

Higher productivity is a prerequisite for a return to growth and employment creation

The National Competitiveness Council today (May 4) published a report entitled *Ireland's Productivity Performance 1980-2011*. This report maps Ireland's productivity performance over the last three decades relative to the UK, the US, and the EU. The report analyses Ireland's performance at national and sectoral level.

In a time of austerity and reduced demand, doing more with less (i.e. productivity) offers significant potential to enhance competitiveness and living standards. Despite significant progress, previous research highlights that Ireland's cost base remains high. Notwithstanding the ongoing need to pursue all opportunities to reduce costs, a focus on productivity growth offers an additional complementary policy tool to reduce unit costs and restore Ireland's international competitiveness. Higher productivity, leading to greater demand for Irish goods and services, is a prerequisite for a return to growth and employment creation.

Launching the report, the Chairman of the NCC, Dr. Don Thornhill said "Up to a third of Ireland's productivity growth since 2007 is a result of the reduction of hours worked brought on by the recession - this is unsustainable. We have, however, come a long way in advancing our productivity since the 1980s and we must build on these advances to maximise our competitiveness capacity. We cannot afford to lose the momentum achieved to date. From a policy perspective, the focus must now be on embedding structural productivity enhancements. In particular, Ireland must continue to invest in productivity enhancing infrastructure, remove barriers to competition, and improve educational outcomes. Productivity is the glue which enables us to combine higher incomes and competitiveness"

Martin D. Shanahan, Chief Executive, Forfás stated, "This study demonstrates that productivity growth has broadened beyond the traditional small base of exporting sectors. Productivity growth rates, however, are weakening. It is paramount that Ireland maintains its productivity advantage if economic growth is to resume and people are to get to get back into the workplace. We need to boost our productivity performance across all sectors and there is particular scope to improve performance in lower productivity sectors. Implementation of the Action Plan for Jobs, which contains a range of productivity enhancing measures is essential."

Key Findings

The report finds that Ireland's productivity performance over the period 1980-2011 was strong:

- Starting from a low base, Irish productivity levels now exceed those of many of our peers and key competitors. Ireland's labour productivity levels have increased almost three-fold in three decades - from below €14 an hour in 1980 to almost €39 an hour by 2011.
- Even allowing for the impact of foreign owned MNC's on certain sectors, adjusted productivity estimates still suggest that productivity levels in Ireland are high relative to competitor countries.
- While traditionally a small number of exporting sectors have been significant drivers of Irish productivity - particularly the modern manufacturing and tradable services sectors - the base of

Irish productivity growth is broadening. This is a welcome development and reflects the increasing contribution of the indigenous sector to Ireland's productivity growth.

- For the first time, we also have an assessed of the importance of investment in machinery and equipment for Irish productivity growth. Since 2005, capital productivity growth has rebounded. It is notable that Irish capital investment grew significantly between 1990 and 2011. Annual average growth in the stock of ICT capital (14%) and non-ICT capital (4%) exceeded growth in the stock of labour (2%).

Despite these very positive developments, a number of threats to performance persist:

- Productivity growth rates in Ireland are weakening.
- Budgetary constraints pose a particular threat to productivity performance. Despite our current fiscal challenges, Ireland must continue to invest in productivity enhancing programmes and infrastructure. Investment in education and infrastructure for example, is crucial to enhance Ireland's future productivity capacity.
- Actions to boost performance in low productivity sectors can have a significant impact on overall national productivity performance. In this regard, barriers to competition in locally traded sectors must be eliminated.
- Access to finance must be forthcoming for firms to continue to invest in capital and skills to improve productivity.
- High quality broadband is crucial for competitiveness. ICT related capital has accounted for a significant share of Ireland's productivity growth and access to high quality broadband offers further potential to improve economic growth.
- Increasing labour productivity in the public sector is an essential element in improving aggregate productivity levels. As resource inputs to the public sector continue to be reduced, reform driven productivity growth offers the only potential to maintain and enhance service levels.

The Council outlined a more detailed range of policy actions to improve Ireland's productivity in *Ireland's Competitiveness Challenge 2011* and productivity will continue to be a focus of attention in future Competitiveness Challenge reports.