

NATIONAL ECONOMIC DIALOGUE

PRODUCTIVITY AND SKILLS: THE DRIVERS FOR BETTER LIVING STANDARDS

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An Roinn Airgeadais
Department of Finance

Productivity and Skills: The Drivers for Better Living Standards

This paper has been prepared as a contribution to the discussion in the breakout session at the National Economic Dialogue. It should not be seen as prescriptive but rather seeks to set out the current factual situation and to suggest some of the key questions which participants may wish to consider.

Key Guiding Questions:

- *How can we identify and develop the skills needed to grow our economy in the future?*
- *What are the most effective ways for the Government to use public resources to enhance the productivity of the Irish workforce?*
- *How can we best manage competing demands in our education system?*

BACKGROUND

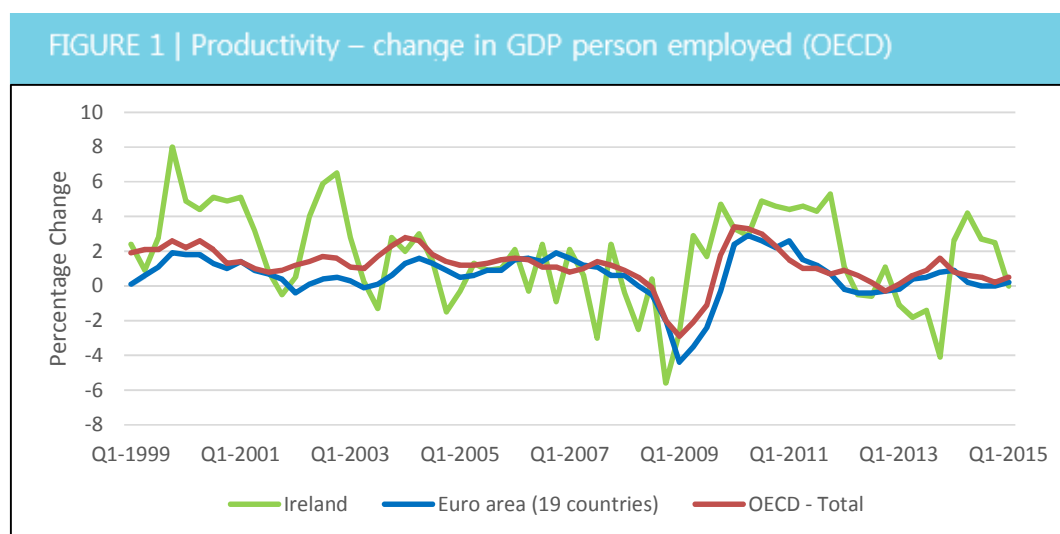
As a small open economy, Ireland relies on its ability to sell goods and services in overseas markets in order to achieve sustainable long-term growth and improved standards of living. In order to be able to do so, it is important that Ireland continues to foster an environment that attracts international investment; supports an innovative, competitive and entrepreneurial indigenous enterprise sector; invests in the education and development of Irish people's skills and talents; and equips the workforce for the jobs of tomorrow, as well as providing the capacity to move between employment opportunities in a dynamic and changing world.

The State has a key role in supporting innovation and productivity growth through its fiscal policy, its regulation of product and capital markets, and through its sectoral policies. However, it is individuals and businesses who drive new ideas, productivity and growth.

INNOVATION AND PRODUCTIVITY

Innovation and productivity gains are important in sustaining economic growth and in attracting investment from innovative and export oriented companies.

The productivity of the Irish workforce has been an important element in attracting international investment. Productivity growth in Ireland has averaged around 2.5% per annum since the early 1990s. However, in the aftermath of the economic crisis, productivity growth has reduced somewhat, as set out in the chart below.



The following sections of this paper set out in broad terms some of the important issues that impact on Ireland's productivity.

COMPETITION

Competition policy is a key driver of competitiveness, productivity and innovation because it helps to ensure better choice, improved quality of services and lower costs. It is important that the traded sector remains competitive to ensure that Irish firms are equipped to compete on international markets, that investment is productive and that consumers reap the benefits. An efficient non-traded sector is also a contributor to the overall competitiveness of the economy. There is a need for continual improvement in the effectiveness of economic regulation. In this context, it is necessary to progress the recommendations of the reports by the Competition Authority which identify specific barriers to competition.

INFRASTRUCTURE

Ireland's infrastructural capacity is a critical driver of productivity and competitiveness. The availability of competitively priced and high quality infrastructure is necessary to ensure that the traded sector can compete on global markets. Ireland has invested significant resources in infrastructure over the last decade. Capital investment accounted for between 10% and 16% of spending by Departments, for all but the most recent years of the last two decades. Since the early part of millennium, transport has accounted for nearly a third of this investment, and environment around a quarter. The education, enterprise, and health sectors each accounted for about 10% of Exchequer capital spend over this period. In addition, over this timeframe there has been considerable State-backed non-Exchequer investment in the upgrading of other areas of national infrastructure, especially in the energy and transport sectors, through the commercial semi-State bodies.

