DÁIL ÉIREANN

AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Céadaoin, 8 Bealtaine 2019

Wednesday, 8 May 2019

Tháinig an Comhchoiste le chéile ag 2 p.m.

The Joint Committee met at 2 p.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	
Maria Bailey,	
Richard Boyd Barrett,	
Thomas P. Broughan,	
Barry Cowen,	
Martin Heydon,	
Jonathan O'Brien.	

I láthair / In attendance: Deputy Denise Mitchell.

Teachta / Deputy Colm Brophy sa Chathaoir / in the Chair.

Business of Select Committee

Chairman: No apologies have been received so far. Today the select committee will meet representatives of the National Competitiveness Council to discuss its latest published report entitled, Cost of Doing Business in Ireland, April 2019. Before doing so, we will go into private session to deal with some housekeeping matters.

The select committee went into private session at 2.15 p.m. and resumed in public session at 2.55 p.m.

Cost of Doing Business in Ireland: National Competitiveness Council

Chairman: Before we begin, I remind members and witnesses to turn off their mobile phones as interference affects the sound quality of the recording.

I welcome Professor Peter Clinch, Chair, Dr. Marie Bourke, principal officer and Mr. Manus O'Donnell, assistant principal officer. I thank them for making themselves available to the committee today. We are meeting the representatives of the National Competitiveness Council to discuss its latest report that came out in April entitled Cost of Doing Business in Ireland. Our committee is beginning its scrutiny hearings for budget 2020 and we have already issued a call for pre-budget submissions. It is extremely useful to hear evidence from groups like the National Competitiveness Council on the general economic position and current competitive challenges that face our economy.

Before I ask the delegation to make an opening statement, I draw witnesses' attention to the position of privilege which applies to all witnesses. By virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. If, however, they are directed by the committee to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or entity by name or in such a way as to make him or her identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

I again thank the delegation for attending and invite Professor Clinch to make his opening statement.

Professor Peter Clinch: I thank the Chairman and members of the committee for inviting me here today. I am accompanied by Dr. Marie Bourke who is head of the council's secretariat and Mr. Manus O'Donnell who is an economist with the council's secretariat. As the Chairman has said, we recently published the Cost of Doing Business in Ireland 2019 report that sets out how Ireland is performing on a cost-competitive basis relative to competitor jurisdictions. A copy of the report has been circulated to the committee. I look forward to discussing our report this afternoon. I also intend referring to the research and recommendations to Government in the council's annual report entitled Ireland's Competitiveness Challenge 2018 that we published last December.

The National Competitiveness Council was established by Government in 1997 as part of the Partnership 2000 agreement. The council reports to the Taoiseach and the Government through the Minister for Business, Enterprise and Innovation on key competitiveness issues facing the Irish economy. We offer recommendations on policy actions required to enhance Ireland's competitive position.

In accordance with the European Council recommendation of September 2016 on the establishment of national productivity boards by euro area countries, in March 2018 the Government designated the council as the body responsible for analysing developments and policies in the field of productivity and competitiveness in Ireland. The council serves as an independent voice. In an advisory capacity to Government, it offers recommendations on areas to improve competitiveness and productivity. The council members serve in a voluntary capacity. They are appointed by the Minister and drawn from civil society. These members have an interest in and an understanding of the factors that affect competitiveness and what might improve them.

The work of the council is underpinned by research and analysis providing an evidence base for its policy recommendations. Each year, in accordance with our terms of reference, we publish a number of reports as follows: the Cost of Doing Business in Ireland report is a statistical report that benchmarks key business costs and highlights areas where Irish enterprise costs are out of line with key competitors; Ireland's Competitiveness Scorecard provides a comprehensive statistical assessment of Ireland's competitiveness performance, including a wider range of metrics and indicators other than costs; Ireland's Competitiveness Challenge uses the information generated in the reports to outline the main challenges to Irish competitiveness; and we produce a productivity statement that tracks the productivity performance of the Irish economy. We also produce a series of short two-page or three-page competitiveness bulletins, submissions and other papers on specific competitiveness issues such as electricity, insurance, legal and rankings. In the past the council has made submissions to the Action Plan for Jobs and, more recently, the Future Jobs 2019 plan.

Ireland's ability to compete in international trade and sell our goods and services abroad is a key determinant of our wages, living standards and ability to finance social services like health, social protection and education. It allows our economy to be a successful member of the eurozone and withstand the shocks that are beyond our control. Competitiveness is part of the DNA of sustainable jobs. If we want to provide and sustain good, well-paid jobs for our citizens and ensure that these are sustainable then maintaining our competitive edge is crucial.

Competitiveness is a complex concept and results from many factors. Along with labour force participation, two of the principal factors determining competitiveness performance are productivity and cost-competitiveness. In the medium term productivity improvement will be the primary driver of competitiveness, employment, wages, living standards and the financing of public services.

Costs are a key element of national competitiveness. Maintaining cost competitiveness is critical to the overall competitiveness of firms based in Ireland and to maintain the virtuous circle between the cost of living, productivity growth and wage rates. If costs in Ireland are too high relative to productivity, it damages Ireland's competitiveness and threatens jobs. Irish businesses would find it more difficult to export and internationally mobile firms would be disincentivised from locating here. Ultimately, prohibitive costs would make international trade and investment more expensive, reducing the economy's beneficial exposure to the international economy. To be competitive, however, an economy does not need to be low-cost if it can find ways to boost productivity.

