

Press Release

ESCALATING PRICES, WAGE COSTS AND INFRASTRUCTURAL DEFICITS MUST BE URGENTLY TACKLED IF IRELAND IS TO REMAIN COMPETITIVE – NATIONAL COMPETITIVENESS COUNCIL

Escalating prices, wage costs and infrastructural deficits must be urgently tackled if the Irish economy is to remain competitive, the National Competitiveness Council warned today (21 November 2002).

In its fifth Annual Competitiveness Report and Competitiveness Challenge, the Council, which was established by the Government to report to and advise the Taoiseach on key competitiveness issues for the Irish economy, believes that both the domestic Irish economy and the global economy face difficult times ahead. The extent or exact timing of any upturn in economic growth cannot be predicted with a strong degree of confidence, with the result that policy-makers here must contend with a number of potential domestic and international threats to the economy and to Irish competitiveness. Given that Ireland is one of the most open economies in the world, it is important that steps are taken to position the economy to maximise the benefits and growth potential from any upturn in the global economy.

The most significant threats to Irish competitiveness identified by the Council include rising costs, increasing wages, a higher than acceptable inflation rate and lower investment in infrastructure than is required.

The Council also warns that any decrease in international competitiveness could have adverse effects on employment and income levels in Ireland and would undermine the future health of public finances, all of which would put at risk the benefits of the last ten years of unparalleled growth.

The most recent economic evidence outlined in the Council's report shows deterioration in a number of key areas of competitiveness.

Consumer price inflation needs to be reduced:

Recent price and cost developments highlighted in the Annual Competitiveness Report, confirm a number of worrying trends, with consumer price inflation running at more than twice the EU average. The Council believes that there is a key role for policy in enhancing competition where possible, particularly in reducing price inflation in the non-traded sector of the economy.

The Council believes that reductions in consumer price inflation must be accompanied equally, and in parallel, by an easing of nominal wage growth, thus allowing real wage gains (nominal wage growth minus inflation) to match productivity gains. This

will limit the risks of embedded cost inflation and the development of a price-wage spiral.

Wage costs rising faster than our competitors:

Irish wage growth is now running ahead of our major competitors, with a risk of further divergence over the coming years. Nominal wage costs are continuing to rise rapidly (at around three times the EU average). EU data contained in the Council's Annual Competitiveness Report now estimates that average Irish nominal wages for full-time employees was 3.6% above the EMU-12 (the Eurozone member countries) average in 2001, with average wages levels forecast to rise to 13% above the EMU average by 2003.

While in the past, gains in labour productivity justified significant growth in incomes and wages, recent falls in productivity trends suggest that wage inflation will have to ease if low unemployment and competitiveness are to be sustained. The Council believes that wage policy must also be flexible given different sectoral performances. There is evidence to suggest that wage growth is slowing in response to economic conditions.

Infrastructure bottlenecks worsening:

The Council warns that infrastructure bottlenecks are also worsening and adding to business costs. Problems are particularly acute in the transport sector and the implementation of the National Development Plan should remain a priority notwithstanding the tighter budgetary position. Growing congestion that is driving up costs and curtailing sustainable economic development must also be addressed by regional policies. The Council continues to believe that the National Spatial Strategy has a central role to play in achieving balanced regional development.

The Council's Annual Competitiveness Report also reviews Ireland's current rankings under the following headings:

Price and cost environment

Ireland is ranked

- Fourth highest out of 16 countries in terms of office occupation total costs
- Second highest out of ten countries for average house price inflation since 1980, with an average annual growth rate of 9.5%
- Second highest out of eight major economies for industrial electricity prices for mid-large capacity users
- Telecommunications costs are now the seventh most expensive across 16 countries surveyed

Employment costs, productivity and social partnership

Following several years of rapid catch-up Ireland is now ranked

- Seventh highest out of 16 countries surveyed in terms of nominal compensation (in Euros) for employees
- Second highest out of 16 countries surveyed in terms of wage growth per employee in 2002, with other indicators also pointing to a sharp rise in unit labour costs

- Second highest out of 16 countries for projected growth in unit labour costs in 2002 and 2003

Transport:

- Ireland is top out of ten countries for the proportion of goods transported by road
- We are ranked thirteenth out of 16 countries concerning length of motorway per 1,000 square kilometres
- Dublin has the longest delivery time of eight capital cities surveyed

Telecommunications:

- Ireland is now ranked fifteenth out of 16 countries in relation to access to broadband lines

Energy:

- Ireland is the second highest out of eight major economies for industrial electricity for mid-large capacity users

The Council believes that these key areas require urgent policy action if Ireland is to maintain its competitive position over the coming years. Looking firstly at the price and cost environment, the Council highlights a number of measures to reduce insurance premiums, primarily through the implementation of the recommendations of the Motor Insurance Advisory Board report. Secondly, the Council advocates policy measures to increase competition in the services sector in order to lower costs. The final recommendation in this section of the report addresses recent rises in energy prices.

The Council also focuses its attention on employment costs, productivity and social partnership. This is an area of vital importance and must be tackled in tandem with the issue of prices and costs if international competitiveness is to be maintained. Future wage growth must be related to the ability of enterprise to absorb the costs without damaging the competitive position of the economy. Equally, wage competitiveness must come in parallel with a reduction in other price and cost increases.

The third key concern which the Council highlights in its report is the infrastructural deficit. Improvements in infrastructure have not kept pace with our recent rapid economic growth. However, now as the economy slows down, it is crucial that we bring our national infrastructure up to standard in order to eliminate emerging constraints to further growth.

Speaking at the launch of the Council's annual competitiveness report and competitiveness challenge, the chairman of the National Competitiveness Council, **Mr William Burgess** said: "Now more than ever, in the face of international unpredictability, competitiveness is our only security and the only way to ensure long-term prosperity and social equality. In the medium term, the emphasis must be on the restoration of the 'Virtuous Circle' which Ireland enjoyed in the late 1990s. This virtuous circle of sustainable, moderate wage growth, low inflation, productivity gains, social partnership and a competitive business environment was the bedrock on which our remarkable recent economic performance has been built."

He added that although the Irish economy had progressed in recent years, we could not afford to ignore the fundamentals of our success and urgent policy action was now required to restore our much lauded international competitiveness. He urged the Government and all the social partners to support the implementation of the Council's recommendations.

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NOTE TO EDITORS

The National Competitiveness Council, which today published its fifth Annual Competitiveness Report and Competitiveness Challenge, was established by the Government under the Partnership Agreement in May 1997.

It is required to report to the Taoiseach on key competitiveness issues for the Irish economy together with recommendations on policy actions required to enhance Ireland's competitive position.

Using the analysis contained in the Annual Competitiveness Report as a starting point, the Council's main policy document, the Competitiveness Challenge 2002, identifies the key competitiveness issues facing the Irish economy and makes a number of recommendations for public policy. The Council's membership is composed of representatives of all the social partners.