Quarterly Economic Observer

First Edition, 2018

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NERI Nevin Economic Research Institute

About NERI and this publication

The Nevin Economic Research Institute (NERI) was established to provide information, analysis and economic policy alternatives. Named in honour of Dónal Nevin, scholar, trade unionist and socialist who gave a life of service to the common good, the Institute aims to undertake research that will be of relevance to the Trade Union movement and the general public across the island of Ireland.

This is the 25th *Quarterly Economic Observer* (QEO) of the Institute. The purpose of the QEO is to provide regular, accessible and timely commentary so as to equip trade unions and others in articulating and advancing a new economic paradigm where the old has failed. Unless otherwise stated, the data cited in this Observer are the latest available as of the 14th May 2018. The final draft of this document was completed on the 17th of May 2018.

This report has been prepared by staff of the Institute. The lead authors of this QEO are Paul Goldrick-Kelly and Tom Healy with contributions from Dr. Tom McDonnell and Paul MacFlynn. We are grateful to our external reviewers from the academic and research community who reviewed and commented on an earlier draft of this document. The analyses and views expressed in this publication are those of the NERI and do not necessarily reflect those of others including the Irish Congress of Trade Unions or the unions supporting the work of the Institute.

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The Nevin Economic Research Institute

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Executive Summary

This edition of the NERI's *Quarterly Economic Observer* (QEO) outlines our latest expectations for the economic outlook in the Republic of Ireland and Northern Ireland (Section 1) and examines the need to move away from a multi-tier system of healthcare provision to one based on need and funded overwhelmingly from public sources, and estimates the potential costs involved (Section 2).

Economic Outlook for the Republic of Ireland

- The short-term outlook for the Republic's economy is very positive. We project that real GDP will grow by 5.1 per cent in 2018 and by 4.0 per cent in 2019
- The labour market will perform very well over the next eighteen months with strong employment growth and increasing real wages as the labour market tightens with falling unemployment and rising job vacancies. The unemployment rate should average a little under 5 per cent in 2019.
- Labour market conditions should continue to improve in the short-term with strong employment growth but with modest increases in real wages. The unemployment rate is projected to fall below 6% sometime in early 2018.

Macroeconomic performance & projection, Republic of Ireland

	2017	2016	2017	2018	2019
Real Output		*Percentage real change over previous year*			
Gross Domestic Product	€296.2bn	5.1	7.8	5.1	4.0
Personal Consumption	€99.7bn	3.3	1.9	2.7	2.5
Government Consumption	€29.5bn	5.3	1.8	2.3	2.4
Investment	€69.4bn	61.2	-22.3	10.1	8.6
Exports	€355.4bn	4.6	6.9	6.5	5.2
Imports	€260.3bn	16.4	-6.2	7.1	6.5
Earnings		*Percentage nominal change over previous year*			
Average Hourly Earnings	€22.43	0.6	0.6	2.8	3.1
Government Finances		*Percentage of GDP*			
General Government Balance	-€1.0bn	-0.5	-0.3	-0.2	-0.1
Gross Debt	€201.3bn	72.8	68.0	66.6	64.9
Labour Force		*Percentage change over previous year*			
Employment	2,194,425	3.7	2.9	2.6	2.1
		Percentage of labour force			

Economic outlook for Northern Ireland

- The persistence of uncertainty surrounding Brexit, the absence of devolved government and the continuing contraction in government expenditure all weigh heavily on the outlook for the Northern Ireland economy in the short term.
- The downward trajectory of output in the *Manufacturing* sector remains the one of the most concerning trends. Significant plant closures in recent months have compounded substantial job losses over the last three years.
- Headline figures for unemployment may give the appearance of a strengthening labour market, but systemic weaknesses in economic inactivity and low pay show little sign of improvement.

Health Equality in Irish Healthcare – A New Deal?

- The Republic of Ireland has made significant strides forward in healthcare outcomes along with most other Western economies. However, not all of this progress has been experienced equally by all sections of the population.
- In particular, there are significant and persistent disparities in healthcare outcomes based on socio-economic status. There are similar disparities between different groups in terms of barriers and degree of access to healthcare.
- Whilst the determinants of healthcare outcomes are many and diffuse, we propose that there is a link between the inequality of outcomes, inequality in access to health care and inequality in the provision of healthcare. Treating healthcare as a merit good and moving toward a publicly funded, single healthcare system, as SláinteCare proposes is the only way to break this link.
- We estimate that total current health expenditure, incorporating both public and private funding sources, rises significantly in nominal terms out to 2030, nearly doubling over the period from an estimate of €20.8 billion in 2016 to a projected figure of €40.6 billion in 2030 under the central cost driver assumptions.
- With a transition to a single-tier healthcare system, current public spending grows faster than aggregate expenditure, at an annual rate of between 6 and 7 per cent over the course of the transition period. These increases in public

expenditure are associated with declines in total private expenditure from their peak in 2019.

- Assuming a transition to 85 per cent public current funding by 2030, we estimate three scenarios for economic growth and find that there is likely to be a need for some additional discretionary revenues at some point over the course of the transition process from 2019 to 2030.
- Allowing for 'standstill costs' as well as transition under Sláintecare proposals, the amount of 'fiscal space' left varies according to which economic scenario is assumed. Even under 'benign' conditions, total fiscal space left over only amounts to less than 2 per cent of total annual public spending in 2022 – the year when fiscal space is at its largest. This in the context of existing under-spends in other areas of public spending.
- It will be difficult to accommodate the necessary growth in health spending through buoyancy arising from economic growth alone. Additional revenue measures will need to be considered carefully in line with general proposals to reform income tax and social insurance.

1 Economic Trends and Outlook

1.1 World

The Republic of Ireland and Northern Ireland are small trade-dependent economies whose year-to-year performance depends on the health of the global economy, and in particular that of the United Kingdom (UK), the euro area and the United States (US).

Table 1.1 Dashboard of Macroeconomic Indicators, Selected Regions*

	2013	2014	2015	2016	2017	2018
Real GDP			*Percentage volume change over previous year*			
Euro area	-0.2	1.3	2.1	1.8	2.3	2.4
United Kingdom	2.1	3.1	2.3	1.9	1.8	1.6
United States	1.7	2.6	2.9	1.5	2.3	2.9
Unemployment**			*Percentage of active population*			
Euro area	12.0	11.6	10.9	10.0	9.1	8.4
United Kingdom	7.5	6.1	5.3	4.8	4.5	4.4
United States	7.4	6.2	5.3	4.9	4.4	3.9
Inflation***			*Percentage annual average rate of change*			
Euro area	1.3	0.4	0.0	0.2	1.5	1.5
United Kingdom	2.6	1.5	0.0	0.7	2.7	2.7
United States	1.5	1.6	0.1	1.3	2.1	2.5
Compensation per Employee			*Percentage change from previous period*			
Euro area	1.6	1.4	1.4	1.2	1.6	2.2
United Kingdom	2.8	0.5	1.1	3.1	2.1	2.2
United States	1.5	2.9	3.1	1.0	1.9	3.4
Employment			*Percentage change from previous period*			
Euro area	-0.8	0.8	1.0	1.3	1.5	1.1
United Kingdom	1.2	2.4	1.8	1.4	0.9	0.7
United States	1.0	1.6	1.7	1.7	1.3	1.1
Current Account Balance			*Percentage of Gross Domestic Product*			
Euro area	2.2	2.4	3.2	3.4	3.5	3.2
United Kingdom	-5.5	-5.3	-5.2	-5.8	-4.1	-3.7
United States	-2.1	-2.1	-2.4	-2.4	-2.4	-3.0
Fiscal Balance			*Percentage of Gross Domestic Product*			
Euro area	-3.0	-2.6	-2.1	-1.5	-0.9	-0.6
United Kingdom	-5.4	-5.4	-4.3	-3.0	-2.3	-1.8
United States	-4.4	-4.0	-3.5	-4.2	-4.6	-5.3

Notes: *2018 figures for Real GDP, Inflation, *Fiscal Balance, Unemployment Rate, Employment* and *Current Account* are latest IMF projections. 2018 figure for *Compensation per Employee* is latest European Commission projection.
**Eurostat definition, ***Harmonised consumer prices (national definition for the US)

Sources: IMF: World Economic Outlook, and Fiscal Monitor, EU Commission: AMECO.

