

Institute of International and European Affairs

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National
Competitiveness
Council



Forfás






Our Economic Future - Challenges, Questions and Policy Directions?

Testing the message ...and the
messaging!

Transcending challenge for economic policy ?

Can we construct a convincing narrative for a prosperous economic future?

- ▶ Robust economic performance
- ▶ High levels of employment and return to prosperity
- ▶ Capacity to achieve social progress




“In this world, the optimists have it, not because they are always right, but because they are positive. Even when wrong, they are positive, and that is the way of achievement, correction, improvement, and success.

Educated, eye-open optimism pays; pessimism can only offer the empty consolation of being right”

The Wealth and Poverty of Nations - David Landes

Easy to construct a dismal narrative?

- ▶ We remain mired in economic despondency
- ▶ Twin deadweights of public and private sector indebtedness
- ▶ Declining share of world trade - failing to adjust to changes in global economy
- ▶ “Western” economies get stuck; - our exports and inward FDI go into secular decline
- ▶ Increased social conflict
- ▶ Failure to achieve political and public service reform
- ▶ High unemployment and emigration

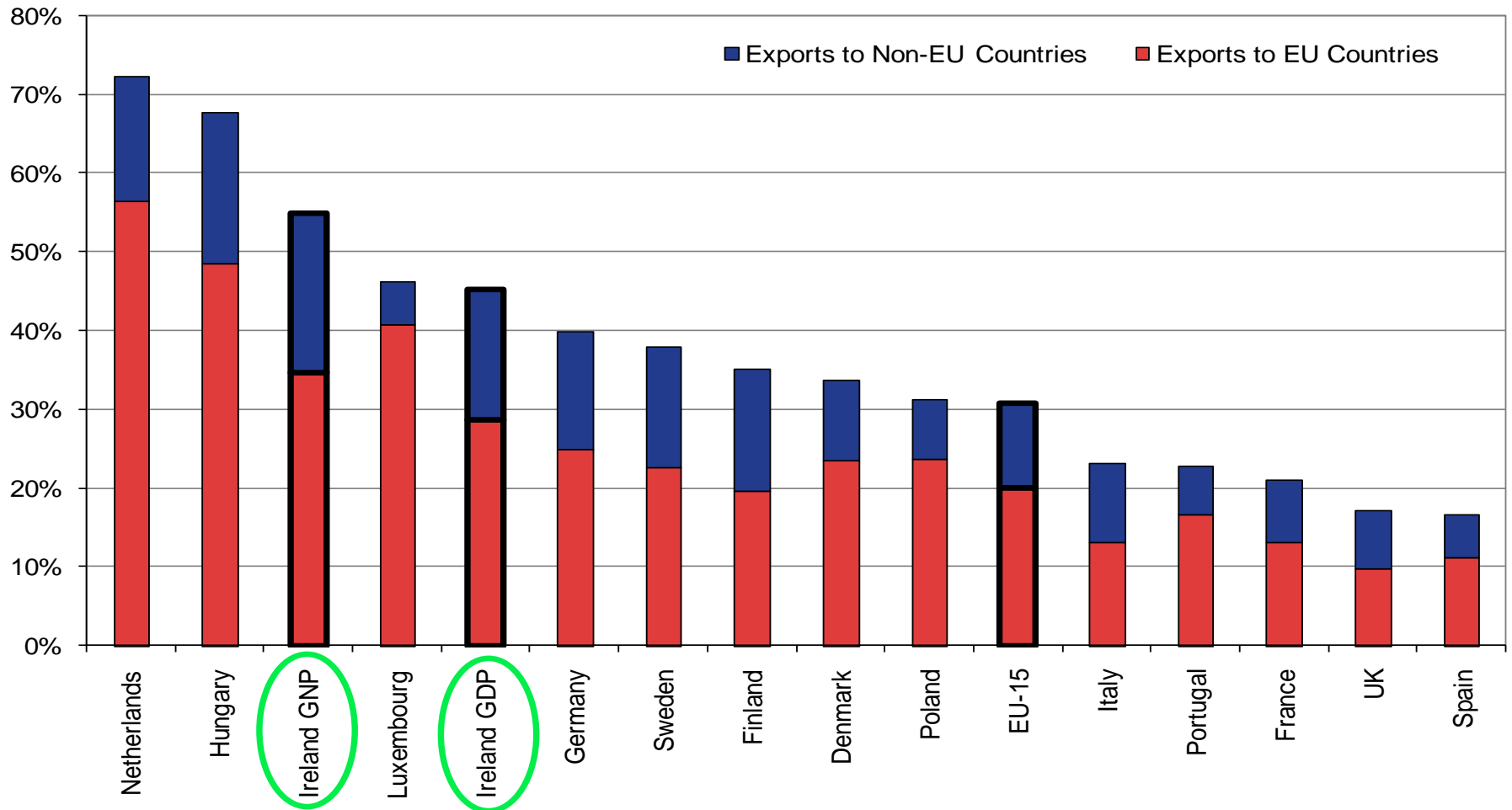
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- 1. Ireland's Competitiveness Position**
 - 2. Challenges for the Future**
 - 3. Questions**
 - 4. Policy directions?**



1. Ireland's Competitiveness Position

Our success as an exporting country is of vital importance

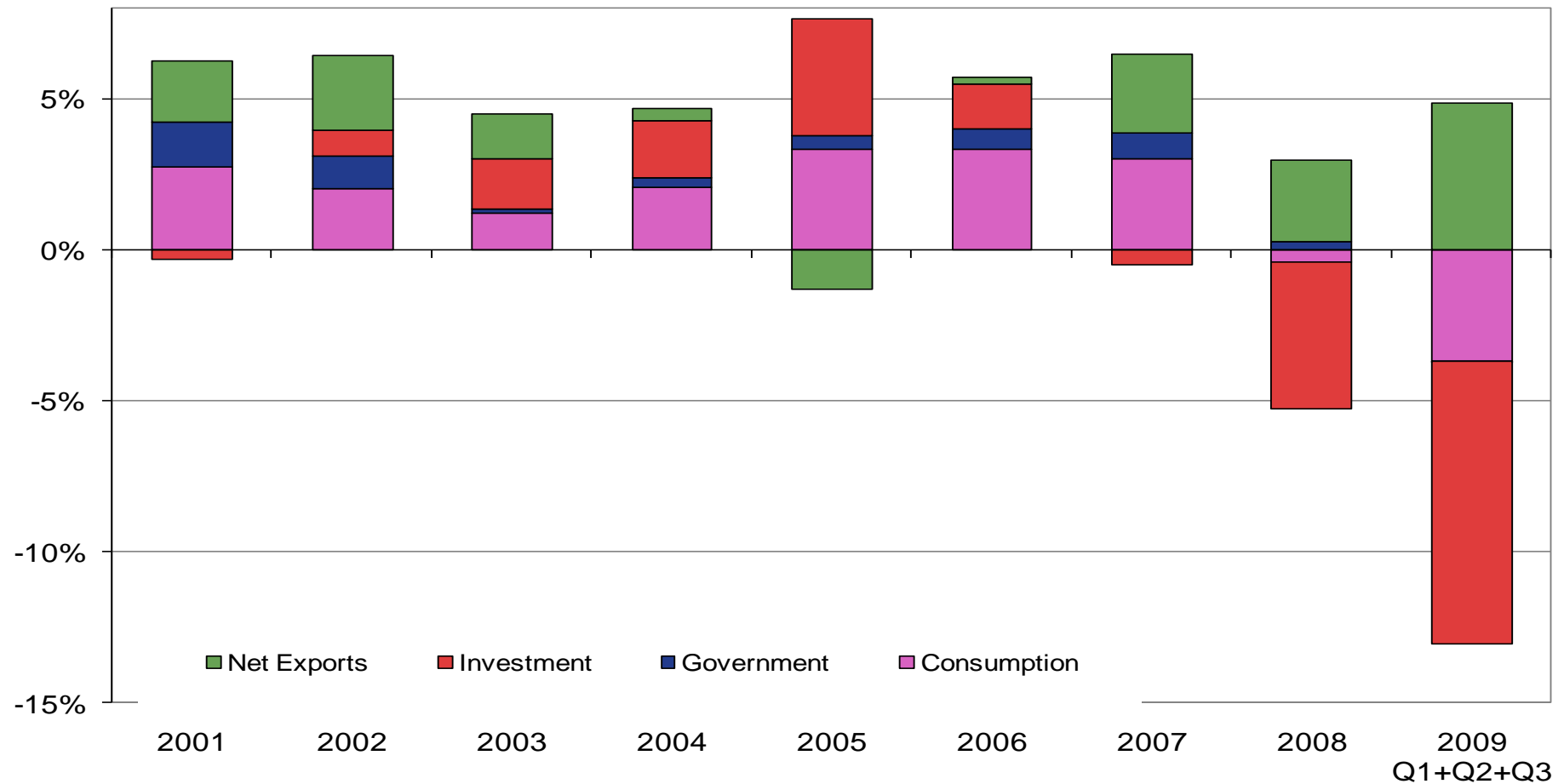
Exports of goods, intra-EU and extra-EU (as a % of GDP), 2008



Source: Eurostat, External Trade

How have we been doing?

