Summary

Ireland's economic success since the great financial crash is remarkable, but has relied too heavily on the Foreign Direct Investment (FDI) sector. While producing high wages, high levels of corporation tax, high current account spending and ballooning GDP figures, the long-term return and value-add to Ireland is questionable, and potentially unreliable.

Global political developments and deglobalisation have challenged the robustness of Ireland's FDI-based economic model. The National Risk Assessment 2024[1] acknowledges the "*relative lack of diversification among Ireland's FDI base, in terms of sector, geography and region, could expose the economy to risks related to macroeconomic trends in trade and investment and to policy changes in partner countries.*" The NRA 2023 acknowledges this concentration risk, as does the NRA 2021-2022, and the NRA 2019. We must move beyond the hazard analysis phase and into the hazard mitigation phase. Figures released by the Irish Fiscal Advisory Council in February[2] suggest that not only is this concentration risk worsening, but that the increase in corporation tax in 2025 was almost entirely due to increased exports of a single peptide-based hormone to the State of Indiana. This is a far more hazardous degree of fiscal concentration than that which preceded the great financial crash.

We will not reduce our industrial and taxation concentration risk unless we radically address indigenous enterprise policy. Ireland must therefore make a concerted, concentrated effort to expand its indigenous enterprise demography across all business sectors. This requires Ireland to:

1. Develop a **tax system that encourages scale-up**, rather than punishes it.
2. Focus less on individual sector development, and more on **ensuring a competitive indigenous enterprise base**. Look after the everyday entrepreneurs, and the hidden champions will emerge. Customers are better than governments at identifying winners.
3. Provide a financial system that provides **ready and affordable access to capital**.
4. Provide an educational system that maintains the lead Ireland currently enjoys in school-leaver and tertiary education, but **addresses the educational under-performance of adults, and our deficits in life-long learning**.
5. Ensure that FDI policy is directed towards attracting those businesses which have **positive spill-over effects for indigenous enterprise**, avoiding negative repercussions and externalities for local business.
6. Recognise the disconnect between policy and execution. We need no more reports, **we need action-oriented industrial policy**, which dictates tax policy; not tax policy which negatively determines industrial performance.
7. Ireland's new enterprise policy will look a lot like **Italy's Industry 4.0[3]strategy**, which focussed on Italy's small and medium businesses, not its industrial giants.

[1] https://assets.gov.ie/static/documents/national-risk-assessment-2024-overview-of-strategic-risks.pdf
[2] https://www.fiscalcouncil.ie/wp-content/uploads/2026/02/Corporation-tax-slides-conference_2026.pdf
[3] https://www.hlb.global/industry-4-0-italys-masterplan-for-growth/

Preamble

This paper is not a critique of Ireland's inward-FDI model, rather it is intended to balance the FDI contribution of multinational corporations (MNCs) to the Irish economy with that of indigenous enterprise.

We do not believe that this will be achieved by a policy which has a sole objective to pick individual sectors or clusters for economic development. While successive enterprise policy documents have suggested the "picking winners" strategy, we consider this misguided. Winners will emerge organically from an indigenous enterprise sector of "everyday entrepreneurs" that is properly capitalised, educated, and incentivised to scale. The everyday entrepreneur concept is explained by Prof. Friederike Welter, President of the Institute für Mittelstandforschung (IfM) in Bonn as:

1. Heterogenous and easy to relate to as they are anchored in our daily lives.
2. Operate across the growth spectrum, from high growth to low, slow, or no growth.
3. Although not always in high technology, are incrementally innovative.
4. Provide outcomes and benefits beyond the economic: societal, regional, and resilient in employment relationships.

Nor do we believe that economic policy can focus on exporting enterprises alone. With a GDP approaching €600bn, there are excellent, scalable businesses that are trading domestically.

This policy paper is intended to nurture our everyday entrepreneurs, and scale our hidden champions, two categories[4] that will be explained below.

Discussion

This policy document is a distillation of observations previously made in several state publications. What is needed now is an action plan to enact those observations and recommendations.

Not all enterprise policy can be focussed on high-technology or exporting companies. Large numbers of persons are employed in non-technology, non-exporting companies. This does not mean that those companies are not innovative or lack the capacity to scale. Most of Ireland's most successful businesses have scaled from relatively unsophisticated sectors. Ireland's dominance of the international aircraft leasing sector ultimately scaled from the activities of a single entrepreneur. We must be careful not to conclude that the state has any inherent talent in "picking winners."

The Top 1000 companies[5] published in September 2025 placed the 10 largest Irish-founded companies as follows:

[4] SME Assembly Schumpeter Lecture 2025 (everyday entrepreneurs: 46:00; hidden champions 51:00)
[5] https://www.irishtimes.com/business/2025/09/18/apples-huge-profits-once-again-put-it-well-out-in-front-as-irelands-biggest-company/