The recent performance of these economies is shown in Table 1.1. The UK and the US have outperformed the euro area in recent years. Even so, there is now clear evidence

of a cyclical turnaround in the euro area while the outlook for the UK has weakened following the Brexit vote in 2016.

The global economy is experiencing a cyclical upswing and grew by 3.8 per cent in 2017. Most institutional forecasters are now projecting moderately strong growth in output and trade in 2018. For example, the IMF projects real growth of 3.9 per cent in world output in both 2018 and 2019. This includes projected growth of 2.5 per cent this year in the advanced economies, along with growth in the volume of world trade of 5.1 per cent. The OECD's latest economic outlook forecasts global economic growth of 3.9 per cent in 2018 and 2019. Ongoing weakness in price and wage inflation suggests that labour market slack persists in some advanced economies and there is some scope remaining for cyclical expansion in the short-term in the euro area. However, there are major uncertainties relevant to the future path of the global economy, not least uncertainty around US trade policy and the uncertain future path of innovation and productivity growth.

The most recent ifo World Economic Climate survey of economic experts suggests the world economic climate has improved considerably and that the global economic recovery will continue. The climate improved in all regions of the world and the indicator for the euro area is at its most positive level since the Summer of 2000 with the upswing expected to continue. However, the situation in the UK is assessed to be unfavourable with Brexit related uncertainty creating pessimism about the future economic outlook. The OECD's Composite Leading Indicators (CLIs) which are designed to anticipate turning points in economic activity, point to stable growth momentum in the OECD over the next six to nine months. The UK is the only major economy where growth is expected to ease over the rest of 2018 although there are signs of growth losing momentum in Germany, France, Italy and the euro area as a whole. Stable growth momentum expected in the US, Canada, Japan and China.

The broadly positive outlook in the **US** is driven by the expected stimulus to investment arising from the recent tax cuts. However, the positive short-term impact on growth in 2018-2019 is likely to be transitory, and the long-run impact on potential output negligible, given the negative fiscal implications of the tax cuts. The US economy grew 2.9 per cent in real terms year-on-year in the first quarter of 2018 following growth of 2.3 per cent in 2017. The unemployment rate stood at 4.1 per cent in March which is unchanged since October 2017 and at a 17-year low. Wages were up 4.5 per

cent in March over the previous year, while consumer price inflation was up 2.4 per cent over the same period. This was the highest inflation rate in a year. In addition, US consumer sentiment was at its highest level in fourteen years in March. Given the fairly benign economic climate we can expect monetary policy to continue to tighten. A number of interest rate increases are expected from the US Federal Reserve in 2018 and again in 2019. This will moderate the domestic growth outlook and could create difficulties for countries with significant dollar liabilities.

The **euro area** appears to be on a cyclical upswing after a long period of underperformance**.** Annual GDP growth for the euro area economy was 2.7 per cent in the fourth quarter (Q4) of 2017 with growth of 0.6 per cent over the previous quarter. The unemployment rate is trending downwards. It was 8.5 per cent in February compared to 9.5 per cent the previous year. In addition, total employment in the fourth quarter of 2017 was up by a solid 1.6 per cent year-on-year. Even so, labour market performance differs greatly between EU countries. The unemployment rate ranges from 20.8 per cent in Greece to 2.4 per cent in the Czech Republic. Price pressure remains relatively muted in the euro area with consumer price inflation (HICP) coming in at a below target 1.3 per cent year-on-year in March. As such, while some monetary tightening is envisaged over the next eighteen months in the form of declining ECB asset purchases, monetary policy will most likely remain extremely accommodative in the short-to-medium term. Wage growth in the euro area was 1.7 per cent year-on-year in Q4 implying modest real wage growth of close to 0.3 per cent.

Annual GDP growth in the **UK** was a disappointing 1.2 per cent in Q4 2017. This was the weakest performance since 2012 and the economy grew just 0.1 per cent over the previous quarter. The weak pace of expansion was mainly due to a slowdown in manufacturing growth and a contraction in construction. The Office for Budget Responsibility (OBR) is forecasting a continuation of relatively slow growth in the next few years as Brexit dampens the outlook – 1.5 per cent growth is forecast in 2018 along with 1.3 per cent in 2019 and 2020. The OBR also expect the unemployment rate to tick up from 4.4 per cent in 2018 to 4.6 per cent in 2020. Annual inflation at 2.5 per cent in March was well above the euro area average but at its lowest rate since March 2017. Real wage growth was 0.1 per cent in February. Monetary policy is expected to tighten gradually over the next six to eighteen months. The UK's current account deficit was an unsustainably high 4.1 per cent of GDP in 2017.

1.2 Republic of Ireland

Trends and analysis

Headline economic growth was very strong in 2017 with real GDP up 7.8 per cent and real GNP growing by 5.2 per cent. However, GDP, GNP and the current account are no longer reliable indicators of the performance of the Irish economy. This is due to the extent to which the national accounts are distorted by the activities of a small number of multinationals. The problems inherent to the headline national accounts make it much more difficult to assess the cyclical position of the economy. Even so, recent economic trends indicate that the economy grew quickly in 2017 (see Table 1.2).

Table 1.2 Dashboard of Macroeconomic Indicators, Republic of Ireland

	2013	2014	2015	2016	2017	Latest
	Percentage volume change over previous year					
Gross Domestic Product	1.7	8.3	25.6	5.1	7.8	8.4 *(Q4'17)*
Modified Domestic Demand	1.4	6.0	6.6	4.8	3.9	-1.4 *(Q4'17)*
Personal Consumption	-0.7	2.0	4.2	3.3	1.9	1.8 *(Q4'17)*
Retail Sales	0.7	6.3	8.4	6.7	2.9	0.1 *(Q1'18)*
Industrial Production	-2.2	22.9	34.8	0.7	-2.2	3.0 *(M2'18)*
	Percentage annual average rate of change					
Employment	3.0	2.6	3.5	3.7	2.9	3.1 *(Q4'17)*
Average Hourly Earnings	-0.3	-0.2	0.2	0.6	0.6	1.7 *(Q4'17)*
Average Weekly Earnings	-0.5	0.3	1.2	1.1	2.0	2.5 *(Q4'17)*
Inflation (CPI)	0.5	0.2	-0.3	0.0	0.4	-0.4 *(M4'18)*
	Percentage of annual GDP or quarterly GDP					
Investment	18.7	20.8	20.3	31.8	23.4	21.4 *(Q4'17)*
Current Account Balance	2.1	1.6	10.9	3.3	12.5	19.0 *(Q4'17)*
Government Balance (GGB)	-6.1	-3.6	-1.9	-0.5	-0.3	3.1 *(Q4'17)*
Gov. Gross Debt (end-year)	119.4	104.5	76.9	72.8	68.0	68.0 *(Q4'17)*
	Percentage of labour force					
Unemployment	13.7	11.9	9.9	8.4	6.7	5.9 *(M4'18)*
Long-term Unemployment	8.0	6.7	5.4	4.3	3.0	2.5 *(Q4'17)*
	Percentage of households					
Deprivation	30.5	29.0	25.5	21.0	-	21.0 *(2016)*
At Risk of Poverty	16.5	17.2	16.9	16.5	-	16.5 *(2016)*
	Percentage					
Gini Coefficient	32.0	32.0	30.8	30.6	-	30.6 *(2016)*

Notes: Quarterly ('Q') and monthly ('M') data is compared to same period of the previous year. Rates of change represent the average value over the four quarters, or twelve months. *Modified domestic demand* is non-seasonally adjusted modified total domestic demand which is defined as '*Total domestic demand less the effects of the trade in aircraft by aircraft leasing companies and the imports of intellectual property*'. *GGB* is end-year figure as a % of annualised GDP or latest quarterly figure as % of quarterly GDP. *Unemployment* is average for four quarters or latest quarter/month seasonally adjusted. The Labour Force Survey replaced the Quarterly National Household Survey from Q3 2017 onwards with the effect that employment and unemployment data may not be directly comparable between 2016 and 2017.

