



Economic Context for Skills Development

Overview of Ireland's Competitiveness

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National Competitiveness Council

National Skills Conference
26 October 2006



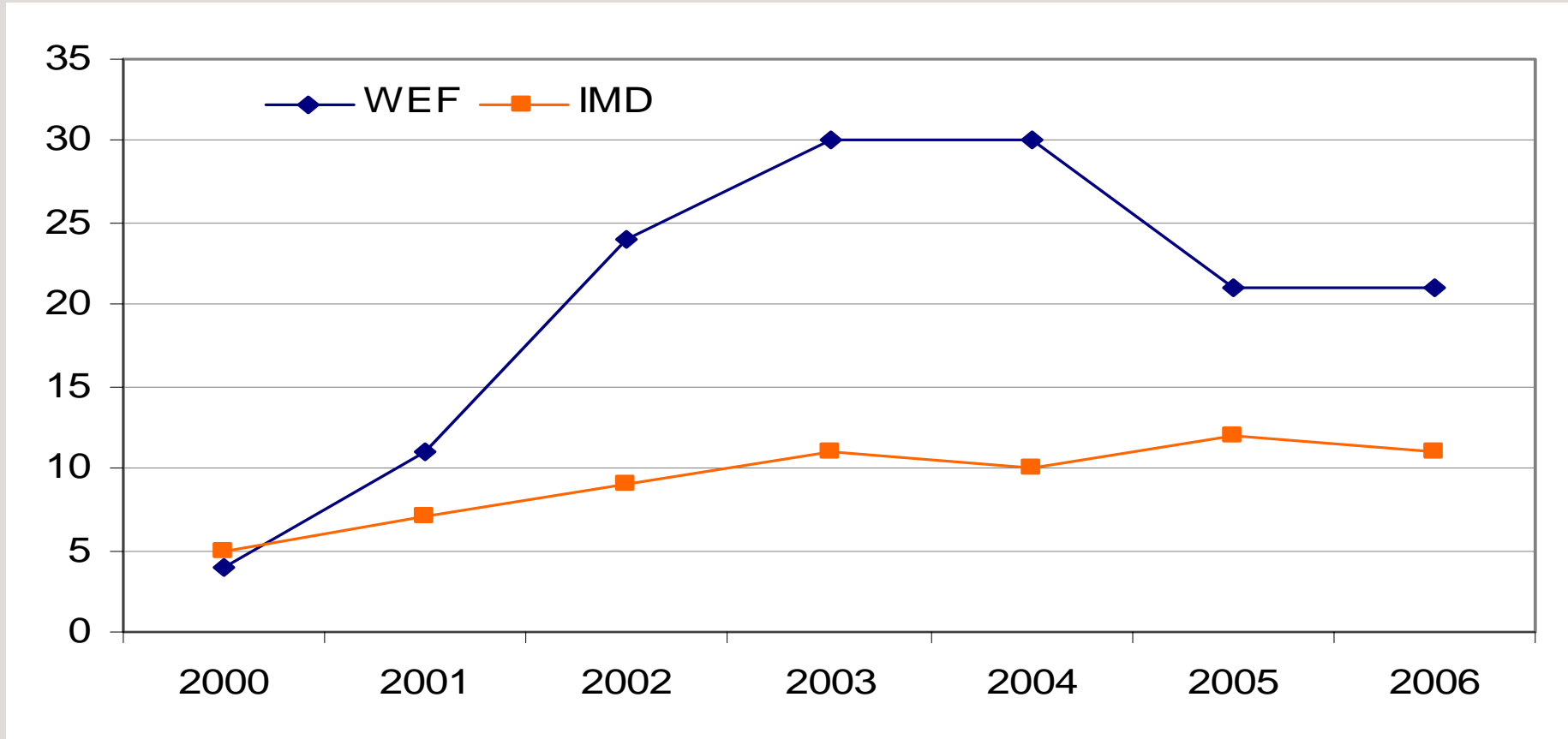
What is Competitiveness?

- National competitiveness refers to the ability of firms based in Ireland to trade in global markets.
- Competitiveness is partly about costs, prices and wages...
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- ...but more about better business performance through innovation and productivity
- Competitiveness remains a foundation for national economic and social progress



Ireland's International Competitiveness Rankings

Where does We Stand Internationally?