Ireland's overall economic performance indicates that we are continuing to maintain a strong competitiveness position. The recovery has continued apace. Economic growth is strong and unemployment is relatively low. This is very good news. However, as the economy continues to grow, ensuring our model is sustainable and balanced takes on even more significance. The risks to Ireland's prosperity are increasing. International economic uncertainty and the return to protectionist trade policies in certain key global economies, along with developments in US tax policy and an evolving international tax landscape, pose a threat to our future economic growth and stability. Domestically, a fraction of firms provide the major part of Ireland's productivity performance, value added, exports and corporate tax receipts, disguising the majority of under-performing firms where productivity growth is stagnant or falling. The narrow range of exporters, products and services exported, and the reliance on a small number of export markets, pose serious concerns.

The vulnerabilities in the fabric of the economy, coupled with the challenging global environment, endanger the hard-won medium-term sustainability of our economy. It has never been more important in the economic life of our country that we recognise these vulnerabilities, and that government policy strengthens our productivity performance and competitiveness to secure Ireland's future prosperity.

The council tracks the three main international competitiveness indicators for Ireland. While Ireland still ranks highly in these indices, we have been falling down the rankings in recent years. In the 2018 IMD World Competitiveness Yearbook Report, Ireland is ranked 12th, a fall of six places on the 2017 rankings. In addition, Ireland fell six places from 17th to 23rd in the World Bank's Ease of Doing Business Report 2019. Ireland is ranked 23rd out of 140 countries in the World Economic Forum's global competitiveness report.

The council's competitiveness challenge report, published in December 2018, identifies a range of recommendations that address both immediate competitiveness issues, and more medium-term challenges aimed at enhancing Ireland's competitiveness and productivity performance. As in previous years, the council has sought to strike a balance between addressing issues that are well known, housing, climate action and the availability of talent, with challenges that are emerging, such as traffic congestion, and the combined hidden costs of proposed regulation, for example the new water tariff regime, water abstraction, work-life balance and pension reform. Three overarching themes are considered to address what I have just raised: ensuring the sustainability of the economic model; maintaining cost competitiveness; and narrowing the productivity gap between the best and the rest. We may be able to talk about these later.

The council published the Cost of Doing Business in Ireland report on 12 April. As mentioned, the report has two main aims: to flag any areas where business costs in Ireland are out of line with our international competitors; and to build the evidence base for the next competitiveness challenge document, which makes recommendations regarding those areas of policy emphasis to deal with competitiveness issues. The report achieves this by benchmarking the costs of doing business in Ireland relative to international competitors using the latest available data on various cost indicators. It is a statistical exercise. The report describes the overall cost profile in Ireland as "high-cost, slowly increasing". In 2018, prices in Ireland increased by 0.7%. This was the slowest rate of inflation of all euro area economies, and it was the joint slowest rate of price increases in the EU. Inflation was faster than in previous years, but still well below the price growth rate for the euro area as a whole and the UK. Our low growth being below comparator countries is very welcome from a cost-competitiveness perspective. However, we note that Ireland remains an expensive location. So, while average prices are increasing slowly, they are doing so from a comparatively high base. We need to avoid too much focus on averages.

The report identifies a number of emerging pressure points in our economy which have the potential to significantly erode our competitiveness further. The major cost factors for Irish businesses are labour costs, the rental price of commercial property, interest rates and the continued increase in insurance costs. Labour costs are broadly in line with the euro area average but above those in the UK. They grew by 2.9% in 2018, four times faster than the rate of inflation. Labour costs vary considerably between different sectors in Ireland. The latest EUROSTAT data show that labour costs in certain sectors of our economy are also out of line with UK and euro area. For example, labour costs in the utility sector are €53 per hour in Ireland compared with €37 per hour in the UK and €48 per hour in the euro area. In the ICT sector, labour costs are €47 per hour in Ireland, €35 per hour in the UK and €41 per hour in the euro area. In 2018 in most sectors of the economy labour costs were greater than, or equal to, those in the UK. Hourly labour costs in Ireland grew by 6.1%, 4.5% and 4.3% in the ICT, construction and financial sectors, respectively, compared with 4.1%, 5.4% and 2.4% in the UK.

Residential property prices are now roughly where they were at the start of 2005. The average rent in Dublin was €1,527 in quarter 1 of 2018. Rents have been growing since 2013 and have been increasing by over 5% per annum for the past four years. Over the past year, there has also been a steady increase in commercial property prices and the cost of constructing office space. In 2018, the construction cost per square metre of a prime office building in Dublin was $3,065, lower than in London but above that which applies in cities such as Amsterdam and Munich. In the office rental market, in the past five years prices have increased by 15.9% in Dublin suburbs and by 16.5% in Galway.

In recent years, aggregate transport sector prices in Ireland have increased moderately. In 2018, the average prices per litre of petrol and diesel were €1.43 and €1.34, respectively. Over the course of 2018, petrol prices increased by 2.8% and the price of diesel increased by 4.6%. Traffic has increased across the road network and traffic congestion in the cities has worsened as highlighted by the fact that 11% of all commuters spent an hour or more commuting to work in 2017, the most recent data available. At the same time the congestion level in Dublin was higher than major European cities such as London, Paris and Brussels. This is a form of hidden inflation which is not picked up in price indexes.

