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***'Small Advanced Open Economies – Thought Leadership Discussion'***

**Speech by Minister for Finance and Public Expenditure & Reform, Paschal  
Donohoe TD**

A warm welcome to our Ambassadors and their teams on Foreign Missions joining us today.

**Setting the scene – Ireland as a small advanced open economy**

I would like to begin with some context.

As Criona and Robert's excellent IGEES paper and presentation demonstrates, Ireland fulfills the criteria for inclusion as a small advanced open economy.

Our population is small, but growing.

We have a high per capita income level, export diversification and a high degree of integration into the global financial system.

And as a member of the largest integrated single market in the world, we welcome the flow of people, capital, goods and services across our borders.

Indeed it was the pivot from the autarky that characterised our economic model in the first four decades after independence to the opening up of our economy

and society from the 1960s onwards, culminating in our membership of the EU, that transformed living standards in this country.

As the historian Tom Garvin has argued, the State “prevented the future” for the early part of it’s independent existence.

Now we wholly embrace that future of increased possibilities for ourselves and our fellow citizens.

To my mind the singular path we took to modernisation and social and economic development explains some of what still makes us different from other small advanced open economies – and emphasises the challenges that remain and how we might meet them.

These are challenges we take seriously, because as our speakers today David Skilling and Michael O’Sullivan have persuasively shown small, advanced states are world leaders when it comes to promoting economic growth and social stability.

### **How (and why) we differ**

The IGEES paper identifies some key areas where we have diverged with our peers.

In particular, our economic performance has been less consistent than that of other small advanced open economies, while our propensity to suffer economic

shocks and resilience to withstand such shocks has been out of line with comparator countries.

This has meant greater volatility, with sharper contractions and a greater magnitude of recovery relative to comparator economies.

We are also an outlier in terms of the relative shares of exports and FDI stocks in our economy.

And finally, our market income inequality and poverty rate before taxes and transfers in Ireland are the highest of the comparator economies, but after redistribution, both are reduced considerably.

The common thread connecting our ability to manage these disparate elements is what Michael O’Sullivan calls the “intangible infrastructure” of small advanced open economies.

These are the factors that enable them to thrive in a globalised world, their ability to produce sustainable and lower volatility macroeconomic output and their level of human development.

Where the state institutions that drive this intangible infrastructure have worked well, with consistent and long-term political support, the results have been impressive as with our highly effective system of social transfers or the IDA’s track record of attracting and retaining increasingly high-value FDI.

However, where there has been less policy consistency and lower political commitment to the strengthening of our intangible infrastructure, we have

underperformed – for example when it has come to prudent management of the public finances in the past.

The ‘secret sauce’ for all small advanced open economies is resilience.

And the key to resilience is constancy of approach.

As the historian J.J. Lee observed at the end of our lost decade in the 1980s:

*“Small states must rely heavily on the quality of their strategic thinking to counter their vulnerability to international influences. Without superior strategic thinking, they will be buffeted rudderless, like a cork on a wave.”*

Such strategic thinking and constancy demands the intellectual clarity and political consensus to decide on the appropriate economic and social model and the commitment to stick with it across political and economic cycles.

We have developed such a constancy in this country when it comes to FDI, income redistribution and to an extent in education policy.

However it remains an aspiration in areas like health, housing and childcare - in part because of the legacy of the approach to the provision of public goods in these sectors in the early decades of the state’s existence.

Equally a constancy of approach has to date eluded us when it comes to this century’s great challenge of climate change.

And finally, on fiscal policy, I am sometimes struck by the extent to which our public and political debate on tax and spending options has yet to assimilate the need for constant discipline required by membership of a currency union.

As volatility is a given for a small advanced open economy like ours, the challenge we therefore face is how to embed greater resilience, consistency and a constancy of approach into ever wider areas of policy and governance.

### **How we can address the challenges that remain**

The nations that have best managed and mitigated the social, economic and technological changes that globalisation has unleashed are those that have actually taken control irrespective of political changes by investing wisely in public services and improving living standards.

They have understood the paradox that in an era of enormous change, the role of the state as both a guarantor of social and economic security and provider of opportunity has become ever more important for those nations – like Ireland - that are most exposed to globalisation.

As such, the domestic political choices we make on fiscal policy, public services, labour markets and redistribution will continue to outweigh global forces in tackling the anxieties and insecurities we are witnessing.

