

Sustaining Ireland's recovery for all

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When I launched the OECD's 2011 *Economic Survey of Ireland*, the Irish economy was in the depths of a deep recession. Two years ago, the clouds were beginning to clear. Today, I am delighted to see how far and how quickly the country has bounced back.

The economy is powering ahead and is the fastest-growing in the OECD. Strong growth is making a big difference in people's lives, allowing the social scars of the crisis to slowly heal. Having peaked at over 15%, unemployment has fallen below 10%, while the economy is creating more than 1 000 jobs a week, most of them full time, and average earnings are picking up. Net emigration has fallen to a third of its 2012 peak as the labour market improves.

These successes owe much to the government's steadfast commitment to reform. The banking system has been restructured and recapitalised, the fiscal deficit significantly reduced, government debt put on a declining path, public

administration efficiency increased, and public employment services revamped. Ireland is on the right path!

Now is the time to secure the recovery, to ensure that restored prosperity is shared by all and to build resilience for the challenges ahead. Foreign investment has long been the cornerstone of Ireland's dynamic IT, medical devices, pharmaceuticals and financial services sectors. Dublin's cutting-edge IT cluster, the so-called "Silicon Docks", houses the European headquarters of the biggest names in the global digital economy.

In contrast, Irish-owned small and medium-sized enterprises (SMEs) continue to lag behind, dragging aggregate productivity growth down to only 0.5% per annum—about a quarter the level in 2000. To give productivity a shot in the arm, government policy needs to better support the diffusion of knowledge and technological innovation from the foreign sector to domestic SMEs. Financial support for innovation should be rebalanced away from tax incentives—which often suit multinationals better—to direct funding, which is more accessible to smaller firms. Steps should be taken to ensure all firms can access the global talent pool.

To draw all these strands together, productivity needs a cross-government policy champion. But boosting productivity and growing the economy shouldn't be an end in itself. Sustainably improving citizens' living standards must be the overarching goal. Ireland has experienced seven tough years to get its economy on the right track and its public finances under control.

Better-off households contributed progressively more, while core welfare payments to the retired and the unemployed have been largely protected. Remarkably, Ireland's tax and transfer system still does more to reduce inequality than any other in the OECD.

One area where huge strides have been made is in labour activation. The government has been trying to transform a largely passive welfare system into one where a person's first day on welfare marks the first step on their path back to work.


But challenges remain. There are still around 120 000 people who have been unemployed for over a year. Many of these people lack the necessary skills to participate in the recovery. Efforts to redesign the apprenticeship system are therefore welcome.

More can be done also to end unemployment and poverty traps. Sometimes, as with housing and family income supplements, financial assistance is withdrawn too quickly as you earn more. At the same time, child care costs are 40% of the average wage, the highest in the OECD. Much more needs to be done to make child care affordable, particularly for low-income families.

In Ireland's case, ensuring an inclusive recovery also means further reducing emigration, welcoming home those who left in recent years, and better integrating those who have arrived since the turn of the century, and continue to arrive in relatively large numbers.

One striking feature of the migrant population, both into and out of Ireland, is that they are highly educated. More than half have post-secondary qualifications. Ireland needs to do better at attracting back its emigrants once they have benefitted from international experience, as well as integrating highly qualified immigrants into the domestic labour market.

Ireland is once again among the leading lights of the OECD's economies. In the months and years ahead, the challenge is to make sure the recovery is sustainable and inclusive. The OECD stands ready to work with Ireland every step of the way to design, develop and deliver better policies for better lives.

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