

SHAPING OUR FUTURE

A Strategy for Enterprise in Ireland in the 21st Century

FOREWORD

A great deal has been achieved in the past fifteen years. Today, Ireland enjoys the fastest-growing economy in the European Union. Employment is growing rapidly and interest rates are at their lowest levels since the 1960s and our standard of living is rapidly improving. Prudent Government action is a significant contributor to the economic transformation that has justly earned Ireland the reputation as the Celtic tiger economy.

However, there is no room for complacency. Our living standards still fall short of European averages. In particular, we have yet to overcome successfully the major problem of unemployment. This poses a particular challenge that economic growth alone cannot meet.

Forfás, in preparing "Shaping our Future", has initiated some of the most comprehensive studies of Ireland's economic and industrial requirements carried out in recent times. This work aims to promote a strategic view for enterprise in Ireland that will help our economy, our industrial base and the wider services sector to expand and meet the challenges confronting Ireland in the 21st century.

We face an era when change to meet competitive pressures will be a constant theme as technology spreads at break-neck speed and barriers to trade on a world-wide basis fall away. "Shaping our Future" encourages us to develop a long-term approach to improving our economy to its fullest potential. This work urges Ireland to take the critical actions that will help our enterprise sector to flourish and to keep our eyes firmly focused on the major prizes that await success - on the employment front and in a better quality of life for all our people.

Ireland is at a watershed in terms of its economic and industrial development. The decisions we take now must be the right ones to shape our future. Tom Toner, Chairman, and John Travers, Chief Executive Officer, and their teams at Forfás deserve our gratitude for developing such a thought-provoking and wide-ranging document.

"Shaping our Future" and the public debate that should flow from its publication will assist the Government in identifying the right course of action to be taken if we are to attain the successes that are achievable over the next fifteen years. I will be taking a keen interest in the debate that I hope this report will stimulate.

Richard Bruton, T.D.
Minister for Enterprise and Employment

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PREFACE

"The future is not inevitable. We can influence it if we know what we want it to be. We can and should be in charge of our destinies in a time of change".

Charles Handy (1991) "The Age of Unreason"

In many ways, Ireland has made remarkable social and economic progress over the past half-century and more. Employment levels are at their highest since the foundation of the State. The living standards enjoyed by the majority of people have greatly improved over the decades and are among the highest in the world. A similar positive pattern of achievement has evolved in the areas of community health and access to education. Progress has accelerated in recent years, supported by generally sensible and stable economic policies.

And yet high levels of emigration have persisted. The rate of unemployment in Ireland is higher than in most developed countries. More than 60 per cent of the unemployed have been without work for over a year. Unacceptable levels of relative poverty and deprivation are rife in certain communities in both urban and rural areas.

Clearly, Ireland has some distance to go to achieve the general and widespread level of prosperity to which most people aspire. The changes needed to bring this about will not happen overnight: there is no "quick fix". The enterprise sector will be central to achieving a level of social and economic progress in future years greater than that achieved in the past. For the purpose of the report the enterprise sector is defined as the set of Irish-owned and foreign-owned enterprises, based in Ireland, engaged in either the manufacture of goods or the provision of marketable services.

The enterprise sector itself is undergoing unprecedented change at the present time due to the impact of two main forces: technological evolution and the internationalisation of competition. To gauge the effects of these forces and the appropriate public policy response requires a time perspective that is longer than that normally adopted in the formulation and implementation of public policies. Many countries have come to recognise this, including Japan and Singapore in the Far East, and Finland, the Netherlands and Scotland closer to home.

Forfás has been requested by the Minister for Enterprise and Employment to consider the scope and content of a longer-term strategy for the development of the enterprise sector in Ireland. This report is a response to that request. The Culliton Report, issued in 1992, set out a new approach to industrial strategy in Ireland, by recognising in particular the crucial role of a conducive economic, administrative and infrastructural environment for the development of enterprise. This report takes the approach further into the future.

The purpose of the report is to:

- Record the considerable achievements in social and economic progress that have been made in Ireland over the past thirty years, while acknowledging that this progress has not fully met expectations or captured the potential for greater achievement;
- Note that in many respects the rate of social and economic progress has accelerated in recent years within a framework of sensible Government policies appropriate to national and international circumstances;
- Point out that the recent progress represents a sharp improvement on long-term trends but that there is a need to avoid complacency and to establish new measures to consolidate the achievements that have been made;
- Propose that the conjuncture of recent good economic performance with good prospects for its continuation, together with a projected and significant slow-down in

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the growth of the labour force after 2000, provides a significant opportunity for this country to make a very significant leap forward in reducing unemployment and increasing living standards over the next fifteen years;

- Argue that, in order to take full advantage of the exceptional opportunities for social and economic progress which will arise over the next decade, a long-term public policy perspective is needed encompassing a Strategy for Enterprise in Ireland in the 21st century;
- Set out, as an agenda for discussion and action, the main elements of what a strategy for enterprise development over the next decade and beyond should encompass.

The underlying thesis of the report is that a dynamic and expanding enterprise sector is an essential foundation in achieving a rate of social and economic progress in Ireland that has not previously been attained. To achieve this progress requires that more of the resources of the economy must be subject to market disciplines. The focus of the report is on those aspects of public policy that can help to bring this about. While Government policy formulation must, necessarily, take a wider perspective, the approach set out in the report is unambiguously from the perspective of the enterprise sector.

With the right policy framework, Ireland can over the next fifteen years:

- Halve the present rate of unemployment;
- Reduce the number of long-term unemployed from 127,000 in 1995 to no more than 50,000 by 2010;
- Increase living standards in terms of GNP per capita to achieve average EU-15 levels compared with 65.2 per cent of the EU-15 average in 1995¹;
- Raise the quality of life of all of those living in Ireland by:
 - Fundamentally improving access to education and training;
 - Achieving the required increases in economic growth within a sustainable development strategy which serves to conserve the natural and man-made environment;
 - Increasing the resources available to tackle fundamental issues in social deprivation, health improvement and crime.

The employment growth needed to help achieve these objectives is set out beneath.

¹ Using a method that corrects for differences in consumer prices (purchasing power parities) would make Ireland's share 74.5 per cent of the EU-15 average in 1995.

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Projected Employment Growth, 1995-2010

	1995 000s	Strategy Forecast 2010 000s	Change 1996-2010 000s	Annual Average Change 1996-2010 000s	Annual Average Change 1991-1995 000s
Labour Force	1,423	1,640	217	14.5	22.6
Unemployment	192	100	-92	-6.1	3.2
Total Employment	1,231	1,540	309	20.6	19.4
Agriculture	139	90	-49	-3.3	-6.0
Manufacturing*					
Irish-Owned	128	140	12	0.8	1.0
Foreign-Owned	107	140	33	2.2	3.0
Total	235	280	45	3.0	4.0
Internationally-Traded Services*					
Irish-Owned	9	30	21	1.4	0.7
Foreign-Owned	13	50	37	2.5	1.3
Total	22	80	58	3.9	2.0
Local Services	729	990	261	17.4	19.6
Total Services	751	1,070	319	21.3	21.6
Miscellaneous Industry ²	100	100	0	0.0	1.0

Source: CSO, Labour Force Survey.

* Forfás, Employment Survey 1995

These objectives are ambitious but realisable. The detailed measures needed to achieve them are discussed in the report. These measures fall within a longer-term strategy framework which sets out to:

- Recognise fully the importance of the service sector in the generation of employment and in the development of an enterprise culture;
- Support a transformation in the capability of Irish-owned industry, so that it can reposition, innovate and compete;
- Develop further the "product" that Ireland offers to attract foreign direct investment in terms of skills availability, infrastructure and incentives in the context of the major changes affecting competition for this investment and in its nature and geographical distribution;
- Achieve a reform of the taxation system and a substantial reduction in the overall level of taxation and in the national debt, so as to promote further private enterprise by establishing an environment conducive to innovation and commercial risk taking;
- Undertake a major drive to raise the skills profile of people, both through education and the achievement of higher investment by firms in training and human resources development;
- Put in place measures to support the development of an Information Society, where the use of advanced information and telecommunications technologies in everyday

² Mining, quarrying, turf production; building and construction; electricity, gas and water.

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life is widespread. This will require changes in education and a strategic investment to upgrade the quality of telecommunications and to make the cost of these services competitive;

- Take early and decisive action to provide a world-class transport and logistics infrastructure in Ireland.

In preparing this report, Forfás has been greatly assisted by the work of a Steering Committee and a number of specialist advisory committees which drew their membership from a wide cross-section of enterprise, trade unions and public bodies. Their particular contribution in determining the scope of the exercise and the issues to be addressed is gratefully acknowledged.

The development of a longer-term strategic framework for the promotion of the enterprise sector within a wider framework of social and economic objectives has not previously been attempted in this country. A key objective of the exercise is to develop the widest possible consensus in relation to the objectives put forward and the actions proposed to achieve them. This will require consultation - not only among the social partners, but with a wider constituency of interests at both national and regional levels - in order to ensure that the steps outlined in the report are well understood, further developed as necessary, widely accepted and put into effect as soon as is practicable. In this way, the ambitious social and economic objectives outlined in the report can become a reality.

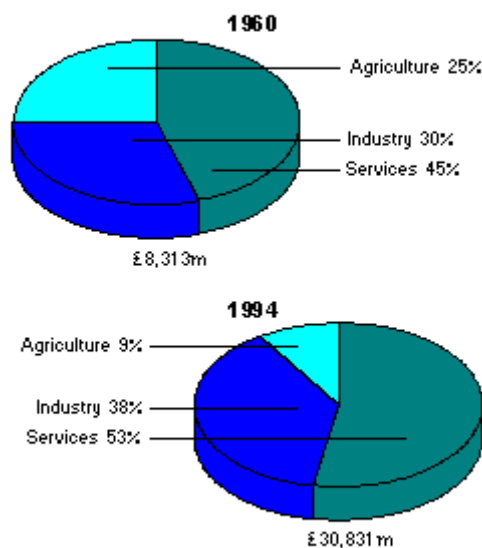
THE NEED FOR A LONG-TERM FRAMEWORK FOR ENTERPRISE DEVELOPMENT

At a time of fundamental change in the nature of economic development, a thriving enterprise sector is crucial to the achievement of national social and economic objectives.

1.1 Ireland is living through a period of profound change and transformation of the shape of society and its underlying economic base. The forces at work are international and even global in character. But their impact in Ireland is fashioned by national factors - in particular, by the skills and knowledge of its people and by the effectiveness with which economic affairs are managed.

1.2 The nature of production, trade, employment and work in the coming decades will be very different from what it is today. The determinants of economic success will be different to those that were relevant in the past or those required at the present time. Yet the basic economic objectives of society will remain the same: the achievement of growing living standards for all of the people of Ireland and their full participation in the economic life of the country. Success in meeting these objectives will require the exercise of choices on the part of individuals, firms and Government. A thriving and successful enterprise sector is crucial to the attainment of national economic and social objectives. The enterprise sector comprises Irish-owned and foreign-owned enterprises based in Ireland and engaged in either the manufacture of goods or the provision of marketable services.

**Figure S1.1 - Gross Domestic Product by Sector,
1960 and 1994 (Constant 1994 Prices)**



Source: CSO, National Income and Expenditure Accounts, 1971 and 1994

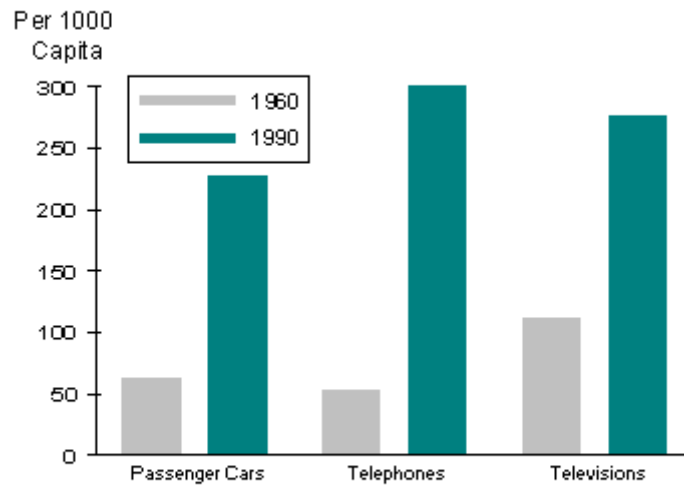
Significant long-run achievements in social and economic development have been inadequate to needs and below potential.

1.3 From difficult beginnings, Ireland has achieved significant social and economic progress over almost three quarters of a century. While much remains to be done, the standard of living and the quality of life has, in general, improved dramatically over that period for the great majority of the present population.

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**Figure S1.2 - Standard of Living Indicators,
1960 and 1991**



Source: OECD Economic Outlook: Ireland, 1995, 1963 and 1961;
 OECD Economic Outlook: Denmark 1996.
 Note: Earlier figure for television ownership refers to 1966

1.4 Over the past forty years, real GNP per capita has tripled. The industrial and services sectors now account for over 90 per cent of national output compared with three quarters in 1960, as illustrated in Figure S1.1. Over one-third of the labour force was then engaged in a poorly-paid and underdeveloped agriculture sector, compared with less than 10 per cent employed today in an agriculture sector that is far more modern and progressive.

1.5 Enormous improvements have taken place in the standard of housing. The ownership of consumer durables (televisions, cars, telephones and so on) is widespread and a multiple of what it was even thirty years ago, as Figure S1.2 illustrates. Expenditure on health services and participation in education have increased dramatically and are high by international standards, as Figures S1.3 and S1.4 indicate.

**Figure S1.3 - Government Health Expenditure as a
Percentage of GNP in Selected OECD Countries, 1993**

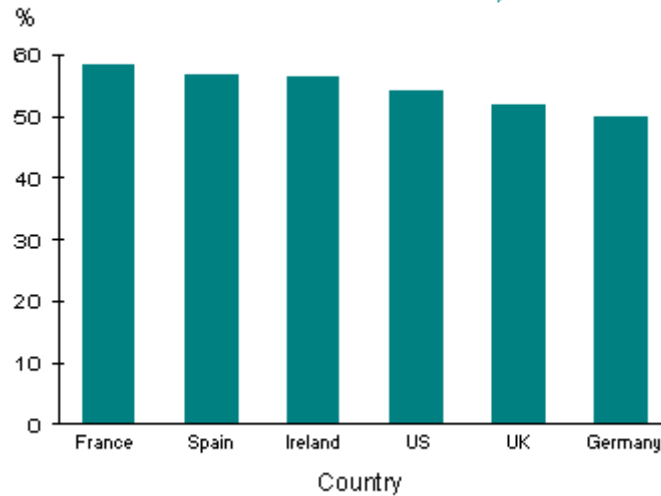


Source: World Bank, World Development Report 1995

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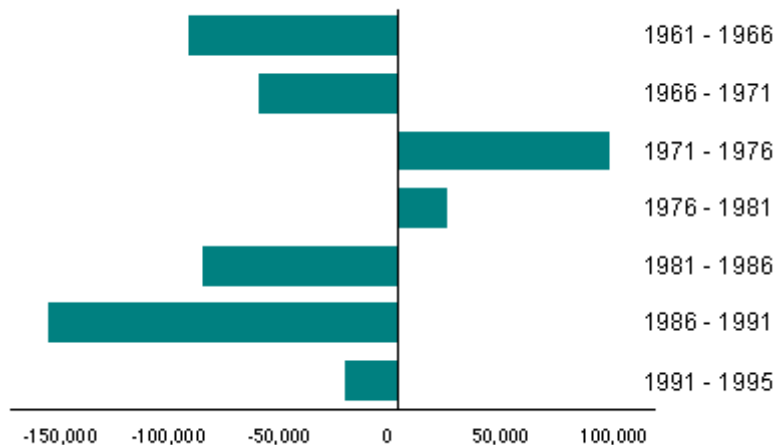
**Figure S1.4 - Participation in Education by Age Group
5-29 in Selected OECD Countries, 1992**



Source: OECD, Education at a Glance 1995

1.6 While the economic and social progress achieved in Ireland has been significant, it has not been adequate relative to needs. Figure S1.5 illustrates the pattern of net migration over the past thirty-five years. Over this period, net emigration has amounted to more than 270,000 people. Over the past ten years alone, it has amounted to more than 180,000 people. Even with this massive loss of population, the rate of unemployment remains high, at 12.9 per cent of the labour force, compared with an EU average of 11.0 per cent³. More than 60 per cent have been unemployed for more than a year and over 41 per cent for more than two years⁴.

Figure S1.5 - Net Migration Flows, 1961-1995



Source: 1961-1991: CSO, Census of Population; CSO Data

Recent experience indicates significant potential for social and economic development beyond that achieved in the past.

³ OECD, standardised unemployment rates, average unemployment for 1995. These are based on national statistics adjusted according to ILO guidelines. The Economic and Social Research Institute estimates 1995 unemployment in Ireland at 12.6 per cent (ESRI Quarterly Economic Commentary, February 1996).

⁴ 1994 data. These details not yet available for 1995.

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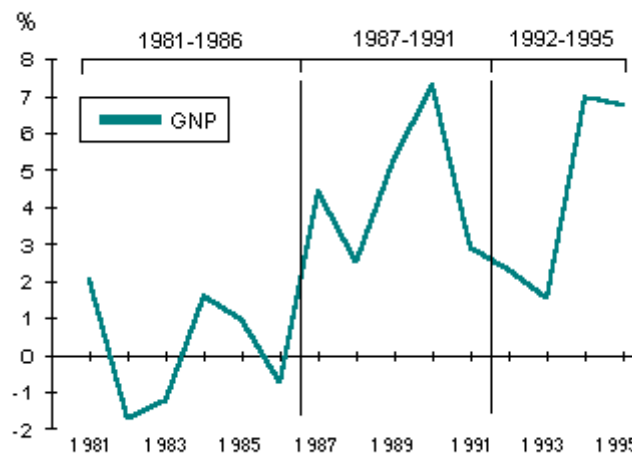
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1.7 While the full potential of the Irish economy has yet to be realised, the experience of the past fifteen years demonstrates that sustained progress can be made, sometimes in the face of a difficult economic environment. In a great many ways, the Irish economy today is stronger than it has ever been. The number of people at work is at the highest level since the foundation of the State. The rate of export-driven economic growth is at historically high levels and the enterprise sector has, increasingly, become the driving force of the economy.

1.8 A review of economic performance over the past fifteen years puts in perspective the challenge that the enterprise sector faces, over the next fifteen years, in driving the increased pace of sustained economic growth required to achieve higher levels of employment creation and living standards.

1.9 In the first half of the 1980s, the growth of the economy was weak, as illustrated in Figure S1.6. GNP grew by 0.2 per cent per year on average in the years 1981-1986, compared to an EU growth average of 1.7 per cent per year. Employment levels fell and the rate of unemployment accelerated. The balance of payments was in persistent and substantial deficit. The effects of uncompetitive price performance, high interest rates and a large and unsustainable fiscal imbalance were reinforced by a generally weak international economic environment. The policy response was constrained by the actions needed to rectify the effects of inappropriate economic policies in the 1970s. In retrospect, the economic policies of the 1970s were largely reactive, and driven by an overly short-term perspective. They contributed greatly to a public expenditure burden with substantial carry-over effects to the present day.

Figure S1.6 - Economic Growth Rates, 1981-1995



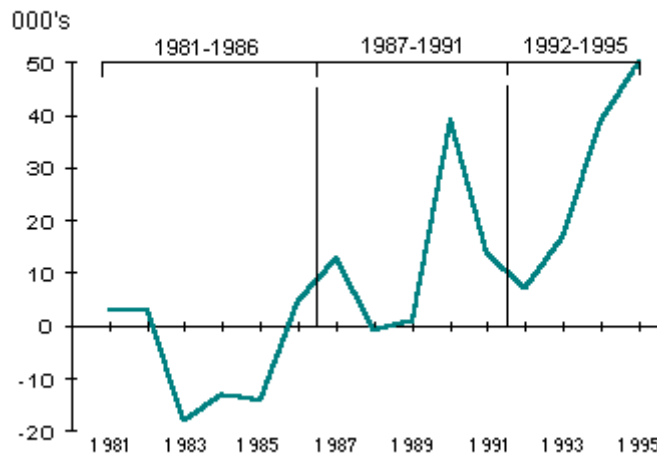
Source: CSO, National Income and Expenditure Accounts

1.10 In the five years 1987-1991, major progress was made. Rapid reductions in the fiscal imbalance were achieved from 1987. These, together with favourable international developments, supported a fall in interest rates and in inflation. Strong economic growth recommenced, averaging 4.5 per cent per year and significantly higher than the EU average of 3.0 per cent. Employment in the non-agricultural sectors of the economy rose by an average of 13,200 per year, as illustrated in Figure S1.7. In the private sector, the rate of increase was even faster, at 18,000 per year in the period 1988-1991. These developments were in sharp contrast to the 1981-1986 period when non-agricultural employment fell by 5,670 per year on average.