Sources: CSO: Quarterly National Accounts, Retail Sales Index, Industrial Prod. & Turnover, Labour Force Survey, Earnings and Labour Costs, Consumer Price Index, Balance of International Payments, Government Finance Statistics, Survey on Income and Living Conditions,

The new 'modified total domestic demand' indicator gives a reasonable barometer of activity in the domestic economy as it strips out the effect of intellectual property investment and purchases of aircraft by leasing companies. Modified domestic demand grew by an annualised 4.8 per cent in 2016 and then by 3.9 per cent in 2017. Personal consumption is the largest component of demand and it grew by 1.9 per cent in 2017 while the volume of retail sales increased by 2.9 per cent.

Labour market conditions are improving rapidly. Total employment grew by a very robust 3.7 per cent in 2016 and then by 2.9 per cent in 2017.[2] Employment increased by 66,800 year-on-year in Q4 of 2017 with full-time employment increasing by just under 90,000. The largest sectoral gains were in *accommodation and food services* (+13,400), *administration and support services* (+12,800) and *construction* (+11,600). However, employment declined by 6,000 in *professional, scientific and technical activities* and by 1,900 in *financial, insurance and real estate activities*. Employment grew in every geographic region with the exception of the *Midlands* region where employment fell by nine hundred or 0.7 per cent. The labour force participation rate increased from 61.9 in Q4 2016 to 62.2 per cent in Q4 2017 although the rate actually declined in four of the eight regions. Overall, the labour force increased by 43,400 or 1.9 per cent between Q4 2016 and Q4 2017.

The strengthening economy is perhaps best illustrated through the downward movement of the unemployment rate. The unemployment rate averaged 6.7 per cent in 2017 marking a sharp decline from the 8.4 per cent in 2016 and 9.9 per cent in 2015. The rate fell further to 6.4 per cent on a seasonally adjusted basis in Q4 2017 and then to 5.9 per cent in April of this year. Long-term unemployment was 58,100 in Q4 2017 (2.5 per cent), down from 86,800 the year previously. Long-term unemployment has been falling steadily having been over 200,000 as recently as 2012.

Wages are finally showing some growth after a long period of stagnation. Average weekly and hourly earnings grew by 2.5 per cent and 2.3 per cent respectively between Q4 2016 and Q4 2017. Real wages are now increasing for most workers given the negligible consumer price inflation in the economy– the annualised Consumer Price Index (CPI) and the related HICP both averaged 0.5 per cent in the final quarter

[2] Note that due to methodological and sample differences between the Quarterly National Household Survey and the Labour Force Survey introduced in Q3 2017, the results for Q3 2017 onwards may not be directly comparable to previous quarters and years.

of 2017. However, nominal hourly wages fell on an annualised basis in Q4 in *industry*, *construction* and in *transportation and storage*, implying that average hourly wages are falling in real terms in those sectors. Real average weekly wages are falling in construction, in transportation and storage and in *arts and entertainment*.

The economy is growing strongly. However, it is not yet our view that the economy has started to overheat. There is limited consumer price inflation in the economy while average hourly wage growth was below 2 per cent in 2017 after years of negligible growth. Ireland's employment rate was below the EU average in Q3 2017 and 10 percentage points worse than the top performing country Sweden, while Ireland's unemployment rate was worse than 16 of the other 27 EU countries In addition, the job vacancy rate in Q4 was well below the EU average suggesting there may be significant remaining slack in the labour market.

Unfortunately the headline current account surplus of 12.5 per cent of GDP in 2017 gives little guidance as to the cyclical position of the economy because the Republic's current account is distorted in much the same way as GDP. Underlying investment is expanding but is doing so from a low base. On the other hand, non-housing consumer credit and loans to non-construction related corporations are increasing while residential property prices increased by 13.0 per cent on an annualised basis in February. Overall, the balance of evidence suggests the economy is not yet overheating though the remaining 'output gap' should close sometime in the next 12 months.

Outlook

The short-term outlook for the Republic's economy is very positive. We project that real GDP will grow by 5.1 per cent in 2018 and by 4.0 per cent in 2019 (see Table 1.3). Such strong and above trend growth will come on the back of a continuing cyclical upswing which should persist into 2019 and assumes a relatively benign outcome to Brexit negotiations. Employment growth and GDP growth will be somewhat slower in 2019 as the economy approaches capacity. Crucially, we make the technical assumption of minimal further volatility to the national accounts arising from multinational tax avoidance activity. There are many risks and uncertainties around the baseline forecast and a number of these are described in Box 1.1.

Table 1.3 Macroeconomic performance & projection, Republic of Ireland

	2017	2016	2017	2018	2019
Real Output		*Percentage real change over previous year*			
Gross Domestic Product	€296.2bn	5.1	7.8	5.1	4.0
Personal Consumption	€99.7bn	3.3	1.9	2.7	2.5
Government Consumption	€29.5bn	5.3	1.8	2.3	2.4
Investment	€69.4bn	61.2	-22.3	10.1	8.6
Exports	€355.4bn	4.6	6.9	6.5	5.2
Imports	€260.3bn	16.4	-6.2	7.1	6.5
Earnings		*Percentage nominal change over previous year*			
Average Hourly Earnings	€22.43	0.6	0.6	2.8	3.1
Government Finances		*Percentage of GDP*			
General Government Balance	-€1.0bn	-0.5	-0.3	-0.2	-0.1
Gross Debt	€201.3bn	72.8	68.0	66.6	64.9
Labour Force		*Percentage change over previous year*			
Employment	2,194,425	3.7	2.9	2.6	2.1
		Percentage of labour force			
Unemployment	157,825	8.4	6.7	5.6	4.9

Notes: Projections for *Gross Domestic Product* and components refer to real economic activity; *Investment* refers to Gross Fixed Capital Formation; *Employment*, *Unemployment* and *Earnings* all represent the average value over the four quarters.
Sources: See Table 1.2. NERI estimates for 2018-2019.

We are projecting that the labour market will perform very well over the next eighteen months with strong employment growth and increasing real wages as the labour market tightens with falling unemployment and rising job vacancies. The unemployment rate should average a little under 5 per cent in 2019. Workers in fast growing sectors should experience particularly strong gains. The construction sector is likely to experience particularly rapid employment and wage growth given the expected strong growth in underlying investment. Higher consumption will be driven by the strengthening labour market and by improving household net wealth and consumer confidence. Increasing wage pressure and strengthening domestic demand will start to push up prices which will begin to erode competitiveness somewhat. However, exports will benefit from the improving performance of the euro area economy. Underlying imports (i.e. excluding R&D) should experience robust growth given the expected fast growth in domestic incomes and demand. We anticipate that the public finances will be close to balance in 2018 and 2019. Even so, the economy could be overheating by 2019 and in this context the case for tax cuts in Budget 2019 appears to be extremely weak, particularly given the signalled and welcome increases in public capital investment over the next few years.

