

Annual Competitiveness Report 2010

Volume 2:
Ireland's
Competitiveness
Challenge



Introduction to the NCC

The National Competitiveness Council was established by Government in 1997. It reports to An Taoiseach on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position.

Each year the NCC publishes the two-volume Annual Competitiveness Report:

- Volume One, **Benchmarking Ireland's Performance**, is a collection of statistical indicators of Ireland's competitiveness performance in relation to 18 other economies and the OECD or EU average.
- Volume Two, **Ireland's Competitiveness Challenge**, uses this information along with the latest research to outline the main challenges to Ireland's competitiveness and the policy responses required to meet them.

As part of its work, the NCC also publishes other papers on specific competitiveness issues.

The work of the National Competitiveness Council is underpinned by research and analysis undertaken by Forfás - Ireland's policy advisory board for enterprise, trade, science, technology and innovation.

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Foreword by the Taoiseach



The Irish economy is going through a very challenging period. We are dealing with a uniquely difficult and complex set of international and domestic circumstances. Over the past two years, the Government has taken significant steps to return the economy to sustainable growth.


There have been considerable improvements in our competitiveness. This is further enhancing our attractiveness for FDI and we have secured over 90 investments to date this year already. Ireland is pricing itself back into our export markets and exports are performing remarkably strongly as a result. We have provided certainty on the final costs of repairing our banking system. Those costs are large, but they are manageable. Getting banking back on track is an indispensable step in Ireland's journey to economic recovery, and is vital to Irish business.

Restoring sustainability to our public finances is equally important. We have already made considerable adjustments, but a further significant budgetary adjustment over the next four years is required in order to meet the target of reducing our deficit to three per cent of GDP by 2014. We are setting out a four-year roadmap for achieving this adjustment, while also renewing our economy through sustainable economic growth, which in turn requires further improvements to our competitiveness.

As a small open economy we have to pay our way in the world through trade and exports. That means we must ensure that our costs are not out of line with our competitors, that we focus our investments and our energies on sectors and activities with scope to secure more jobs, and that we organise our business and industrial relations practices in a way that unleashes the full potential of the economy. We are also continuing to invest in infrastructure which increases the productive capacity of the economy and generates jobs.

We also need to be more productive in all areas of the economy including through embracing innovation in all sectors. We must drive innovation in small indigenous firms as well as high-tech multi-nationals. We must show creativity and openness to new ideas and new ways of doing things. We have set an ambitious goal of making Ireland the best place in Europe to turn research and knowledge into products and services; the best place to start and grow an innovative company or to relocate, expand and scale a small business; and the best place for research-intensive multinationals to collaborate with each other and with clusters of small companies. This is an ambitious plan but by working together in a positive spirit I have no doubt that it can be achieved if we press ahead with the structural and competitiveness adjustments required.

Our mission now is to translate our many strengths into sustainable economic recovery and job creation. However, there is considerable uncertainty about the international economic outlook, which has a powerful influence on the performance of our economy. That is why we must keep a



clear focus on those factors that are ours to control and which influence our international competitiveness.

The National Competitiveness Council makes an essential contribution to our understanding of a rapidly changing global environment and helps identify those areas where Ireland needs to concentrate its efforts. I would like on behalf of my colleagues in Government, to thank the Council for its important work and am pleased to introduce Ireland's Competitiveness Challenge 2010.

Brian Cowen TD

Taoiseach

Chairman's Preface



Unfortunately, the Irish economy is trading in a very uncertain international economic environment. Economic growth in the US - vital to our interests as a small open economy dependant on international trade - is extremely sluggish. While the pace of recovery in the euro area has strengthened recently, this appears to be driven almost entirely by the German economy. Indications of a more broad based recovery remain scarce. All of this, of course, is being played out against the backdrop of continuing turmoil in international financial markets.

At 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. In our *Annual Competitiveness Report 2010 Volume 1, Benchmarking Ireland's Performance*, published earlier this year, the Council emphasised that while the economy was going through particularly challenging times, Ireland continued to show significant competitiveness strengths - not least of which is our resilient trade performance. In this edition of our annual *Competitiveness Challenge* report to Government, we advocate measures to build upon these strengths and develop a platform for future prosperity. Having benefitted 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, the NCC believes that prioritisation of action is more important than ever. With this in mind, I would like to draw attention to three broad themes requiring the attention of policymakers.

Firstly, we must put in place the structures, processes and the capacity to support sustainable competitiveness. This means focusing on productivity enhancement, ensuring fiscal stability, putting in place a sustainable, pro-enterprise system of taxation and taking a sector-specific approach to policy development, where appropriate.

Secondly, although it may be difficult to force our gaze away from the most immediate issues confronting us, we must plan for the future. In order to attract sustainable investment and stimulate employment growth, our economy must be underpinned by sound economic fundamentals and a commitment to good economic governance. We specifically recommend the formation of an independent fiscal council. We must also adopt a firm commitment to ensuring competition and value for money in the domestic economy, guarding against excessive price levels and inflation.

Finally, all concerned with the wellbeing of the Irish economy must continue to focus on essential competitiveness factors such as skills and education, infrastructure delivery, and innovation. In all of these areas, we must engender a culture that seeks to be world class at everything we do.

I would like to thank the Council members and advisors for their valuable contributions throughout the development of this report. I would also like to acknowledge Forfás for the work that they have done in preparing this report.

Dr Don Thornhill
Chairman, National Competitiveness Council

Table of Contents

Executive Summary	7
1. Introduction	12
1.1 Context	12
1.2 International developments	14
2. Long term Competitiveness Challenges	15
2.1 Tackling unemployment	16
2.2 Driving productivity growth	17
2.3 Sustaining and deepening our competitive advantage in key sectors	19
2.4 The urgency of broadening our export base	22
2.5 Delivering further improvements in cost competitiveness	25
2.6 Building a stronger physical and knowledge infrastructure base	28
2.7 Restoring macroeconomic stability	32
2.8 Delivering on public sector reform and implementation	34
3. Conclusions	36

Executive Summary

While Ireland is experiencing one of the deepest recessions and most profound banking crises in the developed world, we continue to have significant competitiveness strengths and opportunities. Ireland's trade performance remains resilient which has offset some of the sharp impact of the domestic recession. Our international competitiveness has improved significantly. Costs have fallen, skills availability has improved and the pressures on infrastructure have eased - but considerable competitiveness challenges remain.

Continuing action to repair the public finances and restore the solvency of our banking system must be matched by an ambitious agenda of reform to enhance competitiveness and increase employment. Robust economic growth is necessary to generate the resources required to fix the public finances and the banking system. Prioritising actions to develop a more competitive operating environment for all businesses will go a long way towards resolving our fiscal and banking challenges.

Developing a platform for future prosperity

As a small open economy, Ireland can benefit from an international recovery - provided we are competitive. Improving national competitiveness is not easy. Competitiveness encompasses a diverse range of factors including costs (e.g. pay, property, utilities, professional fees, transport), productivity, education and training, entrepreneurship and innovation, social, economic and technological infrastructure and the taxation and regulatory regime.

Competitiveness is underpinned by stable public finances, a properly regulated and working banking system, and a broad vision for the economy and society. The challenge which faces us all is to construct a convincing vision for a prosperous economic future with:

- robust economic performance and return to prosperity;
- high levels of employment; and
- the capacity to achieve social progress.

Building on our strengths

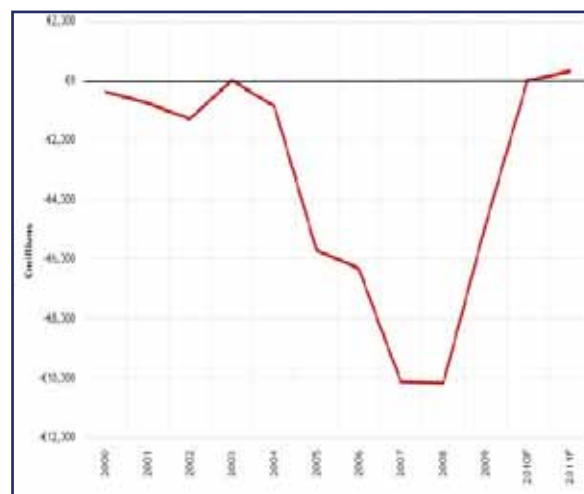
We need to continue to build on our existing strengths and develop new ones. A sustained and significant improvement in export performance is critical to the recovery of the Irish economy. We also need to restore confidence in the domestic economy.

Exports are already contributing positively to economic performance. Given the presence of a vibrant internationally trading enterprise base in Ireland, our sectoral structure and increasing convergence between sectors and technologies where we have strengths (e.g., pharmaceutical, medical technologies, food, ICT, financial services and the green economy), Ireland is well positioned to take advantage of global growth opportunities. The resilience of our export sector is contributing to the significant improvement in the current account balance in the past 18 months (Figure 1). Other factors helping improve the current account balance include the paying back of

borrowings as a result of reducing investment and consumption - including a sharp decline in imports. The ESRI forecasts that the current account will move into balance in 2010 and that there will be a surplus of 1.25 per cent of GNP in 2011.

While increasing exports will not solve all the challenges facing the Irish economy, it provides the platform for recovery. Improving Ireland's attractiveness as a location to do business and export from will be important for restoring the levels of confidence necessary to halt the decline in domestic consumption and investment seen since 2008. Improving the competitiveness of the domestic economy (those parts of the economy that do not trade internationally) will also be critical for our future economic prospects for a number of reasons. Their costs impinge on the exporting sectors and their recovery is essential to create jobs and reduce unemployment. It will guard against a two speed recovery where the exporting sectors are growing and the domestic sector is stagnant

Figure 1: Balance of Payments, Current Account Balance (€m), 2000-2011F



Source: CSO, ESRI

Prioritising and tackling the challenges

In recent years, the NCC has set out a wide range of recommendations to enhance our national competitiveness. We continue to work with government ministers, departments and agencies to progress outstanding recommendations. The key focus of this paper is on the longer term national competitiveness issues that need to be prioritised to support sustainable economic growth and job creation. The priority competitiveness challenges identified by the NCC are:

- Tackling unemployment;
- Driving productivity growth;
- Sustaining and deepening our competitive advantage in key sectors;
- Broadening our export base;
- Delivering further improvements in cost competitiveness;
- Building a stronger physical and knowledge infrastructure base;
- Restoring macroeconomic stability; and
- Delivering on public sector reform and implementation.

