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The role of pro-productivity policies: The experience of Ireland

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Abstract

The global economy of today is characterised by multiple – and sometimes, interrelated – challenges but in seeking to formulate coherent and effective public policy responses, it is first necessary to understand what works (and why). The typology of pro-productivity policies proposed by van Ark, de Vries and Pilat (2023) is highly instructive in this regard setting out as it distinguishes four categories of pro-productivity policies (both direct and indirect).

In this paper, we have endeavoured to use this typology to present a clear picture of Ireland's experience over close to seven decades in developing and deploying pro-productivity public policies – and sometimes inadvertently doing the inverse – with a view to sharing some examples of good practice whilst also contributing to a process of learning from across multiple jurisdictions. One of the principal findings emerging from this analysis is that although the pro-productivity policies pursued by Ireland have varied, two common themes still dominate: the use of the tax system to underpin Ireland's FDI proposition and the use of fiscal incentives to drive investment in technology, innovation and R&D.

A third important finding presented here relates to the importance of human capital and how public investment in the educational profile of the population has underpinned the positioning of the country as a platform for high-technology and knowledge-intensive FDI.

1. Introduction

When comparing headline economic growth and productivity developments since the mid-twentieth century, the case of Ireland stands out. From being one of Western Europe's poorest countries in the 1950s – with a declining population, stagnant growth and a commitment to protectionist policies more typically associated with the 1930s – the country would become one of the most economically successful in the world just 50 years later. However, this path of convergence and then overtaking its regional comparators was not in any way linear, and several periods of economic crisis and macroeconomic instability feature, particularly in the 1970s and 1980s but also in terms of the extent to which the Global Financial Crisis (or GFC) impacted Ireland's economy between 2008 and 2013. Many of these developments – both positive and negative – can be ascribed to the susceptibility of a small (and latterly very open) economy to external shocks even though domestic policy decisions were also significant factors (both in terms of Ireland's overall trajectory and the volatility around it).

The role of policy in driving productivity is examined and categorised by Van Ark, de Vries and Pilat (2023), taking as a starting point the concern about a widespread slowdown in productivity growth since the 2010s. They examine how policies around productivity have evolved over time in order to assess whether pro-productivity policies applied in previous decades could still be effective in reversing the current slowdown. To do this assessment in a structured way across different countries each with its own specificities, they develop a typology of pro-productivity policies. This typology categorises pro-productivity policies into four main areas: accumulation of the production factors, markets and resource allocation, technological and structural change, and internationalization.

In this paper, we provide a broad overview of how productivity trends in Ireland have developed over the period from the 1950s to the present. We start earlier than the case studies presented by Van Ark, de Vries and Pilat (2023) which begin in the 1960s. We do so because a number of key policies that were to heavily influence the path of the Ireland's economy were initiated in 1950s and this, in turn, provides for a better understanding of the extent of the initial gap in income levels between Ireland and other advanced economies. We examine the evolution of pro-productivity policies in Ireland, grouped into several distinct and important periods of policy change and reform: the move away from protectionism in the 1950s-60s; the period dominated by macroeconomic instability in the 1970s and 1980s; the rapid growth during the Celtic Tiger period from the 1990s and 2000s; and the collapse and recovery following the GFC between 2008 to 2023.

We then consider these broad pro-productivity – and occasionally anti-productivity – policies over each time period and map them onto the typology of Van Ark, de Vries and Pilat (2023). In doing so, we can look in a systematic way on the type of policies followed and assess their role in supporting – or holding back – productivity growth in Ireland. This gives insight into the development and effectiveness of pro-productivity policies by placing the Irish experience in a structured framework of policy types and economic development stages.

The remainder of the paper is structured as follows: Section 2 alerts the reader to some measurement issues that arise in comparing a highly internationalised economy like Ireland to others and introduces alternative metrics designed to more appropriately capture its economic performance. Section 3 examines Ireland's growth performance and the contributions of key drivers of productivity. Section 4 provides the overview of pro-productivity policies over time and Section 5 maps these onto the typology of Van Ark, de Vries and Pilat (2023). Section 6 translates these lessons into a forward-looking perspective on pro-productivity policies, outlining unresolved issues and potential areas in need of policy reform.

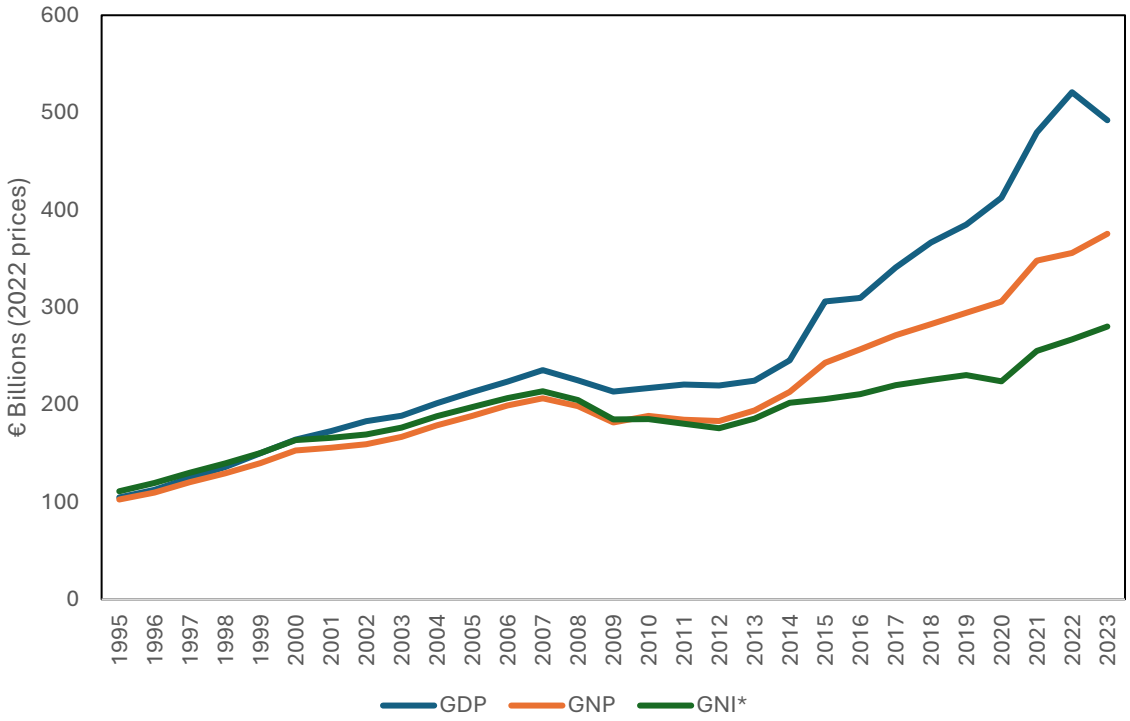
2. Measurement issues

Ireland is a small, advanced economy within the euro area and has a long track record of attracting, and retaining, foreign direct investment (FDI). Initiatives in relation to FDI will feature throughout our examination of Ireland's policy evolution and productivity performance. In this section, however, we must initially examine the extent to which a heavily globalised economic structure has made the interpretation of standard economic metrics for Ireland challenging given that financial flows and real activity have become disjointed, and this has given rise to new measures of economic activity such as "gross national income adjusted" (or GNI*).

This issue arises because Ireland has become a central hub for many multi-national corporations (MNCs). However, some of the activities assigned to the Irish national accounts, particularly in relation to intangible assets, have only a limited connection with national productivity or well-being that measures such as GDP are supposed to capture. For instance, the OECD Compendium of Productivity Indicators 2024 reports that Ireland's labour productivity was more than twice the OECD average. Similarly, recent data published by Ireland's national statistical institute – the Central Statistics Office (CSO) – demonstrate that Ireland was the most productive economy in the EU in 2023. There is, however, a very clear intra-sector divergence in the pattern of productivity growth between the SME and MNC sectors. For instance, labour productivity in the 'foreign dominated' section of the economy is close to 700% higher than in the domestic economy.

This can be seen in Figure 1 where three different measures of national income are compared. Standard GDP and the novel measure of GNI* (Gross National Income adjusted) begin to diverge slightly from the mid-1990s but from 2015 the gap between the two becomes quite pronounced. GNI* is a metric developed by Ireland's CSO to remove factors that may distort traditional measures of economic output, in particular income derived from intellectual property that is not retained in Ireland. Specifically, it excludes income from intellectual property (IP) owned by foreign entities and accounts for net payments made for the use of intellectual property. It was designed to account for the unique economic structure of Ireland, which includes significant foreign direct investment (FDI) and the operations of multinational corporations (Lane, 2017; FitzGerald, 2023; Honohan, 2021). Gross National Product (GNP), which removes repatriated profits of MNEs falls somewhere between the measures of GDP and GNI*.