Box 1.1 Macroeconomic Risks and Uncertainties: Republic of Ireland

A number of macroeconomic risks and uncertainties to the forecast can be identified:

A) Brexit. There is still uncertainty about the UK government's final decision on remaining in the EU Customs Union and Single Market although an exit from at least the Single Market appears highly probable. While the 21-month transition period means that much of the economic consequences will be delayed until beyond our forecast horizon there is still the possibility of an eventual hard Brexit. This is creating uncertainty for exporters which, given the potential for an imposition of tariffs and an increased regulatory burden, will lead to delays and postponements of investment decisions. The agri-sector is particularly vulnerable to a hard Brexit. Fluctuating market perceptions about the state of the negotiations will cause currency volatility at least in the short-term while the UK's lower growth potential will translate into structurally lower demand for exports in the long-term.

B) International corporation tax policy. Developments at EU level in relation to taxation of the digital economy along with the momentum towards a Common Consolidated Corporate Tax Base are welcome from a tax justice perspective but would reduce government revenue in Ireland and weaken the attractiveness of the Republic as a location for FDI. The uncertainty around the issue could also lead to postponements of investment decisions. The changes to corporation tax in the US may also negatively impact on future FDI decisions.

C) Monetary policy. The ECB will gradually tighten its monetary policy over the medium-term. In the short-term, if the recovery in the euro area were to be stronger than anticipated, and if inflation were to move above the 2 per cent target, then the ECB might be prompted to speed-up increasing interest rates. This would be challenging for the Irish economy given still-high public and private debt ratios. Higher interest rates would exert downward pressure on domestic demand. The US Federal Reserve will continue to tighten monetary policy over the next eighteen months and this could potentially destabilise economies with significant dollar liabilities.

D) Protectionism. The US appears to be shifting its stance away from free trade and towards protectionism. An international shift towards protectionism would negatively impact on a small trade dependent economy like Ireland.

E) Chinese rebalancing. A number of analysts have raised concerns about unsustainable levels of credit in China and the potential for a crash. If China is unable to successfully transition from capital intensive industries to a service based model without generating a significant slowdown then a knock-on impact on world trade is likely.

F) Geopolitical instabilities. There are always uncertainties related to geopolitical developments. For example, political developments in the Middle East or elsewhere could lead to an increase in energy prices. This would cause a negative supply side shock to the global economy. While some countries would benefit, as an energy importer a sharp rise in oil prices would reduce real household disposable incomes and personal consumption in Ireland, while simultaneously worsening domestic corporate balance sheets with consequences for investment.

1.3 Northern Ireland

While the last number of months has been consumed by efforts to reinstate the devolved political institutions, Northern Ireland's (NI's) economy is still confronted by the same challenges that were present before the current political impasse. The UK's withdrawal from the European Union remains chief among those challenges. Although some progress has been made in the Brexit negotiations, the issues related to Northern Ireland remain largely unsettled. The draft withdrawal agreement from the European Commission simply restates the agreement reached with the conclusion of phase one of the negotiations in December. While both sides remain committed to the absence of a border on the island of Ireland, there is still little certainty as to how that aim will be achieved. It is difficult to see how Northern Ireland can attract much needed investment over the next number of years as long as this fundamental uncertainty remains. Allied to this, the pace of fiscal contraction at UK remains largely unchanged providing no certainty for public investment. As highlighted in the Winter 2017 edition of this publication there are several worrying sectoral trends in the NI economy and no indications at present that that situation has abated.

Table 1.4 Dashboard of Macroeconomic Indicators (Northern Ireland)

	2013	2014	2015	2016	2017	Latest
	Percentage volume change over previous year					
Gross Value Added	0.1	1.6	3.4	1.8	-	1.8 *(2016)*
NICEI	-0.1	0.7	16	1.6	-	-1.0 *(Q3 2017)*
Index of Services	0.5	1.0	1.1	2.9	-	1.0 *(Q3 2017)*
Index of Production	1.2	2.3	1.7	0	-	-3.5 *(Q3 2017)*
	Percentage annual average rate of change					
Employment Rate	-0.6	1.8	0.2	2.1	-1.2	1.7 (*M11 '17-M1 '18*)
Average Hourly Earnings	2.5	-1.3	4.2	1.5	2.8	2.8 *(2017)*
Price Inflation (UK)	2.6	1.5	0	1	2.7	2.7*(M1'18)*
	Percentage of GVA					
Exports	29.1	27.2	25.7	26.6	-	26.6 *(2016)*
Government Spending	58.5	57.5	55.5	-	-	55.5 *(2015)*
	Percentage of labour force					
Unemployment	7.5	6.4	6.1	5.8	4.6	3.2 (*M11 '17-M1 '18*)
Youth Unemployment	22.5	19	19.3	14.9	-	8.4 (*M8 -M10 '17*)
Long-term Unemployment	4	3.4	3.6	2.6	2.3	1.6 (*M11 '17-M1 '18*)
	Percentage of population					
Relative Poverty	21	22	18	-	-	18 *(2015)*

Notes: Employment Rate refers to all persons in employment (ILO definition) aged 16-64 as proportion of all persons 16-64. GVA is deflated using UK GDP deflator. NI Exports refer to sales outside the UK. Exports refers to both goods and services sold from NI beyond the UK. Government Spending refers to Total identifiable expenditure on services apportioned to NI.

Source: *ONS Regional Gross Value Added* (Income Approach); *HMT GDP Deflators*; NISRA *Northern Ireland Composite Economic Index;* NISRA *Index of Production*; NISRA *Index of Services;* NISRA *Labour Force Survey*; NISRA *Annual Survey of Hours and Earning*; ONS *Consumer Price Inflation*; HMT *Public Expenditure Statistical Analyses*; NISRA *Households Below Average Income*

Box 1.2 Economic inactivity in Northern Ireland

The recently released labour market statistics for NI received much media attention primarily because they showed the (joint) lowest seasonally adjusted unemployment rate (3.2 per cent) since the series began, with this level last reached in May-July 2007. Over the year to January 2018 the rate of unemployment dropped by 2.6 percentage points. However, while in one sense these figures may bring positive news, it does not necessarily follow that low rates of unemployment equate to a healthy labour market. To fully appreciate what is going on in the labour market and to understand what is driving the drop-in unemployment we need to take a fuller picture. Doing so reveals that all may not be so rosy.

In this sense, whilst the latest employment figures also tell somewhat of a positive story, increasing by 0.5 per cent over the year to January 2018 there continues to be ground for caution. The rate of employment remains comparatively low compared to Great Britain, and indeed if anything has widened over recent years, as continuing higher proportions of the working age population in NI are 'economically inactive' i.e. not in employment, and not actively seeking employment. Thus, whilst the most recent quarterly data show economic inactivity to have fallen by 1.2 per cent over the quarter, it has increased by 1.5 per cent over the year to 27.8 per cent. In the UK, the economic inactivity rate has been generally falling with the most recent data showing the rate to have fallen over the year, and at 21.2 per cent at its joint lowest level since records began in 1971. Thus, in terms of the labour market the rate of economic inactivity continues to be the fundamental sticky issue in the labour market that sets NI apart from Great Britain. Economic inactivity however is a broad term and there are many reasons why an individual may be economically inactive, for example, they may be students; looking after the family or home; long-term sick; those who retire early. It is thus important to give consideration and look at reasons for economic inactivity and amongst which categories we are seeing increases in economic inactivity. The data shows that in the last quarter 30 per cent of the economically inactive were long-term sick, 24 per cent were looking after family; 24 per cent were students; 12 per cent were retirees; and 10 per cent were 'other'. Compared to Great Britain these data follow the long-term trend of NI having higher proportions of economically inactive that are long-term sick. Importantly however, over the year to January 2018 two-thirds of the increase has been the result of an increase in students, with 10,000 more students than a year earlier. Much of the increase in economic inactivity over the year has been amongst males, the majority of whom *do want to work*. Amongst those males who do not want to work this is almost entirely explained by an increase in students.

