Chambers Ireland Submission to Department of the Taoiseach on the Draft National Risk Assessment 2016

July 2016

Introduction

Chambers Ireland is the largest business network in the State. With members in every geographic region and economic sector in Ireland, we are well positioned to understand the concerns of Irish businesses and represent their views. Chambers Ireland welcomes the opportunity to contribute to the work of the Department of the Taoiseach as its drafts the National Risk Assessment for 2016.

As part of the consultation, the Department has asked for input on three issues;

- Have the correct risks been identified or are there significant risks that should be included?
- Should any particular risks be prioritised in light of their significance?
- Are any of the risks listed not significant enough to warrant inclusion?

We do not believe that the draft National Risk Assessment has listed any risks that are not significant enough to include or that it is necessary to prioritise one risk above another. However, we do believe that closer attention should be paid to a number of issues identified within the draft assessment. We have outlined them as follows:

- Loss of Competitiveness
- Risk of unfavourable international tax changes
- Climate Change and Extreme Weather
- Under Supply of Housing
- Infrastructural Development
- The UK Vote to Exit the European Union
- Long Term Unemployment and the impact on Human Capital
- Changes in the Dependency Ratio with specific reference to pension provision

Loss of Competitiveness

Many of the risks that Chambers Ireland identifies as threats to competitiveness have been mentioned in the draft Risk Assessment for 2016. We agree with the concerns expressed regarding how the shortage of housing may drive up wage demands and erode competitiveness. We argue that there is an essential need for increased investment in infrastructure, housing, transport, broadband and water in order to maintain competitiveness. Improving our infrastructure stock across Ireland is important for our ability to compete internationally, to attract and retain FDI.

The draft National Risk Assessment document mentions growing pressure on wages as having implications for competitiveness, specifically public sector wage costs. However it does not acknowledge the commitment in the Programme for Partnership Government which sets out the intention to further increase the minimum wage to €10.50 over the next five years. We believe that unless a compelling case can be made by the Low Pay Commission to increase the national minimum wage that restraint should be exercised by government. Political considerations should not be part of any decision to increase the minimum wage and all factors that may undermine or impact on competitiveness should be considered.

We would argue that skills gaps and skills mismatches are emerging as the economy continues to grow. Skills gaps serve to undermine our competitiveness and should be addressed to ensure that skills needs of the future are met.

Risk of unfavourable international tax changes

We agree that due to Ireland's high levels of FDI that international tax changes are a risk factor for Ireland. We consider tax authorities of sovereign governments to be the competent authorities to process complex data relating to a company's tax returns. We also believe that steps to reform taxation must be taken multilaterally rather than by individual countries or blocs.

Chambers Ireland welcomed the recommendations by the OECD in its BEPS report to reform international tax system to tackle tax avoidance. However, it is important that any measures taken by the EU or by Member States are in line with these international recommendations. We believe that Ireland must continue to show leadership as OECD countries cooperate in redesigning their tax structures to combat aggressive tax planning. In this regard, it is essential that member States must be allowed to retain their tax sovereignty in order to develop the tax policies that are most appropriate to their requirements. The ability to formulate tax policy and decide on base rates independently is a crucial component of a Member States ability to develop their economic and social policies.

Climate Change and Extreme Weather Events

We would also identify the impact of extreme weather events on business as an important risk worth considering. Climate mitigation policies to protect businesses and the local economy in the event of extreme weather must be developed and plans implemented to ensure that business can identify climate change and weather risks and prepare accordingly.

Under Supply of Housing

Many of the consequences of the under supply of housing have been identified. The under supply of housing is currently one of the biggest social issues facing Ireland and a major issue for businesses operating in certain areas. Under investment by the state in recent years must be recognised as a contributing factor to the current under supply of housing. Public investment in infrastructure, including housing must be increased to prevent this from further escalating and impacting on the ability of the economy to grow and to compete internationally. We would also identify under supply of housing as being a risk to consumer spending, as the consumer spending necessary to support the domestic economy is being impacted as households are spending disproportionate amount of their income on high housing costs.

Infrastructural development

We believe that the implementation of a realistic National Planning Framework (NPF) based on strong economic rationale would help to curtail the risk of imbalanced infrastructural development. A robust NPF would ensure that capital investment and infrastructure plans are implemented through best practice planning. It is important that there is political commitment, at national and local level, to the implementation of a National Planning Framework to ensure that it works for the economic development of all regions.

We agree that lack of public acceptance of infrastructural development poses a risk to the development and completion of such projects. There has been growing citizen resistance to strategically necessary infrastructure development in recent years. Such resistance is undermining development in certain areas. It will be very difficult for Ireland to increase the levels of renewable energy needed for electricity generation without the necessary infrastructure such as wind turbines and expansion of the Irish national grid. Important upgrades to water and other vital infrastructure have also been met with resistance from the public. Addressing this growing public resistance is essential to the development of economically important infrastructure in coming years.