Source: WEF & IMD

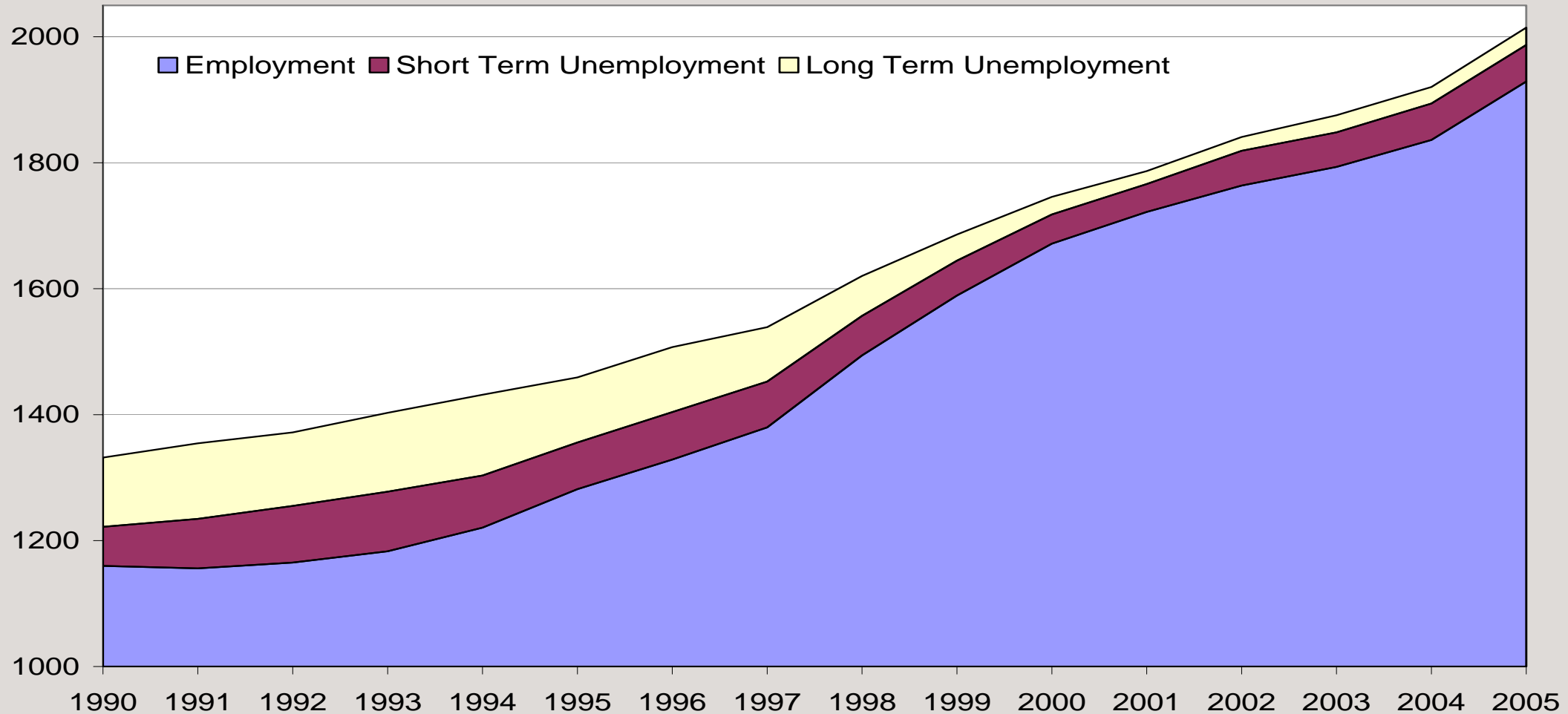


Ireland's Strengths

- Ireland continues to attract high levels of overseas investment
- Competitive personal and corporate tax rates
- Strong labour force growth, reflecting both natural growth and immigration
- Improving school completion and third level participation rates
- Relatively low levels of regulation – but perceived to be increasing
- High rates of entrepreneurship
- High levels of public investment
- Productivity levels in ‘modern’, export-oriented manufacturing and services sectors are high by global standards



Strong Labour Force Growth...