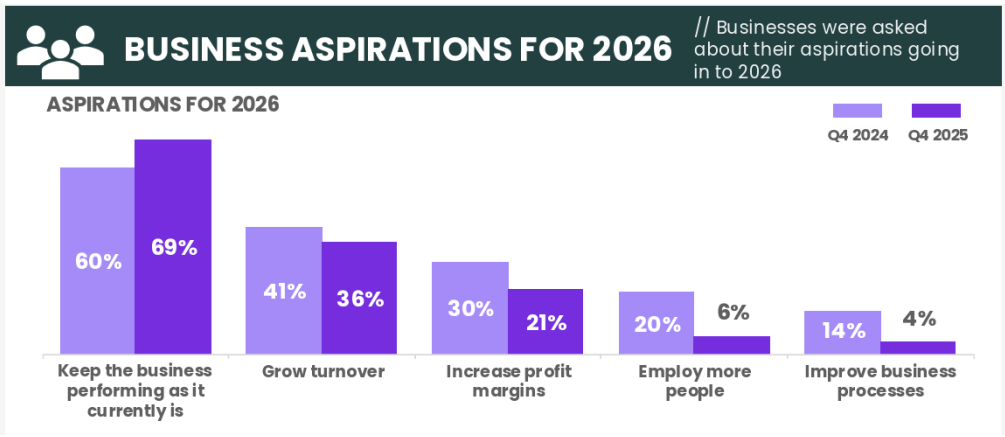
- CRH 6th
- DCC 10th
- Smurfit Westrock 11th
- Ryanair 15th
- Flutter 18th
- Kingspan 24th
- Kerry Group 27th
- Irish Life Group 28th
- ESB 33rd
- Aercap Ireland 34th

The ESB is the only entity which could be identified as a core part of national enterprise policy, having been set up by the state in 1927. With the possible exception of Kerry Group, none of these companies would have been identified with contemporaneous industrial policy, and none were high-technology or exporting businesses at, or after, their start-up phases. They are all well-managed businesses in highly competitive, internationalised sectors. For a long time, these were Ireland's hidden champions, now they are giants.

While we do not suggest that stock exchange listing is the only method for scale up, we note that comparable small, advanced economies such as Sweden and Israel, with populations of 11m and 10m respectively, have stock exchanges listing 385 and 662 companies respectively. Ireland has 20.

The Current Business Environment

The current business environment is uniquely challenged, both domestically and internationally. The recent InterTradeIreland All-Island Business Monitor[6] shows an economy with little ambition to scale, and with falling expectations for turnover, profitability and employment.



The InterTradeIreland data are also consistent with a Central Bank Report[7] which showed:

[6] https://intertradeireland.com/assets/general/ITI-Q4-2025-Infographic-Final-version.pdf
[7] https://www.centralbank.ie/publication/research-publications/staff-insights/the-drivers-of-sme-investment-in-ireland

- While many SMEs report making investments, the value of these investments is small.
- This pattern is explained by firms being satisfied with their current size and investment rates, rather than by a lack of external finance.
- When SMEs do expand, their preference is to fund with internal cash resources rather than to borrow.
- A quarter of SMEs state that external finance constraints are a barrier to investment, but factors like recent growth and attitudes to risk are statistically more important in explaining investment patterns across firms.

This suggests that ambition and economic environment are at least as important to the development of our everyday entrepreneurs as access to finance.

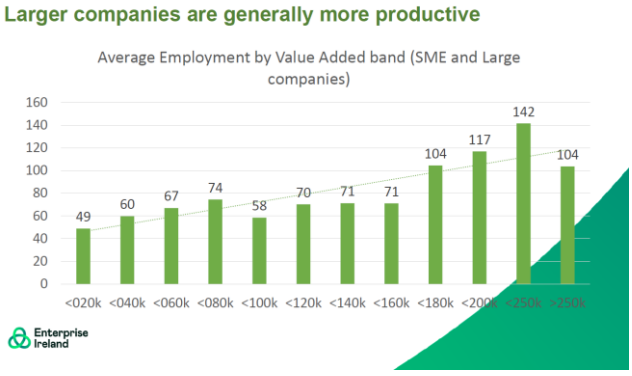
Scaling Successful Indigenous Businesses

Ireland's business demography[8] is overwhelmingly dominated by micro firms, i.e. those employing less than 10 people. Scale brings specialisation and productivity improvement.

All active enterprises 2021:	365,766	
Under 10 persons engaged (Micro)	338,100	92.44%
10-19 persons engaged (Small)	14,322	3.92%
20 - 49 persons engaged (Small)	8,392	2.29%
50 - 249 persons engaged (Medium)	4,089	1.12%
250 and over persons engaged (Large)	863	0.24%

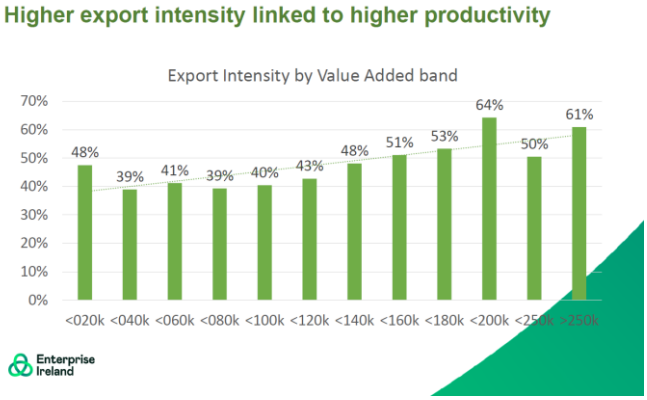
The productivity return to scale

Enterprise Ireland data show that productivity (per head) tends to increase with firm size, with the productivity "sweet-spot" among EI clients being between 100 and 150 employees.



