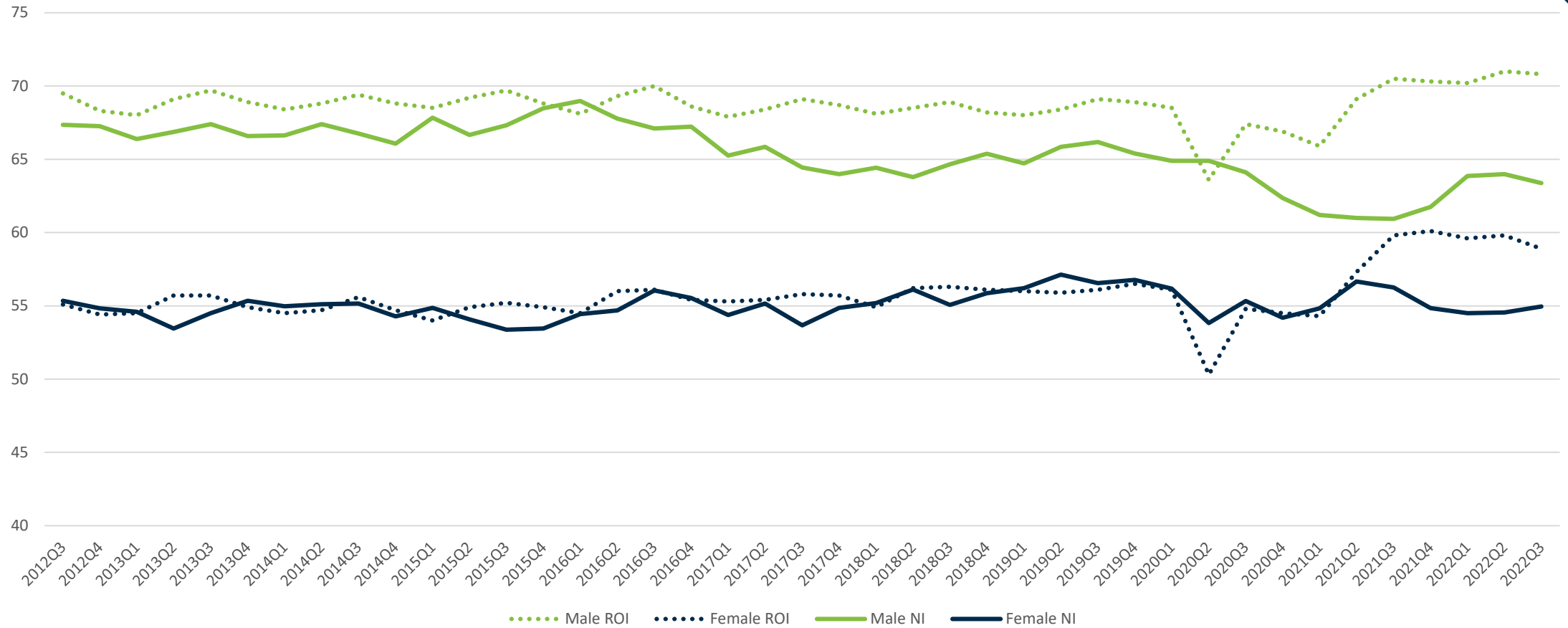
Participation and Activity

- Need to ensure that we are realising our existing potential. Depressed levels of participation can be an unnecessary constraint on growth.
- Partition between economic activity/inactivity problematic. Unpaid caring etc.
- Removing obvious barriers, e.g. childcare to ensure parents who want to work can.
- Many people don't want to participate. That's fine.
- Many barriers cannot be alleviated by traditional policies.
- We need to understand more about those outside the labour market before looking to policy.

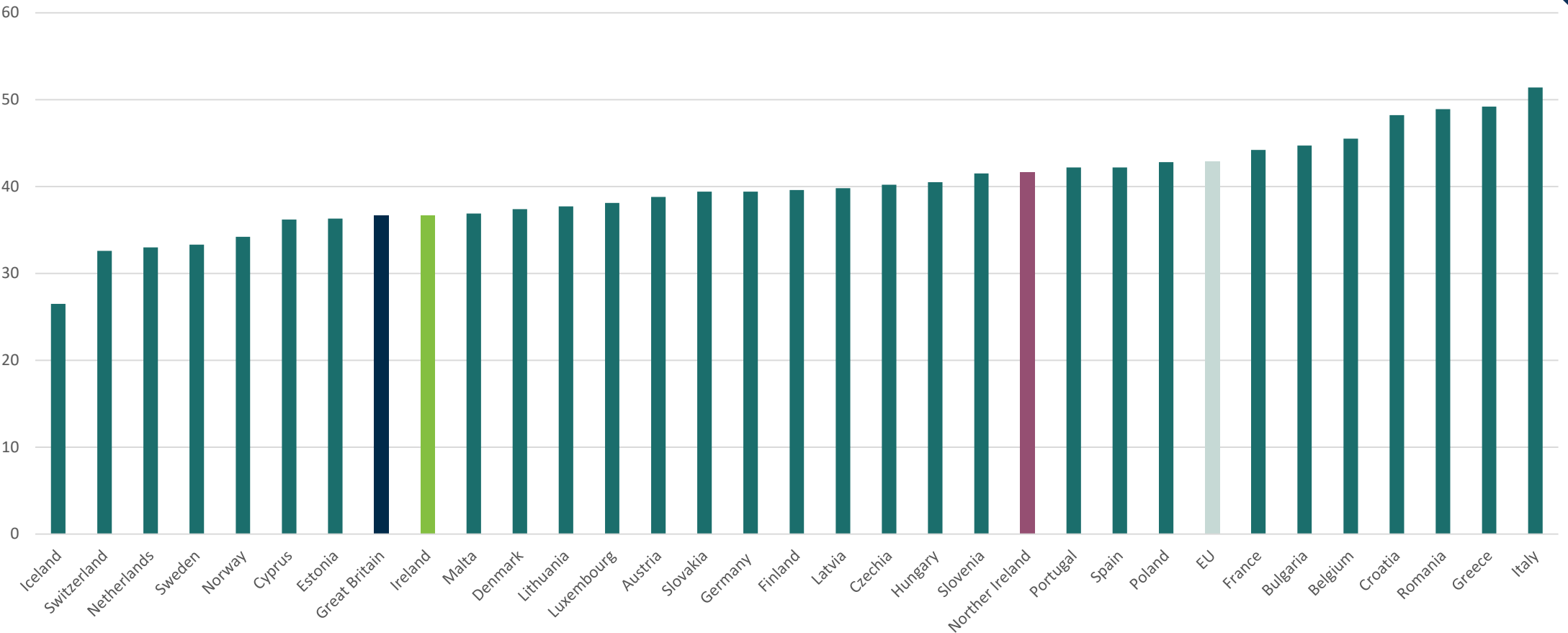
Northern Ireland Republic of Ireland Economic Inactivity Rate (15/16+)