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. These recommendations are summarised below under three broad themes:

1. **Put in place the structures, processes and the capacity to support sustainable competitiveness:** Urgent action is required to develop a more competitive operating environment for business and enable exporters to trade successfully in difficult international markets. It is essential that we have structures, processes and the capacity in place to ensure that Government departments and agencies act quickly in mutually complementary and supportive ways. The NCC recommends that we prioritise actions to:
 - **Promote and deliver economy wide productivity growth:** Higher productivity is the glue which sustains high living standards and competitiveness. A range of Government departments and agencies have a key role to play in improving Ireland's productivity performance. However, there is no part of Government responsible for promoting policies that drive productivity growth and monitoring progress. To deliver the required improvements across government departments and agencies, it is imperative that one department has overall responsibility for prioritising productivity related policy actions, monitoring progress and driving implementation (for example, the Treasury is responsible for monitoring and driving productivity performance in the UK). Improving productivity across all sectors of the economy (private and public, locally and internationally traded) should be central to future policy and budgetary decisions (*Section 2.2 of the main report*);
 - **Address the specific needs of sectors:** In recent years, the composition of Irish exports has changed considerably - e.g. services now account for 45 per cent of total exports. The NCC is concerned that our institutional structures and mindsets towards export opportunities are rooted in the past. Clearly, no single structure exists that can meet every economic need, and of course, needs change over time. We need to ensure that our government structures are responsive to new sectoral dynamics and can provide the necessary supports to service-based enterprises. The NCC recommends the introduction of zero based budgeting to ensure that the allocation of public funds reflects current and future opportunities and challenges to enable Ireland to achieve its competitive potential (*Section 2.3*); and
 - **Promote fiscal stability:** There is a need for better fiscal planning and control mechanisms. Both the OECD and the IMF have proposed changes to the current budget framework including institutionalising commitments to stabilise the public finances. Serious consideration now needs to be given to how Ireland can reform its fiscal policy framework to ensure sustainable and stable public finances in the longer term and to the establishment of an independent fiscal council. Structures of this type already exist in countries such as Sweden and the UK (*Section 2.7*).

2. **Plan for the longer term:** Ireland's future living standards and quality of life depend on our long term competitiveness. We need to act now to put in place the platform for that. The NCC recommends that the following actions are prioritised to support sustainable long term growth and prosperity:
 - **Ensure a sustainable tax system:** In order to improve the sustainability of the public finances, a vision for the structure of the tax system is required. The NCC believes that broadening the tax base is central to repairing the public finances. We recommend measures to broaden the tax base (e.g. a valuation based tax on property and user charges for treated water and third level education). Given the time required to fully implement a

valuation based property tax and the necessity to raise additional tax revenues quickly, interim measures should be devised on a self assessment basis similar to the tax on second homes. 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 (*Sections 2.1 and 2.7*);

- **Promote indigenous enterprise:** This is a huge challenge and one that Ireland has grappled with for decades. Only through increasing the number of internationally traded indigenous firms and their export intensity (exports as a share of sales) will Ireland be able to create broad based sustainable growth. A fundamental priority of enterprise policy must be to expand and grow our export base by promoting new exporters. 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 (*Section 2.4*);
 - **Manage Irish inflation in the euro area:** As a member of a currency union, Ireland is now suffering the consequences of excessive price rises in recent years. While a wide range of factors drive inflation (many outside government control), it is critical that government policy seeks to ensure that price inflation remains low, addressing in particular high price levels and inflation in administered and regulated sectors. As real wages determine living standards, the challenge for Ireland is to engineer a situation where both wage competitiveness and consumer prices continue to improve in order to protect real living standards. Given that periods of robust economic growth in Ireland have been characterised by rapid increases in land and property prices, we must ensure that we never again have a property speculation bubble. Finally, a long term opportunity arises for shifting negotiations on wages away from increases in living costs and towards sharing the gains from achieved improvements in productivity (*Sections 2.5 and 2.7*); 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 enhance competition. In addition, the State should use its purchasing power to exert downward pressure on professional fees. The NCC also supports the CSO proposal to introduce an administrative cost index which would enable more accurate benchmarking of government driven costs relative to the wider economy (*Section 2.5*).
3. **Continue to focus on the essential competitiveness factors:** Our international competitiveness depends on a wide range of factors. Notwithstanding the economic turmoil facing Ireland at the moment, our long term success will be strongly influenced by the skills of our people and the infrastructure that supports them. 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. Best practice in Ireland and internationally needs to be carefully examined and reforms systematically delivered. 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. Completion of the reform agenda is long overdue. The Croke Park agreement now provides an opportunity for all to reform public services and improve productivity (*Section 2.8*);

- **Prioritising and delivering projects offering greatest return:** While the capital expenditure review provides high level capital envelopes, further work is required to prioritise projects. 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 - for example coordinating the rollout of different infrastructure services (*Section 2.6*);
- **Promoting innovation:** As the outputs of investment in R&D are one important driver of innovation, it is critical that actions to unify R&D funding streams and to deliver higher economic returns on R&D investment are progressed (*Section 2.6*); and
- **Ensuring the quality of education:** Ireland's steady increase in educational attainment has been an important factor behind our recent success. The recent debates about the quality of Ireland's education, particularly around Leaving Certificate grades, the degree of focus on teaching at third level and the funding crises at third level have raised issues of concern. It is vital that the priorities highlighted in the NCC's 2009 report 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 (*Section 2.6*).

Conclusions

While the Irish economy faces unprecedented challenges, we continue to have significant competitiveness strengths and opportunities. Exports are already contributing positively to economic performance. Our competitiveness has improved significantly. Costs have fallen, skills availability has improved and the pressures on infrastructure have eased - but considerable challenges remain.

An ambitious agenda of reform to enhance competitiveness is central to future economic growth and prosperity. Given different historical contexts and economic, political and social goals of various countries, and their differing physical geographies and resource endowments, it is not realistic for any country to seek to outperform other countries in all areas. However, improving living standards requires that we excel in key areas that impact upon international competitiveness. Being average only works if we want average quality of life, living standards, social justice and life choices.

1. Introduction

1.1 Context

The goal of national competitiveness policy should be to improve living standards and quality of life through enhancing the capacity of enterprises in Ireland to trade successfully in international markets. National competitiveness encompasses a diverse range of factors including costs (e.g. pay, property, utilities, professional fees, transport), productivity, education and training, entrepreneurship and innovation, infrastructure and the taxation and regulatory framework.

In recent years, the NCC warned that despite high rates of economic growth, our international competitiveness was waning. Growth derived from asset price inflation and reckless lending and borrowing, fuelled by low interest rates and pro-cyclical fiscal policy, has now been proven an unsustainable and damaging basis for growth both in Ireland and internationally.

While, the Irish economy has contracted very considerably in the past two years (19 per cent fall in GNP terms), Ireland remains significantly dependent on international trade as exports account for 95 per cent of GDP². Ireland's recent trade performance, built on our improving international competitiveness, is offsetting some of the sharp impact of the domestic recession. Given our concentration in high value internationally traded manufacturing and services sectors, Ireland is well positioned to take advantage of global growth opportunities arising from increased convergence between sectors and technologies across pharmaceutical, medical technologies, food, ICT, financial services and the green economy.

While this is the deepest recession ever experienced by an OECD economy, we continue to have significant competitiveness strengths and opportunities for recovery (see Box 1). In addition, our competitiveness is improving significantly. Costs have fallen, skills availability has improved and the pressures on infrastructure have eased. Further efforts to restore Ireland's competitiveness are critical to enable Irish exporters to compete successfully in uncertain international markets.

² The decline in GNP is based on the change in current prices over the two year period 2007-2009 (Source: CSO). The figure for exports as a percentage of GDP is based on 2009 data from the CSO.

Box 1: Overview of Current Competitiveness

The key findings from Volume 1 of the NCC's Annual Competitiveness Report include³:

- Ireland retains important strengths as a location for foreign direct investment - including a long track record as a successful location for overseas investors, a modern internationally trading enterprise base and growing levels of research and development activity. However, indicators suggest the rates of return on US investment in Ireland have fallen and that other countries have aggressively targeted new overseas investment;
- Ireland's indigenous sector has maintained exports levels, though the base remains narrow⁴. Within agency-assisted firms, 49 per cent of employment is within Irish owned firms⁵. Investment in R&D by Irish-owned firms has also increased albeit from a low base⁶;
- Ireland's cost competitiveness is improving. Since January 2008, Ireland has regained some of the cost competitiveness lost during the previous decade as domestic inflation remains below that of our main trading partners and the euro weakened. However, cost levels remain high across a range of key business inputs in Ireland and price falls experienced to date appear to be mainly due to cyclical factors;
- The economy is burdened by very high levels of private debt and growing levels of public debt which will continue to limit the degree to which the domestic economy can ignite a return to sustainable economic growth. High levels of private debt are being slowly unwound but with three quarters of household debt mortgage-related, this adjustment will take some time. Public debt levels continue to grow dramatically. The huge costs of resolving the banking crises continue to cast a shadow over the sustainability of the State's finances;
- Unemployment has risen sharply and Ireland now has the third highest unemployment rate in the OECD. Those with lower educational attainment are significantly more likely to be unemployed. Outward migration is growing and participation rates in the labour force are falling;
- Irish productivity levels (based on GNP) remain below the OECD average and our productivity growth rates are relatively weak. A cyclical improvement in productivity growth can be expected as the economy comes out of recession;
- Access to finance and its cost are critical issues for enterprise as international markets return to growth and exporters require greater access to credit - especially at a time when euro area interest rates are likely to start increasing from historic lows. Irish businesses continue to pay more for lending services than their euro area counterparts and face tighter credit standards and there are growing concerns over the levels of competition in the banking sector; and
- Ireland has made significant progress in terms of improving our physical, educational and research infrastructure. Nonetheless, Ireland continues to face a range of infrastructure challenges (e.g. urban transport, broadband, waste).

³ NCC, Annual Competitiveness Report 2010: Volume 1 Benchmarking Ireland's Performance, 2010.

⁴ Forfás, Annual Business Survey of Economic Impact 2009, November 2010.

⁵ Forfás Annual Employment Survey, 2009.

⁶ NCC, Annual Competitiveness Report 2010: Volume 1 Benchmarking Ireland's Performance, 2010.

1.2 International developments

The outlook for Irish exports depends crucially on an ongoing recovery in the international economy, particularly in the economies of our main trading partners. An international recovery, which is critical to supporting Irish export growth, looks likely but uncertainties remain.

