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Forfás - 1999 Annual Report

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## **Constraints on Growth Must be Addressed if Ireland is to Sustain Economic Success**

**Forfás Chairman, Peter Cassells**

### **Major Investment Needed in Knowledge Base of Economy**

**Forfás Chief Executive, John Travers**

The continuation of high rates of economic growth in Ireland in future years cannot be guaranteed unless actions to tackle the mounting constraints on growth are taken now, Mr Peter Cassells the Chairman of Forfás, said at the publication of the Forfás Annual Report for 1999 today (Wednesday, 19 July 2000).

Such growth is essential to achieve improved living standards for all people in Irish society said Mr Cassells. While companies supported by the development agencies contributed to record levels of employment and economic growth in 1999, he advocated that urgent and sustained action be taken to effectively address the emerging skill shortages and infrastructure bottlenecks associated with an unprecedented surge in economic growth. He also said that now is the time to lay down the future foundations for social and economic progress if further advances in raising living standards, combating social problems and spreading the benefits of economic progress throughout the country are to be achieved.

#### **Competitiveness**

Mr Cassells said that the development of policy in Ireland must maintain its focus on competitiveness – widely defined to embrace a range of policy areas both in the economic and social fields.

He emphasised that an integrated approach to policy issues is essential to reflect the interaction between issues. For example, the deficiencies that exist at present because, among other things, of faster than anticipated economic growth, in transport services and infrastructure and in the regional imbalance of access to employment opportunities are interacting with the housing and labour markets to exacerbate emerging shortages of labour, to put upward pressure on wages, to give rise to escalating house prices and to generate urban congestion that adds to business costs and environmental pollution. Wide areas of public policy are affected by major changes in computer and telecommunications technology and call for an integrated rather than a sectoral or functional policy approach if the opportunities that they represent for social and economic progress are to be fully realised. He said that Forfás attempts to take such an integrated approach to industrial and science policy in the work that it undertakes as summarised in the 1999 Annual Report.

#### **Social Partnership**

Commenting on the role of Social Partnership Mr Cassells said it has been a stable foundation for economic progress in Ireland over the past decade. Assurances on costs and real incomes that have been self-reinforcing and complementary, have been a key factor in creating an economic environment conducive to investment and growth. The current

Programme for Prosperity and Fairness (PPF) involves a clear commitment to social as well as economic progress with the aim of advancing the living standards and quality of life of all Irish citizens. It provides a framework for continued solid social and economic advance over a number of years and through which particular difficulties that arise from time to time can be resolved.

### HIGHLIGHTS OF 1999

The Forfás employment surveys indicate that companies supported by Enterprise Ireland, IDA Ireland, Shannon Development and Údarás na Gaeltachta, recorded gross **job gains** of almost 35,000 in 1999 - the highest level in ten years. These surveys also indicate, however, that **job losses** at almost 22,000 jobs were also at their highest level for over 10 years reflecting increasing competitive pressures and a shift from lower to higher value-added activities in the industrial sector. Such a shift is a necessary and desirable evolution of industrial structure in Ireland and essential in raising income levels and living standards, Mr Cassells said. These trends are likely to continue in future years. Taking into account these job losses, the net increase in permanent full-time employment in agency assisted companies in 1999 was 13,000, or 4.7%. This compared with total jobs growth across the economy of some 102,000 reflecting the increasingly broad base of economic growth in Ireland.

In keeping with trends in recent years, most of the net growth in employment in agency assisted companies in 1999 was in the internationally traded and financial services sectors. These accounted for 9,500 (73 per cent) of the net increase in permanent full-time employment. Foreign-owned companies accounted for 8,700 (67 per cent) of the net increase in employment, while Irish-owned companies accounted for the remaining 4,300 (33 per cent).

While the gross **cost of support to the enterprise sector** in the form of direct expenditure rose from IRE564 million in 1998 to an estimated IRE653 million in 1999, the average **cost of each job sustained** over a seven year period in agency supported companies fell to approximately IRE10,100, the lowest level recorded to date. Commenting on these figures, Mr. Cassells said that "the fall in the cost per job sustained reflects the improved value for money approach pursued by the agencies, the increasing share accounted for by jobs in the services sector and the overall improvement in the economic environment".

He noted that the continued expansion of agency assisted companies have other positive spin-offs for the Irish economy. Total **Irish economy expenditures** by assisted companies grew by 10.7% in 1998 to reach IRE23.6 billion. When compared with current estimates of Irish GNP in the same year of IR52.2 billion, the importance of agency assisted companies to the economy is clear. Moreover, total corporation tax paid at the 10% rate by manufacturing and internationally traded and financial services companies amounted to over IRE1,300 million, or 49 per cent of total corporation tax receipts. Increases in these receipts have been equivalent to an annual average increase of 26 per cent in real terms since 1990.

