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National Competitiveness and Productivity Council

Bulletin 22-4 Promoting Competitiveness in Ireland

- 25 Years On

- This year marks the 25th Anniversary of the establishment of the National Competitiveness Council, recently renamed the National Competitiveness and Productivity Council to reflect its new mandate.
- The Council reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment, on key competitiveness and productivity issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position and productivity performance.
- Each year the Council's Annual Report – *Ireland's Competitiveness Challenge* – identifies key priority areas requiring reform. The areas prioritised reflect the different stages of the economic cycle as well as structural matters such as education and skills; infrastructure; research, development, and innovation; and business costs.
- The Council will continue to ensure a strategic focus on the competitiveness of the economy in the face of increased global and technological changes, drawing on research evidence and expertise from the business, policy, and academic communities, and from the social partners.

BACKGROUND ON COMPETITIVENESS FOCUS

In the early 1990s, the *Industrial Policy Review Group*, appointed by Government to develop a new enterprise strategy for Ireland, pointed to the need for a more holistic approach to industrial development in Ireland. The Group drew attention to the myriad of factors which impact on enterprises and the wide range of government policies that affect those doing business. Influenced by the work of Michael Porter¹ and its own research, the Group's report (often referred to as the *Culliton Report*) identified greater competition in the domestic market as being key to Ireland strengthening its international competitiveness, which in turn was seen as being fundamental to economic stability and social progress.

As this new strategy was being developed, it was acknowledged that a central element in Ireland's growing economic success in the previous five years had been the partnership established between workers, employers and government. Under *Partnership 2000*², the Government further committed to this model of cooperation in garnering the broad support required for improving competitiveness in the face of new challenges ahead for the Irish economy at that time. These included global competition, the information society, technology advances, world trade negotiations, ongoing reform in the agriculture sector, the Single European Market programme, Economic and Monetary Union (EMU) and the likely further enlargement of the European Union.

And so it was agreed in *Partnership 2000* that the National Competitiveness Council (NCC) would be established with representation from the social partners. The new body would monitor and analyse domestic and international metrics and benchmark Ireland's performance against our key competitors. The NCC's role was to provide a vital input to government action on competitiveness, by assessing the factors that determine competitiveness and identifying the policy actions most urgently needed to maintain and enhance it.

The Council was set up in 1997 as an independent non-statutory body that provides advice to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment. The ultimate mission of the Council is to promote sustainable economic growth and quality employment so that living standards and quality of life improve for all of society. Its recommendations are published annually in time to inform the Government's annual Budget. Details on the structure of the Council and its membership are set out in the Annex below.

IRELAND'S NATIONAL PRODUCTIVITY BOARD

In 2015, the *Five Presidents Report: Completing Europe's Economic and Monetary Union*³ recommended that each euro area Member State establish an institution charged with tracking the country's economic competitiveness and productivity performance and making recommendations to support improvements. Based on a proposal by the European Commission, the Council of the European Union adopted *Recommendation (2016/C 349/01) on the*

¹ Porter M. (1990): [The Competitive Advantage of Nations](#)

² [Partnership 2000](#)

³ European Commission (2015): [The Five Presidents Report](#)

*establishment of National Productivity Boards*⁴ in September 2016, inviting the Member States to establish National Productivity Boards by March 2018.

On foot of this European Council recommendation, the Irish Government decided in 2018 that the National Competitiveness Council would act as Ireland's National Productivity Board. In November 2020, the Council revised its terms of reference and updated its name to reflect the Council's new expanded mandate.

The National Productivity Boards across EU countries are now responsible for providing their governments with recommendations on how to achieve more sustainable economic growth and improved societal wellbeing. The Boards are required to be independent of government and objective in their approach, and to publish findings and recommendations, based on high quality economic and statistical analysis of national and international evidence. The independent expertise of National Productivity Boards and their annual reports are intended for use by governments and by the European Commission in the context of the annual policy monitoring process known as the European Semester.

The Boards cooperate through a network, established under the auspices of the European Commission, to share detailed analytical work and best practice in the development of policies to address competitiveness and productivity challenges. The network benefits from the extensive comparative multi-country research being undertaken on productivity by the Commission and the OECD. In Ireland, the NCPC is currently working closely with the Economic and Social Research Institute, the Department of Enterprise, Trade and Employment, and the Central Statistics Office to develop a better understanding of the productivity issues we face. These include the significant differences in average productivity growth by sector, size of enterprise, and nationality of ownership.