Why then have so many males exited the labour market? When we couple the above data with wage data for men from the ASHE survey and data capturing changes to the nature of employment for males we get closer to understanding. Indeed, whilst we have been witnessing an overall decrease in part-time employment, it has been increasing for males. However, we have seen a decline in the earning power of men in such jobs. There was a 2.6 per cent fall in wages for male part-time workers in the private sector, which amounts to a 5.1 per cent decline when adjusted for inflation. For more and more men, work no longer pays.

The Northern Ireland Composite Economic Index (NICEI) indicates that output in the third quarter of 2017 fell by 0.1 per cent. This follows a larger fall of 0.9 per cent in the second quarter (Q2) stamping out a small recovery in output that began in the final quarter of 2016. Output is still at roughly the same level it was in 2009-2010. The small reduction in growth in Q3 was spread evenly between both public and private sectors, but Q3 also marks the first consecutive fall in private sector output since 2012. Within the private sector, there was growth of 1 per cent in both the *Services* and the *Construction* sectors. However, the *Production* sector declined by 3.5 per cent between the second and third quarter of 2017 having fallen by almost 9 per cent since the beginning of 2017. This is a significant turnaround in fortunes for a sector which had only just reached its post-crisis peak in the final quarter of 2016.

Manufacturing accounts for all of the production sector decline and within that the vast majority of the decline is explained by the continuing contraction in the *Food, Beverages and Tobacco* sector. The closure of the JTI Tobacco plant in Ballymena has had a disproportionate impact on this sector. However, while the JTI closure could explain the 20 per cent reduction in output in the sector that occurred between Q1 and Q2, the final closure of the plant was delayed and remaining production in the plant was extended from May to October this year. Therefore, it would seem unlikely that a contraction in the Tobacco sector could explain the further 18 per cent reduction in output that occurred between Q2 and Q3. Given that the *Food, Beverages and Tobacco* sector has now declined by almost 40 per cent since the beginning of the year, it may become necessary to look for other explanations of decline in the sector.

Figures for Gross Value Added in Northern Ireland indicate that there was nominal growth in output of 3.8 per cent between 2015 and 2016. Adjusted for inflation growth in real GVA was 1.8 per cent. This is slightly higher than the corresponding figure from the NICEI which showed average growth over the same period at 1.6 per cent with an upper and lower limit of 2.9 per cent and 0.7% per cent. GVA and the NICEI are both measures of regional economic output but they are calculated in very different ways so such small differences are not uncommon. However, the expected introduction of quarterly estimates of regional GVA next year will allow a more thorough investigation of short term economic performance. The growth rate of GVA per head of population in NI between 2015 and 2016 was slightly lower at 1.2 per cent, but this was significantly above the growth rate at UK level of 0.7 per cent. This means that NI GVA per capita as a percentage of UK GVA per capita rose from 77.3 per cent in 2015 to 77.6 per cent in

2016. This marks the first consecutive reduction in the NI-UK productivity gap since 2012, however these small reductions have only managed to decelerate rather than reverse the trend of decline since 2006.

There were also indications that the rate of investment in the NI economy began to slow down in 2016. The Northern Ireland Research and Development Survey indicated that total R&D expenditure in NI declined in both real and nominal terms. Total R&D spend decreased by £9.3m (1.3 per cent) in cash terms but fell by £26.2m (3.4 per cent) in real terms. The bulk of this reduction was due to a 5 per cent fall in Business R&D, which has accounted for 85 per cent of all R&D growth since 2004. There was a small decrease in Higher Education spending (1.7 per cent) and a large increase (27 per cent) in Government R&D, however this only accounts for less than 3 per cent of total spend.

The Chancellor of the Exchequer delivered the first UK Spring Statement in 2017 which contained the latest OBR forecasts for UK growth. There was a small increase in near term growth but also a downgrade to the longer-term forecast. For Northern Ireland there was some indication of a possible increase in current spending in the Autumn Budget later this year, but it would be mistaken to believe that the era of reduction in public spending will come to an end. In particular, there are no current plans to remove the freeze on working-age benefits introduced in 2015. Northern Ireland has been identified as the region most disproportionately affected by working age benefit cuts and so continued reductions over the next four years are likely to have a significant local impact. The Northern Ireland Budget for 2018/19 was moved in the House of Commons by the Secretary of State on the 20th of March. It contains a 1.4 per cent increase to departmental spending totals from the outrun in 2017/18 which will result in real terms reductions in spending for most departments in the coming years.

The labour market provided some good news for NI in the three months ending in January 2018. Employment increased by 25,000 with reductions of 6,000 in the numbers unemployed and 17,000 economically inactive. The seasonally adjusted unemployment rate for NI now stands at 3.2 per cent, the lowest level since 2007. However, whilst economic inactivity has fallen compared with the previous three-month period, it is up by nearly 19,000 on the previous year. Economic inactivity has been a long running problem for the NI labour market and Box 1.2 looks in more detail at recent trends in this area.

2 Equality in Irish Healthcare – A New Deal?[3]

2.1 Introduction

The Report of the Houses of the Oireachtas Committee on the Future of Healthcare, hereafter referred to as the Sláintecare Report potentially marks an important milestone as it represents a broad political consensus on the need to move away from a multi-tier system of healthcare provision to one based on need and funded overwhelmingly from public sources. Given the historical difficulty in delivering sufficient reform in the way healthcare is managed and funded, a political momentum to achieve a publicly funded, single healthcare system within a decade is to be welcomed. The vision of the health service contained within the report is consistent with European norms of universality and crucially, the principle of universality is consonant with a system of provision that recognises healthcare's status as a merit good. A merit good is one that should be provided to everyone on an equal basis regardless of ability to pay.

The Republic of Ireland has made significant strides forward in healthcare outcomes along with most other Western economies. However, not all of this progress has been experienced equally by all sections of the population. In particular there are significant and persistent disparities in healthcare outcomes based on socio-economic status. There are similar disparities between different groups in terms of barriers and degree of access to healthcare.

Healthcare provision in Ireland is heavily determined by socio-economic status. Those at the bottom of the distribution are more likely to be covered by a state-funded medical card with those at upper end of the distribution enjoying private medical insurance. A large group in the middle of the distribution relies on limited entitlements to state care and out-of-pocket expenditure.

Whilst the determinants of healthcare outcomes are many and diffuse, we propose that there is a link between the inequality of outcomes, inequality in access to health care and inequality in the provision of healthcare. Treating

[3] This Section of the QEO is a condensed version of NERI Working Paper 54 "*Equality in Irish Healthcare – Time for a New Deal*", May 2018. Please refer to that working paper for a full list of the references and data sources used in this Section of the QEO.

healthcare as a merit good and moving toward a publicly funded, single healthcare system, as SlainteCare proposes, is the only way to break this link.

2.2 Unequal Outcomes

The evidence presented in Goldrick-Kelly and Healy, (2018) demonstrates that access to health care in Ireland is at least partially determined by one's socio-economic status. Those with a lower social position are more likely to report unmet health care needs, as well as unmet medical examination and treatment needs. When looking at the situation for Ireland as a whole it is clear that cost and waiting lists were the key reasons for unmet health care need, these issues are more problematic for those with lower income and lower levels of education attainment. Thus, whilst some inequities are mitigated by the medical card system, inequities persist in health care with relatively higher levels of unmet demand arising from long waiting lists for those towards the bottom of the socio-economic ladder. It is such evidence which supports the contention of many that those with access to private health insurance get to 'skip the queue'.

