

Ibec Business Leaders Conference 2020

Speech by Danny McCoy, CEO of Ibec

12 February 2020

One of the great joys of leading an organisation like Ibec, and there are many, is the constant flow of members and non-members alike who come into Ibec to meet with myself and our team. As the Irish business model, and by extension Ibec, has internationalised, the exchange of ideas has widened.

Last week, as part of Ibec's GE 2020 podcast series, we welcomed an array of business and societal leaders. Their insights went to the nub of the term sustainability. When we think about the term sustainability, there is a tendency perhaps to instinctively think only about the natural environment. Sustainability is indeed an imperative for our natural resources and climate but it also an imperative across the realms of our economy and society too. All three realms increasingly overlap one another and cannot be dealt with in isolation.

For Ibec, it's a return to our past. Pre the global financial induced economic crisis, Ibec led in 2006 by highlighting the need to place sustainable development as a central underpinning of policymaking. The four forms of capital – the essential elements – were identified

as natural, human, social and financial. The quintessential fifth element is enterprise to bring the other elements together sustainably. The economic downturn proved that without being underpinned by financial capital the other elements drop from consciousness.

Over the last six years, we at Ibec have talked to you about Ireland's prosperity narrative. In the early part of the last decade, we talked about how Ireland's economy would recover and recover faster and stronger than most people believed. And then more recently, we talked to you about how changes at the OECD had led to a boom in intangible assets into Ireland which in turn is helping to generate the surge in corporation tax receipts which the State is currently experiencing.

Today, I would like to talk to you about that prosperity narrative but to do so in the context of sustainability. Prosperity and sustainability. How can we, as both a society and an economy, ensure that the current phase of prosperity is sustainable across the three realms – social, economic and environmental. The additional context for this generation is how to deal with the absence of the UK from the European Union and how this will impact upon the all island economy and, by extension, society.

We are being confronted with new challenges and problems which are – by and large – the by-products of being prosperous and successful.

At the heart of the dilemma is the belief that **business has gotten too big, too fast** for our society to cope with because the public realm has not scaled quickly enough. The prescription for a remedy is that Ireland needs a new social dialogue to address the trade-offs between public-private, urban-rural, the pivot to carbon neutrality and the underpinning of peace and prosperity for the island.

Those are two big statements for the leader of the country's largest business organisation to make but if you bear with me, I will elaborate on my thinking in due course.

New economic order

Before I do, you cannot construct a coherent diagnosis and prescription of Ireland's current and future direction without reference to the wider external environment.

The rise of China; the Trumpian doctrine towards international trade; the rise of populism; political events in our nearest neighbour, the UK; international corporate tax reform at the OECD ... each of these have the potential to profoundly reshape the open, globalised economy model that has provided Ireland with so much opportunity over recent decades.

Brexit alone presents Ireland with an impending new economic order. The old world of our proximity to the UK, culturally and economically, is changing and changing fundamentally.

While the catastrophic implications of a 'no-deal' have been avoided for now, Brexit was always going to be an exercise in damage limitation. Even with an orderly UK exit that mitigates the potential risks to the all-island economy and commits to protecting the Good Friday Agreement, we will ultimately end up in a worse place than where we are now.

Too big too fast

And it is against this backdrop of change and potential change internationally that we here in Ireland are confronted with our own domestic change narrative.

As we meet today, the dust is still settling on the General Election. A new Government needs to be formed and a new Programme for Government agreed.

But beyond the immediate uncertainty of what follows next, we need to have a conversation about change on a deeper, more systemic level.

And we need to do so because business has been undergoing an acceleration of investment over the last number of years that is leading to an imbalance in our successful business model.

Let me give you some statistics to support the hypothesis:

- An observation from natural resource rich countries is the tendency for the parts of the labour force to 'stop working' so to speak. That's not to say that nobody fills the jobs; the jobs are taken up by people from abroad. This is seen in Ireland:
 - There are currently 2.3m people in work, with a further 100,000 unemployed.
 - But the 2.4m in the labour force accounts for only 62% of people aged between 18-65. So why are these people not working?
- Those not working have many rational reasons for not doing so – factors like caring costs, impact of transport or taxation come to mind.
- Others are choosing not to enter the workforce for reasons like retiring early, staying in college longer, going travelling etc. These are the choices affluent societies can make.

