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Press Release

Driving Productivity – Four strategic challenges to strengthen competitiveness and achieve sustainable and inclusive growth in the Irish economy

- NCPC highlights 20 targeted and actionable recommendations to Government which must be addressed with a sense of urgency in order to secure a sustainable and inclusive recovery and an improvement in the standard of living for all of society.

Today (22 September 2021), the Chair of the National Competitiveness and Productivity Council (NCPC), Dr Frances Ruane, launched *Ireland's Competitiveness Challenge 2021* report. The *Competitiveness Challenge 2021* notes that despite positive forecasts, considerable uncertainty remains with regards to the Irish economic outlook. The high level of uncertainty makes it even more vital that the Government exercises the levers under its control to improve Ireland's competitiveness and productivity position. As well as immediate competitiveness issues which require urgent attention, the NCPC has identified in the *Challenge Report* four broad medium- and long-term strategic challenges aimed at enhancing Ireland's competitiveness and productivity performance.

On launching the report Dr Ruane said “*COVID-19 has been the catalyst that has accelerated changes to economies and societies, such as the ways businesses operate and the potential for more flexible ways of working. Some of these new ways of working are also opening possibilities for new ways of living more sustainably and inclusively, which can in turn deliver real improvements in the lives of people based in Ireland*”.

The *Competitiveness Challenge 2021* report identifies four broad medium- and long-term strategic challenges aimed at enhancing Ireland's competitiveness and productivity performance.

- Ensure Ireland has a dynamic business environment;
- Increase productivity growth;
- Deliver infrastructure for a new way of living; and
- Progress sustainability and inclusivity policies.

In the *Competitiveness Challenge 2021* report, the Council makes 20 targeted and actionable recommendations to Government which are intended to lay solid foundations today for a speedy and balanced recovery in order to secure an improvement in the standard of living for all of society.

Dr Frances Ruane added: “*As Ireland emerges from the turbulence of the pandemic, a clear vision is needed on the type of society that we are driving towards and how that vision is to be realised. The Council strongly believes that a systemic policy approach is required, with careful sequencing of targeted actions that can generate the greatest impact in the immediate term and position the economy for medium to long-term sustainable growth. To this end, the Council is setting out a number of key strategic recommendations to foster a sustainable economy that promotes equality and inclusiveness,*

underpinned by a highly skilled workforce, adequate infrastructure, including housing, a dynamic business environment, and agile SMEs with strong productivity growth”.

“Last year the Council welcomed the publication of the Government’s first formal response to the Competitiveness Challenge 2020 recommendations, and the Council look forward this year to further fruitful engagement on the key competitiveness and productivity issues facing the Irish economy”.

ENDS

NOTES TO EDITORS

Ireland’s Competitiveness Challenge 2021

Ireland’s Competitive Challenge 2021 is built on the best available domestic and international research. The report makes targeted and actionable recommendations to Government on the best ways to improve the competitiveness and productivity of the economy as we start the process of recovery. Along with immediate issues facing the Irish economy, each of the four medium- to long-term challenge areas are explored in detail in a distinct chapter of the report. The following section provides a high-level overview of main findings in each chapter.

Immediate Issues facing the Irish Economy

The report outlines that the support schemes which have been in place since the onset of the COVID-19 pandemic resulted in a large government deficit in 2020, and this is set to be repeated in 2021. The Council recognises the need for supports to remain in place in the immediate short run, however it notes that the resulting high debt levels may leave the Irish economy in a vulnerable position regarding future shocks. The Council believes it is important that future supports be targeted at businesses that are viable in the medium to long term but challenged in the short term. As this process begins for withdrawing support schemes, and better targeting others, an appropriate insolvency framework is vital to help struggling businesses restructure. The newly introduced regime (the Small Companies Administrative Rescue Programme, SCARP) provides an alternative route for smaller businesses to restructure their liabilities and enable them to continue trading. The Council recognises this is an important development for those businesses that are negatively impacted by the pandemic and are now facing the withdrawal of broad-based business supports and believes that the small businesses under financial stress must be made aware of SCARP as a viable option for them. It will also be important that employees who will lose their jobs in those businesses that will close or restructure in the coming weeks and months, and those that have been out of work and in receipt of the PUP, continue to be supported. As part of the *Economic Recovery Plan*, the new *Pathways to Work 2021-2025* will assist those whose jobs have been permanently lost as a result of COVID-19. The programme will focus on preventing long-term unemployment and will support younger workers who have lost jobs by providing new paid work-placement experience programmes, an increase in the number of apprenticeships, and additional further education training places.

