Dear John,

Many thanks for your letter with regards to the European Semester Process 2024 and Ireland's National Reform Programme (NRP). I note that you requested NERI's views on:

a) The major economic, employment, and social developments and challenges facing Ireland which should be addressed in Ireland's National Reform Programme
b) Ireland's progress towards the UN Sustainable Development Goals and the implementation of the European Pillar of Social Rights
c) How Ireland has responded to its most recent Country Specific Recommendations and any further views relevant to the European Semester Process.

Our response will focus mainly on the economic, employment and social challenges. In addition, and given the context of the new EU economic governance framework, we have also included our views on Ireland's fiscal sustainability and implications for future fiscal policy.

1. Economic, Employment and Social Challenges

It is important to acknowledge that Ireland has made significant progress across a range of economic and social indicators in recent years. However, there has been undoubted deterioration or lack of progress in various areas. While acknowledging the many important gains our comments will focus primarily on the challenges and areas of underperformance.

1.1 Economic Performance and Development

1.1.1 Trends and Outlook

The economy has proven resilient in the face of the recent series of difficult external shocks. Business failure rates are well below their 19-year average and the economy is at record high employment. The retrenchment in economic output (GDP measure) in 2023 should be seen in the context of the one third increase in GDP between 2019 and 2022. It does not reflect underlying weakness. Domestic GVA continued to grow in 2023. Even so, the robust post-pandemic bounce back in the economy has now ended and growth levels are likely to normalise to their trend rate over the short-to-medium term.

Household savings are now close to their long-run average. Sentiment indices (PMI and consumer confidence surveys) are suggestive of relatively muted growth this year while the lagged impact of higher interest rates may dampen consumption and investment somewhat, including in Ireland's trading partner countries. Inflation is now on a steady downward trajectory, and given constraints on labour supply, real wage growth should resume from the first quarter of 2024. Real wage growth and continued albeit more modest employment growth should drive an increase in real disposable income and support growth in personal consumption in 2024. Falling interest rates from mid-year will provide a further boost to demand although the weak outlook for Ireland's main trading partners will temper growth in net exports.

Our view is that modified domestic demand will average 2% to 2.5% annually over the short-to-medium term. Policy reforms to increase productivity or labour supply could enhance growth rates over the longer-term.

1.1.2 Productivity

The combination of Ireland's relatively high employment rates and inevitable future decline in the working age ratio as the population gradually ages mean that economic growth – and therefore the ability to sustainably improve living standards - will become increasingly reliant on growth in labour productivity. High productivity growth will in turn hinge on appropriate levels and types of investment in physical and human capital, on the development of a supportive innovation system, and on shifts within the economy towards more high value activities and away from low value-added activities.

Our view is that there is scope for the NRP to consider certain reforms that could potentially raise the productivity growth rate:

A) The Irish economy is facing into the megatrends of ageing demographics, climate transition, and the 4th industrial revolution. This will require an evolving skills profile across the population with greater need for caring skills, construction skills, skills related to green jobs and tasks, digital literacy skills, and STEM skills. However, Ireland significantly under-spends on education per pupil relative to peer high-income countries in Western Europe[1]. Our view is that this under-spend represents a false economy over the longer-term. Lack of investment in human capital will ultimately translate into a weaker skills profile, to weaker innovative capacity, and eventually into a weaker and less productive economy relative to potential. There is therefore a strong economic argument to increase Ireland's per pupil spending on education to at least the peer country average over the medium-term. Additional spending is also needed on life-long learning education and on skills opportunities for workers and the non-employed. Reforms to the welfare system including to social insurance in order to incentivise life-long learning should also be explored.