In 2009, the policy imperative for governments and central bankers was to boost demand and ease monetary conditions to stave off an economic depression. Thus, there were positive spill-overs from stimulus packages and loose monetary policies across borders. Ireland benefitted from these measures as our resilient trade performance partially offset the severe effect of the collapse in domestic investment and consumption. Although the global economy has exited recession and returned to growth, uncertainty remains about the extent of the recovery, particularly in the US and in Europe. In October 2010, the IMF stated that economic recovery is proceeding broadly as expected but that significant risks remain, particularly the volatility in financial markets and the high levels of public debt in advanced economies. The IMF forecasts global growth of 4.8 per cent in 2010 and slower growth (4.2 per cent) in 2011. For 2010, the IMF expects growth of 2.6 per cent in the US, 1.7 per cent in the euro area, 2.8 per cent in Japan and 9.4 per cent in developing Asia⁷.

World trade has strongly rebounded recently after an unprecedented collapse at the end of 2008, and is projected to reach pre-crisis levels before the end of 2010. Overall, the OECD expects world trade to grow by 10.6 per cent in 2010 and 8.4 per cent in 2011⁸. While these growth rates are strong, it should be noted, mirroring economic growth rates, that the acceleration of growth in trade is being driven by non-OECD countries, with which Ireland has relatively little trade. The ESRI forecasts growth of five per cent in Irish exports of goods and services in 2010⁹.

The shift in many governments' response to the recession has implications for Ireland's export growth potential. Across the euro area, UK and US, preferences for deeper and faster fiscal tightening (from stimulus to austerity packages) have emerged strongly. The growth in the level of public debt in many advanced economies is on an unsustainable path. A prolonged period of fiscal tightening that brings primary budget balances to a sizeable surplus is inevitable - the timing is the subject of intense debate. However, many governments are now firmly committed to austerity packages. Emergency austerity programmes will put a drag on demand and growth potential in key trading markets, particularly in our main trading partners in the euro area and the UK.

Many other countries are also seeking to boost their export performance to provide greater employment domestically. The world as a whole cannot achieve an export-led recovery while restraining domestic demand. However, as we are a small economy, if we can achieve significant improvements in competitiveness, we should be able to sell all we can produce on global markets.

⁷ IMF, World Economic Outlook, October 2010.

⁸ OECD, Economic Outlook, May 2010.

⁹ ESRI, Summer Quarterly Economic Commentary, July 2010.

2. Long term Competitiveness Challenges

Competitiveness is underpinned by stable public finances, a working banking system and a broad vision for the economy and society. Developing an inclusive vision for the economy and society is critical to improve future living standards and quality of life. The challenge which faces us all is to construct a convincing vision for a prosperous economic future with:

- robust economic performance and return to prosperity;
- high levels of employment; and
- capacity to achieve social progress.

Increasing exports will not provide a panacea for all the challenges facing the Irish economy. However, improving Ireland's attractiveness as a location to do business and export from will be important for restoring the levels of confidence necessary to halt the decline in domestic consumption and investment seen since 2008. Forfás' recent enterprise policy review, *Making It Happen*, outlines the range of policy actions that need to be progressed to ensure a sustainable and competitive enterprise base to drive future economic growth¹⁰.

Improving the competitiveness of the domestic economy (i.e. those parts of the economy that do not trade internationally) will also be critical for our future economic prospects. Their costs impinge on the exporting sectors and their recovery is essential to reduce unemployment and create jobs. Sustainable improvements in the competitiveness of domestic sectors depend on actions that improve productivity. Policy certainty (e.g. budgetary decisions on income and other taxes) and the full delivery of the agreed public capital investment plan are particularly important to support the recovery of large domestically trading sectors such as retail/wholesale and construction. 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. As highlighted in the Government's *Trading and Investing in a Smart Economy* strategy and action plan, continued emphasis on marketing Ireland overseas as an attractive location for investment, businesses and tourism is essential¹¹. However, this needs to be underpinned by actions to restore fiscal stability, ensure viable businesses have access to finance and address key competitiveness challenges.

In recent years, the NCC has set out a wide range of recommendations to enhance our national competitiveness. We continue to work with government ministers, departments and agencies to progress outstanding recommendations. While this paper briefly summarises key relevant recommendations from previous reports, the key focus is on the longer term national competitiveness issues that need to be prioritised to support sustainable economic growth and job creation.

¹⁰ Forfás, *Make It Happen - Growing Enterprise for Ireland*, September 2010.

¹¹ Department of Enterprise, Trade and Innovation, *Trading and Investing in A Smart Economy*, September 2010.

2.1 Tackling unemployment

Nowhere is the severity of the recession more evident than in the huge numbers of people who have lost their jobs. Unemployment has risen sharply and is now the most pressing economic and social challenge facing the State. While the steep rise in unemployment has affected people across society, those with lower educational attainment are more likely to be unemployed. In Q2 2010, 22.9 per cent of people with no more than lower secondary education were unemployed compared to 6.7 per cent of those with a third level honours degree or above. Unemployment rates are also higher among younger workers. Long term unemployment (i.e. unemployed for longer than 12 months) in Ireland is also increasing rapidly - it accounted for 43.3 per cent of total unemployment in Q2 2010 compared with 21.7 per cent a year earlier¹². There are risks of workers disengaging from the labour force as they experience long term unemployment.

We need to ensure that the education and training system delivers for the unemployed and workers in vulnerable sectors: Enhancing the skill levels of both the unemployed and those in vulnerable employment is key to tackling the unemployment crisis. The first priority is to continue to strengthen activation measures to ensure that those most at risk of long term unemployment are kept close to the labour market¹³. In view of the link between employment prospects and skill levels, re-training the unemployed and workers who lack basic qualifications with new skill sets where there are likely to be employment opportunities in the future is critical. The National Skills Strategy sets out a plan to develop the future skills requirements of the Irish economy. It is important that we remain committed to its delivery. In particular, we need to progress the following actions:

- Reform existing labour market interventions to ensure the retraining options available to develop the skills sets of the unemployed are appropriate to enterprise skills needs;
- Ensure a stronger focus on formal accredited qualifications with the third level sector providing more places on relevant, accessible and cost competitive courses;
- Streamline the delivery mechanisms for assisting the unemployed¹⁴; and
- Retain funding for in-employment training, particularly those with low skills in low productivity or vulnerable sectors.

We need to maintain incentives to stay in or return to the labour market: In addition to the social costs, falling participation rates (bar those returning to education and training) and growing levels of outward migration present a significant loss to the labour force and to growth potential. In this context:

- A competitive tax wedge is vital to encourage employment growth across all income categories and to incentivise people to remain in or return to the labour market¹⁵. It is also an important

¹² CSO, Quarterly National Household Survey, Q2 2010, September 2010.

¹³ The National Skills Strategy Implementation Statement identified four priority cohorts among the unemployed: those with lower skills or education levels (i.e. without a Leaving Cert qualification); those on the Live Register for over a year; those up to age 34 years but especially those aged under 25 years; and those who were previously employed in sectors that have been most affected by the recession and where recovery to previous activity levels is unlikely (e.g. construction, retail).

¹⁴ There are a large number of agencies involved in providing assistance to the unemployed: the Department of Social Protection, FÁS and the local employment services. This leads to the risk that the unemployed "fall between the cracks" of different support services, either voluntarily or because of the complexity of the system.

¹⁵ The tax wedge on labour is the gap between what the employer pays and what the employee receives. In Ireland, the labour tax wedge has risen for all income categories assessed by the OECD since 2008 while the tax wedge in most OECD countries is unchanged or falling. Ireland's tax wedge compares favourably to the OECD average for lower income categories but has become less competitive for higher income earners. For a married couple (with two children) on a combined income of 167 per cent of the average wage, the tax wedge increased from 14 per

competitive advantage in attracting and retaining highly skilled and internationally mobile workers. In order to improve the sustainability of the public finances, a vision for the structure of the tax system is required. The NCC supports the introduction of a property tax and other user charges for consumers (e.g. water charges for households) which broaden the tax base¹⁶; and

- High replacement ratios between social welfare (direct payments and secondary benefits) and net pay for employment weaken incentives to return to the labour force. Further work is required to assess the labour market effects of the taxation and the social welfare system. A major challenge exists to protect those on low incomes and social welfare benefits while ensuring that incentives to remain in or return to the labour market are strengthened and that businesses are incentivised to take on additional staff.

Improving national competitiveness will support job creation over time: Beyond actions to assist those in employment and help those looking for employment to improve their skills levels and ensuring incentives to work, there are few obvious ways of growing sustainable employment quickly. Improving Ireland's attractiveness as a location to do business and export from (i.e. competitiveness) will be important to drive future economic growth and support job creation. Implementing the other recommendations in this report to improve productivity, grow exports, reduce costs, enhance our physical and knowledge infrastructure base and restore macroeconomic stability is critical to developing the best environment to support job creation.

2.2 Driving productivity growth

In spite of moderating price levels, Ireland remains an expensive country. A reduction in our cost base can play an important role in restoring our competitiveness but we also need to increase productivity across the economy. Productivity growth is key to improving living standards, particularly as it allows for sustainable pay increases without eroding cost competitiveness. Irish productivity levels, when the effects of foreign owned companies are excluded, remain below the OECD average¹⁷. Irish productivity growth rates are also below the OECD average and our historical performance.

Improving productivity growth across all sectors of the economy - private and public, locally and internationally traded, manufacturing and services, indigenous and foreign owned - is central to our future success. A wide range of factors can influence a country's productivity growth rates, and these stem from decisions made both at Government level and at firm level.

cent in 2008 to 19.8 per cent in 2009. The OECD-28 average declined from 31 per cent in 2008 to 30 per cent in 2009. For a single person on 167 per cent of the average wage (with no children), the tax wedge increased from 34 per cent in 2008 to 39 per cent in 2009. The OECD-28 average declined from 40.2 per cent in 2008 to 39.3 per cent in 2009. Source: OECD, Taxing Wages, 2009.

¹⁶ For further details, see NCC, Annual Competitiveness Report 2008: Ireland's Competitiveness Challenge, January 2009 and Annual Competitiveness Report 2009: Ireland's Competitiveness Challenge, January 2010.

¹⁷ Groningen Growth and Development Centre, Total Economy Database, January 2010. Ireland ranked 24th in the OECD in terms of GNP-based productivity growth between 2008 and 2009.