Figure 1: Alternative measures of Ireland's National Income

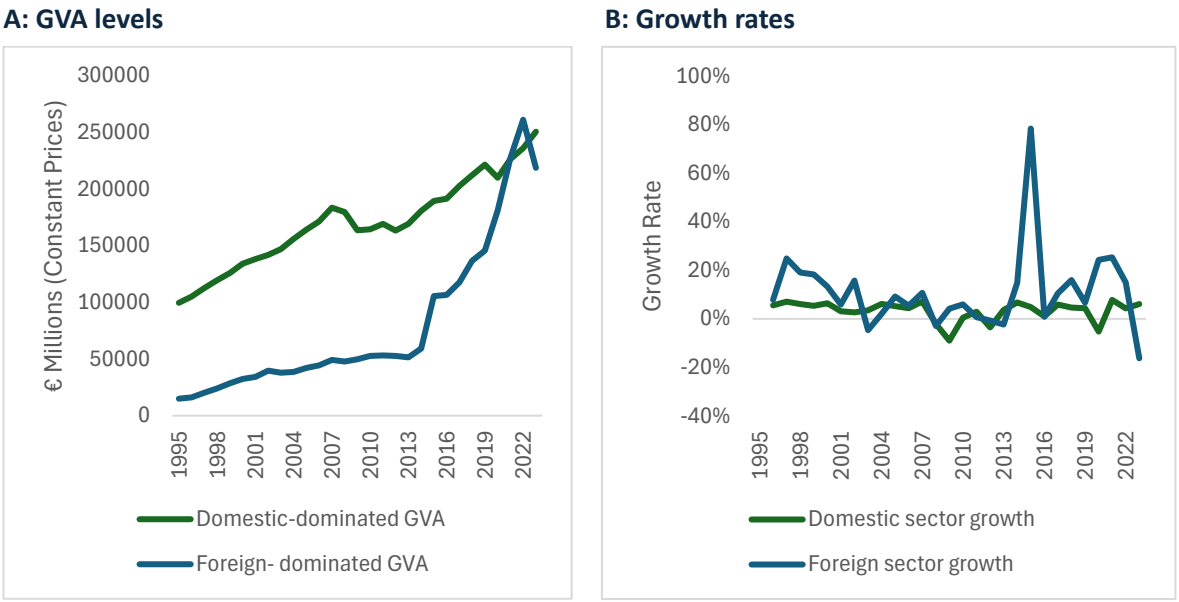


Source: CSO National Accounts. GDP and GNP are standard measures, GNI* is an adjustment made by the CSO to remove some distortionary aspects of revenues, primarily arising from IP transfers.

Figure 2 shows the divergence between the performance of the domestic and foreign dominated sectors, which are a crucial element of understanding the overall story of the evolution of Irish productivity. The figure compares the levels (solid lines) and growth rates (dashed lines) of sectors dominated by foreign-owned firms (blue) and sectors dominated by domestic firms (green). At the starting point of the data in 1995, 14 per cent of Gross Value Added (GVA) was generated by foreign-dominated sectors. These foreign-dominated sectors grew consistently more rapidly through the 1990s and 2000s, gradually increasing their share of overall GVA.

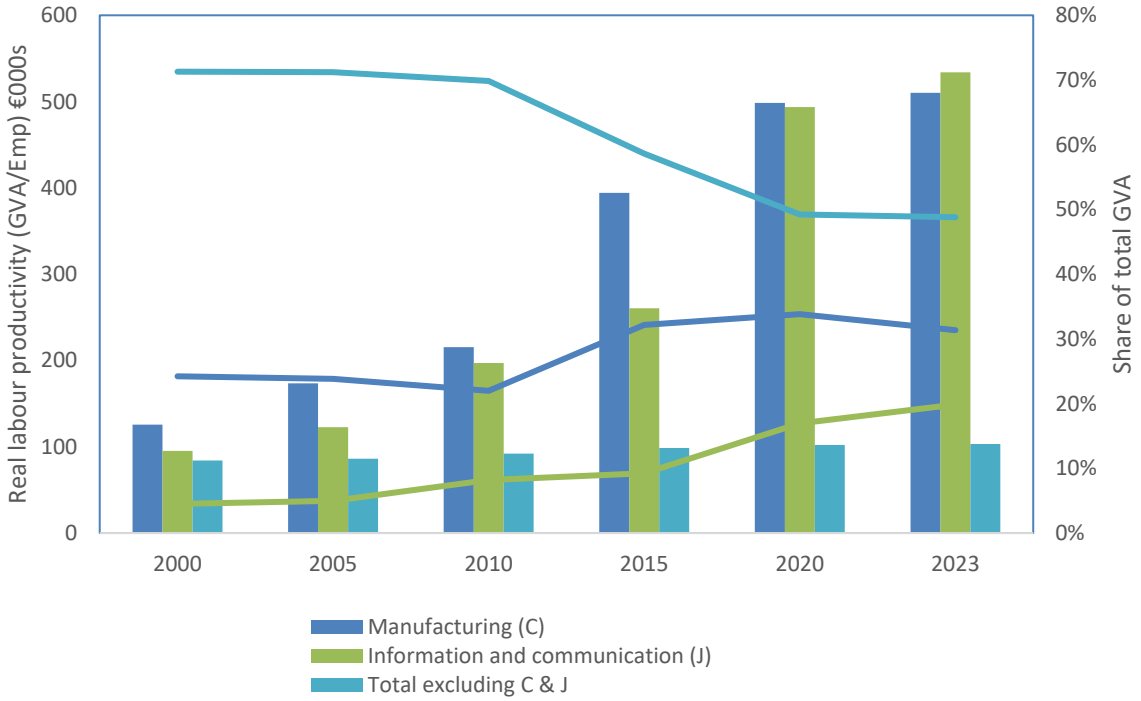
The majority share of GVA continued to come from the domestically-dominated sectors which accounted for three-quarters of GVA in 2014. Average growth of the multinational-dominated sectors from 1995 to 2023 was 11% per annum (8.5% if the 2015 spike is excluded). Domestically-dominated sectors grew at a slower pace of 3.4% per annum but also more steadily: the variance of the growth rate in domestically-dominated sectors was 0.2% compared to 2.6% in the foreign-dominated sectors (although this is less volatile at 0.9% if the outlier value for 2015 is excluded).

Figure 2: Total Gross value added of domestic and foreign-dominated sectors, 1996-2023



Source: CSO National Accounts

Figure 3: Labour Productivity (left axis) and Share of Total GVA (right axis) for Manufacturing, ICT and Other sectors



Source: CSO National Accounts Productivity in Ireland Productivity in Ireland - CSO - Central Statistics Office. Shares based on current prices.

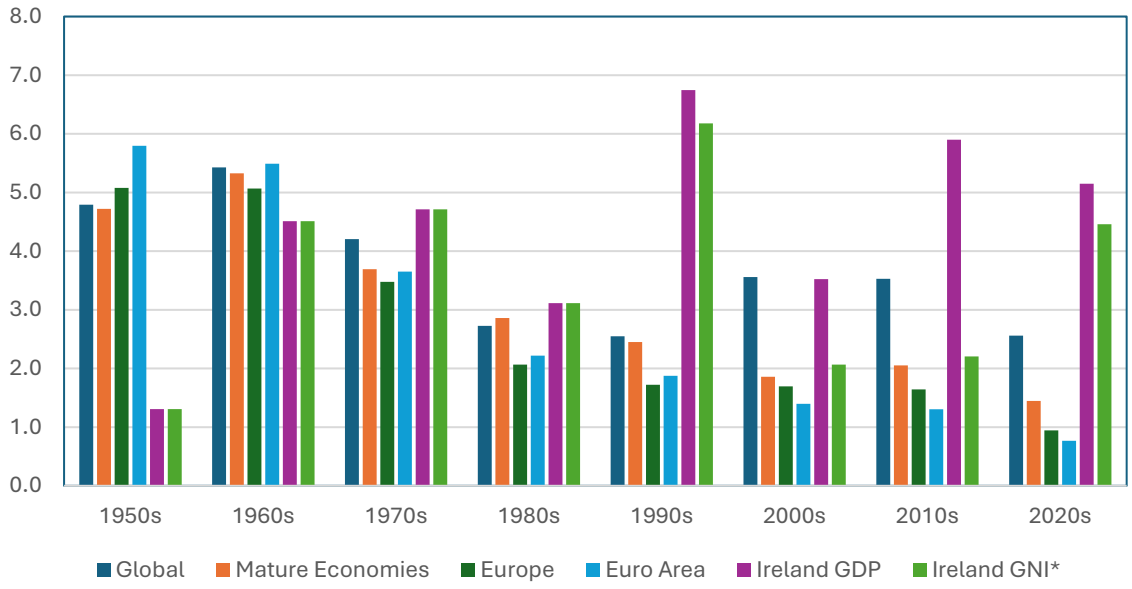
Figure 3 further shows the increasing dominance of the multinational-dominated manufacturing and Information and Communications services sectors with their shares of total GVA increasing sharply between 2000 and 2023 alongside extremely rapid labour productivity growth. The columns in Figure 3 show the level of labour productivity (measured as real GVA/employment) increasing substantially in both of these sectors throughout the 2000s, reaching levels five-times higher than the rest of the economy by 2020. Combined, these two sectors also began to account for a substantial share of total GVA in the economy, with the Manufacturing sector contributing 30% of total GVA and ICT services contributing a further 20% of the total. These are broadly comparable to the split between domestic and foreign ownership shown in Figure 2.

3. Drivers of growth

In this section, we examine the evolution of Irish economic growth and productivity since the 1950s. Beginning with overall output growth, Figure 4 shows how poorly Ireland performed relative to other economies in the 1950s. Given that Ireland at this point had a lower level of output, some degree of convergence might have been expected from traditional models of growth. In contrast, however, we see GDP growth rates average barely over 1% annually, while the global economy and rest of Europe grew at rates around 5%. Ireland's growth rate improved fairly dramatically in the 1960s following a number of policy changes that opened up the economy to international trade and investment that will be described further in the next sections. However, the improvement in growth rates, although considerable, still lagged behind those of other economies so in level terms Ireland continued to diverge.