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**Figure S1.7 - Employment Change
in the Non-Agricultural Sectors, 1981-1995**



Source: CSO, Labour Force Survey

1.11 To date, these positive developments have been sustained. Growth in GNP has averaged 4.4 per cent per annum during the period 1992-1995, compared with an EU-15 average of 1.5 per cent over the same period. Inflation remains low and the balance of payments is in substantial surplus. Ireland's annual fiscal deficit is now one of the lowest among EU Member States - a major turnabout from the unsustainably high deficits which persisted for much of the 1980s. Employment growth in the non-agricultural sectors of the economy accelerated to 39,000 in the twelve months to April 1994 and to 50,000 in the following twelve months to April 1995. Over two-thirds of this cumulative increase in employment (89,000), over the two years arose in the private sector. However, faster increases in the labour-force have meant that unemployment was slower to fall. Nevertheless, the drop in unemployment of 38,000 in the twenty-four months to April 1995, as recorded in the CSO Labour Force Survey, is encouraging.

1.12 Sensible economic policies, pursued by successive Governments with the support of the social partners for more than a decade, on a generally more systematic basis than was previously the case, have brought about a fundamental strengthening of the economy. A sustained rise in living standards has been achieved and the gap with the rest of Europe has narrowed. GNP per capita has risen from 56.3 per cent of the average of EU Member States in 1980, to 65.2 per cent in 1995⁵.

1.13 Only the future will tell if this progress can be sustained. Further progress will require an additional evolution across a wide range of public sector policies.

Significant scope for further progress remains.

1.14 It is essential that recent economic progress should not result in a sense of complacency. These achievements represent a significant departure compared with the experience for most of the present century. Sustaining these achievements will require the further evolution of public policies for enterprise promotion, together with a consistent and systematic implementation of these policies over time. Of particular importance in this context is ensuring that the full potential of the services sector to contribute to employment generation in Ireland is achieved.

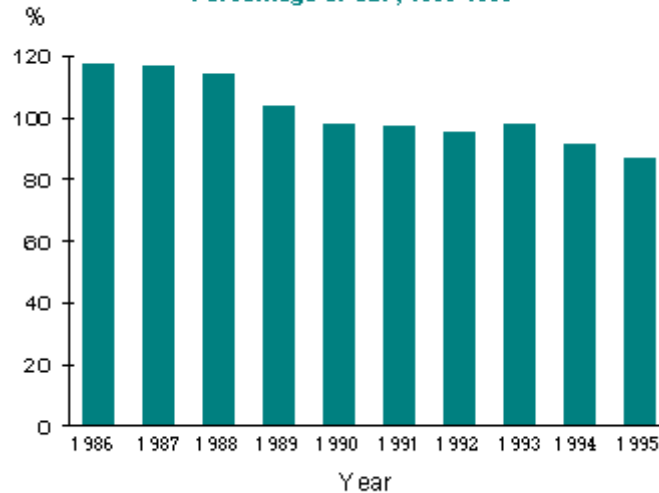
⁵ Source: European Economy, No. 60, 1995 and Department of Finance unpublished estimates for 1995. These comparisons use ECU exchange rates: if purchasing power parities (PPS) are used, Ireland had reached 74.5 per cent of the EU average by 1995.

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1.15 Significant progress in reducing unemployment remains to be achieved. In particular, effective measures to achieve a reduction in the level of long-term unemployment remain outstanding. The level of general government debt⁶ as a proportion of GDP (see Figure S1.8), although reducing, remains well above international norms. These fundamental features of the Irish economy make Ireland extremely vulnerable to international economic shocks.

Figure S1.8 - General Government Debt as a Percentage of GDP, 1986-1995



Source: Department of Finance, Unpublished Data

1.16 Over the past fifteen years, exports have been the main driving force of economic growth. Their impact, however, has been eroded by other foreign transactions, notably interest payments on the foreign component of the national debt and profit repatriations by foreign-owned enterprises. Much of the growth in exports has come from the high-technology sectors of industry, generated mainly by the subsidiaries of multinational corporations which have successfully invested in Ireland in the past and have provided a net increase of 15,000 in employment in the course of the past fifteen years. These firms have provided a substantive increase in technology transfer and management know-how to the Irish economy, together with significant sub-supply opportunities for Irish-owned industry.

1.17 Irish-owned industry, with some notable exceptions, has fared less well. Investment in R and D, a proxy for innovation, is low by international standards. Moreover, the trend in total investment is a cause for concern. Non-residential fixed investment, as a proportion of GNP, fell from 24.1 per cent in 1981 to 13.4 per cent in 1987 (see Figure S1.9). It amounted to 12.5 per cent in 1992 and is estimated at around 12.3 per cent in 1994. This rate is low by international standards.

⁶ General Government Debt is the concept used in the Maastricht Treaty, as part of the criteria for participation in the single currency. General Government is central Government, regional or local Government and social security funds, to the exclusion of commercial operations. Debt is total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general Government. (Treaty of Maastricht Protocol on the Excessive Deficit Procedure, Article 2.)

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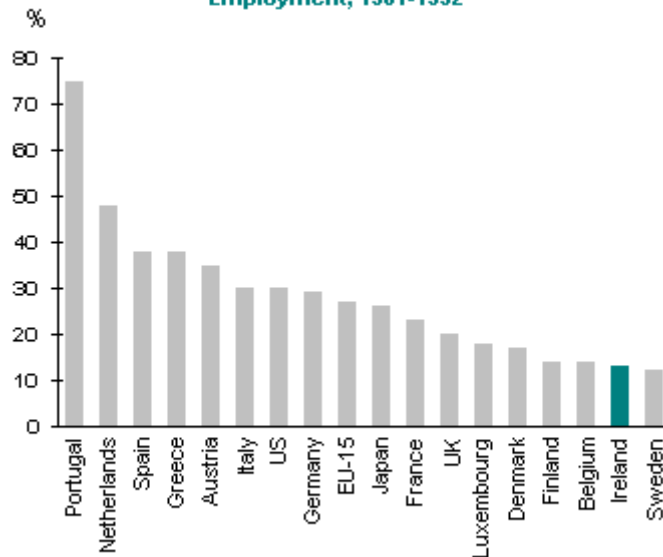
Figure S1.9 - Non-Residential Fixed Investment as a Percentage of GNP, Ireland and EU Average, 1981-1992



Source: Ireland, CSO, National Income and Expenditure Accounts,
 OECD, Economic Outlook, Historical Statistics, 1960-1990,
 Eurostat, Basic Statistics of the Community, 1994, 1995.

1.18 Ireland differs markedly from other European countries with respect to the structure and performance of the services sector. On average, the growth in services employment in the EU has been over 25 per cent from 1981 to 1992. The increase in Ireland was less than half that over the period. Figure S1.10 gives a comparison between Ireland and a number of other OECD countries.

Figure S1.10 - Percentage Increase in Services Employment, 1981-1992



Source: OECD, Labour Force Surveys

Ireland also differs in the breakdown of services employment: the ratio of market services employment to non-market services employment (mainly government services) in Ireland, at 1.3, is much lower than in many other European countries. In the Netherlands, there are three people employed in market services for every one in non-market services. In the UK, the comparable ratio is 2.4. These indicators suggest that the services sector has not reached its full potential in Ireland as a provider of jobs, especially in the case of market services. Continued growth in manufacturing can create opportunities for a wide range of services inputs. Rising standards of living will create additional demand for consumer services. There

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will also be significant growth opportunities in export services, which is one of the fastest growing areas of international trade.

Ireland is now at a major turning point in the management of its economy.

1.19 There have been a number of key turning points in the evolution of the Irish economy over the decades, where the policy option chosen had a profound impact on subsequent social and economic progress in the following years. The congruence of a number of influential forces suggests the emergence of another such turning point at the present time. Good economic foundations have been laid and sensible policies have started to pay dividends as evidenced by the recent falls in the level of unemployment and in closing the gap in living standards with other EU countries. The public finances have been largely brought back into order - even if the rate of increase in public expenditure remains higher than desirable at a time of favourable international economic trends and significant private-sector-driven economic expansion in Ireland. Over the next fifteen years, the number of new entrants annually to the labour-force is projected to reduce from 23,000 in 1995 to 21,000 by 2000, to 9,000 by 2005 and to 8,000 by 2010. The general level of educational attainment will increase. Investment in R and D, as a proxy for innovation, is increasing slowly throughout the economy, and particularly, in the private sector towards the norms of smaller, developed economies. A partnership approach between employers, trade unions and Government has replaced the old confrontational approach. This has contributed to a significant reduction in disruptive industrial disputes, moderate wage increases, the first steps of a moderate tax reform programme and overall policy stability conducive to investment decisions. The new organisational structures for industrial promotion are working effectively and already achieving improved results in promoting employment in both foreign-owned and Irish-owned industry.

1.20 With the right policy framework for the future, there are good prospects for a major leap forward to much higher living standards, low levels of unemployment and a better quality of life. There are risks, however, that recent achievements will give way to complacency. Important choices need to be made. If these choices are wisely taken within a sensible strategy and policy framework, significant further economic and social progress can be achieved.

1.21 The recent policy framework, within which progress has been achieved, was driven by a national consensus on the need for macroeconomic stability and participative structures as an essential framework for economic growth and social development. Two important influences on this new consensus were:

- The crisis in public finances which peaked in the mid- 1980s and forced radical reactive change in a range of public policies to contain the crisis;
- The discipline required to meet the criteria in relation to public debt, public sector deficits, exchange rate stability and inflation required for membership of Economic and Monetary Union under the Maastricht Treaty which Ireland signed in 1992.

Moreover, the substantial financial transfers to Ireland, under the EU Structural and Cohesion Funds, which accounted for circa £900 million or circa 2.7 per cent of GNP in 1995, have also contributed significantly to the progress that has been made in recent years. It is uncertain that the same level of transfers will continue to be available to Ireland after 1999.

1.22 Accordingly, to sustain further progress and to respond adequately to the determinants of social and economic development over the next decade and beyond, Ireland now needs to establish a longer-term framework for the development of economic and enterprise policies. The framework required is one that systematically monitors and anticipates significant changes in the global markets in which Ireland competes and that identifies the actions required in public policies to support the competitiveness of the enterprise sector in the face of these changes. A reactive approach to domestic and external forces of change as they arise will not be adequate in future, if the economic and social progress of recent years is to

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be sustained over the prolonged period necessary to deal decisively with the unemployment problem and to continue closing the gap in living standards with other EU countries.

A policy framework which adopts a longer-term perspective is required.

1.23 The policy framework now required is not a detailed blue-print of prescriptive policy actions for the future. Any attempt to develop and implement such a blue-print to cover a period of 10-15 years would be naive and unproductive at a time of fundamental change in the factors which determine the success or failure of the enterprise sector.

1.24 What is required, however, is a clear sense of direction, an approach, a structure and an agenda which help to establish:

- Ambitious objectives for economic and social progress over a 10-15 year time-horizon that stretch resources, but are realistic and achievable;
- An understanding of what the enterprise sector can contribute towards meeting the objectives set;
- The broad directions of public policy that require to be pursued in a systematic way at this point in time to support the contribution that the enterprise sector can make towards achieving the national objectives established;
- A system of consultation and review to ensure the widest possible consensus is put and maintained in place in relation to the establishment of long-term economic and social objectives.

THE OBJECTIVES TO BE ACHIEVED

Key Objectives: Ambitious but Realistic

2.1 With the right policy framework Ireland can over the next fifteen years:

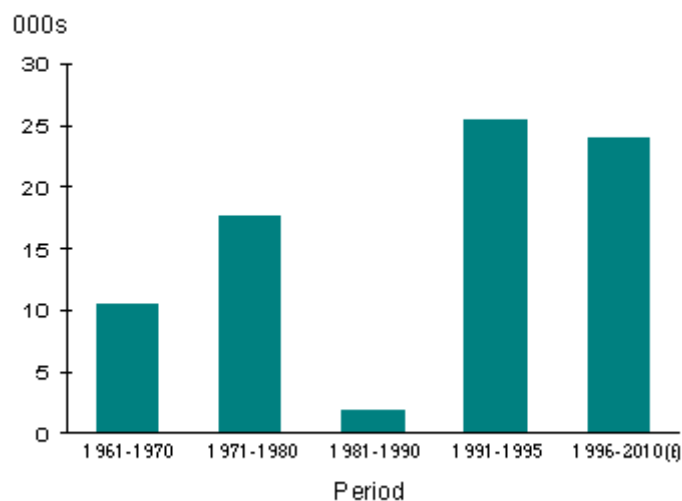
- More than halve the present rate of unemployment to approximately 6 per cent by 2010 (see footnote 5 at end of chapter);
- Reduce the number of long-term unemployed from 127,000 in 1995 to no more than 50,000 by 2010;
- Increase living standards, in terms of GNP per capita, to achieve average EU-15 levels, compared with 65.2 per cent of the EU-15 average in 1995;
- Raise the quality of life of all of those living in Ireland.

The achievement of these objectives represents a major but attainable challenge. A thriving and competitive enterprise sector will be essential to their attainment.

Halving Unemployment

2.2 Halving the present rate of unemployment means reducing it to about 6 per cent. On the basis of the labour force projections, undertaken in consultation with the ESRI, this objective requires net employment growth of over 20,000 each year on average over the period. With more than 3,000 per annum likely to leave agriculture, this means employment elsewhere must rise by almost 24,000 a year. Can such a target be achieved?

**Figure S2.1 - Net Annual Average Employment
Change in the Non-Agricultural Sector, 1961-2010**



Source: CSO, Labour Force Survey

2.3 The average rate of employment growth in the non-agricultural sector in the two years 1994-1995 has been almost 44,500 per annum. Taking the most recent five years the average annual level of growth in employment in the non-agricultural sector has been over 25,000 per annum (as illustrated in Figure S2.1). The private sector contributed 19,000 per annum to this outcome. So it is possible to generate increases of the magnitude required. However, sustaining strong employment growth over a fifteen-year period would be unprecedented for Ireland. That is the challenge and that is why a convincing strategy is needed to build on the record of the past five years. A lesser goal would not be appropriate.

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Reducing Long-Term Unemployment

2.4 Long-term unemployment (i.e., unemployment duration in excess of one year) has particularly detrimental social and economic consequences. Addressing the problem adequately must be an integral part of any development strategy for the future. In a situation where employment demand significantly exceeds job availability, the problem of the long-term unemployed admits of no easy answers. The solutions lie in a combination of measures including: education; training/skills development; counselling; placement; actions to reduce the number of people entering the ranks of the long-term unemployed each year; and, ultimately in the expansion of employment opportunities in the enterprise sector of the economy. Most essentially it requires the highest commitment, innovation, and action at political and administrative levels. The objective must be to reduce systematically and progressively the numbers of long-term unemployed from the more than 127,000 recorded in the 1994 Labour Force Survey. By 2010 each person registered as long-term unemployed should have the option of taking a place on an employment scheme in training, in further education or in work experience.

2.5 Adequately addressing the long-term unemployment issue represents a huge challenge and will continue to be a test of Ireland's commitment to social equity and cohesion. Failure to deal adequately with the economic and social deprivation and the waste that is engendered by long-term unemployment would put at serious risk the consensus and actions needed to develop an effective enterprise strategy. The conclusion is clear. With full commitment, achieving low unemployment is within our compass over the next fifteen years. Measures by which this can be brought about are summarised in Chapter 7 of the Summary and detailed in Chapter 5 of the main report.

Raising Living Standards

2.6 Currently GNP per capita stands at 65.2 per cent of the EU average. To achieve the objective of increasing living standards in Ireland to the average of the EU-15, Ireland's GNP will need to grow faster, on average, than the EU, by about 3 per cent per annum. On the basis of EU growth rates ranging between 0 per cent and 4 per cent, Irish GNP growth requires to be between 2.9 per cent and 7.0 per cent each year (*see footnote 6 at end of chapter*).

Table S2.1 - Ireland's Growth Performance and Required Growth for Convergence (Annual average percentage changes)

	Ireland (GNP)	EU-15 (GNP/GDP)
1981-1986	0.2	1.7
1987-1991	4.5	3.0
1992-1995	4.4	1.5
1996-2010 Growth scenarios:		
Stagnant Europe	2.9	0
Steady Europe	4.9	2.0
Booming Europe	7.0	4.0

Source: CSO, National Income and Expenditure; European Commission, European Economy, No. 60, 1995.

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2.7 Ireland's relative growth performance has been good for almost a decade, outstripping the EU average and raising Irish living standards by comparison with the EU average (see *footnote 7 at end of chapter*). Achieving the target requires building on that performance and sustaining it. (Table S2.1 illustrates the historical and required future performance). The required growth rate is a "stretch" target, but is certainly within the bounds of what is achievable. Promoting and releasing the potential of the enterprise sector remains the key to success.

Raising the Quality of Life

2.8 The pace of economic growth alone is an inadequate indicator of the quality of life. There is a growing awareness internationally of the need to focus on broader indicators. Many countries have recognised a "paradox of wealth", in which high income levels do not transfer into an improved quality of life. Economic growth is a necessary but not sufficient condition to achieve the quality of life improvements central to the objectives set out in this report.

2.9 It is vital that the benefits of economic growth are available to all sectors of the community, including the long-term unemployed and other marginalised groups. This requires progress in terms of income distribution, access to education, balanced regional development and equality of opportunity for all sectors of society in Ireland. A range of other issues are also relevant: the quality of the physical environment, the general state of health of the population, the level of crime, the richness, diversity and accessibility of the arts and of cultural and heritage facilities. A long-term development strategy, if it is to command the wide support necessary to make it happen and to be effective, must encompass the achievement of these broader aspects of the quality of life in its overall objectives.

2.10 Adequate quantitative indicators are not available at present in respect of many of these issues. In relation to others, achieving the main objectives of the strategy will, almost by definition, result in a significant improvement. For example, halving the rate of unemployment and reducing long-term unemployment by an even greater amount would result in a more equitable distribution of income and improved access to educational and cultural opportunities. Raising living standards would be accompanied by the resources needed to increase the range of cultural and heritage facilities available and in achieving more widespread access to them. The actions proposed in this strategy would result in significant improvements in the following proxy indicators of standards of living over the next fifteen years: employment levels will increase from 1,231,000 to 1,540,000 - an increase of 25 per cent; overall unemployment levels will fall from 192,000 to 100,000; the number of long-term unemployed will fall from 127,400 to 50,000; access to education for lower income groups will be significantly improved and the participation of 16-18 year olds in education will rise to effective full participation in education or full-time training; the environment will be enhanced by better management of the physical nature, and implications, of economic growth.

2.11 The additional resources made available in the economy through achieving the increases in output and income set out in the strategy can also provide a basis for achieving significant progress in other aspects of the quality of life. Such additional resources, for example, can make a significant difference in fighting crime, and in improving the quality of health.

A Strategy for Enterprise: The Cornerstones for Action

2.12 A dynamic "enterprise culture" must be at the core of future strategy. The achievement of ambitious social and economic objectives requires a vibrant and competitive enterprise sector (i.e., the set of Irish-owned and foreign-owned enterprises, based in Ireland, engaged in either the manufacture of goods or the provision of marketable services). The enterprise sector is comprised of a wide variety of firms and individuals - each with their individual aspirations, goals and targets to achieve success. Such success is essentially measured by the return on the resources invested in the enterprise in terms of both finance and human endeavour. In effect this means that more of the resources of the economy must become

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subject to market discipline. Without this, resources will be allocated inefficiently and the returns to enterprise will be inadequate to sustain it, resulting in lower employment and living standards overall. A clear vision of the role of Government in creating the conditions within which the enterprise sector can thrive is also essential.

2.13 These requirements and the issues that they raise are considered in this report. The key elements of the strategy proposed are:

- A full recognition in the formulation and development of public policies of the importance of the service sector in the generation of employment and in the development of an enterprise culture;
- A transformation in the capability of Irish-owned industry to reposition, innovate and compete;
- The further and innovative development of the "product" which Ireland offers to attract foreign direct investment in terms of skills availability, infrastructure and incentives in the context of the major changes affecting competition for this investment and its nature and geographical distribution;
- Further reform of the taxation system to achieve a substantial reduction in the overall level of taxation and in the national debt, so as to promote private enterprise further by establishing an environment conducive to innovation and commercial risk taking;
- A major drive to raise the skills profile of people, both through education and the achievement of higher investment by firms in training and human resources development;
- Early and decisive action towards developing an "Information Society", where the use of advanced information and telecommunications technologies in everyday life is widespread. This will require strategic investment to upgrade the quality of telecommunications and to make the cost of these services competitive;
- The provision of a world-class transport and logistics infrastructure in Ireland.

These issues are discussed in more detail in the following chapters and in the body of the main report.

2.14 In order to develop a sensible long-term strategy for the enterprise sector, an understanding of the principal international forces of change that will shape the sector in future is required. The following chapter examines these forces.

