



Trinity College
Dublin

Presentation to The Swan Group conference
'Ireland's Knowledge Economy in the 21st Century:
Educational Perspectives'
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Edward Worth Library, Dr Steven's Hospital, Dublin

The Irish Economy and the Irish Public Sector
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Overview of Irish Economy 1994-2008

- ▶ Major economic transformation 1994-2007
 - ▶ Huge and Sustained increase in employment
 - ▶ Exceptional growth in productivity and total incomes
 - ▶ Remarkable increase in incomes per head – proportion of working age increased dramatically
 - ▶ Ireland became one of the highest income per capita countries in the world

- ▶ What this meant for public policy:
 - ▶ Decline in public debt
 - ▶ Favourable demographic profile
 - ▶ Full employment

} Greater freedom in public expenditure decisions

 - ▶ Increased focus on international competitiveness – investment in education, infrastructure and making it cheaper to do business in Ireland

Public expenditure

- ▶ Main policy tool for government to achieve economic growth and equity
- ▶ Components: Consumption, Investment, Debt Interest and Social Security
- ▶ Trends in Ireland:
 - ▶ Share relative to GNP declined dramatically since 1980s
 - ▶ Dramatic decline in debt interest payments
 - ▶ Younger population – lower pension requirements
 - ▶ Low unemployment – lower social welfare requirements
 - ▶ Low defence payments relative to other countries
 - ▶ Lowest ratio of total government spending to GNI amongst advanced EU countries
 - ▶ Ireland – 39.6%; Denmark: 50.5%; France: 52.9%; Italy: 50.2%; Sweden: 55.3%

Composition of Public Expenditure
(as a proportion of gross national income)

	Total	Consumption	Investment	Interest	Social security
1980	54.6	19.9	4.2	6.3	11.1
1985	58.6	20.1	4.2	10.8	15.8
1990	46.7	17.9	2.3	8.5	12.8
1995	45.6	18.1	2.5	5.9	13.0
2000	36.6	16.0	4.1	2.3	9.3
2005	40.1	18.6	4.0	1.2	10.7

Source: P. Lane (2008) "Role of Government: Rationale, Levels and Size", In: J. O'Hagan and C. Newman (eds.) The Economy of Ireland: National and Sectoral Policy Issues.

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Other policy tools:

Competition Policy and Regulation

- ▶ Privatisation of firms with monopoly power/state owned firms – increased importance of regulatory agencies (CER, COMREG, CAR)
- ▶ Competition Authority – aims to ensure open competition
- ▶ Regulation where market failures occur – e.g. safety regulations
- ▶ Regulation in pursuit of social goals – e.g. Equality Authority, National Disability Agency
- ▶ Regulation in environmental policy

Other policy tools: *Social Partnership*

- ▶ National Agreements negotiated between government, trade unions, employer federations and other representative groups
- ▶ Main focus is to establish national guideline on wage increases
- ▶ Also negotiate labour protection regulations and a range of social policy initiatives
- ▶ *Towards 2016* was negotiated in 2006 with regular pay talks occurring more frequently
- ▶ Process plays an important role in stabilising labour costs and maintaining competitiveness

Other policy tools: *Taxation*

- ▶ Generates revenue but is also used as a policy instrument
 - ▶ Personal income tax system with its range of exclusions, reliefs and exemptions is used to both level the playing field and encourage certain types of behaviour
 - ▶ Corrective taxes are also used such as excise duties on cigarettes, alcohol
 - ▶ Measures to address climate change – structure of motor taxation altered to address emissions, possibility of a carbon tax in the future
 - ▶ Corporation tax regime is important for industrial policy – key factor in attracting FDI to Ireland

