

NATIONAL ECONOMIC AND SOCIAL COUNCIL

An Investment in Quality: Services, Inclusion and Enterprise

**Overview, Conclusions and
Recommendations**

November 2002

PUBLISHED BY THE NATIONAL ECONOMIC AND SOCIAL COUNCIL

Copies of this Report may be obtained from
THE NATIONAL ECONOMIC AND SOCIAL COUNCIL
16 Parnell Square, Dublin 1
or the Government Publications Sales Office,
Sun Alliance House, Molesworth Street, Dublin 2.

Price €10

MEMBERSHIP OF THE NATIONAL ECONOMIC AND SOCIAL COUNCIL

Chairperson:

Mr. Dermot McCarthy, Secretary General, Department of the Taoiseach and Secretary to the Government

Deputy Chairperson:

Ms. Mary Doyle, Assistant Secretary, Department of the Taoiseach

Government Nominees:

Professor John Fitz Gerald

Ms. Geraldine McAteer

Professor Jim Walsh

Mr. David Finn

Mr. Tom Considine Secretary General, Department of Finance

Mr. Paul Haran Secretary General, Department of Enterprise, Trade and Employment

Mr. Brendan Tuohy Secretary General, Department of Communications, Marine and Natural Resources

Mr. John Hynes Secretary General, Department of Social and Family Affairs

Mr. John Fitzgerald Dublin City Manager, representing the Local Government Sector

Nominated by Business and Employers Organisations:

Mr. Turlough O'Sullivan IBEC

Mr. Brian Geoghegan IBEC

Mr. Liam Kelleher CIF

Mr. Brendan Butler IBEC

Mr. John Dunne CCI

Nominated by the Irish Congress of Trade Unions:

Mr. Dave Begg ICTU

Ms. Joan Carmichael ICTU

Mr. Manus O'Riordan SIPTU

Mr. Peter McLoone	IMPACT
Mr. Des Geraghty	SIPTU

Nominated by Agricultural and Farming Organisations:

Mr. Seamus O'Donohue	ICOS
Mr. Ciaran Dolan	ICMSA
Mr. Damian McDonald	Macra na Feirme
Mr. Michael Berkery	IFA
Mr. Con Lucey	IFA

Nominated by Community and Voluntary Organisations:

Fr. Sean Healy	CORI
Ms. Siobhán O'Donohue	CWC
Ms. Orla O'Connor	NWCI
Mr. Dónall Geoghegan	NYCI
Mr. Eric Conroy	INOUE

Secretariat:

Dr. Rory O'Donnell	Director
Mr. Noel Cahill	Economist
Mr. Bill Thompson	Economist
Dr. John Sweeney	Economist
Mr. Brian Moss	Research Assistant

Ms. Catherine O'Brien
Ms. Tracy Curran
Ms. Sinead Somers
Ms. Catherine Coleman

Ms. Ann Marie O'Connor, served as a Social Policy Analyst in the Secretariat of NESC up to September, 2002.

Table of Contents

	<i>Page</i>
ABBREVIATIONS	v
PREFACE	vi
ACKNOWLEDGEMENTS	viii
 PART I: REVIEW	
1. Ireland's Long Run Economic Development and Vulnerability	3
1.1 Overview of the Economy 1960 to 2002	3
1.2 Identifying the Key Factors that Drive Growth ..	6
1.3 Understanding Ireland's Economic Development.	9
2. Ireland's Long Run Social Development and Vulnerability	14
2.1 Key Social Changes from 1960 to 1990	14
2.2 Social Developments in the 1990s	15
2.3 Understanding Ireland's Social Development. . .	18
2.4 The Social Vulnerabilities of Irish Development	27
 PART II: VISION	
3. Experience, Understanding and New Possibilities	33
3.1 From Review to Strategy.	33
3.2 Vision as Hope: A Successful Society	33
3.3 Vision as Sight.	35
3.4 Seeing Ireland's Enduring Vulnerabilities and Challenges	34
3.5 Seeing Ireland's Current Situation	41

3.6	Seeing Shared Pressures and Concerns: Competitiveness, Quality of Life and Fairness . .	43
3.7	Disclosing New Possibilities	46

PART III: STRATEGY

4.	Recasting Ireland’s Consistent Policy Framework for the Coming Years	61
4.1	The Council’s Consistent Policy Framework 1987 to 2002	61
4.2	Recasting Ireland’s Consistent Policy Framework for 2003-2005	63
4.3	Shared Understanding and a Consistent Approach	68
5.	Macroeconomic Policy	71
5.1	Inflation	71
5.2	The Public Finances	76
6.	Wage Bargaining	83
6.1	Analytical and International Guidance: Learning Ahead of Failure	83
6.2	Wage and Competitiveness Developments	84
6.3	Adapting Ireland’s Partnership System to a New Context	88
7.	Taxation and Social Protection	93
7.1	Principles of Taxation	93
7.2	The Council’s Proposals on Taxation	94
7.3	Principles of Social Protection	97
7.4	The Council’s Proposals for the Strategic Development of Social Protection	98

8.	Policies on Poverty, Exclusion and Inequality	103
8.1	Assessing Developments Since 1999	103
8.2	The Irish National Anti-Poverty Strategy	104
8.3	Rights	106
8.4	Equality	113
8.5	Cross-Cutting Areas Involving NAPS and Other Strategies	114
8.6	Ending Child Poverty and Educational Disadvantage	115
8.7	Building a New Infrastructure of Care	118
8.8	Improving the Prospects of those who Undertake Low Skilled Work	122
8.9	New Population Flows and Cultural Diversity .	125
8.10	Monitoring Social Inclusion	129
9.	Infrastructure, Public Utilities and Spatial Development	131
9.1	Introduction	131
9.2	Ensuring the Necessary Investment Takes Place	132
9.3	Delivery of Quality Infrastructure, Planning and Regulation.	138
9.4	Institutional Arrangements	142
10.	Competitiveness, Continuous Improvement and Learning	147
10.1	Introduction	147
10.2	The Council's View of Enterprise Policy	147
10.3	Trends in Manufacturing and Internationally Tradable Services	149
10.4	Enterprise Support Policy	150