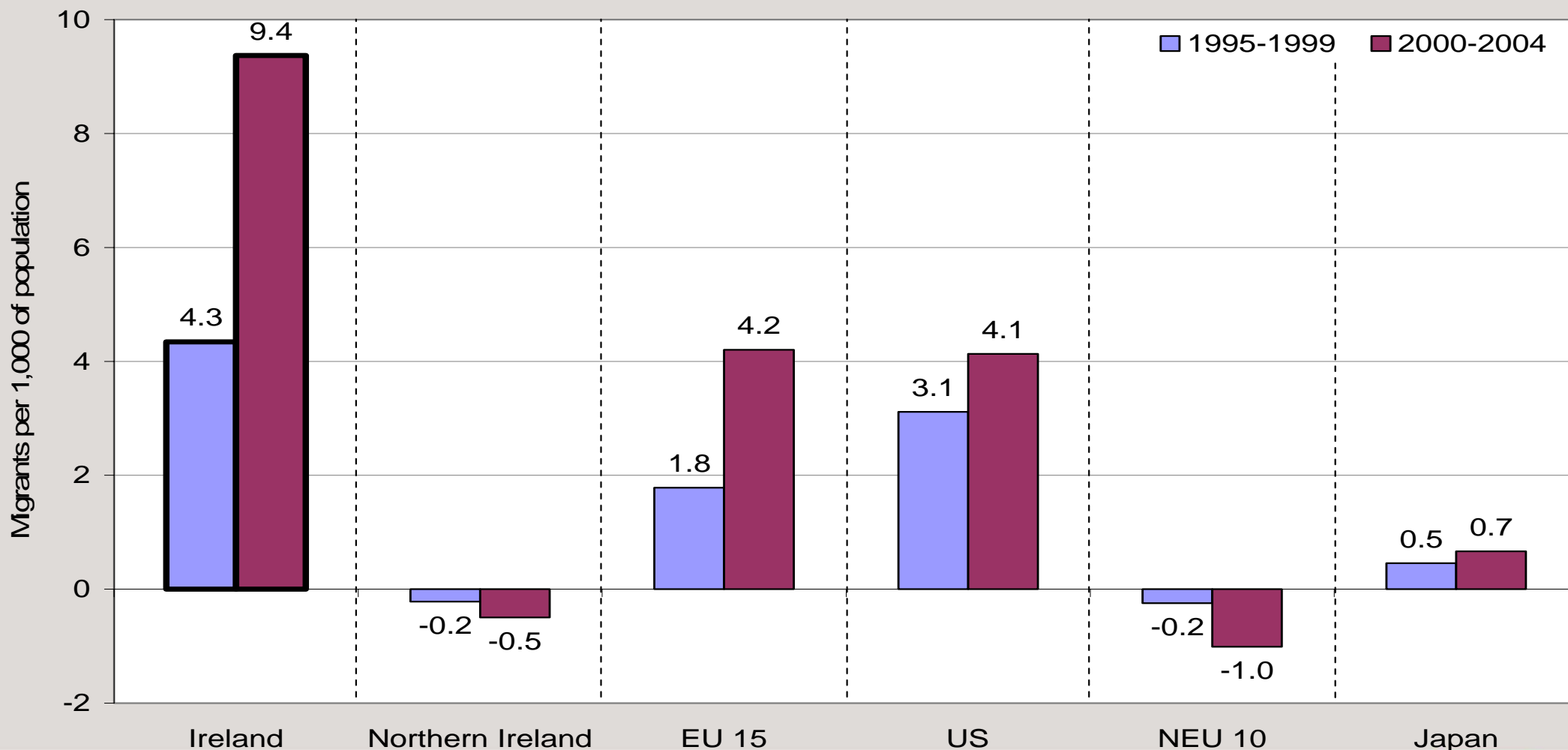
Thousands of persons

Source: QHNS, CSO

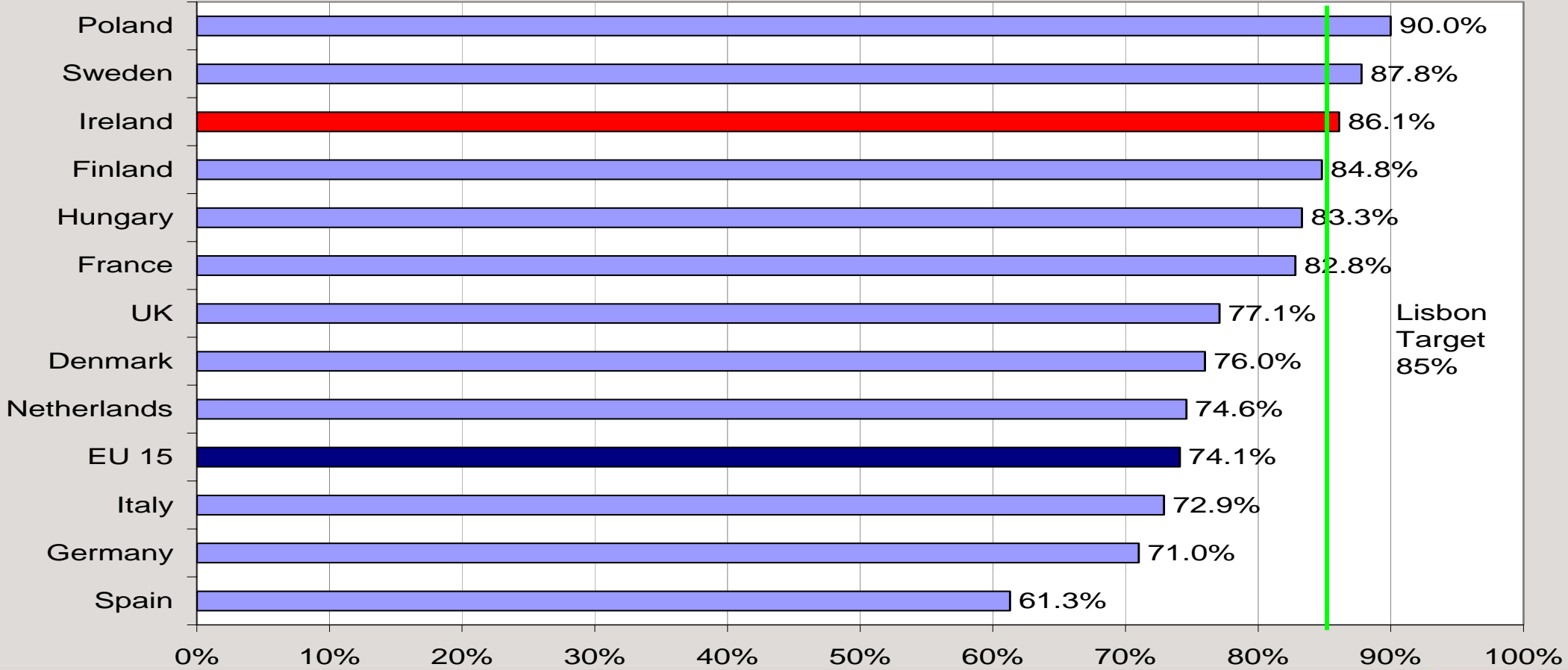
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Net Migration per 1,000 of Population, 1995-2004

