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Boston or Berlin? How does Ireland's tax and spending compare?

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Boston or Berlin? How does Ireland's tax and spending compare?

Niall Conroy[1]

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Abstract

It is often thought that countries can simply choose between a high-tax, high-spend model or a low-tax, low-spend one when it comes to fiscal policy. While there is some truth to this, the reality is more complex. Factors such as demographics and economic growth also affect the level of public spending and taxation.

This paper looks at the size of government in Ireland compared to other countries, taking these factors into account. At first glance, Ireland appears to be a low-tax, low-spend country relative to other high-income European countries. However, this is largely driven by Ireland's relatively young population and strong economic growth.

A younger population means the government currently spends less on pensions and healthcare than it would otherwise. As Ireland's population ages, spending in these areas is expected to rise. This demographic shift will gradually bring Ireland's government spending more in line with levels seen in other European countries. Ireland's strong economy also helps to explain why public spending is low relative to national income.

Ireland's government revenue is also lower than most European countries. This is mostly due to lower payment of social contributions. Both employers and employees pay fewer social contributions than in most European countries.

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1. Introduction

Is Ireland a high-tax and high-spend country like many in Europe?[2] Or is it more like other high-income countries outside Europe, which tend to have smaller governments?

It's often thought that countries can choose between being high-tax, high-spend or low-tax, low-spend when it comes to fiscal policy. While this is partly true, other factors—like a country's demographics and economic growth—also play a key role in shaping tax and spending levels at any given time.

This paper looks at the size of government in Ireland compared to other countries, taking these factors into account. At first glance, Ireland appears to be a low-tax, low-spend country relative to other high-income European countries. However, this is mainly due to Ireland's relatively young population and strong economic growth.

Ireland has a relatively young population, with fewer people aged 65 and over. A younger population means the government currently spends less on pensions and healthcare than it otherwise would. As Ireland's population ages, spending in these areas is expected to rise. This demographic shift will gradually bring Ireland's government spending more in line with levels seen in other European countries.

Ireland's strong economy also helps explain why its government is currently spending less as a proportion of its national income than other European countries. After adjusting for these two factors, Ireland spends 3.3% of national income less than other European countries (€1,800 per person).

One area where Ireland is already a relatively high spender is healthcare. As the population ages, this is likely to rise further, making Ireland even more of an outlier.

[2] The title of this paper alludes to a quote from Mary Harney (the then minister for Enterprise, Trade and Employment), when she was asked what direction Ireland was going. She replied that Ireland was "Geographically (…) closer to Berlin than Boston, spiritually we are probably a lot closer to Boston than Berlin". See Fischer (2014) for further context around this quote.

Ireland collects a lower level of government revenue than most other high-income European countries. This is equivalent to 4.7% of national income, or €2,600 per person. When excess corporation tax is excluded, the gap increases to 8.6% of national income, equivalent to €4,700 per person.

This is mostly due to social contributions. Both employers and employees pay fewer social contributions than in most European countries. At the same time, Ireland collects a very high level of corporation tax. This is partly due to the large number of multinationals based in Ireland.

Looking ahead, Ireland faces major spending pressures from both an ageing population and climate change. The recently introduced savings funds are a step in the right direction and can help offset some of these future costs. However, these funds alone will not be able to cover all future spending pressures. As a result, additional revenue will need to be raised, or some existing spending will need to be reallocated. The more the government saves today, the smaller the fiscal adjustments required in the decades to come.

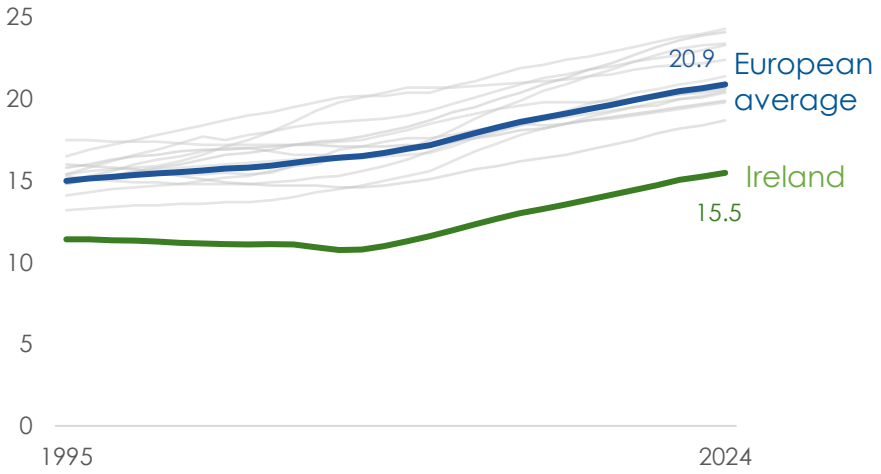
2. Demography is destiny?

Before looking at government spending and revenue as a share of national income, it's important to consider demographics. This section compares Ireland's population age structure to that of other high-income European countries.[3]

We divide the population into three broad age groups. First, we look at those aged 65 and over. This group is typically retired and more likely to receive pension payments. They also tend to use healthcare services more regularly.[4] Ireland currently has a much smaller share of older people compared to other countries.

1: Ireland has fewer older people at present

Percentage of the population aged 65 or over



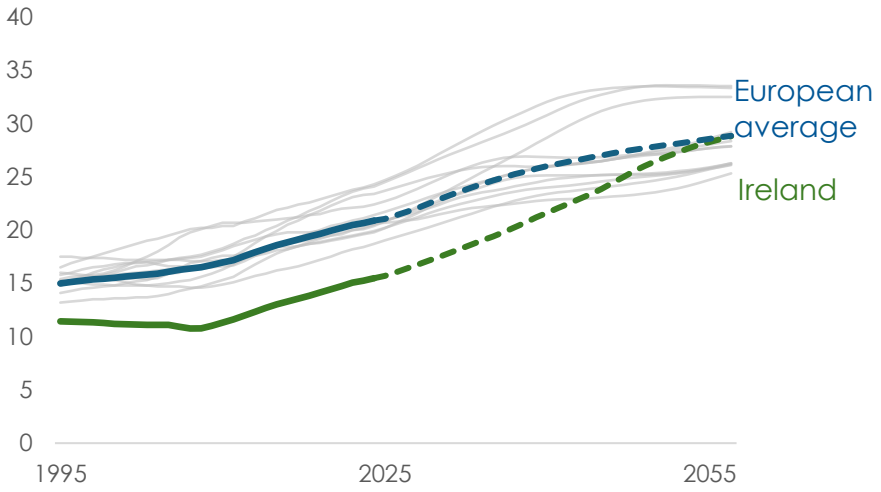
Sources: CSO and Eurostat.
Notes: High-income European countries shown are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain and Sweden.

However, this is expected to change. According to CSO projections (2024), the share of people aged 65 and over will reach 20% by 2035 and continue rising. By 2050, Ireland's age profile is expected to match the European average. In fact, the share of over-65s in Ireland by 2050 is projected to be higher than in any high-income European country today. This shift will increase demand for pensions and healthcare.

[3] If you compare Ireland's demographics to high-income countries outside of Europe, a similar pattern emerges, with Ireland having a much younger population.
[4] See Rennemark (2008) for a discussion of the link between old age and healthcare utilisation.

2: Ireland's population is ageing and will converge to European norms

Percentage of the population aged 65 or over

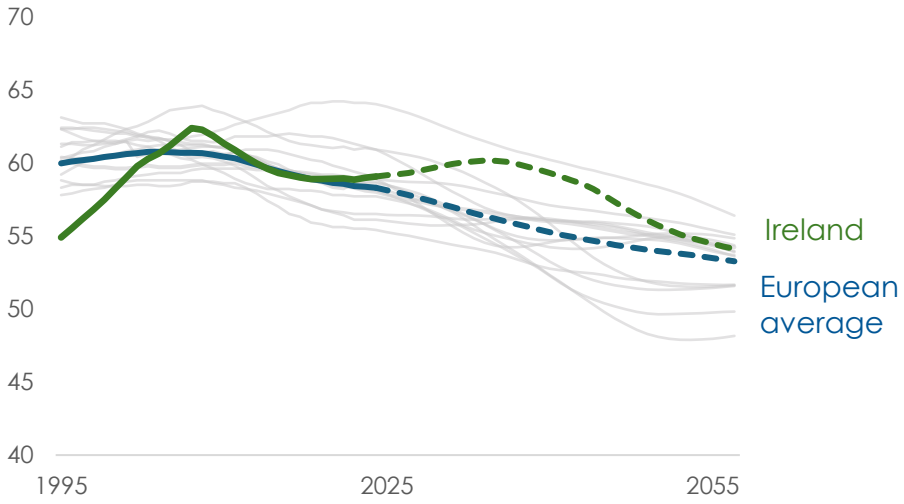


Sources: CSO, Eurostat and European Commission (2024).
Notes: Dashed lines indicate projections. Irish projections come from the M2 scenario of the CSO (2024) population projections. For other countries, projections from the European Commission Ageing Report are used. High-income European countries shown are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain and Sweden.

The second group includes people aged 20 to 64. These are typically the working years before retirement. Ireland's share of the population in this group is currently similar to other European countries. However, it's expected to rise in the 2030s and 2040s. This reflects the large number of young people in Ireland in earlier decades.

3: Ireland has a normal share of working age population

Percentage of the population aged 20 - 64



Sources: CSO, Eurostat and European Commission (2024).
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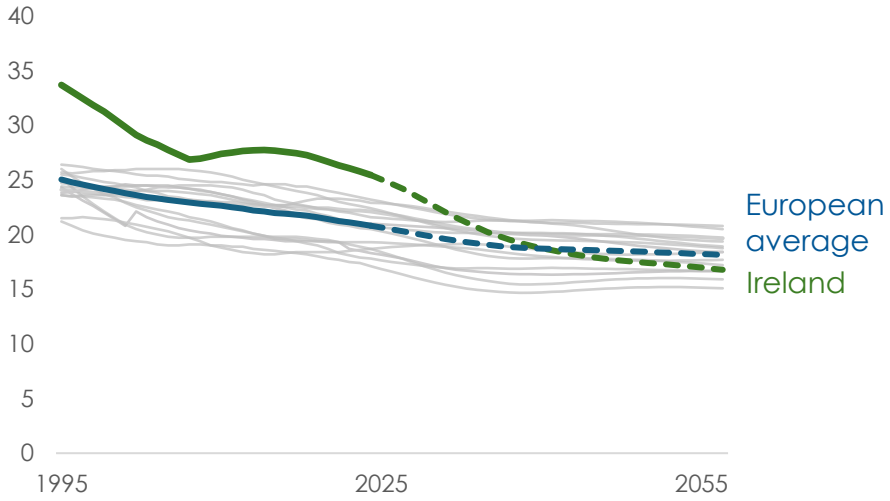
The final group includes those aged 19 and under. Most are in full-time education and not yet in the workforce. They drive demand for education services and child-related social protection spending. Ireland has a higher share of young people than other high-income European countries. However, this is expected to decline over time and eventually align with European norms.

4: Ireland's population is remarkably young, for now

Percentage of the population aged 19 or under



Sources: CSO, Eurostat and European Commission (2024).
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3. Accounting for demography in public spending

Because demographics can strongly influence spending, we would like to adjust observed government spending for demographics.[5] We follow the approach used by Redmond (2012), to make this adjustment.[6]

In our case, we want to estimate what Ireland's spending would look like if its population had the same age profile as other high-income European countries. This involves adjusting spending in areas that are most sensitive to age—such as pensions, healthcare, education and child-related social protection.

For example, when examining spending on pensions or healthcare, our adjustment parameter takes the form:

Adjusted Irish pensions spending =

$$\text{Irish pensions spending} * \frac{\textit{European share of population aged } 65+}{\textit{Irish share of population aged } 65+}$$

In this case, "adjusted Irish pension spending" estimates what Irish government spending on pensions would be if it had the same age profile as other high-income European countries.

We focus on four key areas most affected by demographics: education, child and family social protection, healthcare, and old-age social protection.

For education and child-related social protection, we use the population aged 19 and under as the main driver of demand. For healthcare and old-age social protection, we use the population aged 65 and over. While these populations are not the sole users of these services, they give the best proxy for population driving spending in these areas.

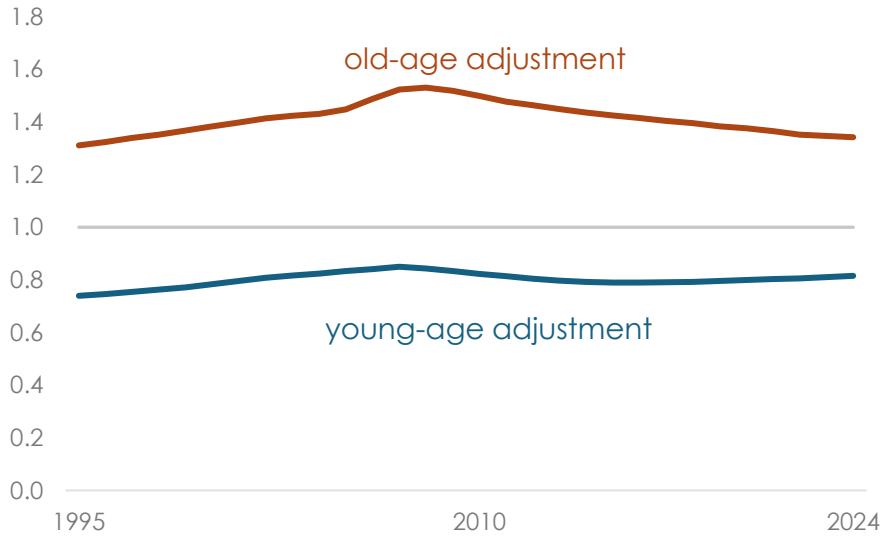
5 The practice of adjusting the population is very common in health and medical research. The WHO publish a "standard" demographic structure of the population which allows other countries to compare to. See Ahmad *et al.* (2001) for details on the WHO population standard.
6 This methodology has subsequently been used by Meaney, Oyewole and Bedogni (2018).