RESEARCH AND DEVELOPMENT

In addition to developing the physical infrastructure, there is also continued investment in Science, Technology and Innovation, supporting an innovative and enterprising economy. To date, the innovative capacity of the Irish economy has been supported in a number of ways, including through Science Foundation Ireland, the Research and Development tax credit and support for 21 Research Centres. Enterprise Ireland supports almost 860 client companies engaged in significant R&D projects of above €100,000 per annum and 139 client companies engaged in substantial R&D projects of above €1m per annum.

Total Business Expenditure on Research and Development (BERD) in 2014 has been estimated at €2.1bn, a 31% increase over 2007. In recent years, there has also been a significant increase in the number of Enterprise Ireland assisted companies involved in this area and an increase in the number of patents from the commercialisation of publicly funded research.

EDUCATION AND SKILLS DEVELOPMENT

Ireland's education system plays a crucial role in supporting economic growth. One of the challenges that Ireland faces is to ensure that high quality education is being provided at all levels of the education system.

For the population as a whole, Census 2011 indicates that about 1-in-6 people living in Ireland have completed their education to at least an Honours Bachelor Degree or professional qualification. While just over a quarter of those in the first part of their working lives (aged 25-44 years) have completed their education to at least an Honours Bachelor Degree, only about 1-in-8 people in the second half of their working lives (45-64 years) have done so. It is also evident that for about half of the total population, a Level 4-7 qualification is the highest level of education completed, while for about a third of the population a Level 1-3 qualification is the highest completed.

TABLE 1 | – Highest Level of Education Completed by persons aged 15 years and older whose full time education has ceased

Source: Based on data from CSO, Census 2011 – What We Know, Table 1A. Totals exclude respondents who did not state highest level of education completed

	Highest Level of Education Completed:				
	0 <i>No formal education or training</i>	1-3 <i>Primary to Lower Secondary</i>	4-7 <i>Upper Secondary to Ordinary Bachelor Degree / National Diploma</i>	8-9 <i>Honours Bachelor Degree to Postgraduate Degree</i>	10 <i>PhD or Higher</i>
TOTAL	1.5%	31.9%	48.5%	17.3%	0.8%
15-24 yrs	0.9%	20.0%	63.5%	15.7%	0.0%
25-44 yrs	0.7%	16.8%	55.4%	26.1%	1.0%
45-64 yrs	1.6%	39.2%	46.2%	12.3%	0.8%
65+ yrs	3.3%	60.9%	29.7%	5.5%	0.6%

In addition to educating and training young people, there is a need to support life-long learning within the wider population. An OECD survey of adult skills found that significant shares of the adult population in Ireland have relatively low levels of literacy and numeracy proficiency. According to a 2013 CSO study, almost 18% of Irish adults are at or below Level 1 on the literacy scale, while just over 25% of Irish adults score at or below Level 1 for numeracy. This is an important issue because adults with low literacy and numeracy skills risk getting trapped in a situation in which they rarely benefit from adult learning and their skills remain weak or deteriorate over time, impacting on their potential in their lives and careers.

APPRENTICESHIPS

In many countries, apprenticeship systems are being reformed as dual modes of learning that seek to combine workplace learning with classroom teaching. The benefits of these systems include better collaboration between enterprises and education and training providers, in areas of identified skills needs, leading to better employment outcomes for participants.

Following the publication of the Review of Apprenticeship Training in Ireland earlier in 2014, a new Apprenticeship Council was appointed in November 2014 to oversee the expansion of apprenticeships into new sectors of the economy. A call for proposals for new apprenticeships received 86 submissions. The Apprenticeship Council has proposed that the initial phase of development should focus on the 25 proposals at an advanced stage of design, planning and industry/education collaboration. It is envisaged that the bulk of these new apprenticeships will be rolled out in 2016.

A further 35 proposals, that are not as advanced but considered to be of strong merit, may be developed as the first phase of new apprenticeships are delivered.

FURTHER GUIDING QUESTIONS

Improving Ireland's productivity and skills base has the potential to be a driver for growth and investment, increasing employment and delivering better living standards. The following questions are intended as a prompt for further discussion.

- How can Ireland ensure that the workforce continues to enhance its productivity and adaptability to promote investment and job creation?
- How can we increase competition and drive efficiency and innovation in the non-traded sectors (e.g. utilities, health, education and legal services)?
- How should the education system be developed to ensure that our people have the requisite skills to secure good jobs in Ireland?
- How can we develop further education and the apprenticeship system to foster growth and employment?

***Department of Finance / Department of Public Expenditure and Reform
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