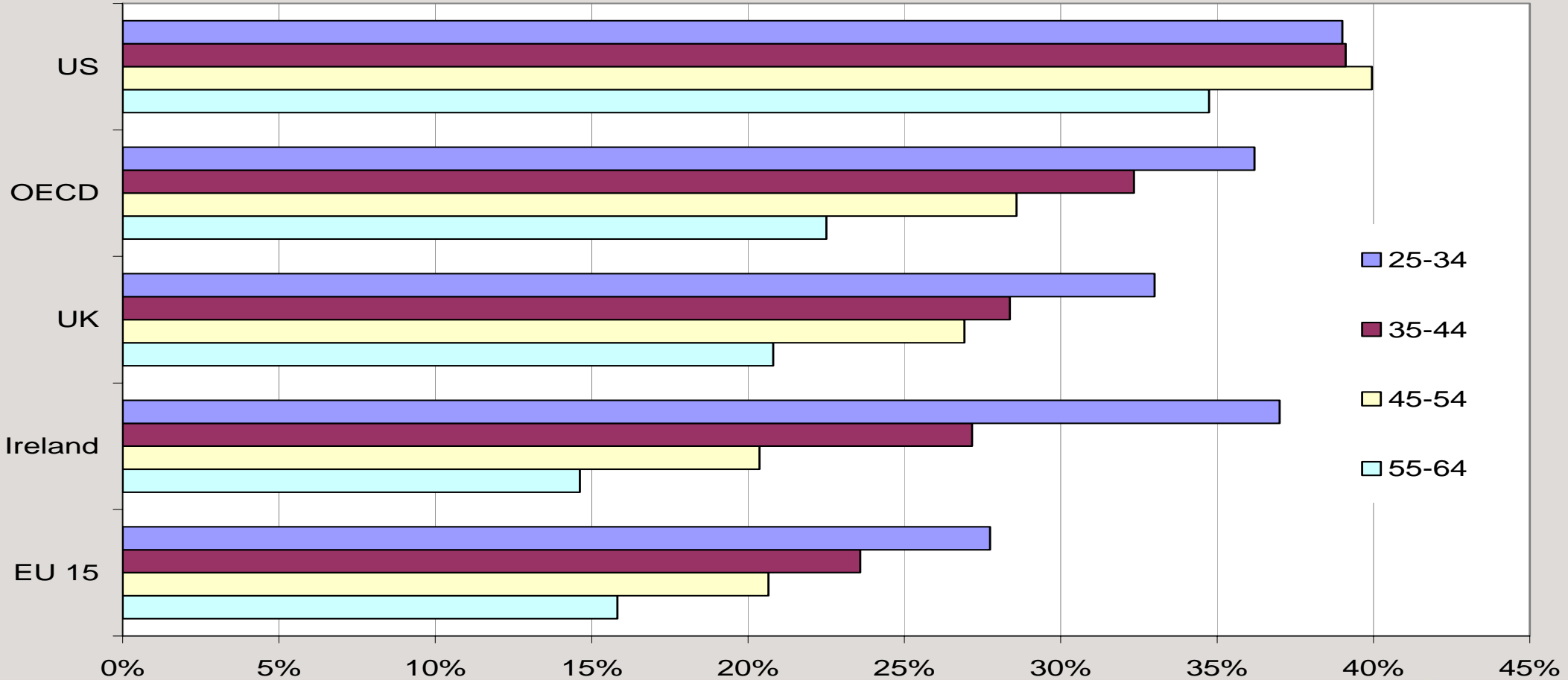


% of the Population Aged 20 to 24 having Completed at Least Upper Secondary Education (2005)