The adjustment factors used to scale Irish government spending up or down are shown below. For example, the old-age adjustment factor in 2024 is 1.34. This means that if Ireland had the same age structure as other European countries, spending on pensions or healthcare would likely be 34% higher.

In contrast, the young-age adjustment factor is 0.82. This suggests that if Ireland had a similar share of young people as other European countries, education spending would likely be 18% lower.

5: Old-age spending needs to be adjusted upwards to account for demographics

Adjustment factor for old or young age related spending



Notes: Each line shows the ratio of the European share of the population in that age category to the Irish share of the population in that age category. A number above one means you should adjust Irish spending upward in that area to compare to other countries. Conversely, a number below one means you should adjust Irish spending in that area downwards to compare to other countries

4. Examining government spending areas that are sensitive to demographics

Given that demographics impacts on different areas of spending, we examine specific parts of government spending separately.

Although government departments and functions vary across countries, we can still make meaningful comparisons. We do this using COFOG (Classification of the Functions of Government) data, which applies a consistent method for categorising spending across countries.

To facilitate cross-country comparisons, we examine general government spending relative to national income.[7] For Ireland, we use modified gross national income (GNI*), while for other countries, we use GDP.[8]

Our analysis focuses on other high-income countries, both in Europe and beyond. This is because high-income countries tend to have larger government sectors. Wagner's Law (1911) helps explain why.

First, many public services—like healthcare—are highly responsive to rising incomes.
Second, economic growth leads to increased complexity, requiring the continuous development of the legal and regulatory frameworks.

Third, urbanisation brings about negative externalities, which are typically addressed by government agencies.

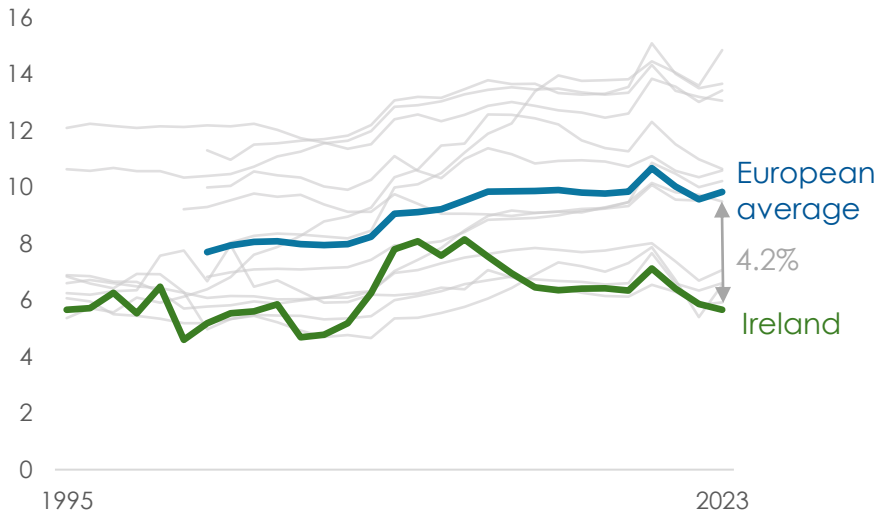
[7] For a historical perspective on government revenue and spending in Ireland, see FitzGerald (forthcoming).
[8] For all countries, we exclude the costs of recapitalising banks in the aftermath of the Great Financial Crisis. To do this we use the dataset compiled by Villar Burke (2017).

Pensions spending

First, we examine old-age social protection spending as a share of national income. This includes pensions paid to citizens who meet qualifying criteria such as age and lifetime social contributions. It also covers pensions paid to retired public sector workers. Before adjusting for demographics, Ireland consistently spends less in this area than other high-income European countries.

6: Ireland spends less on old-age social protection due to having fewer older people

General government spending on old-age social protection payments, percentage of national income

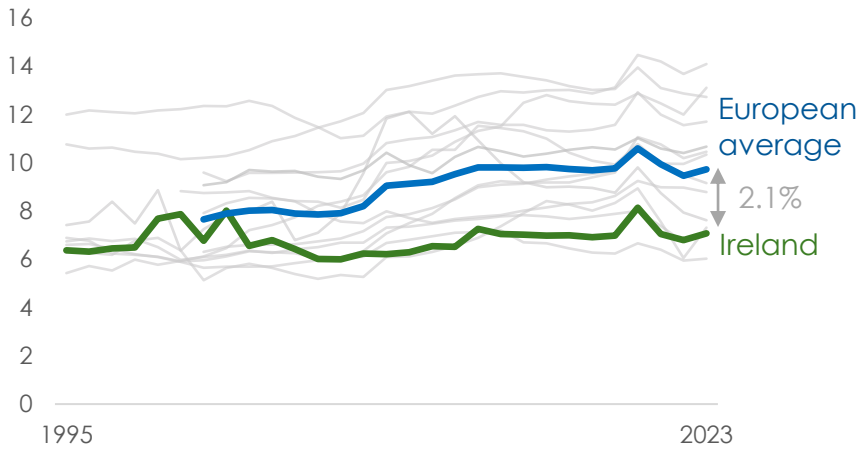


Notes: GNI* used for national income in Ireland, GDP for other countries. Countries used are Austria, Belgium, Denmark, Finland, France, Italy, Ireland, Netherlands, Norway, Portugal Spain, Sweden, and Switzerland.

When we adjust old-age spending for demographics, Ireland's spending is much closer to the average in high-income European countries. About half of the gap can be explained by Ireland's smaller share of older people.

7: After adjusting for demographics, Ireland's spending on old-age social protection is closer to average levels

General government spending on old-age social protection payments, adjusted for demographics percentage of national income



Notes: GNI* used for national income in Ireland, GDP for other countries. Countries used are Austria, Belgium, Denmark, Finland, France, Italy, Ireland, Netherlands, Norway, Portugal Spain, Sweden, and Switzerland.

Even after adjusting for demographics, Ireland still spends significantly less on old-age social protection—2.3% of national income below the European average in 2023.

Several factors may explain this gap. The retirement age or other eligibility criteria could play an important role.[9] The easier it is to qualify for old-age social protection, the higher the level of spending you would expect.

The number of retired public sector workers also matters. Countries with larger public sectors in previous decades tend to have higher pension costs today.

Finally, the relative generosity of pension payments across countries would play an important role. Eurostat (2024) data suggest that Irish pension payments per recipient are low compared to other high-income European countries after adjusting for prices.[10]

[9] The Pensions adequacy report (2024) suggests the pension age in most European countries is slightly lower than in Ireland (66). However, many countries have multiple retirement ages for the main statutory pension scheme. This typically depends on factors such as the length of time someone has been making contributions, the benefit level they are receiving and the number of children they have.
[10] In 2021, of the 14 high-income European countries examined, Ireland ranked 12th for pension payments per recipient after adjusting for prices. In nominal terms, Ireland ranked 6th of 14 countries.

The *2024 Pensions Adequacy Report* (European Commission, 2024) highlights that Ireland is unusual in not having pension payments linked to any formal indexation rule. Almost all countries in Europe have a formal rule linking payments to changes in prices and/or wages.

While spending levels are important, it's also essential to consider the outcomes and effectiveness of that spending.

Old-age social protection outcomes

One way to assess how well the social protection system supports older people is by examining the at-risk-of-poverty or social exclusion rate.[11] Of course, many other factors also influence this, such as past employment patterns and private pension coverage.

Roantree, Maitre and Russell (2024) show how the at-risk-of-poverty rate among older people in Ireland fell sharply in the early 2000s. This was largely due to a 50% real increase in the maximum State Pension during that decade, while median disposable income rose by 28%. The at-risk-of-poverty rate among those aged over 65 in Ireland is now close to European average levels.

More generally, Roantree (2025) shows the key role taxes and transfer play in Ireland in redistributing income. Market income inequality in Ireland has been relatively consistent in Ireland since the late 80's. Taxes and transfers have played a greater role and have reduced income inequality in Ireland over this period.[12,13]

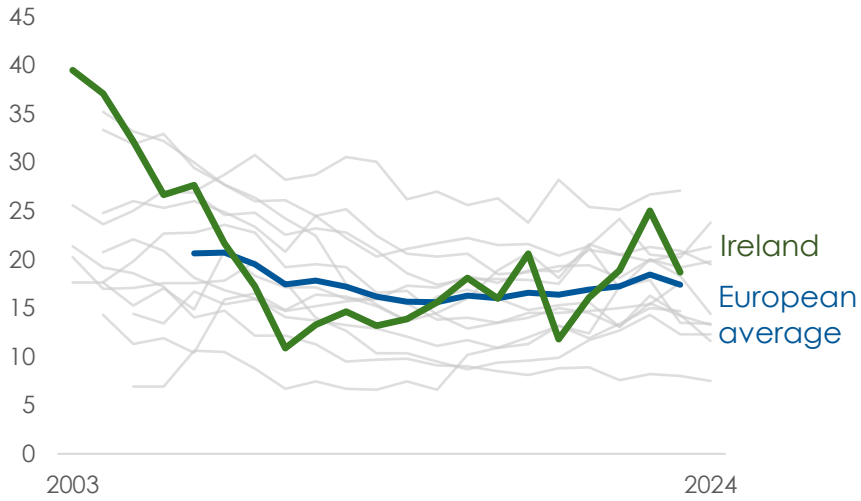
We can see that the fall in old-age poverty that Ireland experienced in the early 2000's was unique in Europe. Since then, poverty rates among

[11] This measures captures three concepts. First, those at risk of poverty. That is, those with an equivalised disposable income (after social transfers) below 60% of the national median. Second, those experiencing severe material deprivation. Formally, this means experiencing an enforced lack of at least 7 out of 13 deprivation items. Thirdly, those living in very low work intensity households. However, this is does not apply to those aged over 65, who are assumed to be retired.
[12] As Thewissen *et al.* (2018) show, this is relatively unusual, most advanced economies have seen income inequality rise over this period.
[13] In 2019, Ireland had the fourth highest market income inequality in the Europe (EU27 plus Norway, Switzerland and Serbia). After taxes and transfers, Ireland was thirteenth for income inequality. This suggests a stronger role for redistribution via taxes and transfers in Ireland (Roantree, 2025).

older people have remained in line with other high-income European countries.

8: Poverty rates of the old-age population have fallen in Ireland

Percentage of those aged 65 or over at risk of poverty or social exclusion



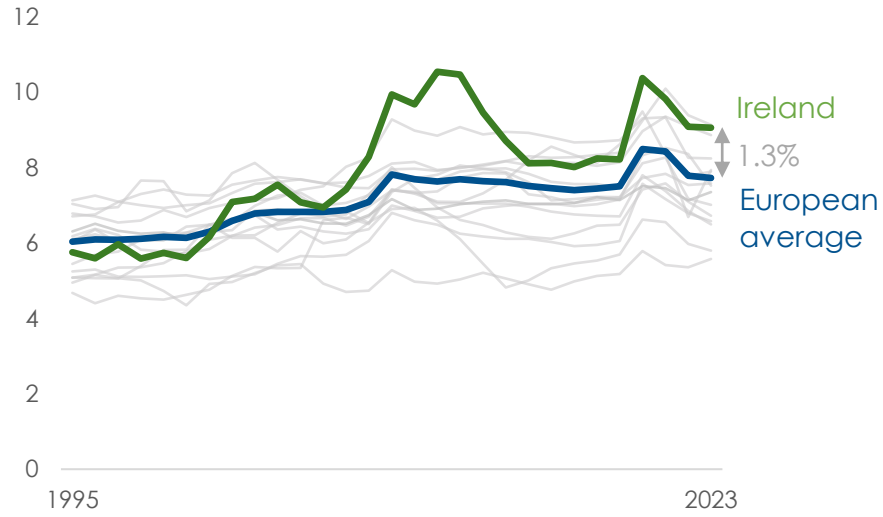
Source: Eurostat and authors calculations.
Notes: Those at risk of poverty or social exclusion are those who meet one or more of the three criteria. First, those at risk of poverty, which is those with an equivalised disposable income (after social transfers) below 60% of the national median. Second, those experiencing severe material deprivation. Formally, this means experiencing an enforced lack of at least 7 out of 13 deprivation items. Thirdly, those living in very low work intensity households. However, this is not applicable in this instance, as those aged 65 and above are assumed to be retired.

Health spending

Healthcare is the other area heavily influenced by the size of the old-age population. Older people typically need more healthcare due to their complex and costly medical needs.[14] Given Ireland's relatively young population, one might expect Ireland's healthcare spending to be low compared to other European countries.