Utility prices have fallen due to the reduction in global oil prices. Electricity prices in Ireland have fallen since the first half of 2014 but in the first six months of 2018 remained higher than the UK and euro area average. Similarly, gas prices here have also fallen since the first six months of 2014. However, the fall was lower than in the euro area and the UK, which points to a relative competitiveness loss.

Businesses in Ireland face higher interest rates than the average business in the euro area. The cost of credit remains very high compared with the euro average. In 2014, Irish companies faced a similar interest rate, 3%, to counterparts in Germany and France, whereas now the rate is higher for Irish companies at 3.3% and lower in those economies at 2%. This means that Irish businesses face costs that are 65% higher than their EU counterparts.

The service sector continues to be the main source of upward price pressure, as it has continued to rise since early 2015. The CSO services producer price index, which measures changes in the average level of prices charged by producers, shows that prices for a range of business services, such as freight transport, postal and courier activities, computer programming and consultancy, legal, accounting, advertising and market research services have been increasing in Ireland. In the year to 2018, service producer prices increased by 3.1% in Ireland and were 7% higher relative to 2015. In comparison, the corresponding figures for the euro area were 1% and 1.8%.

The average tax rate for those earning the average income is low compared with other OECD countries. However, the marginal rate for a person earning the average wage is the second highest marginal tax rate at 49% among the high-income OECD countries. The council acknowledges the measure introduced in budget 2019 which raised the entry point for the higher rate of income tax from €34,550 to €35,300 for a single worker. We must continue to reform our tax system and make it internationally competitive so that Ireland continues to attract highly qualified talent to these shores.

The Cost of Doing Business in Ireland 2019 report gathers information and provides a snapshot of the cost profile in Ireland. It is a significant input into the subsequent analysis of policy implications and associated structural reforms required to address Ireland's cost base, which are included in our report, Ireland's Competitiveness Challenge, published annually. In the challenge report we published last December, these were addressed under the theme of maintaining cost competitiveness, along with other recommendations to address the challenges under the other two themes of ensuring the sustainability of the economic model and narrowing the productivity gap between the best and the rest.

Some of the key recommendations relating to cost competitiveness, included in the report, relate to measures to address housing affordability through the intensified delivery of housing supply measures in the Rebuilding Ireland action plan; expediting the implementation of the recommendations from the cost of insurance working group; the need to develop sectoral-level data on water and waste; and the development of a more comprehensive and representative data set on the cost of legal services.

I acknowledge the Government's commitment to improving Ireland's productivity and competitiveness through various policies and initiatives including the actions to be progressed in 2019 in the Government's Future Jobs Ireland initiative. The council welcomes publication by the Government of the plan and believes it will be an important policy document in framing enterprise and economic policy in the years ahead. The council will continue to advocate for competitiveness and productivity to be central pillars of economic policy.

I thank the Chairman and committee members for affording the council the opportunity to meet them. I look forward to our discussion.

Chairman: That was a very interesting opening presentation, on which I am sure there will be a number of questions.

Deputy Jonathan O'Brien: There is much information in the report, to which I will get. The one issue about which I did not see much discussion is the cost of insurance. It is raised in the media again today in the context of the cancellation of a major festival. Does Professor Clinch have figures for the rising cost of insurance? As I read somewhere in the report that the cost of insurance was decreasing, will he elaborate on the matter? It is not the widely held view, particularly among businesses.

Professor Peter Clinch: I thank the Deputy for his question. The cost of insurance has been a major issue for the National Competitiveness Council for a number of years. In 2016 we were out of the blocks very early in saying there was a problem. We produced a bulletin entitled, Action Required to Address Insurance Cost Competitiveness, in which we highlighted all of the main issues that we saw. We made a series of recommendations in the report about assigning greater priority to improving insurance cost competitiveness and creating a comprehensive benchmark for insurance costs in order that we could see what was happening.

The Deputy had asked about the data. The bulletin argued that the Personal Injuries Assessment Board should be properly empowered to collect the required claims data in order that we could properly assess what was happening. There was also mention of non-attendance for medicals. We spoke much about the reform of the legal profession and how it could contribute to the reduction in insurance costs. The cost of insurance working group was established afterwards. We have since mentioned in our challenge reports the implementation of recommendations in the first phase in respect of motor, employer's and public liability insurance. We have also made recommendations on some of the other reports that were produced at the same time.

In the case of motor insurance, Central Statistics Office, CSO, data suggest prices increased rapidly from 2015, peaking in quarter 3 of 2016. They demonstrate that they have since dropped. According to the most recent figures, the cost of motor insurance was 4% higher than in 2015. Taken together, that represents a 32% increase since 2013, which is dramatic. When compared with prices elsewhere in the European Union, prices in Ireland increased much faster from 2013 to their peak in 2016. Therefore, the rate of price increases has been much greater than in other areas.

I can speak about a series of other recommendations if the committee so desires, but there is a difficulty. It was not mentioned in our cost of doing business report because it was a statistical exercise and we use international data to compare costs here with those in our international competitors. We use the best available data, but the problem is there are many data limitations with respect to insurance costs. In the absence of official statistics we do not want to publish data that are not correct. We only have that overall motor insurance picture. We have set out a series of recommendations for how the data could be improved in order that we could make better judgments. The anecdotes suggest insurance costs are a big problem. We have certainly demonstrated that the cost of motor insurance has been a big problem which has only just started to top out.