Source: Structural Indicators, Eurostat

Population by Age Cohort that has at Least Third Level Education, 2003

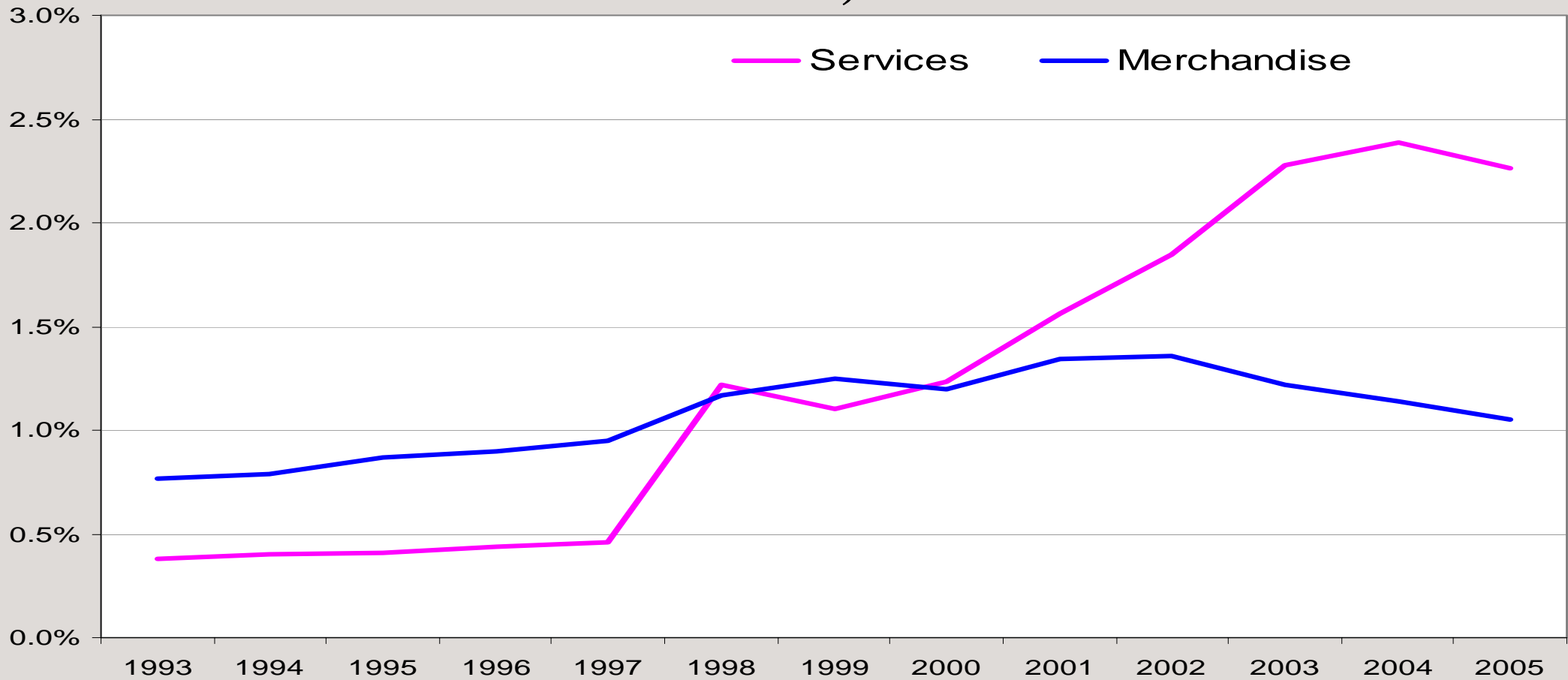


Ireland's Weaknesses

- Ireland's international trade performance is weakening
- Ireland is losing employment in manufacturing – over 32,000 job losses since 2000
- Too few Irish start-ups develop real scale
- Erosion of Ireland's cost competitiveness
- Poor (but improving) infrastructure - road, air, seaports, waste and energy
- Low levels of domestic competition and productivity in many domestically trading sectors
- Average national educational performance
- Dual labour force and low levels of engagement in life long learning
- Young and undifferentiated R&D system
- Not maximising the potential of ICT