THE FORCES OF CHANGE

Introduction

3.1 The need to be able to respond to changes that will have a significant impact on the development of the enterprise sector is an important reason why a long-term policy development framework on the lines proposed in this report is required. It is already possible to outline some of the forces which are likely to have a significant impact on how the enterprise sector in Ireland will develop over the next 10-15 years. Chief among these are:

- The impact of technological change;
- Trends in the international pattern of economic development and trade;
- The structure and organisation of the workforce;
- The pattern of demographic change;
- EU: The move towards Economic and Monetary Union (EMU);
- The competitiveness of Ireland's economy.

The Impact of Technological Change 3.2 A revolution is taking place in information and communications technologies. These technologies are resulting in a dramatic transformation of economic and social life. They are having a profound effect on working methods and the nature of work itself, the organisation of companies, the focus of training and education and the way people communicate with each other. Whole new areas of communications-based economic activities are being brought into existence together with major gains in productivity in industry and in the quality and performance of services. A new "information society" is emerging in which the impact of information and communications technologies will be pervasive across all sectors of enterprise. A basic knowledge of how to make use of these technologies is fast becoming an essential skill for the effective participation by individuals in the workforce.

3.3 Developments in biotechnology will be another significant source of product and process innovation. Modern biotechnology constitutes a growing range of techniques, processes and procedures that are now being applied to research and product development in several existing industrial sectors. Seeds, entire plants, animals, fertilizers, food additives, industrial enzymes are just a few of the areas where activities can be developed or enhanced by the use of biotechnology. Developments in biotechnology are not likely to give rise to new industries in the same way as developments in information technology, but they can substitute for and complement existing technologies, thereby giving rise to the possibility of new products and production processes in a range of existing industries. Biotechnology will be at the heart of competitive innovation in a range of industrial processes over the next 10-15 years.

3.4 Advances in technology are also giving rise to changes in organisation structures and the production techniques used by enterprises. The rate at which such changes occur will accelerate. The distinction between "goods" and "services", already blurring, will become even less distinct as services increasingly become the principal source of value-added provided by the successful enterprise: e.g., the specialised sales, marketing and consulting services necessary to identify problems; the specialised research, engineering and design services necessary to solve problems; and the specialised strategic, financial and management services required to move from the area of problem identification to problem solution.

3.5 In the manufacturing operation of the future, large compartmentalised plants with high levels of specialisation will increasingly be replaced by plants that integrate and link a variety of functions. Design, management, production and marketing functions have already begun to become part of an integrated system. Flexibility and diversity will become crucial. Instead of producing large quantities of identical units, the output of manufacturing firms will become

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more diverse - responding to new consumer demands for a greater diversity of higher quality products. The demand for flexibility which the effective use of new technology increasingly requires is already dictating a much more decentralised and less hierarchical structure within firms. In this new environment, group-working, for example, will become much more common. Each individual worker will have more responsibility for the level and quality of output - whether in the services or production area.

3.6 In the future, a great many firms will prosper and succeed by being able to meet the unique needs of particular customers, in effect by moving from high-volume to high-value activities. Whether these firms are engaged in manufacturing or providing services, old or new, mature or high-tech, the pattern will be similar. Businesses in countries such as Ireland will be successful both because customers are willing to pay a premium for goods and services that have been specifically designed to meet their needs exactly and because these high-value businesses cannot easily be duplicated by high-volume competitors in low-cost locations around the world.

3.7 Competition among high-volume producers will continue to put pressure on the profits of industries and enterprises that depend on products that are uniform, routine and standard. Such products can generally be produced with low-skill, low-wage workers. With modern technology and communications they can be made or reproduced almost anywhere in the world and help to achieve an international distribution and balance in the fruits of global economic development. Successful business in advanced nations will shift to products and services requiring higher skills and frequently tailored to specific requirements of clients. The new barrier to entry will be neither price nor volume but, increasingly, the skill in finding the right fit between particular technologies and markets. Economic growth, therefore, will increasingly centre on specialised knowledge. In high-value enterprises, profits will derive, not from scale and volume, although in some industries these will remain important, but from continuous discovery of new linkages between the explicit and potential needs of customers and finding more effective ways of meeting these needs.

Trends in the International Pattern of Economic Development and Trade **3.8** A feature of the changing structure of the production of goods and services is that it is reaching across the globe in a way that is making national boundaries less relevant. Increasingly, firms are becoming part of a global network of economic activity. Some of these firms are a part of multi-national corporations; others may be involved in a partnership arrangement in an international joint venture; others still may be stand-alone enterprises. All are increasingly interdependent on international economic relationships. The move to a single market in Europe - allowing goods, services, labour and capital to move freely around the EU - and the proposed single currency, which is part of a move towards economic and monetary union, are elements of an overall strategy to remove barriers and obstacles which national borders impose on international trade. As these barriers to international trade are reduced, the capacity of any country to sustain above-average growth rates will be determined by the basic competitiveness of its enterprise sector in trading in the products and services of the future.

3.9 Already the composition of international trade is changing rapidly, reflecting these influences. Within agriculture, trade in bulk commodities is declining in importance relative to more complex, value-added foods. Within industry, trade in intermediate products is growing in importance relative to the exchange of finished products. Trade in services is increasing at a rapid pace.

3.10 Competition within international trade is intensifying. Communications technology is an underlying factor. Logistics, which integrates transportation and communications technologies to facilitate efficient and effective linkages between producers and customers, is increasingly a key determinant of the competitive strength of regions and countries. The rapid emergence of low labour-cost economies, capable of producing high-quality manufactured goods, is another source of competition. The success of a trading nation, such as Ireland where the combined value of merchandise exports and imports is equivalent to 123 per cent of GNP, will, in future, depend on a deepening process of innovation, quality enhancement and responsiveness to customer needs rather than on price competition alone. These are the

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intangible factors that raise the value associated with particular products and that will be the main sources of developing competitive advantage for firms in future years.

3.11 The spatial pattern of international trade is also changing. New and emerging markets are set to feature more strongly in world trade. The transition of the Central and Eastern European economies and the former Soviet Union to market-led principles significantly extends the scope of world trade. Despite the growing importance of new and emerging markets, the UK and the rest of the European Union will remain the main focus of attention of Irish exporters, even to the year 2010. The UK will continue to be the first step to exporting for the majority of small and medium-sized firms. That market will be enhanced by the prospects of increased cross-border trade, when a permanent peace is established in Northern Ireland.

3.12 Trade is increasingly linked to foreign direct investment (FDI), but financial flows associated with both trade and FDI are increasingly dwarfed by capital movements facilitated by the liberalisation of capital markets and the removal of exchange controls. The resulting volatility in foreign exchange markets is a potential threat to the stability of the open trading system. These trends are of particular importance in the context of the proposals for Economic and Monetary Union (EMU) in the EU under the Maastricht Treaty.

3.13 The trend in FDI, itself, is a matter of considerable importance to Ireland. Overseas companies located in Ireland at present account for some 54 per cent of the output of manufacturing industry, 45 per cent of employment and 75 per cent of industrial exports⁷. These companies are also increasingly involved in outsourcing which offers opportunities for the domestic sub-supply industry. This degree of dependence on FDI as a source of economic development in Ireland is much higher than in most other countries. At a global level FDI will continue to expand and Ireland is well-placed in many of the sectors that will drive this expansion (e.g., electronics, telecommunications-based services and tourism). However, there is likely to be a greater trend towards joint ventures and partnership arrangements in FDI relative to "greenfield" investments. This trend will pose a particular challenge for Ireland, given the constraints of technology, scale and capability that characterise Irish firms. The other major threat to continuing FDI growth in Ireland stems from increasing competition. Apart from traditional competitors such as Scotland, Wales, England, France, Spain and the Netherlands, there will be much stronger competition in the future from Central and Eastern European countries and from countries in South-East Asia.

3.14 Finally, the regulation of international trade is changing. The successful conclusion of the Uruguay Round and the establishment of the World Trade Organisation to monitor and police the agreements that have been reached strongly suggest that trade will be governed by more stable and predictable rules. However, the emergence of regional trade blocs and the growth of government intervention and regulation, in response to the need to manage environmental concerns, protect consumer welfare, and ensure social solidarity, is a potential source of tension in international trade in the future. Abuse of non-tariff barriers to trade as a result of such interventions will need to be closely monitored and opposed by Ireland due to its dependence on international trade to drive economic development and employment growth.

The Structure and Organisation of the Workforce **3.15** International evidence suggests that the nature of employment in the developed world will change substantially in the next fifteen years. The major trends expected include a shift towards:

- More self-employment;
- A shorter working week;
- More part-time and other flexible forms of employment, e.g., temporary, contract, job sharing.

⁷ Source: Forfás, Employment Survey 1995; Forfás, Survey of 1994 Irish Economy Expenditures.

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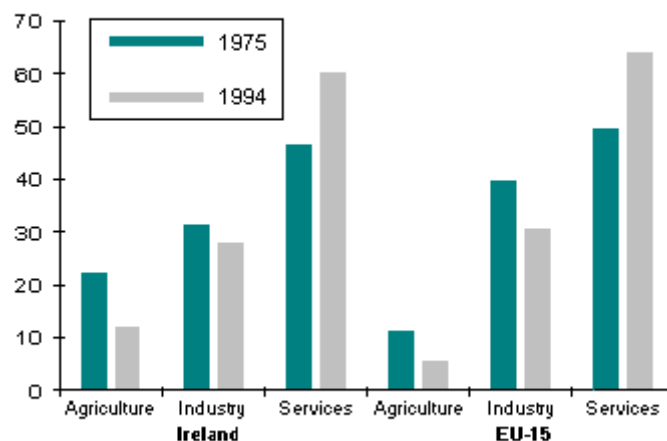
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3.16 These developments are already evident in Ireland. The increasing trend to employment in services, the continuing development of information and communications technologies and the replacement of the old hierarchical approach to the organisation of work by a new flexible entrepreneurial approach will stimulate the growth in more flexible forms of work including self-employment, part-time and temporary employment.

The Pattern of Demographic Change 3.17 The composition and size of the Irish labour force in the future will be a major determinant of the rate of economic progress and the achievement of the broad objectives set in any longer-term strategy. Demography will hold, in particular, significant implications for achieving one of the primary goals of such a strategy: reducing significantly the current rate of unemployment. The underlying elements are already changing rapidly and can be discussed under the following headings:

- Sectoral structure;
- Age structure;
- Female participation rates;
- Educational participation rates;
- Net migration.

Figure S3.1 - Sectoral Composition of Employed Labour Force, Ireland and EU-15, 1975 and 1994



Source: Ireland, CSO, Labour Force Survey, 1975 and 1994
EU-15, European Commission, Employment in Europe, 1995

3.18 Sectoral Structure: The structure of Ireland's employed labour force differs substantially from other European countries in terms of its sectoral composition (see Figure S3.1). Of the total number employed, 11.8 per cent were engaged in agriculture in 1994, compared with 5.5 per cent in the EU-15 as a whole. In the case of both industry and services the share of employment, at 27.9 per cent and 60.2 per cent respectively, are below the corresponding EU-15 averages of 30.6 per cent and 63.9 per cent in 1994. The long-term outflow from agricultural employment has contributed to Ireland's unemployment problem. While the pace of decline is expected to ease, the outflow from agricultural employment will continue to be substantial over the next fifteen years, adding to the need to achieve significant net job creation in both the services and manufacturing sectors. In line with world-wide experience, the services sector will be the dominant source of new employment opportunities.

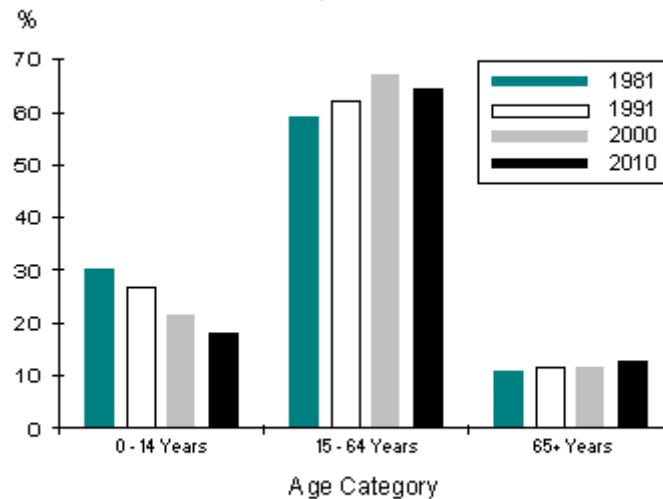
3.19 Age Structure: The proportion of Ireland's population in the 0-14 year age category is well above the EU-15 average (26 per cent against 18 per cent in 1993). The proportion in the "working age group" of 15-64 years is below the EU-15 average (63 per cent against 68 per cent in 1993). The over-65 age group accounted for 11 per cent of the population in 1993 compared with the EU-15 average of 14 per cent. This age structure contributes to a high dependency ratio in Ireland and is one of the factors that has constrained the achievement of

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greater convergence in per capita living standards in Ireland towards the EU-15 average. Recent trends in fertility rates indicate that, in the future, Ireland's age profile will gradually converge towards the European average. This will facilitate the convergence in living standards with the EU-15 average. The proportion of the population aged 65 and over is expected to increase by only 1 or 2 percentage points over the next fifteen years (see Figure S3.2). However, in the following fifteen years, it is expected to increase by about 5.5 percentage points, and this will place a significantly increased burden on the State pension system for which provision will require to be planned well in advance.

**Figure S3.2 - Population Age Structure,
Ireland, 1981-2010**



Source: 1981 and 1991, CSO, Census of Population, 1991;
2000 and 2010, ESRI, Implications of Major Trends for the Size,
Structure and Organisation of the Workforce in 2010, Final Report
to Forfas

3.20 Female Participation: The female participation rate is a major source of future uncertainty in relation to labour-force trends. In Ireland this rate is low by comparison with other European countries. In 1994, the overall female participation rate in Ireland was 45.0 per cent, compared with an EU-15 average of 56.0 per cent and rates of 64.6 per cent in the UK and 77.5 per cent in Sweden⁸. In recent years there have been significant inflows of women, in the 40-50 year old age group, to the labour force. In the period to 2010, it is expected that female participation rates will increase at an annual rate of 1.8 percentage points for those aged between 25 and 35 and at 2 percentage points for 40 to 50 year olds⁹. Labour-force projections are also very sensitive to this assumption. As an illustration, if female participation rates were to stay at their present level, the increase in the labour force to 2010 would be 166,000 fewer than in the "benchmark" projections made for the purpose of this report.

3.21 Educational Participation: Ireland has experienced a rapid increase in educational participation in recent years but it still lags behind many of the more advanced EU countries. At 76 per cent in 1994, the participation rate among 15-19 year olds was relatively low and has the potential to increase substantially. Plans, already in train by the Department of Education to increase educational participation rates significantly in this group, will have a consequential reduction on labour force numbers. Participation among the 20-24 year old group, at 23 per cent, was also low in Ireland. This is also likely to increase significantly.

⁸ Source: European Commission, Employment in Europe, 1995.

⁹ Source: ERSI, Implications of Major Trends for the Size, Structure and Organisation of the Workforce to 2010, Final Report for Forfas.

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3.22 Net Migration: The Irish labour market is very open. In some ways, it constitutes a single labour-force market with that of the UK. These facts give rise to great additional uncertainty in any projections of future labour-force changes. Migration flows between Ireland and the UK, for example, can have a significant impact on the total number in the labour force. In the decade 1971-1981, Ireland experienced net inward migration of 10,400 per annum. In the 1980s the trend was reversed: in the period 1986-1991 net outward migration occurred at a rate of 26,900 per annum. In 1995, it is estimated that net outward migration fell to 6,000. While the relative economic performance of Ireland, compared with other countries (and the UK in particular) can be regarded as a principal explanatory factor of these flows, an accurate labour-force projection model that would enable the level of migration flows to be predicted with any degree of reliability is not available. In framing labour force projections to 2010 for the purpose of this study, it has been assumed that emigration will continue at the levels shown in Table S3.1¹⁰. The projected change in the labour force is sensitive to the rate of migration assumed. There would, for example, be an additional 134,000 in the labour force by 2010 in the unlikely event of zero net migration over that period.

TABLE S3.1 Population and Labour force Projections to 2010

	1995	2000	2005	2010
Population (000's)	3,575	3,585	3,574	3,594
Birth rate per 1000	13.2	12.2	11.4	11.0
Death rate per 1000	8.9	8.9	9.0	9.0
<i>Emigration 000's</i>		11.4	12.0	3.4
(Annual 5 year period average)				
Labour force 000's	1,423	1,536	1,595	1,640
Growth in Labour force (Annual 5 year average)		22.6	11.8	9.0

3.23 The "benchmark" labour force projections for the purpose of this report are summarised in Table S3.1. They show that the labour force is likely to expand significantly over the period to 2010. Under the projections the average expected rate of increase in the labour force for the period 1996-2000 of 22,600 will taper off to 11,800 for the period 2001-2005, and decline still further to 9,000 for the period 2006-2010.

EU: The move towards Economic and Monetary Union (EMU) **3.24** The creation of an economic and monetary union (EMU) in Europe has been under consideration for a long number of years. It now forms part of a more integrationist vision of Europe that is essentially geo-political in nature. It holds very significant implications for development policies in Ireland. Under the 1992 Treaty of Maastricht member states of the EU, with the exceptions of the UK and Denmark, formally committed to their participation in such a union before the end of the present decade provided that the criteria for participation set out in the Maastricht Treaty are met. These criteria encompass the following elements:

- **Price Stability:** an average rate of inflation that does not exceed the average rate of inflation of the three best performing Member States by more than 1.5 percentage points;
- **Public Finances:** the ratio of the actual or planned general Government deficit to GDP not to exceed 3 per cent (with some flexibility); also the ratio of general government debt to GDP to be less than 60 per cent or approaching this target at a satisfactory pace;
- **Exchange Rate Stability:** the currency must remain within the normal ERM bands without any devaluation against the currency of another Member State for at least two years;
- **Long-Term Interest Rates:** The interest rates on long-term Government bonds for the previous year to remain within 2 percentage points of the rates in the three best performing Member States in terms of price stability.

¹⁰ The fall in emigration in the later period derives from expected changes in the age distribution of the population.

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3.25 The benefits of participation in the EMU for Ireland have been listed as follows¹¹:

- Macroeconomic stability would be maintained through adherence to the strict criteria for participation;
- The maintenance of low inflation levels would be facilitated;
- Interest rates would be lower and less volatile than in a floating exchange regime;
- The advantages of Ireland as a location for foreign investment would be enhanced;
- Trade diversification from an over-reliance on the UK would be facilitated;
- Cost savings resulting from the elimination of transaction costs would arise for Irish businesses.

3.26 Already the first two of the three stages set out for the achievement of EMU (effectively the removal of all exchange controls and the establishment of the European Monetary Institute to achieve an interim greater co-ordination of monetary policies and to make the necessary technical arrangements for the completion of EMU) have been put in place. However, there is some uncertainty in relation to the completion of the third stage - the putting into place of an operational EMU with a single currency. The Madrid Summit of Heads of Government meeting in December 1995 established a firm time-table for implementation involving the putting into place of the new single currency on 1 January 1999. The number of participant countries which will meet the required criteria at that time is uncertain. A decision on the initial participants in EMU will be made as early as possible in 1998. This will be in the context of the performance of the Member States in relation to the Maastricht EMU criteria.

3.27 Participation in EMU would also rule out for Ireland the possibility of the unilateral use of exchange rate policy to improve the competitive position of the traded goods and services sector. A country that remained outside would retain that capacity. As the UK, which is Ireland's principal single trading partner, is not certain to join EMU, at least initially, there is concern as to the implications of this for Ireland.

3.28 Whether the UK decides to participate or not in EMU will not be known for some time. The overall degree of Ireland's trade dependence on the UK economy has fallen sharply over the past twenty years. Today 28.8 per cent of Irish exports go to the UK and 42.3 per cent of imports come from that source. However dependence varies significantly between sectors¹².

The sectors that seem most sensitive to any sharp depreciation of sterling against the Irish pound are the tourism sector in general, the retail trade sector and, in manufacturing, a significant number of companies in the metals and engineering, food and textiles and clothing sectors in particular. Forfás research data compiled in 1995 indicate that almost 700 manufacturing firms employing over 56,000 people are sensitive to any deterioration in competitiveness against UK competitors. However, this competitiveness will be determined not only by the exchange rate with sterling but by the impact of macroeconomic stability in Ireland compared with that in the UK. Ireland as an EMU participant can expect to have the benefits of low inflation and low interest rates that are already characteristic of EMU and the discipline it will require. The EU is undertaking studies of these questions and mechanisms to regulate exchange rate policy between participants and those outside are to be proposed, as are arrangements in regard to harmonisation of fiscal policy after EMU begins.

3.29 It seems increasingly likely that Ireland will meet the participation criteria for EMU set in the Maastricht Treaty. At this point the best policy approach is for Ireland to take whatever measures are necessary to be fully prepared to join the EMU when the time comes. There are a number of major uncertainties that will require clarification before EMU becomes a reality. These include the following issues:

¹¹ De Buitelir, D., P.Halpin and P.McArdle, "Ireland's Strategic Options", Institute of European Affairs, October 1995.

¹² Data for 1993. European Commission, European Economy No. 60, 1995.