Deputy Jonathan O'Brien: What were the recommendations made in compiling the data?

Professor Peter Clinch: In March, after much pushing by us and others, the CSO published a report on the feasibility of collecting price information on the cost of insurance to business. The CSO has stated it will happen, but it is a feasibility study and we are looking forward to seeing its final determination. It is due within six months of the initial report in September. We should look out for it.

Deputy Jonathan O'Brien: What can we do with indigenous or home-grown companies to improve their competitiveness and productivity as opposed to foreign direct investment?

Professor Peter Clinch: That is a significant issue that I mentioned in my opening statement. I also mentioned vulnerability in the economy. For the four and a half years I have been chairman of the council it has been pushing heavily on the productivity picture. Originally we did not have data to demonstrate clearly the problem we had. Approximately the top 10% of firms in Ireland account for 80% of the added value in manufacturing and 94% in services. The top 15 commodities account for 90% of the total goods exported from Ireland. The top 100 traders account for 80% of exports value, with 10% of firms accounting for 90% of productivity. As I stated, we are flying on one big engine and must work strongly on the smaller engine.

In our challenge we place particular emphasis on narrowing the productivity gap between the best and the rest, which is our third theme. We focus very heavily on the challenges facing small firms which are the least likely to be able to invest in the management talent they need to make good decisions. They are also the least likely to be able to invest in having a good strategy and company training, which is incredibly important for productivity. They are least likely to be able to invest in research and development. There is also a hangover from the crisis as firms deleverage because they have run up large debts; it is arguable that they are not taking on enough debt to invest in the activities that would help them to develop.

We focus on the presence of the talent pipeline, in particular, and ensuring there can be such a pipeline in the higher and further education areas. This concerns support for low-skilled workers who are at risk of displacement by changing technology to retrain and upskill through the apprenticeship system. There is also a heavy focus on digital skills, as approximately half the population are not suitably equipped with digital skills. That is a threat not only to our firms today but also to employment in the future. It is a significant area of policy that we have emphasised for the Government.

There should be investment in infrastructure, an area in which we have lagged behind somewhat in comparison with other countries, although Project Ireland 2040 will result in much more infrastructure being built. What is of concern in that respect is the very low level of productivity in the construction sector. There are also delays and I am sure there will be mention of the national broadband plan. The delay in bringing broadband to towns is particularly challenging for smaller companies.

We have made specific recommendations on top of the more general recommendations. We have recommended that the Government produce a productivity action plan. It has been referred to in the Future Jobs Ireland 2019 plan and we are very pleased that has been taken on board. The plan should be developed further through the agencies in order to reduce our reliance on a small number of companies. We have also recommended aligning Ireland's capital gains tax entrepreneur relief which is aimed at entrepreneurs running companies so as to extend the lifetime limit of €1 million to €10 million on gains made in disposing of business assets. That would give smaller companies a greater fighting chance. An implementation plan should be prepared to intensify business research and development activity and there should be regular reviews of the barriers and enablers to increase investment in what we call knowledge-based capital but what is essentially innovation and research and development. We should also strengthen links between indigenous companies and multinationals. We have seen a decline in the spillover of knowledge from very high-end companies to the following companies. We are not the only country where this is happening but we are a highly globalised economy and because of that we are quite reliant on this small number of large companies. There was always a reliance in the economy but we are very reliant upon a small number. We have also asked to review the effectiveness of the global sourcing initiative. This is the initiative that helps to introduce indigenous companies to those buyers from the multinational companies in order to create better and stronger linkages between our excellent multinational sector of large companies and our smaller companies. Those are our main recommendations for areas where the Government needs to enhance policy.

Deputy Jonathan O'Brien: I have another question but I am happy to-----

Chairman: The Deputy has enough time if he wants to go ahead.

Deputy Jonathan O'Brien: I refer to some of the barriers to participation in the workforce. Childcare is a big one and the cost of childcare compared to our European counterparts is significantly higher. Government after Government has said it is an issue we need to address but we never seem to address it. How much of a barrier is it and what impact can it have on our competitiveness into the future?

Professor Peter Clinch: There are many things that affect competitiveness but if we want to break it down there are two main drivers of competitiveness, namely labour force participation and productivity. The Deputy has covered both in his question. Childcare is something the council identified early. Our contributions on childcare were reflected in the affordable childcare scheme that was then rolled out by the Government. It is essential, not only for productivity but also to create an equitable society and to create thriving and sustainable communities. We have looked at the evidence around the importance of quality childcare for long lasting benefits for children, women, families, the economy and society at large so it is even bigger than the competitiveness story as the Deputy knows very well. It is essentially a major indirect cost to business when people have to pay for it and it is leading to difficulties in attracting and retaining staff; to the loss of skilled labour in the economy; and, to people leaving the workforce because there is a lot of churn in the workforce.