9: Health spending in Ireland is amongst the highest in Europe

General government spending on healthcare, percentage of national income



Notes: GNI* is used for national income in Ireland, GDP for other countries. Countries shown are Austria, Belgium, Denmark, Finland, France, Italy, Ireland, Netherlands, Norway, Portugal, Spain and Sweden.

However, government spending on healthcare in Ireland is among the highest in the OECD, as shown by Casey and Carroll (2021).[15] Wren and Fitzpatrick (2020) suggest that high general wage levels in Ireland contribute to the high cost of healthcare.[16] In addition, healthcare has a high elasticity of demand, meaning that demand for healthcare tends to grow even faster than income. Sicari and Sutherland (2022) point to

[14] See Soley-Bori *et al.* (2020)

[15] Comparability across countries is tricky due to differences in classification and measurement issues. This is particularly acute when using the system of health accounts data, where long-term care can be attributed to health or social care. Different countries take different approaches to classifying this spending, which reduces comparability. As a result, we use COFOG data, which uses a consistent classification of spending across all countries.

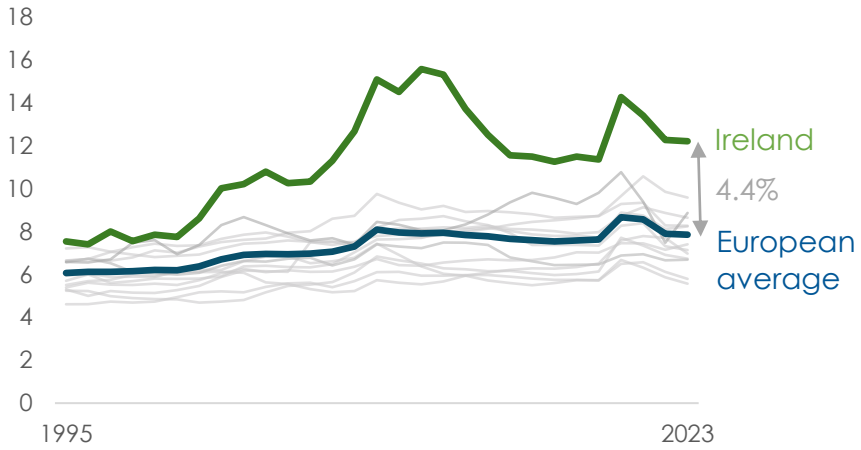
[16] Wren and Fitzpatrick (2020) find that health costs are high in Ireland, even after accounting for differences in how social care expenditure is allocated across countries. Some long-term care spending is classified as health spending in Ireland, which is classified as social spending in many other OECD countries. Wren and Fitzpatrick (2020) show that Ireland's ranking for public spending in the EU15 drops from 5th to 6th when combined with social spending on health.

Ireland's heavy reliance on hospital care as a major driver of high healthcare costs.

After adjusting for demographics, Ireland stands out even more as a high healthcare spender.[17] By this measure, Ireland ranks as the highest health spender in every year examined. Using headline figures, Irish health spending is almost €4 billion higher than an average high-income European country of similar size. After adjusting for demographics, this gap widens to almost €13 billion.[18]

10: Ireland's health spending is exceptionally high given its young population

General government spending on healthcare, adjusted for demographics (percentage of national income)



Notes: GNI* used for national income in Ireland, GDP for other countries. Countries shown are Austria, Belgium, Denmark, Finland, France, Italy, Ireland, Netherlands, Norway, Portugal, Spain and Sweden.

Eurostat provides a broad breakdown of government healthcare expenditure. According to this data, Ireland's spending on medical products and general hospital services is close to the average for high-income European countries. However, spending on outpatient services in Ireland is significantly higher than in other countries.[19]

It is important to note that this data reflects government spending on healthcare. Out-of-pocket expenses and private health insurance also play

[17] For example in 2023, we take health spending as a share of national income (9.1% of GNI*). This is then multiplied by the demographic adjustment factor of 1.35, giving spending of 12.2% of GNI*

[18] The €3.9 billion figure is based on Irish health spending being 1.3% of national income higher than in other high-income European countries. This is based on 2023 nominal GNI*. The €13 billion figure is based on health spending being 4.5% of national income higher than in other high-income European countries.

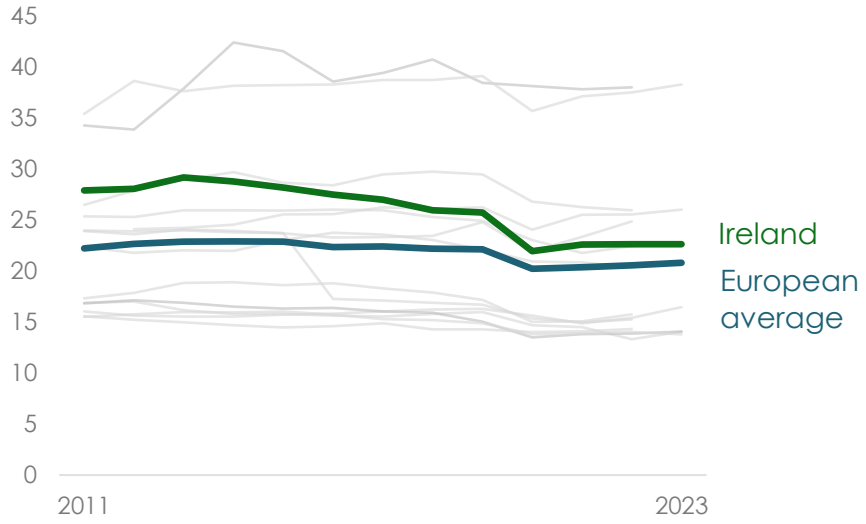
[19] There are potential inconsistencies between classification of spending in different service areas. As a result, we encourage caution when interpreting these results.

significant roles in financing healthcare in Europe. Using the system of health accounts, we can compare the relative roles of the private and public funding across countries.

In Ireland, about 25% of healthcare costs are financed by out-of-pocket payments and private health insurance. The remaining 75% is funded by the State. Private sector funding plays a slightly larger role in Ireland than elsewhere.

11: The private sector now accounts for a quarter of health costs in Ireland

Percentage of healthcare costs covered by out-of-pocket expenses or private health insurance



Source: Eurostat, system of health accounts. In order to calculate the high-income average for 2023, countries with missing data in 2023 are assumed to be unchanged from 2022.

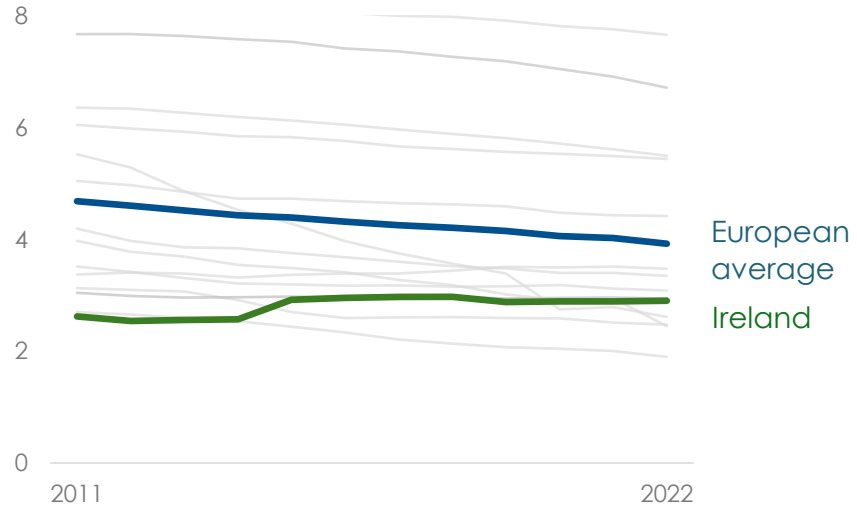
Health spending in Ireland has risen considerably in recent years. Shine and Hennessy (2024) compared spending growth with activity levels in acute hospitals.[20] Between 2016 and 2022, there was a 3.8% increase in activity in acute hospitals.[21] In contrast, inflation-adjusted spending rose by 45% and staffing grew by 29%.[22] This suggests that the cost of delivering health services has increased substantially faster than general prices since 2016.[23] Improving productivity in the health sector will be key to meeting increased demand for services in the coming years.

[20] Acute hospitals account for about one third of healthcare spending in Ireland.
[21] This is after adjusting for complexity of treatment and the relative costs of different types of care. Covid-19 may have had an impact on activity in 2022. Brick, Kakoulidou and Humes (2025) suggest activity increased in 2023 and 2024.
[22] Nominal spending has increased by 68%.
[23] While activity has risen by 3.8%, there could have been improvements to the health system apart from increased activity, such as improvements to patient and staff experience.

Another potential explanation for high healthcare costs in Ireland is a lack of infrastructure. Conroy and Timoney (2024) found that healthcare infrastructure in Ireland is 50% lower than in other high-income European countries. This is reflected in Ireland's low hospital bed capacity.

12: Irish hospital bed capacity remains low

Hospital beds per thousand of population



Sources: Eurostat.
Notes: Hospital bed capacity here includes both public and private facilities.

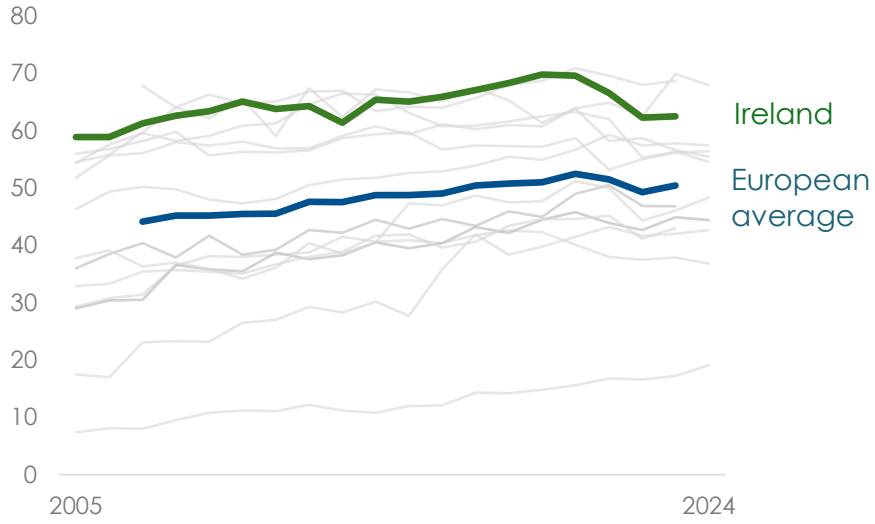
Health outcomes

Healthcare expenditure is just one aspect to consider It's also important to consider the health outcomes achieved from this investment. Overall, Ireland performs well on health outcomes compared to other EU countries (OECD, 2024b).[24] Self-reported health is notably higher than the average of other high-income European countries. This is the case in all age categories. While self-reported health has some limitations (it can be impacted by cultural factors or norms), it remains a useful indicator of overall population health.

[24] The prevalence of cardiovascular disease is well below average. However, cancer rates are still relatively high in Ireland.

13: Ireland has high self-reported health

Percentage of those aged 65 or over describing themselves as being in good or very good health



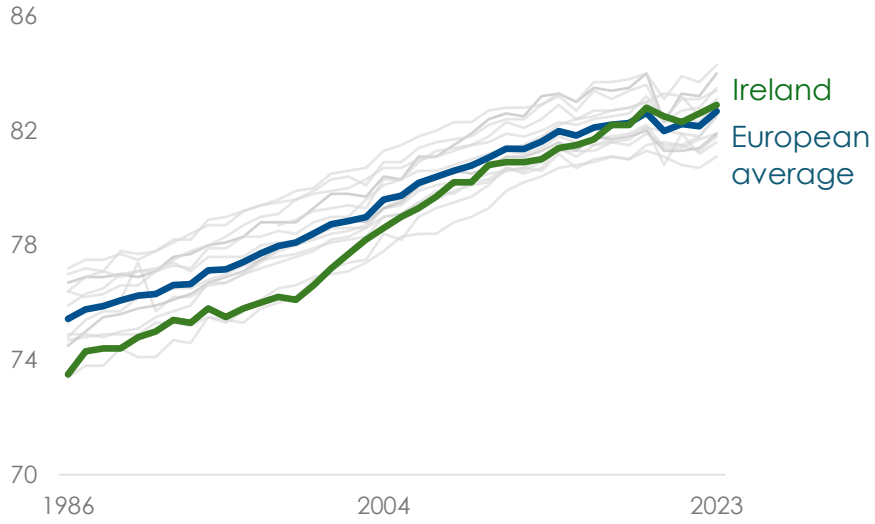
Source: Eurostat, authors calculations

Life expectancy has improved significantly in Ireland. Having been well below average in the 80s and 90s, Ireland has converged to high-income European levels of life expectancy.[25] Ireland also performs strongly on healthy years of life expectancy—both at birth and at age 65.

[25] See Eighan *et al.* (2020), they find that age adjusted mortality rates had fallen in Ireland, particularly respiratory and circulatory diseases.

14: Life expectancy in Ireland has improved, catching up to other high-income countries

Life expectancy at birth, years



Source: Eurostat and authors calculations

Overall, health spending in Ireland is very high, but Ireland does achieve relatively good health outcomes. This raises a key question: could similar outcomes be achieved with a lower level of spending?

