

National Competitiveness Council publishes Ireland's Competitiveness Challenge 2016

The challenges posed by Brexit, and general economic and political uncertainty internationally, makes pursuing policies to support competitiveness crucial in order to maintain the economic progress Ireland has made

Our competitiveness in five and ten years will be determined by decisions taken today

15 December 2016

The National Competitiveness Council (NCC) has today published its *Competitiveness Challenge 2016* 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 2017.

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 while Ireland's economy has proven to be robust, "There are significant causes for concern and immediate threats to our ability to compete internationally which could damage growth prospects and living standards. Brexit, in particular, presents us with far reaching and ongoing structural implications, directly impacting on our national competitiveness. Add to this the general economic and political uncertainty internationally and there has never been a more compelling case for making competitiveness the central pillar of Ireland's economic policy. This is the only way to secure the economic improvements that have been delivered, and to support sustainable jobs, living standards and quality public services".

The Council is particularly concerned at this time about the challenges confronting our indigenous enterprise sector arising from Brexit. Specifically, the cost competitiveness implications caused by shifting exchange rates and uncertainty regarding trade pose real threats to continued growth. The challenges posed by Brexit provide additional motivation to pursue cost competitiveness across a range of business inputs, including legal, energy, and insurance where costs continue to escalate. It brings into sharp focus infrastructure bottlenecks, including broadband deficits, and skills mismatches which have also become more acute, while issues such as increasing industrial unrest are emerging as immediate challenges.

Emphasising the importance of taking immediate action to facilitate and sustain competitiveness in the medium term, Professor Clinch said "Embedding a sustainable recovery requires us to look beyond the short-term, and towards a more medium-term horizon. It is about determining the sort of economy and society we want, not tomorrow or next year, but in 5 or 10 years' time, and taking the action today necessary to deliver this. This will require some difficult decisions - in some cases forgoing immediate but temporary gains so that we can provide for the future".

In this regard, the Council has identified a number of policy priorities:

1. Broadening the tax base: From an enterprise perspective, it is important that the taxation system is balanced in a manner that supports both the indigenous and FDI sectors. The tax system should support

and reward risk taking, investment and entrepreneurship. Less harmful taxes (such as those on property, VAT and environmental taxes) should be prioritised over increases in direct personal taxes.

At the same time, ever more people have been removed from the income tax net in recent years. The planned phasing out of the USC will further narrow the tax base and leave a significant revenue shortfall that will have to be made up through increases in other forms of taxation. The plan to abolish the USC is in contrast to the broadening of the tax base which was implemented during the recession. This broadening was a direct response to the observation that, at the onset of the crisis, the narrow tax base was a contributory factor to a disastrous public finance position. Ensuring the tax base is broad, making the tax system more coherent and streamlined and incentivising work, enterprise and entrepreneurship remains a challenge in terms of safeguarding competitiveness.

2. Address the housing supply shortage: In a distinct echo of the recent past, our housing market risks undermining our entire competitiveness offering. While the 'Rebuilding Ireland' Plan presents a wide-ranging set of welcome commitments, many of these will take time to implement and to effect change. We must, however, resist introducing policies which promise - but fail - to deliver a quick fix. In a situation where supply is constrained and demand is strong, rising housing prices are an inevitable consequence. This applies to both the rental and purchasing sectors and tinkering with the demand side simply favours one group over another and risks increasing prices further. Rather than chasing short-term wins, we need to show courage and pursue medium-term solutions.
3. Funding for Higher Education: So much of our economic success is a result of our skilled workforce. Our Higher-Education Institutions have been a vital channel through which the skills needed by enterprise are developed. The demands that we place on the Higher Education system are increasing. At the same time, the level of resourcing per student for higher education in Ireland is significantly lower than in most of our competitor countries. Failure to tackle the under-resourcing of higher education is placing Ireland at a considerable disadvantage internationally – and we are already seeing some of the impact of this in the most recent international university rankings. The longer we postpone a decision about how best to address funding for higher education, the greater the negative impact on education quality, and the more challenging the issue will become to resolve. While controversial, if we are to avoid damaging Ireland's competitiveness, we have no option but to introduce a funding model for higher education that combines increased State funding alongside deferred payment of fees through income contingent loans. Such an approach will require careful design to minimise any regressive effects which may arise, and to ensure that an appropriate and effective model of student support is in place to assist those most in need.
4. Funding for Water and Waste Water: Delivering world class water and waste-water infrastructure is a long-term project, but it is a project that must commence today. A clear plan must be developed that provides certainty with regard to the future funding of public water and wastewater services in Ireland. Resolution of the funding question is paramount to secure the necessary investment for Irish Water. The funding model must not only deliver an adequate funding stream to facilitate essential investment, it should reward conservation and it should also meet our EU objectives in terms of the user pays principle, and the avoidance of cross subsidisation. Failure to put in place adequate water and waste water infrastructure throughout the country damages the competitiveness of all of our regions as places to live and work, and places the viability of a range of companies and sectors at risk.
5. Delivering a streamlined National Planning Framework that prioritises investment to support competitiveness whilst enabling our regions to realise their potential as key contributors to Ireland's economic recovery and growth is crucial. The NPF will provide the foundations for all subsequent capital investment and is, therefore, an essential piece of policymaking that will impact directly upon Ireland's

future competitiveness. Capital investment, prioritised to support productivity is essential for our prosperity.

Prof Clinch concluded that “If we do not learn from the lessons of the past, if we do not seize the opportunity to put in place more solid foundations for growth, we are undermining Ireland’s competitiveness and putting at risk our future prosperity. This is particularly the case in such uncertain times. Many of the actions the Council is recommending are medium-term in nature and will not bear fruit for some time. But they are necessary to secure our future jobs, wages and the quality of our public services. We have learnt to our cost the results of failing to consider fully the future consequences of actions and lack of actions. We must not do that again. Courageous decisions taken today can secure a sustainable, prosperous future for the Irish people”.

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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:

- Prof Peter Clinch Chair, National Competitiveness Council
- Pat Beirne Chief Executive Officer, Mergon Group
- Kevin Callinan Deputy General Secretary, IMPACT Trade Union
- Micheál Collins Senior Research Officer, University College Dublin
- Isolde Goggin Chair, Competition and Consumer Protection Commission
- Cathriona Hallahan CEO/Managing Director (Ireland), Microsoft
- Declan Hughes Assistant Secretary, Department of Jobs, Enterprise and Innovation
- Jane Magnier Joint Managing Director, Abbey Tours
- Danny McCoy Chief Executive Officer, Ibec
- Seán O'Driscoll President, Glen Dimplex Group
- Louise Phelan Vice President of Global Operations, Europe Middle East and Africa, PayPal
- Dave Shanahan Chief Executive, Adagio Ventures Commercialisation Partners
- Martin Shanahan Chief Executive, IDA Ireland
- Julie Sinnamon Chief Executive, Enterprise Ireland
- Ian Talbot Chief Executive, Chambers Ireland
- Jim Woulfe Chief Executive, Dairygold Co-Operative Society Limited

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.