IRELAND

- GDP per capita was among the highest in the OECD in 2015, due to the unusually strong activities of multinational enterprises. Excluding these activities, GDP per capita was still above the average of the advanced OECD countries in 2015. Strong labour productivity growth has more than offset weak labour utilisation which remains below the pre-crisis level.
- Inequality in household disposable income is slightly below the OECD average while it has increased recently. Ireland's income redistribution system reduces market income inequality by the largest margin in the OECD, essentially through well-targeted social benefits in particular toward the poorest of the population.
- Good progress has been achieved on all previous *Going for Growth* priorities. The Back to Work Family Dividend introduced in 2015 ensures continuous supplemental benefits for children for two years after returning to work. The conditionality of lone parent benefits was enhanced for those with children aged 7 and above in 2015. Since significant improvement has been made to improve work incentives for women, it is no longer a *Going for Growth* priority area.
- Fostering innovation and removing barriers to entrepreneurship and competition would encourage a more dynamic and cost-competitive home-grown business sector, making economic growth more sustainable. Intensifying activation policies and revamping the welfare system to get more people back to work would help both employment growth and social cohesion.

Going for Growth 2017 priorities

Enhance activation policies. The share of long-term unemployment remains high, which should be addressed by evidence-based improvements in labour market programmes, accompanied by the obligations on benefit recipients to seek a job or take training.

Actions taken: The long-term unemployed are increasingly covered by activation policies, which have been put on a more systematic footing with the launch of JobPath (whereby private providers are in charge of activating the long-term unemployed) in mid-2015.

Recommendations: Increase resources to the programmes that are found to be efficient, such as the *Momentum* programme (vocational training targeted to the long-term unemployed). Fully enforce the obligations of the unemployed and improve the enforcement framework by defining more objectively the suitable job offer that the benefit recipient has to accept in terms of wages and contract types.

Reform the tax and welfare system. The share of low-income households remaining inactive is high, as their incentives to join the labour force are distorted due to rapid withdrawal of housing assistance payments and the Family Income Supplement, implying very high replacement and marginal effective tax rates.

Actions taken: The Back to Work Family Dividend was introduced in January 2015, ensuring continuous supplemental benefits for children for two years after returning to work.

Recommendations: Ensure that the Rent Supplement depends on income rather than employment status. Reduce the Family Income Supplement more gradually than it is currently the case as income increases. Increase the local property tax rate and simultaneously introduce a low-income waiver to protect poorer households.

## IRELAND

Growth performance and inequality indicators

A. Growth

Average annual growth rates (%)		2003-09	2009-15
GDP per capita		-0.1	5.3
Labour utilisation		-0.9	0.4
of which:	Labour force participation rate	0.4	-0.3
	Employment rate[1]	-1.3	0.5
	Employment coefficient[2]	0.0	0.2
Labour productivity		0.7	5.5
of which:	Capital deepening	2.0	0.9
	Total factor productivity	-1.2	4.5
Dependency ratio		0.1	-0.5

B. Inequality

	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient[3]	30.9 (31.7)*	0.3 (0)*
Share of national disposable income held by the poorest 20%	8.2 (7.7)*	-0.1 (0)*

* OECD average

C. GDP per capita is among the highest in the OECD
Gap to the upper half of OECD countries[4]
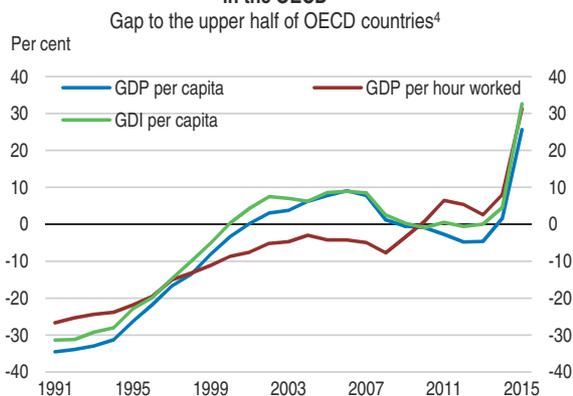
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.
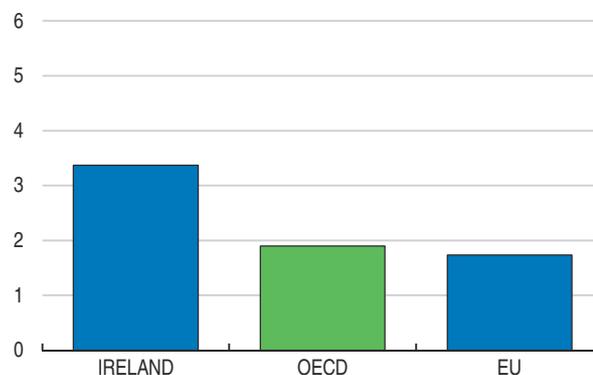
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Policy indicators

