

“Fostering Entrepreneurship”

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Ladies and Gentlemen,

Thank you for your invitation to be here today.

As a general rule, discussion about entrepreneurship in Ireland is counter-cyclical. When all is going well, we don't pay that much heed to it. When things start to go badly, the level of interest increases. When a large multi-national closes its doors, for example, we will often hear discussions about why we don't rely more on indigenous entrepreneurship.

One of the most notable examples of this phenomenon was the book published by the historian Joe Lee in 1989, called simply *Ireland: 1912-1985*. That book sold so many copies in Ireland that its publishers, Cambridge University Press formed the view that there couldn't be anyone left in Ireland who could possibly want one, that didn't already own one. At the time that the book was being written, Ireland was experiencing the worst of the 1980s recession.

The kernel of Lee's thesis, or perhaps soul searching, was to ask why independent Ireland had been such an economic failure and why we had failed to converge with European levels of growth. One of the factors he pointed to was the absence of entrepreneurship

To quote Lee;

A native entrepreneurial cadre had failed to emerge. Irish-owned Industry could not compete internationally. It could not even compete on the home market. Neither carrot nor stick, neither free trade nor protection, had sufficed to create a competitive native industry.

Many of the questions that Lee posed in the late 1980s were forgotten as the boom kicked off in the 1990s. Now, as we are once again plunged into deep recession, many of them will arise again. Having been brought to the verge of ruin twice in a generation, we have to hope that the debate on this occasion will be more far-reaching. The theme of fostering entrepreneurship, then becomes part of a wider discussion about the type of economy we want, and how we can achieve it.

But before we go too much further, let us begin by asking what is 'entrepreneurship'? After all, if we want to foster it, we should know what it is.

Entrepreneurship is a bit like political leadership – we all know we want it, and think it's a good thing, but it can be quite hard to define.

In fact, one of the first economists to write about entrepreneurship was an Irishman, Richard Cantillon, whose *Essai Sur la Nature du Commerce en Général* [*Essay on the nature of Commerce in General*] is believed to have been written in the 1730s. For Cantillon, the entrepreneur was central to the effective functioning of a market economy, being the agent who buys and sells – a type of market maker, described as 'an undertaker'. Certainly it is true that entrepreneurs are risk-takers and market-makers, which is central to the functioning of a market economy.

The economist most frequently associated with discussions of Entrepreneurship, on the other hand, is Joseph Schumpeter, who placed the entrepreneur at the centre of his ideas of how economy and society function. Schumpeter's entrepreneur is a very different character to Cantillon's, being far more of an innovator, rather than just a person who buys and sells. In some respects, Schumpeter's entrepreneur is a rebel – someone who likes to shake things up, and replace old ways with new. Michael O'Leary and Richard Branson come to mind.

This association of entrepreneurship with innovation or invention is crucial. When we think of great entrepreneurs down through history, or in our own times, we generally think of great engineers or inventors. We think of people like Isambard Kingdom Brunel, John Ford, or, in our own time Bill Gates. They are notable as people who invent or understand a new technology, work out how to apply it in a practical way, and build successful businesses as a result.

The question I want to address today, is not just how to promote entrepreneurship, but is whether we are promoting the first or Cantillon-type entrepreneur, rather than the second Schumpeter-type entrepreneur.

The evidence here is mixed.

On the one hand, we have the report of the Global Entrepreneurship Monitor for Ireland in 2008, which paints a broadly positive picture. Ireland compares well statistically in terms of our culture of entrepreneurship. In 2008, the rate at which entrepreneurs were starting businesses in Ireland at 4.3%, was similar to the rate reported in 2007, and was well above the rate of 2.7% for the EU and 3.3% for the OECD. Indeed, we weren't far off the land of opportunity itself, the US, which scored 5%. There was also a strong level of 'established entrepreneurs'.

The report also records a strongly positive and supportive culture for entrepreneurship, and positive perceptions of entrepreneurs in the media.

The GEM report also has some good news about innovation. It reports that compared to other developed countries, a high proportion of Irish early stage entrepreneurs are innovative. That is they are employing a new technology, selling a product or service that incorporates some novel element, or they have positioned their business in a new sector.

On the other hand, the proportion of established entrepreneurs who are not innovative is among the highest across the EU and the OECD

Moreover, at the time that report was being compiled, there were troubling signs on the horizon. The number of business opportunities was seen to be falling and concerns were already being expressed about bank lending.

The results of the GEM report tally with my experience as a TD. I know of many businesses and entrepreneurs that are innovative and high-tech. but I also know how hard that road is to take.

And while there is a different view of entrepreneurship in Ireland today, compared to twenty years ago, we cannot ignore what has happened in our economy, and the impact on the broader business environment.