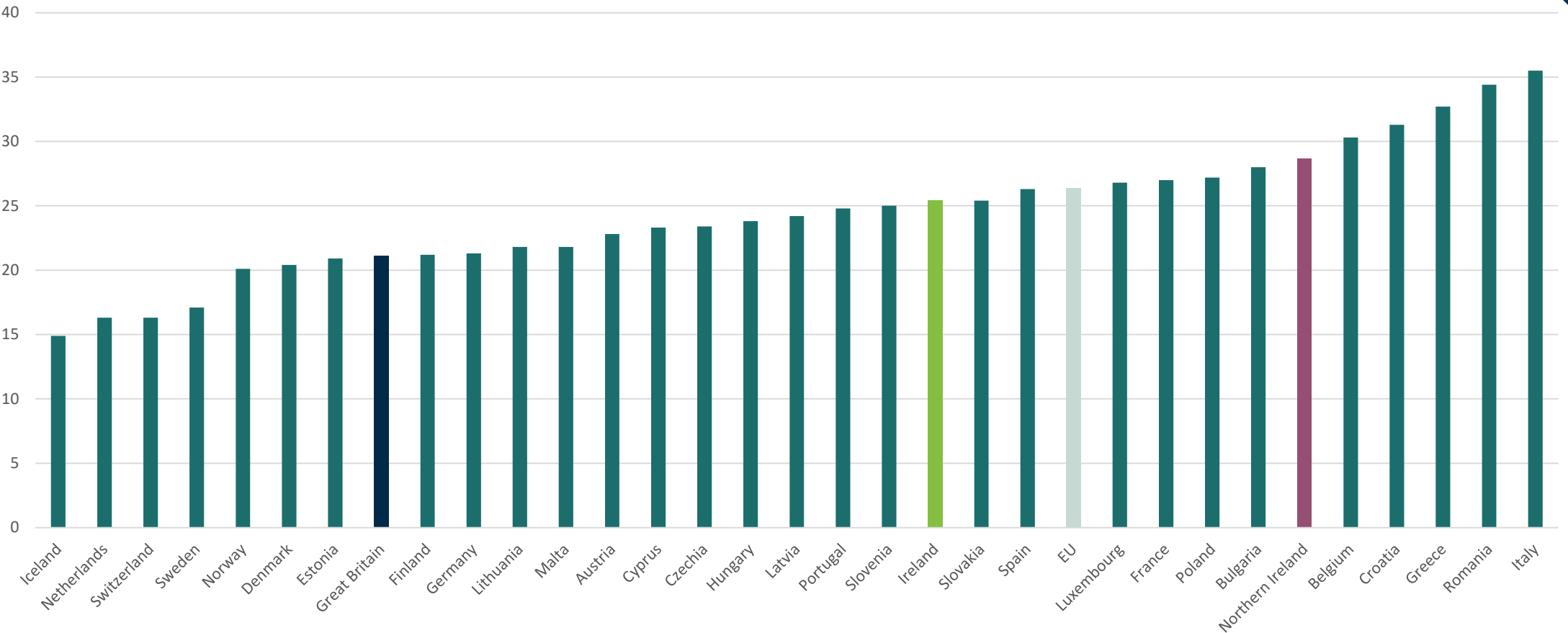
Northern Ireland Republic of Ireland Economic Inactivity Rate by Gender (15/16+)



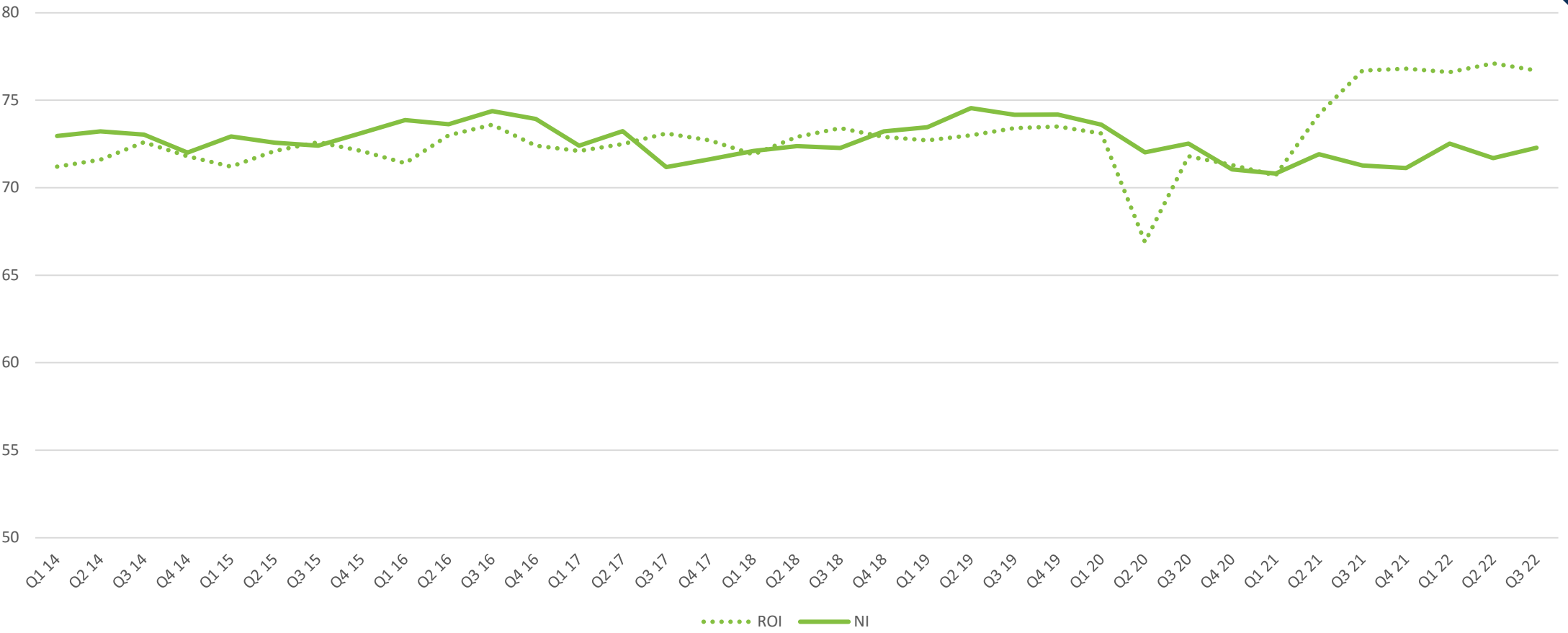
Inactivity Rate by Gender (15/16+) 2021



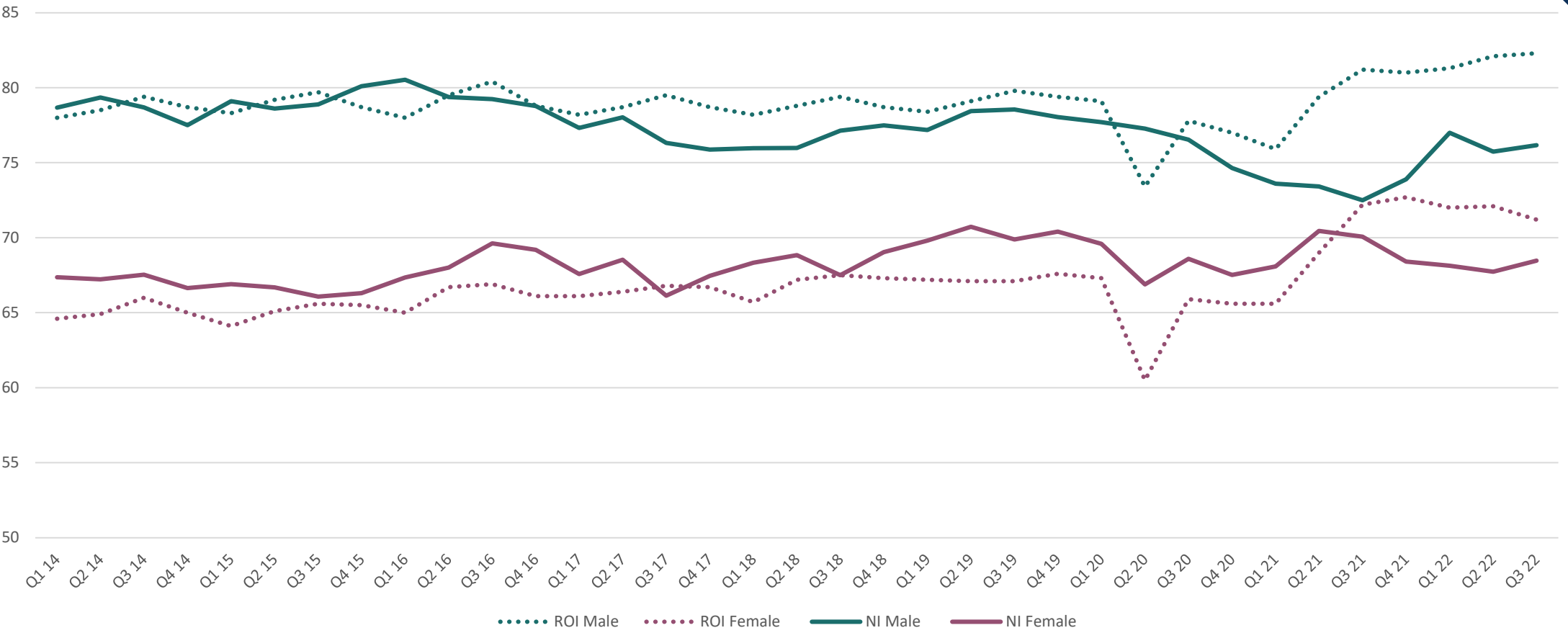
Inactivity Rate by Gender (15/16-64) 2021



