

Ireland's Competitiveness Challenge

Overview of NCC Conference

28th October 2008, Royal Hospital Kilmainham,
Dublin



1. Introduction

The objective of this high level summit was to bring policy-makers, business people and members of academia to discuss the competitiveness challenges which currently face the Irish economy. The event sought to encourage the diverse selection of delegates to consider, debate and develop possible policy responses to these challenges.

The opening session of this half-day summit provided an international context and broad framework in which to analyse Ireland's current competitiveness performance. Following this, delegates at the event participated in one of four fora, each of which focused on a particular competitiveness theme. These round-table discussions gave participants the opportunity to put forward their individual perspectives and to discuss with others strategies for developing sustainable national competitiveness. The output from this event was incorporated into the NCC's Annual Competitiveness Challenge report which can be found online at www.competitiveness.ie.

2. The Economic Backdrop

It was noted that developed economies are in the midst of a transformational shift from a physical resources based economy to the 'brain-force' economy in which ideas, imagination and creativity are the most important factors of production.

The challenge for developed economies is to determine how to shape the new 'Innovation Age' and three areas of policy action were identified for enabling a high-performance innovation eco-system:

- Developing talent - technical skills in science, engineering and technology and skills in creativity and adaptability to change;
- Investment in cutting edge R&D, entrepreneurship and business-research collaboration; and,
- Developing the essential infrastructures of the innovation age in the areas of broadband, intellectual property and trade.

Delegates received an overview of Ireland's current economic performance in comparison with key competitors. Ireland's current performance in terms of the four key competitiveness theme was outlined. The main areas of concern were:

- Ireland's declining cost competitiveness;
- The challenges of maintaining high employment levels;
- Maintaining infrastructure investment in the face of declining Government revenues; and
- Formidable energy and environmental challenges.

It was noted that in seeking to find resolutions to the significant challenges now confronting the economy, we need to look to opportunities that could arise. The Government's actions to improve competitiveness through increased investments in STI, the improvement in the R&D tax credit, sustaining our low corporate tax rates, supporting entrepreneurship and targeting opportunities in green energy and the environment were highlighted.

It was stressed that in the short-term it will be important to address how the banks can facilitate the necessary lending required by SMEs to ensure their continued growth and development.

Theme 1: Cost Competitiveness

It was noted at the outset that much of Ireland's inflation is imported and, therefore, difficult to control. Instead, the debate focussed on those areas where national policy can have a direct impact on Irish cost competitiveness.

There was agreement among many delegates of the importance of sustaining the competitiveness of Ireland's tax wedge for labour while also broadening the general tax base. In this context, there was a general consensus regarding the need for a three to five year strategy for the introduction of property taxes. The issue of introducing user charges for public goods in a manner that facilitates the expenditure of local taxes on local uses was also raised.

The structure of the professional services sector was criticised for providing unnecessary barriers to competition. The need to initiate a process of modernisation to tackle reform in the professions and areas of self-regulation was also highlighted. It was suggested that the transposition of the Services Directive into Irish law offers potential to reduce costs for customers in a number of areas.

In order to sustain our cost competitiveness in the short term, some delegates suggested that consideration should be given to the potential for real wage cuts, as Hong Kong did in the early 2000s. It was proposed that such a policy may be facilitated by a decline in inflation expectations.

Theme 2: Education and Innovation

In the area of education and innovation policy, there was consensus that Ireland needs to prepare for the creative economy and to be ambitious in relation to improving our educational outcomes. The requirement for the education system to recognise the changing needs of organisations and to adapt accordingly was a central theme to discussions.

Delegates questioned whether the case for further investment in education had been made strongly enough. It was noted that the public perception of the education system is quite negative and this has had a harmful impact on decisions concerning future investments. It was suggested that the business community could play an influential and positive role in the development of policy in this area by voicing publically its concerns.

There was broad agreement on the need for greater investment in pre-primary education, for supporting improvements in the quality of teaching and enhancing the learning environments in primary and second levels.

With regard to science and technology subjects, delegates agreed that there was a need to take on a creative approach that enhanced student engagement with these subjects.

The value of combining full-time study with work placements was highlighted, as was the need to strengthen links between undergraduate and postgraduate education. Delegates emphasised the importance of innovation and flexibility in the delivery of third level education. Open University and Apple University were cited as examples of institutions that are leading the way in redefining how education is delivered.

Theme 3: Investment Policy

There was agreement that the public and private investment environment has changed radically and it will be very challenging to sustain the high levels of investment of recent years.

There was consensus that public capital investment programmes needs to be sustained. However, there will be a need to revisit some of the principles of investment and move to a multi-criteria analysis approach to project appraisal. The sequencing of these investments will also need to be considered, as will the potential for greater use of Public Private Partnerships (PPPs).

There was agreement on the need to sustain investment in the NSS gateways and hubs and that land use and planning in general needs to be re-examined. Key infrastructure priorities identified to underpin future growth potential include inter-urban roads, waste management and next generation broadband connectivity.


Regarding public investment, it was noted that the amended NDP still forms a significant investment. The projects within the NDP that offer the highest value for money need to be prioritised. Completion of the major inter-urban roads, public transport and roll-out of ICT projects in schools are among the projects that should receive priority within the NDP framework. It was argued that the fact that these projects have long lead times should ensure that the lowest cost option is selected.

It was suggested that given the decline in construction in the next few years it is vital to ensure the planning system is ready when building recommences in four to five years. Legislation is due later this year to tie the Regional Planning Guidelines (RPGs) and NSS more coherently to the planning process; development plans must be clearly consistent with the NSS. It was also noted that while there has been some targeted investment in Gateways, it was suggested that the deferment of the Gateway Innovation Fund is a missed opportunity.

Theme 4: Energy Competitiveness and Climate Change

It was suggested that the point of key importance to Ireland, given its exposure to the global market and high volume of international trade, is the relative or comparative price with “competitor” countries, not the absolute price level of energy. Although Ireland currently has the highest industrial electricity prices in Europe, this is only by a small margin, and therefore it was suggested that this has only a minimal effect on overall competitiveness. In relative terms, Ireland’s industrial production is not energy intensive, and high energy prices impact less on Irish industry than industry elsewhere. It was noted that the focus on high energy costs in Ireland distracts from the international perception of Ireland as a competitive location.

In terms of achieving policy certainty, renewables targets should continue to be those set at European level. It was also suggested that there is a need to start a national conversation on the potential of nuclear energy as a response to climate change, security of supply and competitiveness issues.



A carbon tax was considered to be inflation-neutral; as such there would be little or no impact in terms of fuel poverty. At a European level, the role of hypothecation of revenues from carbon tax was also discussed. The fuel mix and dependence on fossil fuels in Ireland can either enhance or negate Ireland's cost competitiveness. Oil price volatility over recent years, as well as recent months serves as evidence of this.

In the view of some participants, there is a silence at a European level as to the impact of agricultural activity on carbon emissions, and more specifically how the issue can be addressed at a global level in the context of international trade negotiations.

Regarding transport emissions, there is a danger that private transport users can be excessively penalised by tax instruments in the absence of adequate, integrated public transport solutions. Delegates urged caution around the inflationary impact of congestion charging.