A Closer look at the education sector

- ▶ Largely publicly provided – primary, secondary and third-level
- ▶ Department of Education and Science – responsible for primary and secondary
- ▶ Higher Education Authority – responsible for third level
- ▶ 23% of the total population enrolled in full-time education
- ▶ 20% increase in participation in the tertiary sector over the last decade
- ▶ Policy aims to achieve dual goals of facilitating accumulation of human capital and ensuring equal access to, and opportunities within, the system
- ▶ Education expenditure accounts for approximately 14% of total government expenditure (EU average <12%)

Expenditure on Educational Institutions as a Percentage of
GDP/GNI

	1995	2000	2004		
	Total	Total	Total	Public	Private
Austria	6.1	5.5	5.4	5.0	0.4
Denmark	6.2	6.6	7.2	6.9	0.3
Finland	6.3	5.6	6.1	6.0	0.1
Germany	5.4	n/a	5.2	4.3	0.9
<i>Ireland (%GNI)</i>	6.4	5.2	5.4	5.0	0.4
Netherlands	4.8	4.5	5.1	4.6	0.5
UK	5.5	5.0	5.9	5.0	1.0
USA	6.6	7.0	7.4	5.1	2.3
EU-19 Average	5.4	5.0	0.4
OECD Average	5.7	5.0	0.7

Source: C. Harmon and C. Newman (2008) "Education: Market Failure and Government Interventions", In: J. O'Hagan and C. Newman (eds.) *The Economy of Ireland: National and Sectoral Policy Issues*.

Expenditure on Educational Institutions per Student by Level of Education (expressed in equivalent US dollars converted using PPPs)

	Primary level	Second level	Third level
Austria	7,669	9,446	13,959
Denmark	8,081	8,849	15,225
Finland	5,581	7,441	12,505
France	5,082	8,737	10,668
Germany	4,948	7,576	12,255
Ireland	5,422	7,110	10,211
Netherlands	6,222	7,541	13,846
UK	5,941	7,090	11,484
USA	8,805	9,938	22,476
EU-19 Average	5,788	7,236	10,191
OECD Average	5,832	7,276	11,100

Source: C. Harmon and C. Newman (2008) "Education: Market Failure and Government Interventions", In: J. O'Hagan and C. Newman (eds.) The Economy of Ireland: National and Sectoral Policy Issues.

Effectiveness of Education Expenditure

- ▶ Metric for measuring outcomes?
 - ▶ Higher levels of expenditure
 - ▶ Higher labour inputs (reducing student-teacher ratios)
 - ▶ Impaired by cost of wages and salaries (74% of current education expenditure at third-level compared with OECD average of 66%)
 - ▶ Achieving value for money?
 - ▶ Potential for productivity improvements? e.g. e-learning?
- ▶ Outcomes
 - ▶ Proportion of 20-24 with higher level > Lisbon Agenda target
 - ▶ OECD PISA: Ireland ranks 6th on reading literacy but 13th in Scientific literacy and 16th in terms of mathematical literacy
 - ▶ Latter worrying given focus on building 'knowledge-based' economy
 - ▶ Notable achievements also in achieving equality of opportunities but not realised at third level

Future Challenges

- ▶ Key concerns
 - ▶ Loss of competitiveness since 2000
 - ▶ Rising cost of doing business
 - ▶ Recent loss of jobs (particularly in construction)
- ▶ Gradual process of structural change?
 - ▶ Change in emphasis from traditional manufacturing and construction toward high-skilled manufacturing and internationally traded services
- ▶ Key policy objective should be to facilitate this process
 - ▶ Alleviate deficit in physical and human capital
 - ▶ Flexible labour force that can adapt to structural change
 - ▶ Evaluate effectiveness of public expenditure and reform

Future Challenges

- ▶ Optimistic about irreversible changes that occurred over boom period
 - ▶ Attitudes to business and entrepreneurship
 - ▶ Acceptance of increased competition and openness
 - ▶ Well-established and stable institutions
 - ▶ Private property in all its aspects is encouraged and protected by the rule of law
 - ▶ Liberal, democratic political system with a stable government