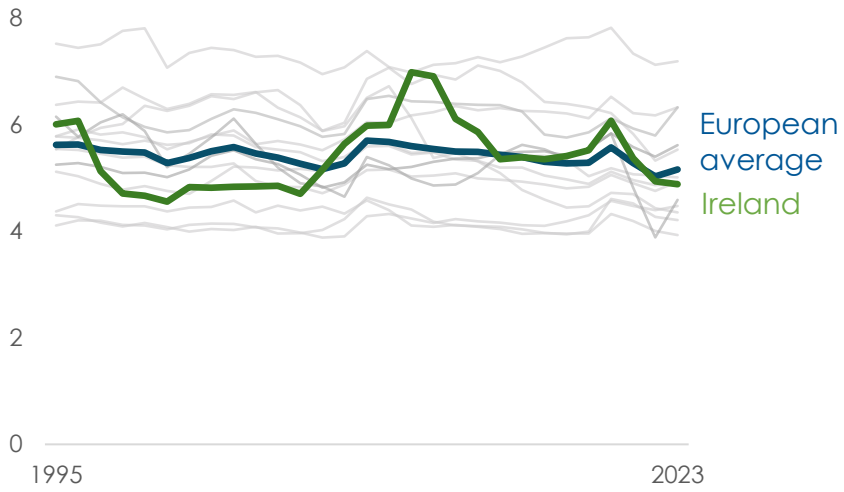
Sicari and Sutherland (2022) estimate that health spending in Ireland from 2004-2019 was less efficient than in most high-income countries. Their findings suggested that other countries achieve similar outcomes while spending about 15% less than is the case in Ireland. If Ireland was to do this, it would require improvements in productivity and the efficiency of delivering care. Shifting more care from hospitals to community settings—like primary care centres and step-down facilities—could help reduce costs. Recent IMF (2025) analysis also indicates that further gains in healthcare efficiency are possible.

Education spending

Demographics are also expected to play a significant role in education spending. The more young people in a country, the higher the level of education spending one would expect.[26] This demographic effect is the opposite of what is seen with health or old-age social protection. Ireland has historically had a much higher proportion of its population aged 19 or under. However, this is expected to change in the coming decades as Ireland's population ages (Section 2).

15: Education spending in Ireland is close to European average levels

General government spending on education, percentage of national income



Notes: GNI* used for national income in Ireland, GDP for other countries.

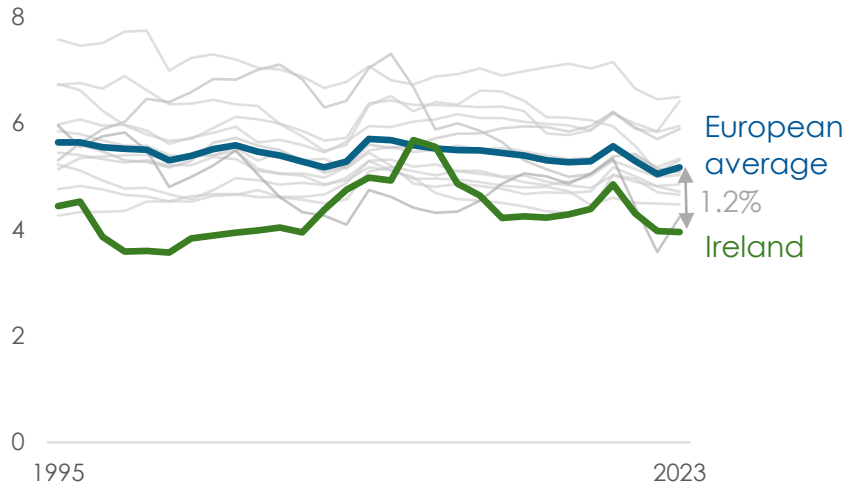
Given Ireland's unique demographics, one might anticipate higher levels of education spending to meet the substantial demand. Education spending in Ireland has generally been around average. After adjusting for demographics, Ireland's education spending is below European average levels.[27]

[26] Naturally there are complexities as to how education services are funded. For example secondary schools are funded through a variety of grants and sources. These include (but are not limited to) capitation grants, the School Services Support Fund, schoolbook grants and DEIS (Delivering Equality of Opportunity in Schools) grants. See Carroll, McCoy and Ye (2024) for an overview of funding of second level education in Ireland.

[27] Ordinarily, one would expect education spending to fall as a share of national income as the population ages. However, the impact of falling demand for education services in Ireland may be smaller than one would expect, as there are already a number of unfilled teaching posts due to teacher shortages. As a result, the impact of a falling number of children may result in lower pupil teacher ratios, rather than lower spending on educators.

16: Given its demographics, Ireland is a low spender on education

General government spending on education, adjusted for demographics (percentage of national income)



Notes: GNI* used for national income in Ireland, GDP for other countries.

The COFOG database provides a breakdown of education spending across primary, secondary, and tertiary levels of education. In Ireland, a consistent pattern emerges: education spending at each level is at or just above the average of other countries. When these figures are adjusted for demographics, Ireland's spending is well below average in each category.

The data discussed here represent government spending on education, but this does not encompass all the costs associated with providing education services. In many countries, the private sector plays a significant role in education, which reduces the costs borne by the government.[28]

OECD (2024a) data for 2021 highlights the extent of private expenditure on education, from primary to tertiary levels. European countries generally have lower private sector spending compared to high-income countries elsewhere. Ireland is one of the higher private spenders on education in Europe, with private expenditure at 0.8% of national income, compared to

[28] Currently in Ireland, the state makes a contribution to the salaries of teachers and special needs assistants in fee-charging schools. This is done on the basis of one teacher per 23 pupils. In the Free Education Scheme, there is an average of one teacher per 19 pupils (see Irish Times, 2024). In addition, private tuition fees are exempt from VAT.

an average of 0.5% elsewhere. If private spending were lower, government spending on education in Ireland might be slightly higher.

Another key factor influencing the cost of providing education is average class size.[29] The majority of costs of providing education are salaries. Larger class sizes in Ireland, compared to the European average, reduce government expenditure because fewer educators are needed for a given population.[30] A final key factor would be the pay rates of those working in primary, secondary and tertiary education relative to wages in the rest of the economy. International comparisons can be difficult given different salary structures and allowances apply in different countries. However, OECD data suggests that primary and second level teachers are not paid significantly less than in other high-income European countries.[31]

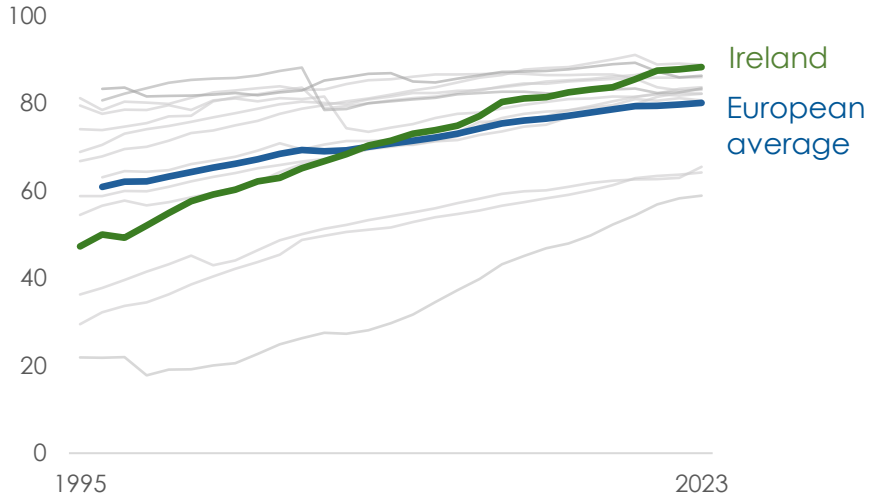
Education outcomes

In terms of outcomes, one way to measure the performance is the percentage of the population with high levels of education. As a first step, we can compare the percentage of the population with at least a second-level education. In the mid-90's Ireland had a relatively low share of the population with at least second-level education. This has changed rapidly, with Ireland catching up and surpassing other European countries. Only Finland now has higher levels of educational attainment in Europe.[32]

[29] A large number of studies have examined the impact of reducing class sizes on educational attainment and lifetime earnings. The findings of these studies are mixed and seem context specific. While many studies find positive impacts from smaller class sizes (Fredriksson et al, 2013), others find little or no effect (Filges et al, 2018).
[30] OECD (2024a) data up to 2022 shows Ireland has significantly larger average class sizes in primary education. However, Department of Education (2024) data suggest class sizes and the pupil-teacher ratio have both been falling in Ireland in recent years.
[31] OECD (2024a) data suggests primary and secondary school educators are paid slightly above average rates of pay in other OECD countries, after adjusting for prices or earnings of similar educated workers. There is no detail provided on pay rates in third-level education.
[32] This refers to the population aged 25-64 in the country. Ireland has experienced strong inward migration in recent years, which has typically been highly skilled. If one examines the educational attainment of Irish citizens living in Ireland, it is slightly lower than that of all residents. However, this would not materially alter Ireland's relative position in the chart above.

17: Ireland now has a highly educated population, having been well behind in the 90s

Percentage of population aged 25-64 with secondary or tertiary education



Notes: The levels of education referred to here are levels 3-8 of the International Standard Classification of Education (ISCED 2011). High-income European countries here are Belgium, Denmark, Germany, Ireland, Spain, France, Italy, Netherlands, Austria, Portugal, Finland, Sweden, Norway and Switzerland.

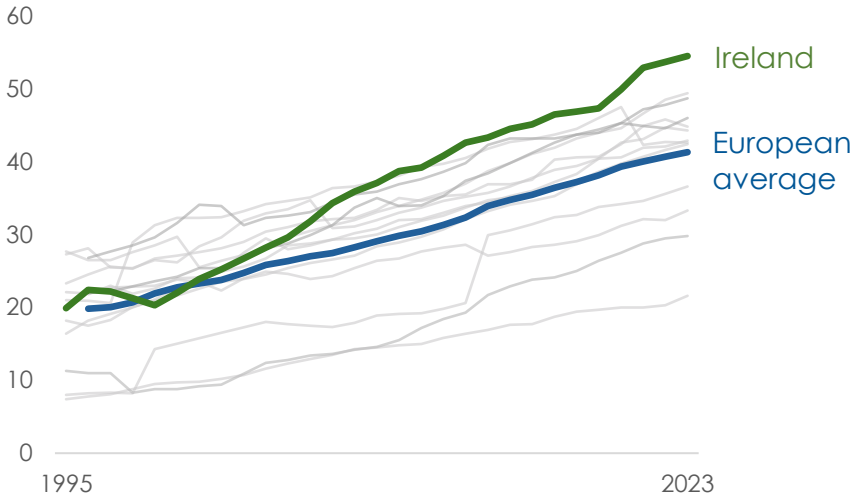
Looking exclusively at third-level education, a similar pattern emerges. Ireland had around average European levels of third-level educational attainment in the late-90's.[33] Since then, the share of the population in Ireland with a third-level qualification has almost trebled. Ireland now has the highest share of its population with a third-level qualification in Europe.

OECD (2024a) data suggests that the financial return to third-level education is extremely high in Ireland. Only in the USA is there a larger earnings premium placed on third-level qualifications.

[33] Third level tuition fees were abolished in 1996. This has since been replace by a 'student contribution fee'. Students from lower-income households also receive financial assistance.

18: Ireland now has a higher share of third-level graduates than any other European country

Percentage of population aged 25-64 with tertiary education



Notes: The level of education referred to here are levels 5-8 of the International Standard Classification of Education (ISCED 2011). High-income European countries shown here are Belgium, Denmark, Germany, Ireland, Spain, France, Italy, Netherlands, Austria, Portugal, Finland, Sweden, Norway and Switzerland.

Standardised tests of students also allow for international comparisons. The Programme for International Student Assessment (PISA) tests reading, science and mathematics. These standardised tests are taken by 15 year olds. Ireland scores well on all three test types compared to other high-income European countries.[34]

Overall, it appears that Ireland is spending less on education, compared to other European countries, given the young population Ireland currently has. Despite this, the population in Ireland has higher levels of educational attainment than in other European countries. Standardised test scores also compare favourably to other European countries.[35] This finding that Ireland seems to get good education outcomes from a relatively low spend is consistent with recent work from the IMF (2025). This suggested that Irish spending on education was amongst the most efficient in the OECD.

[34] Irish scores are 7% above the high-income European average for reading. For science, Irish scores are 3% above average and 2% higher for mathematics. The other high-income European countries which participate are Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

[35] This is consistent with previous findings that Irish education outcomes were favourable given the level of spending in Ireland (Agasisti et al., 2023).

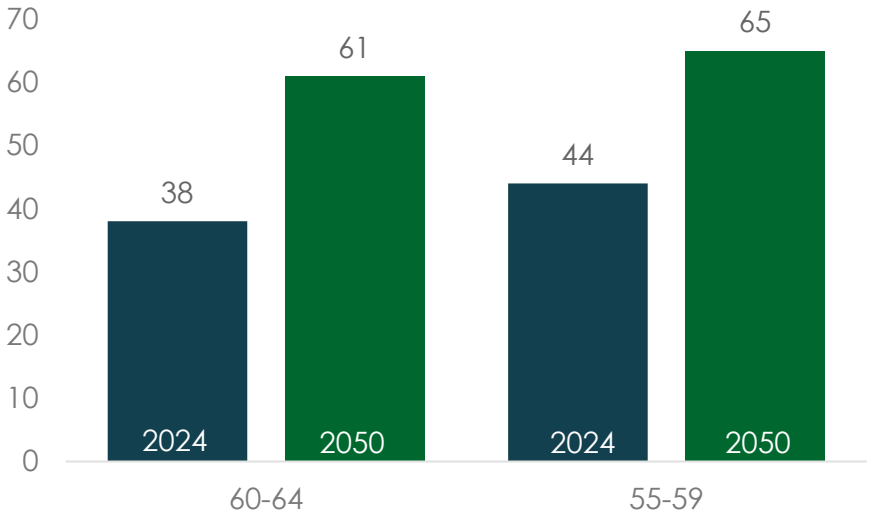
Another benefit of high levels of education is that it may help to offset some of the fiscal costs of an ageing population in the coming decades. Those with high levels of education typically stay in the labour force for longer in older age. This is because higher educated workers tend to be in occupations that are less physically demanding (Acemoglu et al. 2022).