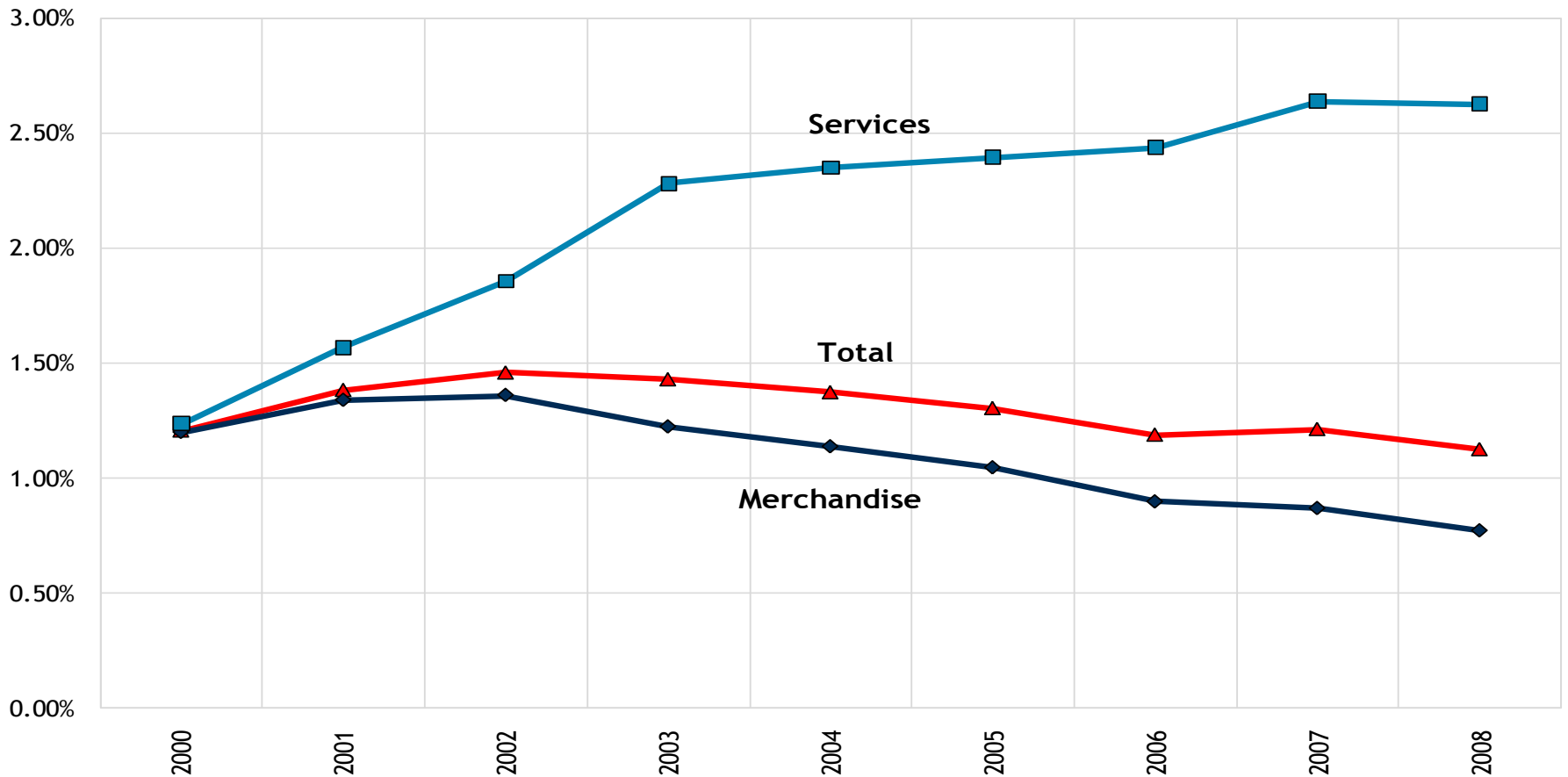
Contribution of Net Exports to Irish Economic Growth, 2001 - 2009



Source: NCC Calculations; Central Statistics Office, Annual National Accounts

How have we been doing?

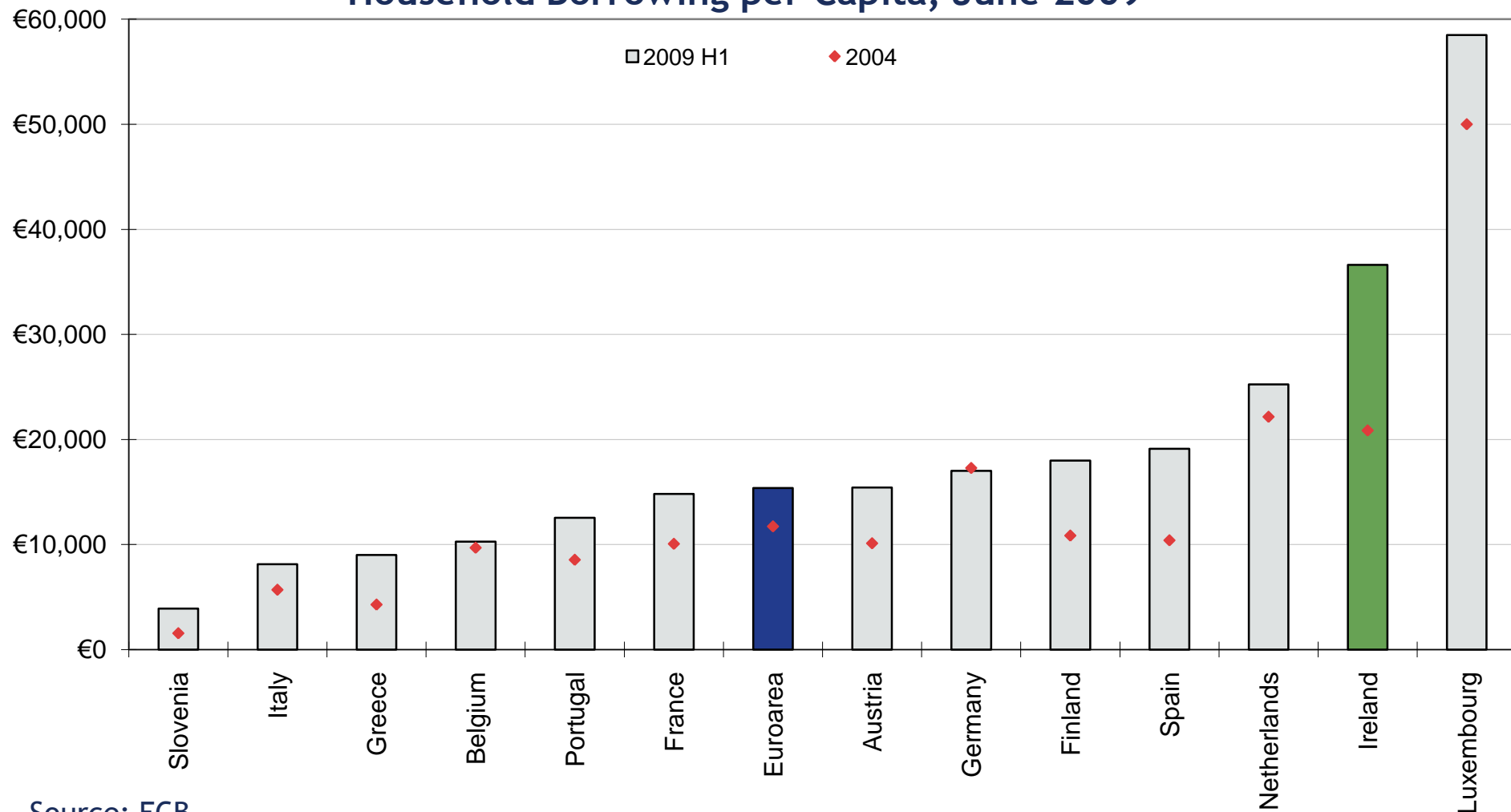
Ireland's Share of World Trade: Total, Merchandise and Services (%), 2000-08