Evidence of the importance of cost for those in a lower to middle socio-economic position is unsurprising that those who have neither access to medical card nor private health insurance face relatively high levels of unmet demand due to the cost of accessing health care. Taken together the findings presented in terms of socio-economic inequalities in health suggest a role for the health system to seek to eradicate socio-economic inequalities in unmet need. This becomes all the more important when we take into consideration the extent of socio-economic inequalities in health outcomes.

Unequal health care access is an important determinant of socio-economic inequality in health outcomes, which in itself is a consequence of our current complex, and multi-faceted system of health care provision. In this sense the evidence would suggest that access to health care is currently strongly related to ability to pay, when its provision should be based on need.

2.3 The Cost of Delivering Change

The extent to which individuals and households share the cost of healthcare with the State or with other actors varies considerably across the world. In terms of the share of total funding for health, the State accounts for around 85 per cent in Norway and 30 per cent in India with OECD and EU averages falling typically in the 70 to 80 per cent range. At just under 70 per cent, the Republic falls towards the bottom half of EU Member States in terms of the proportion accounted for by public funding.

Healthcare systems in which general taxation are predominant are sometimes referred to as conforming to a 'Beveridge' model following the groundwork that was laid for the Post-World-War Two welfare state in the United Kingdom. Universal access to a wide range of public health care services is assured while the cost is covered by general taxation. The extent of universality and width of coverage varies across the countries that adopt this model. Funding models reliant on general taxation have the advantage of income progressivity – the more one earns, the more one pays into a common public pool of resources. A general taxation approach may involve lower administrative costs compared to private or social health insurance models found in many European countries. Healthcare funded mainly or exclusively out of general taxation is vulnerable to the economic and political cycle as a considerable portion of national income and government revenue is claimed by health care.

Social insurance financing is similar to general taxation in as much as payment into the system generally reflects ability to pay and that these payments fund access that is not dependent on individual means. These systems are distinct, however, in that payments are directed to funds that cannot be drawn upon for other purposes. Payments into the system are drawn from regular contributions on the part of the insured, usually funded by wage-based payments, and directed towards quasi-public bodies which manage care and procure provision. Social insurance systems tend to be slightly more costly than general taxation systems, though performance is similar in many respects. Earmarked funding often enhances transparency as direct linkages are made between contributions and expenditures, which help secure political support. Social insurance funding also exhibits some resilience in the face of austerity and variations in state revenues,

although recessions can also impact revenues. In line with tax funded models, social insurance models which utilise a single purchaser can benefit from the simplicity of arrangements arising from a single purchaser of healthcare and efficiencies arising from monopsony power in negotiations with providers, thereby driving down costs.

Universal systems built around private insurance rely on competition between profit seeking insurers and a government mandate to purchase a package of care, which can be subsidised in the case of lower income families. Depending on the degree of subsidisation, private insurance-based systems can be relatively regressive. Despite the presence of competition, these systems can entail escalating costs, potentially associated with marketing costs and the necessity of a profit margin on sold packages. Theoretically, competition should drive down administrative costs, improve delivery efficiency and reduce the price of a given package. However, competition is often limited in practice, and the package switching necessary for efficiency does not occur. Efficiencies from economies of scale have driven consolidation in the Dutch case, limiting competition. However, some efficiency has been realised regarding the procurement of prescription medication for the larger insurers. In the case of Ireland, it is questionable whether a number of insurers could coexist at sufficient scale to realise these efficiencies, given the small size of the Irish population limits the potential for competition and realised efficiency gains. Empirical analysis suggests that increased administrative costs arise with competitive private insurance models.

Whatever the merits of the different funding arrangements there are strongly inherited incentives and cultural norms associated with health provision and funding that makes reform difficult. Private insurance is strongly embedded in the Irish case and is seen as a type of essential good given a perceived lack of capacity or efficiency or both in the public health care system. The government's failed 'Universal Health Insurance' proposal of 2013 floundered on concerns about costs and capacity to deliver universal coverage though such a proposal. The misnamed Universal Health Insurance proposal was a type of mandatory, competitive private health insurance model with unclear boundary lines and very uncertain cost implications.

While universal healthcare is far from entrenched in the Irish case, the existence of a system of tax provision of substantial size (even if less so than in Western European comparators) suggests that a plausible programme for transition would likely draw on and expand the tax funded public sector. The social insurance system in Ireland remains underdeveloped and shifting the funding of the health service to social contributions is unlikely given the current lack of institutional capacity. Even so, significant funds could be drawn from social insurance. Rates of incidence of social insurance remain low and increases in social contributions could be used in conjunction with general taxation to fund reform. However, a policy to expand funding and provision would need to be firmly linked to a programme of structural reform staged over a number of years in such a way as to demonstrate that a publicly-funded system ensuring universal access to all essential health care services is worth paying for and worth supporting.

The 2017 Sláintecare report has estimated the likely costs associated with a transition to a single tier public system in the Republic of Ireland. These costs encompass permanent budgetary changes associated with an expanded entitlement package in the public system, as well as one-off payments designed to effect systematic transition and address historic shortfalls in investment for public provision. The potential for success of Sláintecare lies in its consensus-based approach to bringing about a single-tier healthcare system. Its weakness lies in its avoidance of the need to discuss how such a transition could be funded. The Report stated that:

The Committee appreciates that it is for the Government of the day to resolve how this transitional funding should be resourced.

Three key areas where 'out-of-pocket' expenditure households should be gradually reduced according to the recommendations in the Sláintecare Report are:

- GP service free for all.
- Free drugs subject to strict cost control or public procurement regulations.
- Removal of public hospital overnight charges (€80 per night and capped at €800 per annum).

Table 2.1 Introduction of Single Tier System – Additional Costs

Expenditure Item	Total (Billion €)	Average Annual Expenditure (Millions €)
Expansion of Entitlements	2.8	284
Universal Health Care Transition	0.9	157
System Legacy	2.1	347

Source: Houses of the Oireachtas: Sláintecare Report

The report estimated that a once off injection of approximately €3 billion over six years would be required to facilitate expanded capacity. The report highlighted deficiencies in infrastructure and staffing levels as matters stand. It proposed, in addition to a programme of entitlement expansion which would permanently raise expenditure by an estimated €3 billion per annum, two other funding streams as follows: A) a *System Legacy* fund designed to address shortfalls arising from substantial cuts in system funding, particularly capital funding, in the aftermath of the recession and subsequent austerity measures and B) a *Transitional* funding. The latter would include the implementation of the e-health initiative, investment in primary care as well as 'Out-of-Hours' facilities, training for medical professionals and community diagnostics. The largest single item, comprising 41 per cent of transitional funds, is attached to renovation in the hospital sector and expansion of bed capacity.

The other broad expenditure heading listed is Expansion of Entitlements. This expansion incorporates seven main areas: 1) Expansion of the health and well-being budget, 2) Reduction and abolition of user fees, 3) Expansion of primary care provision, 4) Expanded social care, 5) Additional funds for mental health initiatives, 6) Funds for dentistry and 7) Growth in activity within public hospitals.

Spending within this category amounts to a step shift in funding, phased over a ten-year period. This means that annual funding would rise, cumulatively, over a ten-year period giving an additional cumulative spend of €2.8 billion euro per annum. This figure will be subject to pressures arising from changes in demographics and changes in healthcare costs, along with the rest of the system. However, much of the cost directly offsets savings on direct out of pocket costs incurred by households and would therefore represent a shift in payments from

households to Government paid for out of general taxation or social insurance. Significant out of pocket savings were estimated, in Sláintecare:

- remove inpatient charges for public care (€25 million),
- reduce prescription charges for medical cardholders (€133.6 million), and
- lower the drug payment threshold (€259 million).