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- How will the exchange rates at which currencies become "locked" within the EMU be determined when the time comes?
- What arrangements will be put in place to avoid, or otherwise deal with, devaluations undertaken by Member States that are not part of the EMU - particularly where such actions have a very significant impact on the immediate trade prospects of individual Member States?
- What will be the position in relation to the observance of the Maastricht criteria after Member States join the EMU?

3.30 The actions that are consistent with Ireland's stated aim of joining the EMU at the earliest possible time include the following:

- In the context of the negotiations expected in relation to a follow-on to the present national "Programme for Competitiveness and Work", an essential agenda item should be the measures necessary to achieve the flexibility needed at the level of individual firms and the public sector to respond to devaluation by important trading partners;
- Continue to maintain the fiscal and monetary disciplines required for participation in EMU, in the favourable economic conditions expected over the next 2-3 years; in particular, keeping the budget deficit significantly below the 3 per cent of GDP criterion to provide greater scope for countervailing action in the event of a down-turn in the economy or in competitiveness due to external factors, and to keep downward pressure on the general government debt.

The Competitiveness of Ireland's Economy

3.31 The factor that will most determine whether or not Ireland makes a major leap forward in social and economic development over the next ten years and beyond is competitiveness. For a firm, a comprehensive measurement of competitiveness is difficult to define: for a country it is more so. A range of indicators is required covering the areas of public policy which can help or hinder the development of business firms. These indicators require to be brought together within a framework that facilitates compilation, analysis, review and continuing surveillance. The establishment of such a framework is particularly important in the context of Ireland's prospective membership of the EMU on its establishment. Work undertaken by Forfás and summarised in a number of reports¹³ indicate that, in many areas, there is scope for major improvements in competitiveness. In the World Competitiveness Report 1995, Ireland ranked twenty-second of the forty-eight countries from which comparative information was compiled. This compared with a ranking of nineteen in 1994.

¹³ Technological Innovation in Irish Manufacturing Industry, November 1994; Telecommunications in Ireland, November 1994; Transport Needs of Irish Manufacturing Sectors, June 1995; Research and Development in the Business Sector, September 1995; Ireland's Cost and Competitiveness Environment, October 1995; State Investment in Science and Technology, January 1996; World Class to Serve the World, February 1996.

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An outline of the analytical framework required for the review of Ireland's competitiveness is set out in Table S3.2.

Table S3.2 - Initial Analytical Framework for Competitiveness Reviews

Competitiveness			
	Key Factors	Performance Measures	Process Requirements
Human Resource Developments	<ul style="list-style-type: none"> ▪ Education and Training ▪ Skills and Productivity 	<ul style="list-style-type: none"> ▪ Employment Trends ▪ Labour Costs 	<ul style="list-style-type: none"> ▪ Strategic Planning ▪ Incentives
Business Support Development	<ul style="list-style-type: none"> ▪ Technological Capabilities ▪ Finance for Development 	<ul style="list-style-type: none"> ▪ Market Share ▪ Trade and Market Development ▪ Investment Levels ▪ FDI Growth ▪ Output Growth ▪ Input Services Costs 	<ul style="list-style-type: none"> ▪ Innovation ▪ Incentives ▪ Strategic Planning ▪ Development of Scale ▪ Value Chain ▪ Co-operation/Networks ▪ Advisory Services
Infrastructure	Installed Capacity in; <ul style="list-style-type: none"> ▪ Telecommunications ▪ Logistics and Transport ▪ Energy ▪ Banking/Insurance 	Costs/Range of Services: <ul style="list-style-type: none"> ▪ Telecommunications/Postal ▪ Logistics and Transport ▪ Energy ▪ Banking/Insurance 	<ul style="list-style-type: none"> ▪ Longer-Term Planning ▪ Integration ▪ Provision of Specialised Services ▪ Environment Management
Public Finance and Administration	<ul style="list-style-type: none"> ▪ Ethos ▪ Commitment ▪ Motivation ▪ Experience and Expertise 	<ul style="list-style-type: none"> ▪ Public Sector Burden ▪ Regulatory Burden ▪ Efficiency ▪ Responsiveness ▪ Inflation 	<ul style="list-style-type: none"> ▪ Strategic Management Capabilities ▪ Taxation and Public Finances ▪ Competition Policy ▪ Information Society Initiative

THE STRATEGY FOR SERVICES AND MANUFACTURING

Introduction

4.1 There are five main strands to the proposed strategy for the direct promotion of the enterprise sector over the next fifteen years which now need to be put in place:

- The immense potential of the services sector for wealth and job creation must be harnessed by new measures to develop the scope and scale of the internationally-traded sector and to expand the level of job creation in locally-based services;
- Irish-owned industry must be encouraged to reposition into new growth areas and its capability to innovate and compete transformed;
- A strong flow of inward investment in both the services and manufacturing sectors must be maintained, as a key source of new jobs, technology transfer and as an additional link with an increasingly global network of production, marketing and distribution facilities;
- The promotion of international trade and market development must remain at the heart of development policies and Ireland must achieve an increased share of the imports of both the UK and other EU markets;
- Significant improvements in the availability of risk-finance for the development of the enterprise sector must be put in place.

Harnessing the Growth Potential of the Services Sector

4.2 The services sector has been the key direct source of employment growth in Ireland and in most other developed countries. Between 1981-1991, 1985-1995 and 1991-1995 the average annual increase in employment in the services sector amounted to 7,300, 13,400 and 21,600 respectively. Yet the development of the services sector in Ireland has lagged behind that of comparable countries. While per capita income levels, the demographic structure of the population and net factor payments abroad partly explain this phenomenon, it is also true that, until recently, the services sector was not regarded as a sector where Government policy instruments were generally considered particularly necessary or desirable in promoting employment in the sector. The comparative neglect in policy terms is also a factor in explaining the relatively slow growth of the services sector in Ireland compared to other countries.

4.3 With the right policy framework, it is projected that over 300,000 jobs can be created in the services sector over the next 15 years. These projections are set out in Table S4.1, which also sets out overall employment projections by main sector between 1995 and 2010.

4.4 Due to the diversity of the sector, and because of the traditional reluctance in Ireland as elsewhere to regard the services sector as one that generates employment and wealth in its own right, rather than being simply a secondary and derived source of employment and wealth creation, the dynamics that drive the growth of services are poorly understood. The level of underlying research on these matters has been inadequate. Given the demonstrated importance of the sector in generating employment growth, this comparative neglect will require to be changed as part of a new policy approach to the development of the sector.

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TABLE S4.1 Projected Employment Growth

		Strategy Forecast	Increase	Annual Average Increase	Annual Average Increase
	1995 000's	2010 000's	1995 - 2010 000's	1995 - 2010 000's	1991 - 1995 000's
Labour Force	1423	1640	217	14.5	22.6
Unemployment	192	100	-92	-6.1	3.2
Total Employment	1231	1540	309	20.6	19.4
Agricultural	139	90	-49	-3.3	-6.0
Manufacturing ¹⁴					
Irish	128	140	12	0.8	1.0
Foreign	107	140	33	2.2	3.0
Total	235	280	45	3.0	4.0
Internationally Traded Services					
Irish	9	30	21	1.4	0.7
Foreign	13	50	37	2.5	1.3
Total	22	80	58	3.9	2.0
Local Services	729	990	261	17.4	19.6
Total Services	751	1070	319	21.3	21.6
Miscellaneous Industry ¹⁵	100	100	0	0.0	1.0

4.5 The figures in Table S4.1 are based on FÁS-ESRI labour market projections to the year 2005, extrapolated by Forfás based on an analysis of the potential for services sector expansion if the right kind of policies are pursued. A breakdown of the figures is as follows:

- Firstly, for internationally-traded services, analysis of expansion potential based on world trends indicates that the potential for Ireland could bring up to 58,000 extra jobs by the year 2010;
- Secondly, the expansion envisaged in all internationally-traded activities (manufacturing and services) is also expected to lead to a corresponding increase in locally-provided services, because the internationally-traded sectors are linked to the rest of the economy and will, therefore, need to be supplied by local producers and service providers to carry on their exporting activities. The "multiplier" effect will be further strengthened by the trend of enterprises world-wide to seek increased outsourcing of services;
- Thirdly, increases in locally-supplied services will also come from the expansion in the tourist sector, which is analogous to internationally-traded services in many ways, and where it is estimated that an additional 80,000 jobs can be created directly and indirectly through increased spending by tourists and the tourism sector itself on other local services;
- Finally, but importantly, the increased incomes that will arise from growth will provide a further boost to local services: consumers will have increased purchasing power and will spend more on a wide variety of local services, creating more opportunities for employment in this sector.

¹⁴ Manufacturing and Internationally-traded services data from Forfás Employment Survey. Other data from CSO Labour Force Survey.

¹⁵ Mining, quarrying and turf production; building and construction; electricity, gas and water.

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4.6 These projected increases in employment in the services sector are ambitious but realisable. Their achievement will depend on a number of factors:

- An outflow of third-level graduates, well-qualified in the disciplines required by the segments of the services sector with strong growth potential. These include the full range of engineering skills for consultancy work, computer science, a range of financial services skills, general management skills, economics, languages and tourism-related skills. There will also be a demand for people with good Leaving Certificate and post-Leaving Certificate levels of qualification in computer skills, general administrative skills, tourism-related skills and languages;
- Initiatives to achieve an early leadership position in telecommunications-based services which can be traded internationally in areas such as financial services, education, tele-shopping, publishing, logistical services, back-office administration and tele-medical services. For example, advanced communications "nurseries" might be created at a number of locations based on an optical fibre metropolitan network linking homes, offices and retail areas with each other and with global networks;
- Establishing Ireland as a multi-lingual European services hub. As companies increasingly re-locate or buy in services to reduce costs, Ireland will have a major opportunity. In the USA, many Mid-Western and Southern States have gained from relocation of back-office service jobs from the East and West coasts where employment and overhead costs are more expensive. Significant job creation opportunities can be realised by promoting Ireland as a location for centralising the administration, back-office and sales/service activities of European-based companies, in areas such as accounting, purchasing, invoicing, treasury management and systems development;
- A supportive taxation policy as set out in Section 8.1 of the main report;
- The promotion of a pro-active competition policy as set out in more detail in Section 8.2 of the main report;
- A further strengthening of measures to promote the tourism sector on the lines set out in Section 4.1 of the main report;
- The further development of Government support measures for the sector as summarised in the following paragraph.

4.7 Support Policies for Services: The challenge for Irish companies is to be "early movers" in taking advantage of significant opportunities in a range of areas encompassed within the services sector that are growing rapidly. There is also a major challenge for the State development agencies in identifying the scope of these opportunities and the supports that firms will require to exploit them fully. Because the enterprise areas involved fall outside the traditional remit of the development agencies, a widening of the client base to which their services extend at present will be needed. This should be done on a selective basis to avoid the very real danger of extending support to activities that would have gone ahead anyway even in the absence of such support ("dead-weight"). Only where the test of "additionality" in terms of output and jobs resulting from agency interventions can clearly be demonstrated should such State support services be extended.

4.8 Given the diversity of the services sector, State support, where considered necessary, requires to be dealt with under three categories of activity:

- Those internationally-traded services designated at present for support under the International Services Programmes of the development agencies;
- Other services with significant development potential which require some state support in order that this potential is fully realised;
- Locally-provided services.

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The outline approach that should be adopted in the case of each of these three categories is as follows:

- **Internationally-Traded Designated Services**

Certain (i.e. "designated") internationally-traded services qualify for a full range of financial supports from the industrial development agencies at present. These sectors are important sources of wealth, with high-wage employment and revenue returns to the economy as a whole. The sectors designated require to be fundamentally re-examined at this stage to ensure that their coverage fully reflects their present configuration and the changing nature and scope of the operations involved;

- **Internationally-Trading Service Companies, Not Already Designated**

Selective incentives and support should be extended, on a three-year pilot-basis, to services that are internationally-traded but are not among those currently "designated" for support under the International Services Programme of the development agencies, where it can be shown that support will give rise to new jobs and output growth. These incentives and supports are outlined in detail in Chapter 4 of the main report;

- **General Support for Local and Other Services**

The most useful approach that the State can adopt to encourage development and employment in the services sector in general, including local services, is to ensure that there is full and fair competition. In addition, as discussed later in this report, further reforms in the tax system to reward better the risks undertaken in establishing and developing a business, and measures to reduce the regulatory burden on business - especially the small business sector - are required. In this way, the local services sector can be encouraged to realise its considerable potential for employment generation.

The development and dissemination of good information and advice on areas of business opportunity in the services sector and the further provision of appropriate training services, would also be of considerable value. The County Enterprise Boards and the development agencies already provide such services and these need to be further developed. But there is also an important opportunity and role for specialised trade associations in this area. Such a service should become largely self-financing.

4.9 As noted, the services sector can provide more than 20,000 jobs per year on average on a sustained basis over the next fifteen years - a total of over 300,000 additional jobs. This represents more than 85 per cent of targeted net non-agricultural employment creation over that period. The importance of the sector to job creation, its diversity and its key role in the growth of other sectors make it essential that it becomes a focus of clear, consistent policies in the future to an extent that has not been the case to date.

A Transformation of Irish-Owned Manufacturing Industry

4.10 Irish-owned manufacturing industry has seen a fall in employment over the past twenty years, in common with the trend in many developed countries. It stood at 128,000 at the end of 1995, down considerably from its peak of 156,000 in 1979. Productivity has shown improvement over this period, and in recent years output has also risen. However, the average profitability of Irish-owned companies has not improved since 1988. A number of Irish-owned firms have been very successful: developmental, innovative, highly profitable and achieving significant increases in output and employment. But the number of such firms has been quite limited. The underlying reasons for this mixed performance are deeply rooted in the industrial, macroeconomic, educational and social policies of more than half a century.

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The transformation of the sector into an expanding, profitable, employment-generating sector will not be achieved overnight. This transformation will require innovative, consistent, and coherent policies over many years across a range of areas that affect the development of the sector. Chief among these areas are: promotional strategy; education; training; taxation; and, infrastructure provision.

4.11 To a considerable extent, the failure of Irish-owned industry to achieve its full potential can be attributed to the fact that the sector is highly concentrated in traditional, mature, low-growth sectors of industry. Table S4.2 illustrates this point.

4.12 Research undertaken has identified a number of segments within the high-tech growth sectors that could provide significant opportunities for Irish-owned firms over the next ten years and beyond. These possibilities are discussed in more detail in Chapter 4 of the main report. They include the following:

- Medical and surgical;
- Pharmaceuticals;
- Food and drink;
- Electronics;
- Publishing and print.

4.13 There are four central themes around which the strategy required to promote the development of Irish-owned industry in the years ahead must be developed:

- Innovation;
- Repositioning;
- Developing scale;
- Improving profitability.

4.14 Innovation: Innovation is a central characteristic of successful firms. Essentially, innovation involves firms doing new things in new ways to increase productivity, product development, sales and profitability. It involves new ways of identifying the needs of new and existing clients and of making and marketing the products and services that satisfy them. The research, development and use of new, cost-effective technology is central to this process, but innovation in other areas such as general management, marketing, finance and administration is equally important. Innovation is as much a requirement for competitive success in the services sector as it is in manufacturing.

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TABLE S4.2-Irish Owned Firms Contribution to Output and Employment, Selected Industries, 1990

	Output %	Employment %
Modern		
Electrical Engineering	12.3	22.7
Pharmaceuticals	3.8	13.6
Computers	2.1	7.1
Instrument Engineering	3.5	5.0
Traditional		
Non-Metallic Minerals	50.6	68.5
Metal Articles	62.4	72.5
Food (excl. Other Food)	85.8	84.4
Textiles	27.9	32.3
Clothing, Footwear & Leather	75.8	67.3
Timber	83.5	91.9
Paper & Printing	81.8	87.1

Source: CSO, Census of Industrial Production

4.15 Repositioning: Repositioning is the other side of the innovation coin. If firms undertake adequate research and development across the full range of business functions, the opportunities to reposition the activities of the firm from low-growth, low-profit activities to more secure and profitable areas will emerge. Repositioning can take a number of forms:

- Companies in traditional sectors making low-cost, undifferentiated products can move to higher value-added products and markets, e.g., a general engineering company moving from reliance on traditional job-shop engineering to the development and manufacture of its own proprietary product or machine. Such a move typically requires new investment, new technology, higher management capability (especially in marketing) and more highly-skilled employees;
- Firms in low-growth, low-profit areas can move to other parts of the sector's value-chain where higher returns are available, e.g., a clothing manufacturing company can move to international direct marketing of out-sourced products;
- New start-up companies can be encouraged to invest in the emerging growth sectors and in the areas of traditional industry where growth prospects and profitability are good. The process must be market-led.

4.16 The key to achieving a significant repositioning will be to achieve the highest possible number of start-ups in the new growth sectors. The collection and dissemination of market information and intelligence is a central requirement. The ultimate responsibility to achieve repositioning will be a matter for individual firms, but trade associations and the State development agencies have an important role in facilitating the collection of required information. The State development agencies will also be required to work to help firms exploit these areas of high potential growth, through incentives, the promotion of related education and training initiatives and supporting centres of excellence in related areas of research, technology and market assessment.

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4.17 Developing the Scale of Irish-Owned Firms: Very few Irish-owned businesses have developed into true global players. The vast majority of firms remain small and lack of scale is a substantial barrier to growth in increasingly global markets. Firms have a variety of options to achieve scale ranging from organic growth to licensing opportunities to alliances, partnerships, joint ventures, mergers and acquisitions. Many of the firms that recognise the need to achieve an increased scale of operations lack, however, strategic and general management skills to achieve it on their own. The achievement of the scale needed to become significant players in global markets will require heavy investment by a significant number of Irish-owned firms. The required investment will materialise only if the potential profitability is commensurate with the risks involved and attractive relative to alternative investment opportunities. Where necessary, it will also require a strong partnership between firms and the development agencies in sourcing the investment required through internal and externally generated equity, grants, loans and other supports, and in upgrading the strategic planning and management capability of firms. The development of scale in companies will need to be balanced with the requirement to maintain and develop a strong competition policy.

4.18 Profitability: Successive Forfás surveys have shown that the general level of profitability in Irish-owned industry is low and has been a barrier to securing the investment resources required to achieve the transformation in innovation, repositioning and scale needed if the sector is to maintain and build on the improved growth performance achieved in recent years, following the long-term secular decline experienced for the most part over the past twenty years. A determined effort to break the vicious circle is required and the efforts of the State development agencies require to be specifically dedicated to the unique requirements of Irish-owned enterprise - both in the small-firm sector and in the case of medium-sized firms. The services provided by ABT, Forbairt, FÁS and Shannon Development need to be developed in the context of the long-term strategic needs of the sector and delivered in a coherent and co-ordinated programme of supports.

4.19 Irish-owned manufacturing has made some progress over the past 4-5 years in halting and reversing the long-term decline in employment levels. With the correct policy framework, the progress made can be consolidated to double the level of output in the sector by 2010 and to achieve a 10 per cent increase in the level of employment in the sector to 140,000.

Foreign Direct Investment

4.20 Foreign direct investment has played a major role in the social and economic progress achieved in Ireland over the past thirty years. The more than one thousand overseas-owned companies now in Ireland employ over 100,000 people directly and support as many jobs again elsewhere in the economy. They account for approximately 55 per cent of manufacturing output and over 70 per cent of industrial exports and help to link Ireland with global markets and international trends in marketing, distribution technology, work organisation and management practice. Overseas firms will continue to be a major source of employment and wealth creation in Ireland over the next fifteen years and beyond. Research undertaken by Forfás indicates that over the period, globally, foreign direct investment will grow strongly with the main sources continuing to originate in the USA, Japan, Germany, France and the UK. The "Asian Tiger" economies will also become an increasing source of such investment. Electronics, pharmaceuticals, telecommunications and biotechnology will be the main sectors of FDI growth - sectors where Ireland has been successful to date in competing for such investment.

4.21 While globally foreign direct investment will increase significantly over the next fifteen years and beyond, it is expected that Europe will attract a smaller share of such investment as China and the economies of South-East Asia become more attractive investment locations. Within Europe, Central and Eastern European countries will attract a higher share of mobile investment and pose far stronger competition for Ireland. In addition, even the more developed European economies including Germany, France, Denmark, Netherlands and the UK are stepping up their efforts to attract and maintain foreign direct investment in projects at the higher end of the value-added chain. Again, firms seeking overseas locations will tend to

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do so to a greater extent in the future in the form of joint ventures and alliances with strong local firms rather than through greenfield projects. The changing nature of the foreign direct investment market will, accordingly, bring particular additional competitive pressures on Ireland's position over the next decade and beyond.