- From a government perspective, its institutional structures and policies must be supportive of investment, entrepreneurship, competition and innovation. This includes the existence of a stable macroeconomic environment with well-managed public finances and price stability, continued investment and reform in education, R&D, technology and infrastructure. In addition, we need a regulatory environment that promotes competition and an adaptable labour market, and which minimises unnecessary administrative costs. The enterprise development agencies can also play a key role in promoting higher value added activity in the domestic economy;
- The Government can also directly influence national productivity through productivity improvements in the sectors where it is an employer. These include the provision of public services (e.g. health, education, justice and civil service), as well as transport services and utilities; and
- At the firm level, productivity improvements centre on investment in product and process innovation, the use of technology, and management practices.

Strong and sustainable productivity growth must become the key objective of our economic policy as Ireland emerges from recession and seeks to regain its competitiveness within the global market. Productivity growth can be expected to increase during a recovery phase following a recession. Firms initially meet rising demand through productivity gains rather than increases in the working hours of existing employees or new hires. It is essential that more fundamental and sustainable productivity improvements are achieved.

“Productivity isn’t everything, but in the long run it is almost everything”¹⁸.

Improving productivity across all sectors of the economy (private and public, locally and internationally traded) should be central to future policy and budgetary decisions: The delivery of productivity improvements will require action across a range of government departments and agencies. For example, improving productivity performance is a particularly important policy issue for the Department of Enterprise, Trade and Innovation. The Department of Finance also has a key role to play to ensure that fiscal policy (both in the use of public funds and taxation policy) drives productivity enhancements across the economy.

However, there is no part of Government responsible for promoting policies that drive productivity growth and monitoring progress. To deliver the required improvements across government departments and agencies, it is imperative that one department has overall responsibility for prioritising productivity related policy actions, monitoring progress and driving implementation as is the case in the UK where the Treasury has responsibility¹⁹. The NCC recommends that the following actions to achieve sustainable productivity improvements are prioritised and progressed immediately:

¹⁸ Paul Krugman, *The Age of Diminishing Expectations*, 1994.

¹⁹ In the UK, the Treasury is responsible for monitoring and driving the country’s productivity performance relative to its key competitors (US, France and Germany). The (previous) UK government set a target for a reduction in the productivity gap with these countries and allocated responsibility for achieving this target jointly to the Treasury and the Department of Business, Innovation and Skills.

- Facilitating capital deepening by ensuring tax incentives promote investment in productive sectors to support sustainable economic activity;
- Providing access to high quality, resilient and competitively priced, advanced broadband in key regional centres to enable exporting sectors to exploit future growth opportunities;
- Promoting the more effective use of ICT through the creation of stronger industry networks to promote take up and the development of advanced e-government services;
- Enhancing management capabilities to support productivity improvements;
- Ensuring enterprise supports are in place to enable exploitation of emerging opportunities for productivity growth;
- Fostering an e-payment friendly environment through the rebalancing of stamp duty on cheques in favour of debit and credit cards and ensuring that all State bodies' transactions are payable via electronic funds transfer²⁰; and
- Enhancing public sector productivity (see Section 2.8)

2.3 Sustaining and deepening our competitive advantage in key sectors

As a small open economy, Ireland can benefit from an international recovery - if we are competitive. Ireland's share of world trade increased for both merchandise and services exports in 2009. This reflects the resilient performance of Ireland's exporting sectors in the face of a significant downturn in global trade. Irish merchandise exports accounted for 0.92 per cent of world exports while Irish services exports account for 2.86 per cent of world exports in 2009²¹.

Ireland's export base has changed dramatically in recent decades (Figure 2):

- Within merchandise exports, medical and pharmaceuticals exports increased from 10 per cent of total exports in 2001 to 23 per cent in 2009. However, office machinery and equipment has fallen from 24 per cent to eight per cent. Electronic machinery has also seen a decline over the period. The food and drinks sector contributed nine per cent of manufacturing exports in 2009 - up from seven per cent in 2001. Unprocessed food (live animals, fruit and vegetables) accounted for seven per cent of total food and drink exports in 2009²².
- Total services exports have increased three-fold in value between 2001 and 2009. Business and computer services have been particularly high growth areas. However, while tourism and travel exports increased by 14 per cent between 2001 and 2009, the sector's share of total exports fell from almost 14 per cent to five per cent²³.

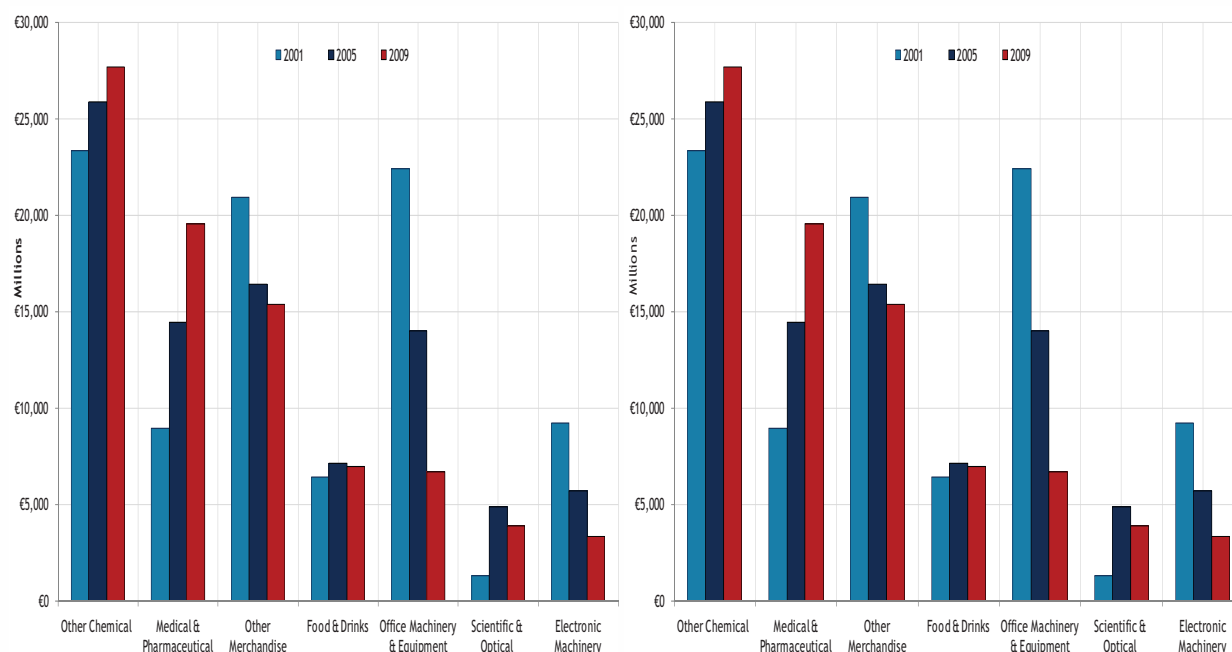
²⁰ Ireland is highly reliant on cash for payments. In 2008, the value of cash withdrawals at ATMs as a percentage of GDP was 15.8 per cent in Ireland compared to 9.5 per cent in the euro area-16 (Source: NCC, Benchmarking Ireland's Performance, 2010). Ireland is the second most extensive user of cheques in the EU - in 2008, Ireland used 26.4 cheques per capita annually compared to an EU average of 11.9 cheques per capita (Source: Irish Payment Service Organisation (IPSO), IPSO 2009 Annual Review, July 2010). Annual savings of around €1 billion could be made if we switched from cash and cheques to electronic systems (Source: National Irish Bank, Target 2013: Modernising Payments in Ireland, September 2010). Greater efficiency in public service payments can also make an important contribution to the savings to be secured in the context of the current budgetary constraints (Department of Finance, Circular 3/2009: Use of Electronic Payments by the Public Sector).

²¹ World Trade Organisation, 2010

²² CSO, External Trade, March 2010.

²³ CSO, Balance of Payments, March 2010.

Figure 2: Manufactured Exports and Services Export by Sector, 2001-2009²⁴



Source: CSO, External Trade and Balance of Payments

In 2009, the NCC undertook a study to identify the existing and emerging sectoral opportunities that can drive export growth, the key competitiveness factors affecting them, and the sector-specific actions which are required to improve their competitiveness²⁵. While the study found that there are common competitiveness challenges across all sectors (e.g. improving cost competitiveness, availability of higher quality broadband services), individual sectors face a range of specific challenges.

Quickly addressing sector specific challenges would result in tangible improvements in the competitiveness of these important sectors: The NCC's priority sector specific policy recommendations are:

- Ensure the provision of specialised courses for particular sectors such as ICT, financial services and environmental goods and services²⁶;
- Enhancing the clinical trials process is key to increasing the size of the pharmaceutical and medical technologies sectors; in particular we need to consolidate and streamline approval processes for new products and technologies;
- Support efforts of food companies to diversify into other euro markets which are dependent on quickly developing market knowledge and product adaptation/innovation;
- Ensure that the various government departments and agencies involved in sectoral development coordinate their activities to ensure coherent sectoral strategies that deliver the level of

²⁴ The scientific and optical exports category includes some medical devices not captured under medical and pharmaceutical products.

²⁵ NCC, Driving Export Growth: Statement on Sectoral Competitiveness, December 2009.

²⁶ The Expert Group on Future Skills Needs has identified a range of actions to address specific sectoral skills needs in the ICT, medical devices and food and drink sectors. In addition, reports on the skills requirements of the green economy and the biopharma-pharma-chemicals sector are to be published shortly. For further details, see <http://www.skillsireland.ie/>.

flexibility and responsiveness required to compete effectively on the global stage. (e.g. food, tourism);

- Completing the upgrade of road infrastructure in and to the west is critical for the medical technologies sector; and
- Deliver speedy implementation of green procurement to drive the environmental goods and services sector in Ireland.

In addition to these policy recommendations, the recently published review of enterprise policy by Forfás provides a comprehensive review of sector-specific policy actions designed to support economic growth in existing and emerging sectors²⁷. These actions complement and build on the NCC's *Statement on Sectoral Competitiveness*.