There can be no return to domestic led growth

Our debt burden grew rapidly and we are now highly indebted

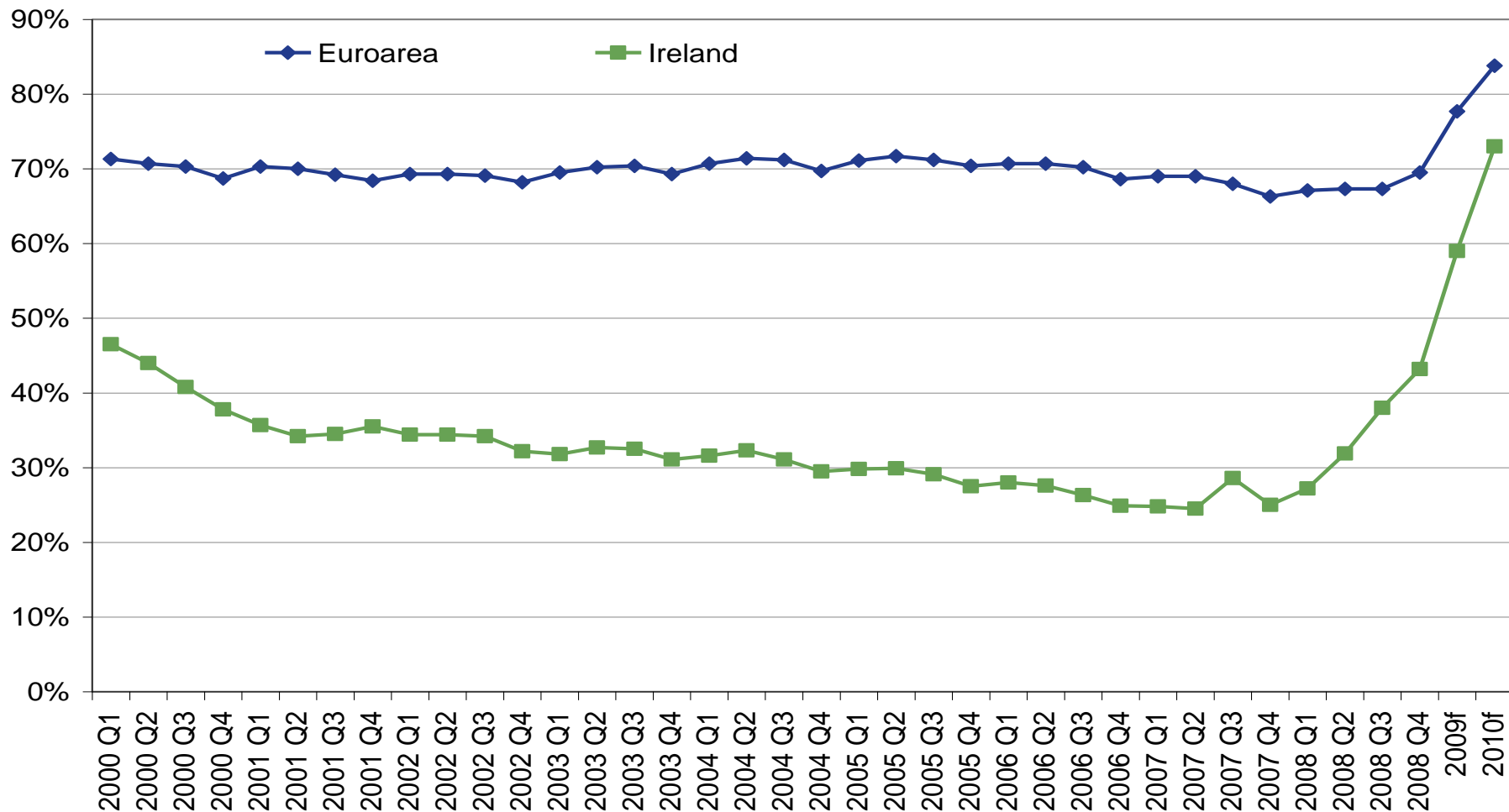
Household Borrowing per Capita, June 2009



Source: ECB

Government debt is rising sharply

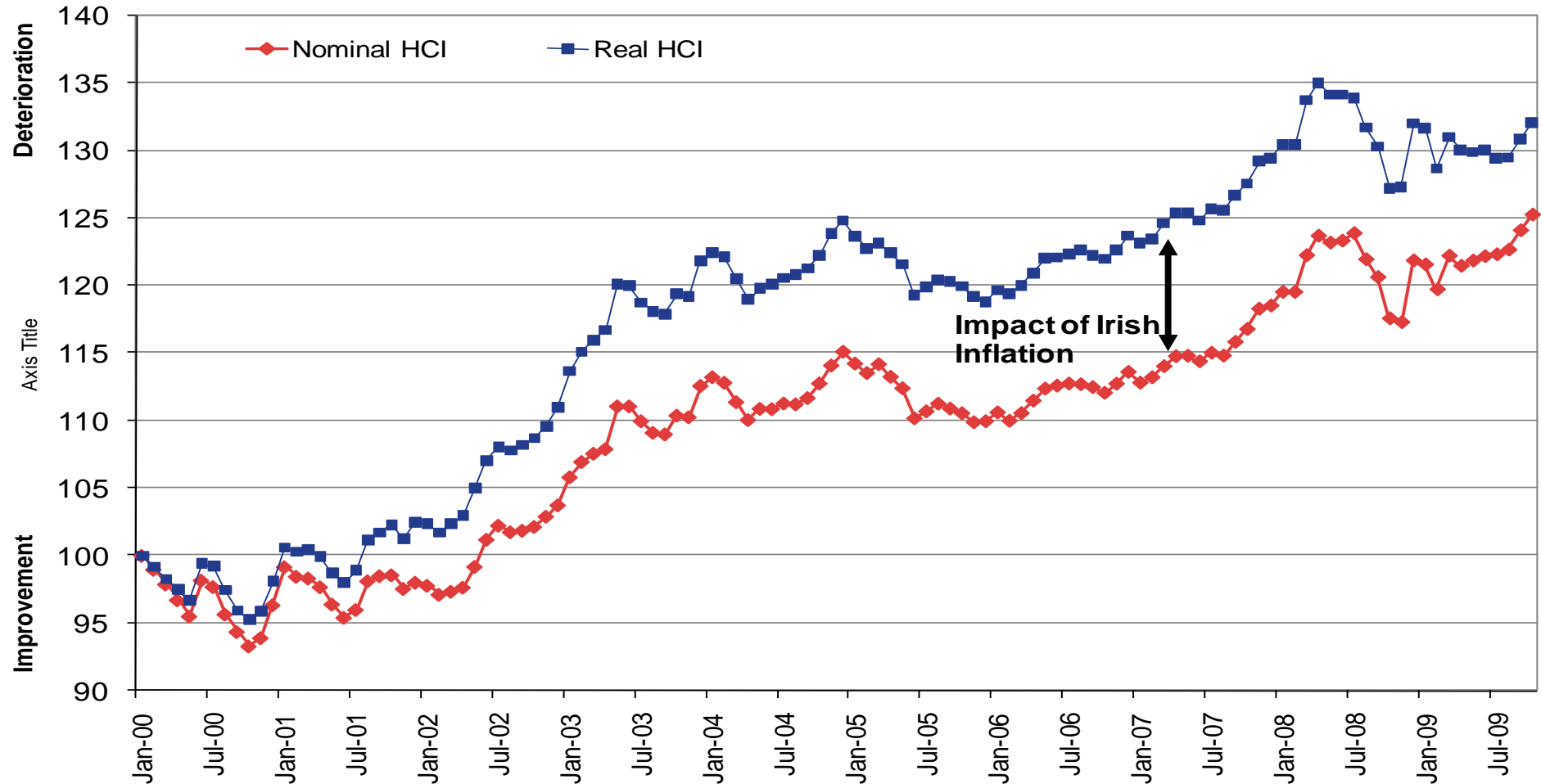
General Government Consolidated Debt (as a % of GDP), 2000-2010F