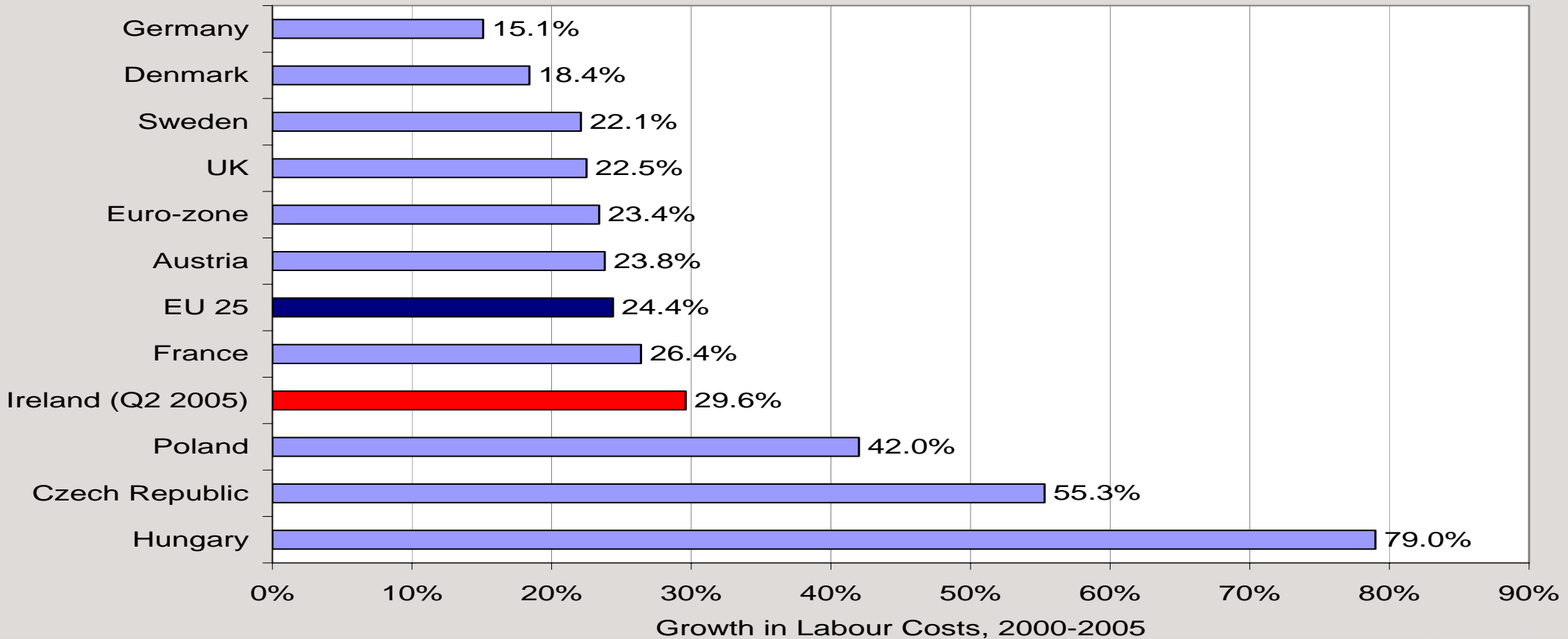


Ireland's Share in World Merchandise and Services Trade, 1993-2005



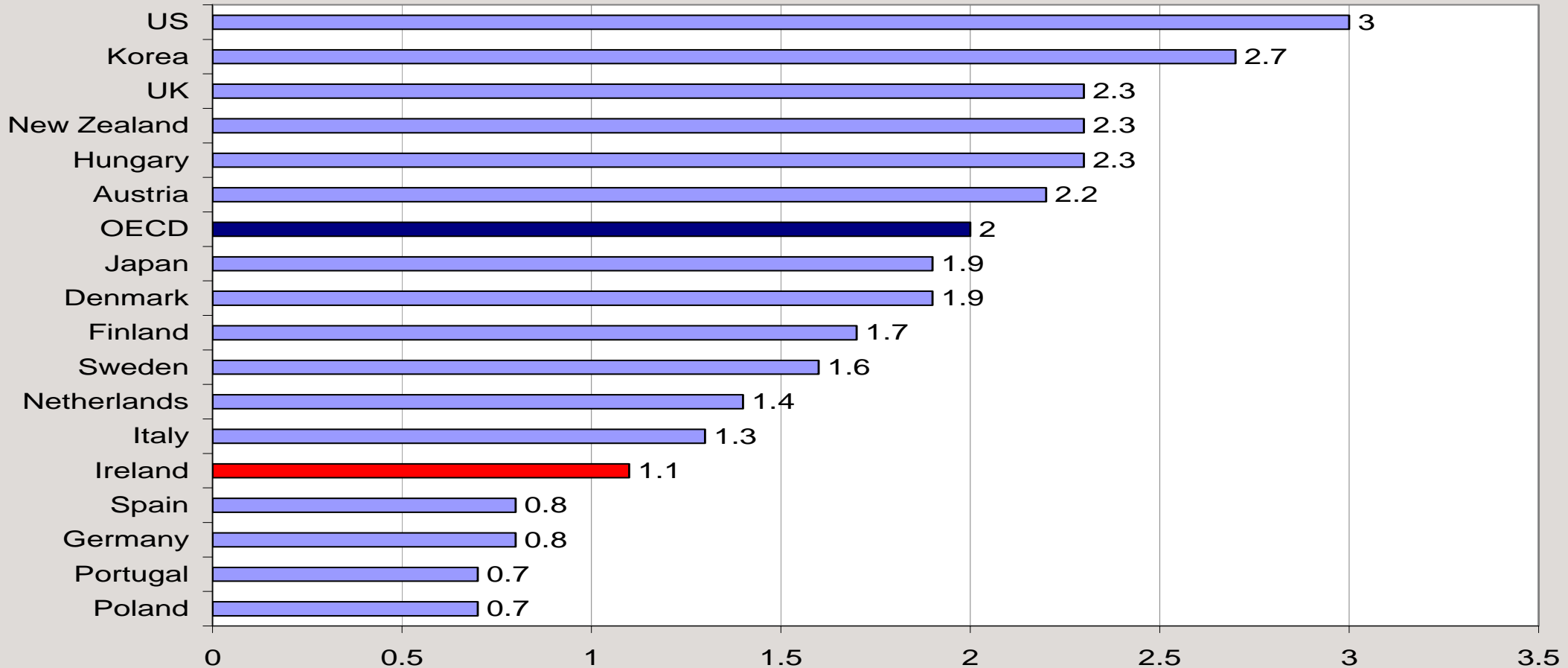
Erosion of Ireland's Cost Competitiveness