Ireland's experience of the Celtic Tiger can be divided into two periods. The first, from about 1993 to 2001, was a period of export-led growth, where Ireland benefited from high rates of foreign-direct investment, enthusiastic membership of the European Union, an educated workforce, and a low corporation tax rate, (set by Labour Ministers). After 2001, however, the economy became much more driven by domestic demand, including consumption and housing investment. As the ESRI has pointed out, the housing bubble crowded out export-led activity, and we experienced a loss of competitiveness as we relied on an unsustainable bubble.

The practical reality of living through that experience was an Ireland where it was far too easy to make quick and high returns from investing in low-risk activity i.e. property development. For both investors, and for entrepreneurs themselves, the property-game was a no-brainer. Why would anyone want to invest in something risky and high-tech, when there were so many incentives to invest in property, which seemed to be low-risk and was certainly low-tech?

The property bubble was not just the product of a country that suddenly found itself rich and wanted to buy bigger houses. It was systematically stoked by a series of tax incentives, some of which were introduced for good reasons, but which were not reigned in when the market started to overheat. Nor was action taken to deal with the speculation that was driving up the price of building land.

So, if you were an entrepreneur at that time you were living in a country where the tax code favored property-development over productive activity, and where investors had any number of apparently low-risk prospects.

We also have to face the reality that, as a country, we now have a reputation for crony capitalism. The banking crisis has caused appalling reputational damage. The drip feed of bad news from Anglo is just one example of that. Its not just the scale of the bad loans – its also the stories of questionable share dealings, back to back loans, directors and executives getting loans. Its all doing damage.

So, as we move forward from here, we need to be clear about the kind of entrepreneurship that we are out to foster.

Ireland's attempt to part company from the global economy – which is what the property boom was – is over. Now, if we are to get out of this recession, we will have to grow our way out of it - on the back of businesses and industries that are genuinely entrepreneurial. That break new ground, in new sectors. We need a genuinely innovative entrepreneurship, that leaves crony capitalism behind.

How do we do that? How does a society create an atmosphere that supports, that fosters, innovation combined with genuine risk-taking?

In 1992, the National Economic and Social Council published a research report entitled 'The Irish economy in a comparative institutional perspective' Written by Lars Mjoset, its thesis was that Ireland needed to focus on the development of its national system of innovation. This was a way of describing the way in which a number of structures and institutions in a society come together, to promote innovation and innovative activity. It includes the education system at all levels, with universities playing a key role. It includes the way firms organise themselves, and the way they are clustered, it includes the approach taken by the state, and the structure and activities of the banking system. All of these come together, to influence the 'rate and direction of innovative activities'

That idea was something of a slow burner in Ireland, but you can see how it has taken root. The Government's economic strategy document 'Building Ireland's Smart Economy', published last December, illustrates the extent to which the idea of a 'national system of innovation' has permeated into official consciousness. There is talk of an innovation island, and some appreciation of the linkages that you have to build across a number of policy areas to genuinely promote innovation.

I have no hesitation in saying that there is a lot to approve of in that document. Implementation, of course, is a different matter.

Building a genuinely innovative and entrepreneurial society, requires action on a range of fronts – too many to treat comprehensively here. So, I want to focus instead on five issues. Not necessarily because they are the most important, but because they reflect illustrate the range and tenor of what we have to do.

The first is finance. We all know that business needs access to credit. Let me read you this quote.

There are thousands of small employers whose businesses are perfectly sound, but who have large sums owing to them not immediately realisable in cash, but nevertheless perfectly well secured. It is the perfectly legitimate custom of such employers to draw from their banks overdrafts upon their deposits in order to enable them to keep their businesses going, paying back to the bank the sums thus borrowed according as they themselves are paid by their debtors.

That was written, not by a stock broking economist in 2009, but in 1912, by James Connolly, founder of the Irish Labour Party

Socialists have always been some of the best analysts of capitalism!

In fact, Schumpeter defines capitalism itself as a system in which

'innovations are carried out by means of borrowed money, which in general, implies credit creation'

In other words, entrepreneurs need finance. They need risk capital and they need working capital. They need start-up funding, and funding to meet the payroll. Finance is essential to a functioning market economy, and to any policy for fostering entrepreneurship.

As you may know, Labour has taken a strong position in opposition to the Government's strategy on the banks. We opposed the banking guarantee, and we oppose NAMA. Instead, we favour temporary nationalisation of the banks, so that the bad loans can be dealt with, and the state can get a return when the bank is returned to private ownership. We have not taken this view out of ideological preference, but because we believe that temporary nationalisation is the quickest and least costly way of restoring the flow of credit. Temporary nationalisation is not cost free – the state would still have to recapitalise the banks – but it avoids the requirement to value the bad loans – a process which imposes appalling risks on the exchequer.