4.22 The central thrust of Ireland's strategy for foreign direct investment over the next fifteen years and beyond will need to address a number of key elements. At direct promotional level, these include:

- **Developing the Existing Overseas Base:** Many overseas firms located in Ireland are still based on manufacturing production and assembly. Such firms have weak links with the Irish economy and, accordingly, Ireland remains vulnerable to competition from other countries for new rounds of investment. Policy must increasingly encourage existing overseas companies to locate more business functions in Ireland in areas such as marketing, research and product design;
- **Focusing on Higher Value-Added Products:** Low-skill, low-wage jobs will, increasingly, flow to low-wage countries. Ireland can compete for knowledge intensive jobs in areas like electronics, pharmaceuticals and biotechnology. It must also achieve greater success in attracting other elements of the manufacturing process such as research, design, sales, customer support and administration;
- **Early Identification of Growth Sectors:** Ireland has done well in the past through identifying and exploiting high-growth sectors of foreign direct investment at an early stage of their development, e.g., tele-marketing, electronics and by designing incentive packages geared specifically to the needs of these sectors. This strategy will continue to be important in attracting FDI;
- **Targeting New Modes of Investment:** As greenfield investments decline in relative importance, Ireland must focus to a greater extent than in the past on "follow-on" investments and attracting joint ventures, alliances and acquisitions. Because of the small size of the domestic market, as well as the limited number of Irish companies ready to engage in such alliances, there will be additional difficulties for Ireland in attracting such partners, and special efforts will be needed. An additional focus should be on new business start-ups, and on attracting entrepreneurs from overseas to locate their businesses here;
- **Incentive Package:** In earlier years, Ireland was a market leader in terms of the "product" offered to attract foreign direct investment and the effectiveness with which this "product" was marketed. Countries competing with Ireland for foreign direct investment adopt today a far more professional and competitive approach than previously. It will be essential for IDA Ireland to seek to maintain a market leadership position and design and maintain a highly competitive "product" for foreign direct investment. This includes the direct incentives package that is offered, together with the overall taxation regime and the general issues of competitiveness discussed elsewhere in this report.

4.23 Apart from the thrust of policy in the area of direct promotional measures, a successful strategy for the attraction of foreign direct investment to Ireland over the next fifteen years must be underpinned by a number of key support measures:

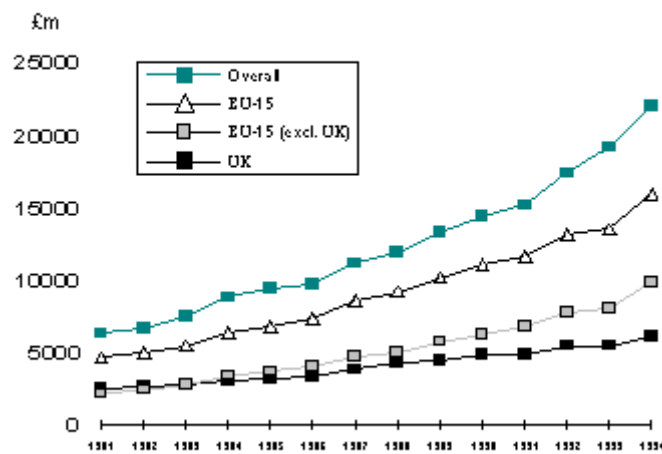
- **Competitive Cost Base:** This must be kept in line with those of Ireland's main competitors for foreign direct investment;
- **Information and Communications Infrastructure:** The highest international standards are needed;
- **Transport and Logistics:** Technological advances in this field must be used to the full;
- **Education and Training:** This is an area where Ireland, building on relatively good foundations, can develop a competitive advantage.

The Promotion of International Trade and Market Development

4.24 Economic development in Ireland is hugely dependent on achieving success in international trade. Irish export performance has been impressive by any standards. This performance has been driven to a large extent by foreign-owned firms. The export performance of Irish-owned firms, with some notable exceptions, has been less impressive.

4.25 A key feature over the past twenty years has been the rapid diversification of Ireland's export markets. The UK remains by far the most important export market for Irish firms and particularly so for Irish-owned firms. This is likely to remain the position over the next fifteen years and beyond. However, the pattern, seen in Figure S4.1, of an increasing share of Irish exports going to EU markets other than the UK will also continue. Since the mid-1970s, Ireland's share of imports into the EU increased rapidly, rising from 0.6 per cent to a current level of about 1.5 per cent. Our share of UK imports rose more slowly, rising from about 3 per cent to just over 4 per cent over the same period.

Figure S4.1 - Irish Merchandise Exports by Selected Regions (Constant 1990 Prices), 1981-1994



Source: CSO, Trade Statistics.

4.26 Ireland's strategy for promoting international trade and market development over the next fifteen years should be guided by seven main principles:

- **Competitiveness:** Export market development can only occur in the context of a competitive, innovative and flexible economy. Measures to address underlying competitive disadvantages, innovation weaknesses and institutional rigidities are an inescapable prerequisite for continued successful export performance into the next century;
- **Market-Driven State Support:** Individual firms must remain the best judges of where export development should take place but the State has an important role to play in providing information, support and infrastructure to facilitate this task;
- **Policy Differentiation:** The design of policy must take into account the different factors which influence the export performance of the larger, multinational firms and the mainly Irish-owned, small and medium-sized enterprise sector. The former have marketing resources and established distribution channels, and tend to require support more in the areas of trade strategy and information provision. Irish-owned companies tend to require detailed market information and advisory services to compensate for their lack of expertise in specific fields. They also frequently require direct support to build in-house marketing capability;
- **UK Market:** While the need for diversification will continue, the UK market will remain Ireland's biggest single market. This will be particularly the case for Irish-owned firms, including first-time exporters. This fundamental position will require continued reflection in policy measures and support strategies specific to the characteristics of the UK market;

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- **European and Other Markets:** Increased penetration of Continental European markets will remain the most important export objective over the next fifteen years. However, the rapid growth of new and emerging markets cannot be ignored. In these markets, however, given limited resources, a selective approach is essential. State support should only go to the development of markets for those knowledge-intensive or high-value products where Ireland can exploit a competitive advantage in the longer term;
- **Services:** The changing dynamics of international trade, particularly the growing importance of trade in services, must be reflected in the allocation of State resources to encourage export growth;
- **Outward Marketing Investment:** The close relationship between trade and investment must be recognised and, in particular, export market development by Irish firms will often require outward investment to establish direct subsidiaries, joint ventures and service companies in markets abroad.

4.27 Further successful export development will depend on improving the overall competitiveness of the economy and that of individual firms. The primary market focus for Irish-owned exporters will continue to be the EU and, within the EU, the UK in particular. Resources must be clearly focused on securing an increasing share of both of these market areas. The objective should be adopted to double Ireland's market share of EU imports, to some three per cent of the total, within the next fifteen years.

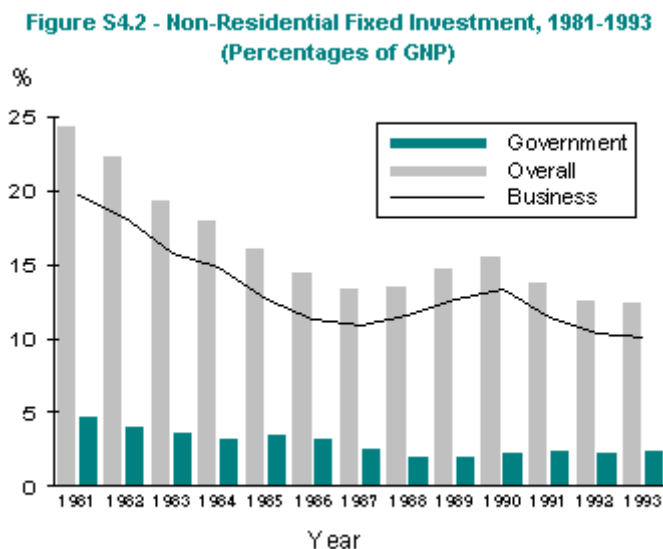
4.28 Success on international markets will be determined by a wide range of factors and policies which are discussed elsewhere in this report. However, specific policy measures to promote international trade and marketing should include:

- **Developing a Planned Approach:** A high-level joint public/private Trade Policy Advisory Group should be established under the aegis of the Minister for Tourism and Trade to advise on the future direction of trade and marketing strategy and to review its implementation. This will include the drawing up of guidelines as discussed above;
- **Enhancing Trade Policy:** Ireland should pursue an active policy at EU level and in the World Trade Organisation for the removal of all trade barriers and the opening of markets;
- **EMU:** To ensure Ireland remains attractive for foreign investors and export customers, the full range of policy measures discussed in Chapter 2 should be kept in place, to enable Ireland meet the Maastricht criteria for EMU membership. These policies will, on their own merits, enhance Ireland's international trade prospects by providing the necessary macroeconomic stability and market size;
- **Developing a Positive Image of Ireland:** A well-structured programme to promote a more positive awareness of Ireland abroad and an awareness at home of the importance of exports should be developed. All Irish public agencies should be on the Internet. Exporters should be encouraged to take a similar position with support, if required, in setting up home pages that lead to business opportunities;
- **State Support:** Assistance to companies exporting to the UK should be in the context of securing an increased overall share of UK imports. Particular attention should be paid to those firms selling there for the first time and which have the potential to create a strong market position. The rest of the EU market will remain the main priority for increasing market share and should continue to attract value-for-money related state support. As noted above, a selective approach should be taken to assisting exporters to emerging markets in South-East Asia, Latin America and Central and Eastern Europe. Effective supports for firms trading services internationally will be an important and growing area of activity. Improved export credit insurance should be put in place to help firms selling to high risk markets.

Finance for Development

4.29 Irish enterprise needs access to new sources of finance to fund growth. There is a shortage, in particular, of long-term loans for business and of equity for young, high-growth companies. New ways must be found for the banking and financial sectors to channel national savings into investment in enterprise and, in doing so, boosting growth and employment. The fundamental sources of development finance for companies come from their own resources, from raising new loans and equity or from drawing on Government financial support. The key issues in developing a new policy of financing job creating business are the way Irish capital markets operate, the interaction between the banks and industry and sources of venture capital. The recommendations in this section fall under those headings.

4.30 Investment plays a pivotal role in the growth process. However, the trend in fixed investment by business has been quite weak for much of the past fifteen years (see Figure S4.2). This is particularly true of the manufacturing sector, where non-residential fixed investment halved from 5.8 per cent of GNP in 1981 to 2.9 per cent in 1993.



Source: CSO, National Income and Expenditure Accounts

4.31 Capital Markets: A serious problem for business development is an "equity gap" for companies seeking amounts of up to £300,000. This can severely limit the growth rate of so-called emerging companies, i.e., companies which have successfully established as small firms and have the ability to expand quickly. This gap may have opened for a number of reasons. Traditionally, investors have been adverse to taking on the higher risks associated with investing in smaller companies. Difficulty in selling on shares purchased is also a constraint. However, a key problem is the general lack of profitability of Irish-owned industry. Policies must seek to rectify the factors underlying this with the objective of doubling the general level of profitability in Irish-owned firms from 4 per cent to 8 per cent of sales over the next fifteen years.

The financial markets may also be able to provide new sources of finance to business. The development in Ireland of an active corporate bond market requires serious consideration. An examination of the potential for financial markets to play a more active role in financing the future growth and development of Irish business should be undertaken by the development agencies and the Department of Enterprise and Employment.

4.32 At present the equity market is irrelevant to the financing needs of the vast majority of businesses. The proposed new Developing Companies Market on the Irish Stock Exchange could change this, and improve the capacity of the market to cater for the needs of small

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companies. The development agencies should also work with the new Stock Exchange Committee to examine the whole issue of the market's role in funding Irish business.

4.33 Role of the Banks: The business sector frequently states that the banks are unwilling to extend long-term finance on reasonable terms, that they demand too much security and take over-generous profit margins. Banks, on the other hand, assert the need for the prudential management of funds they invest on behalf of depositors and urge business firms, especially small start-up firms, to reduce their risk profile by seeking a diversified source of finance and improved management practices. There is a strong case for banks playing a much more proactive role in providing long-term finance, support and advice to companies. Further low-cost loan schemes administered by the banks, and sponsored by the Government, should be clearly focused on emerging companies with good growth potential. To do this, the banks should be encouraged to develop closer relations with firms and to develop a better understanding of the needs and dynamics of emerging high-technology companies in particular.

4.34 Role of Venture Capital: Some improvement in the availability of venture capital has taken place in the past year or two. Existing initiatives should be further developed. The seed/venture capital measures in the latest EU Operational Programme for Industry will provide EU funds of some £33 million for venture capital purposes over the next five years, to be co-financed by the private sector, bringing the total of venture capital available under the scheme to approximately £66 million. Several existing venture capital funds will benefit. This initiative should be built upon to encourage the greatest possible level of participation from the private sector.

The Irish pension funds have also recently become involved in providing venture capital for investment in more established businesses. The provision of taxation benefits to the pension funds should be linked to their continued support for the enterprise sector, as demonstrated by investment levels in manufacturing and service sector firms. The pension funds should also be encouraged to invest in the provision of the infrastructure necessary to support enterprise development in areas such as transportation, telecommunications and utilities.

4.35 Role of the State: The Government has a keen interest in encouraging fast-growing young companies, and existing policies attempt to promote such enterprises. However, policy makers must search for new approaches.

In the tax area, lowering income and capital gains taxes have aimed to encourage enterprise. However, the range of incentives for individuals investing in business must be urgently reassessed. They should offer a better potential return for those putting money into young businesses where the risks are higher.

4.36 New ways to encourage the financial institutions to become more involved in the provision of equity should be examined. Two models are worth examining:

- In the USA, Small Business Investment Companies (SBICs), were set up to assist small and medium-sized companies, and are overseen by the Small Business Administration (SBA). An SBIC is run by an independent operator in each area and capital subscribed by the private sector is "matched" on a 2:1 basis by the SBA, either through the sale of securities to the SBA, or through the issue of SBA guarantees. Securities sold to the SBA are grouped together and floated on the Stock Exchange, with a US Treasury guarantee. A similar vehicle in Ireland could increase the involvement of the banks and other institutions in the provision of long-term finance to business;
- In the UK, Venture Capital Trusts (VCTs) are set up as quoted companies which must invest at least 70 per cent of their funds in unquoted businesses. A range of tax reliefs have been extended to investors in VCTs to encourage their development. A similar scheme in Ireland could attract institutional investment from fund managers, who tend

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to invest only in large and liquid market stocks. The incoming Stock Exchange board should consider such an approach.

Further analysis of these schemes and their adaptation to Irish requirements is desirable. In view of their primary focus on the Irish-Owned sector, Forbairt would be the appropriate agency to take the initiative in this regard. However, the involvement of financial institutions, especially the banks, in the design and operation of these schemes will be essential.

THE CRITICAL SUPPORT POLICIES REQUIRED FOR ENTERPRISE DEVELOPMENT

Introduction

5.1 It has been argued in the Culliton Report (1992) and elsewhere, that Government policy, in a whole range of areas, had paid too little attention to supporting enterprise and job-creation. Since then significant progress on many elements of the enterprise agenda has been achieved. What is now required is a long-term strategy framework which can help to establish an enterprise support agenda for future action across a range of policy areas. In this chapter, four policy areas of critical importance in supporting enterprise development are considered:

- A stronger approach to the control of public finances to facilitate a process of tax reduction and reform in order to drive enterprise, employment and wealth creation;
- A competition policy which fosters innovative, successful, market-driven enterprise and which safeguards the interests of consumers;
- The achievement of higher levels of education and skills among people as a source of both individual development and national competitive advantage;
- The further development of policies in science and technology, to support innovation by industrial and service sector firms, and within the public services.

Public Finances and Taxation

5.2 A fundamental change is needed in the approach to planning the public finances. Budget preparation inevitably involves a degree of iteration between expenditure demands and revenue generation. At present the current tendency is to decide on public spending first and then to identify how it will be financed. The approach, however, must shift towards agreeing a level of taxation and expenditure consistent with a reduction in the overall burden of taxation and public debt. Lower taxation - and reforms to its structure - will be essential in providing a greater incentive for enterprise and job-creation. The underlying rationale is that a balance in favour of the expansion of the market economy, relative to the public sector system, is most likely to yield the increase in overall employment levels and living standards required, while ensuring a more certain and sustainable level of resources for a real increase in public service provision.

5.3 The approach required, therefore, is that reform of the tax system be continued in the context of a more explicit statement of the required evolution of the public finances, and the goal of expanding the relative size of the market sector of the economy. The more successful the development of the market sector of the economy is, the greater the resources that are likely to be available for the provision, development and enhancement of necessary public services. The converse will also apply. The main targets that should be put in place include:

Debt Target: A steady reduction in the debt burden - as measured by the ratio of general government debt to GNP - is essential to free resources for cutting taxes or increasing public spending. The Maastricht Treaty already sets a debt to GDP target of 60 per cent and Ireland has moved rapidly towards the achievement of this target from 117 per cent in 1987 to 86 per cent in 1995. A challenging and appropriate fifteen-year target (to 2010) would be a debt to GNP ratio of 50 per cent, equivalent to a debt to GDP ratio of about 43 per cent;

Overall Level of Taxation: To achieve a significant shift of resources from the public to the market sector requires a steady reduction in the tax burden. Currently, total taxation (including PRSI) is equivalent to about 40 per cent of GNP. This compares to approximately 28 per cent that prevailed in the mid-1960s and the current average of 42 per cent in EU Member States. A target of a taxation to GNP ratio of 35 per cent by 2010 would make clear the implied relative shift of resources towards the market sector of the economy as the main driver of

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economic growth. Major economies such as the USA and Japan have low tax to GDP ratios of about 30 per cent, while the figure for the UK is about 34 per cent;

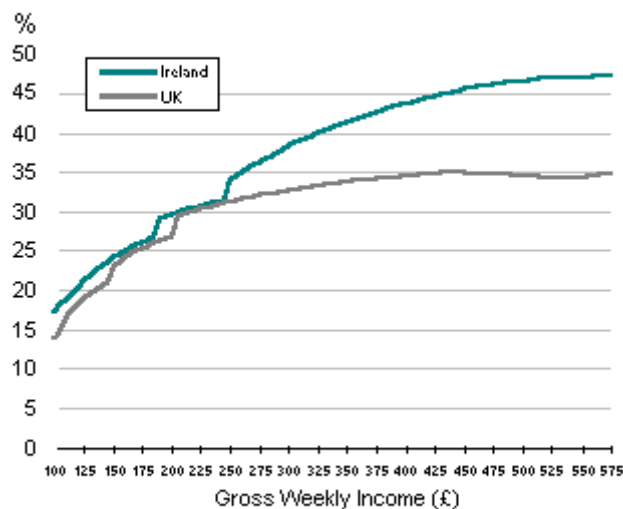
Public Spending: With targets set for debt levels and taxation, the scope for public spending growth depends on the level of economic growth. An annual average economic growth of 5 per cent in real terms over the period would enable an average annual expenditure growth of at least 2.5 per cent in real terms. This is in line with the real increase of 2.5 per cent projected in the 1996 Budget.

5.4 The level and incidence of taxation, even within an appropriate tax to GNP ratio, can greatly affect the competitive position of firms. A key problem for Irish enterprises, for example, is the lower costs of taxation and social insurance (for both employers and employees) in the UK. A critical factor is the tax wedge - the gap between the cost to the employer of employing someone and the net pay received by that person. For single workers the tax wedge in Ireland is out of line with the UK. A recent study undertaken by Forfás shows that, at the average manufacturing wage, the gap for single workers is 12 per cent for 1996/1997 (see Figure S5.1). This is a significant improvement since 1994/1995 when this gap was almost 19 per cent.

5.5 Higher rates of employer PRSI in Ireland compared with the UK pose particular competitive problems for firms in labour intensive sectors. Some progress in this area has been achieved in the Budget changes of 1995 and 1996, but there is scope for further reductions in PRSI rates.

5.6 Further problems are caused by the unemployment and poverty traps. The unemployment trap refers to a worsening of the income position of an unemployed person on taking up employment, due to the combination of the loss of social welfare income, and other maintenance benefits, and the taxation of income.

Figure S5.1 - Comparative Tax Wedges for Single Persons as a percentage of Gross Employer Cost, 1996/1997



Source: Forfás calculations.

Note: Assumed Punt/Sterling Exchange Rate - IR£1 = STG£1.035

The poverty trap occurs where an increase in gross pay to an employee leads to a fall in disposable income, resulting from higher taxation and the loss of family income and other supports associated with the higher nominal income that the pay increase brings about.

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5.7 Policy measures required to address these problems include the following:

Widening the Tax Base: A further widening of the tax base should be adopted to facilitate the lowering of the tax burden on the enterprise sector of the economy, and to make it more attractive for people to take up employment. Remaining tax reliefs and incentives should be reduced to the standard rate. The VAT base should be expanded to include a broader range of goods and services. A great many tax incentives have been introduced on an ad hoc basis, resulting in an overall system which lacks coherence, is difficult to administer efficiently and effectively, and promotes a thriving non-productive tax-avoidance "industry". The result is a higher burden of taxation for the less-favoured sectors. There is, therefore, a need for a fundamental review of these incentives. They should be retained only in highly selective circumstances for fixed periods where it can be shown that they are most likely to achieve increases in employment and investment that would not, otherwise, take place;

Reducing Corporation Tax: The rate and incidence of corporation tax can have a powerful impact on activity in the enterprise sector. The 10 per cent corporation tax rate for manufacturing has brought major benefits over the years in promoting employment and investment, both directly and indirectly, throughout the economy. From an Exchequer perspective it has been strongly positive with 58 per cent of corporation tax in 1993/1994 payable by firms paying at the 10 per cent rate - a level of revenue that would have been significantly lower in the absence of the ten per cent rate. There is now a need to give fundamental consideration to the corporation tax rate that will apply in the future in the context of international developments in corporation tax, and of the changing nature and source of employment and investment in the business sector in Ireland. There are three main options that require to be considered:

- The introduction of a single low rate of corporation tax;
- A further extension of the 10 per cent rate beyond 2010;
- The introduction of a discretionary "ruling system" to promote employment-generating business investment, in particular sectors.