Labour Cost Growth Rate, 2000-2005



Not Maximising the Potential of ICT

Computers per 10 Students (mean), 2003

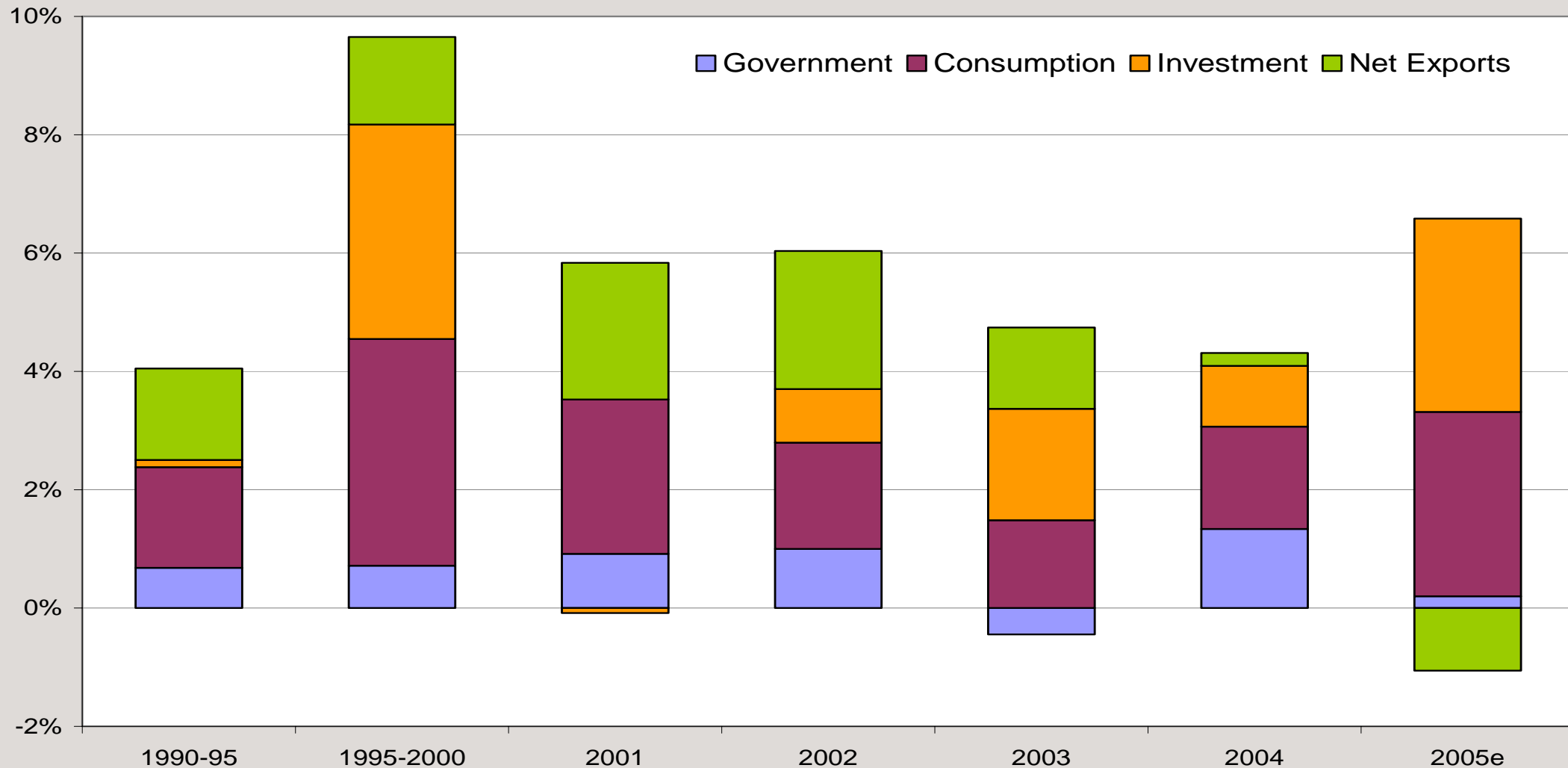


Current Assessment of Competitiveness

- Using GDP and GNP growth figures, Ireland is still competitive
- However, growth since 2000 has changed in nature and it does not necessarily reflect improved international competitiveness
- Domestic demand is driving growth, driven:
 - rising national confidence,
 - high rates of borrowing,
 - low interest rates,
 - a shift towards services, and
 - greater international competition.



Dominance of Domestic Demand



Grounds for Concern

1. Loss of internationally trading businesses

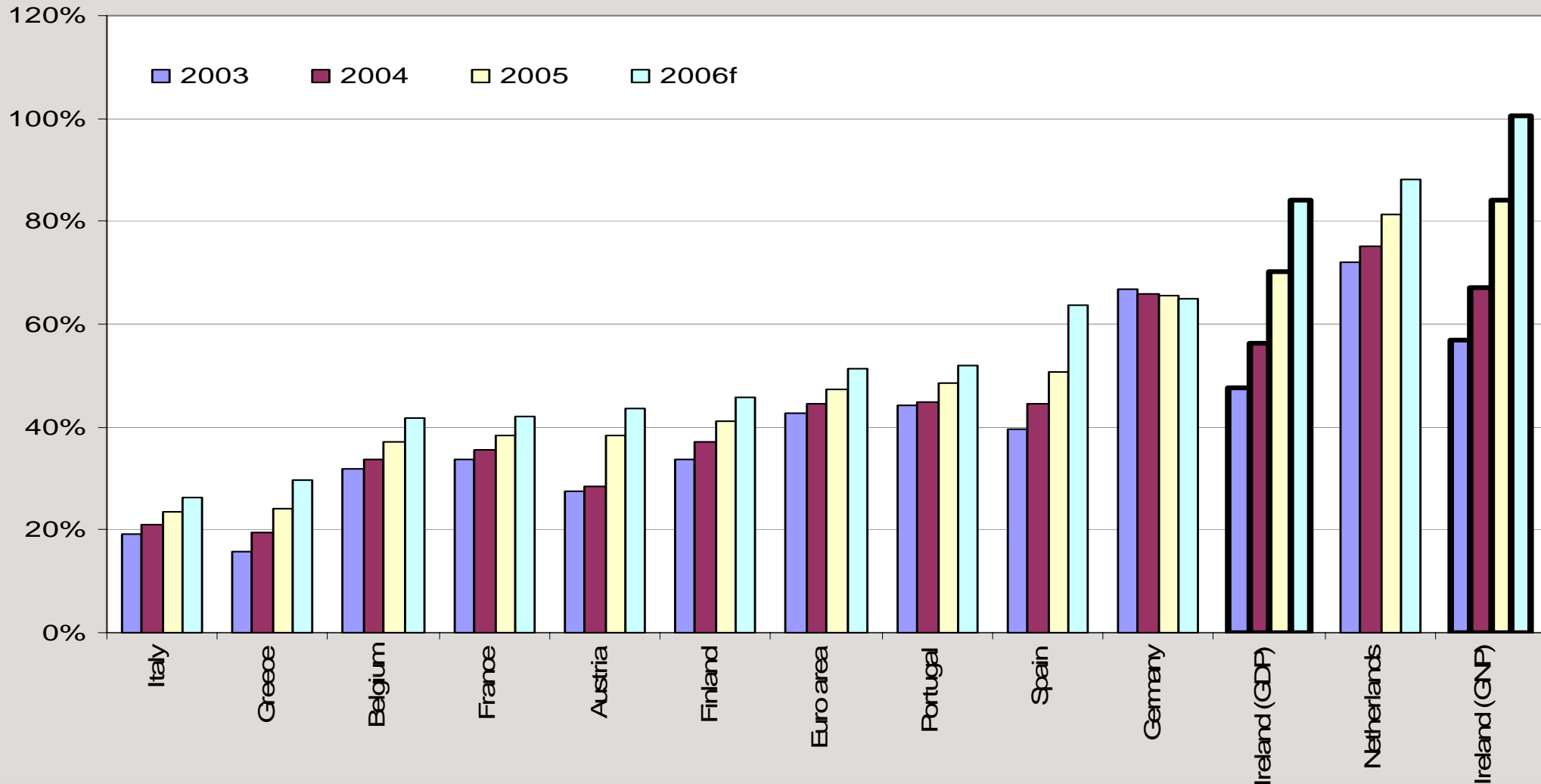
- Ireland share of world markets in decline, particularly in manufacturing
- Current account deficit is growing – Irish residents are spending more than they earn
- Loss of 32,000 manufacturing jobs since 2000 – replaced by jobs in construction and the public sector ■