Source: Eurostat, Economy and Finance; Dept of Finance; European Commission

Cost competitiveness has weakened in recent years

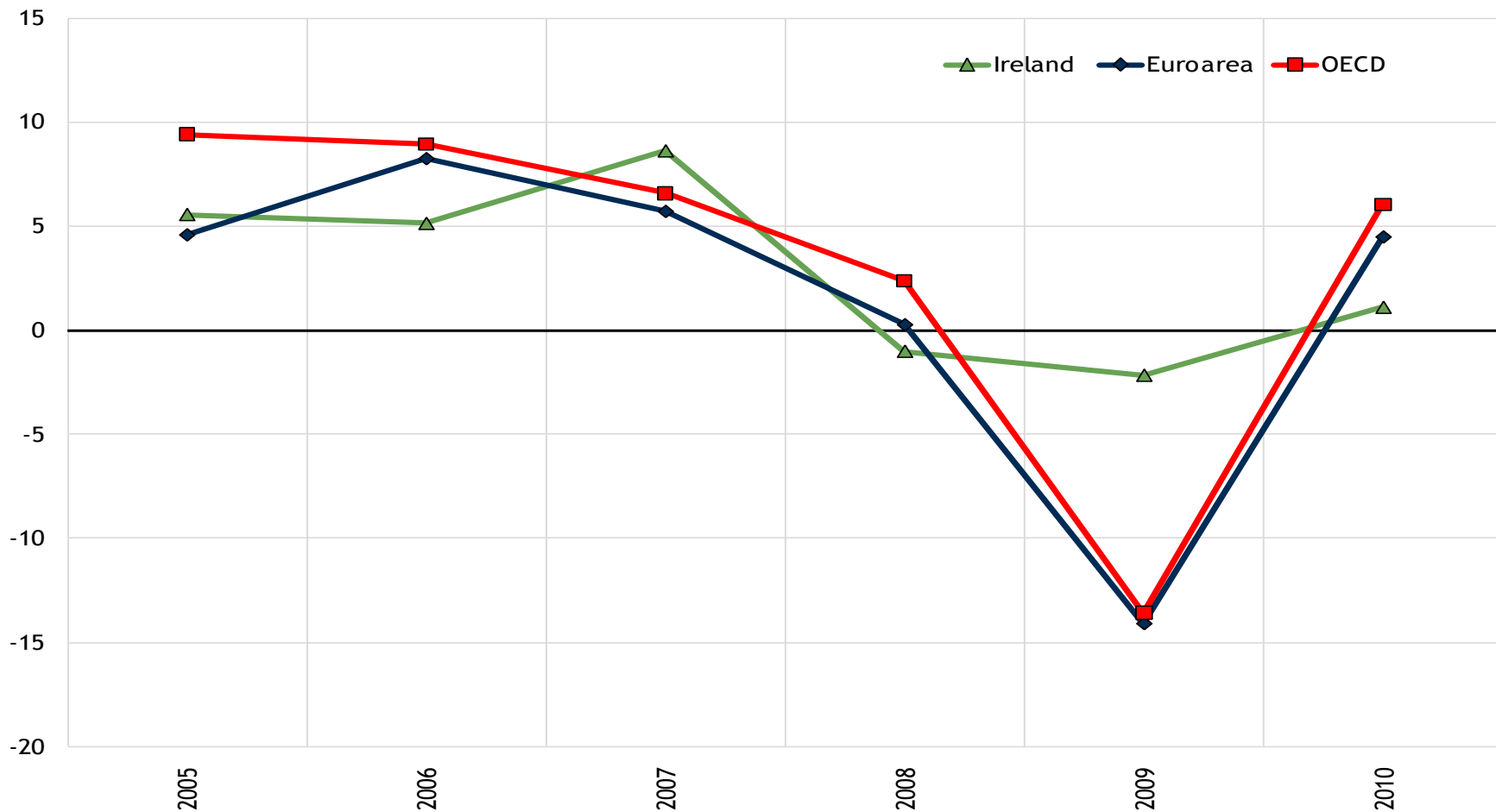
Harmonised Competitiveness Indicator, 2000-2009



Source: Central Bank of Ireland; January 2000=100.

Recent export performance

Annual Growth in Exports Goods and Services (%), 2005- 2010f





Where do we stand in terms of promoting export led growth?

Strengths

- ▶ Resilient export performance in face of collapse in global trade but sectoral performance has varied significantly
- ▶ Inward FDI remains relatively strong - role in stabilising the economy over the downturn (Barry and Bergin)
- ▶ Improved infrastructure, education and R&D performance (risk of faltering on R&D?)
- ▶ Pro-enterprise tax and regulatory environment - policy challenge to sustain this?

Weaknesses

- ▶ Dependence on property and household borrowing has been exposed - deadweights of private and public debt
- ▶ Long-term unemployment - re-skilling challenge
- ▶ Cost competitiveness poor - despite recent cyclical improvements
- ▶ Slow productivity growth
- ▶ Falling world market share in manufacturing; services better



2. Challenges for the future

Competitiveness is beginning to improve

-but largely due to the sharpness of the recession and cyclical reductions in mortgage interest, oil and gas prices rather than structural changes

2. Ireland's Competitiveness Challenge

Macro Issues:

- Restoring stability of public finances
- Ensuring the banks are channelling credit to viable businesses

Improving Cost Competitiveness

- Incomes and prices
- Property
- Energy
- Waste
- Local authority charges

Increasing Productivity Growth

- Restructuring the economy
- Skills
- R&D and innovation
- Capital and technology deepening
- Infrastructure
- Competition and regulation
- State supports
- Workplace development



3. Questions

Growing Productivity

“Productivity isn't everything, but in the long run it is almost everything.” - Paul Krugman

Growing Productivity

Productivity Levels

Per Hour Output, 2008

OECD-28 Ranking:

GDP: 9 (↑4)

GNP: 18 (-)

Productivity Growth

Average Annual Growth in Output per Hour Worked, 2000-2008

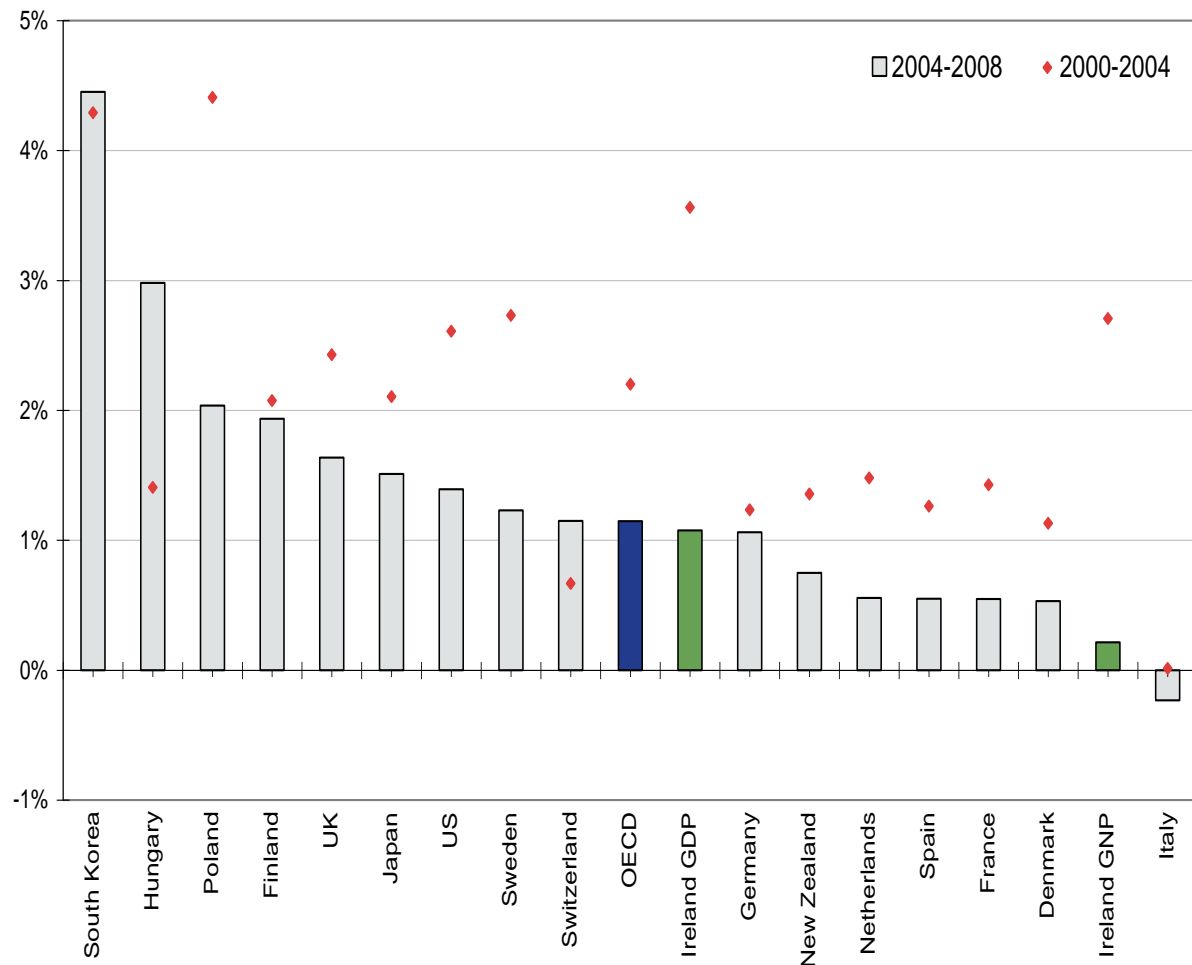
OECD-28 Ranking:

GDP: 13 (↓7)

GNP: 26 (↓17)

(change since 2000)

Average Annual Growth in Output per Hour Worked



Source: Groningen Growth & Development Centre, Total Economy Database, Jan. 2009

Compare and contrast

- ▶ **Department of Finance:** *'To support the achievement of the Government's economic and social objectives by:*
 - *promoting a sound, sustainable economic and budgetary environment,*
 - *continuing improvements in the efficiency of public services, and*
 - *an effective framework for financial services.'*

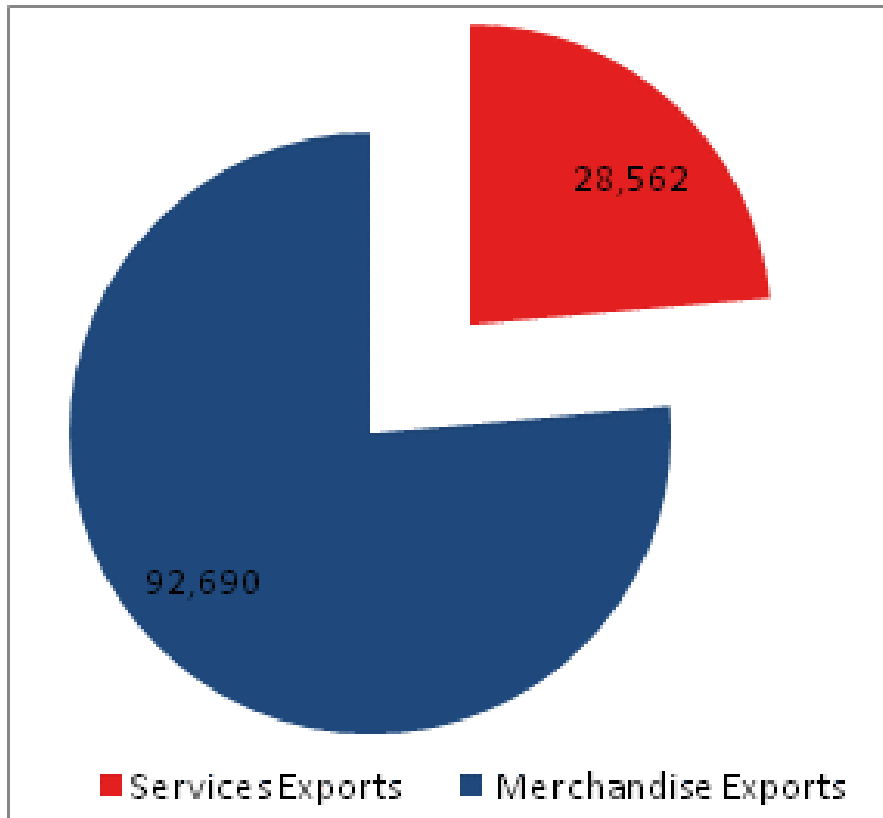
- ▶ **Department of Enterprise, Trade and Employment:** *'We will work for Government and the people to equitably grow Ireland's competitiveness and quality employment.'*

- ▶ Do we adequately incorporate productivity, and its sister innovation, in budgetary and policy decisions?

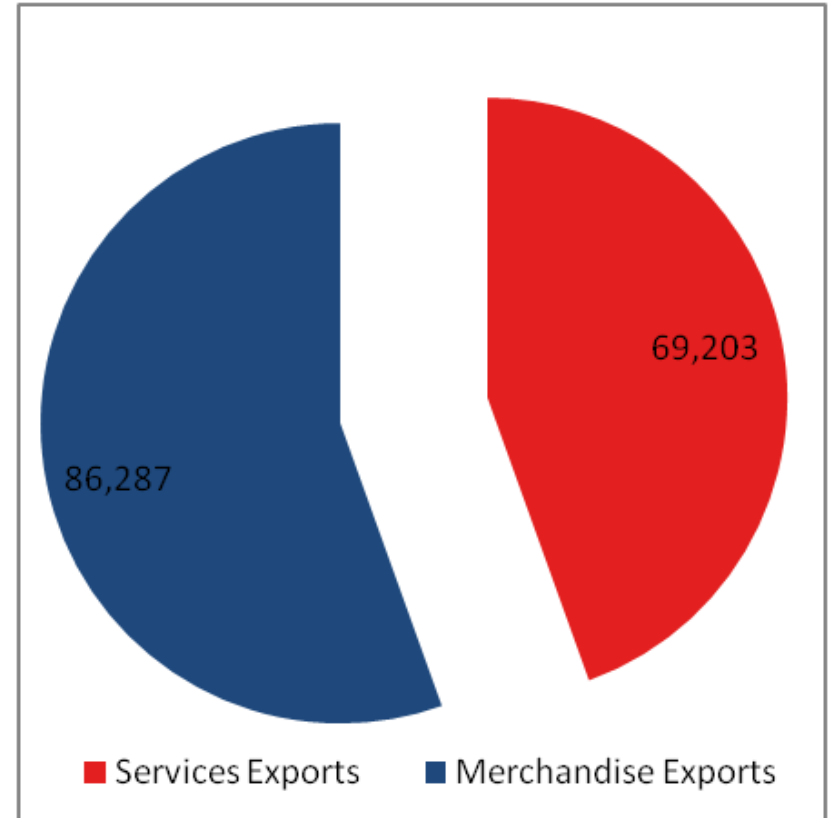
- ▶ Should a senior Cabinet Minister have a transcending brief for driving productivity growth in Ireland - does the Cabinet restructuring meet this challenge?

