

Speech

Opening address by Taoiseach Leo Varadkar at the National Economic Dialogue (NED) 2023

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Check against delivery

Good morning and welcome to the eighth National Economic Dialogue. Thank you for your attendance.

My thanks also to Minister McGrath, Minister Donohoe and their officials for organising this year's event.

Thanks also to Professor Carol Newman for agreeing to serve as chairperson and to our rapporteurs who play an important role in our breakout sessions.

And a particular welcome to members of the Oireachtas Committee on Budgetary Oversight.

Dia Daoibh. Is pléisiúir é bheith anseo i gCaisleán Bhaile Átha Cliath inniu

Táim ag tnúth le do thuairimí ar an ngeilleagar agus conas is féidir linn fás geilleagrach a úsáid chun saol daoine a fheabhsú a chloisteáil.

It's good to see so many parts of Irish society represented here in one room. This dialogue is broad and deep and your organisations represent hundreds of thousands, if not millions, of people.

We value your input and expertise.

Whatever happens, please don't be shy about saying what you think and how we need to do things differently to create a better country and a better future for our people. I know you won't be and that's what we're here for.

Cost of living

Madam Chairperson, the economy is in a much stronger position than it was at last year's National Economic Dialogue.

There's a lot to be positive about. A record 2.6 million people are at work. Over 700,000 more people at work than the day I was first appointed to Government. Income tax receipts are growing strongly. The domestic economy and consumer spending are picking up. Consumer confidence is improving and inflation is moderating. The public finances are in good order and better than any point in nearly 20 years.

Despite this good news, we know it doesn't paint the full picture. Many people are not feeling the improvements in their everyday lives. Inflation means that millions of people are worse off in real terms for the first time since 2014.

After years of progress, last year, poverty rates increased for the first time in a long time due to the sharp increase in the cost of living.

Our objective must be to restore the buying power of people's incomes and push poverty rates back in the right direction.

I believe this requires action on several fronts – outside of the budgetary process and within it.

People are right to expect that their living standards should improve when the economy is doing well. Their work drives much of that economic success.

As you know, our limitation isn't the public finances – we have the money – it's the risk of fuelling inflation. We need to be conscious of that risk, but we have a responsibility to take decisive action on behalf of our citizens.

I believe an overly cautious approach could see more people in poverty and financial distress and this is something I will come back to later in my remarks.

Chairperson, when it comes to any household, there are three elements to it, namely:

- i) how much you are paid
- ii) how much you get to keep after tax, and
- iii) how far the money goes.

We need to continue to make progress on all three fronts.

Improving incomes

One of the best ways to help people out of poverty and into prosperity is through good employment. For only the second time in our history, there is a job for everyone who wants one.

We have a plan to keep it that way with a new White Paper on Enterprise – to make sure we don't take our strong economic position for granted.

We're also making sure that each job comes with decent pay and conditions.

We increased the minimum wage this year by more than the rate of inflation projected for this year and we are phasing in a national living wage. It's an important step towards eradicating low-wage employment for all workers. Hundreds of thousands of workers will benefit directly and from knock-on increases.

The increase in the National Minimum Wage for 2024 will be a further step towards achieving the living wage.

I believe improved terms and conditions can go hand-in-hand with employment growth. We are witnessing that as we speak. Statutory sick pay is now up-and-running and workplace tips and gratuities are being protected for the first time. Parental leave has been improved. Wages have never been higher. And we have more jobs, now fewer.

I know that employers have a lot of increased costs coming at them and we will help them as these reforms are phased in. The most tangible evidence of that are the energy subsidies currently available as well as green and digital grants.

We will also improve incomes with a new Public Sector Pay Deal. I hope that discussions can conclude in good time before Building Momentum expires at the end of the year.

This is, of course, a matter for negotiations but I would ask partners to consider focussing on entry-level pay and the earlier years in pay scales. Younger workers and new entrants are often those who bear the highest living costs like rent and the cost of raising a child. We have choices.

It's not just about putting money back in people's pockets. In a tightening labour market, we need to make sure we can attract the best people into the public service. The State is getting bigger and so we need to try even harder to provide a better public service for our citizens.

In the budget, we will also introduce a substantial welfare and pensions package to protect the incomes of the elderly, sick and disabled.