10.5	Science, Technology and Innovation	152
10.6	A Skilled Workforce and Quality Employment	154
10.7	Organisational Performance	155
10.8	Agricultural Food and Rural Development . . .	157
10.9	Tourism Development	159
	References	161
	Appendix: Income Tax Allowances and Reliefs	167
	National Economic and Social Council Publications	169

LIST OF TABLES

Table 1:	The Wage Bill as a share of Gross Value-Added in the Non-Agricultural Market Economy	87
Table 2:	Labour Costs as a Share of Value-Added in Manufacturing	88
Table 3:	R&D Expenditure: Gross expenditure on R&D as a % of GDP and GNP 1991 to 1999	152

LIST OF FIGURES

Figure 1:	The Three Elements of Development Policy	8
Figure 2:	The Three Dimensions of the Welfare System	20
Figure 3:	Influences and Pressures on Three Main Dimensions of Economic and Social Life	45
Figure 4:	The Developmental Welfare State	52
Figure 5:	Annual Change in Real Take-Home Pay	85
Figure 6:	Real Gross Pay Change 1988 to 2001 Economy-wide	86
Figure 7:	The Interconnection of Rights, Institutions and Commitment	110

ABBREVIATIONS

ALMPs	Active Labour Market Programmes
CPI	Consumer Price Index
DWS	Developmental Welfare State
EGFSN	Expert Group on Future Skills Needs
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
EU	European Union
FDI	Foreign Direct Investment
FDS	Flexible Development State
GDP	Gross Domestic Product
GGB	General Government Balance
GNP	Gross National Product
NAPS	National Anti-Poverty Strategy
NCPP	National Centre for Partnership and Performance
NDP	National Development Plan
NESF	National Economic and Social Forum
NPM	New Public Management
OECD	Organisation for Economic Co-Operation and Development
R&D	Research and Development
SGP	Stability and Growth Pact
SMI	Strategic Management Initiative
SOE	Small Open Economy
WTO	World Trade Organisation

PREFACE

Since 1986, the National Economic and Social Council has produced five reviews of economic and social policy. These reports - *A Strategy for Development* (1986), *A Strategy for the Nineties* (1990), *A Strategy for Competitiveness, Growth and Employment* (1993), *Strategy into the 21st Century* (1996), and *Opportunities, Challenges and Capacities for Choice* (1999) have documented developments of the Irish economy and society, and provided a framework for the negotiation of the national social partnership agreements. The Council has now completed a sixth review of economic and social strategy. This publication contains the ‘Overview, Conclusions and Recommendations’ of that study which is entitled *An Investment in Quality: Services, Inclusion and Enterprise*. The main report is published separately. This document is divided into three parts: review, vision and strategy.

Part I, a review of Ireland’s long run economic and social development, shows that the recent development of the economy can be understood as the extensive growth a regional economy. It also show that the type of economic development achieved in recent decades has undoubted vulnerabilities. Ireland’s long run social development—shaped by the legacy of the past and the economic context—also contains particular vulnerabilities. The Council sees these economic and social vulnerabilities as defining the enduring challenges that Ireland must address. A number of these vulnerabilities have materialized in recent years, and these define the immediate challenges for public policy and social partnership.

In Part II of the report, the Council outlines its vision, distinguishing vision as hope, as clear sight of realities, as perception of shared pressures and concerns and as sight of new possibilities. It emphasises that the achievements of the past 15 years have been based on (i) adaptation of the national policy and institutional framework, (ii) an expanded export sector and (iii) the development of the European Union. Ireland does not fit neatly into any existing

model or category of socio-economic development. Many of the new economic and social possibilities were discovered by experimental problem-solving action involving government, the social partners and others.

Part III of the report outlines the Council's strategy. The Council re-states the importance of a consistent policy framework, encompassing macroeconomic, distributional and structural policies. Given the wide range of urgent structural/supply-side needs, the Council identifies the following common elements:

- the need to ensure scope for the necessary investment to take place;
- the need to ensure a high quality or standard of service and value-for-money;
- the need to make the organisational and institutional changes necessary to achieve high-performance and co-ordination of a range of cross-cutting policies and organisations.

Within this context, the Council outlines conclusions and recommendations in the following areas: inflation; the public finances; taxation and social protection; policies on poverty, unemployment and social exclusion; infrastructure; utilities and spatial development; and enterprise policy. The Council believes that, if appropriate choices are made across a range of policy areas, Ireland has the capacity to achieve an economically and socially inclusive society that has long term sustainability.

ACKNOWLEDGEMENTS

The Council and Secretariat of NESC acknowledge the co-operation and assistance of many individuals and organisations in the preparation of this report.

The Council wishes to acknowledge the contribution of Forfás and the Department of Enterprise, Trade and Employment who provided material and assistance on enterprise policy for Chapter 10.

The Council is grateful to the following researchers who prepared background documents: Dr. Jelle Visser of the Amsterdam School for Social Research, who prepared a paper on industrial relations and wage bargaining in European countries for Chapter 6; Dr. Gerry Boyle of NUI Maynooth who prepared a paper on agriculture, food and rural development for Chapter 10; and Dr. Larry O'Connell of the National Centre for Partnership and Performance (NCP) prepared a paper on organisational change for Chapter 10.

The staff of several Government Departments, the Economic and Social Research Institute, the National Centre for Partnership and Performance, the Central Statistics Office, the Central Bank and the National Economic and Social Forum provided great assistance to the Secretariat throughout the preparation of this Strategy document.

Ann Marie O'Connor of the Department of Social, Community and Family Affairs contributed to the drafting of this Report while a member of the NESC Secretariat. The administrative staff of the Council's Secretariat provided valuable support in the production and distribution of the various drafts of the report.