Our data show that the average cost of childcare varies considerably across the regions and across the types of childcare used. The Economic and Social Research Institute, ESRI, and Pobal data show that childcare costs are particularly high in Dublin, east Leinster and other urban areas, relative to the rest of the country. The average hourly cost of childcare for a single child, depending on the type of childcare, is as follows: for a childminder in the family home it is €6.13 per hour; for a childminder outside the home it is €4.76 per hour; and, for centre-based care it is €4.82 per hour. The data also show that mothers facing higher childcare costs work fewer hours. They may have a job but they will work fewer hours. Also, a 10% increase in childcare costs is associated with 30 minutes less paid work by mothers per week. The relationship can be seen very clearly there to answer the Deputy's question.

The high costs and limited accessibility of quality childcare are generally attributed to childhood poverty and lower female labour market participation rates. For couples earning 167% of the average wage, Ireland is the second most expensive country in the Organisation for Economic Co-operation and Development, OECD, for childcare-related expenses and for lone parents earning 67% of the average wage, Ireland is the most expensive OECD location so it is a significant effect on our competitiveness.

The single affordable childcare scheme was welcome in providing subsidies with the aim of replacing existing non-statutory childcare schemes and providing subsidies to parents of preschool children. Those targeted subsidies are payable for children up to six months of age. The continuation of a universal subsidy is to be payable for children between the age of six and 36 months. The key point here is that there is a plan. It needs to be rolled out and implemented as soon as possible.

Deputy Richard Boyd Barrett: On our productivity figures, how distorted would Professor Clinch say Irish productivity figures are by the presence and domination of a small number of information technology, IT, multinationals? We have had to develop a new measure of the economy, namely GNI* because of the distortions created by their predominance. I put it to Professor Clinch that we need a "productivity*" measure of Irish productivity because we cannot rely in any shape or form on the productivity figures as they are so distorted. I would like to hear Professor Clinch's comment on it. Is any work being done on some kind of accurate measure of productivity that strips out the distorting effects of those companies and gives us a real measure of productivity?

Professor Peter Clinch: We can modestly say that one of the achievements the council has had is to flag up exactly what the Deputy has mentioned. We could have sat there thinking we look great when the numbers came out on our overall productivity level. We are right up the top of the class in how good our performance is on labour productivity particularly. To be fair to the Department of the Taoiseach and the Department of Finance, they were very supportive of us when we argued strongly to encourage the Central Statistics Office, CSO, to produce more detailed data that would allow us strip out multinationals. It is not just multinationals however, we should say leading companies because for example, in the food and pharmaceutical sectors we have large, successful companies so it is not quite as simple as foreign versus domestic. Let us say it is close to that but we give credit to some of the Irish companies. We have stripped that out so that we can look at the figures on productivity and I will give the Deputy a couple of those. Labour productivity in foreign-dominated sectors grew by almost 140% between 2000 and 2014. That is a 6.5% annual figure but when we look at the domestic and other sectors, it saw an increase in productivity of just 50% over the same period. That is 140% compared to 50%. What is even more disturbing now is that we are seeing declining or stagnant productivity in most of the non-leading companies. As I said, what is seen is essentially 90% of our productivity performance driven by 10% of the firms. We have the data to show the issue. The question is how do we start to address that problem.

Deputy Richard Boyd Barrett: As a follow-on from that, would Professor Clinch say that too many of the tax credits, tax reliefs and supports are essentially benefiting that 10% of firms and that we need to radically and dramatically shift supports and expenditures into areas that will boost the domestic economy and reduce those costs, unlock those bottlenecks and so on rather than continuing to direct an awful lot of it towards those 10%? If research and development tax relief is taken as an example, the vast bulk of that is going to a tiny number of firms as against any real benefit to the domestic sector. Would Professor Clinch agree with that? How radical is the shift that we need on that?

Professor Peter Clinch: I have used the analogy before and I mentioned it earlier of flying on one large engine for relying on our standards of living. My first response is not to switch off that engine until the other one is firing strongly. That is how I would answer it in a colloquial sense. Inward investment will always be a major part of our economic model and it has been hugely successful in importing productivity into Ireland. It is the case that our productivity levels elsewhere in the economy among our domestic firms would be worse if we had not had the investment of those countries over the years and if those companies had not been provided with the incentives to do so. They do not need to be mutually exclusive. It will always be beneficial. All of the research suggests that having a strong, innovation-intensive sector that is highly skilled not only provides a valuable sector to corporate taxes and so on in itself but it also results in spillovers to the other companies as people move back and forth between large companies and small companies. Dell was an interesting example of a company that went out of business eventually and was probably at the lower-skilled end yet it produced some fantastic people who have gone on to set up other companies. That sector is important, therefore, and it is important to support it. Nevertheless, the Deputy is correct that the other sector also needs to be supported strongly in being able to use some of these incentives, such as tax credits, to invest in innovation, research and design, talent and in-company training. There is much policy in this area, with Enterprise Ireland working hard to support that sector and send people on management training programmes to give them the types of information they need. In the case of Brexit, for example, they can be helped to develop the types of supply chains that might help to protect them from Brexit and to open new markets. There are many different schemes available to help them to do that. The one area I consider difficult is the large proportion of employment which is provided by companies with two or three people and which might not even be internationally traded. It is very hard to persuade those people, who work long hours to keep their business going, to take time off to think about their strategy, how they will retrain and so on. As a council, we continually examine models from elsewhere to show what could be done in that area but it remains a challenge and there is no easy answer.

