

PRESS RELEASE

National Competitiveness Council publishes New Competitiveness Challenge

Essential to reposition Ireland as a competitive location for business

(Tuesday 30 November 2010) “Repositioning Ireland as an internationally competitive location for doing business is essential to support sustainable economic growth and drive job creation” said National Competitiveness Council (NCC) chairman Dr Don Thornhill, today on the publication of the NCC’s Annual Competitiveness Report.

The report, Ireland’s Competitiveness Challenge 2010, focuses on the long term national competitiveness issues that need to be prioritised to develop a more competitive operating environment for businesses. “In times such as these it is vital that we identify those elements of our economy over which we have most control, and that we maximise competitive advantage where it exists” said Dr Thornhill.

“While the economy faces unprecedented economic challenges, Ireland continues to show significant competitiveness strengths - not least of which is our resilient export performance. We need to build upon these strengths and develop a platform for future prosperity. Having benefited from competitiveness gains as a result of cyclical factors, we must now ensure that action is taken to achieve more long lasting structural competitiveness gains. Given the wide range of challenges facing policymakers at present, we believe that immediate and decisive action is more important than ever. Economic recovery leading to improved living standards requires that we excel in key areas that determine international competitiveness” said Dr Thornhill.

Commenting on the publication, Martin Shanahan, Chief Executive of Forfás, noted that “the recently published National Recovery Plan begins to address the competitiveness and enterprise issues raised by the NCC and Forfás. In order to achieve economic growth and employment creation, it is vital that policies designed to support enterprise continue to be prioritised and implemented”.

Given the wide range of issues that need to be tackled to support sustainable long term growth, the NCC has highlighted the main recommendations that it believes need priority attention and action.

1. **We must put in place the structures, processes and the capacity to support sustainable competitiveness:** This means focusing on productivity enhancement, ensuring fiscal stability, and taking a sector-specific approach to policy development, where appropriate. Among the specific recommendations highlighted by the NCC are:
 - **Promoting and delivering economy wide productivity growth:** Higher productivity is the glue which sustains high living standards and competitiveness. There is no part of

Government, however, responsible for promoting policies that drive productivity growth. To deliver the required improvements, it is imperative that one department has overall responsibility for prioritising productivity related policy actions, monitoring progress and driving implementation. Improving productivity across all sectors of the economy should be central to future policy and budgetary decisions;

- **Addressing the specific needs of sectors:** In recent years, the composition of Irish exports has changed considerably. The NCC is concerned that our institutional structures and mindsets towards export opportunities are rooted in the past. We need to ensure that our Government structures better reflect the changes in our economy and can provide the necessary supports to potential high growth sectors; and
- **Promoting fiscal stability:** There is a need for better fiscal planning and control mechanisms. The Council have recommended the establishment of an independent fiscal council. Among the principles that should underpin the establishment of a statutory fiscal council are independence, accountability, full access to the information available to Government and the capacity to stress test taxation and spending scenarios. The proposed reforms to the budgetary process and reference to the establishment of a Budgetary Advisory Council in the National Recovery Plan are key in this regard.

2. **Although it may be difficult to force our gaze away from the most immediate issues confronting us, we must plan for the future:** The NCC recommends that the following actions are prioritised to support sustainable long term growth and prosperity:

- **Ensure a sustainable tax system:** The NCC believes that broadening the tax base by introducing a valuation based tax on property and user charges for treated water and third level education, is central to repairing the public finances. Without measures to broaden the tax base, taxes on income will inevitably have to rise further, which puts competitiveness at risk. Higher taxes on income are a disincentive to people to remain in or return to the labour market. A competitive tax wedge is also an important competitive advantage in attracting and retaining highly skilled and internationally mobile workers;
- **Promote indigenous enterprise:** Only through increasing the number of internationally trading indigenous firms and their export intensity (exports as a share of sales) will Ireland be able to create broad based sustainable growth. We must prioritise actions to enhance the export activity of indigenous firms - these include ensuring viable businesses have access to credit, deepening linkages between domestic and exporting firms and diversifying into high growth, emerging markets; and
- **Improve competition in locally traded sectors:** The NCC is concerned that there is not a strong appetite in Ireland to tackle high costs in sheltered sectors. A systematic approach to ensure that competition law applies to all sectors of the economy is necessary. A rigorous review of laws, rules and customs governing locally traded sectors is required to identify barriers to enhanced competition. In this respect, the focus accorded to competition policy in the National Recovery Plan is significant.

3. **We must continue to focus on essential competitiveness factors such as skills and education, infrastructure delivery and innovation:** Although Ireland has made significant progress in terms of improving our physical, educational and research infrastructure in recent years, further actions are required. The priorities identified by the NCC include:

- **Engendering a culture that seeks to be world class at everything we do:** Improving living standards requires that we excel in key areas that impact upon international competitiveness – policy making, education, infrastructure provision, R&D. Managed properly, the public sector has the capacity to be at the forefront of the adjustment process in the economy in moving to higher levels of productivity growth and innovation. The Croke Park agreement provides an opportunity to reform public services and improve productivity;
- **Prioritising and delivering infrastructure projects offering greatest return:** Given the need to maximise returns from more limited resources, further work is required to prioritise projects that promote competitiveness. It is essential that the identification of specific investment priorities is progressed immediately and that the agreed budgets are spent in a timely fashion to deliver important investments to support economic recovery. With a curtailed public capital programme, a more integrated approach to infrastructure planning and delivery can promote improved efficiency, effectiveness and competitiveness ; and
- **Ensuring the quality of education:** It is vital that the priorities highlighted in the NCC’s 2009 Statement on Education and Training to further enhance the performance of Ireland’s education and training system are progressed immediately. In particular, the NCC reiterates the need for adequate resourcing to enable Irish higher education institutions to equip students with the highest quality of education available. It is also essential that the available resources are deployed in a manner that provides the best value for money and that there is a continuous process of reform at institutional level to improve productivity.

The NCC’s Annual Competitiveness Report, Volume 2: Ireland’s Competitiveness Challenge is available at www.competitiveness.ie and www.forfas.ie

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