Part I

Review

CHAPTER 1

IRELAND'S LONG RUN ECONOMIC DEVELOPMENT AND VULNERABILITY¹

1.1 Overview of the Economy 1960 to 2002

Chapter 1 of the Strategy report describes Ireland's long-run economic development and identifies the main challenges that must now be addressed. It provides a factual survey of the economy from 1960 to 2002. Focusing on the main economic indicators, it divides the period since 1960 into five phases: 1960-73, 1973-79, 1979-87, 1987-93, 1993-2000 and 2000-2002.

In examining the record of economic growth, it is useful to distinguish between intensive and extensive growth. Intensive growth refers to the rate of growth of income or output *per head*. Extensive growth refers to the growth of *total output* allowing for changes in total employment and population. The distinction between intensive and extensive growth is particularly relevant in the interpretation of Ireland's recent growth and consideration of Ireland's current policy options.

The review of economic performance shows the historical significance of what has been achieved in Ireland in that the past fifteen years. In the nineteenth century Ireland experienced de-industrialisation and a dramatic reduction in population through emigration. For much of the twentieth century, the growth of output per capita in Ireland was the lowest among 23 European countries, with the single exception of the UK. Irish output and living standards declined substantially relative to the European average. Since 1960, economic growth in Ireland has been sufficient, for the most part, to maintain Ireland's position relative to continental Europe and to converge with UK living standards. However, until the 1990s there was little progress towards convergence with

1 The Secretary General of the Department of Finance did not consider it appropriate to comment on budgetary policy.

average EU output or income per head. Then, during the 1990s Irish GNP per head leaped ahead and converged at a breathtaking pace with the EU average.

Important developments during the past decade include the following:

- From 1993 to 2000, the average growth of GDP was 9.3 per cent per year and the average growth to GNP was 8.3 per cent per year;
- The most striking development in the period 1993 to 2000, was the increase of employment, which grew by an average of 4.7 per cent per year. The level of employment increased from 1.15 million in 1993 to 1.65 million in the first quarter of 2000, an increase of over half a million people or 43 per cent. This was unprecedented in Irish economic history and was the fastest growth of employment in the OECD in this period;
- Unemployment (on an ILO basis) fell from 15.9 per cent in 1993 to less than 4 per cent in 2001.
- While employment grew in all sectors, the fastest employment growth was in the building sector, market services and non-market services (mainly health and education);
- Full-time employment represented over 70 per cent of the increase in employment, but the rate of growth of part-time employment exceeded that of full-time employment;
- Female employment has grown more rapidly than male employment as the rate of female participation increased;
- Productivity growth, as measured by GNP per worker, was above the EU and OECD averages in the years 1993 to 2000, at 3.4 per cent. Nevertheless, the rate of economy-wide productivity growth per worker was somewhat higher in the 1960s than in the 1990s;
- Living standards have increased considerably (see Chapter 2 for further details);

- The share of national income allocated to saving and investment increased;
- The period of strong economic growth after 1993 saw major changes in public finance. After the austerity of the late 1980s, there was substantial growth in the level of expenditure on both current services and capital investment. Given rapid growth, the share of public expenditure fell from 46.6 per cent of GNP in 1993 to 35.3 per cent in 2000. Tax revenues were buoyant, the level of public deficit fell and moved into surplus on a general government basis by 1997.

Overall, the period from 1993 to 2000 was one of unprecedented economic success in Ireland, not only by comparison with Ireland's history but also in global terms. An important task of the Council's Strategy report is to interpret this economic experience, explore its social implications and identify what it tells us about public policy and partnership (see Sections 1.2, 1.3, and Chapters 2 and 3 below).

While this represents a profound transformation of the Irish economy, the review also indicates that the period from 2000 to 2002 is much less buoyant:

- There was a sharp slowdown in economic growth, due to a combination of domestic and international factors;
- Employment continued to increase, but at a slower rate, and was reliant on hiring in the public service.
- Inflation increased, especially in services, reflecting the weakness of the euro, the strength of domestic demand and other factors (see Chapter 5 below);
- The competitiveness gains of earlier years stalled and began to be reversed;
- The slowdown in growth has contributed to a sharp deterioration in the public finances: while expenditure continued to grow faster than GNP, there was a sudden slowing of revenue growth.

This more difficult economic situation defines the context in which the Council formulates its Strategy report.

1.2 Identifying the Key Factors that Drive Growth

Having surveyed Ireland's long-run economic development, the Council identifies and discusses the key factors that underpinned Ireland's growth, particularly the dramatic expansion of the past decade and a half. The factors identified are:

- Domestic policy and institutional change;
- Competitiveness;
- EU membership and the European internal market;
- Foreign direct investment (FDI); and
- Education and labour supply.

The way in which these factors interacted with one another is discussed in Section 1.3 below. While each is discussed in some detail in Chapter 1 of the main report, it is useful to comment briefly on one of them here, the role of domestic policy and institutional adaptation.

Domestic Policy and Institutional Adaptation

Three aspects of domestic policy were particularly important in achieving Ireland's economic breakthrough:

- A consistent policy framework, encompassing macro-economic, distributional and structural approaches;
- Social partnership; and
- The flexible developmental state.

The consistent policy framework and the role of partnership are discussed in some detail in Chapters 3 and 4 below. The idea of the flexible developmental state is less familiar.

Since the late 1950s, an important part of Irish public policy has been industrial and development policy. The policy aimed to re-orient indigenous enterprises to export and attract inward investment to Ireland. It had varying success in each of these tasks and there was ongoing debate on the rationale, feasibility and best

method of state action to promote economic development – debates in which the Council was very active². The experience since the late 1980s and recent research help us to see more clearly what role the state has played, and can play, in the Irish context. Ó Riain distinguishes between the Asian ‘bureaucratic developmental state’ and what he calls the ‘flexible developmental state’ (Ó Riain, 2000). Ireland’s flexible developmental State has developed the Irish economy by creating connections with the most modern networks of production and innovation. It does this by attracting high-tech firms to Ireland and fostering related indigenous networks of innovation, and encouraging them to internationalise.