B) Eurostat data makes clear that Ireland chronically under-spends on research and development (R&D) per inhabitant relative to other high-income Western European countries. This deficit exists at both the private level and the public level with spending on public R&D per person just half of the average for other high-income EU countries. R&D spending is fundamental to developing new knowledge and innovations and for the creation and success of new high-potential firms. R&D and related supports are therefore critical to generating sustainable long-run improvements in the economy's productive capacity. As such, public policy should seek to incentivise and facilitate private R&D, while directly increasing the annual amount of spending on public R&D. Supports for private R&D should increasingly focus on supports for new firms and for high potential start-ups and should increasingly take the form of direct grants, administrative and learning supports, or employment subsidies, rather than tax expenditures. Tax expenditures are inherently characterised by deadweight and therefore less efficient than direct supports. The EU Commission's Country report (p.49) for 2023 notes while commenting on the R&D tax credit that 71% of the cost goes to

[1] https://www.nerinstitute.net/sites/default/files/research/2023/Resilient%20Growth%20WP%20no.74_March30.pdf

large companies and that greater use of direct funding instruments could help stimulate research and innovation and improve the productivity of domestic Irish firms, especially SMEs.

C) There is a growing appreciation that capacity constraints in a range of areas risk undermining Ireland’s current and future economic development. Public investment should be a policy priority in future budgets or infrastructure bottlenecks will increasingly impede the economy’s growth potential. The National Development Plan will need to be updated to account for the strong price inflation we have experienced in recent years. As it stands, Ireland ranks poorly relative to other Western European countries with regard to the quality of its infrastructure and there are significant infrastructure deficits across a swathe of areas. This includes in energy, in broadband, in transport and in water and waste water. There are also significant deficiencies in housing supply. More positively, Ireland’s per capita public spending on investment is now in line with high-income Western European averages following a period of post financial crash under-spend. However, given that Ireland is starting with a weaker infrastructural base and has a faster-growing population, it has a commensurately greater need for investment. The creation of a new infrastructure fund using a portion of the excess corporation tax receipts is a welcome development as this may protect public capital spending over the economic cycle. It is prudent to set multi-annual targets for public capital spending although there is legitimate debate about what an appropriate level ought to be. Our view is that an average expenditure in GNI* terms of close to the medium-term potential growth rate of the economy is a reasonable anchor.

D) Weak domestic productivity in Ireland relates in part to the structure of the economy and in part to inefficiencies within sectors. Sectors such as accommodation and food services will always be low value added in terms of labour productivity. Certain industrial strategies such as ones focusing on tourism are inherently incapable of generating increases in economy-wide productivity because such activities are themselves inherently low value-added with limited scope for gains. What does this imply for enterprise policy? One implication is that enterprise policy needs to be more selective in terms of the type of industries we wish to support. There should be a policy goal of transitioning to more high value sectors over the medium-to-long term. On the other hand, policies that have disproportionately benefited low value-added sectors[2] or that reduce the churn of business deaths and births (outside of economy-wide crisis periods such as the Covid pandemic) should be understood as counterproductive from the perspective of transitioning the economy to a greater share of high-value activity. Such polies should therefore be avoided. We acknowledge that such a strategy requires a much more robust and flexible system of active labour market programmes and other just transition supports but the digital and green transitions will necessitate those types of policy reform in any case.

E) Finally, reforms to the system of pay related social insurance could act as a driver of labour market efficiency and as an additional lever of productivity growth. The key transmission mechanism for this is through the reduction in the risk aversion that pushes people away from newer and potentially better jobs and/or entrepreneurial activity. Jobs in newer areas of economic activity may not seem as secure and workers may be unsure about moving to such jobs, irrespective of higher potential salaries or incomes and better job quality. The safety net provided by income related social insurance payments ameliorates the consequences of a risk not succeeding and encourages job shifting and therefore the diffusion of knowledge. This is crucial when we consider the kind of shifts in jobs that will be necessary for the economy to make a successful green transition or to seize the opportunities of new technologies such as AI.