The proposals also entail the introduction of free GP funding at the point of access (€455 million) and ending the private costs faced by patients who currently face market rates. Likewise, additional public funding would be required to eliminate private medical practice from public hospitals as recommended in Sláintecare. Over time, this may entice some households to lower or abandon private health insurance if the provision of public health was deemed more satisfactory.

Entitlement expansion is proposed over a ten-year period, at an average rate of some €284 million a year. A front-loading of the projected increase is proposed in the report with the bulk of it happening in the first six years of the programme. Projected annual increases reach a maximum in year three, trailing back until year seven, where additional funding drops to €70 million per annum. This frontloading of expenditure has important budgetary implications in terms of available fiscal space.

Over and above additional transitional costs, funding will be required to:

- maintain healthcare provision at its current level to meet price inflation;
- meet the potentially rising costs of new drugs, interventions and technologies (some of which may also save money); and
- provide for a growing population as well as shifts in the demographic composition of the population due to an aging population.

The Sláintecare Report has provided an estimate of 1.6 per cent growth per annum to cover the additional expenditure associated with demographic change. This is broadly in line with Department of Health estimates and is also consistent with the range of average annual cost growth elsewhere in the literature. The other major cost driver is price inflation. This comes in two parts: (i) general price inflation across the economy (ii) additional price inflation specific to health care goods and technology. Following the Sláintecare Report, we assume an annual average price inflation rate of 1.4 per cent over and above the economy-wide rate.

The European Central Bank's medium-term target for the economy-wide inflation rate is just under 2 per cent per annum.

These cost driver assumptions form the basis of the expenditure exercise we undertake here. What may be referred to as 'stand-still costs' incorporating demographic, general public sector cost-inflation and health sector specific cost-inflation tend towards approximately 5 per cent per annum – just above the long-term average growth in GDP assumed under benign economic growth conditions. These relatively modest growth rates assume some gains in efficiency relative to historical trends, which exhibit higher growth rates in many instances.

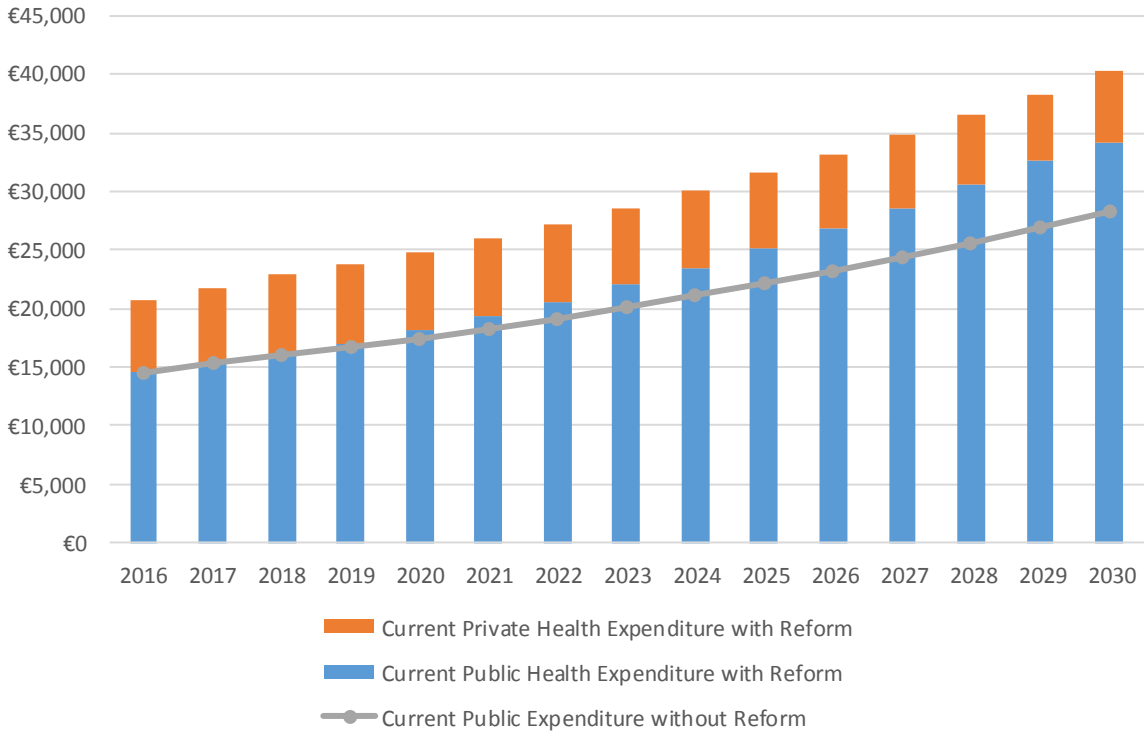
This growth rate determines the growth of aggregate total current health expenditures. In addition, for our core model we assume the public portion of these expenditures, which influences demands on government resources going forward, is determined by a convergence condition. Specifically it is assumed here that, by 2029, public expenditures reach 85 per cent of total current expenditure. Compositional changes reflect expansions in public provision from 2019 onwards consistent with Sláintecare's Expansion of Entitlements.[4]

In this scenario, total health expenditure, incorporating both public and private funding sources, rises significantly in nominal terms out to 2030, nearly doubling in nominal terms over the period from an estimate of €20.8 billion in 2016 to a projected figure of €40.6 billion in 2030 under the central cost driver assumptions. With a transition to a single-tier healthcare system, current public spending grows faster than aggregate expenditure, at an annual rate of between 6 and 7 per cent over the course of the transition period. These increases in public expenditure are associated with declines in total private expenditure from their peak in 2019. Private spending falls from an estimated high of €6.8 billion in 2018 to €6.0 billion in 2030. This results in a larger portion of total current spending falling under public provision, which reaches 85 per cent of total spending in 2029. An 85 per cent public share of current spending would correspond to the upper end of the data range internationally in 2016. This expansion is broadly consistent with the thrust of Sláintecare. If no such transition occurs, public expenditures would be €6 billion lower in 2030 with a matching increase in

[4] See the working paper for a full methodological explanation and for cost estimates arising from alternative assumptions and scenarios.

private expenditure. The estimates assume no additional demand arising from expanded public provision.

Chart 2.1 Nominal Current Expenditure on Health by Financing Scheme 2016-2030 (Millions €)



Sources: See Goldrick-Kelly and Healy (2018)

Incorporating capital expenditure estimates from the Government's National Development Plan and Sláintecare, we can display the implications of system transition for fiscal space.[5] In the absence of system transition, health costs still place significant demands on annual fiscal space. These costs climb to €1.4 billion by 2030. Costs associated with an increase in the relative size of public health expenditure as well as additional capital investment range from approximately €200 to €800 million. Since demands on fiscal space arise due to additional expenditures, the impact of additional Sláintecare capital is once off, only

[5] The no transition case maintains current public spending at 2016 levels as a function of total current expenditures (c. 70.2 per cent) and excludes additional capital expenditure from the Sláintecare report.

occurring as the transition programme begins. The vast majority of annual additional resources required come from additional current public expenditure.[6]

It should be noted that any programme to realise change within the public health system would do so in the context of funding demands for other public projects and departmental funding. To try to capture something of the magnitude of these additional pressures, an approximation of additional non-health exchequer spending in light of demographic and general inflation costs is included within the model. These estimates also include provision for investment spending as outlined in Sláintecare and the latest budgetary releases by government.

Our exercise implies that these claims (inclusive of capital expenditure) are likely substantial (Chart 2.2). Average required additional spending associated with health averages at just under €1.6 billion between 2019 and 2030, though additional expenditures of over €2 billion are required as the transition programme is completed in 2029. The additional resources required to maintain other expenditures and realise capital investment plans average over €2.4 billion and approach €3 billion by 2030.