Meanwhile the delay in the NAMA process is unforgiveable. The lack of clarity on NAMA is causing huge uncertainty, and is stopping lending by the banks into some businesses, where there the business has some connection or other to a property loan.

But even before the banking crisis, entrepreneurs were having problems accessing finance. Again, the GEM survey refers to this issue. For Irish entrepreneurs access to finance was the number one problem. This relates to a range of funding sources, including equity funding, debt financing, government investment, venture capital funding, IPOs and so on.

This is a major issue, and one we have to resolve. The Government has brought forward some changes in the tax code in relation to business start-ups, which I welcomed, and there are some venture capital funds available for high-tech start-ups.

But this remains an issue of concern. Labour is developing our proposals for a National Investment Bank, which is part of our broader policy on promoting infrastructure development. As part of this process, we are looking at the role that such a bank could play in providing funding to enterprise. We have also pressed the Government and the banks to draw down the funds available for small businesses from the European Investment Bank.

A second area that I want to touch on is scientific education. Many people have been expressing concern in the past few weeks about the low level of take up at leaving certificate of Higher Maths. This didn't happen overnight. It has been a problem for years. In 2008, for example, only 6600 students attained Grade C or higher in Higher maths. When you consider how many of these students will go on to be accountants and lawyers, there aren't too many left over to be the scientists and technologists of tomorrow. We have a real problem with the teaching of mathematics in Ireland, and we have had it for some time. Prior to the last general election, the Labour Party produced proposals for a radical shift in way that maths is taught in Ireland. In line with modern thinking in other countries, we have argued for an approach to teaching maths that is far more applied – illustrating mathematical concepts with concrete examples. That is not code for making it easier, but for teaching maths in a different way.

The Government has finally responded with a programme called Project Maths, which will be mainsteamed in 2010. It was originally set up as a pilot project with just 24 schools in 2008.

I hope this brings change and improvement, but the pace of change is terribly slow. This was a problem that has been obvious for a long time, but it is taking years to do anything about it.

That brings me to priority number three. Entrepreneurship in the public sphere. We often think of entrepreneurship as an exclusively private sector concept. But it isn't. We must also have innovation and change in the public sector, now more than ever. For years, Labour has been arguing for an end to the system of budgeting in the public sector, which simply added a few percentage points onto last year's budget. And if there was an election coming, that would become quite a few percentage points. That has to end. We need a far greater sense of prioritisation. But we also need to encourage public sector organisations to innovate – to find new ways themselves of doing more with less. That is one reason why I have opposed the blanket ban on recruitment in the public sector. It takes too much decision making out of the hands of departments and agencies and centralises it with the Minister for Finance. What we need instead is a system that places responsibility on line managers, and encourages them to meet local needs with available resources in innovative ways.

The fourth area I want to touch on is entrepreneurship among people who have lost their jobs. One of the ways in which some people deal with unemployment is to set up their own business. Of course, many fail, but for some it is a liberating experience. When I was a trade union official in the 1980s, I sat in many stuffy canteens, talking to people who had been made redundant and thought they'd never work again. I have met many of them since then, who have set up their own business and prospered. That is an area that we should revisit.

One of my biggest criticism of Fianna Fáil is that they have not given any serious thought to the area of labour market policy. I believe that entrepreneurship should be part of that agenda. That is not to say that we should simply expand the Back to Work Enterprise Allowance – though we should. Giving people a chance to re-train and acquire new skills, and apply them in their own business is also part of the entrepreneurial agenda.

My fifth priority is to sort out the problem of crony capitalism. Twice in a generation, our country has been brought to the verge of ruin. It is never to soon to say 'never again'. In particular, we need to shed both the image and reality of crony capitalism. But it is not enough to fold the Galway tent. We must end the connection between big money and politics. We must restore the mechanisms of accountability and transparency, and we must change the rules of corporate governance. If we are to restore Ireland's reputation abroad, then we must not just sell our story, but we must have a positive story to tell. If we want to foster entrepreneurship, then we need to be clear about the kind of entrepreneurship that we are fostering.

Those are just five examples of the kind of policies that we need to pursue. They happen to be five issues that Labour has been advancing since before the 2007 general election. They were important before the recession began, but they are even more important now. They also reflect the kind of shift in culture and thinking that we all need to make. If we are to leave crony capitalism behind us, then we must embrace and foster a genuinely innovative, and radical form of entrepreneurship. The biggest shift we must make is one of mindset. We need to make a radical shift from the failed crony capitalism of the past.

Finally, might I say that this is an area where I have practised what I am preaching. Since becoming leader of the Labour Party, I have driven a process of internal change and modernisation. I think you saw some of the results of that process in action last week, and I hope we will see more.

Thank You.