Single Low Rate of Corporation Tax: A single low rate of corporation tax, for trading income, as close as possible to 10 per cent with perhaps a higher rate for non-trading income, would have significant benefits. It would retain an internationally-favourable rate for manufacturing investment. It would give a major stimulus to the development of Irish-owned service enterprises. It would also provide a favourable tax rate for internationally-mobile activities in the services sector, which are accounting for an increasing share of foreign direct investment in Ireland and in other countries.

The apparent costs of such reductions would be offset by revenues from increased activity in the same way that the 10 per cent rate for manufacturing has generated increased Exchequer revenue over the years. The revenue generated by the 10 per cent rate was above what it would otherwise have been, despite initial reservations that it would result in reduced Exchequer revenue.

Initial examination indicates that a single low rate of corporation tax for trading income is feasible. The option needs to be considered in further detail to address issues such as potential cost, administrative requirements, windfall gains and potential for abuse and tax avoidance;

Extension of 10 Per Cent Corporation Tax Rate: Because of the extensive lead-time between the design, implementation and profitability of large-scale projects, a decision on whether to extend the 10 per cent rate beyond 2010 should be taken in its own right within the next year or two, if further consideration of the single low rate of corporation tax indicates that it is not feasible. Any such decision should be accompanied by a gradual reduction of the standard rate of corporation tax to benefit services companies. Undoubtedly the 10 per cent rate of corporation tax has been the most powerful investment incentive in Ireland's economy since its introduction in 1980 and, as indicated, it has given rise to significant Exchequer revenues;

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"Ruling System": A number of EU countries have introduced a "ruling" system to provide low effective tax rates for preferred sectors of economic activity, on a general or a case-by-case basis. In some cases the effective tax rates negotiated for new investment projects under the system have been less than 10 per cent, although less certainty attaches to such "rulings" compared with the 10 per cent rate for manufacturing that applies in Ireland. There is a growing interest in "ruling" systems in a number of countries. Ireland will need to review the possibilities in this area in that context. Initial examination suggests that such a system could have considerable constitutional and administrative difficulties;

Personal Income Tax : Further reductions in personal income tax are needed to promote enterprise and the incentive to work. By 2010 the aim should be that 80 per cent of all taxable personal income be liable at a standard 25 per cent rate, with the remaining income taxable at 40 per cent;

Indirect Taxes: In line with the focus on reducing effective rates of taxation on income earned by individuals and corporations, indirect taxation should be made as efficient and effective as possible. In this regard there is a strong argument for having a single lower VAT rate chargeable on a wide range of goods and services. Measures would be required to compensate low income groups adversely affected by the imposition of VAT on items which are VAT free at present;

Capital Taxes: At present, capital gains are taxed at 40 per cent, with a reduced rate of 27 per cent for gains on the disposal of shares in smaller Irish trading and professional companies. The 40 per cent standard rate of CGT is higher than in other EU Member States such as Italy, Spain, Luxembourg and France. Capital acquisitions tax is in the main levied at 40 per cent. However, a reduction of 75 per cent of the value is allowed for tax purposes when qualifying business assets are transferred by gift or inheritance.

Investors run a high risk of losing their investment if their projects are not successful. It is, therefore, desirable that the returns from successful projects are not unduly diluted by high levels of capital gains tax. High levels of capital acquisitions tax also act as an impediment to passing on assets from one generation to another. Capital gains tax should be reduced to the standard rate of income tax in order to encourage more people to undertake the risks involved in setting up a business. The rate of capital acquisitions tax should similarly be reduced;

Property Taxes: The yield from property taxes - including residential property tax, business rates and stamp duties currently amounts to just over 5 per cent of tax revenue. This is marginally below the average for OECD countries, although some countries raise much more from property tax, for example the USA (11.4 per cent), Canada (11.1 per cent) and Japan (10.5 per cent). The yield from property taxes in Ireland has almost halved over the past twenty years. While the issue is one of some controversy, the desirability of having a wider tax-base in Ireland and an improved system of local government financing makes it important to look at the whole area with objectivity and to consider some increase in yield from property taxes, widely defined, in a way which relates taxation paid to the level of services provided and ability to pay.

Competition Policy

5.8 The objective of competition policy is to benefit consumers through encouraging efficiency throughout the production and distribution process. Competition policies should, thus, be designed to prevent collusive and anti-competitive agreements between firms, and, to prohibit large companies or State monopolies from abusing dominant market positions. If the market sector is to provide the drive and direction necessary to sustain a higher level of economic performance over the coming decade and beyond, compared with what has been achieved in the past, it will need to be underpinned by a competition policy that is actively developed and implemented. Pro-active competition policy can promote the efficiency and productivity of firms, reduce the cost of inputs, including those charged by public utilities, and ensure that a dominant purchaser does not engage in predatory pricing. It can also affect the size and scale

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of enterprises through its control on mergers and acquisitions. In addition to safeguarding consumer interest, active competition fosters the creation of enterprises which are innovative, successful and market-driven and which can compete effectively and profitably against the best international competitors on domestic and overseas markets.

5.9 The Competition Act provides a strong legislative foundation for competition policy in Ireland. It needs to be complemented by a pragmatic review process between the Department of Enterprise and Employment, the Competition Authority and the representatives of business and consumer interests. A clear articulation of national competition policy is required, established within the framework of EU competition policy but taking into account in an even handed and objective way, the particular characteristics of business and consumer interests in Ireland.

5.10 The objectives of a national competition policy should be to ensure that:

- Irish business does not engage in collusive and anti-competitive practices;
- Irish business is not penalised by uncompetitive supply sectors, whether manufacturing or services, public or privately owned;
- Irish consumers are not penalised by anti-competitive practices.

5.11 A competition policy for the 21st century should include the following elements:

- **The Application of a More Competitive Approach to the Supply of Public Services:** Competitive criteria are needed to measure the price and quality of service provided by State companies. State enterprises should meet set performance criteria of return on capital employed. State regulatory and licensing activities which impede competition should be reviewed with the aim of eliminating the anti-competitive elements;
- **The Non-Traded Services Sector Should be Targeted for Particular Scrutiny Under Competition Law:** Non-traded private services and potential abuses of dominant positions in these areas should be key targets of competition policy. A comprehensive system of cost monitoring should be put in place in order to monitor input costs in key non-traded sectors. Industry and trade associations have an important role in doing this;
- **Information:** Everything possible should be done to reduce the compliance burden on industry and competition policy should have a clear and streamlined administrative structure including the Competition Authority as a focal point. A guidebook and case studies on competition policy should be prepared by the Department of Enterprise and Employment and widely disseminated;
- **Review of Companies with Dominant Market Positions:** The activities of companies which have a dominant position in the Irish market should be reviewed systematically and periodically by the Competition Authority for compliance with competition law;
- **A Competition Authority** with appropriate powers and resources to pursue actively the objectives set out above is essential. Achieving this will require, inter alia, rapid implementation of the measures foreseen in the Competition (Amendment) Bill, 1994, which is at present before the Oireachtas. These include heavy penalties for anti-competitive behaviour. It also makes clear the right of companies, at a loss from such behaviour, to seek compensation in the courts;
- **EU State Aids:** Less developed countries such as Ireland do not have the resources to compete with larger, richer countries in bidding for investment projects. More resources should be allocated to tracking and monitoring EU State Aid developments. It is in Ireland's interest to support actively and promote the differentiation of State Aids in favour of less developed regions which underlies the principle of economic and social cohesion.

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Education and Training

5.12 Life-long access to education and training is fast becoming a key measure of social equity, an indicator of the quality of life available to all members of society and an important determinant of the competitiveness of the enterprise sector of the economy. Education and training policy is an area within which social and economic objectives can be brought together in a way that is mutually consistent and supporting. The full and rounded development of the individual, which is at the heart of all educational policies, is perfectly consistent with the creation of a skilled and innovative workforce which meets the requirements of a successful, knowledge-driven enterprise sector.

5.13 Education and training will be key tools in developing competitiveness over the next fifteen years. In a world where most of the inputs and technologies used in the production process will be traded freely, competitiveness will increasingly depend on the skills and creativity of the workforce. Ireland, building on relatively good foundations, can develop a competitive advantage.

Major changes in education and training are happening internationally:

- Human resource development has become a higher priority for enterprises and for governments. New management approaches, such as world-class manufacturing, emphasise the need to promote high-skill levels right through an organisation. With low-skill jobs increasingly moving to countries with lower labour costs, more developed countries such as Ireland will come to rely more and more on high-skill industries;
- There are increasing demands for new skills. Intense competition and technological changes are putting new demands on skill requirements at all levels, and will continue to do so. Life-long education and training, throughout a career, must become the norm. The nature of skills required is also changing: for example, the revolution in communications technology is increasing the demand for information processing skills while the increasing globalisation of business is placing a premium on foreign language skills. The pace of technological and related organisational change in firms is such that the workforce increasingly needs the flexibility that comes from a good base of generalist skills and the ability to learn quickly;
- New patterns of work are emerging. Part-time, contract and temporary work is increasing and employees are changing jobs more frequently. Individuals will, accordingly, be required to assume more personal responsibility for their own educational development and training throughout their working life. The role of the State will, increasingly, be that of a facilitator to individuals in planning and meeting their educational and training requirements;
- Education and training institutions are becoming more responsive to the needs of existing and potential clients. This reflects new client-oriented approaches by the institutions themselves, together with closer links to industry.

5.14 In the light of these international trends, very significant changes in the approach to education and training in Ireland will be needed. Ireland's current position, while similar to many competitor countries, is not as good as the best. At the same time, competitor countries are investing heavily in human resource development through education and training policies. Ireland cannot afford to fall behind.

5.15 Significant deficiencies in skills in Irish industry have been identified by a succession of reports. For example, Irish-owned industry has key weaknesses in operations and management skills, particularly in relation to strategic positioning. There are also weaknesses in the strategic management skills in place in the multinational sector in Ireland arising mainly from the branch nature of this sector of activity. These skill deficiencies largely result from a lack of adequate investment by businesses in training. Research indicates that, internationally, good practice is for industry as a whole to spend some 3 per cent of payroll on training. In Ireland, the average spending of industrial firms on training is just 1.2 per cent and

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is considerably lower than this in small and medium sized enterprises. There are also significant weaknesses in the support structures available to upgrade training activity in firms. These include a shortage of good advisory services to firms on the planning and sourcing of training, and the absence of a general certification system for ongoing training in firms.

5.16 In the area of initial education and training, there are a number of significant weaknesses. More than a quarter of school leavers enter the labour market directly without obtaining any further qualifications beyond those achieved in second-level. These deficiencies need to be addressed through new training programmes for those who would otherwise become unemployed and through well-structured traineeships for those entering the workforce. Such a traineeship system would be based mainly on ensuring that new entrants into work receive initial training appropriate to the area of work which they are starting and that certification is provided to the individual for this training. The main focus should be on meeting the need of firms for job-specific, occupational and generalist skills. Learning would be through a mixture of practical work, on-the-job training and off-the-job training designed to qualify trainees to an occupation-specific, national standard in a structured manner. The new system should be organised jointly by the enterprise sector and FÁS and certified by Teastas. The State would contribute enough of the costs to make the scheme attractive to employers. In this context, it should be borne in mind that the State already pays for the education or training of school leavers who go to third-level, attend a PLC or do an apprenticeship.

5.17 The minimum level of training and education required to become an effective member of the workforce has been increasing greatly and this trend will continue. Low educational participation and attainment will continue to contribute to a problem which Ireland shares with many other countries - the emergence of an unemployable underclass. The range of jobs that can be undertaken by those who have not attained at least a Leaving Certificate level of education is falling rapidly. A key goal must be to increase the numbers entering second-level education who complete the Leaving Certificate from 78 per cent in 1994 to 90 per cent by the year 2000 with a view to ensuring 100 per cent completion of second level education or equivalent full-time training by 2010.

5.18 The key elements of a new approach to education and training should include the following:

- **Broadening the scope and increasing the responsiveness of the education sector:** Educational institutions urgently need to prepare for the changed competitive environment and the coming decline in the numbers undergoing full-time education. The system needs to become more responsive to change, in particular to changes in the pattern of enterprise skill requirements:

- An area of particular concern at present is that of languages. At each level, there will be a need for a greater focus on foreign language learning, with emphasis on oral competence, and on languages likely to be relevant to future needs. In addition, enterprises should be encouraged to recruit people with linguistic skills and to place a premium on such skills in the recruitment process;

- Educational institutions should be actively encouraged to increase part-time provision of education, in order to cater for the increasing needs for lifetime learning (e.g., adult education and vocationally-orientated courses for those at work). Similarly, there should be high levels of public access to electronic media, in order to encourage lifetime learning and to increase the flexibility of forms in which education is available. In general, there should be a re-balancing of the resources allocated to education in favour of lifetime learning;

- The Department of Education, and the Higher Education Authority, in consultation with the development agencies, should continually monitor the provision of education and training in the light of the changing needs of the enterprise sector. Among the areas which require priority development at third-level at present, are

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software/computer science, design, languages combined with other disciplines, business subjects combined with other disciplines, biomedical engineering and applied bioscience and programmes combining engineering/technician qualifications with operations management and product development management;

- Industry has a role to play in supporting change in education through giving practical help and advice to second and third-level institutions, and through working with third-level institutions in areas such as research and development. There is an important enabling role for the State in removing obstacles and preferentially directing resources towards institutions that are seen to be responsive.

- **A New Emphasis on Building Competitiveness through Human Resources:** Businesses must transform their approach and invest more in the skills and knowledge of their workforce which will increasingly determine the competitiveness, survivability and development of firms in the years ahead. Employer bodies, industry associations and trade unions have a major role in creating awareness in this area. To assist firms in decisions to invest more heavily in human resource development, the development agencies can provide significant information support by undertaking research into best practice management approaches to human resource development. Agency support for management training should continue to be an integral part of a firm's business development plan. This will require further development of the working relationships at operational level between FÁS and the promotional agencies including Forbairt, IDA Ireland, Shannon Development and Údaras na Gaeltachta.
- **More Than Double Training Investment Within Five Years:** A special programme should be initiated by FÁS, in conjunction with employer bodies, industry associations and the other development agencies, to encourage increased investment by firms in training and human resource development. The advisory and quality assurance services of FÁS require to be upgraded accordingly. Additional grant-aid should be allocated to this area within the overall industry budget. The aim should be to more than double the present level of current expenditure by firms on training within five years. Grant payments should be subject to stringent tests of the quality and relevance of the training undertaken by firms. Private sector provision of training should be encouraged under the new programme as well as the greater engagement of educational institutions in the provision of training.
- **Developing Initial Education and Training:**
 - A system of nationally-certified traineeships, involving a combination of off-the-job and on-the job training, should be instituted for those going directly from school into the workforce. The traineeships should be designed in conjunction with the private sector. All those who do not enter the workforce after completing the Leaving Certificate should have access to further training or education through the Post-Leaving-Certification (PLC) courses, the third-level sector or a combination of both;
 - The minimum compulsory school leaving age should be progressively increased to 17 by the year 2000 to ensure that virtually all pupils complete the senior cycle or an equivalent full-time training programme. Private sector education and training institutions should be encouraged, but also must be subject to careful regulation and accreditation to ensure high standards;
 - Workers with inadequate levels of basic education should be specially targeted in order to prepare them for the workplace of the future.

Science and Technology

5.19 No country can compete effectively without a deep understanding and vision of the role of science and technology, and the need for a strategy to implement it. Ireland must harness the full potential of technology for industrial and economic development. National competitiveness is greatly determined by effective investment in science and technology. Companies and countries which do not make the necessary investment will inevitably fall behind. In deciding on areas where effective investment in science and technology should take place, considerable attention has been paid in recent years to the idea of "generic" technologies. The idea is that, at any particular time, a few key technologies have pervasive effects across a wide range of sectors and activities and that investing in them can pay off in terms of increased productivity and growth. Such generic technologies today include microelectronics, software, computers, telecommunications, robotics, new materials, aerospace and biotechnology. As a small country, Ireland will have to be selective in the areas where resources are invested, to optimize the return for Ireland from these emerging technological trends.

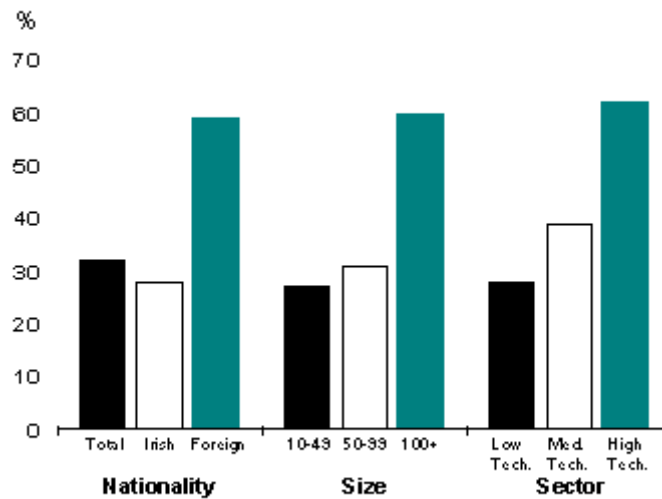
5.20 Ireland's Position: An examination of Ireland's position in the area of science and technology reveals a number of important facts:

- By international standards, Ireland has a relatively high proportion of the relevant age-cohort in second-level education but a particularly low-level in vocational training. At third-level, the balance of technology-orientated degrees is biased to the natural sciences, relative to engineering, computer, software, biotechnology and medical sciences;
- Business sector R and D spending in Ireland amounted to more than £270 million in 1993, with a real annual growth of approximately 20 per cent per annum over the previous two years. As a percentage of GDP, such investment now stands at over 0.8 per cent. This is in line with some of the smaller OECD economies and is moving towards the EU average of 1.24 per cent;
- The electronics/software sector is the main contributor to business R and D spending, with multinational companies accounting for most of the annual spend. In chemicals/pharmaceuticals, multinationals also dominate. However, most R and D spending in the food and drink sector is attributable to Irish-owned companies;
- A recent Forfás survey of the innovation status of Irish industry has found that 59 per cent of foreign-owned firms and 28 per cent of Irish-owned firms were innovative. This conclusion is based on criteria relating to the introduction of new products or processes within a defined period. As well as highlighting the relatively better performance of the overseas sector, the survey also showed that larger firms were more innovative, while, predictably, innovation was more prevalent in higher technology companies (see Figure S5.2).

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Figure S5.2 - Innovation in Ireland:
A Profile of Innovating Firms, 1993



Source: Forfás, Technological Innovation in Irish Manufacturing Industry, 1994

Research and development is not the only factor driving innovation. Design, trial production, market demand and the importation of technology are also significant factors.

Overall, Ireland faces a major challenge in relation to achieving further significant increases in investment in commercially-driven technology, if high-skill/high-wage industries are to become more prevalent.

5.21 The main elements which science and technology policy should encompass to support higher levels of general and economic development over the next decade and beyond include :

- **Effectiveness and Focus:** Government spending on science and technology accounts for 2.3 per cent of GNP. This total expenditure, however, is derived by aggregating a range of sectoral expenditure programmes. It is not allocated within any coherent overall framework of objectives and priorities. There is a need for new inter-departmental organisational arrangements to rectify this deficiency;
- **Improve the Relevant Skills in the Workforce:** As discussed above, a considerable upgrading in the knowledge and skills of school-leavers and graduates will be required to ensure that Ireland avails of the significant emerging opportunities in new growth sectors.

This requires changes at primary, secondary and third-level. The recent White Paper on Education makes sensible proposals for a new science programme at primary-level. This programme should be quickly put in place, supported by the necessary resources and with a particular emphasis on basic computer training. At second-level, all school-leavers should have achieved at least a basic understanding of science and technology through a combination of teaching, curriculum development, external contacts and work-experience. The emphasis in scientific and technological education at third-level should be to maintain and improve standards and to link curriculum development and research endeavour with the identified needs of business firms in Ireland to the greatest extent possible.