1.2 Employment Rates and Quality of Employment

1.2.1 Performance

The labour market is performing strongly with a record high employment rate (ages 15-64) for the fourth quarter (Q4) of 74% representing a record 2.71 million people in employment and an increase

[2] A good example is the 9% reduced VAT rate for hotels and restaurants which in our view should not be restored (this was also the view of the Commission on Taxation and Welfare). Resources used to support low value-added activities should be considered against the opportunity cost of less spending on productivity enhancing measures such as education, R&D and infrastructure, or even against more generalised tax cuts or deficit reduction.

of 90,000 over the previous year. The female employment rate was also at a record high for the quarter at 69.8% although it remains well below the male employment rate of 78.3%. The labour force has expanded rapidly in recent decades with a jump in female participation from less than 50% in 2000 to 60.4% in 2023. However, the male employment rate and the male participation rate are both short of their 2006 peaks. Ireland's total employment rate, while improving, is also well below that of EU leaders such as the Netherlands and Sweden.[3] There is therefore some remaining scope to increase working age employment levels, notwithstanding the low unemployment rate of 4.2%. It is also worth noting regional differences in participation rates with a high of 67.9% in Dublin comparing to a low of 62.1% in the Border region and 62.2% in the Mid-West. This in part reflects differential employment opportunities but Ireland's rate of early leavers (18-24) from education was 3.7% in 2021 and 6.2% in the Northern and Western region. This may be holding back participation rates in that region.

1.2.2 Inclusion, Barriers to Participation and Labour Market Mismatch

The NERI's view is that there is significant scope for reforms to increase the working age employment rate.

A) The obvious direction for reform is to continue to work to reduce Ireland's very high cost of childcare (and other forms of care) relative to most other EU countries and also to work to expand availability of caring services in every region. This will mean creating career structures and conditions to incentivise people to move into and stay in the care sector. The cost and access issues are significant barriers to employment, especially for lone parents and second earners (mainly women), and these barriers also contribute to the gender pay gap. The NERI's view is that there are compelling economic and equality arguments for Ireland to, at the minimum, bring its spending on early childhood education and care as a percentage of GNI* into line with the OECD average. A target for achieving this over a five-year period should be set out by government.

[3] Ireland's 20-64 employment rate ranked 11th of 27 EU countries in 2022 and also trailed Iceland, Switzerland and Norway (Eurostat, 2023, Employment – annual statistics).

B) Ireland's employment gap to the economy-wide average is very high for certain cohorts. This includes people experiencing disabilities and people with caring responsibilities. Ireland's employment gaps for these groups are notably high relative to the EU average and in the case of people with disabilities it is described as a 'critical situation' by the EU Commission's Social Scoreboard. In our view, much greater employer flexibility (both from private business and from the government as an employer) around working from home and around flexible or reduced working hours and days could help improve on the weak employment rates of cohorts with particular barriers to labour force participation. Such reformed work practices might also improve employment rates for other cohorts via reduced prevalence of burnout and might encourage older workers to stay in employment for longer or indeed to return to the workforce in some form. Greater job flexibility would also make it easier for employees to undertake further education and re-skilling while remote working could facilitate a regional rebalancing of employment opportunities and reduce commute times. The public sector should take the lead role in adopting and promoting such work practices.

C) Our view is that Ireland's tax and welfare (T & W) system creates clear barriers to employment. In particular, the T&W system contains a number of distortive cliff edges. These cliff edges create disincentives for workers or employers to increase hours or days worked or employed. There are notable cliff edges in PRSI and USC, as well as thresholds for medical cards, the working day cliff-edge for Jobseekers allowance (the four-in-seven rule), the 38-hour working criteria for the Working Family Payment (WFP), the use of step-like bands in the design of the Student Grant Scheme and the income limits for Housing Assistance Payment. The design of the National Childcare Scheme also creates disincentives to increase employment earnings due to its sharp taper rates for families with more than one child. Cliff edges create perverse economic incentives and can mean that low paid workers with weak connection to the labour market experience high marginal effective tax rates (METRs) despite the fact that headline tax rates are low. This can act to reduce employment rates or reduce hours worked even if employees or employers would prefer different outcomes. In addition, the tax system should move towards full individualisation because the current system creates employment disincentives for 2nd earners within married/civil partnership couples (mainly women). Over time, the higher standard rate cut-off (SRCO) should be aligned with the SRCO for non-married one earner households. This should improve employment rates especially for women. The Commission on Taxation and Welfare's 2022 report was clear that all cliff edges in the T & W systems should be removed. The NERI's view is that policymakers should act with alacrity to eliminate all cliff edges from the T & W system and move instead to a system of working age payments based solely on income with all benefits designed to taper gently along with income. Such a system would best reconcile adequacy and employment considerations.