Challenge 1: Ensure Ireland has a Dynamic Business Environment

The report points out that all businesses face unavoidable fixed costs to operate, and as Ireland has long been described as a high-cost economy, these high costs limit how competitive Irish firms (particularly SMEs) can be in international markets. This year's *Challenge* revisits three important business costs issues which have been identified in previous reports: insurance costs, legal costs and the cost of credit. The Council is concerned that these issues have not received the urgent attention required to support competitiveness and productivity. On insurance, the Council calls for the impact of the new Personal Injuries Guidelines on award levels to be assessed and monitored. On legal costs, the Council calls for an assessment of the introduction of fixed legal fees to be published. The Council is aware that more limited competition in the banking sector could have negative consequences for market interest rates facing SMEs and recommends that any actions identified in the forthcoming review of the Irish banking sector to improve competition are implemented quickly. On access to finance, the Council calls for the Government to assess one of its flagship lending policies – the Future Growth Loan Scheme – to see what works well, and what requires adjustment. The Council also looks at two social policies that are currently being considered by the Government to extend further social protections to employees, namely, pension auto enrolment and statutory sick pay. The Council recognises that these social protection measures can play a role in attracting talent to Ireland but also notes that the costs of these measures need to be balanced with the impact that they will have on businesses. The Council recommends that the Sick Leave Bill 2021 is published and enacted as soon as possible.

Challenge 2: Increase Productivity Growth in Ireland

The report notes that in the longer term, productivity is the engine of economic growth, and as such is key to improvements in living standards, associated with growing and sustainable wage levels, good public services and improved wellbeing. However, as the CSO data shows clearly, Ireland's current productivity performance is highly concentrated rather than broad based. To ensure that the Government puts in place the appropriate policies to boost the productivity of indigenous Irish firms, the Council calls for further robust and policy relevant research to be undertaken in an Irish context. In addition, Government should continue to monitor international research that is uncovering evidence on how changed work practices, including increased digitalisation, is impacting on productivity. For example, early survey data suggests that remote working has the potential to have a positive impact on productivity in some sectors. To realise this potential, the Government needs to develop frameworks that would enable businesses to see more of their employees having flexible employment possibilities, such as working part-time from home. This framework also includes the timely delivery of the necessary infrastructure (e.g. via the increased pace of delivery of the National Broadband Plan) to ensure that employees can effectively work remotely from all of Ireland's regions. The Council also recommends that the Government publish the successor strategy to *Innovation 2020* by year end that will articulate the steps required to make Ireland a Global Innovation Leader, while ensuring research, development and innovation activities are aligned with public policy goals.

Challenge 3: Deliver Infrastructure for a New Way of Living

The report details that housing is an essential part of any society, and housing markets which do not work well undermine sustainable and equitable growth. Housing affordability affects Ireland's ability to retain and attract skilled workers, with rising costs eroding real incomes for workers and reducing standards of living. In addition to its direct contribution to national living standards, Ireland's housing market must operate in such a way that it does not generate pinch points that could damage long-run competitiveness. The Council believes a structural shift in the approach to housing policy is urgently needed, as the piecemeal approach to planning reform in the past has failed to deliver tangible improvements in housing delivery. Following the publication of the Government's *Housing for All* strategy, it will be important that the priority actions are identified so that the appropriate sequencing of interventions can be established, so that the rollout of demand side measures before supply side reforms have time to deliver results does not result in further upward pressure on house price inflation. Capacity issues in the planning system will also need to be addressed and planning authorities will need to be sufficiently resourced, so these processes do not delay the delivery of crucial housing or infrastructure.