This perspective allows us to see that the Irish state – through a complex and flexible set of agencies and policies – has played a key role in the economic progress of the past decade and a half. Under a fairly invariant industrial ‘policy’, the agencies have flexibly reconfigured the package of services that they offer, in dialogue with their client firms. The agencies and the firms seem to be jointly exploring the latest organisational and technical possibilities and teasing out how they can be applied in Ireland. The development agencies are in a complex form of interdependence – with Government Departments, universities and the social partners – which constitutes a form of external accountability. The idea of the flexible developmental state allows us to retain our focus on the challenge of developing a small peripheral economy that constituted the major task of independent Ireland, and remains relevant, while letting go of the overly-statist outlook that sometimes goes with that focus, but which is no longer effective in an age of global information networks.

Indeed, the concept of the flexible developmental state can have wider implications. In some respects, the conduct of development policy – and the flexible client-centred recasting of services – is a model that allows us to see how other public services might be provided more effectively (see Chapter 3, below).

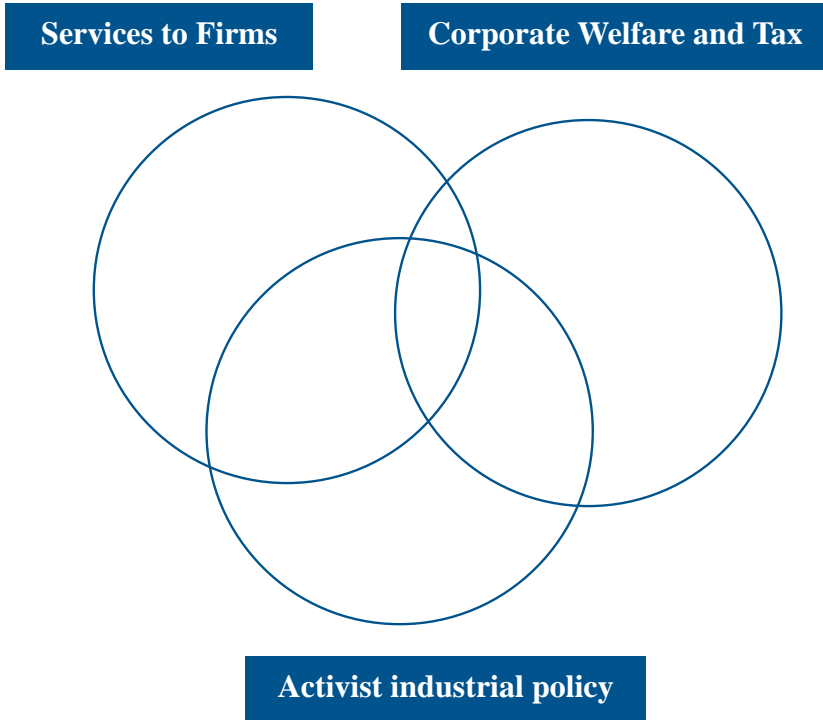
The Council is anxious to link its discussion of development policy

2 See NESAC, 1981, 1982, 1986, 1989, 1990, 1993, 1996a and b, 1998.

to its analysis of social policy. To assist this it describes three elements of development policy graphically in Figure 1. Overall development policy can be seen to have three elements: corporate welfare and tax, services and activist policy initiatives by public agencies.

Figure 1

The Three Elements of Development Policy



While Irish policy initially relied heavily on corporate welfare and tax breaks and direct forms of activism (such as state-owned industrial firms), it has increasingly moved towards provision of services and new forms of networked, or associational, activism. This theme is taken up later in this document (and in the main Strategy report), when we discuss social policy, explore how the developmental and welfare aspects of public policy can be related to one another, and think about the organisational challenges that are now critical in so many areas of public policy.

1.3 Understanding Ireland's Economic Development

Here the Council outlines its understanding of how the five factors listed above – domestic policy and institutional change, competitiveness, EU membership, FDI and education and labour supply – worked together to produce unprecedented growth of output, exports, incomes and employment. In its reports since the early 1980s, the Council has formulated its advice to government on the basis of a number of empirical observations and analytical principles. These included:

- The importance of competitiveness in a small open economy;
- The role of European integration in facilitating the development of a small peripheral region;
- The limited role of demand management and the crucial role of supply-side policies aimed at enhancing the quantity and quality of resources and capabilities;
- The importance of specialisation in high-value, high-growth, sectors in maximising the gains from trade and integration;
- The damaging long-run effect of net emigration and the importance of increasing population and employment in Ireland;
- The inter-dependence between the traded and non-traded sectors, and the importance of an efficient non-traded sector;
- The interdependence between the economic and the political and the need for a consistent set of macroeconomic, distributional and structural policies based on a shared understanding of key economic and social mechanisms;
- The importance of regional networking in strengthening competitive advantage.

A similar perspective has been neatly encapsulated by Krugman, in his suggestion that the Irish economy can be thought of as having some of the characteristics of a regional economy (Krugman, 1997). A regional economy is an open economy with very high exposure to trade, capital mobility and a mobile labour force. In such an

economy, the *export base* and its external competitiveness have a critical influence on the size of the economy. Investment in a regional economy will be strongly influenced by its profitability relative to other locations. The level of technology and know-how will be also strongly influenced by investment flows from outside and the ability of the society to absorb technologies developed elsewhere. If the economy becomes more competitive in a growing export sector both labour and capital will flow in. If the export sector collapses in a regional economy, the economy may contract and workers emigrate. Consequently, competitiveness has a much more direct influence on a small regional economy than on a large national economy.

The Council believes that this analytical approach can offer an understanding of both Ireland's poor long-run economic performance through much of the 20th century and the experience of boom in the 1990s.