Business firms individually, in groups, and as part of industry associations need to define their research needs and communicate them at a range of levels to the academic sector. While a strong orientation towards applied research is essential at Ireland's stage of development there is also a need for the full recognition of the importance of basic research for future social and economic development and its

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contribution to the infrastructure of science and technology essential for enterprise development. This recognition should be reflected in a balanced allocation of available science and technology resources by both industry and the State;

- **Technological Innovation:** Improved technological performance and management of technology by firms will be required. The upgrading of the quality standards and product range of companies in many traditional sectors will be required if they are to remain competitive. Much greater efforts and expertise must go to developing or acquiring new ideas and developing and launching new products. This will require skills, facilities, technological services and finance. The programmes of the State development agencies should be given a higher priority to technological innovation;
- **Accessing Technology:** Ireland will always account for a small proportion of world R and D, and most new technologies used by the Irish business and State sector will continue to be imported. Firms can acquire technology in a wide variety of ways including the hiring of technologists, scientists and engineers, entering licensing agreements, swapping know-how, entering joint ventures or acquiring companies. They are, however, constrained in many cases by an absence of information and intelligence on the technological options available to firms in developing their business. In this context, the transfer of technology from third-level institutions could play an important role and should be encouraged. There is a need for the State development agencies to develop a major new drive to work with firms in closing this "information gap" and to help firms match their potential for development with the best and most cost-effective technology required to achieve their development objectives;
- **Strengthen the R and D Capability and Performance of Firms:** State programmes to upgrade the overall business capability and performance of firms must encompass a strong R and D element. The aim should be to bring R and D expenditure in Irish firms up to international norms as part of the general upgrading of the competitive capability of firms. Particular emphasis should be given to firms which have no R and D capability at present, encouraging more firms to develop permanent R and D capability and supporting R and D designed specifically as part of a business plan, to bring about a significant change in a company's position in the market place. The Government should also continue to strengthen support for research in the third-level education sector, including basic research, and for the commercialisation of research results, in order to develop and maintain a nucleus of research capability and expertise which can be drawn upon by the enterprise sector. The level of interaction between the third-level research centres and the enterprise sector should be an important criterion in deciding on the level of State support. To facilitate greater interaction, third-level institutions need to be more industry focused, not just in their research but also in their course design;
- **Take Immediate Action to Follow-Up the STIAC Report:** The Task Force that was set up to determine the follow-up to the STIAC Report has identified a number of priority areas for action. These include institutional change, the preparation of a national plan and the establishment of a Science, Technology and Innovation Council, and specific support and incentive measures for R and D investment and research capabilities. Specific action by the agencies, especially Forbairt, in encouraging inter-firm co-operation, technology transfer, audit and placement, is also called for. Immediate action on these and the other identified priorities is needed within the limits of available resources.

INFRASTRUCTURE REQUIREMENTS FOR ENTERPRISE DEVELOPMENT

Introduction

6.1 The small scale of the Irish market, geographical dispersion and low population density and a peripheral island location pose particularly difficult challenges in meeting the needs of the enterprise sector for high-quality infrastructure at the lowest possible costs. Four infrastructural areas are of particular importance:

- Telecommunications;
- Logistics and Transport;
- Energy;
- The Physical Environment.

Telecommunications

6.2 The way in which the revolution in telecommunications and computer technologies will radically transform the way that society develops and operates is only now becoming apparent. A new "information society" is replacing the old industrial society and the services society that evolved from the industrial revolution of 200 years ago. Already the constraints of time and distance to social and business interaction are being significantly reduced.

6.3 In response to these changes a number of developed countries have embarked on well co-ordinated initiatives in the field of advanced communications which are intended to ensure that they are at the forefront of the application of the technologies and exploitation of opportunities associated with the emerging "information society". For Ireland, as a small economy on the edge of Europe, the advances in telecommunications offer the opportunity to open up completely new areas of specialisation and boost the competitiveness of many existing firms. For this to happen, however, Ireland must also take steps to become positioned at the cutting edge of telecommunications technology and its applications.

6.4 To date, inadequate attention has been paid to telecommunications policy in Ireland as an instrument of economic competitiveness. This must change. Telecommunications policy is fast becoming one of the most effective levers of enterprise development. The interaction between the revolutionary changes occurring in telecommunications and computing technologies forms the basis for the "information revolution" of the 21st century. Ireland urgently needs to develop a clear knowledge and understanding of the changes taking place, their implications for all facets of economic activity and the steps that should be taken to harness the technological revolution involved for employment creation and higher living standards. At present, Ireland lags behind many other developed countries in establishing such a framework.

6.5 While some progress has been made in recent years, international surveys show that telecommunications costs in Ireland remain well above some of its major competitors, particularly the UK. There are also deficiencies in customer service and the range of services provided. The key to remedying these problems is increased competition. Universal access to the telecommunications networks by the providers of business, shopping, educational and entertainment services is essential. Monopolisation of networks by one particular service provider must be avoided. Adequate investment in developing and upgrading the networks will be essential and cost of access must be at a level which does not impose a competitive disadvantage on Irish business relative to competitors in other countries, in particular, those in the UK. Cable networks - which may become the main telecommunications infrastructure for homes and small businesses in the future - and optical fibre metropolitan lines will be among the key networks.

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6.6 These advances open up whole new areas of opportunity for Irish business. Many services previously supplied locally will be purchasable from far afield. Major opportunities will exist for Ireland in areas like information databases, distance learning, medical diagnosis, home shopping, home banking and many more. The financial services sector is already being transformed, and advanced communications will lead to much greater delivery of financial products across borders. The retail, distribution and entertainment industries will also be heavily affected. To take advantage of these opportunities, the elements of future telecommunications strategy should include:

- **Full Competition:** The strategic alliance that Telecom Eireann is in the process of negotiating should be completed as soon as possible. Full competition is essential if Ireland is to attract investment, arising from the commitment to the liberalisation of telecommunications across the EU. In Ireland, a range of different networks is likely to develop. A credible independent regulator will be needed to oversee competition;
- **Accelerating Broadband Infrastructure and Application:** Broadband infrastructure, capable of carrying voice, data, images and sound, will be the bed-rock of a host of future products and services. The Government should promote the provision of this infrastructure ahead of anticipated demand. This will require increased investment in upgrading the national network. There is a good case for the sale of the Cablelink subsidiary of Telecom Eireann to an independent network provider subject to conditions on significant investment and upgrading in order to promote competition and new services. In this way, Cablelink could become a catalyst and initiator in developing new applications and services needed by the private and public sectors. However, any decision on this would need to be taken in the context of the strategic alliance that is necessary for Telecom Eireann in order to upgrade services to best international standards;
- **The Information Society Initiative:** As indicated, Ireland has already fallen behind a number of countries in examining the implications of the revolution occurring in information technology for social and economic development and in formulating a strategy to shape developments to national, social and economic objectives. An Information Society Working Group has recently been established by the Minister for Enterprise and Employment to remedy this deficiency. The aim must be to examine the impact that the new information technologies are likely to have on economic and social activities in Ireland and to identify the investment required in infrastructure, awareness creation, and education and training, to take national advantage of the technological revolution already underway;
- **EU Information Services Hub:** Ireland could become an information services hub for Europe, with very significant job potential. Electronic integration will overcome peripherality in many industries and a skilled workforce and competitive labour rates place Ireland in a good position to compete in this strongly developing sector. This will require the development of highly competitive services and tariffs, with the objective of bringing tariffs into the lowest quartile in Europe, and with a particular focus on convergence with UK tariffs for international calls, and on reducing costs for smaller enterprises.

Logistics and Transport

6.7 Logistics is concerned with the management of the flow of raw materials, information and goods between suppliers and customers. Given Ireland's location and high dependence on international trade, an efficient logistics industry is an essential component of a comprehensive development strategy. The aim should be to establish Ireland as an internationally competitive European logistics centre. An essential requirement will be to maintain a high level of competition among transport companies.

6.8 Internationally, significant changes are taking place in logistics operations. There is an increasing emphasis on applying new information technology, reducing costs, improving service, lowering inventory levels and responding rapidly to orders. Information is the key to achieving improved management of the entire logistical system. Advances in information technology and their application along the logistical chain are central to the improved services

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and lower costs being put into place. Firms are linked in production chains: sourcing raw materials, components and services from one set of firms and in turn supplying another set of firms or a final customer with products and services. These can be thought of as value chains - with each firm in the chain adding some value. Increasingly, these chains are becoming international as companies source supplies from the best value sources and sell into a range of markets.

6.9 There are three distinct components of the transport element of the value-chain. These are:

- The infrastructure of roads, sea ports, rail and airports;
- Transport services - including road haulage, shipping, air and rail services;
- Systems logistics - the overall management and information systems to support the efficient movement of goods and services, along the supply chain.

6.10 Ireland's location imposes certain cost penalties on firms in industry and services. Because Ireland is an island on the edge of Europe, Irish producers incur greater transport costs than many of their competitors in virtually every European market place. For the future, a key objective of transportation and development policies must be to achieve a major improvement in the management of system logistics in Irish firms. Third-party providers of logistic services will be essential for smaller scale enterprises. Improvement in systems logistics must be matched by improvements in transport infrastructure and transport services.

The main policy requirements for developing a logistics and transport system to meet the requirements of Irish business in the 21st century include:

- **Long-Term Planning:** The ambit of Government transportation policies should be widened to encompass all the elements in the complete supply chain, including infrastructure, transport services, systems logistics capabilities and warehousing/distribution. A minimum fifteen-year period should be used in planning infrastructural investment, operated on a rolling basis with reviews every five years;
- **Institute for Transport and Logistics:** The education and training programmes for the transport and logistics sectors need to be significantly upgraded. An institute should be established as a centre of excellence to provide degree-level courses, together with management and operative development, and research and advisory services to industry in this critical area. Such an institute would heighten awareness of the importance of logistics, provide a catalyst for development, and help achieve a significant improvement in the logistics performance of Irish firms;
- **Development and Promotion:** The industrial development agencies should take a more active role, as both a catalyst and facilitator of improvements in the transport and logistics sectors. To do this, they should acquire sectoral expertise in logistics and transport technology in order to work effectively with firms to improve competitiveness in this area. Direct support should be provided by the development agencies to upgrade the systems logistics capabilities of firms as part of their overall business development plans;
- **Air Freight:** Air freight will grow in importance due to the speed advantages it offers. An assessment of the potential for developing a wider range of air freight services than exist at present to key Continental European Markets should be an immediate priority;
- **Sea Ports:** A long-term ports development policy should be developed and implemented in consultation with port users. The new Northern access route to Dublin port should be completed on schedule and new port management systems should be implemented. The application of state-of-the-art information technology in all Irish ports should be promoted. In the longer term, increases in port traffic to Dublin and Dun Laoghaire may result in costly congestion and delays for Irish business. Accordingly, the development of a new East coast Ro-Ro port terminal, dedicated to freight, should be considered;

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- **Funding Infrastructure:** Greater private sector involvement in funding the provision of transport infrastructure should be encouraged through extending toll facilities on a regulated basis and through joint ventures.

Energy Policy

6.11 A cost-efficient and reliable source of energy is essential to underpin the competitiveness of the enterprise sector. In general, posted Irish energy prices have improved relative to the UK and the EU since the mid 1980s. For most categories of usage, with the exception of small enterprises, quoted electricity prices to consumers and business are below the EU average but they are higher relative to the discounted prices available in the UK. Natural gas prices are considerably higher than the EU average particularly for business. Oil costs to industry are close to the EU average, while prices of premium gasoline and diesel are now on par with the UK, due to tax reductions here.

6.12 The main objectives of energy policy in Ireland over the period to 2010 should be:

- To achieve security of supply while ensuring that the cost of supplies to firms and consumers in Ireland are competitive with that of Ireland's main trading partners;
- To achieve greater efficiency of use;
- To minimise the impact of energy provision and consumption on the environment.

These objectives can best be pursued through the liberalisation of markets, with minimum regulation.

Key elements of energy policy over the next decade should include:

- **Achieve Transparency in Pricing with All Subsidy Elements Fully Declared:** A schedule of all prices should be published by all energy suppliers so that users can make informed decisions on fuel use. All subsidy elements in the price of power should be made transparent, with the objective of their removal, and the components of petrol and diesel prices should also be highlighted;
- **Stop Cross-subsidisation Within Fuels or Between Fuels:** For any particular fuel sector, the domestic and business sectors should each bear the true cost of satisfying demand, with any subsidies for social reasons being derived directly from Government rather than other users. Cross-subsidisation between fuels, as is the case between the ESB and Bord na Móna at present, or across industries, as is the case between Bord Gáis and NET/IFI, should cease;
- **Encourage Greater Competition Through Third-Party Access to Transmission Systems:** Third party access to transmission systems in electricity and gas to business should be encouraged, in order to increase competition and give an impetus to improved services for the enterprise sector;
- **Electricity:** The aim should be to achieve greater competition within the sector. Private sector provision of generating capacity should be encouraged. The sale of some existing stations to the private sector should be considered in that context. Transnational competition in the supply of electricity will become a reality in Ireland within a relatively short period. This raises complex issues, such as "cherry-picking" and universality of supplies that require urgent consideration. It also underlines the urgency in achieving significant improvements in the competitiveness of electricity generation and distribution within Ireland. Power procurement in a competitive electricity industry should be through an independent office. Third-party access to distribution channels should be promoted;
- **Peat:** Any element of cross-subsidy which is present in the current arrangement for peat supply to the ESB should be assumed directly by the central Government Budget;
- **Oil:** The retention of Whitegate following the ending of the compulsory off-take on 31 December 1996 should be on the basis of straight commercial criteria only - excluding subsidies.

The Physical Environment

6.13 Environmental issues have come increasingly to the fore in an economic, political and social context over the last decade or more. They are now a key influence on consumer choices, form a major plank of Irish and EU policies and present a range of opportunities and threats to industry:

- For consumers, concern for the environment now transcends the physical surroundings of where they live, to include the food they eat, the products they use, where they go on holiday, and the sort of world their children and grandchildren will inherit;
- At policy level, strategies based on sustainable development and waste minimisation have achieved increased prominence and will gain even greater significance over the next ten years and beyond;
- Within industry, concern about compliance costs coexists with an increasing awareness of opportunities for overall competitiveness gains - from improved energy efficiency to better use of by-products and the enhancement of the quality and image of a company's goods/services.

6.14 Ireland enjoys a strong and positive perception and "green" image internationally, as a country with a clean environment. It is essential that high environmental standards be maintained not only to protect that international perception and image, which is of considerable economic benefit and potential, but also because the quality of the natural environment is a key, non-economic factor in the quality of life of a country's people. Among the important economic benefits to be gained from having and conserving such a natural asset are the following:

- It is of crucial benefit in competing internationally for tourism - a sector which is already a major source of employment and wealth creation in Ireland and one which is expected to experience strong growth in the medium term;
- The "green Ireland" image contributes greatly to a positive international image for the country's food processing industry - the largest, in employment terms, of the Irish-owned manufacturing sectors;
- It has the potential to provide a basis for exploiting opportunities for the development of a "clean", environmental-friendly technologies industry in Ireland, a sector that already has considerable growth prospects and one which is expected to become more important internationally in the decades ahead.

6.15 While the quality of Ireland's environment is high by European standards generally, there is room for improvement. Although industry contributes to pollution and environmental degradation in Ireland, it is not usually the principal source. Agriculture, transport and the domestic sectors are bigger contributors. Industry provides treatment for 90 per cent of the waste it generates, greatly reducing the amount of pollution discharged. Only 6 per cent of industrial waste has to be treated at local authority treatment plants.

6.16 Environmental policy in Ireland, which is under review, has been based in recent years on the 1990 Environmental Action Programme. It has involved a policy of regulation, economic instruments and voluntary agreements under the Department of the Environment, the Environmental Protection Agency, the local authorities and industry itself. Ireland has acted ahead of a proposed EU directive to introduce an integrated approach to pollution control through licensing. Little has been done, however, to adjust the price of goods and services to account for environmental concerns¹⁶.

6.17 For the future, the principle of sustainable development must lie at the centre of environmental and developmental policies in Ireland. Building on that principle, Ireland should

¹⁶ Scott, S., and J. Lawlor, 1994. "Waste Water Services: Charging Industry the Capital Cost", ESRI Policy Research Series Paper No. 22.

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replace the traditional adversarial approach that presents industrial development and environmental protection as opposites. The new approach should simultaneously maintain high environmental quality and promote a competitive enterprise sector. Environmental quality should be maintained in a way that encourages companies to raise productivity and respond to environmental regulations and the new markets being created by them, in an innovative way. This will require far greater co-ordination between industry bodies, the industrial development agencies and the bodies responsible for the formulation and implementation of environmental policies (e.g., Department of the Environment, EPA, local authorities). Particularly in connection with the encouragement of foreign direct investment, the need for speedy planning approval is critical. Designated sites for industry should be selected, with pre-clearance for planning and environmental approval. From the perspective of the enterprise sector, key elements of environmental policy for the future should include:

- **Developing the Advisory Role of the Environmental Protection Agency:** The EPA should strongly pursue a role beyond regulation alone. The Agency should further develop its role in advising, guiding and working closely with industry and the industrial development agencies on environmental issues. One area where industry requires extensive advice is on the most cost-effective way to meet environmental rules;
- **Working with Industry Should be a Priority for the Environmental Regulatory Bodies:** Joint programmes on environmental management should be developed as part of a partnership approach between industry, the Government, local authorities and the EPA. Where new standards are introduced, a planned approach should be adopted involving progressively: the raising of awareness; the demonstration of clean technologies; the promotion of role models; the encouragement of environmental management; and, the implementation of the regulations;
- **Environmental Awareness Campaign:** A strong, systematic campaign to increase the awareness of industry and, particularly, of smaller firms, to the requirements for achieving the necessary environmental standards, should be launched. Industry associations should take a lead role in such an initiative but the industrial development agencies, the Department of the Environment, the EPA and local authorities should be strong participants. Apart from disseminating information on environmental regulations and how they should be met, the campaign should involve encouraging clean technologies, supporting demonstration projects, encouraging self-regulation, and promoting integrated solutions that a company can implement when building or extending a plant.

6.18 Strengthening the environmental credentials of Irish products and enhancing and promoting Ireland's green image are not the only opportunities that growing environmental awareness presents for wealth generation and job creation. The market for environmental goods and services in Western Europe was valued at US\$94 billion in 1992 by the OECD, with the world-wide market worth in excess of US\$250 billion. Estimated annual growth over the medium-term ranges from 5.5 per cent to 8 per cent. Ireland has the potential to win a significant share of this growing market. Most investment in environmental goods and services is driven by regulations. Reflecting this, the leading firms in environmental technologies are from those countries, notably Germany and the US, which were first movers in introducing strict environmental protection legislation. Ongoing requirements for Irish firms to purchase environmental goods and services will provide a domestic market base to help exploit opportunities for the development of a clean, environmental-friendly technologies industry.

WORK ORGANISATION, LABOUR MARKET REGULATION AND LONG-TERM UNEMPLOYMENT

Introduction

7.1 In this chapter, the policy approach required to support an enterprise strategy in the labour market areas of, work organisation, social partnership, and regulation is discussed. This chapter argues strongly that dealing with the problem of long-term unemployment must be a central part of any long-term development strategy.

Work Organisation

7.2 Employment in Ireland is undergoing, and will continue to undergo, profound changes in terms of the organisational structure of firms, management style and industrial relations practices. These changes arise from the development and application of new technology, the globalisation of competition, and the development of new forms of work. Adaptation to this changing environment requires a new "mind-set" on the part of management, workers, employer bodies and unions: a greater openness to partnership and operational flexibility is essential. Without such flexibility, and a shared vision of the future between management, workers, and unions, at the level of individual enterprises, significant employment opportunities will be lost. Conversely, adaptation to the realities of new technology and competitive forces can bring significant increases in the output and employment of firms. Functional flexibility of the labour force, and a new approach to labour relations will be required. Adversarial labour relationships preclude the level of employee involvement required to secure flexibility and adaptability in work and management practices, to produce quality products which are "right first time", and to utilise employee knowledge and experience to eliminate waste and inferior products. Confrontational management/labour relations, traditional in many areas, will no longer stand the test of competitive pressures. The social protection system must accommodate working arrangements in which part-time, fixed-time and fixed-purpose employment contracts are in more demand.

7.3 The objectives of flexibility and adaptability in work practices will best be achieved by an industrial relations culture in which management, employees and their representatives understand and share common goals and aspirations. In some cases, the adaption of such an approach will be driven by a shared prospect of competitive failure. A more systematic approach, however, is required. For this reason, traditional personnel management practice is increasingly giving way to the more comprehensive concept of Human Resources Management, which recognises the need to generate greater commitment to the enterprise from employees, in order to meet the objectives of both the employees and the company. This new approach seeks to break down adversarial relationships and to secure individual employee commitment within a new shared culture. It sees the knowledge and experience of employees as a valuable resource which, if fully engaged towards the objectives of a firm, can make a major contribution to its success. Many of the firms in the overseas-owned sector have embraced such a partnership approach in Ireland. Irish-owned firms, with some notable exceptions, have traditionally not been as innovative in approach.