2. Ireland's debt burden

- Ireland has very high levels of household indebtedness...
- ...And Ireland's indebtedness continues to grow rapidly...
- ...while interest rates are increasing



Grounds for Concern – Household Debt



Grounds for Concern – Construction

3. Dependence on the construction sector

- By the end of 2005, over 13 per cent of Ireland's employment was accounted for by the construction sector – higher than any other OECD country and over twice the rates of the USA and Germany.
- As Ireland's housing needs and infrastructural deficit are addressed, construction's exceptionally high share of economic activity and employment can hardly be sustained.
- Are these skills transferable?



Grounds for Concern – Business Costs

4. Costs

- Ireland has experienced a loss of international price competitiveness, reflecting both higher inflation and a worsening of our trade-weighted exchange rate
- **Consumer prices:** Ireland is both an expensive country and one where prices continue to rise faster than in most other EU countries
- **Labour costs,** largest cost category for business: costs have grown at faster rates than experienced in other euro-zone economies
- **Non-labour costs:** NCC research highlights the relatively high cost of property and utilities, including electricity, mobile communications, and waste disposal in Ireland



Grounds for Concern – External Risks

- Long run economic growth depends on success in exports markets
- Over time, the Irish economy must shift back from the current domestic driven phase of economic growth towards export-led growth
- Also need to be aware of external risks, such as:
 - Further rises in oil and energy prices
 - House price volatility throughout the OECD
 - A further weakening of the dollar, which would affect the cost competitiveness of Irish exporters



Five Key Policy Challenges: Productivity

1. Need for enhanced productivity growth across all sectors of the economy
 - Productivity growth has slowed considerably in recent years
 - Investment required in all levels of education system
 - Investment in infrastructure - including broadband
 - Cost reduction



Five Key Policy Challenges: Competition

2. Promotion of competition

- Costs of doing business in Ireland high, particularly for utilities, communications, property and key professional services
- Nationally – removal of government and sectoral restrictions on competition
- Internationally – promotion of free trade and work with others to get Doha back on the rails



Five Key Policy Challenges: Tax System

3. Securing the competitiveness of the tax system
 - International trends in relation to tax have changed – Ireland's model is being adopted elsewhere
 - Broadening of the tax base
 - Efficiency of public services



Five Key Policy Challenges: Innovation

4. Improving the capabilities of our companies to move up the value chain
 - Pursue with relentless determination the implementation of the strategy for science, technology and innovation, and initiatives to enhance management capabilities



Five Key Policy Challenges: Skills

5. Meeting Future Skills Needs: Globalisation and ICT
 - Fears around outsourcing and automation
 - But not all jobs can be outsourced, and ICT both substitutes and complements human skills
 - Growing demand for skills that require expert thinking and complex communications
 - Evidence (Levy et al) suggest a ‘hollowing out’ of moderately skilled jobs that are routine in nature and rule based



Five Key Policy Challenges: Skills

5. Meeting Future Skills Needs: Implications for Education

- Need to retrain existing workers at risk
- Need for strong basic skills and competencies
 - Basic competencies needed to develop more advanced skills
 - Quality and effectiveness of the teaching of maths and science – new strategies?
- Need for advanced skills
 - Need for attention to problem solving and interpersonal skills
 - Understanding and rote learning
 - Implications for teaching resources and the format of examinations?



Conclusions

- Ireland's national competitiveness has been central to Ireland's success
- Ireland needs to recover some its lost export competitiveness...
- ...a skilled, adaptable and knowledge intensive workforce is essential