- **Government structures need to be responsive to new sectoral dynamics and provide the necessary supports to service-based enterprises:** Despite our relative success in the global market recently, our existing export base faces considerable challenges to achieve sustainable growth. Overcoming these challenges requires focus and prioritisation of available resources and energy across Government. The NCC is concerned that our institutional structures and mindsets towards export opportunities are rooted in the past. Clearly, no single structure exists that can meet every economic need, and of course, needs change over time. However, it is pertinent to assess our current structures:
- *We must ensure that our departmental structures better reflect the changes in our economy:* The allocation of government resources (human and financial) is historically based rather than a reflection of today's economic and social priorities. For example, we allocate a significant share of our public resources to certain exporting sectors (e.g. agriculture, fisheries, natural resources), which account for small and declining shares of national output. While some of these sectors, in particular tourism, continue to employ large numbers of people, often in less developed areas, we must ensure that our limited State resources are utilised in ways that can support the development of new national and regional competitive advantages. It is notable that in 2009 the Department of Agriculture, Fisheries and Food (including its agencies) had 6,264 or two per cent of total public sector employment. Agricultural products (live animals, fruit and vegetables) accounted for just 0.3 per cent of total exports in 2009²⁸. In light of the Croke Park agreement, the challenge must be to shift scarce resources to support the sectors with stronger sustainable growth prospects;
- *We must ensure that the allocation of public funds reflects current and future opportunities and challenges to enable Ireland to achieve its competitive potential:* To this end, the NCC recommends the introduction of zero based budgeting which would require a more rigorous analysis of expenditure by all government departments and the use of verifiable metrics to assess the outcomes of investments; and
- *We must measure the right things:* Given limited resources, data collection must concentrate on the exporting sectors which now drive our performance. For example, while we have detailed statistics on farmyard stock (partly driven by Eurostat reporting requirements), we have limited information on the business services exports which now account for 16 per cent of total exports.

²⁷ Forfás, Making It Happen - Growing Enterprise for Ireland, September 2010.

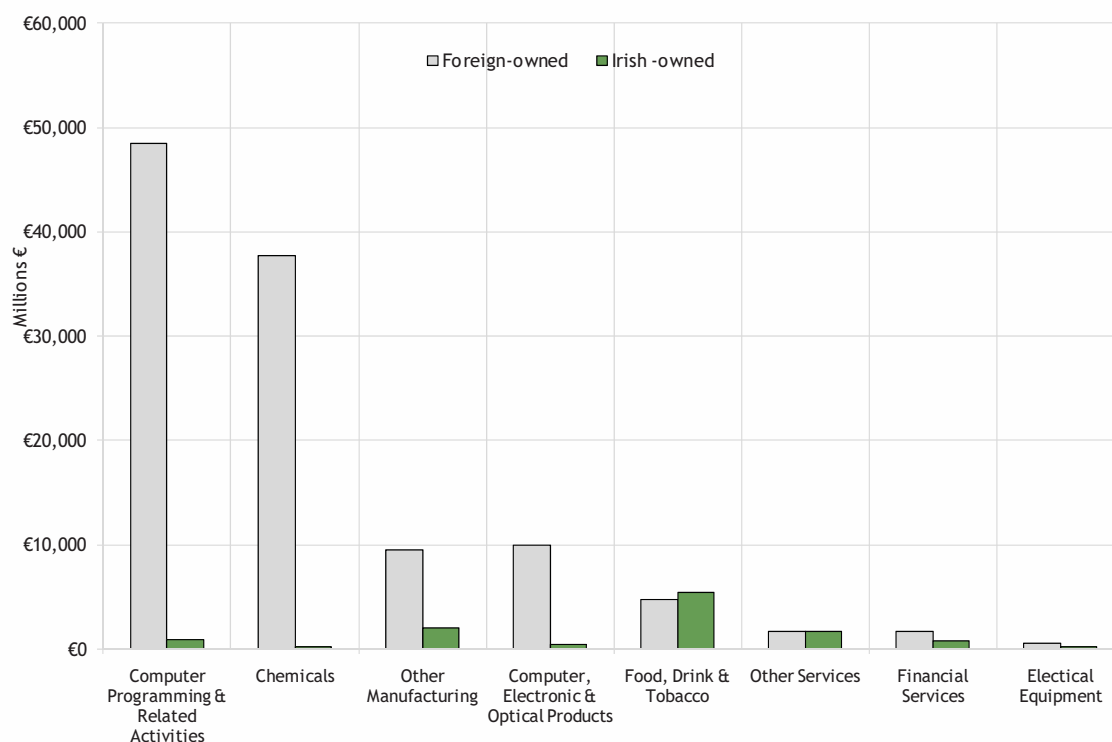
²⁸ The food and drink sector accounted for five per cent of total Irish exports in 2009.

2.4 The urgency of broadening our export base

The NCC is concerned that our export success is largely based on the performance of a small number of sectors and that our export performance is skewed towards foreign owned firms (Figure 3). Irish owned firms account for nine per cent of total development agency supported exports - although the contribution of development agency supported indigenous and foreign owned firms to employment and direct expenditure on goods and services within the local economy is broadly similar (Figure 4).

From one perspective, the strong export performance of foreign owned companies highlights the huge success Ireland has achieved in positioning ourselves as a base for overseas investment. From an alternative perspective, it suggests that, while a number of Irish companies are performing very well, the overall contribution of indigenous sectors and firms to exports (and economic growth) could be significantly increased.

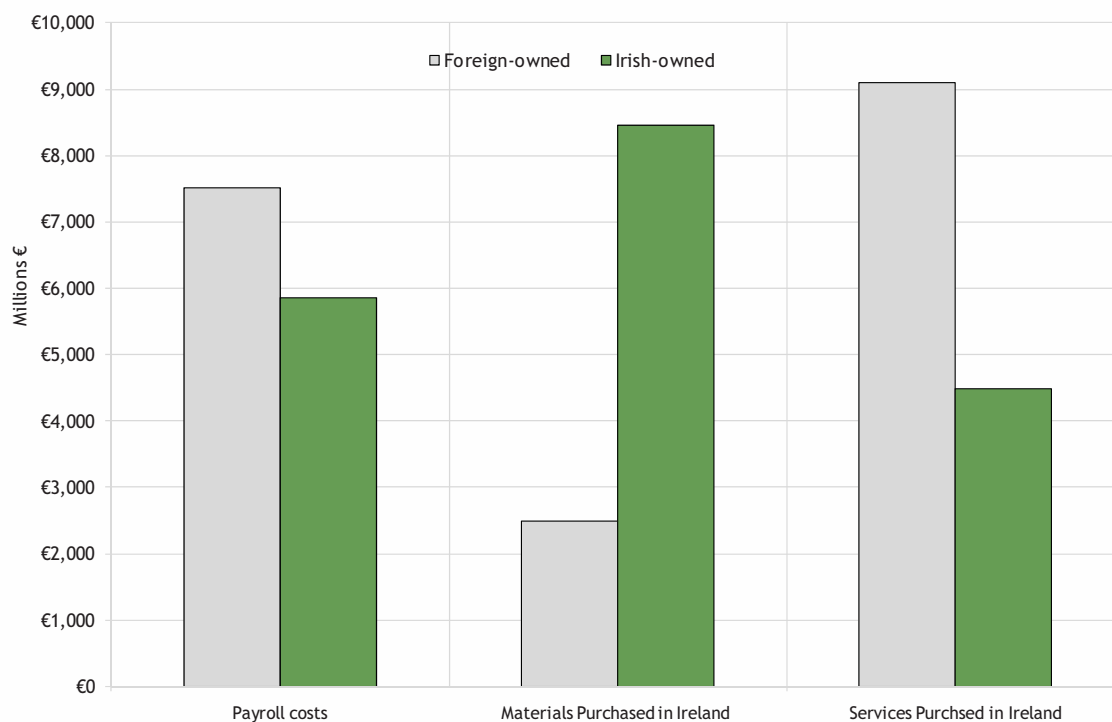
Figure 3: Exports from Ireland by Sector and Firm Ownership, 2009



Source: Forfás, *Annual Business Survey of Economic Impact 2009*, November 2010

In a European context, Irish SMEs underperform compared to the EU-27 average in terms of the share of turnover from exports (4.2 per cent compared to 5.6 per cent for the EU-27). It is also notable that those indigenous firms, who do export, remain relatively dependent on the UK market and are therefore vulnerable to the consequent exchange rate risks.

Figure 4: Contribution to the Irish Economy by Firm Ownership, 2009



Source: Forfás, Annual Business Survey of Economic Impact 2009, November 2010

Due to the labour intensity of the sectors in which they are concentrated, Irish-owned exporters contribute 49 per cent of total employment in agency assisted firms²⁹. Irish-owned firms also purchase a significant amount of their goods and services in Ireland. If an export-led recovery is to contribute significantly to broad based improvement in employment, it will need to involve Irish-owned SMEs internationalising and scaling up to take advantage of growing international demand for goods and services.

Expanding and growing our indigenous export base is a huge challenge and one that Ireland has grappled with for decades with limited success. Scaling and internationalising SMEs face a range of considerable challenges including a lack of cost competitiveness (due to a lack of scale), limited capabilities (e.g. management and language skills) and a lack of access to resources (financial and human). Potential exists to learn from the experiences of other countries such as Denmark in terms of promoting start-ups and developing a strong base of knowledge intensive domestically owned exporters (See Box 2).

²⁹ Forfás, Annual Employment Survey, 2009.

As highlighted in *Making It Happen*, significantly increasing the number of successful internationally traded Irish-owned firms must be a core goal of Irish enterprise policy³⁰. Clearly, the areas of activity of many indigenous firms, particularly those involved in locally traded goods and services, do not lend themselves to exporting. However, the operations of many Irish firms are unnecessarily limited to the domestic market, resulting in a failure to take advantage of overseas growth opportunities. Barriers to Irish firms developing their trade activities must be identified and tackled. This has to be done hand in hand with retaining Ireland's attractiveness for international mobile investment.

Box 2: Lessons from Denmark

The Danish economy has a relatively high number of medium sized companies and a number of Danish multinational firms are leaders in their field of specialisation.

Reasons for the success of Denmark in developing successful domestically-owned international trading firms include:

- High spend on business research and development - particularly in smaller companies;
- High levels of innovativeness, especially of smaller and medium-sized companies;
- Strong science and technology skills;
- Strong industry networks and history of collaboration;
- Availability of venture capital; and
- Highly active enterprise policy.

