

National Competitiveness Council publishes Ireland's Competitiveness Challenge 2015

Much has been achieved on the road to recovery. However, the same urgency and commitment that went into bringing down the government deficit, stabilising debt levels and securing the banking system must now go into improving competitiveness

Momentum on Economic Policy must be Maintained to Ensure Recovery is Sustainable

10 December 2015

The National Competitiveness Council (NCC) today has published its *Competitiveness Challenge 2015* report, outlining a range of actions designed to boost Ireland's international competitiveness. This year's report also includes the Council's *Submission to the Action Plan for Jobs (APJ) 2016* which - recognising the important role that the APJ has played in delivering structural change - focuses on the more immediate actions which should be addressed in 2016.

Building on the Council's previous benchmarking reports, the *Challenge* highlights the significant improvement in Ireland's international competitiveness that have been achieved in recent years. Much of this improvement, however, has been a result of a range of positive external factors – most notably a favourable exchange rate, but also low interest rates, and low international oil prices.

Speaking at the launch of the report, Prof Peter Clinch, Chairman of the NCC noted that "Improved competitiveness has been central to the recovery. Reforms have helped to make work pay, improved access to finance for SMEs, streamlined regulatory processes and reduced administrative burdens. However, despite these welcome policy developments, the benign external environment has shielded us from some harsh truths: Ireland's continuing competitiveness is under threat, and there are indications that pressures are already emerging which are undermining our ability to compete internationally".

He continued "While growth prospects for the Irish economy are strong, we must continue to deliver aggressively the structural reforms required to support this growth, and improve competitiveness and productivity. Any loss of competitiveness will have a major negative impact upon both our economic prosperity, employment and our standard of living. The Council is concerned that, as growth gathers pace, the sustainability of Ireland's recovery will come under threat as competitiveness pressures are returning. There is no room for complacency. Maintaining our strong international competitiveness requires constant improvement across a broad range of policy spheres."

The Competitiveness Challenge report highlights significant achievements in regaining competitiveness and Government actions that have contributed to the improvement in the economy. It goes on to point to a range of obstacles to continued recovery:

- Firstly, Ireland must maintain a sound budgetary position whilst simultaneously increasing capital investment to enhance competitiveness and support enterprise. A significant ramping up of expenditure on physical and knowledge infrastructure is required, above and beyond the commitments contained in the recent Capital and Investment Plan 2016-2021, which the Council welcomes. Additional investment is particularly essential in the areas of broadband and transport. Such services are required now to support regional jobs, growth and competitiveness.

- Secondly, the enterprise sector provides the engine for economic growth. Our internationally trading firms must be able to win business in increasingly competitive global markets. However, we must also grow a cadre of Irish firms of sufficient scale and capability to make the leap into such markets. Increasing the number of productive and innovative indigenous firms acting as sub-suppliers to exporting sectors and serving the domestic market is a vital component of developing a balanced, vibrant and competitive economy. We must maintain, and enhance where appropriate, the capital budgets of the Enterprise Development Agencies. Failure to address the resource constraints currently faced by the Development Agencies puts at risk Ireland's ability to attract new foreign direct investment, and risks damaging the domestic recovery.
- Thirdly, we must protect and enhance Ireland's value proposition from an investor perspective. The attractiveness of our overall taxation system is essential in this regard. International tax competitiveness is not just about our corporate tax offering. While much good work has been undertaken in this regard, including maintaining our 12.5 per cent rate (whilst simultaneously complying with best international standards) and developing the Knowledge Development Box, more is required. If we are to continue to attract high skilled individuals and deliver upon our ambitions to further develop an innovation driven economy, we must ensure that we provide a competitive income tax regime. While the changes announced as part of Budget 2016 are welcome, it is now timely to reduce marginal rates below 50 per cent for all earners. Such a move will not only make Ireland a more attractive location for high-skilled workers, it will also help to embed potentially mobile activities of real substance in Ireland (since such activities are explicitly dependent on the presence of an appropriate highly-skilled work force).
- Fourthly, and related to the issue of attracting high skilled workers, is the availability of affordable property. Rapid increases in both residential rental costs and purchase prices feed through into increased wage demands and rising living costs. A rising house price – wage rate – cost of living spiral adversely impacts on quality of life for those already living here, and makes Ireland a less attractive location for potential migrants, especially high-skilled migrants who have their choice of destinations. In this regard, it is essential to increase housing supply, whether through the provision of additional social housing or through the removal of barriers currently limiting construction of private housing. The shortage of commercial office space in key urban centres is equally of concern.
- Finally, the ability of the education and training system to react to the demands of the enterprise sector has long represented a core competitiveness strength, and our flexibility to respond to an ever-changing labour market has been much lauded. The Council is concerned, however, about the emergence of a range of skills shortages. Our still high rates of youth and long-term unemployment are also concerning, as is the relatively large cohort of workers with relatively low levels of educational attainment. The new National Skills Strategy, allied to enhanced employer engagement, must provide the bedrock for future skills development. It is vital that this Strategy is prioritised and that the necessary urgency is brought to bear to ensure its timely delivery and implementation.