ANALYSIS AND KEY PUBLICATIONS

Each year the Council publishes a report – *Ireland's Competitiveness Challenge* – outlining the main competitiveness challenges facing the business sector in Ireland over the medium term, and the policy responses required to meet them. The medium-term perspective recognises that actions to improve competitiveness and productivity take time to achieve.

Until 2020 and 2019 respectively, the Council published *Ireland's Competitiveness Scorecard* and *Cost of Doing Business* reports on an annual basis, benchmarking the competitiveness of Ireland's business sector and its costs against international peer countries. In light of the small year to year variation within the data used in these reports, the Council has decided to move the *Competitiveness Scorecard* onto a three-yearly cycle with the next publication due in 2023. The *Competitiveness Scorecard* will be enhanced to incorporate metrics in relation to the costs of doing business in the future.

Over the years, the Council has produced a wide variety of other outputs, including submissions to the Future Jobs Initiative (2018), Action Plan for Jobs (2015), and the Commission on Taxation (2008). Since 2015 the Council has also produced a series of Bulletins – short, targeted papers on topical issues including, amongst others, inflation, housing costs, insurance costs, and energy security. Additional Bulletins are produced to provide a summary of Ireland's relative position in the annual competitiveness rankings, such as the *World Competitiveness Yearbook* published by the Institute for Management Development in June 2022⁵. COVID-19 related restrictions and data issues have disrupted the availability of a number of international indicators over the past two years and the NCPC Secretariat is currently exploring alternative data sources to help monitor Ireland's competitive international performance.

HISTORICAL OVERVIEW OF NCPC FOCUS

The NCPC/NCC has delivered on its mandate over the past two and a half decades by highlighting the main challenges to Ireland's competitiveness and by recommending policy actions that can address them. To show how policy priorities have evolved over the past 25 years in response to changing challenges, we present a series of infographics which are based on the topics that were covered more frequently in different periods of the economic cycle since 1998. The most frequent priorities in each period appear larger in the infographics. It is noteworthy that certain major medium- to long-term issues, such as education and skills, infrastructure, and research, development and innovation appear in almost every annual report, but the focus differs over time depending on the point in the economic cycle. Not surprisingly, cost competitiveness features very strongly in each infographic, and most particularly between 2008 and 2013.

⁴ Council of the European Union (2016): [Council Recommendation on the establishment of National Productivity Boards](#)

⁵ [Bulletin 22-3 IMD World Competitiveness Rankings](#)

1998-2007



Between 1998 and 2001, a period of very rapid growth in the economy, the main issues of concern to the Council were the skills shortages and infrastructure bottlenecks arising, and the lack of sufficient investment in telecommunications. From 2002 until 2005, the ongoing tightening of the labour market and rising costs were of concern, as well as the need to boost innovation activity in science, technology, and research and development. In 2006 and 2007, the Council drew attention to the risks to sustainable fiscal policy in the context of the over reliance on the construction sector as the main driver of growth, and the rapid rise in private sector debt.

2008-2013



With the bursting of the domestic property bubble and the emergence of the Global Financial Crisis, the main issues of concern between 2008 and 2011 were the adjustments to costs and wages underway to regain cost competitiveness, the restoration of fiscal sustainability (including public sector reform), and the need to increase productivity and return to export-led growth. In 2012 and 2013, attention was focused on education and training, and labour market activation policies to help address the high levels of unemployment following the financial crisis.

2014-2019



As the economic recovery got firmly underway from 2014-2016, ensuring cost competitiveness was maintained was a key priority of the Council, as well as supporting innovation and productivity, and the required investment in skills, education, and physical infrastructure. Also important was access to finance by SMEs and Brexit, following the UK referendum in 2016. Between 2017 and 2019 environmental sustainability and the required transition to a low carbon economy emerged as a key issue, as well as investment in the skills and infrastructure needs associated with the digital economy.

2020-2021

In 2020 and 2021, the Council took into its perspective the exceptional worldwide impact of the COVID-19 pandemic. While the *Competitiveness Challenge* reports had traditionally taken a medium- to long-term view, the scale of the global disruption required a focus on the immediate issues facing the Irish economy, as well as on initiating those vital reforms needed to increase the pace of digitization of both business and public sector practices and processes that should pay dividends over a longer time horizon.