Not alone are larger firms more productive, but more productive firms have a higher propensity to export.

[8] https://www.cso.ie/en/releasesandpublications/ep/p-bd/businessdemography2021/keyfindings/



Achieving scale therefore is not merely a pursuit of size for size's sake, it is a matter of increasing our SME productivity and export intensity.

To achieve a successful indigenous enterprise sector, we must see enterprises scale, not exit via sale. However, our tax system operates to ensure the opposite outcome- business owners are incentivised by the tax system to dispose of everything, rather than retain some equity and see their business scale. The most notable features of our tax system which discourage scale are:

- A business owner who wants to take cash of the table via a third-party equity injection is taxed at their marginal rate: 55%. This is punitive compared to the CGT rate of 33% chargeable if the business is sold.
- Ireland has the 3rd highest rate of CGT in the EU, which applies to all capital gains, including those from sale of IP. The 33% rate suppresses exchequer yield, and leads to active tax planning to remove assets from the CGT net.
- Many small companies intending to scale up, to buy assets or a competitor, cannot do so as they are penalised for retaining earnings in the business. "Close companies" (a close company[9] is typically controlled by five or fewer participators (shareholders) or by directors who are also shareholders) face specific tax rules to prevent profit retention, including a 20% surcharge on undistributed investment/estate income and a 15% surcharge on undistributed professional service income. Big companies are not punished for retained earnings, small companies are. Unless it is our strategic intent not to scale companies, retention of close company rules makes no sense.
- Budget 2026 raised the Entrepreneur Relief (ER) lifetime chargeable gain threshold from €1 million to €1.5 million. While a substantial rise on the previous €1m limit, it is a very low sum for a business that might have been decades in the making, and it does not reward those who stay on to scale. The reduced 10% rate applies only to capital events.
- Self-employed earning over €100,000 in non-PAYE income are subject to a 3% surcharge on that income. The 2022 Commission on Taxation and Welfare recommended abolition of this discrimination.[10]

[9] https://www.cpaireland.ie/CPAIreland/media/Education-Training/2024%20Examinations/Articles/SL-ATS-Close-Company-Definitions-and-Rules-Article.pdf
[10] https://assets.gov.ie/static/documents/foundations-for-the-future-report-of-the-commission-on-taxation-and-welfare.pdf

- The Employment Investment Incentive Scheme[11] remains too complex and onerous to attract any large-scale interest from investors.
- The Key Employee Engagement Programme[12] (KEEP) is so complex and unwieldy that it attracts interest from less than a dozen companies annually.
- Start-Up Relief for Entrepreneurs (SURE)[13] is so tightly regulated that less than 30 firms a year avail of it.
- Start-Up Company Relief[14] is computed by reference to employer's PRSI contributions only, it therefore only applies to businesses with employees, which may not be appropriate in many start-up businesses.
- The Tax Foundation[15] places Ireland 31st of 38 countries reported on in terms of tax competitiveness. Only our low corporation tax rate makes it into the globally competitive Top 10. We should note, regarding tax competitiveness, that all the small, advanced economies against which we rate ourselves rank above us.
- Purchasing power economies of scale will naturally occur for FDI companies. This extends to the cost of utilities, for example large companies can avail of electricity charges where KwH charges may be 52% of those paid by domestic/SMEs, and network charges may be as little as 9% that charged to domestic/SMEs.

Table 1. 2025 *International Tax Competitiveness Index* Rankings

Country	Overall Rank	Overall Score	Corporate Tax Rank	Individual Taxes Rank	Consumption Taxes Rank	Property Taxes Rank	Cross-Border Tax Rules Rank
Estonia	1	100.0	2	2	22	1	7
Latvia	2	92.8	1	7	20	7	6
New Zealand	3	87.8	31	6	1	4	22
Switzerland	4	86.0	10	8	2	36	1
Lithuania	5	81.8	3	9	25	10	15
Luxembourg	6	81.0	20	22	8	16	5
Australia	7	79.7	29	15	9	2	33
Israel	8	78.9	11	32	11	5	10
Hungary	9	78.7	4	3	38	22	4
Czech Republic	10	77.4	8	10	32	6	11
Sweden	11	76.1	6	19	26	8	13
Turkey	12	75.9	21	5	17	24	8
Canada	13	73.9	22	27	7	25	18
Slovak Republic	14	73.3	24	1	34	9	24
United States	15	72.5	9	17	4	30	35
Netherlands	16	71.4	23	30	14	21	3
Costa Rica	17	71.4	34	23	6	12	30
Mexico	18	70.1	26	14	12	3	36
Austria	19	69.6	19	26	16	17	16
Germany	20	68.9	30	33	13	14	9
Norway	21	68.8	13	29	23	15	14
Japan	22	67.8	35	34	5	23	25
Greece	23	67.0	16	4	30	29	23
Finland	24	66.8	7	28	28	19	19
Slovenia	25	66.8	12	11	29	26	21
Korea	26	66.3	25	38	3	31	29
Denmark	27	64.3	17	36	19	13	34
Chile	28	63.8	32	24	10	11	38
Iceland	29	63.7	15	20	24	27	26
Belgium	30	63.2	18	13	27	32	27
Ireland	31	61.3	5	37	36	18	28