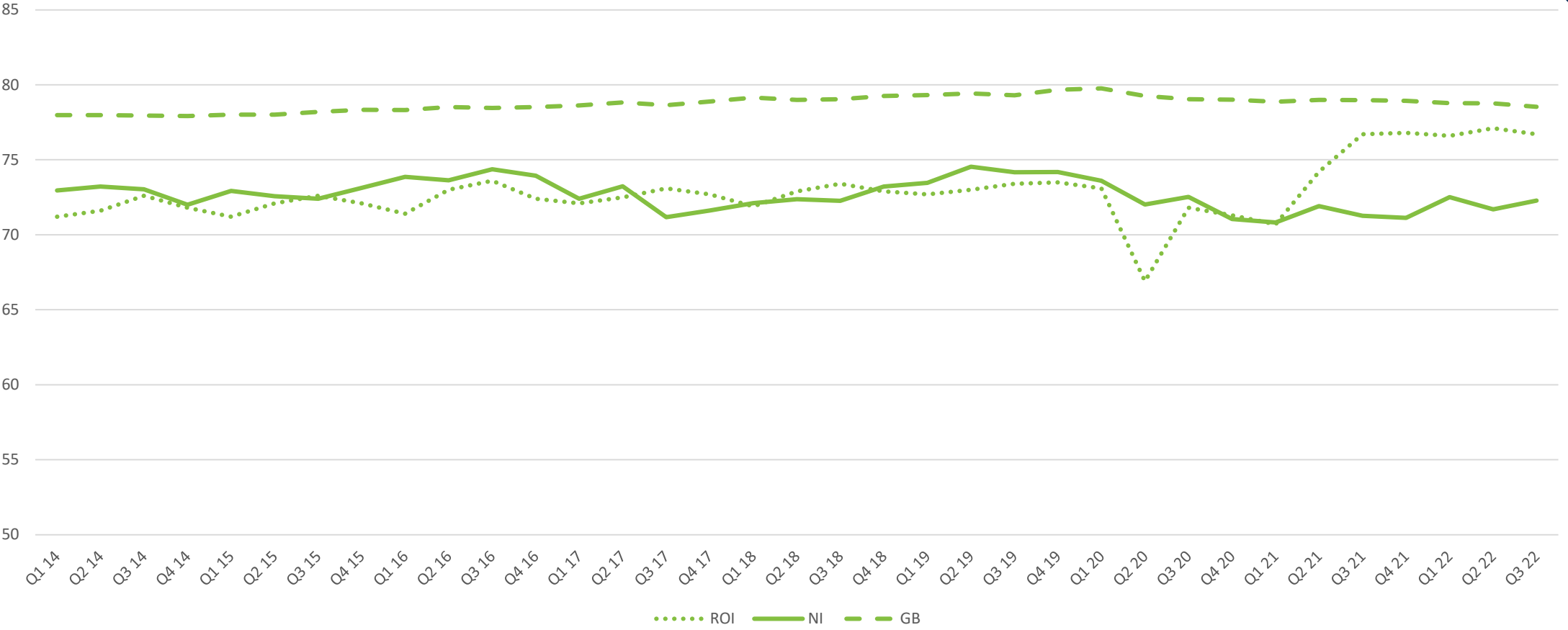
Inactivity Rate (15/16-64) ROI NI



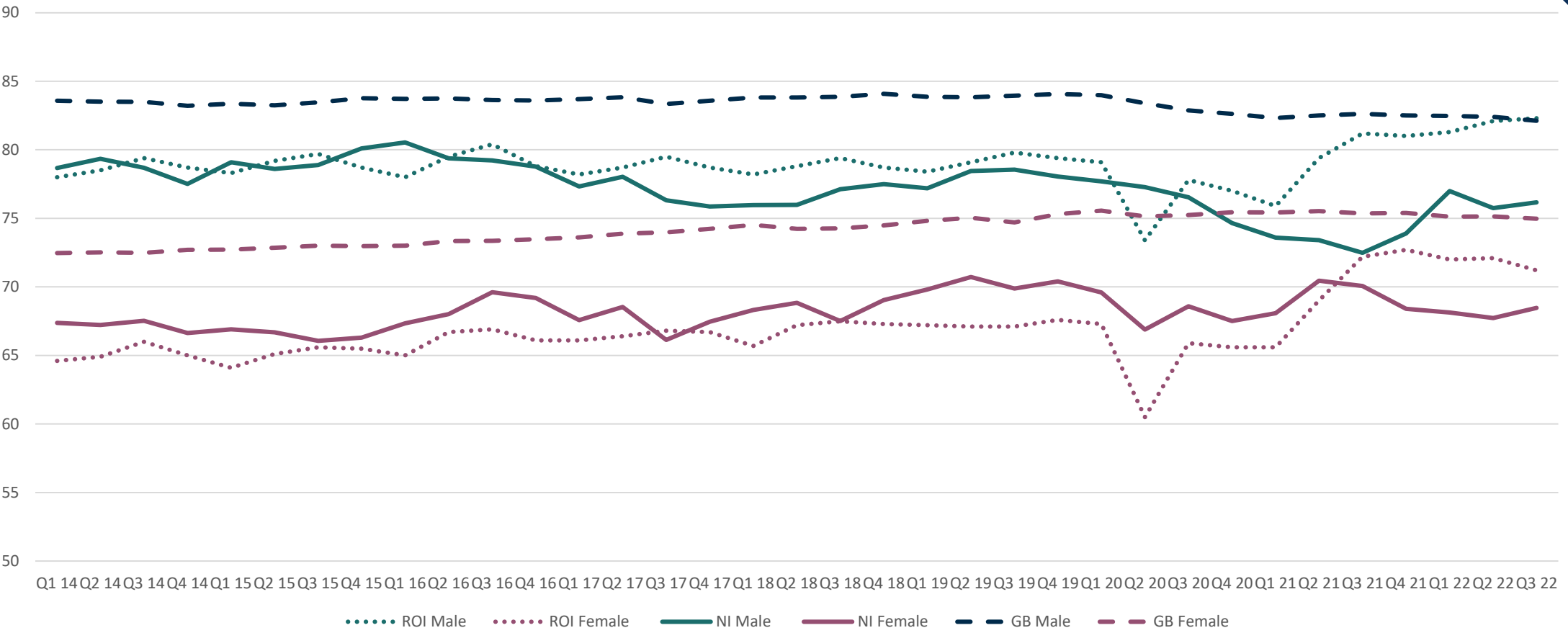
Inactivity Rate by Gender (15/16-64) ROI NI