Deputy Richard Boyd Barrett: Much of it is about education and investment therein. While that is a broad brush-stroke comment, we need a hell of a lot more money to be invested in our universities and we need to develop and tailor our education system, without making it a completely utilitarian education system because I do not like that either. Much higher levels of investment in that regard are nonetheless part of the answer.

Professor Clinch suggested that prices have not risen a great deal, although he is slightly worried about labour cost increases. To what extent does he believe that labour cost increases relate to particular costs that workers are incurring? Notwithstanding Professor Clinch's more general comment that prices are not rising, he has identified high costs in particular areas.

Professor Peter Clinch: Yes.

Deputy Richard Boyd Barrett: It seems these are significant problems, leading workers to have no choice but to make pay demands. Housing costs are off the charts. Childcare has been identified and the professor pointed out that transport is another area where there has been a consistent rise in costs, which seems to go against any attempt to deal with climate change or congestion. How does Professor Clinch expect those areas to be addressed? Workers have no choice but to make pay demands if they cannot meet those costs. In all those areas, it seems the market is just not capable of reducing those costs. In housing, it is clear the market is not reducing costs and there is no sign it will do so in the near future. I do not see how transport costs will fall if they are left to the market, while I do not see, realistically, how childcare costs will decrease. Does Professor Clinch agree that is the case, and if so, what are we going to do about it? Do we have to invest far higher levels of subsidy in these areas if we are to reduce those costs?

Professor Peter Clinch: It is a good question. I should be clear that while the overall price level is low, part of our job is to ensure we do not just consider averages, as in the case of productivity. The main pinch points are in the areas of housing, traffic congestion, private transport, childcare and several others, which we have pointed out. The Deputy is correct that an enormous current challenge for policy is how to reduce the cost of living, which is difficult because the Government does not have control over all prices and markets are at work. The danger is that when one intervenes in the market and introduces subsidies, prices will be driven up further, meaning that the consumer will not benefit. We should always be careful, therefore, about the intervention we make to ensure that will not happen.

To control prices, we have considered measures where the Government can make a difference. It controls prices in areas such as water, postal services and road and rail transport. There is some control in that regard and they are mainly administered prices. There are also hidden areas of prices, such as in the planning system and so on, where the Government can make a difference. We tend to examine matters such as what reduces efficiencies. In the case of legal fees, for example, the evidence suggests that Ireland has higher prices relative to other jurisdictions. We recommended that the Government examine conflict resolution systems in countries with a similar judicial system to find whether there are ways to speed up tasks in commercial disputes. We have also recommended expediting the recommendations of the review of the administration of civil justice when it is released.

We spoke about insurance costs in 2016 and produced a bulletin on it. Establishing the cost of insurance working group and subsequent ones will make a difference, although we are still waiting for more recommendations to emerge. While access to credit is difficult, it is a big issue for business more than the consumer, although it is an issue for the consumer in respect of mortgages and loans. A significant hangover of the financial crisis affects access to credit. At one stage, access was difficult but now the cost of credit is much higher. We have pushed the Government hard to increase the range of financing options for small and medium enterprises, SMEs, and to create awareness of matters such as the Strategic Banking Corporation of Ireland, whose credit guarantee scheme can help. Ultimately, the only way to push prices down in areas such as housing is to increase the level of construction, of which Rebuilding Ireland is a major and important part. The council would not go as far as to recommend directly whether there should be more State intervention, but we must always bear in mind that some of those models and experiences have not always worked so well.

Overall, the Deputy is correct. As we have outlined repeatedly, to have a successful, sustainable economy, without such wage growth that it cannot be sustained in the economy, as happened in the run-up to the crisis, we must ensure that it is underpinned by productivity and keep the costs of living down. The Deputy is correct that housing costs are one of the major factors in driving wage rates.

Deputy Barry Cowen: I thank our guests for their submission. Many of the questions I had intended to ask have been asked but I will elaborate on them. The various issues raised, analysed and scrutinised by the council to compare and contrast Ireland with international norms of taxation, transport and other issues are fine, and the council stated the economy is performing reasonably well, save for some labour cost worries. That leads me to believe that the council is examining mainly large manufacturing industry and business. As my colleague, Deputy Jonathan O'Brien, indicated in an earlier question, the examples and representations we receive on the ground relate to SMEs in the main, that is, those in the service industry or selling their wares within their local economy and region. I refer to hotels, bars and leisure centres. The big issue for them is insurance. Insurance is crippling small industries and putting them out of business. I would have thought and expected that any report about competitiveness in this country, carried out by any body, would have at its core major recommendations on insurance. I am somewhat surprised that that is not the case. I am aware that Professor Clinch has said that he provided a previous report that fed into the body that in turn made recommendations to the Government. We are doing our best to help the Government by bringing forward relevant legislation to address that issue. It has to be at the forefront of every report compiled by those who say they represent business. Is there any part of the professor's role that deals directly with smaller businesses? Does he carry out relevant and necessary research, including questionnaires and focus groups? If not, why not? That is the feedback we are getting, and we want the professor to respond to the concerns of that group. It leads me to believe that there is an over-focus on one section of the economy while small indigenous businesses that are selling here are ignored. That leapt out at me from this report. Can the Professor respond, assuring us and those we represent that he is as committed to and as worried about the impact of the cost of insurance for people doing business? It affects the industries I have mentioned, and the next phase will concern education and school facilities and festivals in towns and regions which communities depend upon to kickstart the tourist season, among other things.