D) A further issue to consider when discussing barriers to employment relates to the ability to leave a job that is low value added or that is underutilising an individual's human capital. Our view is that transitioning to a social insurance system based on income replacements would enable a more efficient use of the labour force's human capital by reducing the imperative to take a job straight away and giving people the time to make a more considered and better match of skill-set and job function. This in turn should reduce the instance of skills mismatch and overqualification[4] in the economy. Such a system would provide the added benefit of helping to support demand during recessionary periods and thereby indirectly reducing labour market scarring. We note that Ireland stands apart from most other EU countries in operating unemployment schemes that issue flat rate payments.

1.2.3 Job quality

The discussion around employment needs to move beyond aggregate measures of total employment and employment rates and to consider job quality or 'good jobs' as a policy goal. Job quality is central to positive well-being outcomes. In part, a shift away from bad jobs will necessarily entail a gradual economy-wide shift away from low value-added sectors and jobs to higher value-added sector jobs.

[4] Enhanced availability of childcare and flexible work practices should also help minimise the instance of overqualification and skills mismatch.

Job quality is a multi-dimensional concept. Key dimensions include 1) Earnings and other pecuniary benefits; 2) security and prospects; 3) work organisation and support including work intensity, autonomy and employee relations and representation; 4) skills and provision of training support, and 5) work-life balance including duration of working day and week, work-life autonomy, spillage and conflict.

Policy should seek to enhance job quality via these five dimensions. The most straightforward intervention is to ensure that the national minimum wage (NMW) is a genuine living wage. The 2024 increase in the NMW is a welcome step in this context. However, in our view, the policy goal should be for the NMW to be increased to a level consistent with a minimum essential standard of living or MESL. The Living Wage Technical Group provides a model for how this could be calculated. A higher minimum wage will also help catalyse higher productivity levels in low value-added sectors.

A second intervention would be to improve employee voice and agency through a reframing and redesign of the collective bargaining and industrial relations regime. Ireland should take all appropriate steps including through legislation to meaningfully change the collective bargaining environment in Ireland to reflect the spirit and targets of the EU's Adequate Minimum Wages Directive. Higher levels of collective bargaining will increase the labour share of income over time and act to compress wages. Both of these effects will reduce market inequality and improve the overall level of job quality especially for the worst jobs and sectors. Greater union presence will also improve worker agency and autonomy over time, which in themselves will also improve job quality. Finally, more economy-wide collective bargaining will make it harder for bad or unproductive companies to operate as they are, and will instead encourage companies (and workers) to embrace an industrial relations approach based on fostering consistent productivity gains and moderate but consistent wage growth. We note that real wages declined in Ireland for the second consecutive year in 2023. This has exerted significant pressure on the living standards of low-income households and shows that effective social dialogue, collective bargaining and improved wage rates will be essential in the years to come to ensure ongoing improvements in living standards for workers.

1.3 Social Development and Stability

1.3.1 Deprivation and Income Adequacy

As we anticipated in our submission last year the increase in the consumer price index coupled with the failure to index welfare rates lead to an increase in deprivation rates in 2023.The CSO's Survey on Income and Living Conditions shows that enforced deprivation in the population increased from 13.7% in 2021 to 16.6% in 2022 and 17.3% in 2023. These higher rates reflect the failure of incomes to match the rising cost of living during the course of 2021 to 2023 and shows the imperative to benchmark and index welfare payments and ensure adequate wage rates in the economy.