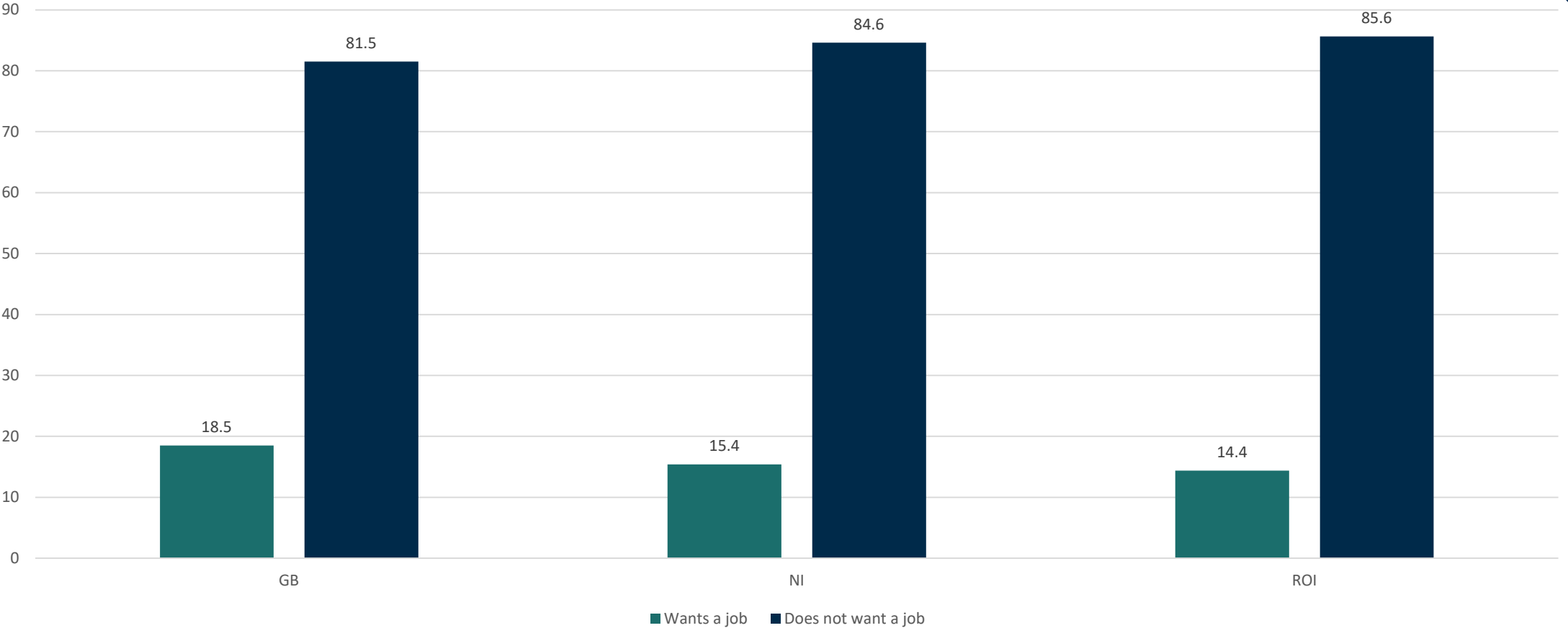
Inactivity Rate by (15/16-64) ROI NI GB



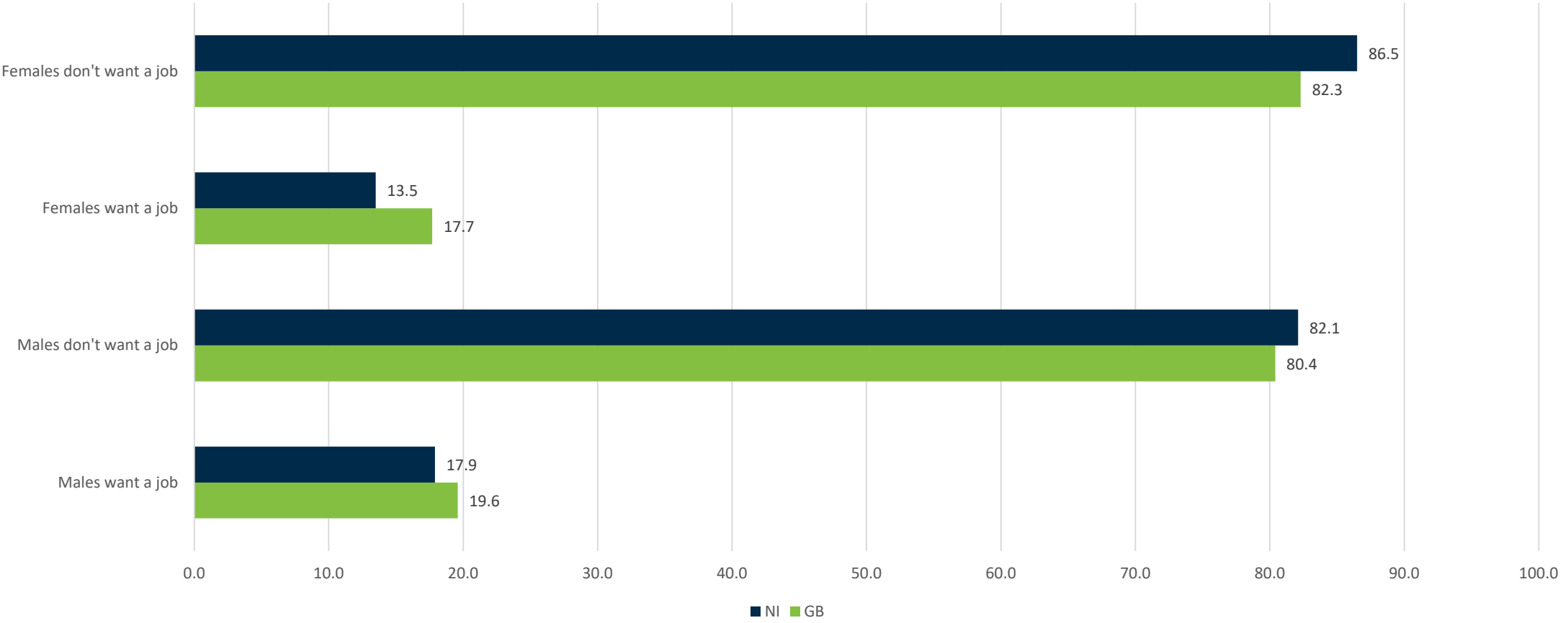
Inactivity Rate by Gender (15/16-64) ROI NI GB



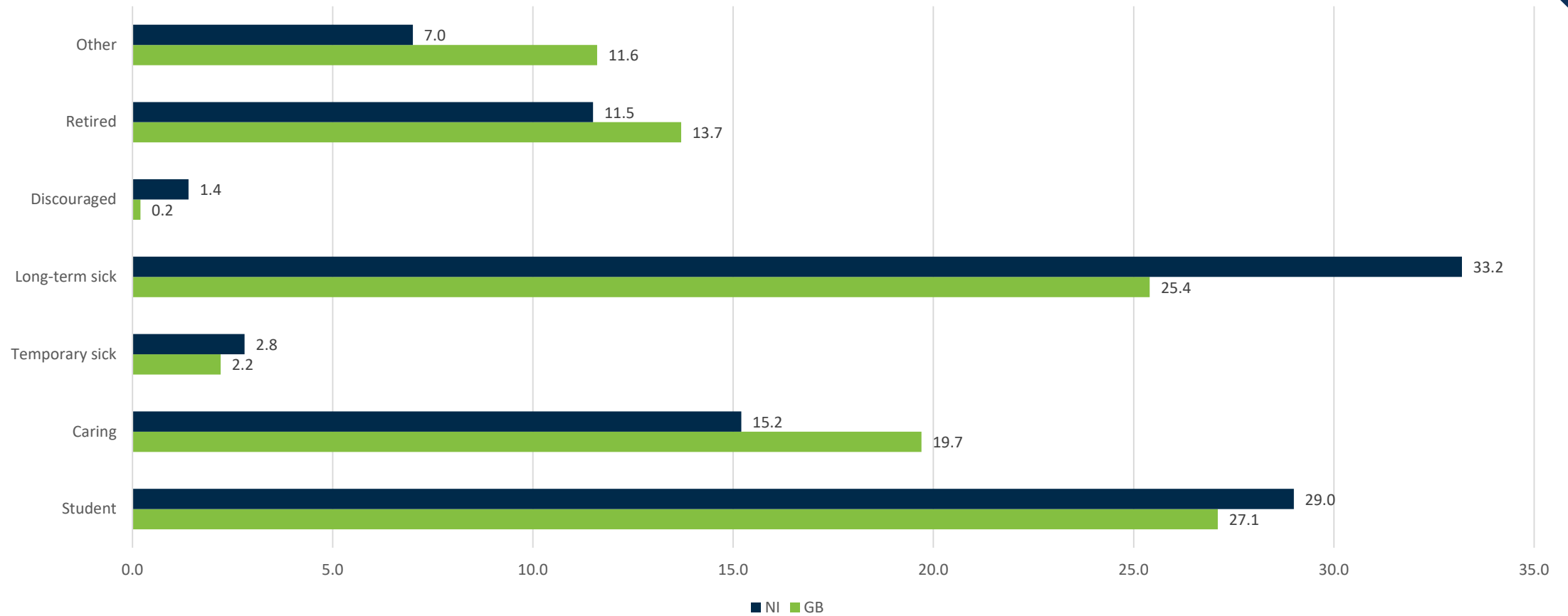
Inactivity Rate by Job Preference (15/16-64) ROI NI GB