2024 Revenue figures tell us a great deal about the contribution of SMEs to the Irish economy.[16]

[11] https://www.revenue.ie/en/personal-tax-credits-reliefs-and-exemptions/investment/relief-corporate/employment-investment-incentive.aspx
[12] https://www.revenue.ie/en/additional-incomes/employment-related-shares/key-employee-engagement-programme-keep/index.aspx
[13] https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/costs-tax-expenditures.pdf
[14] https://www.revenue.ie/en/starting-a-business/initiatives-startup-businesses-smes/tax-relief-for-new-startup-companies/can-you-claim-for-tax-relief-for-your-start-up-company.aspx
[15] https://taxfoundation.org/wp-content/uploads/2025/10/International_Tax_Competitiveness_Index_2025_10-21.pdf
[16] https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2025.pdf

CT Liability	Companies returns	Total CT Liable	Employments	Earnings	Income Tax	USC	Employee PRSI	Employer PRSI	VAT	Average Employees	Average CT	Average Earnings
€	Number	€m	Number	€m	€m	€m	€m	€m	€m	Company	Company	Company
Negative or Nil	121,970	-1,647	783,813	24,042	4,583	902	875	2,111	2,363	6.4	-13,503	30,673
1-20,000	68,769	340	568,712	13,036	2,094	416	462	1,066	2,846	8.3	4,944	22,922
20,000-40,000	9,137	258	183,524	4,424	724	144	156	394	948	20.1	28,237	24,106
40,000-60,000	3,896	191	148,760	3,146	538	104	106	269	477	38.2	49,025	21,148
60,000-80,000	2,162	150	68,872	1,997	345	69	74	192	420	31.9	69,380	28,996
80,000-100,000	1,443	129	65,017	1,668	278	56	61	161	312	45.1	89,397	25,655
100,000-200,000	3,231	457	188,811	5,206	910	183	193	510	1,409	58.4	141,442	27,573
200,000-500,000	2,201	684	229,774	7,155	1,321	264	266	717	1,505	104.4	310,768	31,139
500,000-1,000,000	844	590	182,058	5,040	940	187	178	474	1,196	215.7	699,052	27,683
1,000,000-5,000,000	735	1,541	230,700	8,446	1,664	330	310	844	1,104	313.9	2,096,599	36,610
5,000,000-8,000,000	89	554	71,110	1,916	423	82	62	158	824	799.0	6,224,719	26,944
8,000,000+	237	19,578	165,196	11,832	2,914	587	454	1,114	1,164	697.0	82,607,595	71,624
Total	214,714	22,824	2,886,347	87,906	16,733	3,324	3,196	8,009	14,569	13.4	106,300	30,456

In approximate order of relevance, Revenue figures show us:

1. Most SMEs are unprofitable *in accounting terms**, with 57% of them making a nil or negative CT return, and the next 32% of them paying less than €5,000 in CT.
2. A tiny number (237) of companies are responsible for 86% of Ireland's total CT take.
3. However, micro businesses (<10 employees) are responsible for 47% of employments, 42% of total earnings, 40% of income tax, 41% of PRSI, and 36% of VAT.
4. Therefore, an industrial policy that ignores these, or prioritises only those micro enterprises which are high-technology or export oriented *will not be sufficient* to balance the Irish economy.

*We are not suggesting that more than half of firms are not profitable, but that Revenue rules discourage small firms from maintaining retained earnings on their books. This does not, of course, explain companies making a negative return.

The Revenue figures are a practical expression of the importance of "everyday entrepreneurs." They may not generate large amounts of corporation tax, but they employ almost half the population, and generate over 40% of total employee earnings. In terms of total employment, earnings and tax, SMEs are of far greater systemic importance to the Irish economy and exchequer than are FDI employers:

CT Liability	Employments	Earnings	Income Tax	USC	Employee PRSI	Employer PRSI	VAT
€							
Negative or Nil	27%	27%	27%	27%	27%	26%	16%
1-20,000	20%	15%	13%	13%	14%	13%	20%
20,000-40,000	6%	5%	4%	4%	5%	5%	7%
40,000-60,000	5%	4%	3%	3%	3%	3%	3%
60,000-80,000	2%	2%	2%	2%	2%	2%	3%
80,000-100,000	2%	2%	2%	2%	2%	2%	2%
100,000-200,000	7%	6%	5%	6%	6%	6%	10%
200,000-500,000	8%	8%	8%	8%	8%	9%	10%
500,000-1,000,000	6%	6%	6%	6%	6%	6%	8%
1,000,000-5,000,000	8%	10%	10%	10%	10%	11%	8%
5,000,000-8,000,000	2%	2%	3%	2%	2%	2%	6%
8,000,000+	6%	13%	17%	18%	14%	14%	8%
Total	100%	100%	100%	100%	100%	100%	100%

It is from the scaling of "everyday entrepreneur" businesses that the hidden champions of long-established, highly innovative family businesses emerge, such as the 570 year-old Achenbach,[17] and Kirchoff Automotive[18] which has a base in Letterkenny.

Access to Capital

There is an evident trend among indigenous enterprises, including those we would expect to be expansionary at present, to shrink their balance sheets. This is evident in the Revenue figures above, where losses are shown as a reduction in equity on the balance sheet. But it is also visible in Central Bank figures[19] showing outstanding credit balances for SMEs. This CBI data (Table 14.1 Outstanding) shows SME credit balances of €62bn in 2011 declining to €17.8bn in 2023, despite a huge increase in GNI* and GDP over the same period.