There has been a significant increase in labour force participation from those aged 55-59 and 60-64 in recent years. This appears to be driven by more highly educated cohorts of the population moving into older age.

This increasing trend in labour force participation of older people is expected to continue. This is because younger cohorts have higher levels of education. As a result, when these cohorts move into older age, the educational attainment of older people will rise. By 2050, this shift would be substantial. This would likely lead to further increases in labour force participation among older people. This would add to economic growth and government revenue.

19: Older cohorts will be higher educated in future decades

Percentage of population with a third level qualification by age.



Sources: CSO and authors calculations.
Notes: Projections for 2050 are based on the educational attainment of the population today that will be aged 60-64 or 55-59 in 2050.

Child and family social protection

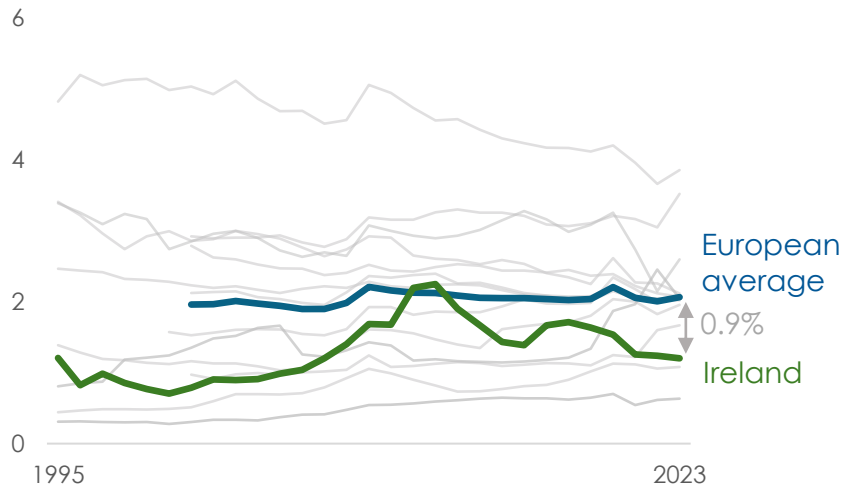
The final aspect of spending that we can clearly link to demographics is social protection spending on child and family supports. This includes cash supports to parents and guardians, as well as spending on services such as preschool services provided by the state.

Since these payments and services are based on the number of children, the key demographic to consider is the number of children in a country. As a result, we adjust spending in this area according to the proportion of the population aged 19 or younger. We can see that Ireland has consistently had a lower level of spending in this area.

This is driven by lower spending on services provided to families. The most notable example of this is childcare, where in other countries the State invests more and plays a more direct role in providing childcare facilities. Conversely, Ireland's cash transfers to households with children are at or above levels in other high-income European countries.

20: Given its demographics, Ireland is a low spender on child and family social protection

General government spending on family and children social protection, adjusted for demographics (percentage of national income)

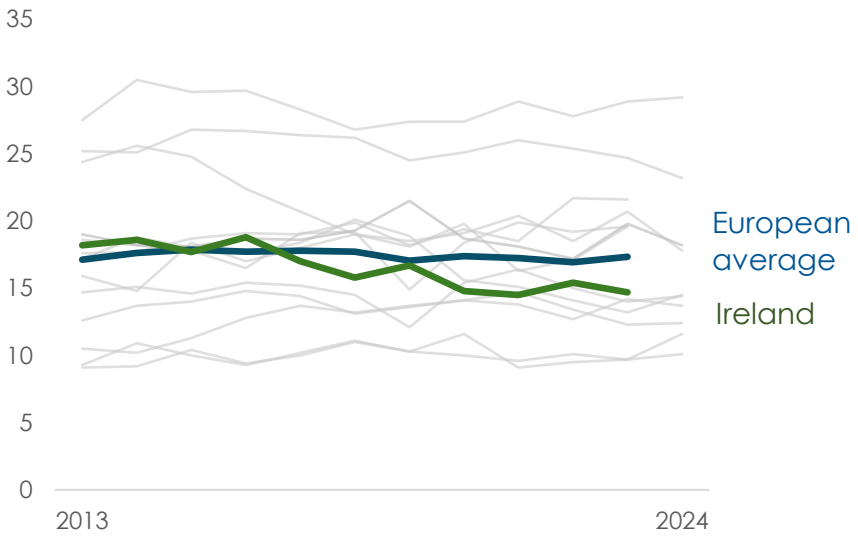


Notes: GNI* used for national income in Ireland, GDP for other countries. High-income European countries shown here are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

Children and social protection outcomes

Similar to our analysis of the older population, we can compare poverty and deprivation rates of children in Ireland to those in other European countries. If we simply look at the at-risk-of-poverty rate (those with less than 60% of median equivalised income after social transfers), we see that Ireland performs relatively well. The at-risk-of-poverty rates for children have fallen since 2013 and is now lower than in most high-income European countries.

21: At-risk-of-poverty rates for children are lower than European averages.
Percentage of those aged under 18 at risk of poverty



Source: Eurostat
Notes: The at-risk of poverty rate here is defined as the share of under 18's in households with equivalised income which is less than 60% of the national median after social transfers. High-income European countries shown here are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

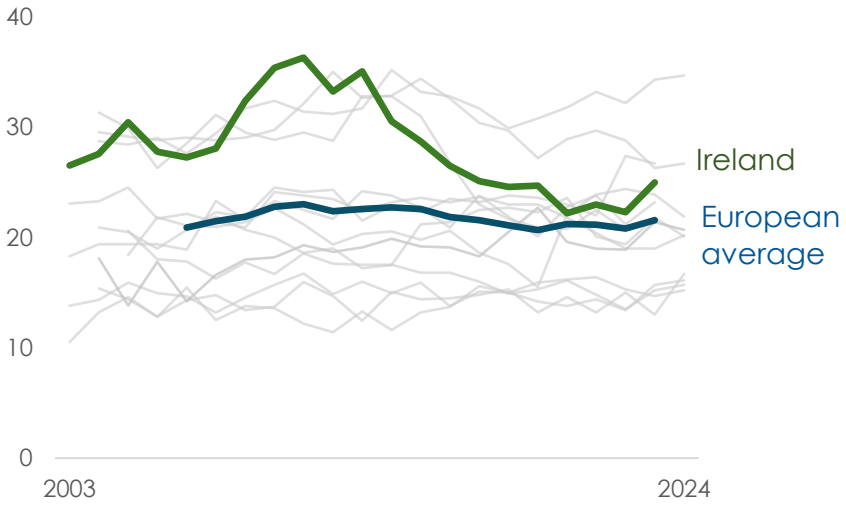
However, when using a broader measure, the outlook is less favourable. Considering those at risk of poverty, experiencing material deprivation, or living in low-work-intensity households, Ireland has above-average rates of child poverty and deprivation.[36] This is primarily driven by the number of children in households facing material deprivation or low work intensity. Nonetheless, there have been improvements since 2013, likely due to the economic recovery and falling unemployment.

[36] In addition, Roantree, Maître and Russell (2024) find that child poverty rates have been largely stable since 2005 if you account for increased housing costs.

Doorley, Sándorová and Maître (2025) estimate that the at-risk-of -poverty rate for children would be double its current level in Ireland were it not for the system of cash and in-kind child-contingent benefits. Some policy actions have been suggested to reduce child poverty further in Ireland. For example, Doorley, Sándorová and Maître (2025) estimate that a second (higher) tier of means-tested child benefit could lift 55,000 children out of income poverty.[37] This would reduce the at risk of poverty rate by 4.6 percentage points.

22: Broader measures of children at risk of poverty have fallen from a high level in Ireland

Percentage of those aged under 16 at risk of poverty or social exclusion



Source: Eurostat

Notes: The at-risk of poverty or social exclusion rate here is defined as the share of under 18's in households which satisfy at least of the following criteria: household equivalised income is less than 60% of the median after social transfers, material deprivation is apparent or the household has very low work intensity. High-income European countries shown here are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

[37] This measure would cost €770 million per year.

5. Total government spending

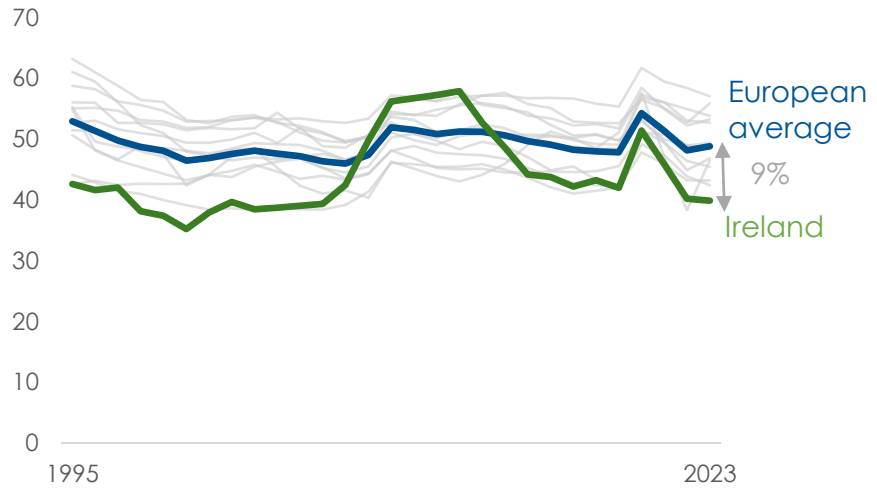
We can now examine total general government spending across countries, adjusting for demographic differences.

FitzGerald (forthcoming) gives a historical perspective on Irish government spending and revenue.[38] Spending has risen from around 30% of GNI* in 1953 to over 40% in recent years. Much of this increase in spending been in the form of higher social transfers.

There is significant variation in government spending across European countries and over time. For 2023, government spending in Ireland was just under 40% of national income, compared to an average of almost 49% in high-income European countries. While 2020-2022 are heavily impacted by spending related to the Covid-19 pandemic, the 2023 data is free from these short-term effects.

23: Ireland's spending has generally been below the European average

General government spending as a percentage of national income



Notes: General government spending is shown as a share of national income. Modified Gross National Income (GNI*) is used for Ireland, GDP is used for other countries. The countries shown are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain and Sweden. The costs of bank recapitalisations are excluded for all countries. Estimates are taken from Villar Burke (2017).

However, as outlined earlier, demographics has a significant impact on government spending. If Ireland had similar demographics to other high-income European countries, spending on health and old-age social

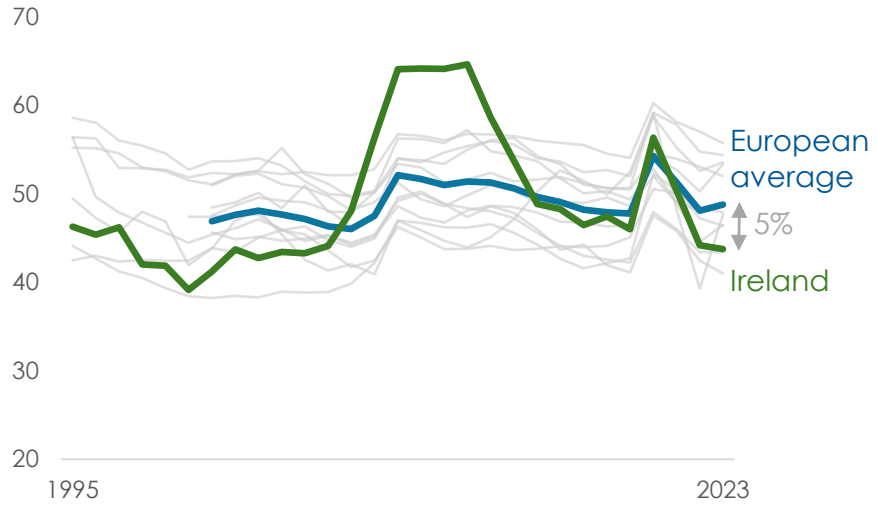
[38] Carroll (2022) shows how government revenue and tax rates have evolved over the history of the Irish state.

protection would be higher. In contrast, spending on education and child/family social protection would be lower.

Overall, adjusting for demographics would imply higher spending in Ireland. In 2023, this adjustment would add about 4% of GNI* to government spending.[39] This explains almost half of the gap between spending levels in Ireland and other high-income European countries. After adjusting for demographics, Ireland's spending is 5% of national income lower than other European countries. This is equivalent to €2,700 per person in 2023.