Inactivity Rate (Wants a Job) by selected Reason (15/16-64)
GB NI

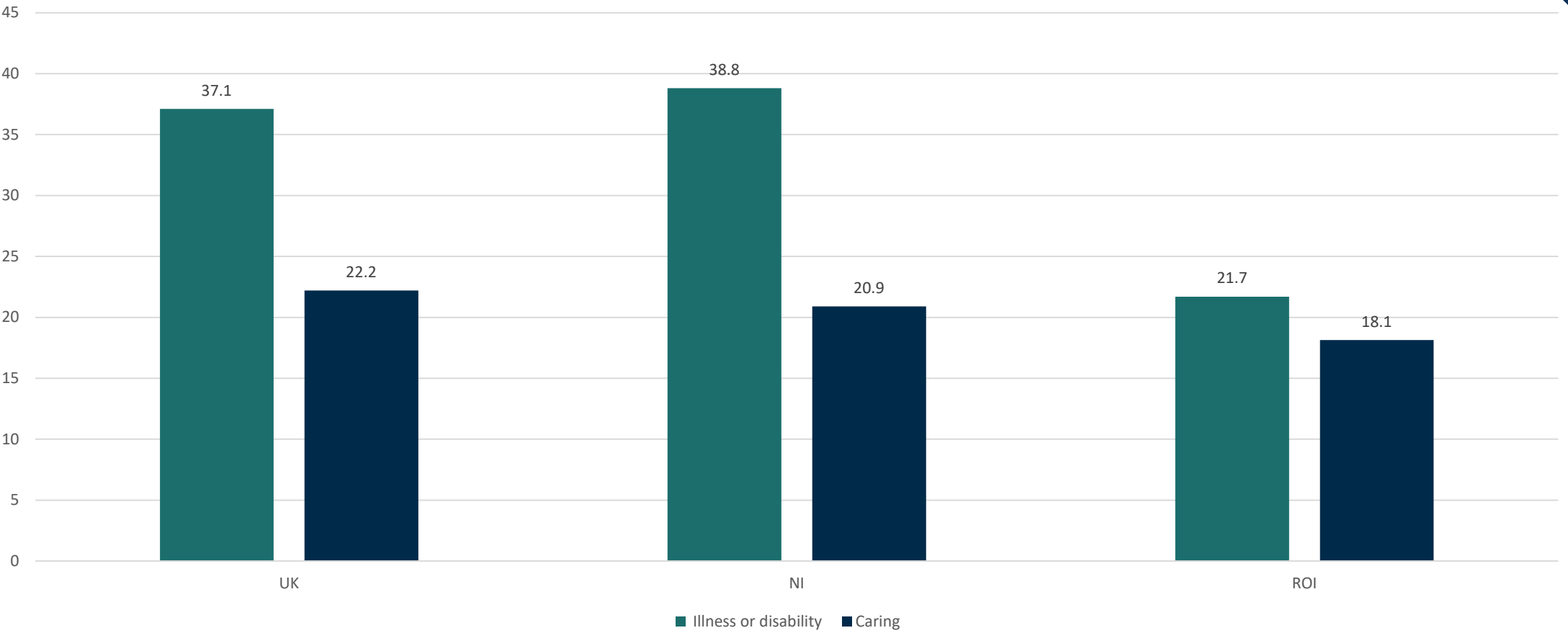


Inactivity Rate (Wants a Job) by selected Reason (15/16-64) GB NI

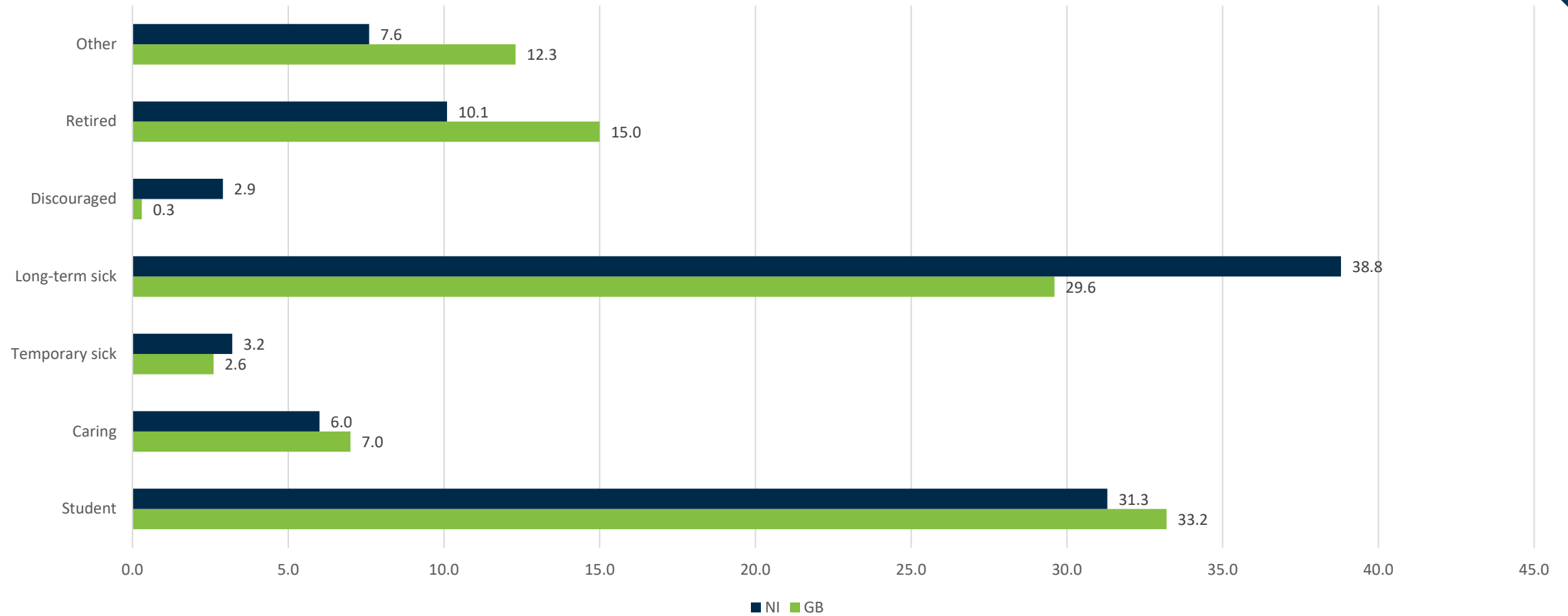


Inactivity Rate (Wants a Job) by selected Reason (15/16-64)