3.2 Are our policies, institutional structures and mindsets rooted in the past?

Ireland's Merchandise and Services Exports:
2001 (€ bn)



Ireland's Merchandise and Services Exports:
2008 (€ bn)

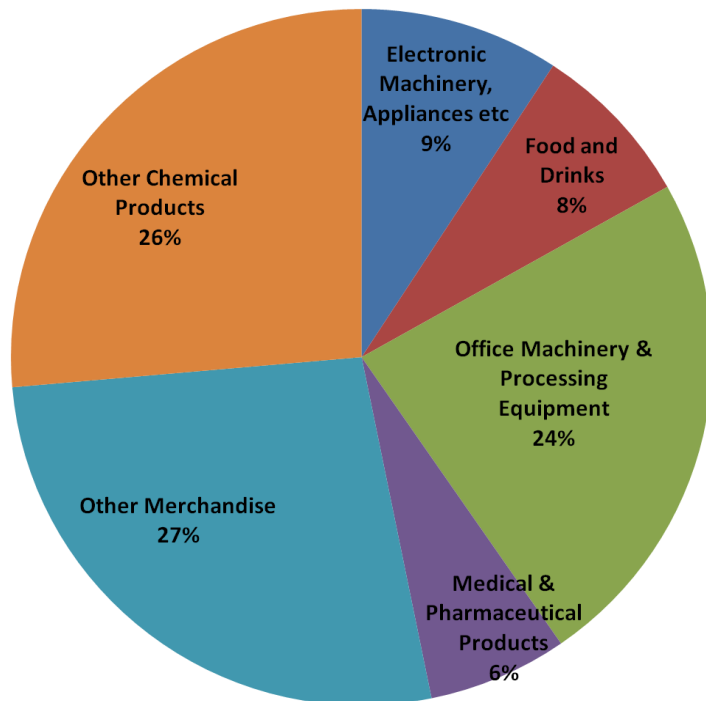


3.2 Are our policies, institutional structures and mindsets rooted in the past?

Percentage of Manufactured Exports

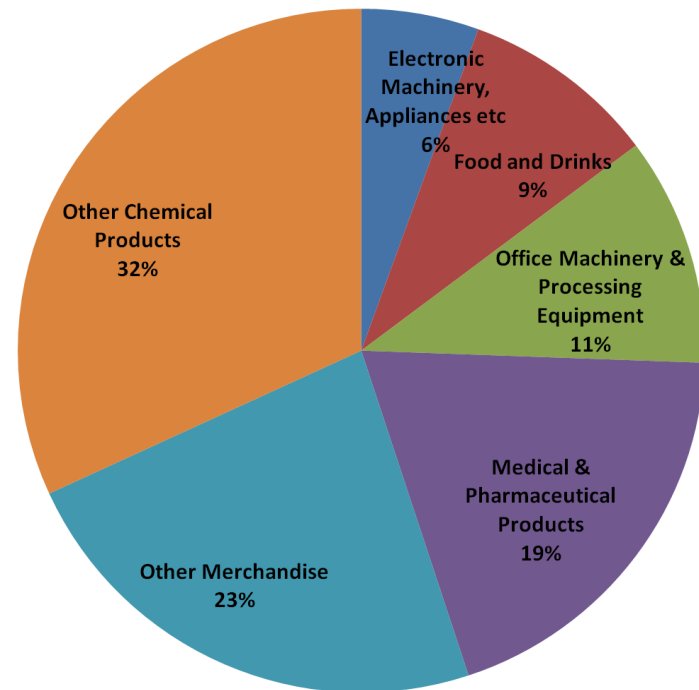
2000

Total manufactured exports

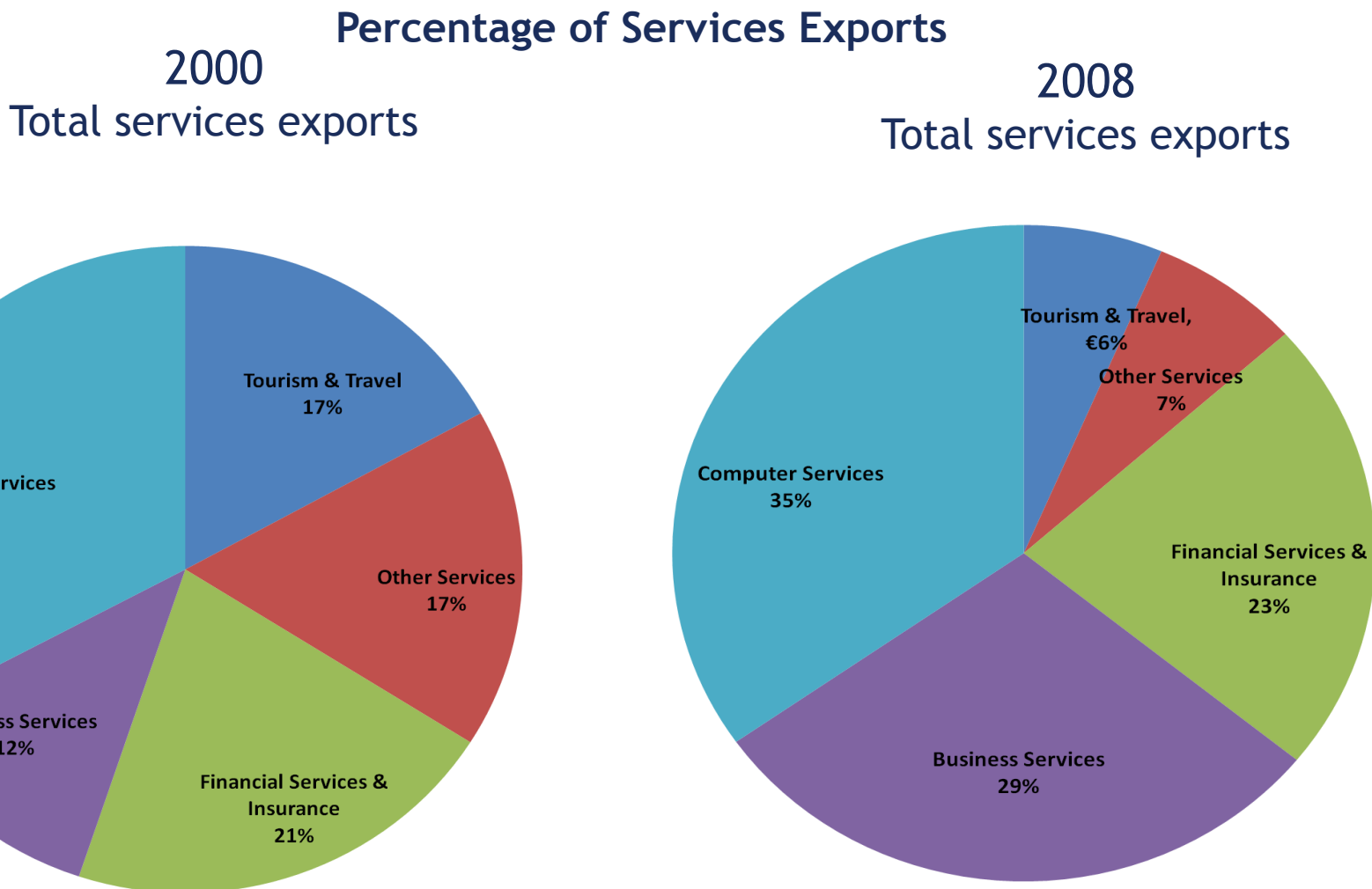


2008

Total manufactured exports



3.2 Are our policies, institutional structures and mindsets rooted in the past?

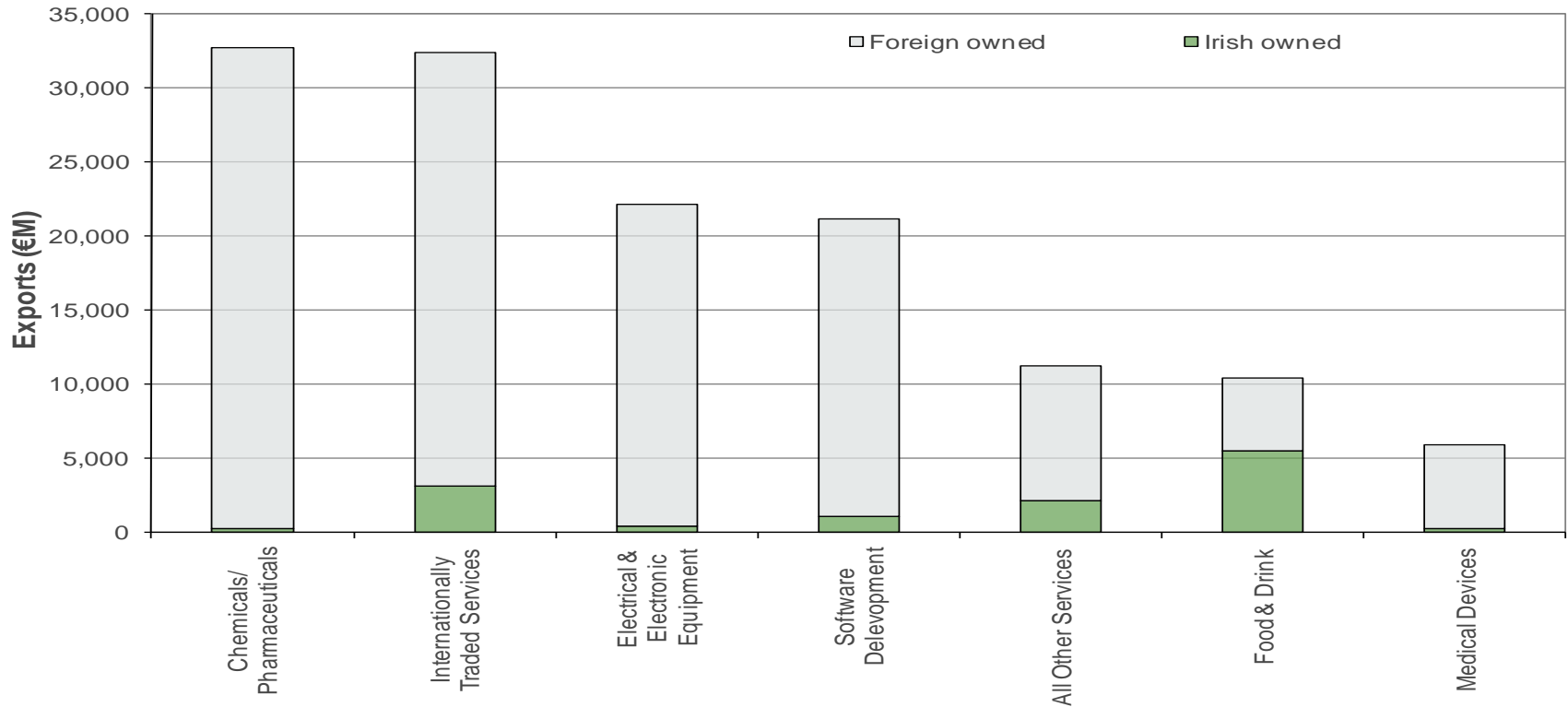


3.2 Are our institutional structures and mindset rooted deep in the past?

- ▶ **Do our Departmental Structures reflect the changes in our economy?**
 - Food and drink accounts for 9% of merchandise exports. Unprocessed food (live animals, fruit and vegetables) account for 7% of total food and drink exports.
- ▶ **Are we measuring the right things?**
 - ▶ 165,300 sheep were slaughtered in January 2010. Stats released on February 25th.