24: Given its demographics, Ireland's spending is just below average European levels

General government, adjusted for demographics (percentage of national income)



Notes: GNI* used for national income in Ireland, GDP for other countries. The costs of bank recapitalisations are excluded for all countries. Estimates are taken from Villar Burke (2017). All countries have their spending adjusted for demographics. The countries shown are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain and Sweden.

The only period where Ireland had significantly above-average government spending (as a share of national income) was the period between 2008 and 2013. This coincided with a deep recession, more severe than in most other countries.

[39] If Ireland's demographics were similar to other high-income European countries, old-age social protection spending would be higher, equivalent to 3.2% of GNI*. Health spending would increase by the equivalent to 2% of GNI*. For education and child/family social protection, the opposite is the case. These would fall by 0.9% and 0.3% of national income respectively with different demographics.

The downturn led to a sharp rise in unemployment, which in turn increased spending on unemployment supports. Ireland also experienced a steeper decline in national income than elsewhere. The combination of rising spending and falling income caused the spending-to-income ratio to increase sharply during this period.

The impact of the economic cycle

A final factor that needs to be considered is how the economy is performing. The Irish economy has performed extremely well in recent years, despite global challenges like the pandemic and conflicts in Ukraine and the Middle East. Employment is at record highs, with strong labour demand being met via increased labour force participation rates and inward migration.

A strong economy typically results in a lower government spending-to-income ratio. This operates through two channels.

First, this means national income is high. This makes the denominator in the fraction high, which keeps the spending to output ratio low. For example, if a country has a spending-to-output ratio of 50%, and output falls by 1%, this would mechanically increase the government spending to output ratio by 0.5%.

Second, a strong economy reduces government spending in certain areas. For example, social protection payments for the unemployed fall when unemployment is low. Conversely, these payments rise during economic downturns.

Carroll (2019) estimated the elasticity of spending to output ratio to the economic cycle, finding that the elasticity ranges between 0.5 and 0.6. This means a 1 percentage point change in the output gap leads to a 0.5 to 0.6 percentage point change in the government spending-to-GNI* ratio.

In this paper, we estimate the elasticity of government spending to the output gap across countries. Using a panel of 13 high-income European

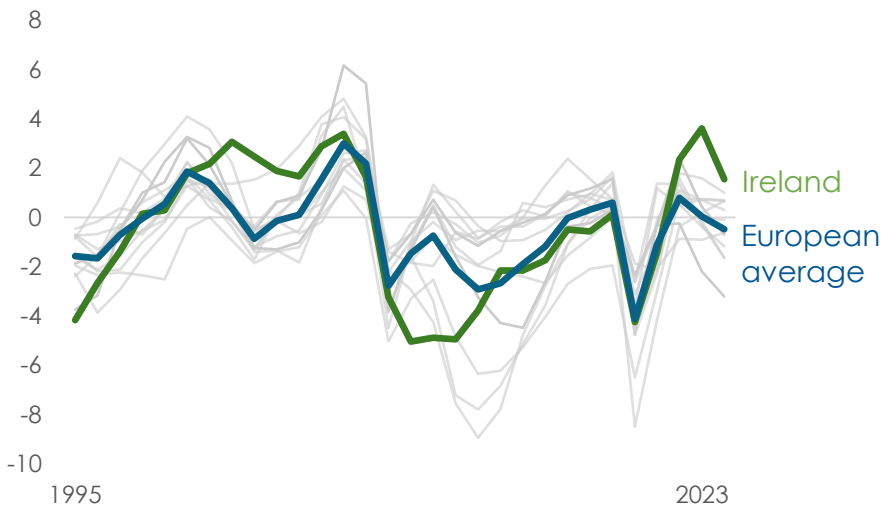
countries, we regress the spending-to-output ratio on the output gap, including country fixed effects.

Our analysis suggests that changes in the output gap are almost fully reflected in changes to the spending ratio (see Appendix 3 for details). For the baseline case, we use an elasticity of 0.5, with results using an elasticity of 1 included for robustness. [40]

Estimating potential output and output gaps is challenging—especially for a small, open economy like Ireland. Distortions to the national accounts caused by foreign multinationals add to the complexity. To address this, we use recent output gap estimates from the Fiscal Council. [41] These follow the methodology outlined by Casey (2019), which combines multiple models and uses the midpoint of the estimates.

25: The Irish economy is operating above capacity, unlike European neighbours

Output gap, percentage of output



Sources: IMF and Fiscal Council forecasts.
Notes: a positive output gap indicates that the economy is operating above its long run potential level. Conversely, a negative output gap indicates that the economy is operating below its potential level. Countries used are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain and Sweden.

[40] See Appendix 4 for results when an elasticity of one is used.
[41] These estimates were produced in March 2025.

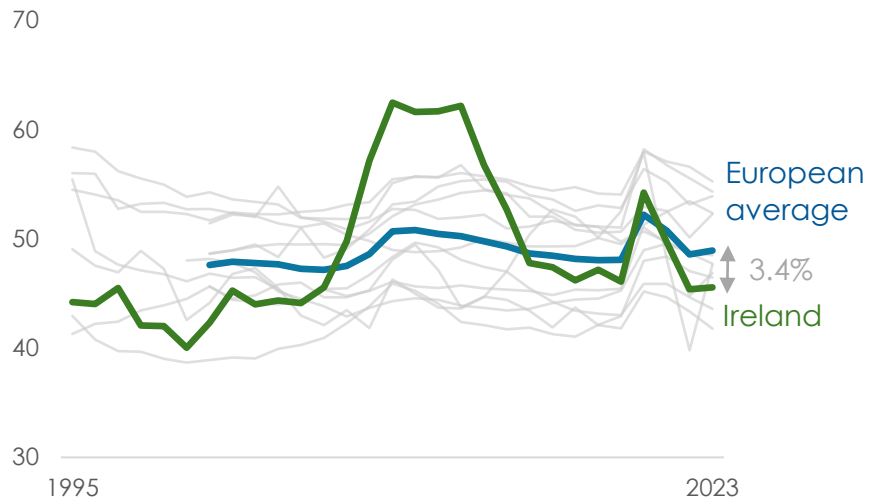
Estimates for 2023 suggest the Irish economy was operating 3.6% above its potential. In contrast, most high-income European countries were operating at or near potential. [42]

This implies that if all economies had been operating at potential in 2023, Ireland's spending would have been 1.7% of GNI* closer to the European average.[43]

Even after adjusting for demographics and the economic cycle, Ireland's spending remains slightly below the high-income European average (3.4% of national income). This is equivalent to €1,800 per person. Overall, most of the initial 9% of national income gap in spending can be explained by demographics (3.9%) and the economic cycle (1.7%).

26: After adjusting for demographics and the economic cycle, Ireland's spending levels is much closer to European levels

Government spending as a share of national income, adjusted for demographics and the economic cycle.



Sources: Eurostat, IMF and authors calculations.
Notes: The costs of bank recapitalisations are excluded for all countries. Estimates are taken from Villar Burke (2017). Spending is adjusted for the demographic structure of the population (see Section 4 for details) and for the economic cycle (see Section 5). Countries used are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain and Sweden.

[42] We use the latest IMF estimates of output gaps from their World Economic Outlook (IMF, 2024). We are focusing on 2023 as that is the latest year we have detailed spending data, which allows us to adjust spending in demographics sensitive areas.
[43] The average of high-income European countries shows a positive output gap of 0.3% of national income. Using an elasticity an elasticity of 1 would give a 3.3 percentage point change.

Looking back over the series, we see that—apart from the period around the global financial crisis—government spending in Ireland has generally been slightly below that of other European countries.

The sharp rise in the spending-to-output ratio between 2007 and 2009 is somewhat unexpected. One might have expected that adjusting for the economic cycle and excluding banking recapitalisations would have made this spike and subsequent decline less pronounced. One possible explanation is that the downturn was more severe than current output gap models suggest.[44]

[44] The estimates shown here suggest a negative output gap of 5% in 2010.

What are the key areas of difference?

While we've focused on key areas of government spending, the COFOG database offers detailed insights across many other categories. Appendix 2 explores several of these additional spending areas. For an overview, the table below compares Irish government spending—as a share of national income—with the average for other high-income European countries, using the latest data from 2023.

27: Irish government spending is lower than in other high-income European countries

Irish government spending minus average high-income European country, share of national income. Adjusted for demographics

	2023
Total	-5.0
Health	4.5
Old-age social protection	-2.3
Education	-1.2
Other economic affairs	-1.0
Children and family social protection	-0.9
Defence	-0.8
Transport	-0.6
Research	-0.6
Recreation and culture	-0.4
Interest	-0.4
Environmental protection	-0.2
Foreign economic aid	-0.2
Other social protection	-0.1
Other public services	-0.8

Sources: Eurostat, CSO and authors calculations.
Notes: Spending on old-age social protection, child and family social protection, health and education are adjusted for demographics as described above. Positive numbers indicate that spending is higher in Ireland than in other high-income European countries. GNI* is used for national income in Ireland, GDP for other countries. In each of these areas, total spending is shown (current plus capital). As a result, capital spending is not shown separately here. 'Other economic affairs' refers to supports for industries, reimbursement of taxes paid, and capital injections by the state into firms. Research here covers research funding/grants to universities and research institutes.

Overall, Irish government spending is lower—relative to national income—than in most other high-income European countries. The most notable gap is in old-age social protection, which remains lower even after adjusting for Ireland's younger population.

Beyond this, Ireland also spends less in several other areas. These include education, child and family social protection, defence, transport, research, interest payments, and recreation/culture. These collectively contribute to Ireland's lower overall spending levels.

Healthcare is the one major exception. Ireland spends significantly more than its peers in this area, and this difference becomes even more pronounced when accounting for its younger population.

Spending pressures Ireland will face

Population ageing is the most significant long-term spending pressure facing the State. As the population grows older, spending on pensions, healthcare, and long-term care will rise.[45]

As well as ageing, another significant spending pressure Ireland faces is related to climate change. Casey and Carroll (2023) estimate that meeting Ireland's climate targets could require an additional 0.6% to 1.1% of GNI* in spending over the medium term. McInerney and Fitzgerald (2024) also examine this issue, particularly focusing on investment. They estimate that government investment would need to increase by about 0.2% of GNI* through 2030, with smaller amounts thereafter.

An additional €7 billion in investment may also be needed for the electricity grid out to 2030. This would support the transmission of energy from where it is generated to where users are located and enable the system to handle larger energy flows.

Summing up spending

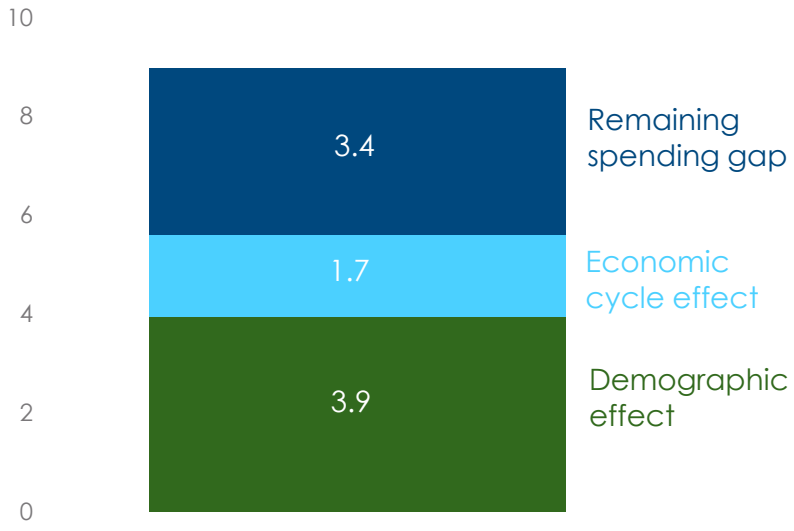
Overall, headline government spending in Ireland in 2023 was smaller relative to national income than in other high-income European countries (9% of national income). Ireland's younger population explains about 4

[45] Defence spending is another budgetary pressure that Ireland may face in future years. However, this is highly uncertain, unlike ageing and climate change. As a result, it is not a focus of the discussion here. Currently, Ireland's defence spending is significantly lower than that of other European countries (Appendix 2).

percentage points of this gap, due to lower demand for healthcare and pensions. The strong cyclical position of the Irish economy also reduces the spending to national income ratio. This effect in 2023 was 1.7 percentage points. After taking account of demographics and the strong position of the economy, government spending as a share of national income is 3.4% lower than in other high-income European countries. This equates to €1,800 per person.

28: Lower government spending in Ireland is driven by demographics and a strong economy

Per cent of national income, difference between Irish government spending and other high-income European countries.