Professor Peter Clinch: The Deputy has challenged me fairly, and I will respond robustly. We are absolutely not focused solely on the large manufacturing or services companies trading here. We have put out a lot of information about it. We will make big mistakes if we just look at top line data. We spend a lot of time looking at the micro data, but the problem is getting that data. The cost of doing business report is a purely statistical report. We have to be able to compare the data internationally, and we do not have that data so it is not included in the report. We have representation from the Chambers of Commerce of Ireland and the Small Firms Association on our council. We are a product of social partnership so there are an interesting variety of views around the table. We manage to produce something sensible from the variety of views by following the data, and make sure that we only say things that are based on fact. That makes it very difficult in areas where the data are poor. However, I assure the Deputy that we were very early out of the blocks on the issue of insurance, and followed the information that was coming to us from the organisations on our board concerning insurance. We produced a bulletin which has led to many changes. We used the statistical report to then make recommendations in the challenge report. The data are poor; our principal recommendation is to get better data. I urge everyone here to push the CSO for better data on insurance and legal services. It is very hard to get. It is hard for us to make the kind of points we want to make and the types of points the Deputy has made without having firm evidence.

The Deputy is quite right to say that there is plenty of personal experience of serious difficulties in obtaining insurance and the cost of that insurance when obtained. I had an argument with my insurance company over motor insurance, in fact; I had to tell it what the data were and that it should have gone down rather than up. Just because the average price seems to go down it does not mean that prices are not increasing for people. We have made many different recommendations around insurance. In the December 2018 challenge report the main recommendations were to continue the implementation of the outstanding cost to employer and public liability insurance report recommendations, which address the issue of transparency in the insurance industry; to establish a standardised and internationally recognised approach to diagnose, treat and report on soft tissue injuries, as recommended by the Personal Injuries Commission, in order to improve transparency, comparability and efficiency of the personal injury claims system in Ireland; and to undertake more regular reviews of the book of quantum and provide a greater degree of granularity in terms of injury compensation data.

The Deputy has made a good point about the statistical report. To address the issue he raised, we should probably include in our reports a box outlining what we were not able to report on and what we are concerned about. It should be highlighted so that it is clear to interested parties that we are aware that this is an issue and that we are trying to get better data on it.

Deputy Barry Cowen: How many jobs are there in the business sector where public liability insurance is required? Is that information available? I am talking about businesses which rely on public footfall. The Professor mentioned public liability, and this is directly related to it. If there are gaps which mean that the council cannot comment on the situation, where are those gaps and how can they be filled? Does the council play any role in the effort to deal directly with smaller businesses, in terms of questionnaires and focus groups and if not, why not?

Professor Peter Clinch: We do not have a remit to collect data ourselves; we rely on others. There is also an issue when a body collects its own data and how reliable they are. The CSO should really collect this data, as an independent body.

We do not stay silent on this issue. I would argue that we have said more about it than most organisations, and spoke about it in early course. We have a good track record of pointing up things before people even notice, for example on the cost of credit. Everyone was obsessed with availability but we pointed out that the cost was also a factor. We will not be silent on that issue.

Every company needs insurance, so all employers rely on public liability insurance.

Deputy Barry Cowen: Some companies, such as those in services or retail, rely exclusively on footfall. That figure should be quantified.

Professor Peter Clinch: It depends on the number of people, but the price varies. Almost every company needs some form of public liability insurance. The difficulty we have is on price.

Deputy Barry Cowen: Some companies need public liability insurance more than others.

Professor Peter Clinch: It is not a question of who needs public liability insurance. Every business needs it, so it has to be price competitive to avoid making it a huge issue. The issue is getting the data on prices. We have the data for motor insurance, but do not have good data for other areas of insurance.

Deputy Barry Cowen: While it is true that every business needs it, there are different levels of requirement. One can analyse different data, for example price data, which will indicate the level of footfall, which subsequently enlarges the risk associated with public liability. That is the sort of information we would like to see.

Professor Peter Clinch: I agree.

Deputy Barry Cowen: It could be compared with the situation internationally. We are hearing anecdotal evidence that one cannot get insurance in this country but that it can be got in the UK. There is also anecdotal evidence to suggest that soft tissue injuries led to compensation awards five times more regularly here than in the UK. However, we need more and more of that in order to put the insurance industry in the spotlight and leave it with no option but to play a fair game. As things stand, it is a widely held opinion that the premiums requested are far from fair.

Professor Peter Clinch: I could not agree more with the Deputy. The cost of insurance working group should ensure these data become available; it is in its remit and part of its mandate. I hope we will soon have better data on that area and also other areas where there are some gaps, for example in legal services, which also has a relationship to the cost of insurance. We are certainly in agreement on that.

Chairman: I am interested in the comparison of price rise points between countries. Professor Clinch has said we are not doing too badly in overall price inflation. However, we have marginal small increases in an embedded high-cost economy. I do not know if this falls into something the National Competitiveness Council considers. We went through a substantial bad period but have now come out of it and there is strong economic growth. When comparing costs with other countries is there any explanation as to why, particularly in the hospitality and services sectors, we never seemed to address that high-cost economy structure that seems embedded?