The UK Vote to Exit the EU

The draft National Risk Assessment for 2016 highlights the risk that a UK vote to leave the European Union would pose to the Irish economy, especially in terms of (i) pursuit of Ireland's objectives as a Member State, as the UK is an important ally within the EU on negotiations on issues of mutual concern such as trade and the deepening of the single market; (ii) bilateral relations with the UK, including the significant economic and trading relationship; and (iii) the impact on Northern Ireland and North/South relations.

Given that the UK public did vote to leave the European Union on the 23rd June, this has now become one of the more pressing risks to Irish economic growth, stability and our ability to invest in capital infrastructure. We are now in the weeks following the vote to leave and it is no more certain now how Ireland will be impacted by this decision. What is clear so far is that currency fluctuations in sterling will impact border economies in the short term. The Irish stock market has also been negatively hit and banks have suffered losses. While we have not yet seen any consequences for our ability to attract investment, and indeed there may be opportunities for Ireland, it is important to also be mindful that Ireland may also face increased competition from the UK who may seek to adjust their corporate tax rates in order to offset any loss of investment.

Long-term Unemployment and Skills

In section 5.1, unemployment is noted as one of the most significant symptoms of the depth of Ireland's economic recession. Long-term unemployment accounted for 54.5% of total unemployment in Q4 2015 compared to 58% a year earlier.[1] From a comparative perspective, this rate is still high as it exceeds the EU average of 48.2%.[2] Our ongoing high incidence of jobless households is leading to generational poverty and social problems which come at a huge cost to society.

[1] Central Statistics Office (2016) Quarterly National Household Survey, Quarter 1 2016.
[2] European Commission (2016) Country Report Ireland 2016.

Additionally, section 5.2 notes that future economic performance will depend on the quality of human capital. Ireland's competitive advantage in international markets, as well as the competitiveness of our regions, will increasingly be driven by the availability of world class skills at all levels. The OECD has called skills the new global currency of 21st century economies. As risks emerge to other areas of competitive advantage such as the corporate tax regime, it is important that Ireland's strong position in terms of the availability of talent is protected. It is our view that the issues of long-term unemployment and investment in human capital should be dealt with in parallel.

The long term unemployed require extensive engagement and support in order to get them back into the workforce. Following the European Commission's Recommendations, funding to address long term unemployment should be prioritised. The education system should cater to all, not simply those who go on to tertiary education and we would like to see this reflected in courses tailored for engagement and re-training of the long-term unemployed. The Commission highlights that nearly 60% of the long-term unemployed are low-skilled. We must therefore introduce appropriate active and passive labour market and training policies in order to tackle low-skilled, long-term unemployment and prevent this becoming a trap for individuals. The long-term unemployed should be the focus of specific educational programmes which will enable them to enter the labour force and such programmes may also involve attempting to tackle the skills shortages which currently exist.

Changes in the Dependency Ratio

In section 5.4, it is noted that in spite of outward migration, Ireland's population has continued to grow, which highlights the importance of the age dependency ratio, particularly with regard to its impact on areas such as education, child income supports, healthcare, housing and pension provision. This section notes that the over-65 population will increase considerably in future years.

We do not believe that the draft National Risk Assessment has put appropriate emphasis on the risk of inadequate pension provision for Irish workers, particularly amongst private sector workers. Recent studies predict that current contributions, mostly through PRSI, to the State pension fund will not be sufficient to pay the levels of benefits necessary in the future. Figures released by the Central Statistics Office in

May 2016 show that the number of workers who had a pension in the fourth quarter of 2015 fell to 46.7% compared with 51.2% in the same quarter in 2009. Additionally, the proportion of workers who expected the state pension to be their main source of income rose from 26% in 2009 to 36% in 2015.[3] Additionally, when public sector and semi-state workers are excluded, the proportion of private sector workers belonging to a pension scheme falls to 33% when compared with 37% in 2009. This reduction in the proportion of workers belonging to pension schemes comes as a time when the number of over 65s in Ireland is expected to grow significantly. The CSO is projecting that the number of people aged between 20 and 64 will increase by only 6pc to 2.96 million by 2046 but that the number of over-65s will almost treble to 1.41 million.[4] This lack of financial security for future retirees is a serious concern for both the workers affected and for the Government and actions must be taken immediately to mitigate this risk.

In order to mitigate these risks we recommend that Government take steps in the immediate term to ensure that potential negative impacts are reduced. We recommend that regulations governing pensions must be made flexible to allow workers to gradually transition into full retirement. We also suggest incentives should be implemented to encourage enrolment in private sector pensions, particularly given the uncertainty as to what the return on investment will be from defined contribution schemes. The Government must ensure that it is as administratively easy and cost effective as possible for SMEs and entrepreneurs to establish or participate in pension schemes.

[3] http://www.cso.ie/en/releasesandpublications/er/q-penp/qnhsmoduleonpensionsq42015/
[4] http://www.cso.ie/en/releasesandpublications/er/q-penp/qnhsmoduleonpensionsq42015/