To help address this lower labour market participation, we need to find new solutions around childcare, congestion and flexible working as flagged in our *Smarter World, Smarter Work* campaign.

Which brings me to our central theme today – the idea that **business has gotten too big too, fast.**

Such has been the level and pace of private sector investment it begs the question: is the State now too small for the scale of resources that are in our society?

Of the 2.3 million in work, approximately 350,000 of those are in the public sector. This is around the same number as when the financial crash and recession occurred a decade ago. But in the subsequent period the private sector has increased substantially the number of workers it employs.

If you look at demographics, Ireland's population increased strongly over the last decade. At the turn of this year, there were an additional 346,000 living in State as compared to 2011.

Hopefully you can see the point I am seeking to make ... the scale of business in Ireland is now disproportionate *vis a vis* the scale of the State. The ratio of private to the public jobs since 2014, with the creation 400,000 new private sector jobs, is a stunning 25 to 1. This is a dramatic imbalance.

In fairness to the last Government, it increased public investment as economic recovery over recent years improved the public finances. But the sheer scale of the private sector investment and growth since 2014, a wall of private investment, coupled with parallel surges in the population and private sector workforce, means the ratio is now out of kilter.

And it is this imbalance which is leading to a surging demand for public infrastructure and public services ... the cues in recent weeks for such a widespread and heavy debate about housing, health, quality of life and so on.

Our members tell me all the time ... to have good regulation, we need more planners ... to have adequate security, we need more gardai and defence forces... in health, we need more medics ... in education, more teachers ... in summary, we need more public services delivered.

We can be agnostic if some of these additional services are provided by full-time public servants or by outsourced services ... the key point is that we have allowed parts of the public service to become proportionately too small for business and society to continue to thrive.

This is what I mean when I say: **business has gotten too big, too fast.** And for the avoidance of doubt that is not to say that Ireland would

be better off if business was to be smaller. The opposite applies, in fact. It is business which provides the resources to make Ireland a better place to live and work in.

Looking back to where we started today ... with the definition of sustainability has having three pillars, this is a very good example of overlapping between the economic and the social imperatives.

Environment

And then there is the environment. In May 2019, Ibec launched its *Building a Low Carbon Economy 2050* report. It contains dozens of recommendations drawn up following an extensive period of consultation with our members.

The message from our members was clear – driving environmental sustainability is good for business, boosting our competitiveness over the coming decades ... and it's good for Ireland ... in terms of improving our quality of life and the quality of life of future generations.

And key to making a success of the energy transition Ireland must undergo over the next 30 years is making that transition a just one. The low carbon transition will cause significant disruption to labour markets around the world.

It will displace some employees who will need to acquire new marketable and transferable skills. On the other hand, the transition has the potential to create thousands of jobs across a host of established and new industries. The Ibec roadmap projects a significant increase in public and private investment in the coming years to support large scale deployment of renewable energy technologies, building retrofits, public transport, energy efficiency, smarter land-use management, carbon sequestration and afforestation.

And then there is issue of the carbon tax. The introduction of an upward carbon tax with gradual predictable increases will give much needed investment certainty.

So, when we think of a Just Transition, we need to have those displaced workers in mind. We need to use a portion of the carbon tax revenue to support fuel poor households and vulnerable businesses as they make the transition to a low carbon or non-carbon alternative.

To ensure effective policy delivery and outcomes, we believe a broad national consensus on climate action is vital. To achieve this consensus, we recommended a national social dialogue to bring together industry, trade unions, environmental groups, local representative groups and political parties. A Just Transition taskforce should be formed.

But this may not be enough. Emissions don't stop at the Border. If we are really serious about transitioning to a low carbon future, we need to consider a common all-island Just Transition plan. Environment is already a successful area for North – South co-operation under the Good Friday Agreement. The post-Brexit order may well be of assistance in this regard.