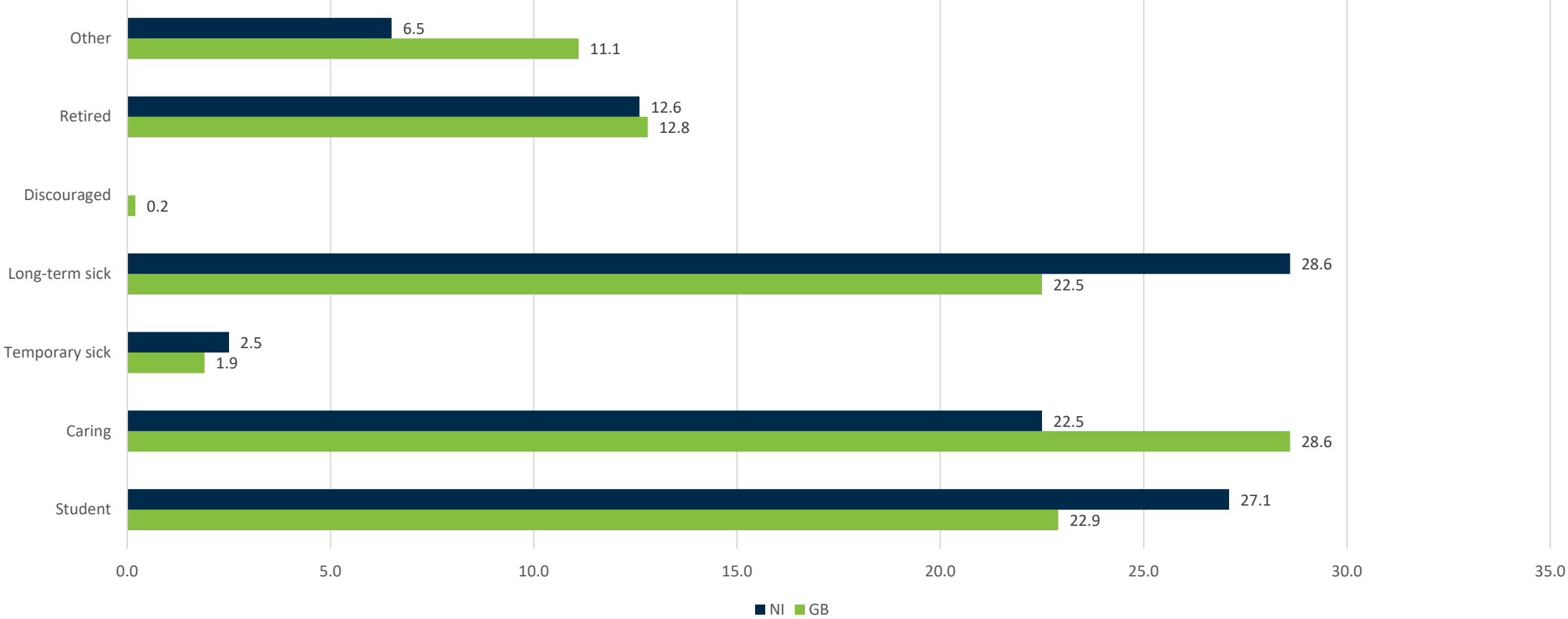
ROI NI UK



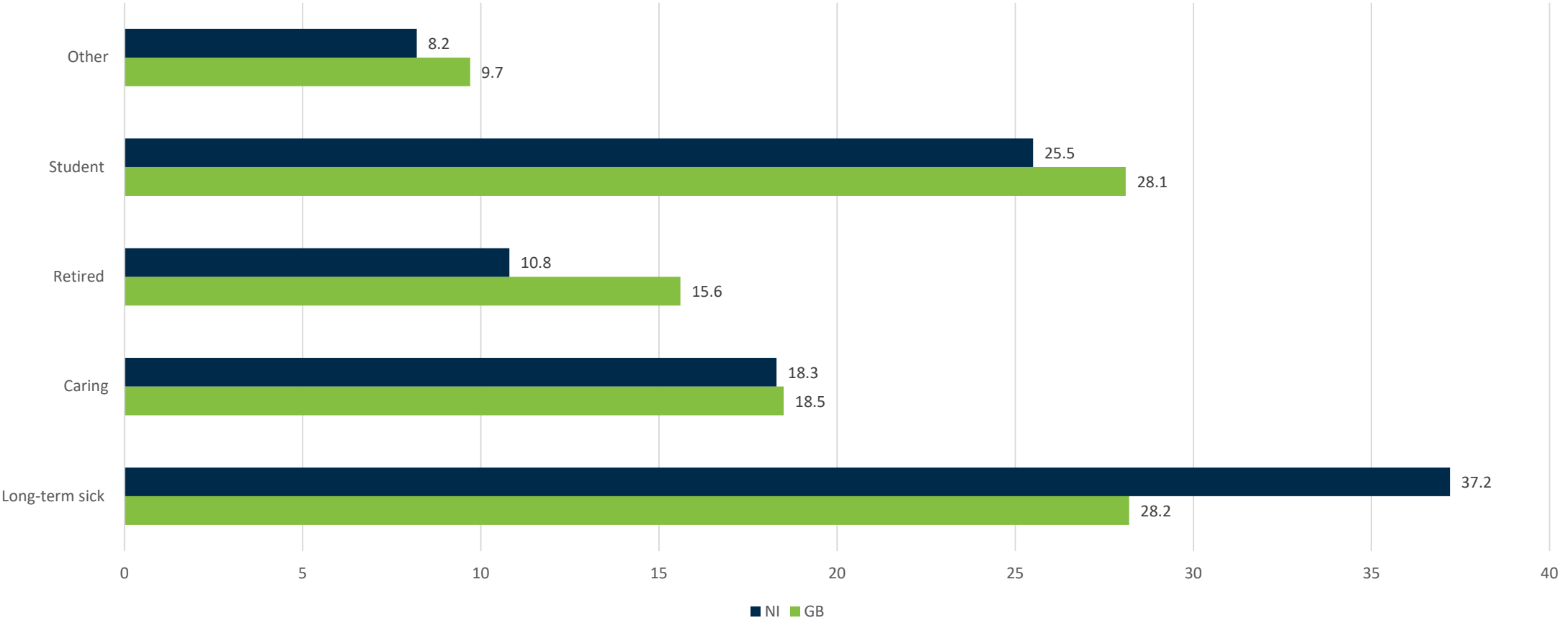
Inactivity Rate (Wants a Job) by selected Reason MALES (15/16-64) GB NI



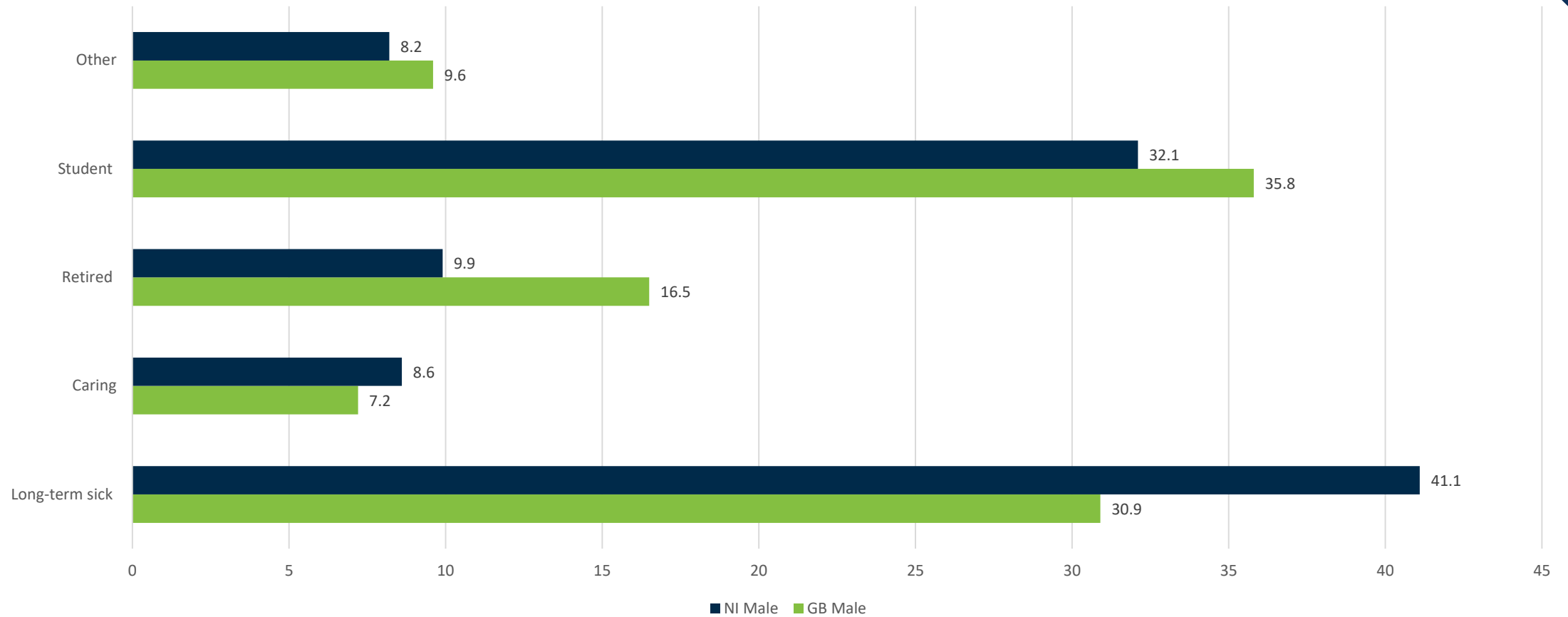
**Inactivity Rate (Wants a Job) by selected Reason FEMALES
(15/16-64) GB NI**