Ireland's growth rate throughout the 1970s was similar to that of the 1960s, averaging around 4.5% and slowed to just about an average of 3% in the 1980s. At this time, growth in the rest of the world had also slowed sharply so Ireland's rate was actually slightly higher than average. We see the emergence of the "Celtic Tiger" period in the 1990s, with average growth taking off to average over 6% per annum while global growth continued to slow slightly to rates between 2% and 2.5% for the different comparator groups. The 1990s also sees the first slight gap emerging between the standard GDP measure and GNI* which adjusts for some of the distortions from multinational activities. This gap widens in subsequent time periods, with the multinational-driven GDP growing approximately twice as fast as the adjusted GNI* measure throughout the 2000s and 2010s. In GDP terms, Irish growth in the 2000s is twice that of other advanced economies and almost three times as fast in the 2010s. In contrast, when measured by GNI*, growth in Ireland is much more in line with comparable countries during those two decades. The initial years of the 2020s sees growth in Ireland move strongly ahead of other economies (regardless of the measurement approach used). This was primarily due to a more limited impact of COVID-19 restrictions on Ireland's economy relative to that of other countries.

Figure 4: Average annual real output growth comparisons



Source: CSO National Accounts for Irish GDP and GNI*, Conference Board Total Economy Database ™ for other country groups. https://www.conference-board.org/data/economydatabase

In Figure 5, we examine how patterns in some important factors underlying output growth evolved in Ireland compared to other countries. Panel A shows that Ireland was a rare example of a decline in population throughout the 1950s, as economic stagnation drove high rates of emigration. Indeed, the Ireland of the 1950s has been characterised as a period of 'doom and gloom' with close to 500,000 persons (or close to 16% of the population) choosing to emigrate. This was a scale of depopulation not witnessed anywhere at the time, other than the German Democratic Republic (Glynn, 2012). In his contemporary writing on the topic of Ireland's declining population, the Rev. J. A. O'Brien titled his book '*The Vanishing Irish: The Enigma of the Modern World*'[2]. The falling population is mirrored in declines in both employment and hours of work (Panels B and C respectively). Population growth picked up throughout the 1960s and 1970s, but this had limited feed-through to employment and hours, as the growth came primarily from a natural increase (meaning a relatively large population aged under-15 years relative to working age adults) and emigration remained a significant feature of the economy.

Emigration rates rose again in the early 1980s, which was characterised by macroeconomic instability and high unemployment. Improved economic conditions in the 1990s attracted a return of many Irish nationals who had emigrated in earlier years. Immigration became a feature of the economy for the first time in the 2000s, particularly following EU enlargement.

[2] O'Brien, John A. 'The Vanishing Irish'. London: W. H. Allen, 1954 [Holdings: The vanishing Irish]

Figure 5: Comparisons of growth in population, labour input and labour productivity

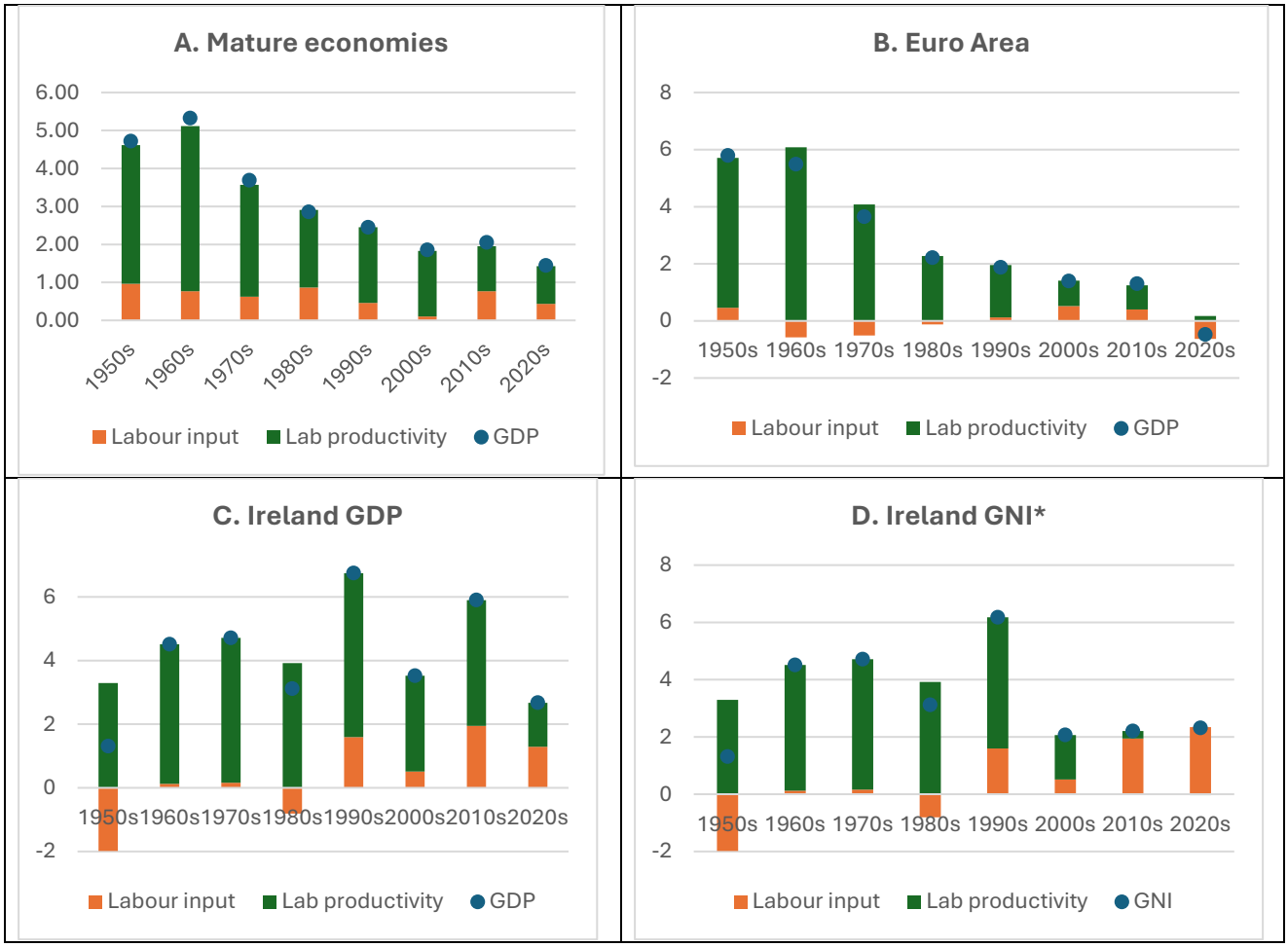
Source: CSO National Accounts for Irish GDP and GNI*, Conference Board Total Economy Database ™ for other country groups
Note: Labour productivity is Real GDP divided by hours worked.

While population and employment grew far more slowly throughout the period from the 1950s to 1980s, labour productivity (Panel D) evolved at broadly similar rates to those in other countries. Labour productivity growth started to accelerate in the 1990s with growth more than double that of other mature economies continuing through to the 2020s. Measures of labour productivity show the same emerging divergence between the internationalised GDP-based measures of output and the adjusted GNI* metric as already noted for overall economic growth in the previous section.

Combining the contributions of labour input and labour productivity to overall output growth, Figure 6 shows that changes in labour input have played a more significant role in Irish output growth than in other developed economies. During the 1950s, reductions in labour input due to high immigration were a drag on growth but, in the period since 2000, growth in employment has been an important driver of output growth. Productivity growth was the primary driver of output growth up to and

including the 1990s. Since then, productivity growth has slowed down and labour input has begun to dominate. This is particularly the case for the more domestically-orientated measure of GNI* where the productivity contribution has been fairly minimal since 2010.

Figure 6: Decomposition of output growth into labour input and labour productivity