As part of the arrangements agreed last year between the EU and the UK, the Ireland / Northern Ireland Protocol helps protect and sustain peace and prosperity by putting in place unique arrangements for doing business after the UK leaves. Detailed arrangements for 2021 and beyond are to be negotiated during the transition period with a 'Specialised Committee' the vehicle to do so.

Ibec is the leading business input to that process in Dublin and Brussels. The practical implications will extend well beyond the business community so Ibec is talking to the Irish Congress of Trade Unions about developing an all-island social dialogue around the Protocol as well as developing through our Joint Business Council with the Confederation of British Industry new proposals for all island connectivity and infrastructure investment.

Social dialogue

You may have noticed on several fronts an emerging theme – that of the need and of a role for social dialogue to tackle a range of very substantial challenges facing Ireland over the coming decades.

- The challenge of an imbalanced economy where there is a need for additional public infrastructure and public services.
- The challenge posed by climate change and the need to transition to a low carbon future.
- The challenge of a new economic and political order post Brexit and what that means for future all-island co-operation.

And there are other important challenges we could add here. A key plank of Ibec's General Election campaign is the call for the convening of a new Commission on Taxation.

We need to do so to ensure our tax system is sustainable. Events at the OECD may bring very significant changes to the international corporate tax system. This Commission is needed to bring coherence and to underpin our taxation system, whilst incentivising indigenous business and ensuring fairness of the personal tax regime.

To address all of these significant challenges individually and in the round, it is time for a new and wider social dialogue ... business, trade unions, NGOs ... to discuss how we are going to allocate resources within our society and equally importantly ... how we do so in a sustainable manner ... across the three realms ... social, economic and environmental.

And post last week's General Election, such a forum takes on an added meaning. While there is understandably a lot of noise currently in the post-election environment, it is imperative that we in business and in civil society discern the signal that is being sent. There is now a renewed urgency to solving these major problems facing the country. As the political system becomes more fragmented, it is more important than ever that we find a mechanism to help move the country forward through effective policymaking.

Solutions

If social dialogue provides the framework for solving some of our challenges, what in practical terms can we do to fund the very significant investment that will be required to make progress?

As a nation, we are living within our means and indeed generating a surplus. But what is also clear is that the country has incorporated the corporate tax windfall into our day to day spending. This cannot last forever so we need to look elsewhere for solutions.

Part of the answer may lie at household level. Since the crash, Irish households have significantly deleveraged and are now down to levels last seen in 2003.

Despite persistently low interest, Irish households are increasingly choosing to save rather than borrow. Over the last two years, savings levels in Ireland have remained high and on a par with the EU average.

Last year, consumers had a record €101 billion in Ireland's bank and credit union accounts.

And as the economy has recovered and wages have grown since 2014, disposable income continues to rise on an aggregate basis. If you strip out GDP, median disposable income in Ireland is 50% higher than in the UK.

Households have the wealth and may or may not want to give it up willingly. So, we need to encourage them to do so by borrowing from them through a range of innovative measures such as university bonds to fund improvements in our ailing third level education sector.

Conclusion

In conclusion, at Ibec, we believe business is a force for good in Ireland by providing every one of us with the opportunity to lead successful lives, while also delivering the resources for a balanced and more prosperous society.

It is our belief that Ireland has an incredible, indeed somewhat fortuitous, opportunity unheard of by previous generations. But we need to be mature enough to ensure that our luck does not become a winner's curse.

We need to recognise the moment we are in – a prosperous economy with surging corporate tax receipts and households, who on aggregate basis, have record savings. And we need to use this moment wisely to put in place the framework and structures that will enable not just this generation but future generations to benefit from our current prosperity.

The challenges are simply too vast to be tackled in individual silos. We need a new social dialogue to build a national consensus that will enable us to tackle these challenges collectively.

We need to take a fresh look at Ireland's governance model. What would best-in-class governance look like? It would have a framework capable of building a sustainable Ireland – sustainable in the social, economic and environmental spheres.

We are but weeks into 2020 but there is a unique opportunity over the next decade to build a better, more sustainable Ireland and so a stable and peaceful island. We should take that opportunity.

Thank you.