Before 1960, the Irish economy can be seen as a regional economy based on agriculture or as a resource-based small open economy (NESC, 1989; 1996a; Mjoset, 1992; Barry, 1999). Agriculture provided virtually all export earnings. There was a small industrial sector, fostered through protectionism, that expanded the non-traded sector somewhat. Agriculture could not provide a basis for employment growth and the labour force contracted through emigration. While productivity growth in agriculture yielded some income growth, this was insufficient to support much growth in the non-traded part of the economy (NESC, 1989). It was difficult to achieve either extensive or intensive growth.

There was a marked improvement after 1960. The new outward looking strategy had a number of significant successes from 1960 to 1987. Ireland attracted inward investment and began to build an export base. There was a dramatic structural adjustment of the economy. In 1960, agriculture forestry and fishing accounted for almost 37 percent of all employment. By 1987, this had fallen to 14 per cent. After a century and a half of virtual stagnation, Ireland achieved relatively strong economic and demographic growth. There was a steady increase in living standards and expectations, as

incomes, wages and welfare provisions converged with those in the UK. Investment in education began to increase capabilities and skills. But the emergence of a viable export base was qualified in important ways. The adjustment of indigenous enterprises to international competition was limited and weakly linked to the more dynamic foreign-owned firms. Job creation was insufficient, old jobs were lost at a remarkable rate, unemployment increased and emigration re-emerged. Growth was not handled well, giving rise to inconsistent claims on the Irish economy. Inevitable adversities were allowed to become divisive and produced delayed and insufficient responses. Overall, there was an insufficient appreciation of the interdependence in a regional economy – between the public and the private sectors, between the indigenous economy and the international economy, and between the economic and the political.

The Council believes that the boom of the 1990s can be seen as a process in which a range of domestic and international factors made it possible for Ireland's regional economy to greatly expand its export sector, mainly through inward investment of high-tech firms in manufacturing and services. Earlier investments in education, telecommunications and business capability began to pay off. The combination of a consistent policy approach, social partnership and improvement in indigenous business produced a virtuous circle: buoyant tax revenue allowed tax reductions that supported continued wage moderation and further increased Ireland's competitiveness, which increased inward investment and an inflow of skilled people, yielding income that increased domestic demand, giving rise to non-traded business activity and further employment. If the long term problem of the Irish economy was a persistent outflow of people, capital and initiative – and a consequent contraction of the export base – the recent experience was characterised by an inflow of investment, people, technologies and organisational capabilities and a much more intense interactions within the economy. The result was unprecedented levels of both intensive and extensive growth.

The Council's interpretation differs from two others advanced

recently: the first, that Ireland's economic development is fatally contradictory and, the second, that Ireland's progress is nothing remarkable, best seen as an inevitable convergence that happened to be delayed (see Chapter 1 of the main report). While the Council is not persuaded by each of these interpretations, it acknowledges that the type of economic development achieved in Ireland in recent decades contains undoubted vulnerabilities. Indeed, its understanding of the Irish economy consists of both the analytical approach of regional growth, summarised and applied above, and the identification of the vulnerabilities of a small, peripheral, regional economy.

The Vulnerabilities of Irish Economic Development

The Council's analysis demonstrates that Ireland's small size, peripheral location and the type of economic development achieved in recent decades contains undoubted vulnerabilities (see Chapter 1 of the main report). These vulnerabilities include the following:

- It is hard to measure and forecast the Irish economy and this makes it difficult to coordinate the actions of employers, unions and government;
- The reliance on international competitiveness means that public policy must achieve both a predictable economic strategy and rapid and widespread adaptation;
- The possibility of extensive growth can give rise to a range of problems. As outlined in Chapter 1 of the main report, these include:
 - infrastructural and other bottlenecks;
 - super-normal profits, rents and asset prices;
 - increased prices;
 - the challenge of integrating people from abroad;
 - patterns of spatial development that are unanticipated;
 - pressure on the environment.

- An export base containing rapid growth of very high productivity sectors can create pressures in both the economy and society;
- Financial openness can create problems, as well as advantages, for the corporate, personal and public sectors;
- The openness of the economy and society and its small size in world terms – and the associated importance of trade, international investment and labour mobility – means that the existence of effective international political and regulatory institutions, such as the EU, is absolutely critical to economic development and social cohesion;
- The small size of the country, and its peripheral location, can make it difficult to devise the best strategic and regulatory regime in networked sectors, such as telecommunications, energy and parts of transport;
- Policy errors, such as pro-cyclical fiscal policy, will be punished severely, because of the importance of competitiveness;
- The need to build an export base containing high-tech high-growth sectors, and the need to achieve a high level of employment in the market sector, can imply a tendency an unacceptable level of inequality (see Chapter 2 below);
- The possibility of extensive growth implies the possibility of extensive decline, such as that experienced through much of the 19th and 20th centuries; and
- While long run prosperity is determined by the quantity and quality of resources and capabilities, wage trends can have very significant positive or negative effects.

The Council believes that acceptance of the core elements of Ireland's economic strategy demands a recognition of the vulnerabilities listed above. The policy implications of this are identified in Chapter 3 below.

CHAPTER 2

IRELAND'S LONG RUN SOCIAL DEVELOPMENT AND VULNERABILITY

This Chapter of the Strategy report provides an account of Ireland's social development in order to identify the major social challenges that must be addressed in national policy. It summarises the Council's previous analysis of the major social changes since 1960 and describes in more detail the social developments of the 1990s. It then offers an interpretation of these trends.

2.1 Key Social Changes from 1960 to 1990

In its 1996 *Strategy* report the Council identified three areas of social change that were particularly important after 1960: population recovery and development, education and human capital and social capacities and resources.

A most important aspect of social development was the turnaround from population decline to population increase. The demographic decline prior to the 1960s was particularly damaging in that it consisted mainly of population decline in the active age ranges. The demographic recovery after 1970 was driven by net immigration and a fertility surge in the 1970s. Very high age and economic dependency rates were experienced through much of this period. The eventual decline in dependency is an important aspect of the increased income per head available in the 1990s.