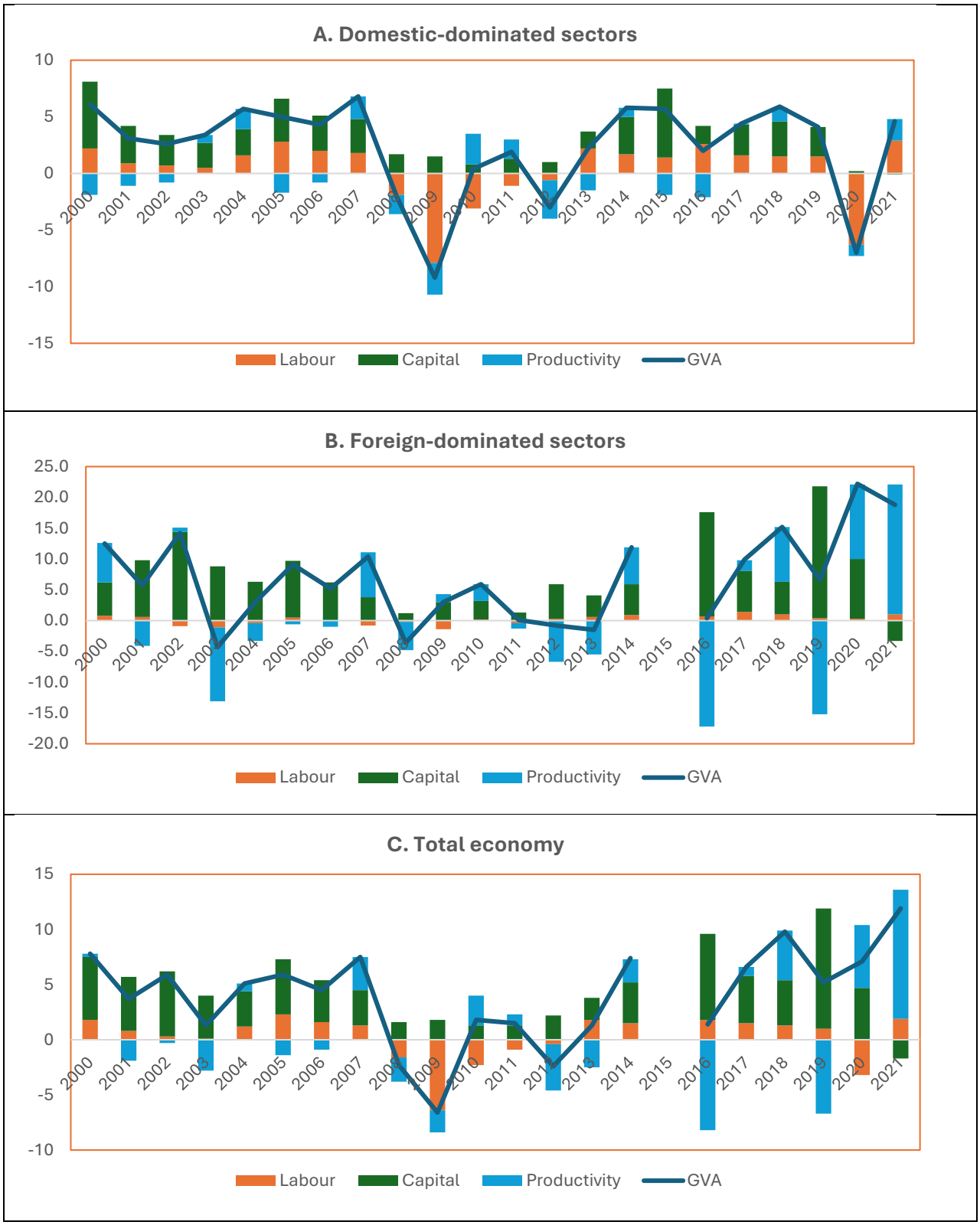


Source: CSO National Accounts for Irish GDP and GNI*, Conference Board Total Economy Database for other country groups

Note: Labour input is hours worked and labour productivity is Real GDP divided by hours worked.

Given the importance of the differing paths of the international and domestic sectors of the Irish economy, we next look at how the contributions of labour input, capital input and productivity changes have differed in the two broad sectors. Figure 7 shows how these three broad factors have contributed to the growth domestic-dominated sectors of the economy between 2000 and 2021 (Panel A) compared to those of the foreign-dominated sectors (Panel B) and the overall economy (Panel C). The contributions to growth can be seen to be quite distinct with the growth of the foreign-dominated sectors largely driven by growth in capital inputs whereas domestic growth has been somewhat more evenly divided between growth in both capital and labour inputs. The large capital changes in the foreign-denominated sector (reflecting possible large variations in transfers of intellectual property assets) may also be a factor in the volatile path of total factor productivity (TFP) growth, given its residual nature, for this group. This also impacts strongly on the total economy productivity figures.

Figure 7: Growth decomposition by sector type



Source: CSO *(Productivity in Ireland series:* Productivity in Ireland Quarterly - CSO - Central Statistics Office*).*

Notes: (i) that data for 2015 is not displayed for the foreign-dominated sectors or total economy for presentational reasons. Scales differ for each graph. (ii) **Foreign-dominated** refers to sectors dominated by foreign multi-national enterprises (MNEs): Chemicals and Chemical Products (NACE 20), Software and Communications (NACE 58-63), Reproduction of recorded media, Pharmaceutical products, Electrical equipment and Medical supplies (NACE 18.2, 21, 26, 27, and 32.5). **Domestic-dominated** refers to all sectors not categorised as Foreign-MNE dominated sector. Labour is hours worked; capital is capital services as defined in the National Accounts and Productivity is Multifactor Productivity.

Between 2000 and 2007, the growth in domestic GVA was more capital intensive with capital services contributing about 3.3% of the overall 4.6% average annual growth. Labour input added an average of 1.5% to the overall growth rate while growth in multifactor productivity was slightly negative on average. The financial crisis period saw a substantial drop in GVA, driven mainly by a reduction in labour input. The recovery period from 2013 onwards came about two-thirds from capital growth and one-third from labour growth. Multifactor productivity once again was marginally negative, offsetting the growth in factor inputs. The COVID-19 reduction in activity in 2020 was almost entirely accounted for by a reduction in labour activity which rebounded strongly in the following year as restrictions on movement eased.

The decomposition of growth of the total economy GVA can be seen to follow a pattern of contributions more similar to that of the foreign-dominated sectors than to the domestically-dominated ones, although scaled down in terms of the rates of growth. The combination of lower measured labour productivity in domestic firms presented in the previous section with the zero to slightly negative contribution of multifactor productivity to growth of the domestic sector over a 20-year time span suggests substantial productivity challenges for the domestic sector.

4. Development and impact of pro-productivity policies in Ireland

Pre-1950s: An isolated island

In considering the importance of pro- (or anti) productivity policies from the 1960s, it is useful to first consider Ireland's comparative starting point relative to other countries. Ireland's economic performance – including its productivity performance – did not begin to lag that of its European neighbours from the 1960s but rather, this was a continuation of a pattern that was already well-established from a decade earlier. In the immediate aftermath of WWII, Ireland's economic performance[3] lagged that of the US and the UK. It was, however, ahead of several countries ravaged by the conflict, including Japan as well as a number of European countries (i.e., Germany, Italy and Spain). Over the course of the 1950s and 1960s[4], Ireland began to fall behind as it grew at a slower rate than these countries. For instance, Ireland's GDP per capita rose by close to 17% during the 1950s, while the economies of countries such as Germany and Japan almost doubled in size. This was a pattern that continued into the 1960s with the region now constituting the European Union growing at a much faster rate than the growth experienced in Ireland.

An important factor here was the European Recovery Plan (ERP) – more commonly known as the *Marshall Plan* – which was first proposed by George C. Marshall in 1947 and which ran until 1957. This was intended to rehabilitate the economies of Western and Southern Europe in order to avoid starvation and create stable conditions for economic and political recovery. This assistance recognised the US's own economic interests in Europe and provided a stimulant to the U.S. economy by establishing markets for American produce. It provided the funding and materials necessary for the reconstruction of the European economy and brought about a rapid reindustrialisation of the

[3] Based on GDP/per capital in 1949: GDP per capita, 1949
[4] As measured in terms of GDP/per capita (current US$)

continent. The ERP came into effect in April 1948 and over the following four years, a total of $13.3bn was provided to assist with the European recovery.

In addition to the provision of grant aid and loans, the ERP also contained a Productivity Program which commenced in 1948 and ran until 1957. This aspect of the ERP cost $300m – or 1.5% of the total – and consisted of technical assistance in the form of industrial productivity programmes. This included 1,500 study tours which brought European and Asian visitors to the US in order to observe American management and production techniques so that they, in turn, could disseminate these new ideas when they returned home. The participating countries also received an array of follow-up technical assistance, including education and training grants, reports on US practices, and consultant advise on industrial relations (Silberman, Weiss and Dutz, 1996).

Each participating country launched a National Productivity Drive and these, in turn, were led by newly established National Productivity Commissions. Over the course of the 1950s, many European countries saw their rate of productivity growth jump to 4% per annum (or higher in some cases). Ireland was one of sixteen countries that accepted the invitation to participate in the ERP and received both technical and financial assistance (Whelan, 1992, 2000, 2017). Ireland's participation lasted only four years, however, and Ireland received the second smallest grant awarded to any country ($128 million in loans versus $18 million in grant-aid between 1948 and 1952). This, at least in part, reflected the American disapproval of Irish neutrality during WWII.

US officials initially focussed on developing Ireland's agricultural sector (and not without good reasons as agricultural produce dominated Ireland's exports to North America[5]). By the early-1950s, a clearer focus on the importance of promoting Ireland's industrial development had developed but this was hampered by a resistance to change, a misplaced sense of the superiority of Irish produce and a wariness in some quarters as to the social consequences of adopting American values (Murray, 2008). By the time a programme of technical assistance for Irish industry was agreed, it fell afoul of the suspension of US aid to Ireland and only some limited elements of the programme were to proceed[6]. The Government of Ireland had been aware of the fact of the suspension of this economic assistance since early-1951.

Furthermore, Ireland did not establish its productivity body until 1959. Only a very small number of US experts were to visit Ireland – indeed, this fell far short of Irish expectations – and only five Irish teams took advantage of the opportunity to travel to the US. As a consequence, *'Irish industry never experienced a sustained exposure to the US `gospel of productivity' in the way industry in most other Marshall Aid recipient countries did'* and Ireland began to steadily fall behind its Western European neighbours. In this period, therefore, Ireland missed out both on financial supports and also on expertise that may have contributed to earlier convergence to European levels of productivity. Instead, the continuation of inward-focused policies resulted in a negative feedback-loop of high emigration and stagnation.

[5] Indeed, the racehorse Nasrullah was exported to North America in 1950 and this one sale realised 20% of Ireland's overseas earnings in that year (Barry and Ó Fathartaigh, 2012)

[6] US aid to Ireland was discontinued from January 1952 after the enactment of the Mutual Security Act of 1951.