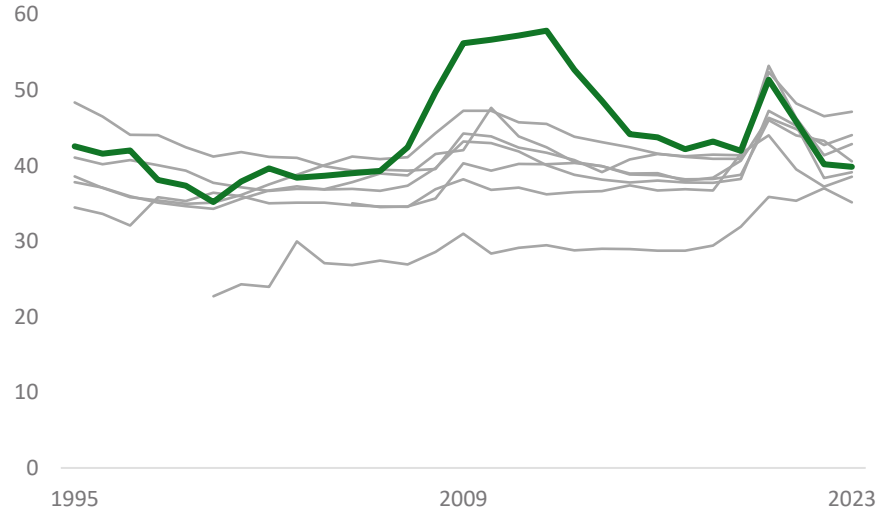
Sources: Eurostat and authors calculations.
Notes: Headline government spending in Ireland for 2023 was 9% lower as a share of national income, compared to other high-income European countries. Ireland's favourable demographics (a younger population) results in spending being 3.9% lower as a share of national income. The cyclical position of the Irish economy (relative to the rest of Europe) results in Irish spending as a share of national income being a further 1.7% lower as a share of national income. 3.4% is the remaining gap (9% - 3.9% - 1.7% = 3.4%)

Looking beyond Europe

Advanced countries outside of Europe typically have lower levels of government spending than those in Europe. Ireland appears to have similar levels of government spending to advanced economies outside of Europe. However, like when comparing Irish spending to the rest of Europe, Ireland is benefitting from a younger population at present.

29: Irish government spending is close to developed economies outside Europe

General government spending as a share of national income



Sources: OECD and CSO.
Notes: Other high-income countries shown are Australia, Canada, Japan, Korea, New Zealand, United Kingdom and United States.

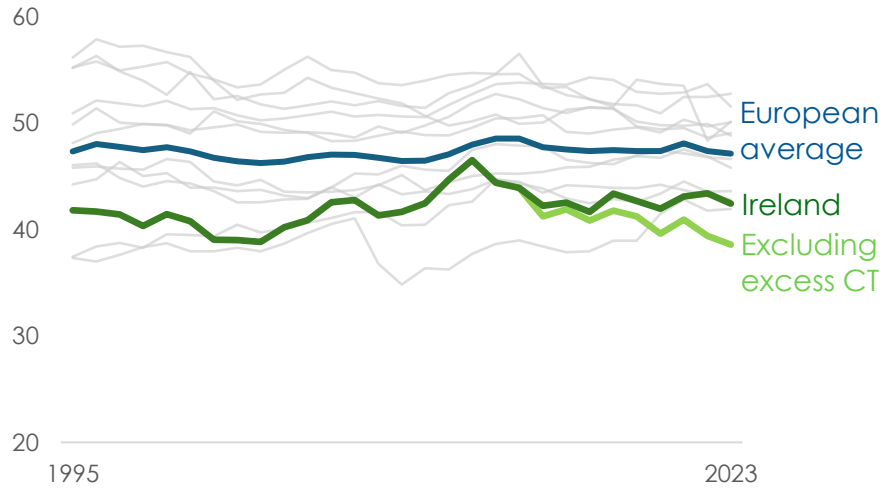
6. Total Government Revenue

In this section, we examine general government revenue across countries. Given the significant impact of corporation tax receipts in Ireland, we present results both including and excluding 'excess' corporation tax receipts.[46] We also exclude Norway from much of this analysis, as its general government revenue is heavily influenced by oil revenues and returns from its sovereign wealth fund.

Looking at general government revenue as a share of national income reveals substantial variation across countries. Since government spending in Ireland is lower than in other high-income European countries, we would expect a similar pattern in revenue, which funds that spending.

30: Government Revenue is low in Ireland compared to European neighbours

General government revenue, percentage of national income



Notes: GNI* used for national income in Ireland, GDP for other countries. Norway is excluded from this chart as revenue is distorted by oil revenues and returns from investments made. Countries included are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain and Sweden.

Ireland records one of the lowest levels of general government revenue as a share of national income in Europe.[47] Irish government revenue is 4.7%

[46] Excess corporation tax receipts are defined as corporation tax receipts above what would be expected due to the performance of the domestic economy. Given these receipts are not strongly tied to economic activity in Ireland, they could fall. It is also noteworthy that these taxes are paid almost exclusively by US multinational companies. As a result, this is not tax revenue that is paid by domestic residents and does not impact on domestic demand in the Irish economy.

[47] As expected, the highest revenue levels are found in Nordic countries such as Denmark, Sweden, and Finland.

of national income lower than the European average. This is equivalent to €2,600 per person. When excess corporation tax is excluded, this gap increases to 8.6% of national income, or €4,700 per person.

Ireland collects a lower level of government revenue than most other high-income European countries. This is equivalent to 4.7% of national income, or €2,600 per person. When excess corporation tax is excluded, the gap increases to 8.6% of national income, equivalent to €4,700 per person.

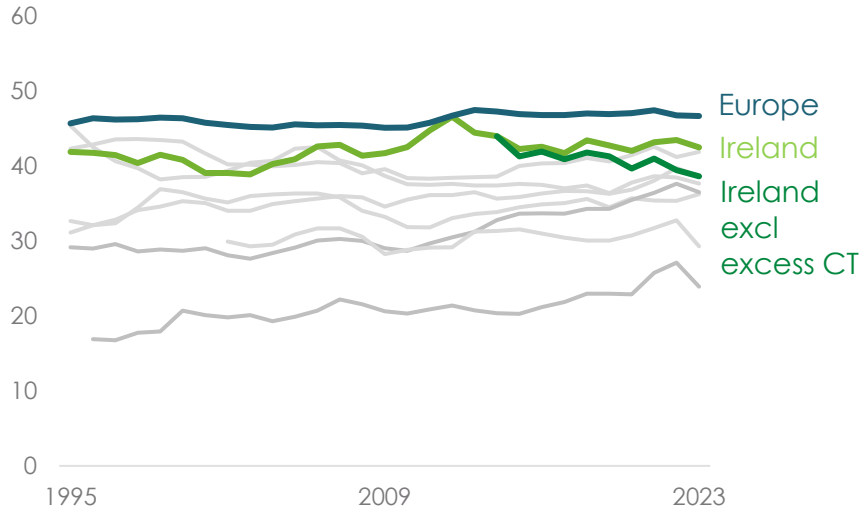
Looking beyond Europe

Developed economies outside Europe also offer useful points of comparison for Ireland. Below, we present general government revenue as a share of national income for various developed economies. High-income European countries consistently collect the most government revenue.

Ireland collects a larger share of national income than any advanced non-European country shown—when headline figures are used. However, once 'excess' corporation tax receipts are excluded, Ireland's revenue levels align more closely with countries like the UK, Canada, Japan, Australia, and New Zealand. In contrast, advanced economies such as the USA and Korea collect significantly less revenue than Ireland.

31: Ireland collects a similar amount of revenue to other advanced countries

General government revenue, percentage of national income



Notes: GNI* used for national income in Ireland, GDP for other countries. 'Europe' here is short for high-income European average. The other countries shown are Australia, Canada, Japan, Korea, New Zealand, United Kingdom and the United States.

7. Revenue in detail

We can compare different categories of government revenue across European countries. This helps highlight where Ireland collects significantly more—or less—revenue than other high-income European nations.

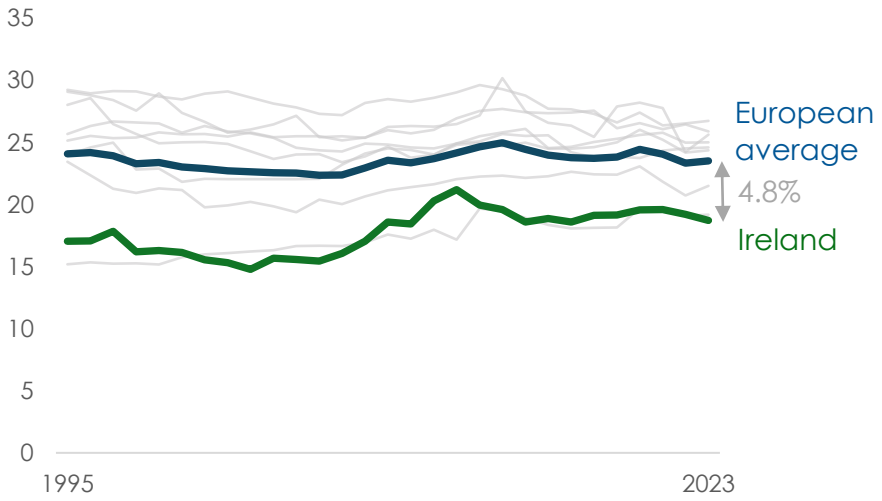
Income tax and social contributions

Ireland collects less revenue from employment taxes than other high-income European countries—just 4.8% of national income. This gap is equivalent to around €2,600 per person.

This section compares taxes on employment across countries. These taxes are made up of income tax and social contributions, with the balance between the two varying by country. To account for this variation, we consider the combined total of income tax and social contributions.

32: Ireland collects less tax/social contributions on income than its European peers

Taxes on individual or household income plus social contributions, percentage of national income



Notes: GNI* used for national income in Ireland, GDP for other countries. Total government revenue from labour is defined here as taxes on individual or household income plus social contributions paid by employers and employees. The countries shown are Austria, Belgium, Ireland, France, Italy, Netherlands, Austria, Portugal and Finland.

Ireland collects less revenue from employment taxes than other high-income European countries (4.8% of national income). This gap is equivalent to €2,600 per person in Ireland.[48]

Ireland's lower level of revenue from employment taxes is primarily driven by low social contributions. Both employer and household social contributions are well below the average seen in other high-income countries.[49]

One factor behind this may be Ireland's relatively young population. The State Pension and Social Insurance Fund operate on a pay-as-you-go basis. With lower spending on old-age social protection, Ireland doesn't need to collect as much revenue in the short term.

However, as the population ages and government spending rises, policy changes will be needed. The Pension Commission (2021) outlined several options to ensure the sustainability of the State Pension. These include increasing PRSI rates for employees and the self-employed, broadening the PRSI base and raising the State Pension age.

There are plans to gradually increase PRSI rates in the coming years.[50] However, these changes are modest. They are expected to raise social contributions by around 0.2% of GNI*.[51]

Carroll and Barnes (2023) proposed that raising PRSI rates more sharply now could help ensure the long-term sustainability of the State Pension. In the early years, the Social insurance Fund would run a significant surplus, as the number of pensioners would still be relatively low. This surplus could be saved in a dedicated fund, earning returns over time.

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[48] This is calculated using the 4.8% gap as a share of national income. This 4.8% is then multiplied by GNI* for 2023 (€291 billion) and divided by the population in 2023 (5.3 million).
[49] Income tax and social contributions are shown separately in Appendix 3.
[50] All classes of PRSI were increased by 0.1% on 1st October 2024. Another 0.1% increase is planned for October 2025, gradually rising to 0.2% by October 2028. See Department of Social Protection (2024) for details.
[51] By contrast, the Pensions Commission (2021) proposed an increase in Class A PRSI which is double what is currently planned (see Package 1 of proposals). Smaller increases would be required if the pension age was raised (Package 2 and Package 4).

In later years, the fund could be drawn down to support pension payments. By increasing the PRSI rate upfront, the long-run rate could be lower than if increases were delayed and phased in gradually as the population ages.

The government has introduced two long-term savings vehicles: the Future Ireland Fund (FIF) and the Infrastructure, Climate and Nature Fund (ICNF). The legislation establishing the FIF states its purpose is "*to support, in a consistent and sustainable manner, State expenditure in 2041 or any year thereafter*". According to the Fiscal Council (2023, Box H), the FIF could cover between a half and a quarter of Ireland's ageing-related costs. However, additional policy measures will likely still be needed to fully meet future demands.

As in most countries, employee social contributions in Ireland are a fixed percentage of income. This means the effective rate varies little across income levels.[52] As a result, social contributions tend to be less progressive than income taxes (OECD, 2024c).

How do tax rates vary by income?

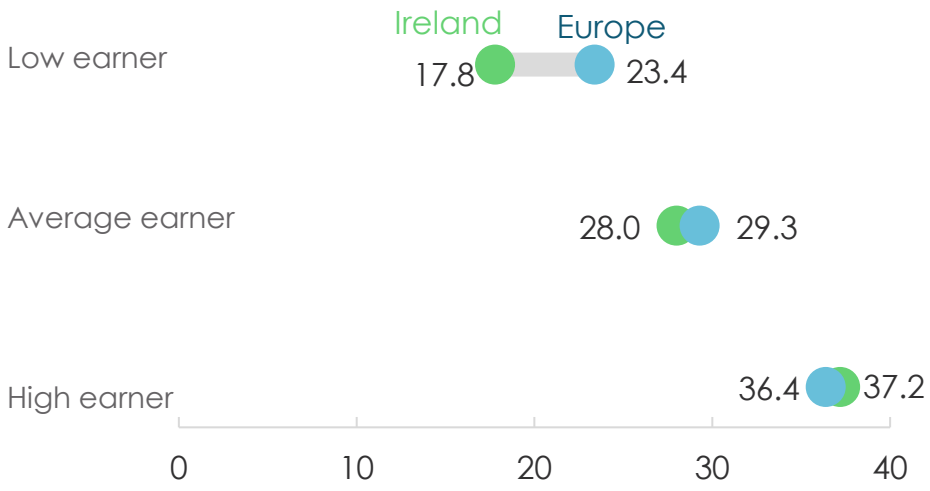
Examining income tax and social insurance contributions across income levels reveals important differences. Overall, Ireland collects less from these sources than other high-income European countries.

