

Press Release

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Immediate Action Needed to Restore Competitiveness - NCC

“While good progress is being made, including restoring the sustainability of the public finances and the stability of the banking sector, the National Competitiveness Council has identified further immediate actions needed to drive cost competitiveness, sustain employment and enhance training and education opportunities. Without immediate and continuing action to restore our international competitiveness we run the ongoing risk that the Irish economy will enter a prolonged period of depressed economic activity. We need to emerge from this serious recession with a vibrant enterprise base capable of sustaining high living standards. Like a high performing athlete we need to up our game again,” said National Competitiveness Council (NCC) chairman Dr Don Thornhill, today at a briefing on the Council’s immediate priorities for restoring Ireland’s competitiveness.

“Targeting export led growth is the only sustainable route to maintain living standards and secure long term prosperity. This will not be easy in a time of falling global demand for goods and services and contracting world trade. But there is no alternative,” commented Thornhill. “The steep drop in economic activity here shows how sensitive a small open export dependent economy is to the world economy. But if we are competitive we can outpace others with a strong recovery when the world economy picks up again.”

The NCC today published its report *“Getting Fit Again: The Short Term Priorities for Restoring Ireland’s Competitiveness”*, outlining the immediate measures required to strengthen our capacity for economic recovery.

Dr Thornhill welcomed the strong statement on the importance of competitiveness¹ made on Tuesday 23 June by Dr T K Whitaker at the Lemass International Forum. “Dr Whitaker has yet again done us an important service by drawing national attention to the fundamental economic truths.”

¹ “*In the midst of a worldwide recession, as we await a revival of incomes and demand in the major economies, we cannot afford to forget that we will benefit from a global economy only if our goods and services are competitive in price and quality. The greater part of our income as a nation comes from exports of goods and services, so incomes and jobs are vitally dependent on competitiveness,*” TK Whitaker, Lemass International Forum, Dublin, 23 June 2009 .

The policy priorities identified are in summary:

Restoring the sustainability of the public finances

The NCC considers that restoring the health of public finances is critical and that action must concentrate on:

- **Raising revenue:** With the severe decline in tax revenue it is clear additional revenues are required. These revenues should be developed by broadening the tax base (e.g. valuation based property tax and user charges). The competitiveness of our labour tax wedge should not be diluted through further increases in taxes on income.
- **Reducing current expenditure:** While painful, targeted current expenditure cuts must be central to restoring the public finances.
- **Reforming the public sector:** We must rise to the challenge of delivering better public services with fewer resources. A greater focus on improving productivity, and flexibility, better integration in delivery, improvements in management capabilities and an effective redeployment of existing resources are central to achieving this.
- **Prioritising capital expenditure:** With the increasing competition for scarce resources across key investment categories, a rapid review of NDP investment priorities which front-loads capital projects likely to have greatest impact on competitiveness needs to be progressed quickly.

Ensuring the banks channel credit to viable businesses: It is critical that the success of viable businesses is not hindered by the tightening of credit standards or the high cost of capital. The ongoing efforts to resolve the banking crisis should ensure that:

- the State uses its funds and influence to ensure that banks are lending to viable business;
- the interests of the taxpayer are protected by minimising the exposure of the State to bank risk. It is critical that, as far as possible, responsibility and risk is delegated to the banks to resolve the problems they have caused; and,
- NAMA does not unnecessarily slow the continuing correction in the property market by not releasing the assets of failed developers onto the market. Providing opportunities for strong and new businesses to purchase assets cheaply will help economic recovery.

Restoring cost competitiveness and sustaining jobs

Cost Competitiveness: Restoring cost competitiveness will protect our attractiveness as a location from which to do business and is fundamental to arresting the ongoing rise in unemployment. Despite recent price falls, Ireland has only seen a modest improvement in its international cost competitiveness because price levels here are significantly higher than in many competitor countries. It also appears that recent prices falls in Ireland are a cyclical response to the recession rather than the result of structural changes in the Irish economy. The NCC has identified the following priorities to improve cost competitiveness:

- **Adjusting incomes:** The rate at which price levels generally and incomes adjust to the changed economic environment will have a considerable bearing on how quickly Ireland can recover;
- **Lowering energy costs:** Recent energy price reductions are necessary but not sufficient. Further actions are required to bring down energy costs;
- **Tackling administered costs:** Despite general deflation, inflation in public services and administered prices (e.g. taxi/bus/rail fares; health insurance) is projected to average 13.2 per cent this year. Government needs to issue policy direction to regulators and agencies to ensure that national economic and competitiveness objectives are prioritised in all regulatory decisions; and
- **Supporting Competition:** A number of outstanding Competition Authority recommendations require action. Government needs to give priority to taking pro-competitiveness decisions on these recommendations. It is critical that competition law is applied in all sectors of the economy.

Tackling labour market challenges

The current deterioration in the economy presents a serious challenge in terms of the scale of the response now required. Labour market programmes and investment are needed to address two major challenges:

Introducing immediate measures to sustain employment.

Training for those in employment contributes to sustaining employment and to stemming the flow into unemployment as firms upgrade their skills base.

- **Maintaining investment:** Retaining funding for training those in employment, particularly those with low skills in vulnerable sectors remains critical, in spite of the significant pressure to shift investment towards those who have lost jobs
- **Prioritising supports:** We need to focus on the provision of demand-led courses to support employer/employee identified specific skills needs. It is critical that any interventions do not artificially prevent or delay necessary restructuring in the labour market.
- **Supporting productivity growth:** In addition to improving their skills base, firms need to increase their productivity growth rates by investing in technology.

Enhancing education and training opportunities for the unemployed.

Ireland faces a serious long term unemployment problem. A key challenge is to swiftly reorient the existing system designed to target 'hard to activate' people in a buoyant labour market to one capable of dealing effectively with a broad based unemployment crisis. Key principles should include:

- **Monitoring existing labour market interventions:** It is essential that the recently introduced activation initiatives are kept under review to ensure that they are providing an effective response to improving the employability of those that have lost their jobs.
- **A greater focus on formal accredited qualifications:** Given the likely duration of our unemployment problem, we need a greater focus on formal accredited qualifications. The NCC welcomes the recent establishment of a Higher Education Labour Market Activation Response Group but highlights the need to respond quickly to the challenge of upskilling the unemployed.

- **Targeting use of limited resources:** We need to target the limited resources available for activation, training and re-skilling at those individuals most at risk of becoming detached from the labour market and at areas where there are likely to be labour demands in the upturn.

Restoring Ireland's reputation

As a small open economy, that is highly dependent on trade and investment, rebuilding our international reputation will be an important element of economic recovery. There are a number of aspects to this challenge:

- Delivering on the key commitments contained in the Smart Economy agenda and the April Supplementary Budget (which set out plans to restore the sustainability of the public finances);
- Enhancing the effectiveness of the regulatory environment. Regulatory failures both in Ireland and overseas highlight the need for effective, balanced and transparent regulation;
- Maintaining and strengthening our traditionally strong engagement with the EU is vital for the future success of Irish exporters and sustaining high levels of mobile foreign direct investment. A positive outcome to the Lisbon Treaty referendum is critical; and
- Continued emphasis on marketing Ireland overseas as an attractive location for investment, businesses and tourism will be necessary.

The NCC will come back to Government with policy actions to address Ireland's longer term competitiveness challenges later in the year.

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