Table A.14.1 Credit Advanced to Irish Resident Small and Medium Sized Enterprises

Outstanding amounts - € million

	Sept-15	Sept-16	Sept-17	Sept-18	Sept-19	Sept-20	Sept-21	Sept-22	Sept-23	Sept-24	Sept-25
2. Manufacturing	1,723	1,444	1,341	1,219	1,227	1,019	1,287	1,468	1,335	1,376	1,303
2.6 Computer, electronic and optical products	41	36	16	76	53	15	24	49	43	37	19
machinery/equipment, not including computers	176	166	153	135	204	217	211	232	199	189	215
2.8 Other manufacturing	396	350	353	323	282	278	315	346	421	436	361
3. Electricity, Gas, Steam and Air Conditioning Supply	240	209	225	261	191	131	325	211	162	50	17
5. Construction	851	757	559	487	462	451	593	526	439	495	562
5.1 Construction of buildings carried out on contract	223	212	173	141	162	134	236	179	83	54	213
5.2 Civil engineering activities carried out on contract	196	159	112	49	45	26	27	29	23	22	22
5.3 Other construction activities	433	386	274	297	256	291	329	318	333	418	328
6. Wholesale/Retail Trade & Repairs	4,488	4,083	3,542	3,332	2,896	2,513	2,362	2,330	2,247	2,263	2,041
6.1 Sale, maintenance/repair of motor vehicles, retail sale of fuel	1,025	1,099	989	889	930	684	553	540	644	678	550
6.2 Wholesale trade and commission trade (except vehicles)	818	689	561	432	465	454	556	595	534	552	480
goods	2,458	2,157	1,854	1,976	1,486	1,356	1,248	1,187	1,039	995	962
6.4 Other wholesale/retail	187	139	137	34	15	18	5	9	30	38	48
8. Hotels and Restaurants	3,209	2,750	2,537	2,527	2,216	1,970	1,854	1,694	1,488	1,326	1,170
8.1 Hotels	1,448	1,246	1,138	1,300	1,162	971	922	872	709	668	528
8.2 Restaurants	334	306	298	303	286	259	241	228	210	204	188
8.3 Bars	1,176	972	886	781	653	608	558	471	440	313	298
8.4 Other accommodation and catering	251	226	215	142	116	132	134	124	130	140	156
9. Information and Communication	173	193	167	110	183	139	203	192	135	112	79
11. Real Estate Activities	18,114	12,736	10,507	8,399	7,223	6,133	5,001	5,368	5,569	4,840	4,027
11.1 Property investment/development	17,758	12,450	10,293	8,160	6,845	5,949	4,811	5,191	5,470	4,766	3,978
11.2 Other real estate activities	355	286	214	240	378	184	190	177	99	75	49
12. Business and Administrative Services	1,690	1,409	1,225	1,267	1,123	1,051	1,117	1,193	1,164	1,276	1,627
13. Other Community, Social and Personal Services	1,459	1,361	1,203	1,152	1,036	990	920	1,103	961	943	684
13.1 Recreational, cultural and sporting activities	497	437	402	344	347	278	244	274	236	159	146
13.3 Other service activities	756	731	660	669	567	591	546	710	650	727	493
14. Education	257	232	178	200	197	217	210	172	157	155	117
15. Human Health and Social Work	1,170	1,091	918	957	854	662	621	592	457	431	349
16. Total	37,897	30,634	26,645	24,312	21,694	19,542	18,365	18,797	18,210	18,195	16,592
16.1 Total ex. Financial Intermediation	37,742	30,510	26,476	24,163	21,581	19,444	18,244	18,666	17,868	16,943	15,771

All major sectors of economic activity show a 10-year decline: manufacturing, construction, wholesale/retail, hospitality, real estate, social services and social work have reduced over the last decade.

If we look at the four years since September 2021, which was mid-pandemic, the figures are more concerning: Construction -5%; wholesale/retail -14%; hospitality -37%; real estate -19%; social/personal services -26%; health/social work-44%; overall -14%.

GDP grew from €500bn to €563bn (+13%) between 2021 and 2024, and GNI* grew from €230bn to €321bn (+43%) in the same period.[20] Clearly, SME balance sheets are not pacing national economic figures.

[17] https://www.achenbach.de/en/company/about-us/
[18] https://www.kirchhoff-automotive.com/ieEN/company
[19] https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/credit-and-banking-statistics/business-credit-and-deposits/business-credit-and-deposits-data/table-a-14-1-credit-advanced-to-irish-resident-smes.xls?sfvrsn=f660ab1d_105
[20] https://www.cso.ie/en/releasesandpublications/ep/p-ana/annualnationalaccounts2024/gniandde-globalisedresults/

At the same time, household deposits and private sector enterprise deposits total €167bn and €178bn respectively. There is an abundance of capital available for small enterprise, but a mismatch in terms of what SMEs wish to draw down, and what depositors are willing to lend. This €345bn wall of cash is equivalent to 107% of our GNI*, and it serves no productive purpose.

As pointed out in the recent paper[21] by Prof. Alan Ahearne of the University of Galway, capital deepening by MNCs in Ireland is orders of magnitude greater than that of domestic firms. Indigenous enterprise cannot hope to bridge the productivity gap with MNCs unless they can access deeper pools of capital. At the moment, the trend is towards shrinkage rather than expansion of domestic balance sheets.