In 2022, the forthcoming *Competitiveness Challenge* report will explore how the Irish economy is recovering in the aftermath of the most severe stages of the COVID-19 pandemic, while facing new global uncertainties brought on by the Russian invasion of Ukraine in February 2022. Rising costs of doing business are placing an increased burden on enterprises as the price of raw materials and energy in particular continue to squeeze profit margins, while other business costs, including insurance and access to credit, remain comparatively more expensive in Ireland. A tight labour market, linked to an exceptionally challenging housing market, means that Irish enterprises in certain sectors are struggling to attract and retain

workers with the right skills and experiences. Investment is needed in training and upskilling opportunities as well as in the physical and social infrastructure that supports the wellbeing of individuals and businesses. The required policy reforms to address these issues will help to boost productivity growth in the medium to long term and improve Ireland's competitiveness.

GOVERNMENT RESPONSE

In December 2020, the Department of An Taoiseach coordinated the Government's first formal response⁶ to the Council's recommendations as set out in *Ireland's Competitiveness Challenge 2020*. Ireland is the first country in the EU where the government formally responds to the recommendations of its National Productivity Board's annual report. This recent development is associated with the NCPC's concentration on a smaller number of priority areas with targeted recommendations. The response, provided within two months of the publication of the *Competitiveness Challenge* report, outlines how the Government is responding or will respond to the priority areas and actions proposed by the NCPC.

In November 2021, the Government issued its second formal response to *Ireland's Competitiveness Challenge 2021*, and this pattern of annual responses is strongly welcomed by the Council and points to its role in identifying key actions for Government to address across a wide policy domain. This new approach is facilitated by how the NCPC, while retaining its independence, engages with senior officials, including Council Advisors, and Government Departments.

CONCLUSION

Looking ahead, the Council will continue to focus on the reforms required to ensure a strong competitiveness and productivity performance in the Irish economy in the medium to long term. The COVID-19 pandemic has impacted to different degrees on businesses and on the world of work, with remote and blended working now

significantly more widespread in many sectors. These developments have the potential to boost productivity growth if the right policies and strategies are introduced to support the adjustment to these new work practices.

The world economy is also undergoing a fundamental shift, with climate neutrality and increased digitalisation, the so-called twin transitions, presenting both opportunities and challenges to countries and enterprises alike. By working with the social partners, the Council will continue to advise the Government on the actions needed to address these challenges and to deliver sustainable and inclusive growth, in order to secure a higher quality of life for all of society.

In March 2022, the Government tasked the Department of Enterprise, Trade and Employment with leading on the development of a new White Paper on Ireland's enterprise policy. This is seen as a timely development that should help ensure that Ireland's policy stance is well-positioned to meet the opportunities and challenges arising from global economic changes over the next decade and beyond. The Council welcomes this work and looks forward to contributing to the White Paper process now underway, and to exploring how competitiveness and productivity policy actions can help achieve its goals.

The NCPC reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment, on the key competitiveness and productivity issues facing the Irish economy and makes recommendations to Government on how best to address these issues. The latest NCPC publications can be found at: www.competitiveness.ie.

This Bulletin has been issued by the Chair, Dr Frances Ruane, and was prepared by Dermot Coates and Linda Kane in the NCPC Secretariat.

⁶ [Government Response to Ireland's Competitiveness Challenge 2020](#)

ANNEX: STRUCTURE OF THE COUNCIL

Under its current Terms of Reference, the composition of the Council's membership is designed to reflect a diverse range of views and a wide range of experiences relevant to competitiveness and productivity. Members are appointed by the Minister for Enterprise, Trade and Employment who also appoints a Chair from amongst the membership.

Specifically, the membership includes representatives of employer and employee bodies; those with relevant experience from a business perspective; or from academia; and (in an ex-officio capacity) the CEOs

of both IDA Ireland and Enterprise Ireland, the Chair of the CCPC, and a representative of the Department of Enterprise, Trade and Employment. The non ex-officio members serve for one or two renewable three-year terms.

The number of Council members is at the discretion of the Minister and there are currently 15 members. In addition to these appointed members, representatives from 11 Government Departments also attend Council meetings in an advisory capacity. The Secretariat function for the Council is provided by the Department of Enterprise, Trade and Employment.