Housing is not the only vital infrastructure needed and the *Competitiveness Challenge 2021* also outlined that there are bottlenecks in other critical areas such as water and waste-water, electricity, communications and transport. These facilities will need to be delivered in tandem with new housing and will also be required to support enterprise expansion and to facilitate balanced growth in the domestic economy and new foreign direct investment. To improve quality of life for all, housing must be delivered within a broader context of investment in Ireland's social infrastructure, including an affordable childcare system, social and health care reforms, and education.

Challenge 4: Progress Sustainability and Inclusivity Policies

The Council notes that while taking the necessary steps to transition to carbon neutrality by 2050, Ireland's competitiveness and productivity performance must deliver for all parts of society, something that was explored in the *Competitiveness Challenge 2020*. Failing to tackle these issues in the short- to medium-term could have dramatic consequences for Ireland's social stability, which presents a fundamental risk to the cohesion of Irish society. To this end, the Council would like to see research undertaken that explores the link between productivity improvements and climate action to ensure that Irish businesses can improve competitiveness while meeting sustainability targets. Moreover, Government Departments are currently co-ordinating policy actions in the Climate Action Plan that need to be met to ensure that Ireland meets its commitment to reduce emissions by 51% by 2030. The National Competitiveness and Productivity Council supports this policy process and wants to see real evidence of progress made here. The Irish welfare system and Ireland's progressive income tax regime plays an effective role in reducing inequality. However, it is important to re-examine Ireland's taxation and welfare model to ensure that it delivers for businesses and employees in the 21st century. In this regard, the Council welcomes the establishment of the Commission on Taxation and Welfare. When this Commission delivers its report, the Council wants to see Departments take forward these actions in a timely way.

The full report and the list of recommendations are available [here](#).

The National Competitiveness and Productivity Council

The National Competitiveness and Productivity Council (NCPC) reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment, on key competitiveness and productivity challenges facing the Irish economy and offers recommendations on policy actions required to address these challenges. Following the European Council recommendation in September 2016 and subsequent Government decision, the NCPC was designated as Ireland's National Productivity Board, tasked with analysing developments and policies in the areas of productivity and competitiveness.

Since 1997, in accordance with the NCPC's Terms of Reference, the Council has published its flagship policy report *Ireland's Competitiveness Challenge*.

Following the same timeline as last year, the *Competitiveness Challenge* publication date is September, so that its recommendations can feed into the October Budget and into the European Semester process.

The work of the National Competitiveness and Productivity Council is underpinned by research and analysis undertaken by the Enterprise Strategy, Competitiveness and Evaluation Division of the Department of Enterprise, Trade and Employment.

The members of the Council are:

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| Dr Frances Ruane | Chair, National Competitiveness and Productivity Council |
| Pat Beirne | Chief Executive Officer, Mergon Group |
| Kevin Callinan | General Secretary, Fórsa |
| Leo Clancy | Chief Executive, Enterprise Ireland |
| Micheál Collins | Assistant Professor of Social Policy, University College Dublin |
| Ciaran Conlon | Director of Public Policy, Microsoft, Ireland |
| Isolde Goggin | Chair, Competition and Consumer Protection Commission |
| David Hegarty | Assistant Secretary, Department of Enterprise, Trade and Employment |
| Neil McDonnell | Chief Executive, ISME |
| Fergal O'Brien | Director of Policy and Chief Economist, Ibec |
| Dirk Pilat | Deputy Director, Science, Technology and Innovation, OECD |
| Martin Shanahan | Chief Executive, IDA Ireland |
| Margot Slattery | ISS World Services, Global Head of Diversity & Inclusion |
| Patrick Walsh | Managing Director, Dogpatch Labs |
| Jim Woulfe | Chief Executive, Dairygold Co-Operative Society Limited |

Representatives from the Departments of An Taoiseach; Agriculture, Food and the Marine; Environment, Climate and Communications; Further and Higher Education, Research, Innovation and Science; Social Protection; Finance; Housing, Local Government and Heritage; Justice; Public Expenditure and Reform; and Transport attend Council meetings in an advisory capacity.