National Competitiveness Council assesses Ireland’s competitiveness performance and highlights seven areas of concern

The National Competitiveness Council (NCC), today (6th September 2011) published its annual benchmarking report, Ireland’s Competitive Scorecard 2011. The report provides a comprehensive assessment of Ireland’s competitiveness performance, using 127 statistical indicators which provide insights into Ireland’s ability to compete on world markets. The indicators are drawn from data sources such as Forfás, OECD, Eurostat, CSO and others.

Dr Don Thornhill, Chairman, NCC commented, “Ireland’s Competitive Scorecard provides us with a clear view of our competitive strengths and weaknesses. The country faces undisputable challenges and there are seven priority competitiveness areas of concern.”

Dr Thornhill emphasised the need to relentlessly continue to work to improve Ireland’s competitiveness, “Ireland cannot aim for just being good enough, we must strive to be world beating in all the areas essential for competitiveness. While significant progress has been made, Ireland has much further to go if we are to deliver long lasting competitiveness and sustainable growth. We need to continue the emphasis on expanding exports through increasing productivity in all sectors of the economy and through developing new exports businesses and sectors. The NCC will be publishing Ireland’s Competitiveness Challenge report later in the year, which will outline detailed recommendations on addressing Ireland’s competitiveness issues.”

Martin Shanahan, Chief Executive, Forfás commented, “The unsustainable nature of the domestically driven growth during the second half of the 2000s has brought home to us all the role of exports in delivering sustainable economic growth and has reiterated the central importance of competitiveness. Exports are currently the only source of economic growth, and improving our competitiveness is essential to growing our exports. It is an opportune time, therefore, to identify and agree a set of ambitious, key competitiveness targets for Ireland that are within domestic policy control, and to put in place a plan to deliver on these targets. It is critical that we provide Ireland’s businesses with every possible competitive advantage.”

Mixed Competitiveness Performance

The report shows that Ireland’s competitiveness performance in 2011 is mixed. Notwithstanding the problems in the banking, construction and retail sector, the export focused enterprise sectors are performing strongly. Ireland’s exporting companies are performing well driven by significant competitiveness gains. In 2010 export volumes and values increased, while Ireland’s market share in world trade also grew. Growth in exports was facilitated and supported by the reductions in the cost base for firms as well as improvements in productivity. As a consequence of lower costs and higher productivity, unit labour costs fell in 2010.

On the downside, however, high public debt, falling investment, and shortages of credit all weaken Ireland’s competitive position and Ireland remains an expensive country in which to do business.
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Concerns also persist in other areas - for example while our educational attainment has improved significantly in the last two decades (the proportion of the working age population with tertiary level education has increased from 26% in 2003 to 33 % in 2008), Irish 15-year old students performed poorly in terms of scientific, mathematical and reading literacy as measured by the Programme for International Student Assessment.

**Seven Priority Competitiveness Areas**

**Cost of Doing Business:** Restoration of cost competitiveness is central to any economic recovery. While there have been significant improvements in Ireland’s cost competitiveness over the last two years, further progress is required. Even though prices in Ireland have fallen since 2008, the cost of a range of business inputs remain relatively expensive compared to those in other countries with which we are competing. High cost areas include property costs, calls from landlines and legal fees.

**Productivity and Innovation:** Ireland needs to complement the reduction in costs which is currently underway with a renewed focus on enhancing productivity. Irish productivity levels remain below OECD average. However, there has been a reversal of the negative productivity growth experienced between 2005 and 2009.

**Access to Credit:** The annual rate of change in lending to the non-financial corporate sector has been negative since late 2009 and the contraction in lending to this sector has continued in recent months. The difficulties in the banking sector are likely to lead to continued difficulties for the SME sector in accessing credit supply.

**Labour Activation:** Unemployment, youth unemployment and long term unemployment have all increased substantially since 2007. Age and education attainment are strong determinants of unemployment.

**Taxation Policy:** Average and marginal income tax rates on labour have been increasing: for a single worker earning €40,000 per annum the average rate of tax has increased from 18.6 percent in 2008 to 24.2 percent in 2011, while the marginal rate has increased from 47 percent to 52 percent. High marginal income tax rates reduce the incentive to work and to invest in education, training and business expansion. Maintaining a pro-enterprise taxation system while broadening the tax base is central to repairing the public finances.

**Education:** Average educational attainment has improved significantly in the last two decades, although older cohorts still have relatively low levels of attainment. Challenges persist at primary school level, with 9-11 year students receiving fewer hours of tuition in maths and science than most other OECD countries; at second level there is a persistence of early school leavers and Ireland performs poorly in the OECD PISA studies; and at third level there are significant funding challenges.
Infrastructure: Ireland’s perceived performance across several infrastructure areas ranks below the OECD and euro averages. Ireland’s distribution infrastructure is perceived poorly and while the score in air and water transport has improved it remains below the performance of comparator countries. The quality of Ireland’s energy infrastructure is also perceived to be weak. World class telecommunications are vital to our ability to do business and Ireland ranks poorly in this regard and lags behind leading countries in terms of upgrading the local broadband access network to fibre and on offering very fast broadband speeds over fibre.