1950s-1960s: Opening up

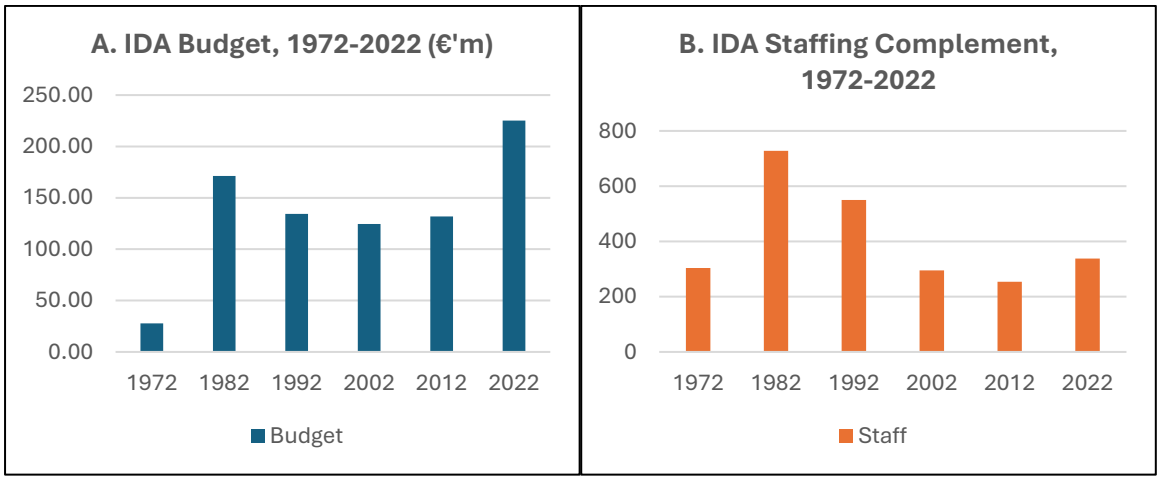
From the 1960s and through the 1970s, there was a considered reorientation of economic policy in Ireland away from a domestic and protectionist stance – characterised by stagnant economic growth; high emigration; and over-reliance on the UK for trade – and towards an increasingly outward-looking model. The 1950s saw an important shift in Irish economic policy, moving from the protectionism which had been in place since the early years of the state to a strategy of promoting both exports and FDI. Economic performance in the 1950s was extremely poor with high emigration, low growth and balance of payments problems. The move towards a more outward orientation commenced in the late-1950's with the Government's adoption of the Economic Development study and the First Programme for Economic Expansion. The Programme provided an export incentive (profits tax relief) to encourage Irish companies to export – rather than to serve the highly protected domestic market – and this, in turn, opened the way for foreign participation in the Irish economy as an export platform (which had previously been highly restricted).

The shift in focus to attraction of FDI can be traced to a consultancy report commissioned by the Irish authorities in 1952 with Marshall Plan funds (known as the Stacy May report after its lead author[7]). The report drew attention to the recent economic success of Puerto Rico, which had reconfigured its tax system through the introduction of a series of Corporation Tax incentives. These, in turn, played a key role in attracting light manufacturing enterprises from the US and served to underpin a period of rapid industrial progress. This example was influential in Ireland in the design of a number of initiatives introduced throughout the 1950s and beyond. The key message of the Stacy May report was that Ireland's protectionist policies were unsustainable and were contributing to its economic stagnation and balance-of-payments problems. It therefore advocated for a shift towards an export-oriented strategy to stimulate economic growth and integrate Ireland into the global economy.

Some of the first policy initiatives on internationalisation had already been undertaken with the establishment of the Industrial Development Authority (IDA) in 1949 with a mandate to attracting foreign investment as well as supporting domestic industries to expand and to shift their focus to entering export markets. The IDA was originally founded to advise the Government on industrial policy, particularly regarding economically deprived areas. It became more active over time, beginning to pursue a policy of 'industrialisation by invitation' and by 1969 was made a non-commercial autonomous state-sponsored body. Given Ireland's peripheral location and lack of natural resources, the IDA developed a strategy to target firms which manufactured products of relatively high value but low weight such as electronics and some chemicals (attracting services companies came much later). The expanded role of the IDA is evident in the rapid growth of its budget and staffing complement into the 1980's (Figure 8).

[7] Formally, this was the I.B.E.C. Technical Services Corporation report

Figure 8: Expansion of IDA Ireland over time, 1972-2022



Source: IDA Ireland Annual Reports (various years: IDA Ireland's Annual Reports | IDA Activities Overview | IDA Ireland)

Following the Stacy May report, a number of financial incentives to encourage exporting were introduced. Possibly the most important of these was a Tax Relief on Export Profits introduced in 1956 which became the basis for later developments in the Irish corporation tax regime that remain a central plank of the FDI-attracting economic model today. This tax relief meant that companies were offered tax exemptions on profits derived from exports, encouraging them to focus on international markets.

There were also other financial supports introduced to support companies in setting up new operations, purchasing equipment, and training employees. Another policy initiative to promote exporting was the establishment of the Shannon export processing zone in 1958, aimed at attracting US firms interested in EEC markets (Barry and O'Mahoney, 2017). Despite all these initiatives to attract FDI, restrictions on foreign ownership remained in place until the repeal of the Control of Manufactures Act in 1964.

Broadening the change in economic orientation beyond export supports and opening up the domestic economy to external competition was the next step in the move away from protectionism. A key architect of the economic policy of the 1950s was T.K. Whitaker, Secretary of the Department of Finance from 1956 to 1959 and the chief author of the landmark document *Economic Development* (which was published in 1958). This was the policy document which is generally credited with marking the change in outlook from one of inward industrial protectionism to the outward-facing model followed by Ireland in the subsequent decades (Walsh and Whelan, 2010).

The main focus of the *Economic Development* paper was not on attracting FDI, but on building up domestic enterprises, particularly by increasing productivity in agriculture and related industries in food and beverages. Barry and Daly (2011) have argued that this publication has been given rather too much credit as the springboard for Irish export-led growth given that a key policy initiative in this regard – the introduction of tax relief on profits from exporting – had already been introduced in 1956 (as noted above). The outward orientation policy was met with considerable concern and opposition due to the threat this might pose to less competitive domestic Irish firms. This view initially seemed to

be supported by outcomes with the benefits of the change in policy towards a more outward orientation being slow to materialise; economic growth remained relatively stagnant throughout the 1960s (Casey, 2022).

Additional steps towards internationalisation came in the lowering of tariffs and quotas on trade between Ireland and the UK under the Anglo-Irish Free Trade Area Agreement of 1965. This provided a roadmap to the removal of any remaining tariffs imposed by the UK on Ireland in 1966 while Ireland would follow a more graduated path of annual reductions up to 1975. While some agricultural tariffs stayed in place, most had increases in tariff-free quota amounts so the tariffs themselves became less binding. This agreement towards tariff-free trade with Ireland's largest trading partner was seen as an important step on the road to potential membership of the European Economic Community (EEC). This was accompanied by the introduction of the 'capital budget' principle which allowed for increased State intervention to support industry via enhanced public expenditures. During this period, the economy began to expand which, in turn, supported Ireland's application to join the EEC in 1973. Much of the productivity impact of these policies came much later, with the early focus being on extensive growth and particularly through increasing employment to reverse the tide of outward migration seen throughout the 1950s.

Another pro-productivity policy that required a long lead-in time was the introduction of free second-level education in 1967. It has been argued that this was one of the most important human-capital enhancing policies introduced by Ireland at this time, although a considerable time-lag was unavoidable before it impacted the productivity of many workers (FitzGerald, 2019). The impact of this reform over time was substantial. In 1971, 64% of all persons who had completed their formal education had attended school only at primary-level (including persons that had not completed school or had no formal education). Over the following decade, however, the proportion of persons having completed second-level education rose significantly.

1970s-1980s: Instability and stagnation

The oil crises of the 1970s came as an extreme negative shock to economic growth across the world. As in many other countries, the initial policy response in Ireland was a large counter-cyclical stimulus. This began an era of almost twenty years of macroeconomic instability with inflationary pressures and continual fiscal deficits causing mounting challenges for the economy. With the exception of pronounced upward price pressures in the early-1950s, inflation had remained relatively subdued until the late-1960s (not just in Ireland but also in the UK, the US and across Europe).

That, however, was to change with the re-emergence of inflation as a key macroeconomic policy challenge. In the case of Ireland, the restrictive fiscal policy response from the mid-1970s (and for almost a decade thereafter) played a role in holding back productivity growth and led to what has been termed a lost decade of growth. There are multiple channels through which this impacted negatively on Ireland's productivity. These included, but are not limited to, a sustained period of high levels of emigration which saw a disproportionately high number of well-educated young people leaving the country. In addition, high domestic interest rates came to weigh on domestic private sector investment whilst the State's deteriorating public finances mitigated against Ireland's FDI proposition. The strong

fundamental pro-productivity policy framework put in place in the 1960s was therefore interrupted by the prevailing instability of the 1970s and 1980s. Honohan and Walsh (2002) argued that, when considering Ireland's later "Celtic Tiger" catch-up period, this period of underperformance was the real anomaly in Ireland's growth and productivity performance.

From Ireland's entry into the European Economic Community (EEC) in 1973 to the adoption of the euro in 1999, price levels increased significantly but much of this was concentrated across a series of discrete periods. For instance, the annual change in CPI was most pronounced in two years: 1975 (20.9%) and 1981 (20.4%). There were, however, an array of factors at play here (both domestic and foreign). On the home front, the Government adopted a series of reflationary measures in the early-1970s[8]. The Government undertook a significant expansion in public capital spending and these changes, alongside a series of social welfare increases and expanded tax reliefs, led to a rising Budget deficit. This was to be financed by increased Exchequer borrowing. At the same time, the global economy was reeling from the impact of the oil price crisis of October 1973 as oil production was cut[9]. Within a matter of months, this led to a quadrupling of oil prices. Against this backdrop, Ireland's CPI registered year-on-year increases of more than 10% in each year from 1973 through 1977. During the same period, inflation in the UK and the US had climbed to 25% and 12%, respectively.