A second important aspect of social development was the remarkable expansion of the education system. Numbers in second and third level education increased strongly. One effect was the emergence of a large gap between the level of education of younger and older cohorts. In addition, there remained very significant class differences in rates of educational participation and levels of attainment.

The Council also focused on three clusters of relationships – those centred on family, gender and community – and examined the

extent of progress or decline since 1960 in the social resources which these sets of relationships represent.

The rise in births outside of marriage, the introduction of divorce and the acknowledgement of violence and abuse within families are some of the significant developments in the 'family' since 1960. In spite of negative image of the condition of the family which these developments may present, in 1996 the Council pointed to the many counter-balancing positive trends – such as the higher levels of material and emotional investment in children on the part of parents, the rapid growth in children's educational attainment and greater concern for the personal rights and needs of children. It concluded that the reality was actually a net improvement in the social resources and capacities represented by family life in recent decades. It will be seen in Chapters 3 and 5 that the social resources and capabilities of the family, while continuing to strengthen in some respects, are also considerably stretched by the economic and social trends of the past decade.

The single greatest change in Irish society since 1960 has been in the social, cultural, legal and economic position of women. Nevertheless, there remain elements of vertical and horizontal segmentation and a significant gender dimension to poverty and marginalisation (see below).

There were significant developments in community as a social resource since the 1980s. This is shown by communities' response to economic and social dislocation and the state's involvement of community groups in a range of new area-based initiatives.

The Council concluded that there had been substantial advance in many basic social resources and capacities in recent decades. But the developmental impact of these advances has been reduced by their uneven distribution across social groups and geographic areas, damaging the life-chances of those involved and amounting to the main structural weakness in Irish society.

2.2 Social Developments in the 1990s

It is not surprising that a period of dramatic economic growth has

also seen significant social change. In reviewing social developments in the 1990s, the Council documents trends in:

- The labour force, employment and unemployment;
- Income and consumption levels, including earnings, social welfare transfers, consumption, ownership of domestic appliances and socio-technical change;
- Income distribution, distinguishing household and market income, the distribution of disposable income and measures of relative income poverty;
- Learning and life chances, identifying overall levels of education and patterns of educational participation and life-long learning;
- Social diversity;
- Household and family structures;
- Housing, settlement patterns and transport; and
- Major policy developments, particularly the passing of equality legislation and creation of an equality infrastructure.

Among the social developments and facts of the past decade the following are worthy of note:

- Total employment rose by 605,500 in the period 1987 to 2001, an increase of over 54 per cent in 14 years;
- One of the most striking changes has been the growth in female employment, particularly of married women. In 2001, female labour force participation was 48.6 per cent, with male participation at 71.1 per cent;
- The decline in unemployment since 1997 has been dramatic, falling from 10.3 per cent to 3.8 per cent of the labour force by 2001;
- Measured by employment, the services sector as a whole is now over twice the size of the industrial sector and three times that of the manufacturing sector;

- Irish living standards have converged rapidly with the EU average, largely because of the big increase in the share of the population in employment;
- Between 1987 and 2001, the cumulative increase in real take-home pay for a single person on average manufacturing earnings was almost 60 per cent;
- From 1992 to 2001, social welfare payments increased substantially in real terms;
- At the end of 2000, almost one in three households (32.4 per cent) had a home computer, up from 18.6 per cent in 1998. In 2000, about one-fifth of all households were connected to the internet, a fourfold increase since 1998;
- The pattern of income distribution has been fairly stable, reflecting a range of factors, discussed in more detail in Section 2.3 below;
- There has been a large fall in consistent poverty, from 14.4 per cent of the population in 1994 to 5.5 per cent in 2000;³
- The proportion of the population at risk of relative income poverty has not been reduced – approximately one third were below 60 per cent of average income in both 1994 and 2000 and an increased number were well below that line;
- Being outside the labour force (principally in home duties or retired) has replaced being unemployed as the most typical status of people who are poor;
- All social classes have participated in the expansion in education, but socio-economic inequalities continue in second-level and third-level education and literacy;
- Changes in household and family structures have continued, with increases in the number of lone parents, births outside of marriage and couples cohabiting;
- Since 1996, Ireland has experienced net inward migration;

3 Poverty line = 70 per cent of median income and experience of basic deprivation.

- The 1990s saw very significant developments in housing and settlement, with increased house prices, a large increase in housing stock, longer local authority housing lists, longer commuting distances and further increase in the share of the population in the Greater Dublin Area; and
- There have been two sets of important policy and legal changes in the social area in recent years:
 - the creation of an equality infrastructure, through the Employment Equality Act and the Equal Status Act and the creation of the Equality Authority and Office of the Director of Equality Investigations;
 - the creation of strategic frameworks such as the National Anti-Poverty Strategy, the National Health Strategy the National Childrens' Strategy, the National Drugs Strategy and the Employment Action Plan.

Having documented these long term and recent social changes, the Council offers its interpretation of them.

2.3 Understanding Ireland's Social Development

In outlining its interpretation of Irish social development, the Council distinguishes between understanding of:

- long-run social development: emigration and weak national system of innovation;
- the evolution of the Irish welfare system;
- the effects of industrialisation on class transformation and social mobility;
- the influences on income distribution; and
- liberalisation, pluralisation, and secularisation.

Each of these is briefly described below. For the purpose of this summary statement of the Council's *Strategy*, the greatest attention is given to the evolution and nature of the welfare system and the analysis of the influences on income distribution.