7.4 Future Strategy: The introduction of these partnership-based forms of work organisation requires a different style of industrial relations to that traditionally practised in Ireland. Companies and unions need to recognise this challenge and engage in a fundamental reassessment of the way in which work is organised and managed. The outcome of this reassessment will vary between sectors and firms depending on a range of factors. This new approach should encompass the more wide-spread adoption of the following elements:

- Creating an open, high-trust environment in which workers are encouraged to think about the purpose of their jobs, their contribution to the success of the enterprise, the scope to innovate, and to take responsibility for change;

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- Eliminating unnecessary layers of management, allowing supervision to give way to the facilitating role of team leaders, and making the team the basic organisational cell of the firm;
- Taking far greater care than in the past in selection procedures, so as to ensure that workers employed are capable of adapting to the new organisational culture;
- Placing far greater emphasis on training than in the traditional organisational model;
- Developing a multi-skilled workforce and flexible deployment;
- Emphasising the minimisation of stock and work in progress with the adoption of just-in-time (JIT) principles brought about by much closer management of production;
- Evaluating each function to identify and eliminate all work and activity which does not bring added value;
- Developing communication systems to create a better understanding of the realities of the market place on the part of the workforce and to engender a more open information, as distinct from just a "production", ethos;
- Clarifying the key objectives of the firm, and developing a sense of responsibility and ownership across the entire workforce in delivering them.

7.5 National Agreements - The Social Partnership Approach: Centralised wage bargaining since 1987 has given rise to moderate wage increases and industrial peace as part of a wider partnership approach between Government, employer and worker representatives. The partnership approach has been a major factor in bringing about the significant improvement in Ireland's economic performance since 1987.

The approach at national representative level fits well with the same emerging approach in human resources management at plant level, which progressive companies have put in place in response to competitive, technological and associated organisational change. There is, accordingly, a strong *prima facie* case for a continuation of the partnership approach at national level. This, however, will depend, in practice, on the continuing capacity of such an approach to achieve wage moderation, industrial peace, improved economic and job-creation performance and a positive contribution to the evolution of social and economic policies from the perspectives of each of the social partners. The approach to the continuation of the partnership arrangement should be conditional on the adoption of measures to achieve such an outcome. After almost ten years of centralised pay-bargaining, within a limited policy framework, there is also a strong case for developing a longer-term perspective on social and economic policies as part of the framework for a continuation of the partnership approach. This report can make a contribution in meeting this need.

Labour Market Regulation

7.6 Social Welfare System: A social welfare system which provides a level of income support for those without sufficient other means of support to achieve a minimum standard of living is, and will continue to be, a basic requirement of social equity and cohesion in Ireland. Spending on social welfare has increased substantially in recent years and, at 24 per cent of GNP, is close to the EU average of 26 per cent. However, poorly designed social welfare systems can affect the incentive to work. In Ireland, a number of studies have highlighted such effects in the unemployment trap - where somebody out of work could become worse off by taking a job - and, the poverty trap - where a low-paid worker may end up with less disposable income after an increase in gross pay because of the interaction of the tax and welfare systems. ESRI figures for 1993 show that almost one in ten of the unemployed would have an income, out of work, at least 80 per cent as high as they would have if they took a job. When other items, such as working expenses and access to a medical card, are included it has been estimated that up to 17 per cent of the unemployed could be in this position¹⁷. The unemployment trap is particularly problematic for families with children.

¹⁷ Department of Social Welfare, 1990. "Replacement Ratios for a Sample of Unemployment Benefit Recipients".

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7.7 In order to help achieve the challenging objectives of increased employment and living standards discussed in this report the key reforms necessary in the social welfare system from the perspective of the enterprise sector include the following:

- **Adopt a More Radical Response to Tackling Work Disincentives:** In particular, measures are needed to increase the incentive to work for parents with children, by addressing the relationship between income at work and welfare payments for parents with children. The current child dependent allowances for unemployed people should be replaced by a universal child benefit system paid to working and unemployed families. Higher earners would then be taxed on this benefit;
- **Address the Disincentives Arising from the Withdrawal of Non-Cash Payments such as Medical Cards and Rent Subsidies:** Extension of rent subsidy benefits to lower earners should be considered and greater flexibility in allowing the long-term unemployed to retain benefits such as the medical card for a period after taking up work should be put into place;
- **Reduce the Burden of Employer Social Insurance Payments:** While the structure of employer payments has been changed in recent Budgets, to benefit low-wage business, it is important that this is continued to ensure, in particular, that the gap with the UK is closed, which has less burdensome social insurance contribution costs for employers.

7.8 Pensions: The projected increase in the population over 65 years will place a significant burden on the State pension system - especially from 2010 onwards. Higher economic growth rates will help to alleviate this burden. Other countries, such as the USA and Germany, have raised the pension age to deal with this problem. In Ireland, the number of children under 15 will decline from some 24 per cent of the population at present to 18 per cent by 2010. As the very young tend to be more reliant on the social welfare system, this change will tend to reduce the level of social welfare expenditure. These savings should be reallocated to also help reduce the pension burden post-2010. In addition, there is a need to consider further improvements in existing tax incentives to those taking out private plans, and to employers introducing occupational pension schemes, in order to encourage individuals to make personal pension provision. This should be done in conjunction with measures to encourage increased investment by the pensions industry in economic development in Ireland.

7.9 Worker Protection: Worker protection legislation is widely in place in countries across the world. The incidence and applicability of such legislation, however, varies widely between countries. Accordingly, the associated compliance costs are an important element in determining the relative competitiveness of firms from different countries trading on international markets. The costs associated with worker protection legislation in the EU tend to be higher than in most other parts of the world. Within the EU, the cost burden in Ireland is in line with the average across other Member States.

7.10 There is evidence from comparative studies that restrictive employment protection legislation has negative consequences for employment and inward investment. International trends indicate that Irish industry will, increasingly, be in competition with firms from countries of the developing world where employment protection legislation is likely to remain low. The EU, in the White Paper, "Growth, Competitiveness and Employment", has recognised that complex legal and administrative procedures and associated financial burdens arising from employment protection legislation can represent a drain on the employment capacity of all enterprises by reducing operating efficiency and increasing costs. Administrative burdens associated with worker protection legislation have a relatively greater impact on small-scale enterprise which predominates in Ireland, and which have a scale of operations too low to easily absorb the overheads involved in meeting these requirements.

7.11 Clearly a balance has to be found between the legitimate need to ensure that workers are fairly treated in their terms and conditions of, and the cost of compliance with legislative and administrative requirements in this area which would undermine the creation, maintenance and expansion of enterprises and of associated employment opportunities. In

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striking this balance, in the case of Ireland, the Government, in consultation with employer and worker representatives, will need to attach a strong weighting to employment creation - given present high unemployment rates. In view of the progress that has been achieved in the area of worker protection, over the past twenty years in particular, the approach now recommended is:

- To consolidate, clarify and make more understandable to employees and employers the existing body of worker-protection legislative requirements and regulations rather than advancing new proposals;
- In particular, the Government should take an immediate initiative to reduce the administrative burden of compliance with existing legislation and regulations, through, a streamlining of existing procedures and by conducting efficiency audits on a planned and systematic basis across the range of departments and agencies involved.

The Labour Market: Long-Term Unemployment

7.12 There is now a widespread acceptance that action to deal with the issue of long-term unemployment must be placed firmly at the top of the agenda of Government, employer bodies and trade unions. A number of comprehensive analyses of the problem have been completed over the past year or two setting out the underlying factors and pointing the way forward. These include, in particular, the work of the National Economic and Social Forum (NESF), the Task Force on Long-Term Unemployment in the Office of the Tánaiste, and the labour-market strategy report of the Department of Enterprise and Employment¹⁸. There is now considerable consensus on the actions required and on the need for an energetic systematic implementation of these actions and on the need for a system to monitor and evaluate the results being achieved.

7.13 Long-term unemployment (i.e., unemployment duration in excess of one year) has proved a particularly intractable problem in Ireland. Recent figures indicate that over 62 per cent of those unemployed fall into the long-term unemployed category. The rate of long-term unemployment in Ireland, at almost 10 per cent, is higher than the overall rate of unemployment in many other countries. Almost half of the long-term unemployed have no formal education qualification. Once a person enters the ranks of the unemployed, it is very difficult to find employment: statistics show that those unemployed for more than two years have a 74 per cent chance of being unemployed one year later.

7.14 The negative social consequences of unemployment and, particularly, long-term unemployment are of major proportions. The general standard of living and quality of life of unemployed people are below what is acceptable in any civilised society. The consequences in terms of physical and mental ill-health, increasing crime rates and destruction of social cohesion are equally unacceptable. The waste of human potential is enormous. The economic costs are also of major proportions - estimated at over 7 per cent of GDP.

7.15 The solution to the problem of long-term unemployment admits of no easy answers. A wide range of actions is required. The ultimate objective must be the virtual elimination of long-term unemployment. The progress required will not be achieved unless such an objective is fully adopted and endorsed as an intrinsic objective of national, social and economic policy.

7.16 The actions required fall under four main headings:

- The adoption of appropriate macroeconomic and structural policies to support the creation of sustainable jobs;
- Interventions in the education sector to ensure that as many as possible school-leavers leave with qualifications;

¹⁸ Department of Enterprise and Employment, "Growing and Sharing Our Employment", April 1996.

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- Actions to prevent people in the labour market joining the ranks of the long-term unemployed;
- Measures to reduce the number of those currently long-term unemployed.

7.17 The overall thrust of this report addresses the area of the appropriate macroeconomic and structural policies needed to achieve a significant increase in job creation performance over the next decade and beyond. The policies and measures discussed include those elements of the interaction of the taxation and social welfare systems which constrain job creation or the take-up of job opportunities by the unemployed. The achievement of improved job-creation performance is fundamental to tackling the problem of high unemployment rates including long-term unemployment. In that sense, the development and implementation of a successful long-term enterprise development strategy is the single most important initiative needed to tackle unemployment. It is, however, a necessary, but not sufficient approach. Well-focused Government interventions in a number of other areas are also required.

7.18 Interventions in the education sector should include the following:

- A reallocation of educational resources towards those most at risk of leaving school without qualifications. In areas of social disadvantage, this requires improved pupil-teacher ratios, more resources for remedial teaching, a stronger development of links between schools, homes and community groups and supervised and supportive study periods. Savings resulting from declining pupil numbers should be reallocated to these areas;
- At present, the percentage of 16-18 year olds completing the senior cycle is 78 per cent. The Department of Education has adopted a target to increase this percentage to 90 per cent by the year 2000. This target should be strongly pursued and a 100 per cent target for 2010 adopted. All of those completing the cycle should receive a qualification. The school-leaving age should be progressively increased from 15 to 17, in line with these targets. The adoption and achievement of these targets will, undoubtedly, require a major expansion in vocationally-orientated courses at second-level;
- A new system of nationally-certified traineeships should be instituted. This would be of a broader scope than the present system of apprenticeships. It should be expanded to cover a wider range of occupations and should incorporate specific components of training and education, which, together, would be equivalent to full-time technical education. The design and implementation of the new scheme should be on a consultative basis between employers, trade unions and Government with the employer bodies taking a lead role.

7.19 Measures to address the needs of those already unemployed should include the following:

- Expansion of the counselling, placement and guidance services of the State, under the new Local Employment Services scheme of the Department of Enterprise and Employment, to help unemployed people develop to their best advantage, the options available in terms of job-opportunities, work-experience, training and education;
- The Local Employment Service should develop priority programmes of work-experience, training and education for young unemployed people with poor or no qualifications;
- A higher proportion of places on the Community Employment Scheme should be allocated to groups with particular difficulties, e.g., long-term unemployed, people from areas of particular disadvantage. The Vocational Training Opportunities Scheme should be expanded to make education available to the unemployed;
- Flat-rate employment subsidies should be provided for employers to take on long-term unemployed people. The scheme should be monitored and evaluated carefully to minimise "dead-weight" and displacement effects. The 1996 Budget proposals in this area are welcome;

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- Specific targets should be set for each measure adopted to reduce the number of long-term unemployed and performance should be evaluated and reported on each year.

7.20 As indicated, there are no panaceas in tackling the problem of long-term unemployment. There are no new measures or instruments that will change the present unsatisfactory position overnight. What is required, is the strongest possible commitment by Government, employer bodies and trade unions to the reduction and ultimate elimination of long-term unemployment, the translation of that commitment into an effective range of operational measures, and the systematic evaluation and monitoring of these measures. Chief among these, must be the creation of additional new jobs at a level greater than that previously achieved on any sustained basis.

PUBLIC ADMINISTRATION AND REGIONAL POLICY

Public Administration

8.1 Private enterprise will be the driving force behind the expansion of output and employment in the Irish economy over the next decade and beyond. A consequential recommendation is that there should be a relative shift in economic activity from the public to the enterprise sector. It does not necessarily follow from this that the role of public administration in social and economic development becomes less important. On the contrary, there is no prospect of achieving the challenging social and economic objectives discussed in this report without a well-managed, innovative and efficient public administration system which can lead the way in initiating, developing and implementing policies that promote enterprise, social cohesion and equity.

8.2 In the same way that the enterprise sector must adjust to the major changes in technology and competitive forces sweeping the world if it is to survive and prosper, the system of public administration must also evolve and respond to these changes. The challenge for Government and for public administration will be to achieve the fundamental organisational reforms necessary, without the discipline of the market place which drives required change in the enterprise sector. This will require a commitment to the fundamental changes needed to meet emerging social and economic requirements and an effective programme to bring such change into place at every level of public administration.

8.3 There are no "off-the-shelf" models by which required public sector reform can be brought about but there are a number of principles that should guide such reform over the next decade and beyond. These fall into two broad categories:

Role of Public Service

- From an enterprise development perspective, the public service should concentrate on its core role. This involves essential regulation, providing for high standards of education, health provision, income maintenance and provision of infrastructural services that the private sector cannot supply on a competitive basis. It also involves the promotion of enterprise, including the development and monitoring of the wide range of public sector policies that can help or hinder the development of business. Services which can best be provided by private sector competition should be left to the market and subject to regulation only where the need for such regulation is clearly established;

- A clear distinction should be drawn between the role of Government departments and agencies as providers of services and as regulators. The two roles should be kept separate;

- Joint programmes with the private sector in the provision of services should be encouraged and adopted where they can improve the efficiency and effectiveness in the delivery of services.

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Management of Public Services

- The principles of strategic management should be applied more widely across public sector bodies and the initiative at present under way to achieve this should be strongly developed;

- The essential client-base for different areas of public service provision should be clearly identified and involved, through representative groups or otherwise, in monitoring the effectiveness of services provided;

- In order to give and maintain the required impetus to public sector reform, the establishment of public service user groups should be supported and encouraged by the State on a wide-spread basis and these groups should be consulted on how efficiency and effectiveness in the delivery of services can be achieved;

- Top management posts should be on a fixed-contract basis, subject to renewal with the results to be achieved clearly spelt out and with remuneration levels tied to performance;

- External participants/directors from the enterprise sectors should be appointed to the management boards of Government Departments and public sector agencies on a more widespread basis;

- Managerial authority and responsibility should be devolved to the lowest levels possible in public sector organisations by the establishment of stand-alone executive units and otherwise to give practical effect to the principle of subsidiarity. The same approach should guide the relationships between central and sub-national levels of Government.

Regional Policy

8.4 Regional policy, defined as the development and implementation of policies at sub-national level, is an essential component of national economic and social policies. A clear Government regional policy is needed for both economic and social policy reasons. The resources of natural endowments, labour, capital and especially enterprise, that are both the drivers and the objectives of these policies, do not exist simply in theoretical economic space. They are distributed in real geographic space to form a rich tapestry of community life across Ireland. The traditional friction of space in the development of economic activities is being reduced by developments in telecommunications and transportation technologies discussed in detail elsewhere in this report. If national policies are to be both effective and efficient they must fully take into account the existing geographical distribution of resources at sub-national level. Any long-term national strategy for economic and social advancement in employment creation and living standards must be inclusive of all sections of society and, accordingly, of the geographic dimension.

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8.5 The existing organisation of public administration in Ireland forms a poor basis for a strong regional policy. Policy is developed almost exclusively at national level. There is an insufficient focus at national level on sub-national issues, while sub-national tiers of Government are poorly developed. At local level there is a lack of co-ordination across a host of publicly-administered services. Looking at the broad picture two elements are particularly notable:

- The Dublin region is suffering from the costs of congestion, while much of the rest of the country is left with under-utilised resources - such as schools and hospitals - as population declines;
- Emigration from many parts of the country is sapping the social viability and economic dynamism of many communities.

8.6 The future approach to regional policy should encompass a number of elements:

- Use should be made of existing Government structures at sub-national level, and particularly the local authorities, for the delivery of new services rather than adding new organisational arrangements or tiers of Government;
- For services that need to be planned and developed for reasons of efficiency and effectiveness at a sub-national geographical level greater than that covered by individual local authorities (e.g., education, waste disposal, water, roads, etc.) regional co-ordination arrangements should be put in place and extended to encompass as many services as possible rather than establishing separate co-ordinating structures for different services;
- Decisions in relation to local services should be devolved to the greatest extent possible to the sub-national level, and the decision-making structures for each organisational entity operating at national and sub-national levels should be transparent and made widely available;
- Each public sector body operating at national level with a significant sub-national operational dimension should publish an outline of their sub-national preparations and plans;
- A register of sub-national resources, such as infrastructure, education, demographic and natural resources, should be compiled as part of a regional database, by the responsible bodies, and made widely available for enterprise promotion and development purposes;
- Local voluntary development organisations should be widely and strongly encouraged and promoted to initiate local development and enterprise support initiatives with the least possible public sector involvement;
- Specific implementation measures will include development of the Dublin-Belfast corridor to exploit its potential as a strong axis of development and cross-border trade. Measures should also be undertaken to support the development of the growing "city-regions" and urban centres within the framework of integrated development plans encompassing economic activities, social activities and infrastructure requirements. Regional rural policy will, in turn, be directed towards increasing the viability of rural areas to combat social exclusion and encourage the diffusion of enterprise.

THE NEXT STEPS

Introduction

9.1 Ambitious targets have been set out for employment creation and higher living standards over the next fifteen years. A strategy to achieve them has been outlined. The approach advocated is unambiguously from the perspective of the enterprise sector. A wide range of policy issues has been discussed, and recommendations for action have been given in all relevant areas.

Recommendations for Early Action

9.2 There are a number of recommendations in the report on which Forfás believes immediate action should be taken or initiated to promote enterprise and job creation. These include:

- The establishment of a representative group to track the comparative competitiveness of the Irish economy across a range of factors and their underlying determinants and to make recommendations on how competitiveness can be improved. This could be in the form of a Government-established Council for Competitiveness comprising a number of experts from key areas (e.g., competition policy, science and technology policy, utilities) together with representatives from the social partners. The function of the Council would be to establish a set of key competitiveness indicators for evaluation relative to the performance of competing countries, and to recommend particular actions to improve performance in the context of these evaluations. IBEC have already advocated such an approach. The composition and terms of reference for such a Council will require careful consideration between Government and the social partners;
- Putting into place a national strategy for the application of the latest developments in communication and computer technology in order to improve productivity, innovation and services in both the private and public sectors;
- Achieving a significant increase in tele-communications investment, including investment in broadband infrastructure in anticipation of demand;
- Upgrading the logistics sector as a key objective of enterprise promotion and transportation policies. The development agencies should move as soon as possible to take a more active role as both a catalyst and facilitator of the development of the logistics sector;
- New measures to more than double investment in training by Irish firms within five years and the introduction of a nationally-certified traineeship programme;
- The establishment of effective means to identify future skills requirements for the enterprise sector and to advise the education and training sectors on the response required. Current examples of areas where urgent action is required are in the area of language training and software skills;
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- A continuation of the process of taxation reform to reduce the overall burden as a proportion of GNP from 40 per cent in 1995 to 35 per cent by 2010.

The Next Steps

9.3 The first steps in these new directions will require further discussion, debate and an enhanced consensus. It is for this reason that this report is now issued: to indicate the broad and complex scope of what is required; to provide an outline of the measures and the policy areas where action is needed; and, to point to the new possibilities for growth and development that are within reach if wise use is made of the resources available. It is,

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therefore, desirable that the report should receive a wide consideration, even beyond the consultative process adopted in its preparation. This is to ensure that the approach outlined in it, is well understood, further developed as necessary and widely accepted as a basis for coherent action across a range of policy areas that determine, to a considerable extent, the strength or weakness of the enterprise sector. In this way, the ambitious social and economic objectives outlined in the report can become a reality.

9.4 The strategy framework outlined in this report is not a detailed statement of all the actions required. Nor could it be, given the range and complexity of issues involved, and policy instruments required to achieve the detailed objectives. The report, however, provides an overview, and sets out an agenda for consideration and action in the areas of public policy that are of significant importance to the development of the enterprise sector. The report describes the links between the different policy areas, how they interact, and how the trends underway in the global economy are defining the options and the opportunities for Ireland. If these opportunities are grasped, Ireland will move closer to the heart of the international economic system, better able to meet its challenges, draw on its benefits and, with skill and imagination, even influence its course to a greater degree than its size and its resources might warrant.