A fundamental priority of enterprise policy must be to expand and grow our export base by promoting the internationalisation and scaling up of Irish-owned firms: The NCC has identified a range of policy actions to enhance the export activity of indigenous firms:

- **Ensure access to credit:** It is critical that the measures put in place to improve credit flows are assessed to ensure that they are meeting their objectives. The removal of tax exemptions which incentivise investment in property rather than productive business activities would enhance private investment in indigenous firms, enabling them to undertake the up-scaling required to access foreign markets. Government and enterprise development agencies must continue to play a key role in attracting venture capital and private equity investment from abroad;
- **Deepen linkages between domestic and exporting firms:** Strengthening these linkages can be an important first step in preparing for success in international markets, in addition to the important multiplier impacts for the economy of such expenditure. Over the period 2000-2009, the share of raw materials and services purchased in Ireland by foreign owned internationally trading firms declined from 35 per cent to 20 per cent³¹. While some of this is due to the global purchasing structures of multinational companies, there is greater potential to enhance linkages and value added in the Irish economy;
- **Build closer trade relationships between our indigenous enterprise community and emerging economies:** While the OECD expects world trade to grow by 10.6 per cent in 2010 and 8.4 per cent in 2011, the acceleration of growth in trade is being driven by non-OECD countries, with whom Ireland has relatively little trade³². Actions highlighted in *Making it Happen* to enable Irish exporters to diversify into high-growth emerging markets must be progressed immediately³³;

30 Forfás, *Making it Happen: Growing Enterprise for Ireland*, September 2010.

31 Forfás, *Annual Business Survey of Economic Impact 2009*, November 2010. This data refers to companies assisted by the enterprise development agencies (Enterprise Ireland, IDA Ireland, Shannon Development and Údarás na Gaeltachta).

32 OECD, *Economic Outlook*, May 2010.

33 Forfás, *Making it Happen: Growing Enterprise for Ireland*, September 2010.

- *Ensure efficient use of public expenditure to support Irish based firms:* Public funding for management training should be targeted towards internationalisation skills. Public R&D funding should prioritise programmes which have strong business relevance and participation. The research prioritisation exercise recently announced by Government is welcome in this regard³⁴. Through effective development and use of public procurement protocols, the public sector can act as a catalyst for the emergence of innovative products and services; and
- *Support networks and organisations* which play a key role in the sharing of information, fostering innovation, sharing best practice and stimulating competition and productivity growth. The initiative shown by firms in the International Financial Services Centre (IFSC) in appointing a high profile spokesperson with international experience and reputation, to work in tandem with the IDA, to represent the sector and boost its international profile is an example of the innovative approach such groups can take towards influencing positive change for their members. The potential for enterprise-led networks and sectoral groupings to make an enhanced contribution to improving the competitiveness of key clusters in Ireland needs to be further explored.

Other actions highlighted in this report to improve productivity, reduce costs and enhance physical and knowledge infrastructure will also support the growth of new and existing indigenous firms.

2.5 Delivering further improvements in cost competitiveness

Improving our relative cost competitiveness requires the cost of doing business in Ireland to fall relative to that of our trading partners. Although prices in Ireland have moderated in the past year, for the most part, recent price falls are a cyclical response to the Irish and international recession (e.g. reduced demand leading to spare capacity, falling interest rates, international fuel and food prices) rather than a response to structural reform in the Irish economy.

Nonetheless, Ireland's cost competitiveness has improved in the past two years - because of favourable exchange rate movements and downward price adjustments within the Irish economy. The NCC has benchmarked prices across a range of business inputs and identified a number of areas that have seen significant price falls³⁵. It is likely that for a number of business inputs prices have fallen further since this data was collected. Recent research from the European Commission acknowledges that Ireland has registered significant gains in cost competitiveness in 2008 and 2009³⁶. The Commission highlights that Ireland is the only country that provides clear evidence of 'competitiveness rebalancing'³⁷. Based on improvements in cost competitiveness to date, there is indicative evidence that Ireland is retaining and winning more labour intensive investment projects in both manufacturing and services than we won from 2003 onwards.

It is important to determine if progress to date is sufficient to restore competitiveness and whether further adjustments are necessary. European Commission research suggests that the Irish real effective exchange rate (which is an approximate measure of relative cost levels) remains approximately six per cent overvalued³⁸. Similar assessments from the European Central Bank and

34 For details, see: <http://www.deti.ie/press/2010/20100927.htm>

35 NCC, Cost of Doing Business in Ireland, 2010 - Volume 1, July 2010.

36 European Commission, Surveillance of Intra-Euro-Area Competitiveness and Imbalances, 2010.

37 Since the onset of the financial crisis in 2007, the intra-euro-area real effective exchange rate (REER - a measure of national cost competitiveness) based on GDP deflators has depreciated by almost seven per cent.

38 European Commission, Surveillance of Intra-Euro-Area Competitiveness and Imbalances, 2010.

the IMF estimate that Ireland's real exchange rate is overvalued (too expensive) by four to 15 per cent³⁹. Therefore, despite significant progress to date, these high level assessments would suggest that Ireland still has some way to go to achieve relative cost competitiveness with our key trading partners.

While new or expanding firms can take advantage of recent price declines, market rigidities may prevent existing business from fully benefiting from recent improvements in cost competitiveness. In order for the economy to make the necessary transition from a reliance on domestic demand to sustainable broad based export-led growth, policies need to facilitate the downward convergence of Irish business costs towards the levels of our trading partners. This will require a substantial improvement in cost competitiveness and strong productivity growth⁴⁰.

At a firm level, high costs encourage companies to minimise the use of expensive resources and can make marginal business opportunities unviable which results in lost output and employment. In cases where high prices are a genuine reflection of market demand and supply, prices serve an important role in ensuring the best use of scarce resources. However, if prices remain high (despite the potential availability of resources such as labour, property, etc.), enterprise development and broader economic development (tackling unemployment, building vacancy rates, etc.) are impeded.

Manage Irish inflation in the euro area: As a member of a currency union, Ireland is now suffering the consequences of excessive price rises in recent years. While a wide range of factors drive inflation (many outside government control), it is critical that government policy seeks to ensure that price inflation remains low, addressing in particular high price levels and inflation in administered and locally traded sectors. As real wages (nominal wages adjusted for inflation) determine living standards, the challenge for Ireland is to engineer a situation where both wage competitiveness and consumer prices converge in order to protect real living standards. In the context of low inflation, a long term opportunity arises for shifting negotiations on pay away from increases in living costs and towards sharing the gains from realised improvements in productivity.

Administrative costs (prices controlled, directly influenced, or set by Government) need to be reduced: Administered costs have been less responsive to downward price pressures than other components of the consumer price index and should be the focus for attention. For example, the costs of public transport, taxis and health insurance have risen considerably since August 2008, despite a decrease of six per cent in the consumer price index during this period⁴¹. The CSO has suggested the introduction of an administrative cost index which would enable more accurate benchmarking of Government-driven costs relative to the wider economy. The NCC supports this proposal as it would assist government departments and their agencies in monitoring their performance and accurately assessing the impact of their actions on consumer costs.

39 ECB, IMF 2009 Article IV Ireland Consultation and European Commission Quarterly Report on the Euro Area Volume 8, No.1 (2009).

40 The more productive the labour force and capital stock are, the higher is the level of wages that is consistent with a state of "price and wage" competitiveness, hence the importance of skills, innovation, infrastructure, etc.

41 Between August 2008 and August 2010, the price of rail transport increased by 9.6 per cent, bus and taxi fares went up 16.5 per cent and 8.2 per cent respectively while health insurance increased by 35.9 per cent. CSO, Consumer Price Index, September 2010.

Reduce high costs in locally traded sectors: The NCC is concerned that there is not a strong appetite in Ireland to tackle high costs in sheltered sectors. Weak competition and ineffective regulation is a key driver of costs in many locally traded sectors of the economy (e.g. utilities and professional services). Structural changes are required to facilitate a sustainable improvement in cost competitiveness in these areas. A number of principles should underpin policy actions, including:

- A systematic, planned 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 enhance competition;
- The State should use its purchasing power to exert downward pressure on costs within locally traded sectors and mandate all State bodies to negotiate further reductions in fees for business and professional services;
- In the longer term, there is a need to review the overall coherence of all independent regulators in delivering public policy objectives; and
- Regulatory structures and systems should be strongly oriented towards consumer interests rather than producer interests to promote cost competitiveness and drive efficiencies.

In addition, the following actions to reduce costs in locally traded sectors need to be progressed immediately:

- *Property:* The ban on upward only rent review clauses in business leases is a positive development. However, many companies are tied into long leases with no opportunity to renegotiate the terms so recent developments will mainly benefit new and expanding or relocating firms. It is vital that actions taken by Government, NAMA and the banking sector support an appropriate adjustment in property prices to the levels justified by their underlying potential for adding value or earning rent. Falling land and property prices do not reduce the necessity for structural change in respect of land planning. An integrated approach to land use and transport policies is critical to allow the efficient movement of people and goods and to improve the viability of public transport;
- *Energy:* The NCC welcomes recent measures by Government to improve energy cost competitiveness such as the efficiency improvements in the operating, maintenance and capital costs of electricity networks and the legislation to recover the carbon windfall gains from electricity generators⁴². However, the efficiency gains in the tariff year 2010/2011 are largely offset by increases in the public service obligation levy and the phasing out of the temporary rebate for large energy users⁴³. Subsidies for peat generated electricity should be phased out due to the cost implications for electricity customers and the impact on the environment. Price supports for renewable energy play an important role in incentivising investment in renewable generation to meet the EU 2020 target but given that the market and technologies are maturing,

⁴² Every five years the regulator reviews the non-fuel costs allowable for electricity networks, in line with Government legislation. In summer 2010, the CER carried out a comprehensive review of the network charges to apply for the period 2011-2016. As a result of the recent review, the networks cost component of the electricity bill will be 45 per cent cheaper for large energy users from the 1st October 2010. The Carbon Revenue Levy Act was enacted in June 2010 to recover the windfall gains accruing to electricity generators until the end of 2012.

⁴³ A temporary rebate for large energy users was introduced in 2009. The rebate has been reduced by 42 per cent from 1st October 2010 and will be phased out by the end of 2012. The Public Service Obligation (PSO) levy is added to each electricity customer's bill to cover the costs of the price supports to peat and renewable energy. While the PSO levy was zero in 2009/2010, it is estimated that the 2010/2011 levy will add about five per cent to all bills. The total PSO cost for 2010/2011 is €157 million. The direct subsidy to peat accounts for half of this and supports for renewable energy generation cost €43 million.

we need to review future subsidies to ensure that they do not adversely affect our cost competitiveness;

- **Waste:** Waste charges to business should reflect the need to deliver cost competitive solutions and optimal environmental performance, while extracting economic value from waste as a resource. Planned increases in the landfill levy should not be implemented until alternative cost effective waste treatment options are available⁴⁴; and
- **Local authority charges:** It is critical that local authority charges on businesses are transparent and reflect the true economic cost of serving their needs. Alternative methods of raising revenue (as highlighted above) must be implemented - e.g. the introduction of a residential property tax and the extension of charges for treated water to domestic users. Administrative reform is also required. Careful consideration needs to be given to the recommendations of the Local Government Efficiency Review Group⁴⁵ (which outlined indicative savings of over €500 million annually) and the Limerick Local Government Committee⁴⁶ to deliver greater efficiencies and to reduce charges to business. Finally, there has been a significant delay in undertaking the periodic review of the valuation of properties for commercial rates⁴⁷. The current processes and arrangements need to be reviewed urgently to accelerate the revaluation process and ensure that businesses are paying the appropriate level of commercial rates.