Professor Peter Clinch: It is a very good point. Part of our job is to ensure people do not look at the inflation rate and say that it is fine; that they do not look at the productivity growth rate and say that it is fine; and that they do not look at the GDP growth rate and say that it is fine. There is a lot happening underneath the hood. The Chairman is quite right. We might have a low inflation rate but we are coming from a high base.

It is always difficult in terms of how we operate. There are so many things at work that underpin how an economy works, from particular sectoral and overall pay agreements through to us being a price taker in so many areas: our dependence on imported energy for example. We are also a small economy so we do not get the economies of scale that other economies get. There are also areas that are very difficult to compare. We just had a great conversation about the importance of data. It is very hard to compare, for example, administrative costs in the planning system because it is quite difficult to assess what they are.

One of Ireland's biggest challenges is in the boom-and-bust cycles we have had over the years. As a highly globalised economy, we tend to have some large growth periods and then, as we saw recently, some significant downturns. In the last downturn we saw a dramatic correction in costs. Because of cyclical cost competitiveness adjustment the economy crashed and all of a sudden there was more supply of products, services, housing and property. Prices were pushed down and we had a major competitiveness correction as well as some very beneficial external factors that were beyond our control.

We should also remember we had a very good capital stock as we came out of the crash. Large investment in our roads and other infrastructure had happened in the run-up to the crisis. Therefore when we emerged we were able to grow at a very fast rate yet not have price rises for a few years. There may have been a failure to anticipate how quickly we would grow and how quickly we needed to invest in certain areas of the economy, particularly in capital spending which had taken a huge cut and is still well below our competitor countries even with the Project Ireland 2040 plan put in place.

Infrastructure spending and spending on innovation, research and development - in other words soft and hard infrastructure - are critical for providing productivity growth in areas where we cannot control prices and might be a price taker. When it comes to economic policy a sustainable macro-environment is very important for competitiveness. If there are big ups and downs in GDP growth and the performance in the economy, we will have big variations in the price level and essentially, as is happening now, we inevitably lose competitiveness as prices increase.

The good news would be if essentially the economic growth rate slows but we do not, as we did previously, go beyond our productivity performance and find ourselves on an unsustainable path. However, of course, it depends greatly on what happens internationally.

Chairman: That is an interesting answer. Maybe because of the economic size of our country or because of a number of factors coming together, many sectors in the Irish economy do not seem to realise the damage of high costs. I cannot understand it within industry sectors.

It is interesting. My background was primarily in the hospitality industry prior to becoming a Senator. At one point prior to the crash, we priced ourselves out of entire sections of markets yet there now seems to be a willingness to go back to that pricing structure again. It is not related to insurance or other factors. It is an actual pricing structure in which people seem to think that as long as they can get X, they will charge X even if that means the industry suffers overall as a result. Particularly in corporate hospitality, people lose the business if they are not price competitive with the UK and mainland Europe on a number of issues. That is one sector. A number of other sectors do not seem to be willing to look at the inbuilt higher costs.

Professor Peter Clinch: That is a good point. One of the big lessons of the big boom-and-bust cycle we have just completed is that sustainability is the important word. I mean that in a broader sense as opposed to environmental sustainability. I mean it in the sense that we want to ensure the wages we are paying ourselves in the jobs we have at the moment are sustainable and not temporary. It is really important that our cost base does not get out of hand. If we are a high cost economy, we must have high productivity growth rates right across the economy and not just in certain areas with low productivity growth in other areas.

For example, we are embarking on an enormous investment in capital infrastructure yet we have very low productivity levels in the construction sector. We also have a booming construction sector. We need to try to square that circle of how much value for money we get from our capital investments. It is a difficult time to be investing in capital although we need it in order to be able to grow without prices rising. It is a very difficult thing to do.

It is important for the National Competitiveness Council to point these things out and make these contributions to the various Government frameworks such as the Action Plan for Jobs in the past and now the Future Jobs Ireland plan. Our record shows that in the past five years we have been very clear in underlining the vulnerabilities we have on costs and productivity in particular. We have also done considerable research on housing and rent affordability. We developed an index allowing people to see how affordability in our cities compared with other cities; that did not exist previously. In the end we produced a study to examine the affordability of Irish housing.

We came out strongly on childcare costs as we discussed. We came out particularly early on legal services and on insurance. We also raised the awareness of the high cost of credit and not just availability. We have also got cost and competitiveness included in areas of Government policy where people might not have thought it was an important strand. For example, competitiveness is one of the pillars in the White Paper on energy even though it had not been when it emerged in the first instance. We also were involved in the implementation group of Food Wise 2025 and we called for competitiveness to be an important part of it.

On national infrastructure, we have heavily focused on coherence, co-ordinated delivery and monitoring of both the national planning framework and the Government's capital plan. We need to properly assess how we prioritise investment and there needs to be a decision making process on how to change course if something changes. If an enormous international economic recession comes along, we need to be able to ask if we are investing in the right areas or if we need to do something different. Agility in decision making is critical. In the national mitigation plan we have emphasised the need to competitiveness-proof the key areas of climate and energy. Our emphasis on productivity was raised by two Deputies and has been taken on board by Government in its future jobs plan. It is important to make sure the plan is effective and is delivered.

Chairman: I thank the witnesses for coming before us and for their answers today.

The select committee adjourned at 4 p.m. until 4 p.m. on Tuesday, 14 May 2019.