Beyond the Storm

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Three years from now, Dublin and Ireland will hold centre stage. As European City of Science in 2012, Dublin will host the largest and most significant assembly of science, scientists and science based business in the world.

The event is well timed to lift our sights beyond the turbulence of today's disrupted global trading system. By 2012 we hope that a new stability will have emerged, and that knowledge-based economic growth will be, more than ever, improving lives and increasing prosperity in Ireland, Europe and beyond.

It is also a very timely milestone in Ireland's progress from a traditional resource-based economy to a knowledge-driven position in the global marketplace (Fig 1). That transition began several decades ago with the decisions to provide free secondary education, establishment of the Regional Technical Colleges (now Institutes of Technology), and the expansion of the University system to the point where 56% of school leavers now go on to college.

Ireland's progression up the ranks of the various statistical indicators has been substantial. However, it still leaves us well behind Sweden, Switzerland, Finland, and Denmark which are the European leaders in innovation. The European Innovation Scoreboard is a consolidated index of 25 input and output measures of a country's relative position in the creation of a knowledge economy. On the most recent (February 2008) summary index, we ranked twelfth – respectable, but not yet where we wish to be.

As the storm clouds gathered in recent months, the Government has confirmed its commitment to building Ireland's future on an increasing capacity for innovation in society. On December 18th, the Taoiseach said "We aim to develop a smart economy and become known as the innovation island…….to invest heavily in research and development, incentivise multinational companies to locate more R&D capacity in Ireland, and ensure the commercialisation and retaining of ideas that flow from that investment".

While every country in the world has been affected by the global financial crisis, Ireland faces particularly severe challenges. At the height of the boom, the building industry constituted more than 15% of GNP here, as against the norm of 5% in other developed countries. This in turn meant that the financial institutions were unusually exposed when the bust came. The decade of boom years also fuelled an exuberance in the public spending that cannot be sustained in the coming years (though Government expenditure as percent of GNP, at 42%, is still below the EU average).

In addition, our small scale increases the vulnerability of the Irish economy. To some extent this is offset by the stability that comes with membership of the Eurozone. As against that, the easy option of maintaining competitiveness by currency devaluation is no longer available. The challenges ahead are therefore

very substantial - to stabilise Government finances, to restore national competitiveness, and, after the storm, to complete our progress to a position as one of the most durably competitive economies in Europe.

Much of what is required is echoed in the American Chamber of Commerce Ireland document *Retuning the Growth Engine,* and in more detail in the Chamber's submission to Government on the National Development Programme.

At the centre of that plan is a commitment to continue building the knowledge economy. The last National Development Plan took the public investment in research and development from a figure of 0.30% of GNP in 2000, to 0.62% of a very much larger GNP in 2007. In that year, the Government science and technology budget came to almost €1bn – a figure roughly equivalent to what was spent on overseas development aid. During this period, Ireland more than doubled its capacity for R&D. Such early indicators as we have of output (numbers of highly trained scientists, publications, citations, patents) have all shown significant increases.

The commitment in the current National Development Plan, covering the years 2007 to 2013, is to continue this pattern of growth in public investment, and indeed this has been delivered in 2007 and 2008.

The broad objectives set out in the Lisbon agenda are that Europe should spend 3% of GDP on research and development by 2010, and that two thirds of this should be spent by the business sector, one third by public sector. It will take us some years more to reach the 3% goal. However, in Ireland the business sector has been expanding its R&D investment in parallel with the public expansion and provided 65% of the overall expenditure on R&D in 2006. In that year, €1.6bn was spent on R&D performed in the business sector. Reflecting the high-tech nature of overseas investment here, over 70% of this came from foreign (mainly American) companies. That investment continues – Barry O'Leary recently reported that 43% of the IDA-supported investments in 2008 were R&D related.

Ten years ago, Ireland would not have had the credibility in the world of science to bid for the City of Science event. Ten years from now we intend that Ireland will be as securely positioned in the world of science and knowledge as Sweden or Massachusetts is today. We hope and expect that a large part of that future will be built in partnership with companies that belong to the American Chamber.

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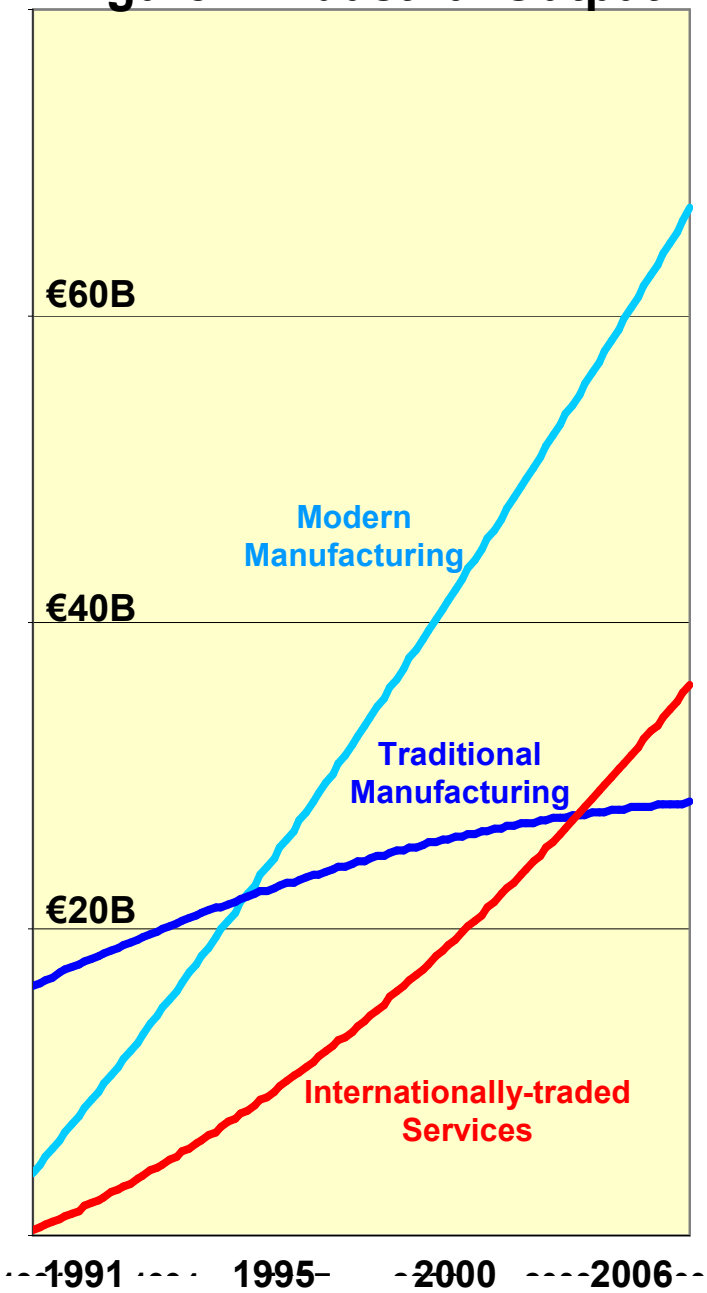
Figure1: Industrial Output



Source: Annual Business Survey of Economic Impact, Forfás, 2006