2.6 Building a stronger physical and knowledge infrastructure base

Ireland has made significant progress in terms of improving our physical, educational and research infrastructure in recent years. It is essential to continue to prioritise investment to ensure Ireland's critical knowledge and physical infrastructure (e.g. education, research, broadband, water, waste and energy) can support economic recovery.

The Department of Finance recently published its review of capital expenditure from now to 2016, *Infrastructure Investment Priorities 2010-2016*⁴⁸. The review reassesses investment priorities in light of changes in demand for infrastructure and severely reduced public finances. Despite the cutbacks, investment at this level (assuming timely delivery) still represents a significant proportion of GDP and compares well to that in other countries⁴⁹. With tender prices for new projects approximately 30 per cent lower than in 2006 when the NDP was finalised, this can offset some of the impact of reduced budgets in real terms. It is critical that agreed budgets are spent in a timely fashion in order to deliver important investments to enhance the competitiveness of Irish exporters and to support the domestic economy.

⁴⁴ The Minister for the Environment, Heritage and Local Government is to bring forward an Environmental (Miscellaneous Provisions) Bill to allow for greater flexibility in setting landfill levies and to provide for the introduction of a levy on incineration. Following enactment of the Bill, the Minister intends to increase the landfill levy to €50 in 2011 and €75 in 2012. The levy is currently €30 per tonne.

⁴⁵ The report of the group is available at: <http://www.environ.ie/en/PublicationsDocuments/FileDownload,23533,en.pdf>

⁴⁶ The Limerick Local Government Committee was established by the Minister for the Environment, Heritage and Local Government to prepare a report on the most appropriate arrangements for local government for the City and County of Limerick. The report is available at <http://www.environ.ie/en/LocalGovernment/BoundaryCommittees/PublicationsDocuments/FileDownload,23938,en.pdf>

⁴⁷ Under the Valuation Act 2001, all rateable properties are to have their valuations reviewed every five to ten years. Prior to the introduction of the 2001 act, businesses could seek a revaluation of their rateable valuations on a number of grounds, including a deterioration in the profitability of their business. To date only three of the 88 rating areas in the country have had revisions carried out by the Office of the Commissioner of Valuation and the timeframe for completion of the process is uncertain. The revisions that have been completed have resulted in the rates liability being reduced by an average of some 30 per cent in the case of hotels - although there have been increases in other categories of property.

⁴⁸ Department of Finance, *Infrastructure Investment Priorities 2010-2016*, July 2010.

⁴⁹ In 2009, direct capital expenditure by Government amounted to €7.35 billion which is 4.7 per cent of GDP compared to the OECD-25 average of 2.9 per cent. Capital investment is set to fall to €6.43 billion in 2010 and €5.5 billion per annum for the years 2011-2016 - but at approximately four percent of GDP, this will be high by international standards.

While the capital expenditure review sets out departmental allocations for the 2010-2016 period, it does not provide specifics on which projects will be prioritised and the timing of delivery. Projects which can have the greatest impact in terms of attracting overseas investment and supporting firms in Ireland to trade internationally should be prioritised and frontloaded. It is essential that the identification of specific investment priorities is progressed immediately so that the agreed budgets can be spent and the infrastructure required to support economic recovery is delivered as quickly as possible. With competing demands on Exchequer funds, rigorous and transparent systems for prioritisation and sequencing of future capital expenditure are urgently required. It is important that the results of these prioritisation processes are published, and ideally should include a ranking of specific projects.

Physical infrastructure

Continue to improve infrastructure capacity and services: As highlighted in previous reports, we need to continue to progress policy actions to ensure the availability of competitively priced world class infrastructure such as:

- The prioritisation of infrastructure investment to support the competitiveness of Irish exporters including:
 - developing world class broadband infrastructure and services. In particular, access to high quality, resilient and competitively priced advanced broadband in key regional centres is required to enable many of our main exporting sectors to retain the current levels of trade and to enable them to exploit future growth opportunities⁵⁰;
 - completing the southern section of the Atlantic road corridor and upgrading the N28 (Ringaskiddy to Cork) and the N2/A5 (Dublin to Derry);
 - addressing potential water shortages in Dublin and key regional centres (Athlone, Galway, Letterkenny, Mallow and Wexford)⁵¹;
 - Sustained investment is required in public transport projects (e.g. rail and bus networks), which offer the highest economic and social returns. The emphasis should be to improve public transport in our main cities, particularly Dublin;
- There is also significant scope for Government to improve infrastructure capacity and services without the need for Exchequer investment by:
 - Addressing policy and regulatory barriers can promote more efficient State investment and greater private sector investment (e.g. waste and broadband); and
 - Reducing delays in the planning process which negatively affect the timely delivery of key infrastructure projects⁵².

⁵⁰ The priority measures to achieve this are set out in Section 4.5 of last year's report - NCC, Ireland's Competitiveness Challenge 2009, January 2010.

⁵¹ For details of priority centres, see Forfás, Assessment of Water and Waste Water Services for Enterprise, September 2008.

⁵² Details of policy/regulatory and planning issues and recommendations are set out in Section 4.5 of last year's report - NCC, Ireland's Competitiveness Challenge 2009, January 2010.

Address longer term infrastructure challenges: Consideration also needs to be given to longer term challenges especially how we can deliver future infrastructure investment more efficiently, how we make it smarter and how we deal with adaptation to climate change:

- *Deliver future infrastructure investment more efficiently:* A more integrated approach to infrastructure planning is required to promote improved efficiency, effectiveness and competitiveness. Coordinating the rollout of different infrastructure services (e.g. roads, telecoms, water, energy) also has the potential to deliver significant cost savings particularly where projects are undertaken simultaneously. Changing the way in which infrastructure is delivered in Ireland may require a formal assessment of possible institutional change to promote better coordination of infrastructure planning and delivery;
- *Increase the density of Irish cities:* Carefully located and designed high density developments, with high quality social, educational and recreational facilities, together with world class transportation connections offer the possibility of increasing the supply of both commercial and residential property in a more cost effective and environmentally sustainable manner.
- *Make our infrastructure smarter:* As an aspiring knowledge economy, we need to make our infrastructure smarter - this includes developing intelligent transport systems, smart metering for energy and water use and sophisticated cash free payment systems. To date, Ireland's performance in adopting ICT to support infrastructure has been mixed. Developing and utilising technologies to make best use of physical resources, creating integrated infrastructure networks and moving people and goods as efficiently as possible offer significant competitiveness benefits for the economy in terms of increased productivity and reduced costs; and
- *Prepare for climate change:* To ensure that the future competitiveness of the economy is not threatened by the effects of climate change, effective global mitigation (e.g. emissions reduction) and effective national adaptation (e.g. flood prevention) measures need to be put in place. On adaptation, owners/public bodies that manage critical infrastructures, such as water and energy, need to take appropriate action to ensure that key parts of Ireland's current and future infrastructure are climate resilient. Properly managed, Ireland's relative water richness could provide a competitiveness advantage across a range of sectors including agriculture and food, tourism, pharmaceuticals, etc. Several sources have indicated that the costs of taking action to address climate change will be much lower than the costs of inaction over the medium to long term. Early action on adaptation measures can ensure that risks are minimised at least cost⁵³. Ensuring spatial planning and land use strategies are climate proofed is an important low cost policy response.

⁵³ Forfás, Adaptation to Climate Change: Issues for Business, August 2010.

Knowledge infrastructure

The NCC welcomes the commitment in the recent capital expenditure review to sustain the significant investment in science, technology and innovation programmes over the period to 2016 and to ensure greater efficiencies and value for money. We need to focus research investment on the areas that will underpin growth in Ireland's exporting sectors now and into the future. In the context of priority setting, Ireland should focus on centres of excellence with critical mass so that basic and applied research can be supported. As the outputs of investment in R&D are one important driver of innovation, it is critical that actions to unify R&D funding streams and to deliver higher economic returns on R&D investment are progressed.

Continued focus on improving the quality of education is required: While a continued focus on improving our research capacity and capabilities is essential, we need to ensure that this is not done at the expense of the learning element within our education and training institutions. Ireland's steady increase in educational attainment has been an important factor behind our recent success. A wide range of overseas investors and others have highlighted skill levels as a key strength of Ireland as a location for enterprise. The recent debate about the quality of Ireland's education, particularly around Leaving Certificate grades, the degree of focus on teaching at third level and the funding crises in higher education is a cause for concern. It is vital that the priorities highlighted in the NCC's 2009 report to further enhance the performance of Ireland's education and training system are progressed immediately⁵⁴. In particular, the NCC recommends that an international review of second level education is undertaken to ensure that the Leaving Certificate is optimally designed to support the needs of enterprise and society. This international review should build upon the work of the National Council for Curriculum and Assessment (NCCA) and should focus on curricula development, teaching methodologies, and assessments and learning outcomes⁵⁵.

Ensure adequate resourcing for higher education: Adequate resourcing to enable Irish higher education institutions to achieve excellence in teaching (particularly at undergraduate level) and research, and to equip Irish students with the highest quality of education available is essential. In spite of the increases in funding for higher education over the past decade, Irish institutions remain under-funded relative to institutions internationally. Given the severe constraints on the public finances, cuts in the education budget are inevitable. The current arrangement whereby undergraduate student fees are largely met by the Exchequer is no longer sufficient to meet the funding needs of higher education institutions on a sustainable long-term basis. Graduates, who will benefit significantly from higher education in terms of increased earnings over the course of their life, should contribute a portion of the cost of their education. However, it would be important to ensure that such a measure does not act as a barrier to participation in third level, for example, through the introduction of a comprehensive student loan and adequate maintenance grant system. It is also essential that the resources provided to the sector are deployed in a manner that provides

⁵⁴ NCC, Statement on Education and Training, March 2009. The recommendations focus on meeting the future skills need of enterprise, tackling disadvantage, improving the delivery of education at all levels and building a culture of lifelong learning.