Understanding Long Run Social Development: Emigration and Weak National System of Innovation

Much of the Council's work over recent decades was sought to identify the causes of Ireland's disappointing long-run development and to find agreement on more effective strategies. The work undertaken for the Council by Mjoset described the country's long-run experience as a 'vicious circle'. He argued that 'The basic vicious circle starts from two facts: the weak national system of innovation, and population decline via emigration' (Mjoset, 1992, p.7). He showed that the mechanisms by which these facts reinforced each other could be found in the social structure. He demonstrated this by comparing Ireland's social structure with that of a selected group of small European democracies. This revealed that the more successful small countries 'all developed autonomous civil societies' (Mjoset, 1992, p. 250). In Mjoset's view 'Ireland's problem may be described as follows: the Irish social structure had emigration as its precondition and most potential entrepreneurs would choose Hirschman's exit option' (p. 17).

This research also revealed structural elements among the causes of Ireland's difficulty. While Austria was a free rider on Germany's economic success in the post-war period, Ireland was free rider on Britain's economic decline.

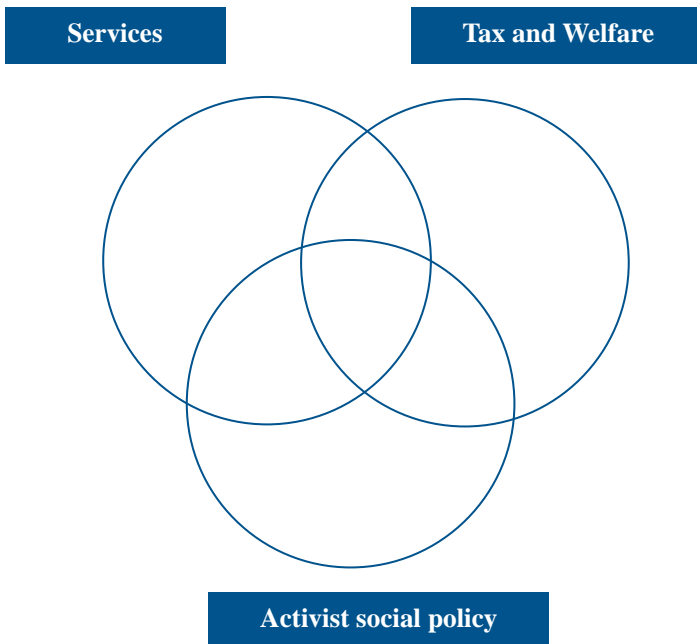
This combination has led the Council, over the past two decades, to propose that Irish strategy must work simultaneously on two related fronts. Domestic policy reform must improve the country's economic and social capacity, capability and cohesion. International policy must continue to secure Ireland's position in the EU – since this provides a much better international context for a small peripheral state than any past or present alternative – and make Ireland an attractive location for the production of high-value goods and services. The Council's analysis of long-run social experience fits closely with its interpretation of Irish economic development, summarised in Chapter 1 above.

Three Dimensions of the Welfare System: Tax and Welfare, Services and Activism

In parallel with the account of industrial development policy presented above, the welfare system can be seen as containing three over-lapping elements: tax and social welfare, the provision of social services and activist social and welfare policy. The tax and welfare element represents the traditional income protection instruments. It contains a combination of three approaches: universalist, insurance and residual. In the past decade or so, this element of the welfare system overlaps with the activist element, where income maintenance systems have been turned into, or combined with, active labour market policies. The activist side of social policy can itself be seen to contain three elements: active labour market policies (ALMPS), local and community development initiatives and social economy programmes.

Figure 2

The Three Dimensions of the Welfare



This way of thinking about the overall welfare system is helpful in both studying the evolution of the system and in thinking about future options.

As regard the evolution of the system, it brings out both the achievements of the Irish approach and some of its limitations. After decades of modest social protection, there was a major, if gradual, extension of income protection (see Chapters 3 and 8 below and Chapter 2 of the main Strategy report). In the face of a severe crisis of unemployment, Irish policy became highly activist, in initiating both ALMPs and new approaches to local and community development. As regard services, the acceptance of housing as a fundamental bedrock of individual and social well-being, the recognition of market failure in both land and housing, and the consequent development of an extensive social housing policy was critical in creating the cohesion of Irish society in the second half of the 20th. century (Fahey, 1999). The huge extension of education, and the increasing recognition of its role in facilitating Ireland's economic development, is undoubtedly a major achievement of Irish social policy.

This broad view also highlights some of the past limitations, and present challenges, of the system. The tax and welfare system, like those in many countries, was based on a male-breadwinner model and offered limited protection against some of the risks that many citizens faced. The social and care services were delegated to bodies that did not always respect the dignity and interests of citizens and were unequally available to different social classes. The activist dimension was underdeveloped.

This broad view has the advantage of not focusing excessively on tax and income maintenance. As Esping-Andersen says, 'A major problem with the design of postwar welfare states was that they pursued "equal opportunity" more through income maintenance than through labour supply management' (Esping-Andersen, 1996, p. 260). In some respects this broad view yields a more positive assessment of the evolution of the Irish system. The social investments, such as the expansion of housing and education, are taken into account. This is important, because income maintenance

alone cannot be expected to achieve equality, and where it does it creates disincentives to work and education (Esping-Andersen, 1996, p. 264).

But when we bring services and activism into the picture, we still find that the system has left more inequality than is socially fair or economically desirable. More telling still, judged against a goal that has become increasingly central to Irish economic and social well-being – equality of opportunity – the system has not achieved what the Council believes to be necessary.

Industrialisation, Class Transformation and Social Mobility

One of the most profound long term changes in Irish society was industrialisation and the associated changes in class structure. Social mobility can be measured in a number of ways. Absolute social mobility refers to changes in the structure and origins of different occupational groups. Relative social mobility measures changes in the relative occupational success of people from different class origins. Trends in each kind of mobility can be understood as the outcome of economic development and public policy (see Layte and Whelan, 2000).

Between 1961 and 1996 profound changes took place in both the economic and social spheres. Males in agriculture fell from 36 per cent to 13 per cent of the workforce, while the proportion of managers, professionals and administrators rose from 8 per cent to over 20 per cent. The skilled manual workforce grew from 12 to 21 per cent by 1981, falling again to 18 per cent in 1996. Unskilled manual workers formed a smaller proportion of the employees in 1994 than they did in 1973.