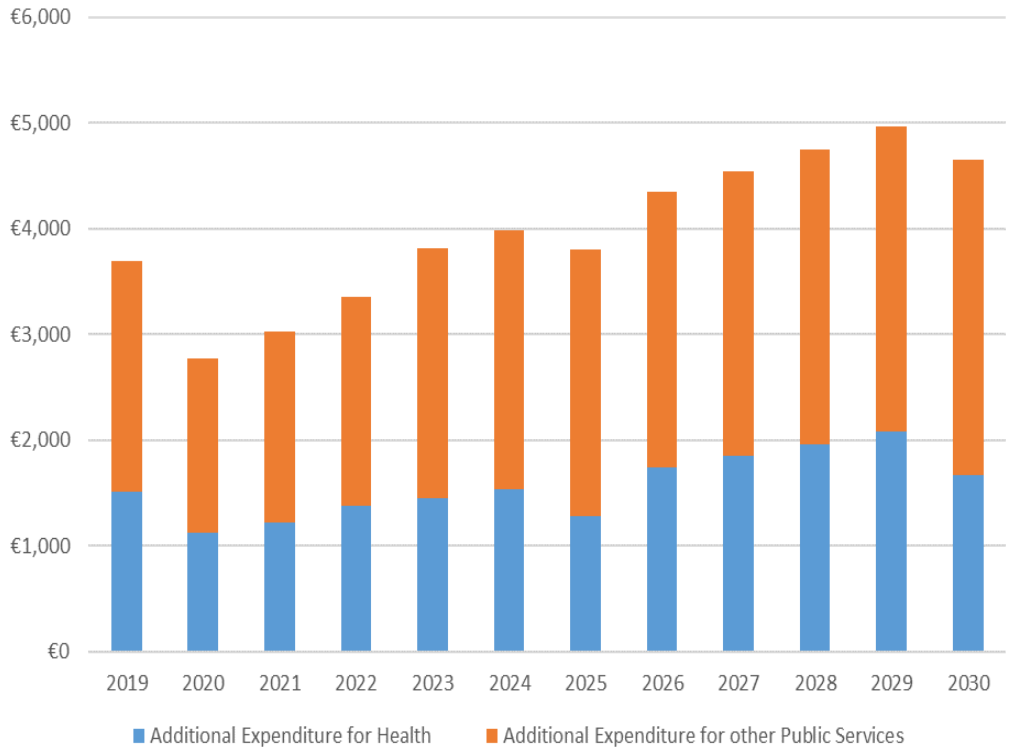
The implications of additional public expenditure in the context of available 'fiscal space' under EU rules must be considered. The fiscal space will depend on rates of growth in GDP, among other factors. Chart 2.3 shows available additional 'fiscal space' under three economic scenarios ranging from 'benign' to 'initial recessionary', after transition and maintenance costs are considered for health and the public service. This can be understood as additional budgetary resources available *after* these costs are accounted for.

Assuming a transition to 85 per cent public current funding by 2030, we estimate that under all three scenarios there is likely to be a need for some additional discretionary revenues at some point over the course of the transition process from 2019 to 2030. This is particularly true in the opening phase of the transition in 2019. Health will have to fight its corner within a constrained fiscal space given cost pressures in competing areas of spending such as education, public transport,

[6] Insofar as this gap is generated from the convergence in the transition scenario towards 85 per cent of total current spending arising from public sources, the gap represents the possible range. Targets between c. 70-85 per cent fall within this range.

water infrastructure and income support for an ageing population.

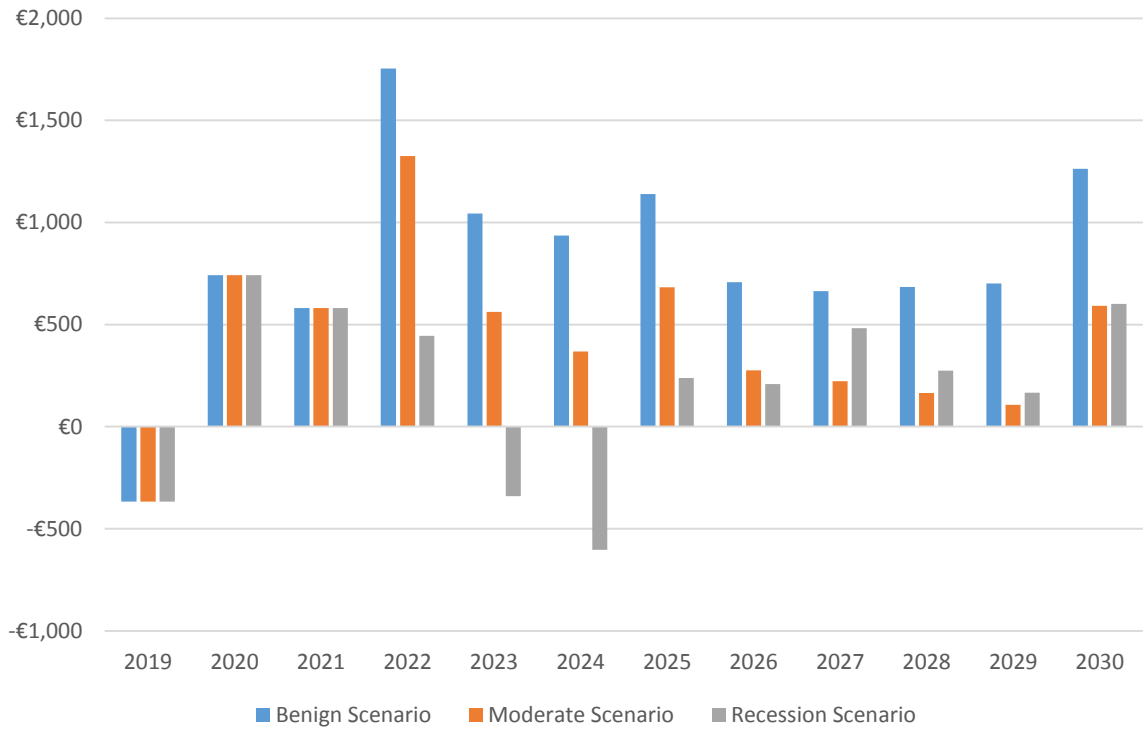
Chart 2.2 Additional Resources Required to Realise Health System Transition and Accommodate Stand-still Costs in Other Public Services (€ Millions)



Sources: See Goldrick-Kelly and Healy (2018)

Discretionary revenue measures can be put in place to increase the fiscal space for public spending and help fund a transition to a new system of healthcare. A government may relieve the pressure on fiscal space and remain within fiscal rules by matching spending increases with revenue increases. Allowing for 'standstill costs' as well as transition under Sláintecare proposals, the amount of 'fiscal space' left varies according to which economic scenario is assumed. Even under 'benign' conditions, total fiscal space left over only amounts to less than 2 per cent of total annual public spending in 2022 – the year when fiscal space is at its largest. This in the context of existing under-spends in other areas of public spending.

Chart 5.3 Estimated fiscal space left over after Sláintecare is implemented (Millions €)



Sources: See Goldrick-Kelly and Healy (2018).

2.4 Concluding Thoughts

Adjustments on the revenue side are very likely to be required to accommodate a transition in the public health system reform, address cost pressures in the existing public system and rectify shortcomings in public spending even under relatively benign economic conditions and cost growth assumptions. It will be difficult to accommodate the necessary growth in health spending through buoyancy arising from economic growth alone. Additional revenue measures will need to be considered carefully in line with general proposals to reform income tax and social insurance. Ultimately, we must be ready to pay for health either from our own pockets (which many cannot afford to do) or through some form of private health insurance (which many cannot afford to do either) or through a reformed system of progressive taxation. Despite the implied increase in taxation, many households would actually see net gains arising out of savings on private insurance premiums as well as a substantial reduction in out of pocket payments.

Notes

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