These incomes came close to keeping up with inflation this year, between weekly increases, the expansion of the fuel allowance and the series of one-off payments.

We will have to do the same again, but maybe take a different approach.

One-offs have their place but are not a long-term solution.

Inflation is moderating and prices will fall but they are unlikely to return to what they were.

Reducing income tax

Chairperson, I believe middle-income earners pay too much tax and USC. It's simply not fair that average full-time workers are hit with the higher rate of income tax. And it's not fair that the tax system erodes any pay increase they do get, or overtime worked.

This isn't the norm in competitor countries like the UK, Canada, the US or Australia where the cut-off point is much higher.

In line with the Programme for Government, this budget should make substantial progress on lifting the point at which an individual pays the higher rate of income tax and it should also benefit all income tax payers to ensure fairness.

This will increase take-home pay and will help with consumer confidence and demand. It should also help moderate demands on employers for bigger increases.

In many Nordic countries, indexation of tax bands and credits is automatic. It's not considered to be inflationary. It just means people aren't paying more tax. This is also my view.

Reducing the cost and broadening the scope of services

I believe we need to reduce the cost and broaden the scope of services that underpin a well-functioning society and economy.

Many of our European peers have done it successfully for decades. We are making

Many of our European peers have done it successfully for decades. We are making progress, but not enough.

This year, families with young children are benefiting from a cut of up to 25% in the cost of childcare, part of a package that is dramatically increasing funding for those working in the sector and for quality childcare places. This is a historic move, representing a decisive step towards accessible and affordable childcare.

I will be supporting Minister Roderic O’Gorman in his ambition to take another big step in this year’s Budget.

Affordable childcare is good for society. It reduces the cost of living for families and enables many parents to return to the labour market more quickly if they want to.

I would also like to see further reductions in the cost of accessing healthcare, education and higher education.

Child Poverty Unit

Colleagues, our vision is to make Ireland the best country in which to be a child. We must give everyone the best start in life, empowering them to make the most of that start through education, equal opportunities and good jobs to work towards a better future.

We have created a Child Poverty and Well-Being Unit in my department. Many of you here today provided advice on how best to set this up and I thank you for that input.

The aim is to ensure co-ordination across Government, provide strategic leadership from the centre of government and bring enhanced accountability to the child poverty and well-being agenda.

It’s early days, but I want the Unit to identify the policy priorities for acceleration and investment in the years ahead – actions that will make a difference – in income, services and employment.

Child poverty and well-being will be a major theme of Budget 2024. I’ll make sure of that.

Infrastructure

On the capital side, it's clear that we have to step up our level of ambition to keep pace with a rapidly growing population.

When I became Taoiseach again a few months ago, I changed the name of the Department of Public Expenditure and Reform to the Department of Public Expenditure, NDP Delivery and Reform. I did so for a particular purpose.

Far too many important public capital projects are taking far too long, including schools, housing, hospitals, Garda stations and public transport projects, among others.

I want this department to bring about a step change when it comes to the implementation of the National Development Plan, Project Ireland 2040.

Minister Paschal Donohoe has made some changes already, taking direct charge of the Project Ireland 2040 Delivery Board, providing quarterly reports to Government and reducing the administrative burden in major capital projects.

It's something we've considered for some time, but I think we've now reached the point when we need to revise upwards our capital ceilings for the remainder of the decade. We're simply in a different place to when they were first agreed. Construction inflation and population increases exceeded our projections.

Yes, the capacity to spend it will be a challenge, but we need to make sure that every single shovel-ready project gets started now – that's schools, roads, sporting and arts infrastructure and health facilities. And we need to be creative and timely in reallocating money when issues inevitably arise.

It's not credible to stall funding for such projects in our current fiscal position.

Housing

Colleagues, as you know, the country is in the middle of a very deep housing crisis. We must do whatever it takes to solve this social crisis and reverse the trend of rising homelessness and falling home ownership.

It's also an economic concern. In a very tight labour market, we need to expand our housing stock to facilitate an expanding economy.

Our task has been made more challenging by high levels of inward migration from Ukraine and elsewhere and a rapidly expanding population. We will have to revise upwards our annual targets for housing completions.

We are at 30,000 a year now. Much more is achievable.

