

Press Release
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Increased productivity across the entire economy is critical to sustaining future growth

Launch of the National Competitiveness Council's Eighth Competitiveness Challenge

The National Competitiveness Council (NCC) has launched its eighth **Competitiveness Challenge** report. The purpose of the Competitiveness Challenge is to identify the initiatives necessary to support and further improve Ireland's competitiveness position, and to highlight the main challenges facing the Irish business sector.

The Competitiveness Challenge 2005 draws on the analysis and benchmarking in the Annual Competitiveness Report (ACR), which was published in August this year.

Sustained economic growth is one of the most decisive measures of competitiveness. By this criterion, the Irish economy is the most competitive of the 16 economies benchmarked in the ACR. Annual average GNP and GDP growth rates (at over 6 per cent) were the highest recorded for this group of countries over the last five years.¹ The ACR 2005 also recorded that Ireland has performed remarkably well in terms of increasing employment. The level of employment in Ireland stands at over 1.9 million people.

The Council's focus in the Competitiveness Challenge is on how our economic success and future competitiveness can be sustained in the medium-long-term. "The main challenges facing the Irish economy require action over the medium and long term. In the long run, in a small regional economy like Ireland, economic prosperity depends on two strategic imperatives: our ability to sell goods and services abroad through promoting a dynamic and competitive export base, and through raising productivity across the entire economy. A shorter term focus is also required - for example ensuring that we do not fall behind competitor countries in terms of prices and costs competitiveness and that the role of domestic demand in driving economic growth is sustainable" commented Dr Don Thornhill, Chairman, NCC.

Promoting a Dynamic and Competitive Export Base

High growth and low unemployment in the Irish economy is currently being sustained primarily by rapid growth in domestic spending by households and Government on personal services and housing, rather than through success in export markets. The resulting sense of economic buoyancy creates a risk of complacency to the challenges being faced by many of our exporters. Dr Thornhill said, "Debt-financed growth in consumption and construction cannot support an expansion in employment and incomes indefinitely. In the long run, the further development of our dynamic and competitive export sector will be the platform on which the success of our economy is built."

Growing Productivity across the Entire Economy

¹ The 16 countries benchmarked in the Annual Competitiveness Report (ACR) are Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Korea, Netherlands, New Zealand, Poland, Singapore, Spain, Switzerland, United Kingdom and United States.

With employment rates in Ireland now above the EU average, Ireland's ability to catch up with the living standards of the world's richest regions will, relatively speaking, depend less on increasing employment, and more on increasing productivity from those already at work. This year's ACR shows that Ireland has enjoyed high rates of labour productivity growth in the 1990s and that Ireland's average productivity levels are now above the EU average.

Dr. Thornhill said, "The analysis also suggests that productivity growth has been concentrated in a small number of capital-intensive industries dominated by multinational companies, such as chemicals, pharmaceuticals and electronics. There is evidence of weaker productivity and slower growth in more traditional manufacturing sectors, and in those sectors of the Irish economy less exposed to international competition, such as utilities (electricity, gas and water supply), construction and retailing."

The Challenge

The NCC believes that the crucial challenge for Ireland is to put the policies in place now that will foster the conditions necessary to drive productivity growth in the coming decades. It is in these policy areas - value for money in public expenditure, the delivery of infrastructure projects, levels of investment in education and research and ICT usage - where the NCC believes the focus of government policy should now be placed.

The NCC is calling for action in the following areas:

- The need to achieve greater value for money in the delivery of physical infrastructure, and more generally, to improve the effectiveness and efficiency of the public sector. The NCC recommends broadening the tax base and phasing out tax incentives for property investment. It also sees a need for widening the revenue base of local authorities, subject to substantial and continuing reform.
- The attractiveness of large urban centres has a major influence on the competitiveness of regional economies as a whole. The next NDP is a unique opportunity to make a reality of the National Spatial Strategy (NSS) as the platform for regional and infrastructural development in Ireland. With regard to the Greater Dublin Area, it is crucial that the multiple national and local authorities work together in the context of future transport planning. As outlined in the Programme for Government, this may require an overarching body to coordinate the City's development.
- Ireland has the potential to develop the education system to be the best in the world. This requires reducing educational disadvantage throughout the school system, promoting life long learning, and building an internationally competitive higher education and research system at the highest levels of achievement. All parts of the educational system will require significant additional resources and the NCC sees an increased role for private finance in higher education.
- Finally, Government can sustain technological innovation by industry in a number of ways. This requires increased support for knowledge and technology diffusion from academic research into the business sector, research and development in the business sector, the development of networks and clusters and by developing effective frameworks to facilitate the commercialisation and diffusion of knowledge. There is also a need to improve business process innovation through increased ICT literacy and management skills.

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