Deprivation rates vary significantly by age and by other characteristics. Children have a more than one in five probability of deprivation (21.4%). This is exactly twice the rate for people aged 65+ (10.7%). Young adults also have a high risk of experiencing deprivation at 19.3%. Certain cohorts are particularly vulnerable to enforced deprivation. This includes persons living in one-adult households with children under 18 (41.4%); persons unable to work due to a disability or health problem are at 44.7%, while renters are at 36.5%. The prevalence of bad jobs in the economy is illustrated by the fact that households with one person working have a 21.8% deprivation probability and households with two persons working have an 11.6% probability.

The widely divergent deprivation outcomes for the various cohorts in Ireland show the need for a more evidence-based and targeted design of the welfare system. The NERI's view is that adequacy should be the clear purpose and core goal of the social protection system and that supports should be designed within this context. As such, the NERI supports the findings of the Commission on Tax and Welfare (p.295, p. 298, p.304) that the government should:

(1) Undertake regular or ongoing benchmarking exercises in respect of all working age income supports

(2) Introduce an enhanced income related working-age assistance payment available to all households, and

(3) Introduce a second tier of income tapered child income support. This is particularly relevant in the context of the high level of childhood deprivation.

Payments should be based on need and benchmarked to the median wage rate.

The cost of living crisis has not ended with real incomes declining again in 2023. Even so, the disinflation process is now well established with inflation likely to reach the 2% target in late 2024 or at worst early 2025. The NERI's view is that the government should not pursue any further universal income supports or net tax cuts in Budget 2025. The government should also refrain from taking measures that run counter to achieving net zero GHG targets, for example by reducing taxes on pollutants. Instead, adequacy issues are better tackled through targeted income supports and through expanded provision of subsidised universal public services. Vulnerable cohorts can also be supported by increasing wages for low income workers. Examples of useful steps for consideration in this regard include raising the national minimum wage to a living wage benchmarked to median earnings, and establishing the legislative machinery to enable and support collective bargaining agreements on wages and productivity for each economic sector. This would help Ireland continue its transition to a Northern European style high employment, high value added, and high pay model.

1.3.2 Climate emergency

Ireland's GHG emissions decline is not on track to achieve the 2030 targets. Successfully accomplishing the green transition will impose a significant fiscal burden over the next three decades. Ongoing investments in productive capacity by the private and public sectors will be necessary to grow the economy but also to make it more environmentally sustainable over the longer-term. The economic transformation necessary for the net zero green transition must be consistent with just transition principles. This is not only necessary for fairness and distributional reasons but also for practical political economy reasons. Our view is that failure to adhere to just transition principles will be resisted by the relevant groups most affected and the necessary green transition will therefore be delayed and stop-start.

As such, policy sequencing is important and the focus should be on carrots rather than sticks wherever possible. For example, achieving net zero implies that subsidies for polluting fuels should be abolished in the shortest possible time while taxes on GHGs such as the carbon tax should be increased over the short-to-medium term to reflect their full social cost. However, such necessary policy measures will need to be accompanied by measures to provide households and businesses with non-polluting alternatives. This will not always be feasible in practice and the provision of affordable alternatives will require significant targeted interventions by government in a range of areas, for example retrofitting of homes (particularly social housing), the roll-out of affordable public transport and electric charging infrastructure, and supports for green agriculture and land use.

1.3.3 Housing Crisis

The housing crisis continues to be a prominent failure of Ireland's developmental model and the NERI's view is that a different approach is needed. It is most obviously a social crisis but it is also creating significant economic costs. The lack of housing is a constraint on labour market mobility within Ireland and into Ireland. This is an issue in terms of employment mobility and mismatch but also in relation to our ability to attract future FDI and our international competitiveness.