But we are making real progress:

- 400 first-time buyers are purchasing their first home every week, the highest we have seen since the Celtic Tiger period
- there are 60,000 more homeowners than 10 years ago
- we are building more social housing than any year since 1975
- there are 40,000 more families in social housing than ten years ago and contrary to some false claims, the proportion of people with social housing has gone up, not down, in the past decade
- we are providing grants to help people renovate old buildings and breathe new life into them, thus creating new homes in towns, villages and rural areas throughout the country

Housing for All is working and, much like Project Ireland 2040, we need to focus on implementation – making sure the initiatives we have committed to are implemented – quickly and effectively.

It's not just about how big the capital envelope is, though that's important; it's also about being smart in the ways we incentivise new construction, help renters and landlords.

We need faster planning decisions, more timely and fewer judicial reviews, more serviced land and a scale-up in activity by the LDA.

Fiscal discipline

Colleagues, the public finances are in very good order and it's only right that we ensure some surplus tax receipts are set aside.

This will mean we can continue to respond to risks that materialise in the years ahead.

I endorse Minister Michael McGrath's approach, which involves using windfall Corporate Tax receipts for additional capital investment, debt reduction and a future fund.

How that money is invested is as important as the quantum.

And I'd be interested in your views on that – abroad or at home and in what sort of assets. And, what should be the conditions for draw down.

We need a fund for the future, for future pension and healthcare costs. An insurance policy against austerity.

I served in Government when we were forced to cut billions – not spend billions – in our annual budget.

The first budget I was involved in was Budget 2012. My job was to find €400 million in savings from the Department of Transport, Tourism and Sport's vote.

We say we have tough choices now, but they really were difficult choices to make. And the way to avoid it ever happening again is sustained economic growth and sound management of the public finances.

Excessive caution

I know today you will hear a lot about choices and trade-offs. Whether we should save or spend the surplus, increase public spending or decrease taxes.

I don't see these as trade-offs. You can do all these things if you have a growing economy. In fact, it's what we've been doing for years now. That's why economic growth is important.

These are false choices, false dichotomies, even if they do make for good copy or straightforward polling questions. We can increase spending, reduce taxes, reduce debt and set up a savings fund while we have growth.

The real choice is (a) the quantum and (b) the split.

There are always risks on the horizon.

Most risks have upside and downside potential. Look at the climate transition or the digital transition.

Climate change is the single greatest threat facing humanity today and we must be the generation that turns the tide.

In the coming weeks, I will convene an Energy Independence Summit to discuss how we can become energy independent by harnessing our untapped renewable energy resources.

It involves offshore energy, but also onshore, solar, battery, hydrogen, interconnection, finance, planning. This is our moonshot for the 21st century and we must grasp the opportunity.

Ireland has shown time and again that we can overcome big risks – the financial crash, Brexit, the pandemic, inflation. There will always be risks on the horizon and it's the job of Government to manage that risk.

What I've learned in 12 years of Government is that there is a cost to excessive caution, to pessimism bias.

The financial crisis, Brexit, the pandemic and inflation all have something in common. The worst impacts on the economy did not come to pass and we recovered more quickly than many predicted.

If Government takes an overly cautious approach, in a cost-of-living crisis, it's making a conscious decision to reduce living standards. That's not something I can stand over given our fiscal position.

Having said that, we have not, and we never will, use temporary revenues to fund permanent, recurring day-to-day spending.

We have managed the public finances well for the last decade, while reducing income taxes, increasing public spending and growing jobs.

The constant is a commitment to the economic model that has served us so well.

- investing in talent and welcoming talent to our shores
- a stable and competitive tax offering
- political stability
- a track-record
- a pro-business environment
- supporting new trade agreements; and
- our place at the heart of the European Union, advocating for more integration not less, the single market and the Permanent Structured Cooperation (Pesco) and supporters of enlargement

I believe the biggest risk we face is a fundamental change in our economic, trade, tax and foreign policy – not an international shock, nor the next Budget.

Conclusion

Go raibh maith agaibh as ucht bhur chuid ama inniu agus táim ag súil go mór le bhur aiseolas a chloisteáil.

I look forward to hearing your feedback from the breakout sessions.

We value your advice. It does influence the policy decisions we make.

This is about creating a better country and a better future for our people.

BETA

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