A. Marginal effective tax rates are high for low income families
Percentage of total labour compensation,[1] 2015
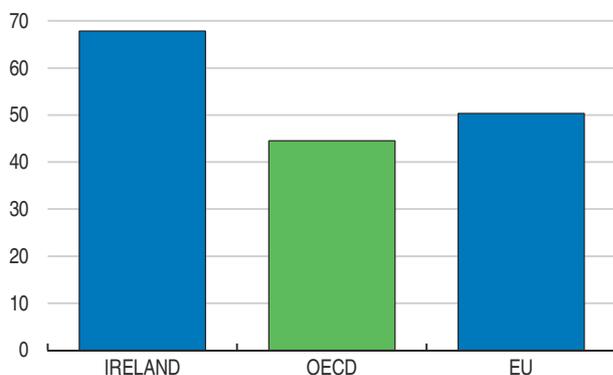
B. Complexity of regulatory procedures is relatively high
Index scale of 0-6 from least to most restrictive, 2013

1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Marginal labour tax wedge for a single person at 67% of average earnings with two children.

Source: Panel A: OECD, *Taxing wages Database*; Panel B: OECD, *Product Market Regulation Database*.

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Strengthen competition in non-manufacturing sectors. Competition in utilities and some sheltered service sectors including transport, the legal profession and ports remains relatively weak.

Actions taken: The Legal Services Regulation Bill was enacted in December 2015 and the new Legal Services Regulatory Authority (LSRA) came into operation in early 2016.

Recommendations: Improve access to and competition among the legal professions, and make legal costs more transparent ensuring efficient functioning of the new Authority. Decrease vertical integration in electricity. Shorten lease periods for port terminal operators and issue more stevedoring licences.

Enhance R&D spending and innovation. R&D spending remains relatively low and most activity is undertaken by foreign firms, while the diffusion of innovation to smaller, national firms is limited by weak linkages with foreign firms.

Actions taken: Science Foundation Ireland established 12 large-scale research centres in early 2015, associating over 200 industry partners. These research centres operate alongside 13 industry-led technology centres supported by Enterprise Ireland and IDA Ireland.

Recommendations: Rebalance innovation support, which is increasingly skewed toward R&D tax credits, toward direct grants. Continue the strategy of building up fewer, larger academic research centres and ensure strong linkages with firms, including multinational enterprises. Introduce a Research Technology Organisation focussed on SME needs.

Reduce barriers to entrepreneurship. The regulation of licence and permits required to start and operate a business is relatively restrictive, while enforcing contracts and registering property is also difficult for businesses.

Actions taken: The Integrated Licence Application Service (ILAS) was launched in early 2016, enabling businesses to apply for, renew and pay for licences provided through ILAS, thus facilitating procedures vis-à-vis licencing authorities.