	2000-2004	2005-2009	2010-2014	2015-2019	2020-2023
Total Economy	2.1	2.2	1.4	0.0	0.3
Domestic	1.3	2.1	0.3	n.a.	n.a.
Foreign MNCs	5.2	2.8	3.8	n.a.	n.a.

Source: CSO. Capital deepening is calculated as the growth in capital services (that is, the flow of services derived from physical assets to produce output) per hour worked. Intangible capital assets are excluded. The figures in the table refer to the contribution of capital deepening to labour productivity growth.

This paper does not propose to analyse this mismatch, other than to observe that Irish banking institutions typically confined themselves to asset-backed lending, underwritten by personal guarantees, while the current business environment requires affordable lending for working capital purposes. Now that the Irish State has exited the banking system, opportunities to examine local public banking (Sparkassen) and/or the WIR banking system from Switzerland, should be examined again. The WIR bank, developed after the Wall Street crash in 1929, allows SMEs to operate a private currency system, the WIR franc, within an asset backed system. This allows for highly efficient capital usage and alleviates the demand for working capital from banks.

Small and start-up funding vehicles such as the German NDF[22] and Austrian Wirtschaftsagentur[23] are other exemplars of templates that could also be used for SME funding. The UK's ISA[24] product and the Swedish ISK[25] offer retail investors an opportunity to invest some savings in tax-efficient savings vehicles while also putting deposits to productive use.

Desired outcomes: An End to the Two-Tier Economy

The primary objective of a revised industrial policy is the achievement of a better balance between the FDI and the indigenous sectors. Ireland suffers two significant negative effects from an unbalanced, two-tier, economy:

[21] Entrepreneurial Activity and Living Standards in Ireland
[22] https://non-dilutive-funding.com/loans/erp-startgeld-gruenderkredit/
[23] https://wirtschaftsagentur.at/
[24] https://www.gov.uk/individual-savings-accounts/how-isas-work
[25] https://www.interactivebrokers.ie/en/accounts/isk-accounts.php

- Dutch Disease[26] (or Tortuga Disease[27]) exist where large capital inflows to a particular sector have harmful, distorting consequences beyond that sector.
- The Baumol effect,[28] where these capital inflows reduce productivity outside the relevant sector (including in the public sector), by increasing labour costs across the entire economy, not just in the booming sector.

An ESRI Paper from 2018[29] looking at "Productivity spillovers from multinational activity to indigenous firms in Ireland" noted the importance of ensuring the compatibility of FDI businesses with the indigenous enterprise base:

> "*…we find that the average productivity of domestic firms is negatively linked to the presence of non-EU based multinationals in the same industry. Again, looking at manufacturing and services separately, the estimates indicate the productivity of domestic firms in manufacturing is negatively linked with the presence of both EU and non-EU based multinationals in the same industry. In contrast, the productivity of domestic firms in services is positively linked to the presence of EU-based multinationals in the same service industry.*"

While FDI enterprise in Ireland generates high incomes and corporation tax returns, it is limiting elsewhere, especially in terms of domestic value capture:

> "*FDI intensity limits domestic value capture on several dimensions. Most obviously, because MNC profits flow offshore to a greater extent than domestic firm profits, there is income leakage from economic activity in Ireland. Ireland has – by far – the largest primary income deficit across small, advanced economies, at 25% of GDP, compared to 12% of GDP for Singapore. And this primary income deficit has been expanding over the past few decades.*
>
> *In addition, the evidence suggests that there is often a disconnect between externally oriented MNC activity and local economic activity. Many MNCs are not deeply embedded into Irish supply chains, and do not have strong linkages into the Irish economy. There is relatively little domestic value capture outside the direct employment, some capex, and the associated tax income. Indeed, FDI-intensive economies often have low domestic value-added content of exports; Ireland and Singapore lag other small, advanced economies on this measure.*"

Another side-effect of the capital inflows which characterise Dutch Disease is resource allocation, particularly in human capital, away from productive and entrepreneurial activity and towards rent-seeking activity. In their paper The Allocation of Talent, Implications for Growth,[30] Murphy, Shleifer and Vishny noted:

[26] https://www.imf.org/en/publications/fandd/issues/series/back-to-basics/dutch-disease
[27] https://academic.oup.com/isq/article-abstract/61/2/312/3850831
[28] https://www.productivity.ac.uk/wp-content/uploads/2023/11/PIP025-Public-Sector-Productivity-FINAL-Nov-2023.pdf
[29] https://www.esri.ie/system/files/media/file-uploads/2018-03/WP587.pdf
[30] https://www.nber.org/system/files/working_papers/w3530/w3530.pdf

''Which activities the most talented people choose can have significant effects on the allocation of resources. When they become entrepreneurs, they improve the technology in the line of business they pursue, and as a result, productivity and income grow. In contrast, when they become rent seekers, most of their private returns come from redistribution of wealth from others and not from wealth creation. As a result, talented people do not improve technological opportunities, and the economy stagnates.''

This drives resources into non-tradable sectors like legal services, lobbying, and government, where professionals help capture resource rents, weakening long-term productivity, and concentrating capital in non-value-adding activities.[31] In the long run, the wider economy suffers.