This difference is driven entirely by lower-income households, who face lower effective tax rates than their counterparts abroad. In contrast, higher earners in Ireland face similar combined rates of income tax and social contributions as those in other high-income European countries.

[52] However, those earning less than €352 per week do not pay employees PRSI. In addition, those earning between €352 and €424 per week receive a tapered credit. As a result, they pay less than the headline rate (4.1%).

33: Lower income households pay less income tax and social contributions in Ireland

Effective rates of combined income tax and social contributions by household type



Sources: OECD taxing Income 2024 and authors calculations.
Notes: Irish income tax and social contribution rates are shown in green. High-income European income tax and social contribution rates are shown in blue. High-income European countries used are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland. Low earners are defined as those earning 67% of the average wage. High earner are defined as those earning 167% of the average wage. Data refers to 2023. A low earner in Ireland is assumed to earn €47,715, an average earner €71,216 and a high earner €118,931. These are expressed as purchasing power parities.

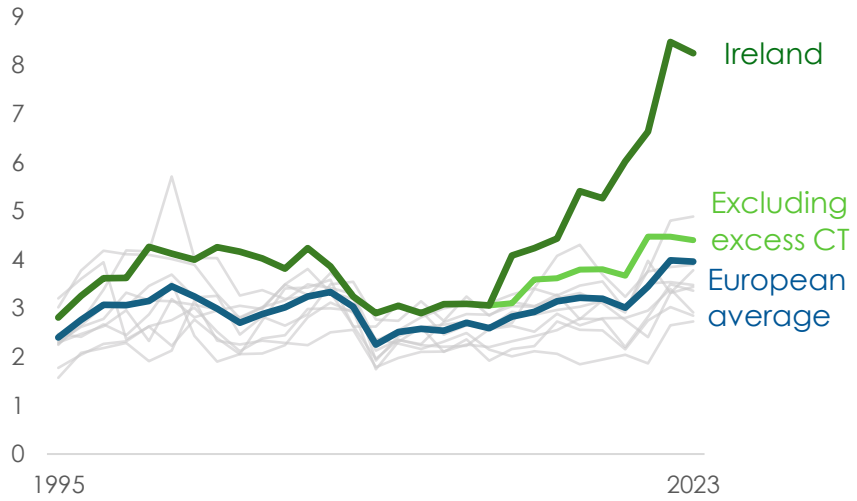
As a result, Ireland's system appears to be even more progressive than in most peer countries. In other words, the gap between what high- and low-income earners pay is larger in Ireland than elsewhere.

Corporation tax

We can also assess taxes on corporate profits or incomes. It is well understood that Ireland collects an extraordinary amount of corporation tax. Some of this revenue exceeds what would be expected based on Irish economic activity. This exceptional portion is referred to as 'excess' corporation tax. Cronin (2023) detailed that these receipts are heavily concentrated, with just three firms paying more than 40% of Ireland's corporation tax in 2022.

34: Ireland is collecting an extraordinary level of corporation tax

Taxes on corporate profits or income, percentage of national income



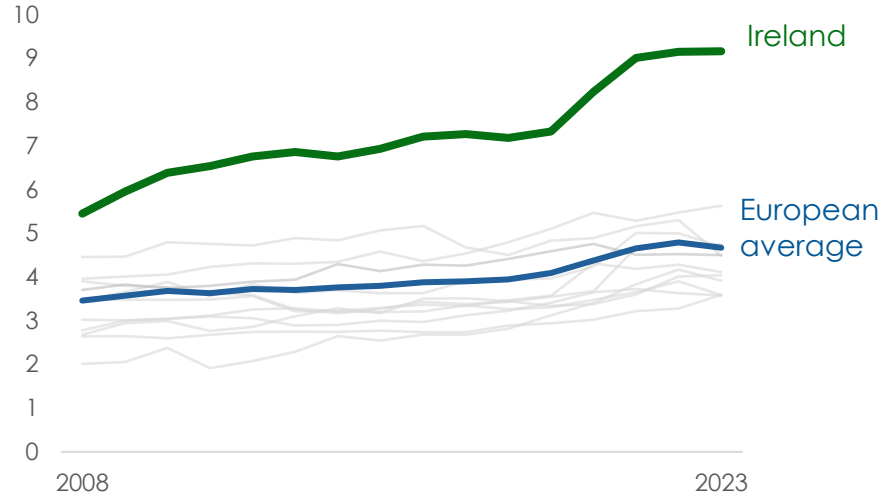
Sources: Eurostat, CSO, Budget 2025 and Fiscal Council estimates.
Notes: GNI* used for national income in Ireland, GDP for other countries. Excess corporation tax receipts for 2022-2023 are taken from Budget 2025. Figures for previous years are Fiscal Council estimates. Countries shown are Belgium, Denmark, Ireland, France, Italy, Netherlands, Austria, Portugal, Finland and Sweden. Detailed data for Spain and Germany was not available.

Compared to national income, Ireland collects more than twice the average amount of corporation tax of other high-income European countries. Even when "excess" corporation tax is excluded, Ireland still collects well above average levels of corporation tax. This partially reflects the unique structure of the Irish economy. According to Cronin (2023), 90% of Irish corporation tax in 2021 came from the ICT and pharmaceutical sectors.

Ireland has a much larger presence of pharmaceutical and tech firms than other European countries. [53] Ireland has historically had a larger presence of these sectors, and this gap has widened since 2019.

35: Ireland has unusually large pharma and tech sectors

Percentage of total employment accounted for by pharmaceuticals and ICT



Sources: Eurostat.
Notes: Employment in the information and communications sector (NACE code J) and pharmaceutical sector (Nace Code C21, Manufacture of basic pharmaceutical products and pharmaceutical preparations) as a share of total employment is shown. Countries shown are Belgium, Denmark, Germany, Ireland, Spain, France, Italy, Netherlands, Austria, Portugal, Finland, Sweden and Norway.

Corporation tax receipts in Ireland are likely to be impacted by changes to the international tax environment. Ireland has already legislated for a new 15% corporation tax rate, in line with BEPS pillar II reforms. Cronin (2025) has estimated that had BEPS pillar II rules been in place in previous years, Irish corporation tax receipts would have been 18% higher.

[53] We use the category "Manufacture of basic pharmaceutical products and pharmaceutical preparations" (NACE Code C21). For more on how the pharmaceutical sector has developed in Ireland, see Van Egeraat and Barry (2009).

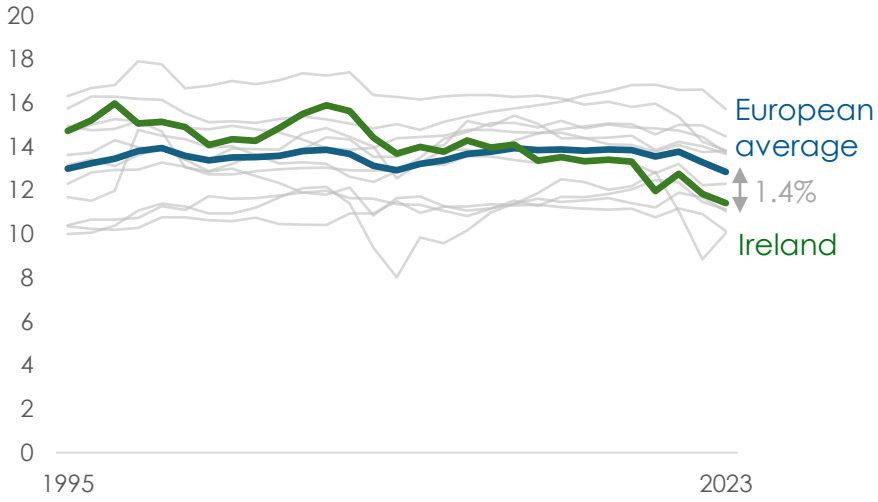
Taxes on production and imports

Taxes on products and imports are another important source of government revenue. Consumption taxes, such as Value Added Tax (VAT) in Ireland, make up a large portion of this revenue. This category also includes other taxes like excise duties and taxes on imported goods. [54]

Historically, taxes on products and imports have been higher in Ireland than in other high-income European countries. However, this has steadily declined in recent years, mainly due to decreasing revenue from excise duties on alcohol, tobacco, and petrol. As a result, this revenue source is now below average for a high-income European country.

36: Taxes on production and imports has fallen in Ireland

Taxes on production and imports, percentage of national income



Notes: GNI* used for national income in Ireland, GDP for other countries.

As Ireland transitions away from fossil fuels, certain government revenue streams are expected to diminish. Notable examples include excise duties and the carbon tax. According to Casey and Carroll (2023), this shift could result in a reduction of approximately 1.5% of GNI* in government revenue over the medium term.

[54] Excise duties are typically levied on goods such as tobacco, alcohol and fuel.

Bringing it all together

Overall, Irish government revenue is lower, as a share of national income, than in most high-income European countries. This is mainly due to lower social contributions. Both employer and employee social contributions in Ireland are well below those in comparable countries. While increases in PRSI rates are planned, they are relatively modest.

There are several other areas where government revenue is smaller in Ireland compared to other countries. However, these differences are relatively minor.

The only areas where Ireland collects more revenue than other countries are income tax and corporation tax. Higher income tax partly offsets the lower social contributions. Even when "excess" corporation tax receipts are excluded, Ireland still collects more corporation tax than other European countries. This likely reflects the strong presence of highly profitable sectors like ICT and pharmaceuticals in Ireland.

37: Irish government revenue is lower than in other high-income European countries

Irish government revenue minus average high-income European country, share of national income

	2023
General government revenue (excluding excess CT)	-8.6
Social contributions	-7.0
Taxes on production and imports	-1.4
Investment income	-0.5
Other current taxes	-0.4
Capital transfers	-0.2
Capital taxes	-0.1
Other revenue	-0.3
Income taxes (household)	0.9
Corporation Tax	0.4
Excess Corporation Tax	3.8

Sources: Eurostat, CSO and authors calculations.
Notes: Positive numbers indicate that revenue is higher in Ireland than the average of high-income European countries. GNI* is used for national income in Ireland, GDP for other countries.

As noted earlier, Ireland is likely to face growing spending pressures from an ageing population and climate change. The government has introduced two savings funds which could help offset some of these

spending pressures. But these funds alone will not be enough. Fiscal Council (2023) estimates suggest the Future Ireland Fund could cover more than half of the rise in annual spending associated with ageing between 2023 and 2041 and a quarter by 2050. As a result, either additional revenue will need to be raised or some existing spending will need to be reallocated.[55] The more the government sets aside today, the smaller the fiscal adjustments that will be needed in future decades.

The Commission on Tax and Welfare (2022) and the Pensions Commission (2021) have outlined several ways to raise additional revenue. Comparing Ireland's tax system to those of other European countries can also help guide these decisions.

[55] Barnes, Cournède and Pascal (2023) show that countries vary in their ability to reallocate existing spending. They find that countries with fiscal rules and/or fiscal councils tend to reallocate spending more regularly.

Conclusions

While countries can choose to pursue a high-tax, high-spend model or a low-tax, low-spend one, there are other factors that play a role. Demographics and economic growth have a sizeable impact on tax and spending levels at any given time.

This paper looks at the size of government in Ireland compared to other countries, taking these factors into account. At first glance, Ireland appears to be a low-tax, low-spend country relative to other high-income European countries. However, this is largely driven by Ireland's relatively young population and strong economic growth.

Ireland has a relatively young population, with fewer people aged 65 and over. A younger population means the government currently spends less on pensions and healthcare than it otherwise would. As Ireland's population ages, spending in these areas is expected to rise. This demographic shift will gradually bring Ireland's government spending more in line with levels seen in other European countries. Ireland's strong economy also helps explain why it is currently spending less as a proportion of its national income. After adjusting for these factors, Irish government spending is 3.3% of national income lower than other European countries (€1,800 per person).

One area where Ireland is already a relatively high spender is healthcare. As the population ages, this is likely to rise further, making Ireland even more of an outlier compared to other countries.

Education is another area of interest. Ireland spends less than the European average but delivers above-average results. This suggests strong efficiency in education spending.

Ireland collects a lower level of government revenue than most other high-income European countries. This is equivalent to 4.7% of national income, or €2,600 per person. When excess corporation tax is excluded, the gap increases to 8.6% of national income, equivalent to €4,700 per person.

This is mostly due to social contributions. Both employers and employees pay fewer social contributions than in most European countries. At the same time, Ireland collects a very high level of corporation tax. This is partly due to the large number of multinationals based in Ireland. These firms are highly profitable and make large payments of corporation tax in Ireland.

Looking ahead, Ireland faces major spending pressures from an ageing population and climate change. The recently introduced savings funds are a step in the right direction and can help offset some of these future costs. However, these funds alone will not be able to cover all future spending pressures. As a result, additional revenue will need to be raised, or some existing spending will need to be reallocated. The more the government sets aside today, the smaller the fiscal adjustments required in the decades to come.

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Appendices

You can find more information in the appendices supporting this paper online at this link.

This includes comparisons of other areas of government spending which are not featured in the main text of the paper. These includes investment, social protection (excluding old-age and youth payments), defence, transport, interest and recreation, sport and culture.

Online Appendices