Successive reports by the OECD highlighted a number of reasons for the surge in inflation seen in Ireland leading up to 1975. The increase in consumer prices was attributed, in part, to the National Pay Agreements (NPA) of 1972 and 1974. These agreements were framed and implemented against the backdrop of the oil price shock but provided for real wage rises which in that period outstripped the growth in productivity, significantly contributing to the rise in consumer prices. As a result, Ireland's competitiveness was hampered with larger increases in basic pay compared to its trading partners. This made Irish exports more expensive and negatively affected its terms of trade. A contraction in domestic consumption and transfer of resources to the export sectors would have been needed to offset the diminished terms of trade but domestic consumption was allowed to rise with real pay increases provided for in in the 1975 NPA.

There was a further oil price shock from 1979[10] which led to a repeat of the shortages witnessed less than a decade earlier. Events in the Middle East – combined with strong global demand – saw oil prices begin to rise drastically throughout 1979 and by April 1980, the price of oil had doubled year-on-year (Graefe, 2013). Once again, the OECD outlined a number of reasons for the resurgence of inflation in the early-1980s[11]. These included fiscal measures enacted by the Government of Ireland. Indeed, the role of domestic public policy here should not be overlooked. The Government pursued an inappropriately stimulatory fiscal policy from the late-1970s through to the early-1980s and this led to an increase in prices in the sheltered sectors of the economy and an increase in wage levels nationally.

[8] Financial Statement, Budget, 1972. – Dáil Éireann (19th Dáil) – Wednesday, 19 Apr 1972 – Houses of the Oireachtas
[9] Following the US provision of aid to Israel during the Yum Kippur War, the Organisation of Arab Petroleum Exporting Countries (OAPEC) introduced an embargo and a series of production cuts.
[10] This followed the disruption to production caused by the Iranian Revolution (1979) and the onset of the Iran-Iraq War (1980). These events led to anxiety around future price rises and an increase in precautionary hoarding.
[11] OECD Economic Survey, Ireland (1982), p.19

Public policy was compounded by not only higher oil prices but by the weakening of the underlying currencies – to which the Irish pound was linked after Ireland joined the European Monetary System (EMS) at its inception in 1979. However, the pound sterling, remained outside the EMS and began to appreciate sharply. Within just three weeks of Ireland's accession to the EMS, this upward movement brought an end to the one-for-one link between the Irish pound and the pound sterling (Kelly, 2003). A deficit on the Current Account (of the Balance of Payments) impacts on the State's borrowing requirements. In Ireland's case, by the 1980s an external payments deficit was being financed by an increase in the net foreign indebtedness of the State and this led to an inexorable increase in the cost of future interest payments abroad over the years that followed.

Gaining membership of the EEC was the most significant policy development of the 1970s. Ireland applied for membership along with the UK and Denmark in 1967, before eventually becoming a member in 1973. At this point, Irish GNP per capita was just 54% of the EEC average (Casey, 2022). The co-application alongside the UK was important as EEC membership without the UK had been long ruled out as not in Ireland's interest given that the vast majority of external trade remained with the UK. Joining the EEC was seen as the most promising route for the country to stimulate economic growth by accessing larger markets and attracting foreign investment. As a poor, peripheral country, membership would also provide resource transfers to support economic development. Ireland joined the European Monetary System (EMS) in 1979, breaking the long-standing fixed exchange rate between the Irish and British pounds.

Membership of the EEC turned out to clash with one of Ireland's existing internationalisation policy initiatives. The Export Profit Tax Credit that had been in place since the 1950s was classified to be State Aid by the European Commission (as it discriminated against non-exporting manufacturers). This tax credit and the Shannon Free Zone reliefs were both phased out from 1980 and replaced by a 10% Corporation Tax rate for all manufacturers. The initial plan for this new low tax rate on all manufacturing profits was scheduled for 2000, although it was later extended to 2010. Following the objective of promoting exports at a time when these were dominated by goods meant that services firms, apart from a small number of firms in the Shannon Zone, did not qualify for the 10% tax rate and instead faced a standard rate of 38%.

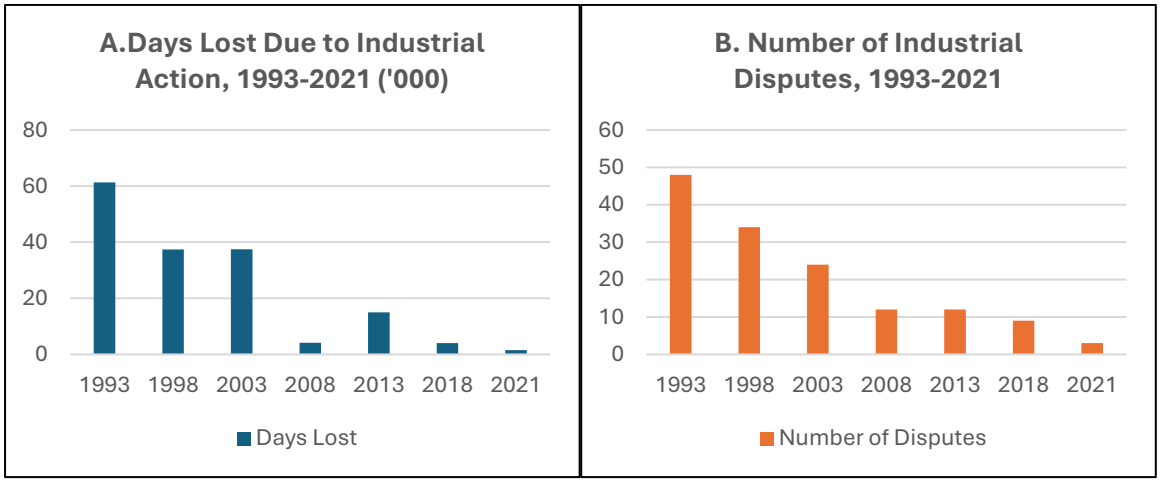
Attempts to restore macroeconomic stability in the first half of the 1980s made limited progress. Although the primary budget deficit was reduced, debt interest continued to accumulate rapidly. Economic growth remained stagnant with high rates of unemployment and emigration. A shift towards a more accommodating fiscal policy occurred in 1987, coinciding with substantial increases in Structural Funds from the (then) EEC. It was decided that the Structural Funds would be doubled between 1987 and 1993 and this was followed by a further significant increase as part of the agreement at Maastricht[12] (FitzGerald, 1998). Ireland, in turn, was to receive a very significant increase in transfers over this period. These funds were primarily targeted at enhancing the productive capacity of the economy and this emphasis was outlined in successive National Development Plans[13].

[12] This included the new Cohesion Fund.
[13] The National Development Plan 1989-1993, Government of Ireland (1989) and The National Development Plan 1994-1999 Government of Ireland (1993).

Specifically, investments in physical infrastructure and human capital were prioritised. This can also be regarded as the beginning of Ireland's period of catch-up growth, which was to accelerate through the 1990s.

The improvement in the fiscal position came partly from expenditure reductions and EEC supports. A parallel – and arguably more important – element was reaching agreement with the Trade Union movement to restrain wage expectations in order to end the wage-price spiral. The key incentive for the Trade Unions of the "Social Partnership" model was that lower wage increases – or wage restraint – would be offset by gradual Income Tax reform for low and middle-earners[14]. This approach also provided for industrial peace (O'Donnell, 2001). For instance, the unsettled industrial relations environment had negatively impacted Ireland's economic performance – and FDI offering – with close to 1.5m working days lost in 1979 alone[15]. By 1993, this had fallen to closer to 60,000 days (Figure 9) and it continued to fall thereafter.

Figure 9: Ireland's changing industrial relations backdrop, 1993-2021



Source: CSO *(Industrial Disputes series:* Industrial Disputes)

Industrial policy continued to focus on FDI as the most promising driver of economic growth. However, concerns were being raised, that this might be crowding out domestic industry. A report commissioned in 1982, the *Telesis Report* (NESC, 1982) suggested re-directing grant funding towards domestic exporters but this recommendation was not translated into any policy change. In contrast, the advent of the European Single Market improved Ireland's attractiveness as a base and entry point for US FDI to access the European market.

Industrial policy from the 1950s through to the mid-1980s had been almost exclusively focused on manufacturing. Among the first major policy initiatives focused on attracting services firms was the establishment of the Irish Financial Services Centre (IFSC) in 1987 which offered a 10% corporate tax rate to certified financial services firms, in line with the 10% rate already accorded to manufacturing firms.