 - ▶ Business services accounted for 29% of Irish services exports in 2008. What do these companies do, how are they performing in January 2010?
- ▶ **Are we allocating our resources in the right areas?**
 - ▶ Of the total 550 FTE PhD and non-PhD researchers employed in the government sector, 308 are employed in agriculture related fields (56%).

3.3 Sources of economic growth and employment

Exports from Development Agency Assisted Firms by Key Sectors and Ownership



Indigenous Exporters

- Exports = €13.4 bn
- Employment = 134,000
- Spend in economy = €19 bn

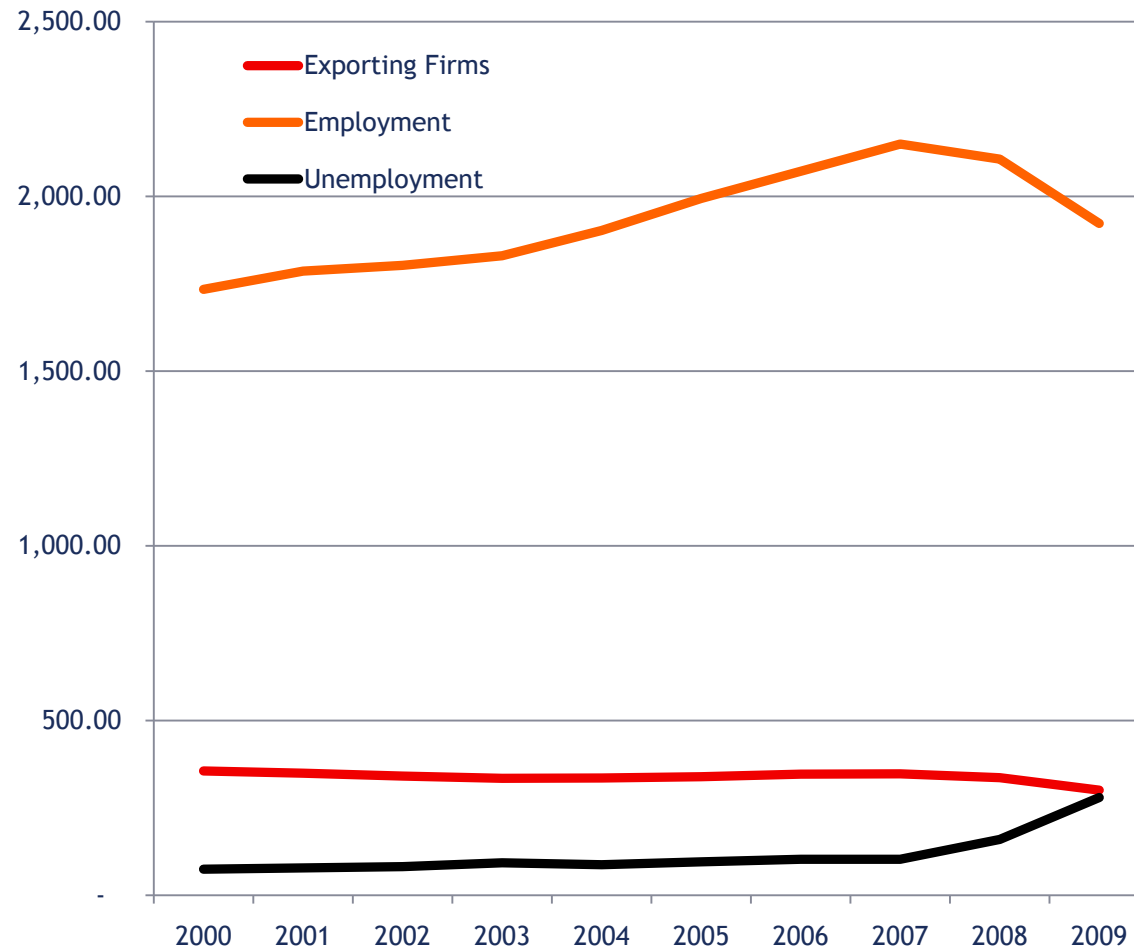
Overseas Owned Exporters

- Exports = €109.9 bn
- Employment = 125,000
- Spend in economy = €21 bn

3.4 Where will the Jobs come from?

- ▶ Agency employment - stable over the past decade
- ▶ Also need to take account of multiplier effects - estimated at 1:1
- ▶ Potential to grow export jobs?
- ▶ Potential to attract labour intensive projects.
- ▶ Potential to create jobs across the wider economy?