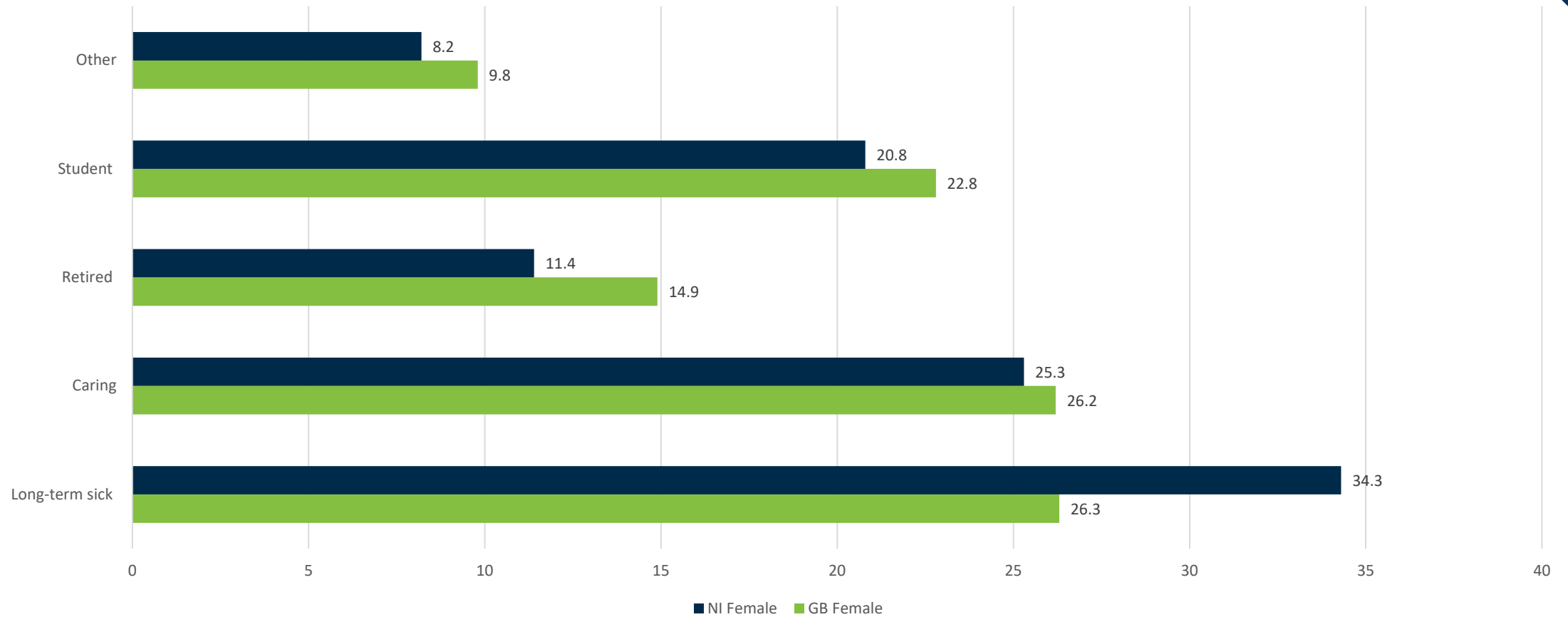
**Inactivity Rate (Does not want a Job) by selected Reason
(15/16-64) GB NI**



Inactivity Rate (Does not want a Job) by selected Reason MALES (15/16-64) GB NI



Inactivity Rate (Does not want a Job) by selected Reason FEMALES (15/16-64) GB NI



Barriers to Growth

- Northern Ireland inactivity a long-standing issue, but doesn't make it any less pressing.
- Long term illness stands out above all.
- Scant research, but suggests that usual methods of alleviation don't work in NI (Devlin, 2021)
- Still a problem for ROI, despite recent trends.
- Need to know more, especially about those who do not want work.



C Inclusive Growth

Inclusive Growth

- Inclusive in all senses. Growth with a further reach and a greater social return.
- We need to ask more from growth and to augment structures so that distribution is a constant feature and not merely a mopping up exercise at the end.
- Policies that increase the labour share of income will generally improve distributional equity – this is due to the fact that wealth (and capital income) is more concentrated than earned income (and labour income)
- Collective bargaining. A key early distribution component .
 - Ensuring that labour is rewarded appropriately
 - Also ensuring coordination of labour and capital to bring about growth, e.g. skills
 - Key reforms (High level group, EU directive) but mindset must change. A driver of growth not a hinderance.
- Wage minima. A necessary but not sufficient tool.
 - Minimum wages have important signalling roles, but cannot replace collective bargaining.
 - National Living Wage in NI, wiped out 'low pay' in 1 year, but impact limited. Living Wage better, but other limitations.

Inclusive Growth

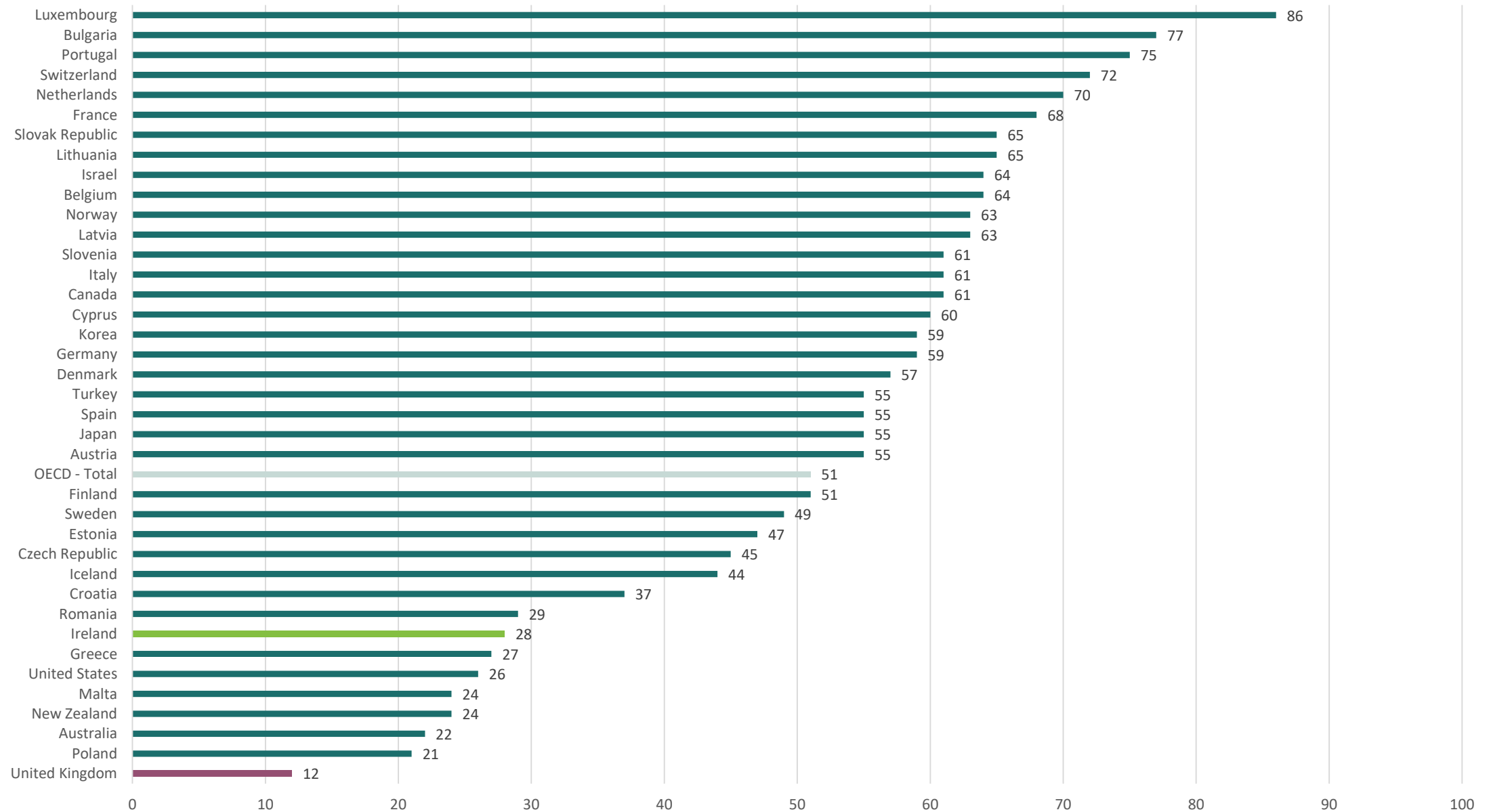
- There can still be significant market inequality even within the labour share
 - Valuing care work
 - Reducing gender pay gaps
- Not all about wages. De-commodifying essential services necessary to guarantee living standards.
 - Universal Public Services. Builds resilience into living standards and greater emphasis could help prevent an unnecessary wage spiral. The most effective response to an ongoing cost of living crisis.
- Public services cannot reach all. Complex needs will always necessitate social transfers.
 - **Adequacy of social welfare rates** is central to poverty reduction.
 - Ongoing benchmarking exercise needed in respect of all working-age income supports. Not a simple exercise, cost and consumption patterns vary widely.
- Need to stop seeing public services and social transfers as hinderance to growth, but components of it.
 - A decent social safety net has a role beyond poverty reduction.
 - A more solid social floor than wage minima, but also a driver of growth...