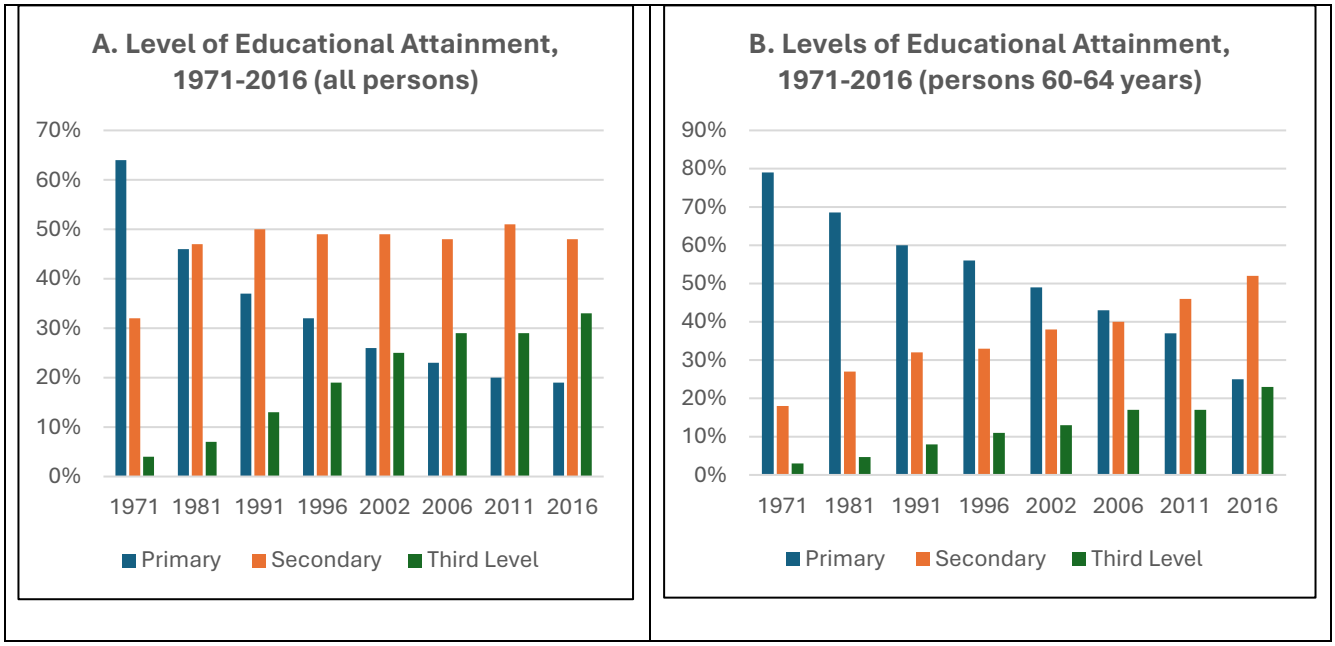
[14] The first of these agreements – the Programme for National Recovery – was agreed in 1987.
[15] Ireland: Latest strike trends examined | European Foundation for the Improvement of Living and Working Conditions

1990s-2000s: Celtic Tiger catch-up

After several decades of stagnation, Irish economic growth took off dramatically throughout the 1990s, earning Ireland the sobriquet of the "Celtic Tiger". Unemployment fell from over 15% in 1993 to 4.5% in 2000. EU Structural Funds supported investment in infrastructure, training, industry and agriculture. The ESRI estimated that the effect of the combined rounds of support was to increase Irish GNP in the latter half of the 1990s by 3-4%, with a longer run impact of approximately 2% (Casey 2022). Enterprise Ireland (EI) was established under the Industrial Development (Enterprise Ireland) Act 1998. This superseded two earlier bodies – Forbairt and An Bord Tráchtála – to consolidate and increase supports for domestic Irish firms particularly in terms of increasing their capacity to enter export markets.

Further claims of discrimination in the Corporation Tax regime arose in the 1990s, this time from other EU member-states objecting to the special treatment of financial service firms. A single rate for both manufacturing and service would remove any issue around State Aid but where this rate would fall between the 10% on manufacturing and the standard 38% rate was a significant policy decision. In order to maintain attractiveness to FDI, a single rate of 12.5% on trading profits was to be introduced for all firms in 2003, with a higher 25% rate on passive income. This change was to be phased in with the 10% rate for manufacturing remaining until 2010 and for internationally traded services until 2005.

Figure 10: Ireland's changing educational profile (highest level attained), 1971-2022



Source: CSO *(Census of Ireland series*)

Note: Highest level attained refers to those aged 16 years and above (and whose formal education has ceased).

In addition to the overall low Corporation Tax rate, the implementation of the 1997 Taxes and Consolidated Acts provided allowances for intangible assets and the establishment of Special Purpose Vehicles. This was followed by the introduction of the R&D Tax Credit in 2004. The latter regime was introduced to support innovation and enhance the competitiveness of Irish businesses by providing a tax incentive for eligible R&D expenditures. Initially, the R&D Tax Credit allowed companies to claim a

credit of 20% on qualifying R&D expenditures. This percentage was intended to help offset the costs associated with conducting research and innovation and was later increased to 25% (and now stands at 35%).

In addition to this tax credit, the two principal State Agencies – EI and IDA Ireland – provide a variety of direct R&D grants. IDA Ireland focuses on attracting and embedding foreign-owned multinational firms to Ireland whereas EI focusses on domestic Irish-owned firms (Lenihan, Mulligan, Perez-Alaniz and Rammer, 2024). These grants have been rolled-out over time. For instance, IDA Ireland's R&D Capability Grants Scheme was introduced in 2000 in order to encourage firms to establish – or expand – major R&D operations in Ireland. An Innovation Voucher Programme was introduced in 2007. This grant assists the process of knowledge transfer between the enterprise sector and third-level education institutions (including research bodies)[16].

During the 1990s and 2000s, a further series of human capital-centric policy changes were instrumental in boosting productivity across the economy. Specifically, these changes transformed the educational profile of the workforce and reshaped the R&D ecosystem. These included the establishment of the Irish Research Councils (including Science Foundation Ireland). The foundation of the Programme for Research in Third-Level Institutions (PRTLI) was also pivotal as this allowed for the development of the physical capacity to support the new research focus. Furthermore, free third-level education was introduced in 1996. Similar to the introduction of free secondary education three decades earlier, this had a transformative effect on the educational profile of the population. For example, in 1991 only 13% of all persons who had completed their formal education had a third-level qualification but by 2016, this had climbed to 33% (Figure 10).

The 1990s and 2000s also witnessed a period of economic deregulation. In the first instance, a programme of divestment of State-owned Enterprises (SOEs) commenced in 1991 with the State privatising ten such companies across a range of sectors (Table 1). At the same time, there was growing propensity for the public sector to begin contracting-out certain functions to the private sector (including refuse services), the State began to enter into Public-Private Partnerships (PPPs) in order to deliver infrastructure projects, and a number of economic sectors were deregulated (i.e., bus and taxi services). During this period, the Government also choose to repeal the Groceries Order. The latter was originally introduced in 1987 and banned the below net invoice price[17] sale of particular grocery items as this was viewed as a predatory tactic which could erode competition over time. A view emerged, however, that the exposure of the grocery retail sector to greater competition would ultimately be beneficial (Walsh and Whelan, 1999) and the Groceries Order was repealed in late-2005.

[16] These are just two examples and there are a number of other direct grant schemes in place.
[17] As opposed to below cost selling.

Table 1: Programme of Divestment of SOEs, 1991-2006

Company	Year	Sector
Greencore	1991	Sugar/Food
Irish Life	1991	Insurance
B&I	1992	Shipping
Irish Steel	1994	Steel
Eircom	1999	Telecoms
ICC Bank	2001	Banking
TSB Bank	2001	Banking
INPC	2001	Energy
ACC Bank	2001	Banking
Aer Lingus	2006	Air Transport

Source: Privatisation and Productivity Performance in Ireland (Forfás)[18]

2010s-2020s: Crash and recovery

The rapid growth of the Irish economy combined with a substantial international increase in cross-border credit flows in the 2000s generated severe imbalance in the Irish economy. The construction sector expanded to account for a disproportionate share of employment and tax revenues (from transactions taxes on property sales). When the GFC reversed the credit flows, Irish banks came under severe strain and were supported by the Irish Government (in part, this took the form of recapitalisation via partial – or complete – State ownership). This occurred in tandem with the collapse of the domestic property sector. The scale of the cost of the bank bailout – alongside the scale of annual fiscal deficits necessitated by a simultaneous fall in both the level of employment and Exchequer revenues arising from the shock to economic activity – resulted in a jump in Irish Government sovereign debt from just 27% of GDP in 2007 to 132% of GDP in 2013. An international programme, involving the IMF, the European Commission and the ECB, was introduced to restructure this debt and oversee a series of austerity policies to restore fiscal sustainability.

As a first response to the extreme economic downturn, policies focused on restoring employment with an "*Action Plan for Jobs*" which included a wide range of actions on to support skills development, digital investment in firms and to subsidise firms employing people who had been unemployed for more than one year.[19] As unemployment began to decline, policy initiatives came to focus more on productivity. Policies supporting investment in technology continued as a central plank of pro-productivity actions, building on the already existing supports for R&D. The most significant of these was the introduction of the Knowledge Development Box (KDB) in 2016. This provided for a reduced effective tax rate of 6.25% on income generated from qualifying Intellectual Property (or IP) developed through R&D activities. This initiative aimed to enhance the benefits of the existing R&D Tax Credit[20] regime by supporting the commercialization of R&D outputs. Furthermore, a new R&D grant scheme – the Disruptive Technologies Innovation Fund (DTIF) – was established in 2018 with the aim of

[18] Perspectives on Irish Productivity - Chapter 11: Privatisation and Productivity Performance in Ireland

[19] Action Plan for Jobs 2013

[20] From 1st January 2024, the rate applicable to qualifying expenditure was also increased from 25% to 30% (and from 1st January 2026, it was further increased to 35%).

supporting investment in the development and deployment of disruptive technologies and applications on a commercial basis.

Ove the same period, the Government of Ireland also undertook a significant increase in public capital expenditure – in part, at least, to mitigate the effect of the post-GFC retrenchment on infrastructural spending – alongside the roll-out of measures such as the National Broadband Programme. The latter is a Government initiative to deliver high speed broadband services across Ireland. As Ireland moved into the next decade, the Government also choose to fund Ireland's first participation under the EU's IPCEI (Important Projects of Common European Interest) framework[21] and adopted a new White Paper on Enterprise.