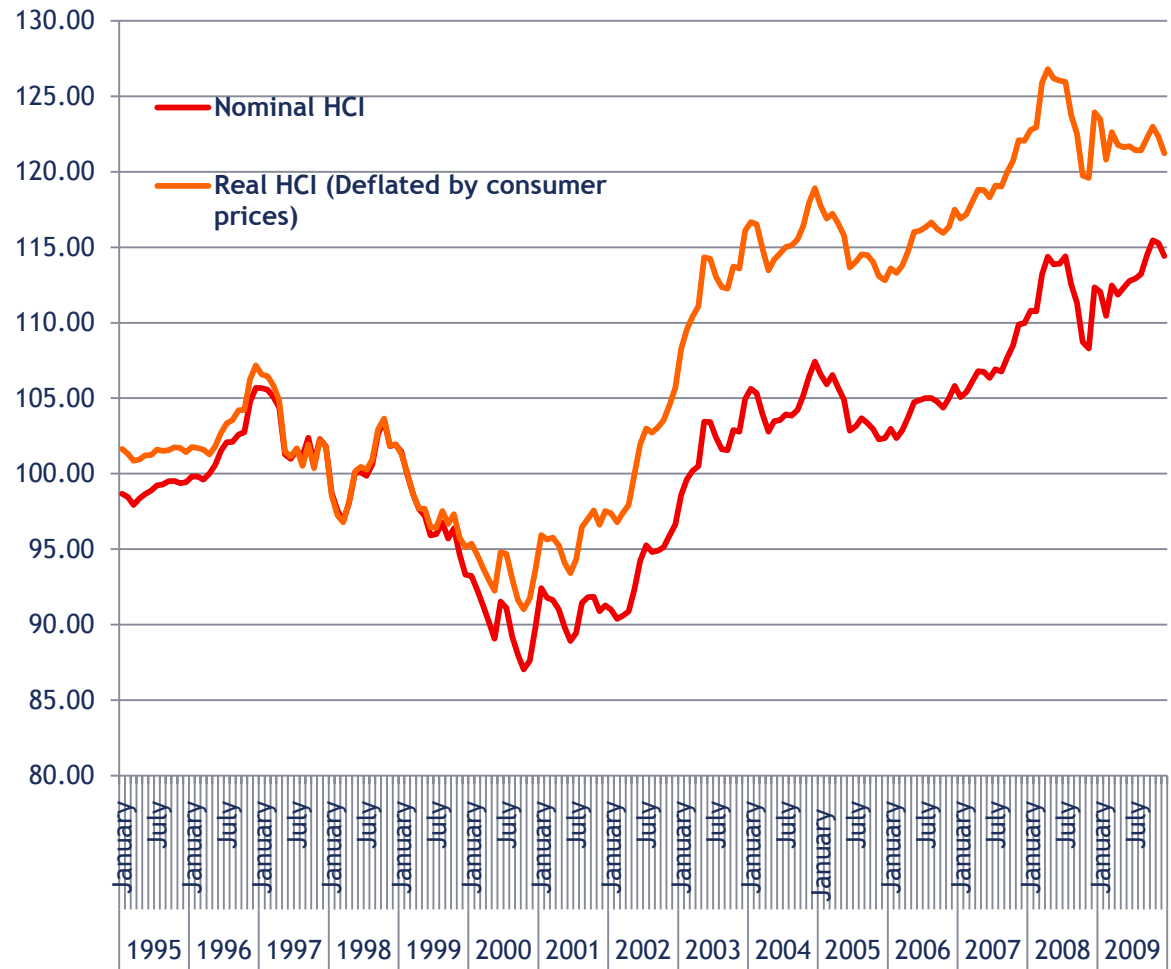
Employment, Unemployment and Employment in Agency Supported Export Firms (000s)



3.5 Cost Competitiveness

- ▶ A high cost base is a damaging legacy of the boom, particularly for many indigenous exporters who are focused on the UK market (€/Stg.)
- ▶ Prices are now moderating, but we believe that this is largely a result of the current recession (cyclical factors) rather than a response to structural issues in the economy.
- ▶ A quick adjustment is essential to achieving a swift improvement in competitiveness.

Harmonised Competitiveness Indicator

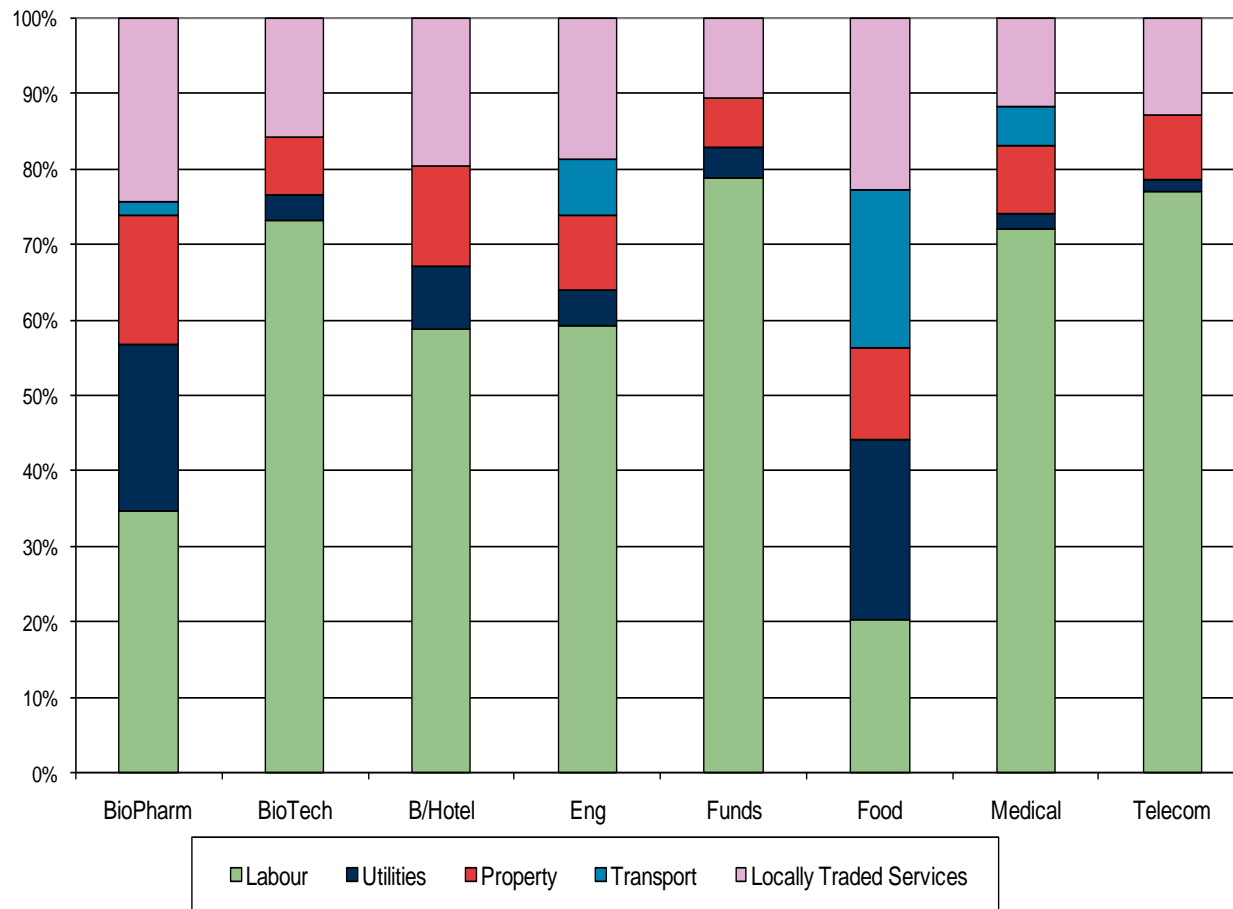


Source: Central Bank, October, 2009

3.5 Cost Competitiveness

- ▶ Do economist have an excessive focus on wages?
- ▶ Are we willing to tackle other costs?
- ▶ How can we tackle other embedded costs?
- ▶ What other tools exist to manage costs - competition policy, NDP investment, skills development, etc.

Average Firm Cost Structure (broad input category as a % of total domestic costs)



3.6 Seek to Compete to Win

- ▶ **Being average only works when you want average living standards. How can we engender a culture that seeks to be world class at everything we do - education, transport, R&D, innovation, etc.**
- ▶ **Who should we be seeking to learn from - who should we be seeking to beat! Who has been improving their competitiveness while we were building houses?**
 - ▶ **Finland in primary and secondary education?**
 - ▶ **Israel in promoting high tech start-ups?**
 - ▶ **Sweden in delivering of advanced broadband?**
 - ▶ **Singapore in delivering efficient public services?**
- ▶ **Are there other newly emerging competitors?**



4. Policy directions?

Overarching policy imperative

The growth of the export base (and its extension into currently mainly non-traded areas (e.g. education)) is the essential foundation for all policies

Implications?

1. Difficult to see any alternative to high reliance on FDI companies as generators of growth for medium term future
2. Bring essential “infrastructures” up to being the most competitive in the world - education and research, broadband, roads, labour market flexibility
3. Recast public service pay bargaining - no more paying for productivity in advance but ensure application of outcomes related pay structures, fairness and best practice HR policies - a long and difficult road. **Reminder NCC is not part of the pay negotiations processes**

Implications - more?

Shift activity and resources to international trading sectors

4. Incentivise enterprise and resources into externally traded activities?
5. Remove all incentives and tax expenditures which favour non - traded economic activity
6. Extension and forceful application of competition policy - forceful application in law, health, finance and other sectors
7. Ensure we never again have a property speculation bubble - strategy, physical planning and legal changes needed?
8. Promoting export and economic growth through enhanced competitiveness is a higher priority than securing a “accounting positive rate of return” from NAMA?



Thank you

www.competitiveness.ie