⁵⁵ Senior cycle education underwent significant change during the 1990s and is currently the subject of a major review by the NCCA aimed at planning for its future development. This review identifies reform in the areas of school culture, curriculum re-structuring and re-balancing and changes in assessment provision as the basis for developments in the years to come. Given the importance of the second level education system to international competitiveness, however, it is important that an international perspective be brought to bear on second level reform.

the best value for money and that there is a continuous process of reform at institutional level to improve productivity.

2.7 Restoring macroeconomic stability

A stable macroeconomic environment is essential to support economic recovery. The strategies to restore the sustainability of the public finances and to ensure the banks are channelling credit to viable businesses must be consistent with improving both the competitiveness of the exporting and domestic sectors of the economy. Improving Ireland's attractiveness as a location to do business and export from will be important to restore the levels of confidence necessary to halt the decline in domestic consumption and investment seen since 2008. The significant increase in the savings rate since 2007 is an indication of the level of uncertainty in the domestic economy⁵⁶.

- The Government deficit remains extremely large despite steps taken to date. Containing our public debt levels is critical to ensuring fiscal stability and supporting ongoing investment in economic and social infrastructure (e.g. transport, environmental and ICT infrastructure, education, research and health) which enhance our national competitiveness. We recommend measures to broaden the tax base (e.g. valuation based tax on property and other user charges for treated water and third level education)⁵⁷. Without these measures, taxes on income will inevitably have to rise further, which puts competitiveness at risk. As previously stated, higher taxes on income/work are a disincentive to people to remain in or return to the labour market (see Section 2.1). Continued actions are required to reorient fiscal supports to employment creation, productive investment and innovation away from property and related activities.
- **Improve the fiscal planning framework:** There is a need for better fiscal planning and control mechanisms with in-built risk assessment and risk management capacity, once the economy gets back onto a sustainable growth path. Both the OECD and the IMF have proposed changes to the current budget framework. These include protecting against outcomes where revenues are spent even when they are transitory and institutionalising commitments to stabilise the public finances⁵⁸. The structures recommended already exist in countries such as Sweden and the UK recently established an Office for Budget Responsibility⁵⁹.
- Serious consideration now needs to be given to how Ireland can reform its fiscal policy framework to ensure sustainable public finances in the longer term, including the establishment of an independent fiscal council. The principles that should underpin the establishment of a statutory fiscal council include independence, accountability, full access to the information available to Government departments and agencies, statutory powers to request specified information, and the capacity to stress test taxation and spending scenarios.

⁵⁶ Ireland's saving ration increased significantly from 2.7 per cent in 2007 to 12.3 per cent in 2009. The OECD average was 6.4 per cent in 2009. Source: OECD, Economic Outlook Database 86, December 2009.

⁵⁷ For further details, see NCC, Annual Competitiveness Report 2008: Ireland's Competitiveness Challenge, January 2009 and Annual Competitiveness Report 2009: Ireland's Competitiveness Challenge, January 2010.

⁵⁸ International Monetary Fund, Ireland - Concluding Statement for the 2010 Article IV Consultation, May 2010 and OECD, Economic Surveys: Ireland, November 2009.

⁵⁹ For details of the UK Office for Budget Responsibility, see http://www.hm-treasury.gov.uk/data_obr_index.htm; for details on the Swedish Fiscal Policy Council see: <http://www.finanspolitiskaradet.se/english/swedishfiscalpolicycouncil.4.6f04e222115f0dd09ea80001437.html>

- The introduction of a four year budgetary plan to reduce the budget deficit is a positive development. In addition to the four year plan, longer term planning is also required to prepare for future economic cycles (i.e. ensure that cyclical revenue gains are saved rather than spent) and ensure expected future commitments (e.g. pensions) are addressed. It is also necessary to ensure that a rigorous system of ex ante evaluation of expenditure programmes is implemented.

Ensure access to credit: Considerable uncertainty remains over the impact of the banking crises on the health of the State's finances and enterprises ability to raise funds to sustain and grow sales. The NCC recommends that the ongoing efforts to resolve the banking crisis include the following actions:

- Ensuring that the efficacy of the range of measures put in place to improve credit flows can be assessed. We need to benchmark the availability and cost of finance to ensure that Irish businesses are not at a disadvantage relative to other euro area countries;
- Sustaining liquidity and competition in the banking market needs to be a priority as banks seek to rebuild their balance sheets. Competition policy should strongly inform any policy on banking consolidation; and
- Stronger banking regulation and closer supervision to ensure that banks do not re-engage in reckless lending in the medium term. As recommended by the OECD, more effective macro-prudential policy instruments should be developed and applied.

We must ensure that we never again have a property speculation bubble: Periods of robust economic growth in Ireland going back to the 1960s have been characterised by rapid increases in land prices, escalating costs of infrastructure provision and shortcomings in physical planning and housing provision. In the early 1970s, the Kenny report identified measures to control the price of development land but its recommendations were never implemented⁶⁰. Given the serious consequences of the recent property boom and subsequent collapse, the NCC recommends the establishment of a high level independent review commission mandated to put forward policy recommendations to ensure that we never again have a sustained property bubble.

Ireland is one of the few developed countries in the OECD which does not raise significant revenues from a recurring property tax on residential property. The taxation of property should be introduced immediately to limit future housing boom and bust cycles. In particular, the NCC recommends that a valuation based tax should be introduced as quickly as possible. A recurring property tax can be designed to be progressive, i.e. those in larger houses and/or living in more expensive areas would pay more⁶¹. Given the time required to fully implement a valuation based tax and the necessity to raise additional tax revenues quickly, interim measures should be devised on a self assessment basis similar to the tax on second homes. The proposal to abolish mortgage interest tax relief is a step in the right direction as Ireland is the only country in the OECD to give such relief without having a tax on primary residences⁶².

⁶⁰ The Kenny report, which was published in 1973, was prepared by the Committee on the Price of Building Land which was chaired by Mr. Justice Kenny, Its key objective was to identify measures to control the price of land required for housing and other development.

⁶¹ For example, reliefs and exemptions could be introduced for people on low incomes, including older people, and for people who recently paid large sums of stamp duties and who are financially stressed by high mortgage repayments.

⁶² Budget 2010 committed to abolishing the relief on mortgage interest by 2017.

2.8 Delivering on public sector reform and implementation

An effective public service has a critical role to play in restoring economic growth and in transforming society. The cost and effectiveness of the public service have major impacts on the competitiveness of Irish exporters and they provide essential infrastructures and services which are vital for business. Their importance transcends economic efficiency as their activities and objectives serve vital public purposes and are essential to any civilised society.

Much serious consideration has been given to the public service reform agenda including the 2008 OECD Public Management Review of Ireland, the Report of the Task Force on the Public Service, and the Government Statement on Transforming Public Services and the Report of the Special Group on Public Service Numbers and Expenditure Programmes - but the perceived impact on reforming public service processes and structures to date has been limited⁶³.

Deliver public services improvements: 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. A range of recommendations from the OECD and others remains outstanding. Delivery of the reform agenda is long overdue - this includes embedding merit based promotion and open recruitment at all levels. Within the public service, perceived shortcomings that need to be addressed include deficits in accountability, lack of responsiveness, politicisation, antiquated and restrictive work practices, resistance to change and indifference to service delivery standards and costs. There are often inappropriate views of costs and value for money - too often securing more funding for a service or department appears to be an end in itself - or poorly linked to improved performance.

Improve public sector productivity: The Croke Park agreement provides a platform for all to reform public services. Implementation of the Croke Park agreement could allow Ireland to reconfigure the public service without undue industrial relation issues; deliver more for less; and respond more rapidly to the changing economic and social priorities. The critical challenge is to engender a culture that seeks to be world class at everything we do - policy making, education, infrastructure provision, R&D, etc. Best practice in Ireland and internationally needs to be carefully examined and reforms systematically delivered⁶⁴. Key NCC recommendations for actions that would improve the productivity of the public sector include:

- There is an urgent need for a more integrated approach across government departments and agencies. New governance structures need to be considered to address the complex challenges and cross-cutting objectives such as competitiveness, social inclusion and climate change – ultimately addressing the long-term needs of citizens more effectively. As a first step to deliver public sector reform, an independent review of the structures of government departments should be undertaken and the merits of establishing a department/unit for public sector reform considered;

⁶³ For details see: OECD, OECD Public Management Reviews - Ireland: Towards an Integrated Public Service, June 2008; Task Force on the Public Service, Transforming Public Services, November 2008; Government Statement on Transforming Public Services, November 2008; Report of the Special Group on Public Service Numbers and Expenditure Programmes, July 2009.

⁶⁴ For example, OECD research suggests that despite Ireland's relatively strong performance on education, meeting the performance levels of top ranking Finland could potentially boast long term economic growth by 0.71 percent per year as relatively small improvements in the skills of a nation's labour force can have very large impacts on future well-being. The overall change would be an average annual growth rate that was 0.7 per cent higher after reform was accomplished and after the full labour force had received the improved education. OECD, The High Cost of Low Educational Performance The Long-Run Economic Impact Of Improving Pisa Outcomes, 2010.

- Periodic reviews are necessary to assess if regulators are meeting their objectives effectively and if their number or role requires amendment, including whether potential exists to merge regulators or regulatory activities and the overall coherence in delivering public policy objectives;
- Introduce mandatory, independent five year external reviews of the performance of government departments with a requirement that the Minister and secretary general (as appropriate) respond formally to the Oireachtas outlining the actions they propose to take to address issues raised by these reviews; and
- The NCC endorses many of the reforms identified in the OECD's review of the Irish public service including: outcomes-focussed performance measures; improved coordination across departments and agencies; greater use of networks across the public service; new budgetary frameworks to facilitate prioritisation and reallocation of spending; strengthening the role of ICT and e-government; enhanced mobility between public and private sectors at all levels; greater accountability at the individual level; and mechanisms to enable managers to address under-performance.

3. Conclusions

While the Irish economy faces unprecedented challenges, we continue to have significant competitiveness strengths and opportunities. Exporting sectors are already contributing positively to economic performance. Our competitiveness has improved significantly. Costs have fallen, skills availability has improved and the pressures on infrastructure have eased - but considerable challenges remain.

An ambitious agenda of reform to enhance competitiveness is central to future economic growth and prosperity. Given different historical contexts and economic, political and social goals of various countries, and their differing physical geographies and resource endowments, it is not realistic for any country to seek to outperform other countries in all areas. However, improving living standards requires that we excel in key areas that impact upon international competitiveness. Being average only works when you want average living standards.

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