In this period, we can also trace the impact of a number of significant changes in the internationalisation of the Irish economy that increased the difficulty in interpreting its economic statistics. These included the activities of redomiciling public limited companies, the role of intellectual property transfers; and the adoption of updated international statistical standards[22]. The latter included the recognition of the aircraft leasing sector[23] in the National Accounts for Ireland. These changes led to some dramatic changes in Ireland's measured GDP and productivity statistics. Indeed, these statistics appeared to have become decoupled from economic activity located within Ireland. In response, this led to the adoption of a new framework for macroeconomic statistics to allow policymakers to better understand the impact of globalisation on Ireland's economic development (and how this has shaped productivity trends in Ireland) as was discussed in Section 2.

Ireland has also been proactive in establishing a series of structures to support the development of pro-productivity policies. These included the development of new networks to foster in-depth data analysis, policy formulation and information sharing. For instance, the Irish Government Economic and Evaluation Service (IGEES) is an integrated cross-Government service. This was established in 2012 with the objective of enhancing the role of economic analysis in public policy making. A nationwide network of Local Enterprise Offices (LEOs) was established in 2014 with a remit to support small businesses and entrepreneurs.

Finally, the National Competitiveness Council (NCC) was established in 1997 to boost the focus on Ireland's competitiveness. This was the first such Council established in the EU and with the advent of the National Productivity Boards, the remit of the Council was expanded to include productivity (now: the National Competitiveness and Productivity Council (NCPC)). A more recent innovation has been the establishment of an annual Ministerial Competitiveness Summit. Commencing in 2024, these Summits facilitate direct engagement between the Government of Ireland – chaired by the Head of Government – and the NCPC.

[21] Minister Coveney welcomes the European Commission's approval of government supported semiconductor investment

[22] These include the IMF's Balance of Payments and International Investment Position Manual 6 (BPM6; 2009) and the European System of Accounts (ESA; 2010).

[23] From 2015, trade in aircraft were measured on a 'transfer of economic ownership basis' – as per ESA 2010 – which had an impact on Ireland's official statistics.

5. Typology of policies

In this section, we take the narrative of Irish pro-productivity policies and examine how they map onto the typology proposed by Van Ark, de Vries and Pilat (2023). This typology proposes four categories of pro-productivity policies, both direct and indirect in terms of their impact on productivity:

i. Policies aimed at the Accumulation of Factors of Production (primarily direct drivers)
ii. Policies aimed at Markets and Resource Allocation (primarily indirect drivers)
iii. Policies aimed at Technological and Structural Change (primarily direct drivers)
iv. Policies aimed at Internationalisation (primarily indirect drivers)

The first category encompasses policies aimed at the accumulation of factors of production, which are identified as direct drivers of productivity as they impact on the production function inputs. These policies include investment strategies that foster both business and public investment, including investments in intangible assets and infrastructure. Furthermore, education and skills policies play a critical role, emphasizing the importance of basic education, advanced skill development, and lifelong learning.

The second category consists of policies aimed at markets and resource allocation, regarded as indirect drivers of productivity. These policies target the improvement of financial markets, including initiatives related to equity financing and venture capital. They also address product markets by reducing regulatory barriers and promoting innovation-friendly regulations. Labour market policies are vital in this context, working to increase participation and address issues related to informality. Competition policies are also included, focusing on fostering competition in digital and high-tech markets to enhance efficiency and innovation.

The third category involves policies aimed at technological and structural change, which are identified as direct drivers of productivity. This includes innovation and technology policies that encourage research and development (R&D) and the diffusion of knowledge. Industrial policies are also crucial, as they promote high-growth sectors and diversification within the economy. Additionally, policies facilitating creative destruction are important, as they remove barriers to firm entry, growth, and exit, thereby enabling a dynamic economic environment.

The final category consists of policies aimed at internationalization, classified as indirect drivers of productivity. These policies focus on trade strategies that enhance engagement in global value chains and foreign direct investment (FDI) policies that attract high-value investments while building domestic linkages. Furthermore, migration policies are essential in addressing skills gaps and facilitating the return of skilled individuals to the workforce.

Policies designed for technological change are distinct from others as they have a direct focus on driving innovation, structural transformation, and total factor productivity (TFP) growth. Unlike policies that primarily target markets or internationalization, which influence productivity indirectly through improved resource allocation or global engagement, technological change policies specifically aim at the creation, adoption, and diffusion of new technologies and innovation systems.

The types of policies most likely to be used vary significantly across countries at different levels of economic development. In low-income economies, the primary focus is often on establishing basic infrastructure, foundational education, and resource development. Key policy areas include investment strategies aimed at attracting foreign direct investment (FDI), which is crucial for capital inflow. Education policies emphasize the importance of primary and secondary education, vocational training, and the development of basic skills. In middle-income economies, the focus typically shifts to upgrading infrastructure, diversifying industries, and enhancing the quality of education. Middle-income economies often also liberalize financial and product markets to enhance competition, reduce informality in labour markets, and ensure that market dynamics support sustainable growth.

High-income economies are characterized by advanced innovation systems, a focus on sustainability, and strategies aimed at addressing demographic challenges. Policies in these economies are more sophisticated and include a strong emphasis on equity financing, advanced infrastructure, and the development of intangible assets, which are critical for sustaining competitive advantages in a globalized market. The pro-productivity policies pursued by Ireland are varied but two common themes dominate: the attraction of FDI and incentives for investment in technology, innovation and R&D. Although the tax policies from the 1980s onwards apply to all firms, the motivation behind the low rate and the treatment of R&D and intangibles have tended to be associated with the positioning of the country as a platform for high-technology and knowledge-intensive FDI.

	1950s-1960s	1970s-1980s	1990s-2000s	2010-2024
Institutions & frameworks				
Institution building	ESRI established			LEOs established
Government capabilities			NCPC established	IGEES established
Macroeconomic policy		Inflationary spiral, high deficits, macroeconomic instability	Fiscal consolidation Devaluation Membership of the Euro	Post-GFC consolidation
Factor Accumulation				
Investment	Negative effect from withdrawal of/from Marshall Plan funds	EU Structural Funds	EU Structural Funds	
Education & skills	Free second-level education		Free third-level education	Action Plan for Jobs
Resources				Offshore Wind Industrial Strategy
Technology				
Innovation & technology			Research Councils & PRTLI established	R&D Tax Credit expanded. Knowledge Development Box
Industrial policy				White Paper on Enterprise Ireland funds first IPCEI
Creative destruction			Further economic liberalisation and privatisation	

Notes: The colours point to pro-productivity policies typical for different levels of economic development, as follows:

Stylised policy low-income economy

Stylised policy middle-income economy

Stylised policy advanced economy

Potential anti-productivity effects

	1950s-1960s	1970s-1980s	1990s-2000s	2010-2024
Markets				
Financial markets		IFSC founded		
Product markets				
Labour markets		Removal of "marriage bar"	Social Partnership	
Competition policy		Ban on below invoice price selling (Groceries Order)	Competition Authority established Repeal of the Groceries Order	
Internationalisation				
Trade	Export profit tax Anglo-Irish FTA	EEC membership	Enterprise Ireland established	
FDI	IDA Ireland established	CT @ 10% on manufacturing	CT @ 10% for all firms	
Migration			Free movement with new EU accession countries	

Notes: The colours point to pro-productivity policies typical for different levels of economic development, as follows:

Stylised policy low-income economy

Stylised policy middle-income economy

Stylised policy advanced economy

Potential anti-productivity effects

6. Forward-looking perspective

The core policy recommendations of Van Ark, de Vries and Pilat (2023) to support a revival of productivity growth are that investment and technological change need strengthening, with an emphasis on the importance of knowledge diffusion, absorptive capacity, public investment, and human capital-related policies. As can be seen from the overview and mapping of Ireland's pro-productivity policies over time, investment in R&D and human capital have featured heavily. Public investment fell behind for several years due to the austerity pressure of fiscal retrenchment after the GFC but is now a central plank of forward-looking policy. Policies to develop the absorptive capacity of domestic firms are also increasing in importance as concerns grow that the FDI model, although highly successful, contains some risks given the high level of concentration of activity and tax revenues in a relatively small number of firms.

As a highly open economy, Ireland is exposed to disruptions in international trade and vulnerable to external shocks. Sustained uncertainty in international trade policy can increase risk in business planning, dampen investor confidence, delay key decisions, and lead to foregone investment opportunities, ultimately constraining growth and increasing our vulnerability. Recent trends towards deglobalisation and defensive trade patterns in the global economy have emphasised the need for Ireland to deepen ties with EU and other global trade partners. The innovation gap between the EU and other regional trading blocs has been flagged as a key impediment to regional competitiveness. The complexity of the global trading environment is further exacerbated by the scale and speed of the process of technological transformation. This phenomenon is not new – the role of technology has been growing and changing over many decades – but this is not a basis for complacency. The global economy is now adjusting to a broad range of new technologies including, but not limited to, the deployment of artificial intelligence (AI) alongside quantum computing, cell and gene therapies, nanotechnology, biotechnology, distributed ledger technologies, augmented reality, and 3D printing.

With the economy operating at close to capacity, it is vital that Ireland preserves its economic resilience while preparing for potential external shocks and pivoting to embrace those changes already underway. In response to the various challenges on the horizon, the Government of Ireland has recently adopted an **Action Plan on Competitiveness and Productivity**. The overarching objective of the Action Plan is to maintain and improve Ireland's position as a competitive and productive economy capable of withstanding shocks, building on its strengths and developing its indigenous enterprise base while continuing to attract investment and talent from abroad. This Action Plan is structured around six specific themes: Productivity; Boosting FDI; Supporting and Scaling the SME sector; Enhancing Domestic Competition and Simplifying Regulation; Infrastructural Investment and Delivery; and Supporting Sustainability and Balanced Regional Development.

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