Since its introduction, the Action Plan for Jobs (APJ) has recognised the fundamental link between competitiveness and job creation, and has been the key mechanism to drive competitiveness in all areas of economic activity. The *Challenge* urges that the commitment to implementation inherent in the APJ process be maintained.

Commenting on implementation, the Chairman stated that "the Action Plan for Jobs focus on clear actionable recommendations, time bound targets and monitored, transparent implementation provides a good practice template and we recommend that such an approach should be retained in the policymaking process, regardless of our economic circumstances or the political cycle".

Prof Clinch concluded that “The recent economic crisis demonstrated how international and national authorities were watching the wrong indicators and missed significant economic threats emerging. The Government deserves significant credit for their determination and resolve to get the economy back on the fast track. However, the risk now is that, having concentrated on improving Ireland’s macroeconomic indicators; people will assume the hard work is done. The same urgency and commitment that went into bringing down the government deficit, stabilising debt levels and securing the banking system must now go into maintaining and improving the competitiveness of the Irish economy. Our future wage rates, our ability to pay for the health service (let alone improve it), our ability to pay for good education for our children, our ability to have a generous state pension and our ability as an economy to survive in the Eurozone, all depend on the competitiveness of the Irish economy. In terms of improving competitiveness, the challenge has only just begun”.

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NOTES TO EDITORS

The full report is available [here](#).

About the National Competitiveness Council

The National Competitiveness Council reports to the Taoiseach and the Government 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 three annual reports.

1. The Costs of Doing Business in Ireland report is a requirement under the Action Plan for Jobs benchmarks key business costs and highlights areas where Irish enterprise costs are out of line with key competitors.
2. Ireland’s Competitiveness Scorecard provides a comprehensive statistical assessment of Ireland’s competitiveness performance.
3. 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. The Council’s annual Submission to the Action Plan for Jobs is also included as part of this year’s *Challenge* report.

The Council also regularly publishes Competitiveness Bulletins on specific competitiveness issues.

The members of the Council are:

- Professor Peter Clinch Chair, National Competitiveness Council
- Liam Casey Chief Executive Officer, PCH International Ltd.
- Kevin Callinan Deputy General Secretary, IMPACT Trade Union
- Micheál Collins Senior Research Officer, NERI - Nevin Economic Research Institute
- Isolde Goggin Chair, Competition and Consumer Protection Commission
- John Herlihy Vice President, Managing Director Europe, Middle East & Africa, LinkedIn

- Declan Hughes Assistant Secretary, Department of Jobs, Enterprise and Innovation
- Danny McCoy Chief Executive Officer, Ibec
- Jane Magnier Joint Managing Director, Abbey Tours
- Seán O'Driscoll Chairman and Chief Executive Officer, Glen Dimplex Group
- Louise Phelan Vice President of Global Operations, Europe Middle East & Africa, PayPal
- Heather Reynolds Director, Eishtec
- Dave Shanahan Chief Executive, Adagio Ventures Commercialisation Partners
- Martin Shanahan Chief Executive, IDA Ireland
- Ian Talbot Chief Executive, Chambers Ireland
- Siobhán Talbot Group Managing Director, Glanbia

Representatives from the Departments of the Taoiseach, Agriculture, Food and the Marine, Communications, Energy and Natural Resources, Education and Skills, Environment, Community and Local Government, Finance, Justice and Equality, Public Expenditure and Reform, Transport, Tourism and Sport attend Council meetings in an advisory capacity.

The work of the NCC is underpinned by research and analysis undertaken by the Strategic Policy Division of the Department of Jobs, Enterprise and Innovation.