The greatest negative impact of Ireland's FDI concentration is on labour cost. There is a real spillover of wage expectation from FDI (and public sector) employment into the indigenous enterprise sector which cannot be matched by output from domestic business. As Prof. Ahearne states in the report linked above, this reduces Ireland's productivity. And higher productivity equates to higher profitability, since a greater level of output for the same level of inputs will generate a higher return.

Irish SMEs could counteract their inability to pay as highly as the FDI and public sectors with suitable employee incentives such as KEEP,[32] which has to date proven an effective failure. The Department of Finance (DFIN) suggests that the failures in KEEP and our other entrepreneurial reliefs are attributable to EU state aid rules. However, these rules did not constrain the introduction of the Enterprise Management Incentive (EMI) scheme in the UK[33] or the Portuguese Law 21/2023[34] which incentivises start-ups and scale-ups. DFIN should be tasked with interrogating both these systems to understand how to make our entrepreneurial incentives function.

Innovative business

While Ireland aspires to being an innovative economy, it struggles to execute a policy to achieve this. While Ireland's performance in the Global Innovation Index[35] was a creditable 18th place in 2025, we lag a number of small, advanced economies in the EU and globally. Notable among our weaknesses are our secondary school pupil-teacher ratio, our ICT use, logistics performance, gross capital formation, domestic private sector credit, market capitalisation, net inflows from FDI, patents and knowledge creation, labour productivity growth, and industrial design. All of these are fixable shortcomings.

[31] https://www.longdom.org/open-access/dutch-disease-rent-seeking-behavior-in-oil-exporting-countrieshow-contagious-is-it-1101222.html
[32] https://www.revenue.ie/en/additional-incomes/employment-related-shares/key-employee-engagement-programme-keep/index.aspx
[33] https://www.gov.uk/tax-employee-share-schemes/enterprise-management-incentives-emis
[34] https://kpmg.com/xx/en/our-insights/gms-flash-alert/flash-alert-2023-116.html
[35] https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2025-exec-en-global-innovation-index-2025.pdf

Table 3 Heatmap: GII 2025 rankings overall and by innovation pillar, 2025

Economy	Overall GII	Insti-tutions	Human capital and research	Infra-structure	Market sophist-ication	Business sophist-ication	Knowledge and technology outputs	Creative outputs
Switzerland	1	3	6	5	3	5	2	1
Sweden	2	12	3	4	9	2	4	2
United States	3	16	13	32	1	1	3	5
Republic of Korea	4	20	1	7	5	4	9	4
Singapore	5	1	2	19	6	3	7	15
United Kingdom	6	25	7	23	4	17	5	3
Finland	7	5	5	3	11	12	8	16
Netherlands (Kingdom of the)	8	11	14	30	12	7	10	6
Denmark	9	2	11	8	16	11	13	9
China	10	44	20	6	13	8	1	14
Germany	11	23	4	28	22	13	11	8
Japan	12	22	18	17	10	6	12	18
France	13	33	15	18	14	14	15	7
Israel	14	36	19	45	15	9	6	28
Hong Kong, China	15	8	12	21	2	23	30	17
Estonia	16	18	36	10	7	26	19	12
Canada	17	15	10	24	8	19	18	24
Ireland	18	10	24	13	36	15	14	21
Austria	19	21	9	12	30	16	21	23
Norway	20	9	22	1	21	20	32	22
Belgium	21	29	16	43	20	10	16	31
Australia	22	13	8	25	17	25	29	27
Luxembourg	23	4	27	57	23	21	53	10
Iceland	24	14	31	2	25	18	45	19

The R&D tax credit[36] is one of the largest tax expenditures by the state, approaching €2bn annually. However, it is concentrated in the large company sector by a factor of 4:1. The large company sector is dominated by multinationals, meaning the R&D credit constitutes a massive tax expenditure on non-indigenous enterprises. 80% of our tax expenditure is absorbed by less than 1% of businesses.

SME access to the R&D credit is complicated by the fact that it is only permitted in "new to industry" use cases, rather than in "new to enterprise." If we are serious about improving R&D in SMEs, we must move away from the new to industry requirements under the Frascati model,[37] and adopt the new to enterprise policies under the Oslo manual.[38]

We must also recognise the risks and downsides to innovation associated with importing FDI:

> "*Ireland has one of the weakest innovation records of the small, advanced economy group: low total and business R&D spending as a share of GDP, and a weak overall ranking on the Global Innovation Index. Although Ireland scores reasonably well in terms of economic complexity, and has a strong presence in sophisticated exports (pharmaceuticals, electronics, medtech), this is the consequence of imported innovation capabilities.*"

This is research[39] commissioned by the Department of Enterprise. We must not merely learn lessons from this research, we must act upon it through our tax, fiscal and industrial policy. Businesses cannot innovate if they cannot learn, and at the time when they most need to

[36] https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/r-and-d-tax-credit-statistics.pdf
[37] https://www.oecd.org/content/dam/oecd/en/publications/reports/2015/10/frascati-manual-2015_g1g57dcb/9789264239012-en.pdf (p.46)
[38] https://www.oecd.org/content/dam/oecd/en/publications/reports/2018/10/oslo-manual-2018_g1g9373b/9789264304604-en.pdf (p.20)
[39] https://enterprise.gov.ie/en/publications/publication-files/review-of-industrial-and-enterprise-policy-in-small-advanced-economies-and-implications-for-irish-enterprise-policy.pdf

innovate and learn, the funding to do so is being reduced in favour of capital spending in the tertiary education sector.[40]