Recommendations: Continue the strategy of reducing fees and waiting times for licences and permits required to start and operate business. Shift away from high fees charged to obtain planning permission towards recurrent property taxation. Introduce a real estate conveyancing profession.
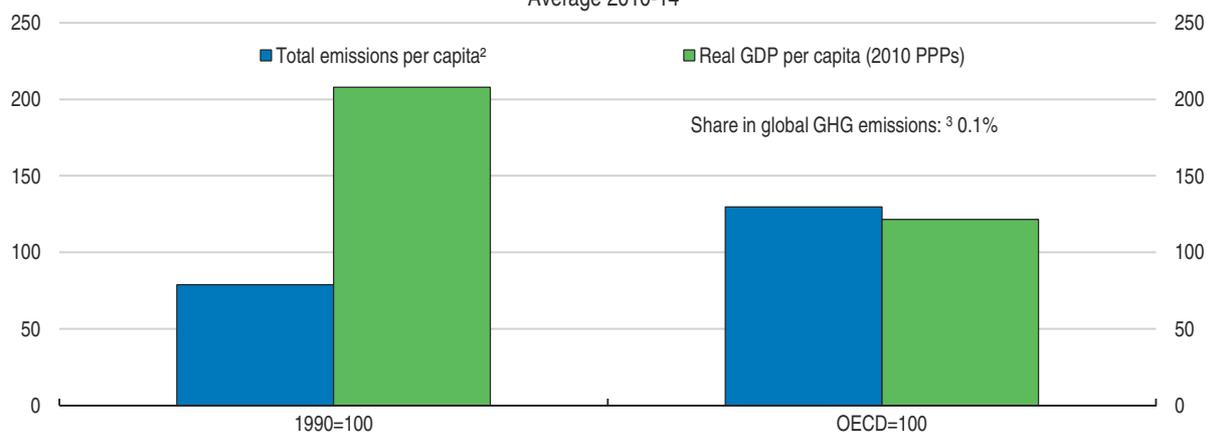
IRELAND

Beyond GDP per capita: Other policy objectives

A. Income fell for all households, but more so for those in the lower part of the distribution
Annualised growth in real household disposable income between 2008 and 2013[1]

%

Lower income households   Mean income households   Higher income households
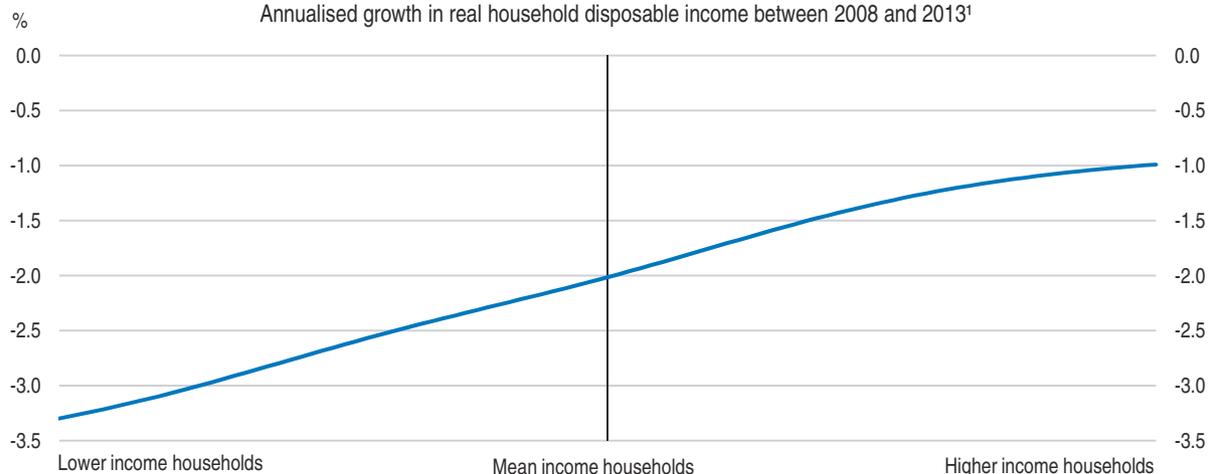
B. Emissions per capita are below the 1990 level, but above OECD average
Average 2010-14

■ Total emissions per capita[2]   ■ Real GDP per capita (2010 PPPs)

Share in global GHG emissions: [3] 0.1%

1990=100   OECD=100

1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases, United Nations Framework Convention on Climate Change (UNFCCC) Database.*

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