The crisis can only be resolved through supply-side measures. Tax expenditures such as the 'Help to Buy' and the 'Shared Equity Scheme' are likely to be ineffective, inflationary and regressive with high levels of deadweight. These demand stimulus measures should be abandoned and all tax related distortions to the housing market ended. This was the view of the Commission on Taxation and Welfare and it is a view we strongly support. Successfully resolving the housing affordability and availability crises will instead require a meaningful structural uplift in government investment on housing. The NERI has long argued for state investment in A-rated public cost rental and social housing on public land. The Austrian cost-rental model as proposed by NESC and NERI describes a way to do this. Under this model publicly built housing is made available for rent on cost-rental principles. Specifically, the NERI (2023) proposes moving away from a limited social housing model to a unitary public owned but cost rented housing system that ensures a mix of social and income groups in one location. This would sit alongside and complement the existing private housing market.

A structural uplift in government investment will of course require a structural increase in the supply of construction workers. This will require a shift in Ireland's education system over time in favour of increased investment in vocational education and courses in sustainable construction. Employment in the construction sector will also need to be made more attractive. Conditions are often precarious, with high levels of bogus self-employment. A greater role for the state in construction would drive employment standards upwards and make construction a more attractive option for new entrants.

Finally, a number of tax reforms would help push down the cost of land and property and therefore house prices. Non-mutually exclusive options include taxing residential property at a significantly higher rate, introducing a meaningful tax on all other land (e.g. through a site valuation tax), and adding a surcharge on non-principal residences and vacant properties. Taxing underlying land values would eventually free up additional land for more productive use including for housing. Taxes on immovable property are highly efficient from an economic perspective and shifting the composition of taxation towards greater taxation of property is likely to be growth enhancing over the long-term. Each of these tax reforms should be expedited.

1.4 Fiscal context

The headline fiscal position is ostensibly very positive with a surplus of around €7.8 billion in 2023 (circa 2.6% of GNI*), notwithstanding once-off cost of living measures. Surpluses are projected out to 2026 and beyond. The net debt ratio is falling but above the OECD average. Effective interest rates are unlikely to meaningfully raise the debt part over the medium-term. The EU fiscal rules will not be binding on Ireland in practical terms at least not over the short-to-medium term.

There are caveats. These include the high reliance on and concentration of corporation tax receipts. Corporation tax receipts are close to 8% of GNI* compared to 2.5% to 3% in most EU countries. This is clearly an inherently volatile and potentially unsustainable income stream. The NERI supports the government's decision to treat a portion of the corporation tax receipts as non-recurring and to establish two new long-term funds. The strong fiscal context must also be seen in the context of a strong labour market and high employment rate. Crucially, a short-term focus ignores looming megatrends with fiscal costs – ageing demographics and slower growth, the cost of the green and digital transitions, the potential impact of de-globalisation on FDI flows, and the need to address ongoing capacity constraints and housing/infrastructure needs. Most importantly, the ageing of the population and the declining working age ratio will over time cause a structural decline in annual average per person GDP growth. The ageing of the population will also lead to growing fiscal pressures e.g. higher pension, social care and healthcare costs and reduced receipts from labour income. In addition, tax revenues from polluting activity will structurally decline over the next two decades as the economy transitions to net zero GHG. These pressures come in the context of a revenue yield that is already low relative to that of the EU average.

The NERI's view is that Ireland's fiscal model is not sustainable into the 2030s and beyond. The government should therefore refrain from further narrowing of the tax base. Multi-annual and transparent fiscal planning needs to be a priority and a mature debate is needed about expenditure needs and revenue sufficiency. The Commission on Taxation and Welfare Report was clear that Ireland faces major fiscal sustainability challenges and that over time the overall level of taxation would have to increase meaningfully as a share of national income. The Commission argued for minimisation of the use of tax expenditures and that the greatest scope for increasing taxes was in relation to the taxation of capital and wealth. The NERI agrees with this analysis while noting the Commission's internal inconsistency in Chapter 9 of its report. If the Commission on Taxation and Welfare recommendations are not acceptable to government then the government should state this and propose alternatives.