It is tempting for the state in its enterprise policy to focus on "innovation-driven-enterprise" (IDE) such as technology or pharma start-ups, given the existing prevalence of FDI businesses in those sectors already located here. We strongly advise against an IDE-driven industrial policy, as it is fraught with risk. We opened this paper with a link to the Schumpeter Lecture at the SME Assembly in Copenhagen in November 2025 (which Dublin will host next November). Schumpeter's most famous contribution to economics is the theory of creative destruction. Anyone familiar with the development of smart telephony in the first decade of this century, and the battles[41] between Nokia, Blackberry, and the iPhone, will understand the ruthless efficiency with which markets and consumers can end the ambitions of even the most innovative and robust of technical solutions.

Can it be done? Italy's Export Renaissance[42]

Italy, regarded as a European laggard for decades, overtook Japan in 2025 as the G7's most export-growth-driven economy, far outstripping Japan (+15%) or the UK (+12%) in export expansion.

This was not accidental; it was the result of a concerted masterplan; Industry 4.0.[43] It took Italy from seventh to fourth place in global exports. Of particular relevance to Ireland was the fact this result was not achieved on the back of Italy's industrial giants; growth was focussed on its small and medium businesses. Success was built on a number of key factors:

- **Specialised Industrial Districts:** Networks of SMEs ("multinazionali tascabili") clustered in 160 local districts.
- **A Broad Product Mix:** Italy exports an exceptionally wide range of goods, spanning machinery, vehicles, pharmaceuticals, fashion/apparel, food & wine, furniture, and luxury goods.
- **Quality and Niche Leadership:** Italian firms have carved out leadership in many niches by competing on quality, design, and innovation rather than volume.
- **Modernisation via Policy Incentives:** In 2016, the government launched the "Industria 4.0" plan, a suite of generous tax incentives (e.g. hyper-amortisation of high-tech investments and R&D tax credits) to spur digital transformation in manufacturing.
- **Agile Mid-Sized Firms:** Italy's midsize manufacturers (50–500 employees) have emerged as unsung heroes of productivity. Many of these firms are family-run "hidden champions" that aggressively innovate.

[40] Opening address to Joint Committee on Further & Higher Education by Neil McDonnell
[41] https://www.bbc.com/news/business-27238877
[42] https://www.linkedin.com/pulse/italys-export-renaissance-from-low-stereotype-4th-largest-pabcf/?trackingId=TzeNTuykQCOVtqgAUKmXlA%3D%3D
[43] https://www.hlb.global/industry-4-0-italys-masterplan-for-growth/

Industry 4.0 provides a template for the development of indigenous enterprise that would work for Ireland's diversified offering of goods, services and technology. While it promotes scale, it avoids concentration.

Conclusions and Recommendations

1. While we do not suggest that industrial policy should be entirely sector-agnostic, we believe that customers (national and international) are better at determining successful business models than are stage agencies. Ireland's international pre-eminence in aircraft leasing is clear evidence of this.
2. Because of the efficiencies/economies that return to scale, we believe that pro-scaling policies are more likely to produce better economic outcomes than focussing on productivity and/or export intensity alone. Therefore, economic strategy must have as a target increasing the proportion of indigenous firms in the large and medium categories.
3. Enterprise policy must lead and define taxation policy, not the other way round. If we have desired outcomes in terms of business size and productivity, then those priorities must dictate and define accommodative tax policy. Government must prioritise improvement in Ireland's tax competitiveness.
4. There is capital available to indigenous enterprise, but the incentives and vehicles to move it from idle deposits into increasing productive capacity are not there. It is also possible to incentivise SME employees beyond simple remuneration. Where DFIN finds it difficult to devise local systems, it should as far as possible replicate successful and compliant models already in place in the UK, Sweden and Portugal.
5. Business cannot innovate, become more productive, or learn to export, without the training to do so. Government must make a meaningful return in training supports to indigenous SMEs from the €1bn it collects annually from employers under the training levy.
6. Government must prioritise resource allocation to creative, value-additive economic activity in entrepreneurship and engineering, to ensure it does not pool in rentier activity.
7. Italy's Industry 4.0 plan shows that it is not necessary to be sector-specific in developing export-oriented business. Like Italy, Ireland has a highly diversified SME, craft and artisan business base. All we require to scale this to productive, export-oriented businesses is a suitable suite of tax incentives (which are likely to be inexpensive relative to income generated).
8. Ireland regularly challenged itself by commissioning independent reviews of Industrial Policy every 10 years or so (e.g. Culliton 1982, Telesis 1992, O'Driscoll 2004), but regrettably Ireland has not repeated this best practise for over 20 years. The National Risk Assessment (NRA) should mandate an independent assessment of Industrial Policy at least every 10 years. China produced its 15th Five-Year-Plan in 2026 (2026-30).

1. Glossary

CGT	Capital Gains Tax
DFIN	Department of Finance
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GNI*	Modified Gross National Income
ICT	Information and Communications technology
KEEP	Key Employee Engagement Programme
KwH	Kilowatt Hour
MNC	Multinational Corporation
R&D	Research and Development
SME	Small and Medium Enterprise
NRA	National Risk Assessment