In practice this means an approach to economic management that develops the economy incrementally over a period of years to create sustainable growth in income, employment and living standards, rather than the short-termism epitomised in planning from budget to budget.

What are the pillars upon which such a new consensus could be built?

First, we must double down on certainty and commitment to our existing offering, in particular in corporate taxation, membership of the EU and the single market and ability to attract and retain skilled talent.

In addition, we should continue to maintain our commitment to an open society and economy and equally to make a case for it at both a European and international level.

Many of the dimensions of openness have been under attack in recent years and it is incumbent on Ireland and other small advanced economies that have benefitted so greatly from it to both defend it and promote it – while also recognising its limits.

Third, we must develop a deeper sense of citizenship and of what our French colleagues call a *'sens de l'État'*, a commitment to public service that transcends political, sectional and personal interests.

In doing so, we need to make a much stronger case for the achievements of the state than are sometimes reflected in day to day political and media discussion.

In this all politicians and public servants hold a solemn responsibility.

Because it is only by meeting real and compelling needs of our citizens, while openly acknowledging when we fall short of these standards, that we can enhance the legitimacy upon which that very sense of citizenship rests.

Finally, institutions matter.

They are part of the “intangible infrastructure” that underpins and enables the development of social and economic well-being.

However, all too often in Ireland our public institutions have either been ignored or become fodder for political point scoring.

Ultimately this is counter-productive, because there is hardly any factor that is more important for the creation of prosperity, the development of truth in politics and the public sector and the sustainability of a nation's economic growth than strong and enduring public institutions.

### **What policymakers can do**

Having emphasised the importance of developing greater resilience and a constancy of approach, I now want to outline some areas where you as policymakers could embed this approach more deeply into key policy priorities.

In so doing, the test I would suggest we set is whether we can build a similar consensus around these issues as currently exists for our system of social transfers or the 12.5% corporate tax rate.

First, early years' education. We have only recently started to meaningfully redress the historic under-investment and policy emphasis on early childhood education.

In recognition of this, my colleague Minister Zappone's recent 'First 5' strategy proposes a doubling of investment in early education over the next decade and integrate it far more closely to our primary school system.

Next, affordable housing.

As the recent NESC report showed, the availability of land for housing in appropriate locations, in a way that is consistent with affordability, has long been an unresolved policy issue in Ireland, in part because of the reluctance of successive governments to tackle land speculation.

In order to fix these longstanding deficiencies in our system of land management the Government has established the Land Development Agency to improve how we plan, manage and use land in our urban areas for the consistent delivery of affordable housing for our citizens.

Finally, climate change.

The State has, in the past, committed to targets to reduce greenhouse gas emissions, starting with commitments made under the Kyoto Protocol of 1998.

However, we have not been able to meet any previous commitments and will currently miss our 2020 commitment under the EU's compliance regime.

The recent IPCC special report on 1.5°C shows that to keep global mean temperatures below 1.5C requires global emissions reductions of 50% by 2030 and to be net-zero by 2055.

That report has proved a game changer and calls for action on a scale that has not been seen in Ireland, or indeed globally, before.

The Government is of the strong view that we must move now and quickly to put the structures and systems in place that will ensure that everyone in the State, in whatever role or capacity, can work together to make Ireland compliant with our international obligations, and then to move to a place where we are a world leader

In focusing on key policy priorities in the coming period, it is my strong conviction that we as policy makers should seek to embed these aspirations into policy and political consensus.

The need for such consensus will become ever more apparent in the coming years as we grapple with the political, social and economic impact of the UK's departure from the EU.

## **Conclusion**

In a few short years we will celebrate the centenary of our independence.

In the past century we have established our place in the world and a viable social and economic model for our country.

We must now seek to make that model more resilient and enhance it.

As part of that we are determined to deepen our strategic relationship with those EU Member States and Small Advanced Open Economies whose values and outlook we share most closely.

Today, Ireland is announcing our membership of the OECD the Network for Open Economies and Inclusive Societies (NOEIS).

Launched in 2017 by the Netherlands, it consists of 20 countries committed to advancing a well-functioning open global economy while reducing excessive inequalities.

The Network demonstrates, and Ireland recognises, the importance of working together, providing a better understanding of how to link actions at the

domestic and international level to form a coordinated response, thinking of effective ways to anticipate solutions for common challenges.

We look forward to deepening our commitments to consistency, openness, resilience and the public institutions that underpin them through the sharing and development of insights with our now fellow members of the network.

Thank you for your attention.

ENDS