2. UN Sustainable Development Goals and EU Pillar of Social Rights

Regarding the European Pillar of Social Rights, we would note the importance of Ireland passing the legislation necessary to bring Ireland into line with the EU's Adequate Minimum Wages Directive and of expediting the reforms necessary to ensure widespread collective bargaining.

Proposed reforms described in the previous section would assist in making progress towards a number of the UN SDGs. Examples are given below:

- The recent increase in the deprivation rate means that Ireland is falling backwards in terms of **SDG1** (no poverty). This reinforces the case for benchmarking all welfare payments and the minimum wage against adequacy thresholds, and for expanding the provision of subsidised universal basic services.
- Higher minimum wages, an expansion of collective bargaining, greater prevalence of flexible work options and the elimination of labour market barriers will facilitate Ireland making meaningful progress in **SDG8** (decent work and economic growth). Ireland performs notably badly in terms of labour market outcomes for various groups including people with disabilities, lone parents and Travellers. Finally, the lack of progress in giving effect to the report of the High-Level Working Group on collective bargaining and he EU Directive on the Adequate Minimum Wage Directive is a concern.
- Ireland performs reasonably well in terms of **SDG4** (quality education) outcomes. However, there are concerns around the impact of child poverty on future opportunities and human

capital development for children in disadvantaged communities. More than 1 in 5 children in Ireland is now experiencing deprivation. An income tapered 2nd tier of child income support is justified in this context.

- Enhanced provision of affordable childcare and flexible work options would help Ireland make progress in **SDG5** (gender equality) via a narrowing of employment rate gaps. Childcare costs are still very high relative to the EU average and the percentage of children aged three or less taking part in formal early years services is low relative to the EU average. This has contributed to women being overrepresented in low paying jobs.
- Increased investment in water and wastewater infrastructure is necessary for progress in terms of **SDG6** (clean water and sanitation) following years of underinvestment.
- In our view, policymakers need to increasingly frame enterprise strategy around the green transition (**SDG7** – affordable and clean energy). Our view is that the appropriate strategy re the affordability aspect of SDG7 is to focus on ensuring households have adequate incomes via welfare and labour market reforms rather than on subsidising cheap energy directly. Ireland continues to perform poorly in terms of net GHG emissions per person and lacks a clear strategy for the greening of land use. Our view is that Ireland will need to move to a model of paying landowners on a recurring basis for providing green services.
- Finally, we have emphasised the chronic under-spends on R&D and education and Ireland's ongoing capacity constraints and weak infrastructure as impediments to improving our national innovative capacity (**SDG9** industry, innovation and infrastructure).

3. Country Specific Recommendations

We agree with the Commission that Ireland should not proceed with any further energy support measures. It is disappointing that a targeted approach was not adopted in Budget 2024. Adequacy issues are better dealt with through benchmarked welfare supports and through labour market reforms to ensure adequate wage rates. Energy supports for business were clearly not needed given the cyclical (booming) position of the economy and the very low level of business failure relative to historical norms. We agree with the recommendation that Ireland should maintain a prudent fiscal position and indeed the short-run fiscal outlook is very stable. The longer-term position is more challenging. We also agree that there should be increased emphasis on investment spending and that greater clarity is needed around the financing of the state pension system. The recommendation to speed up development of the circular economy and reduce levels of waste are well made. Finally, the recommendation to reduce reliance on fossil fuels is a crucial point. Tax expenditures on fossil fuels should be withdrawn as soon as possible. We note that deployment of green energy infrastructure continues to be delayed due to ongoing issues in the planning and permit system.