Total **business expenditure on R&D** in 1997 was IRE535 million, or 1.1 per cent of GDP. This placed Ireland 11th out of 26 OECD countries and brought us on a par with the European average. This evolution in R&D investment is particularly encouraging.

### POLICY WORK

Mr John Travers, Chief Executive Officer of Forfás, referred to a number of other key issues addressed by Forfás in its work during 1999 and which

are summarised in the Annual Report. These include the following:

- *Enterprise 2010: A New Strategy for the Promotion of Enterprise in Ireland in the 21st Century*
- *Technology Foresight: A Report on Areas where Future Investment in R&D should be concentrated*
- *Benchmarking School Science, Technology and Mathematics Education in Ireland against International Best Practice*
- *Second Report of the Expert Group on Future Skill Needs: A Report which identifies emerging "gaps" between the demand for people with skills in the life sciences, in the construction sector and in IT, the supply of people with the required skills and how the "gaps" identified can be closed.*
- *E-Commerce: An Industrial Policy Strategy*
- *Business Strategies in EMU*
- *National Competitiveness Council: Annual Competitiveness Report*
- *National Competitiveness Council: Statement on Costs*
- *National Competitiveness Council: Statement on Social Partnership*

## KEY ISSUES

**The Limits of Growth:** Commenting on current developments in the economy the Chief Executive of Forfás, Mr John Travers, said that there is a limit to the net number of new jobs that can be created in Ireland in any particular year as changing circumstances take hold. He noted, in this context, that: labour will no longer be as plentiful or as cheap; the recent growth in employment opportunities and those in the "pipe-line"; the sharp reductions in unemployment and the emerging lower "natural increase" in the labour force. He pointed out that these factors, inevitably, give rise to increased labour market pressures and make it more difficult and more costly for employers to recruit workers. Immigration has helped to alleviate pressures but there is a limit to what is possible in this area and a need to match potential immigrants with the identifiable skill needs of the economy. Consequently, he noted that there will be a tapering off of current high growth rates in future years.

**Inflation:** Mr Travers said that current high levels of inflation are a cause of concern. He noted that these need to be seen in the context of low annual average rates of inflation in recent years and the expected prospects for reductions towards the end of the present year and into 2001. He said that it is essential to avoid inflationary expectations becoming ingrained in the economy if the future competitiveness of the traded goods and services sectors is to be safeguarded. This would be particularly important in the event of a reduction in the value of sterling and the US\$ against the euro – an outturn which many analysts anticipate over the next year or so and which would give rise to significant competitive pressures for large sectors of the traded goods and services sectors in Ireland – particularly those in the older, traditional sectors.

**Regional Development:** Mr Travers noted that the inter-regional and inter-urban geographical distribution of the high growth rates of recent years has been uneven. This is, in part, an expected consequence of the exceptionally fast growth rates achieved because rapid growth initially tends to cluster in geographical clusters of activity. But it is also a reflection of the geographic distribution of infrastructural deficits and social deprivation. It is essential to address such imbalances, not only for reasons of equity and regional development but also to ensure greater efficiency in the use of national resources e.g. by relieving pressure on the over-burdened social and infrastructural facilities currently taking place in the main urban centres.

**Investment in the Knowledge-Base of the Economy:** Mr Travers said that the key to future long-term growth and improved living standards in Ireland lies in appropriate investment in the knowledge-base of people. He pointed out that much of the increased economic growth and average living standards achieved in recent years derived from investments made many years ago in education and those made in particular sectors of industry that brought with them embedded knowledge of the technology, management and business expertise essential for success in a competitive global economy. He said that we must, today, similarly lay down the foundations for the new jobs and improved living standards required in future years. That is why the £2 billion ear-marked by the Government for investment in Science & Technology, including £560m for basic and strategic research in biotechnology and information and communications technology (ICT), under the National Development Plan, is so important. The effective rolling out of this investment, and that of other parts of the National Development Plan, represents a major challenge for the system of public administration in Ireland which has done much to create supportive policy framework for the growth rates achieved in recent years. The level of investment required to be put in place over a relatively short period is of a scale and level of sophistication not previously undertaken. It will require major changes in the management, monitoring and evaluation of the public sector investment.

#### **TOM TONER**

Tom Toner served as Chairman of Forfás for six years and retired in December, 1999. He was appointed Chairman when Forfás was established and was instrumental in developing its role in the evolution of national enterprise policy in recent years.

Commenting on Mr. Toners' role as Chairman Mr. Cassells said, "Tom Toner's immense business experience and strong personal commitment to economic and social progress in Ireland were invaluable assets to the organisation. I want to express the Boards gratitude to Tom for his fine work as Chairman and to wish him well for the future".

(ENDS).

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