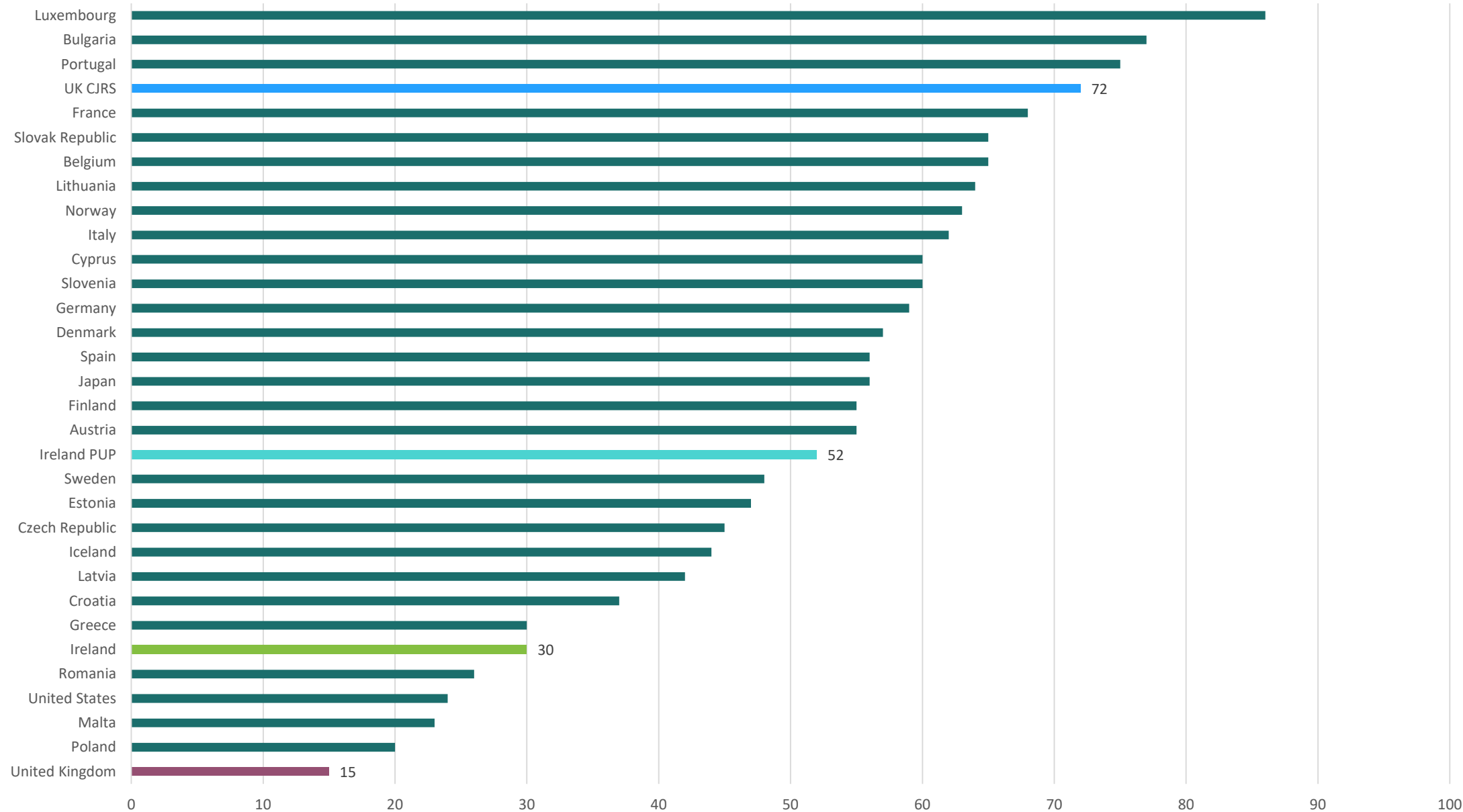


D Enterprise Policy

Enterprise Policy - Social Security

- The financial supports made available to workers in the UK and Ireland during the pandemic may seem extraordinary in comparison to the status quo, but in comparison to what is provided in peer countries, they are quite ordinary.
- Irish government signalling a move toward an earnings link. A step in right direction, but missing bigger opportunity.





Enterprise Policy - Social Security

- But there are broader lessons beyond stabilisation.
- 3 benefits of income related social insurance
 - consumption smoothing
 - risk pooling
 - security benefit – Risk averse behaviour
- Reduction in risk aversion can have a significantly positive effect by pushing people towards newer and better jobs
- Jobs in newer areas of economic activity – not as secure – Climate change
- Greater entrepreneurship (reduces argument for more generous tax treatment)

Broader Enterprise Strategy

- Enterprise policy should focus on maximising the economy's overall innovative capacity
 - Increase funding for both basic and commercially driven research (focus on green tech), and for education and skills development
 - **Establish more attractive and secure career paths for researchers and deeper collaborative linkages between government, firms and universities**
- Independent state body as investor (patient long-term finance):
 - Focus on equity stakes in high-risk and high-potential start-ups
 - Secondary function of conditional (environment/labour standards) loans for private investment
 - Mazzucato – state as 'innovative mission-oriented investor of last resort'
 - Transition to net zero – unique ability of the state to provide patient investment

Policy interventions

- Minimise use of tax expenditures
 - Difficult to get right - deadweight/economic distortions/regressivity – sometimes justified
 - Focus on new and early stage firm
 - Little justification for intergenerational transfer reliefs or reliefs that prolong inefficient firms
1. Increase the rate of high potential start-ups (HPSUs) and raise equity finance for HPSUs
 1. R&D spending, funding for STI courses and activities, career progression of STEM researchers, admin and related supports for facilitating HPSUs
 2. Independent state investment bank focused on investment in HPSUs and radical high-risk and high-reward activities that struggle to receive private financing
 3. Provision of a strong social safety net for entrepreneurs in the event of failure
 2. Incentivise research, development and innovation
 1. Incentivise experimentation by firms (e.g. reformed R&D tax credit, direct subsidies for R&D)
 2. Develop deeper and more systemic collaboration between firms, academia, think-tanks and government (access to researchers, secondments, courses, demonstrations, information campaigns) – this includes developing cross-country collaboration
 3. Attract and retain human capital and diffuse technology to laggards
 1. Merit in considering fiscal supports to incentivise key employees to join or stay with a HPSU) – this includes life-long learning supports
 2. Focus on removing impediments to labour supply and skills bottlenecks (housing supply, childcare costs, barriers to inward migration)



E Sustainability/Resilience

Sustainability

- Sustainability has multiple dimensions
 - Fiscal (demographics shifts), environmental, political
- Policy goals
 - Adequacy
 - Equity
 - Efficiency
 - Environmental issues

Aggregate Tax and Social Contributions as % GDP (GNI* for Ireland)

Aggregates

	2018	2019
All		
EU-27	40.1	40.1
Ireland	37.9	37.4
UK	33.8	33.8
Consumption		
EU-27	11.2	11.1
Ireland	11.6	11.5
UK	11.1	11.1
Capital (all)		
EU-27	8.2	8.2
Ireland	10.1	9.6
UK	9.9	9.7
Self-Emp Income		
EU-27	2.1	2.1
Ireland	1.3	1.2
UK	1.1	1.1
Immovable Property (recurrent)		
EU-27	1.2	1.2
Ireland	1.0	0.8
UK	3.1	3.1
Labour (all)		
EU-27	20.7	20.7
Ireland	16.2	16.3
UK	12.8	13.0
Labour (employers)		
EU-27	8.3	8.2
Ireland	4.2	4.4
UK	3.9	3.9

Implicit Tax Rates

	2008	2018	2019	2019
Consumption				
EU-27	16.5	17.3	17.4	
Ireland	19.6	19.4	19.7	
UK	13.4	15.1	15.2	
Capital				
EU (median)			27.1	
Ireland			14.1	
UK			31.5	
Labour				
EU-27	37.5	38.2	38.1	
Employee				21.1
Employer				17.0
Ireland	25.6	33.0	33.5	
Employee				24.3
Employer				9.2
UK	26.3	25.7	25.7	
Employee				17.8
Employer				8.0

Growth friendly tax reforms

- No monotonic relationship between aggregate taxes as % of national income and long-run growth
 - Composition of revenue does matter
- Ireland/UK revenue gap to EU average is mainly caused by the shortfall in receipts from social contributions from employers and the self-employed (also employees in the case of the UK)
- Ireland also falls short on the taxation of stocks of capital (i.e. wealth)
 - These tend to be growth friendly taxes and they tend to disproportionately fall on the wealthy (inheritance taxes, property taxes, wealth taxes, land taxes)
- UK does well on taxing capital stocks but still significant scope for growth-friendly reform
- Also significant scope to reduce the generosity of various tax breaks and to increase revenues from polluting activities

Environmental and political sustainability

Environmental

- Moving to net zero and staying within planetary boundaries
 - ‘Just transition’ principles – what does this actually look like?
- Implications for innovation and industrial policy

Political

- Perfect versus the good – ‘optimal policies’
- Sequencing



Questions?