These changes gave rise to ‘significantly increased long-range upward mobility opportunities’ (p.97). Between 1987 and 1994 growth was observed predominantly in the professional and managerial class with a corresponding decline in the manual sector. ‘As a consequence it is among the latter that we observe a striking increase in upward mobility and a proportionate decline in downward mobility. The nature of the long-term transformation of the class structure in Ireland was such that extreme social closure at

the top was not a possibility' (p.105). This very significant change in the occupational structure, and the large amount of absolute social mobility it afforded, is an important feature of the evolution of Irish society in recent decades.

It also puts into sharp focus the contrasting evolution of relative social mobility. After the 1960s, the importance of inheritance as a means of gaining social position had declined, free second level education was introduced and educational qualifications had become increasingly important. Thus it could be expected that the enhanced absolute opportunities for social mobility and the expansion of educational opportunities would lead to a more meritocratic society. Yet the influence of class origin on education attainment and class destination remains strong, suggesting little increase in relative social mobility (Layte and Whelan, 2000).

Understanding the Influences on Income Distribution

Trends in income distribution are an important input to the Council's Strategy (see Chapter 2 of the main report). In order to understand these trends it is necessary to distinguish between market income and disposable income, individual and household income and the effects of market trends and budgetary decisions.

It is important to note two aspects of the context in which recent trends arise. First, Ireland has for some time had relatively high levels of wage dispersion, compared to other OECD countries. Second, across the world there has been a rise in earnings inequality in the 1980s and 1990s, although this has been greater in the Anglo-Saxon world than in continental Europe.

Various theories have been advanced to explain the increased gap between skilled and unskilled wages worldwide. These include:

- the growth of trade with less developed countries, where the price of unskilled labour is far lower (Wood, 1994; Esping-Andersen, 1996);
- changes in technology that are biased in favour of skilled labour;

- the move from manufacturing to services has created a greater trade-off between employment and equality (Esping-Andersen, 1996; Iversen and Wren, 1998).

The relative merits of these theories remains the subject of on-going discussion and research. Overall, it seems that countries now find it harder to simultaneously achieve high employment, earnings equality and budgetary restraint. Scandinavian countries tend to achieve high employment and earnings equality, but risk tax revolts. Continental Christian democracies achieve budgetary restraint and earnings equality, but are tending to high levels of unemployment. Countries with a more liberal welfare state achieve high levels of employment and budgetary restraint, but tend towards inequality (Iversen and Wren, 1998).

In Ireland, over the period since 1987, a period in which average real disposable incomes rose by some 80 per cent, the distribution of disposable income across households was relatively stable, becoming somewhat less equal between 1994 and 1998. These trends are the net outcome of a range of influences:

- Changes in the wage share of national output had only a limited effect on the distribution of *household* income (See Chapter 6 for analysis of the wage share);
- The dispersion of earnings from employment *across individuals* and occupational groups continued to rise;
- Despite this, the distribution of market income *across households* became somewhat more equally distributed, reflecting the growth of employment and fall in unemployment;
- The distribution of overall *disposable income* across households became somewhat more unequal, because social welfare payments increased by less than post-tax earnings;
- The net effect of these changes was that, while the proportion of the population in consistent poverty fell from 17.8 per cent to 5.5 per cent, the proportion of the population at risk of relative income poverty did not fall (approximately one third

were below 60 percent of average income in both 1994 and 2000) and an increased number were well below that line.

In analysing these developments, and framing future strategy, the Council acknowledges, first, that there has been a substantial increase in the level of social welfare payments and major progress in transforming the tax system since 1987. The Council also recognises that tax reductions have been an important part of the strategy to promote the growth of employment and reduce unemployment:

- Tax reductions contributed to wage moderation and facilitated an increase in labour supply, thereby stimulating employment growth and reducing unemployment;
- Nobody knows the exact magnitude of these effects on employment and unemployment and the degree to which they would differ if a more egalitarian tax and welfare reform strategy had been adopted;
- The resulting expansion of employment and reduction in unemployment contributed to a somewhat more equal distribution of market income *across households*. Thus, while the direct quantifiable effect of tax reductions was to widen the distribution of disposable income, they probably also had an indirect equalising effect on the distribution of household income.

The Council identifies the risk of poverty and inequality as one of the vulnerabilities to which the Irish economy and society is prone, and in Chapters 4, 5 and 8, below, it outlines ways in which these vulnerabilities should be addressed.

Liberalisation, Pluralisation and Individualisation

The final element in an understanding Ireland's social development is a set of changes that might be described as liberalisation, pluralisation and individualisation. Among the significant social changes in recent decades are:

- A weakening in traditional forms of authority;

- A revival of Irish culture and increased confidence in Irishness;
- The emergence a culture of revelation and investigation, which can be a step on the road to a stronger culture of compliance and accountability;
- The spread of information technology through a large segment of the society;
- Social and cultural effects arising from return migration and immigration. As Fitz Gerald says ‘The multicultural nature of the economy, if not of the wider society, has been part of the current Irish success story’ (2002, p. 80);
- The discovery of the Irish diaspora: during the late 1980s and 1990s, Ireland has partly *become* internationalised, and partly *re-discovered* that it has been internationalised for a very long time (O’Donnell, 2000);
- Recognition of the effects of discrimination and inequality on life opportunities and participation in society
- Increased rates of drug abuse;
- Increased levels of violence in incidents of public disorder;
- Pluralisation of lifestyles, values and ethnic composition;
- Increased numbers of refugees and asylum seekers, vulnerable in several ways;
- Increased evidence and awareness of racism;
- Harmful consumption of alcohol, cigarettes and drugs, as well as a more sedentary lifestyle and overwork are negatively affecting the nation’s health, including that of the young, and have already notably increased the incidence of obesity in Irish society;
- Decreased participation in elections and, on initial evidence, in voluntary activity; and

- Greater emphasis on involvement of the those effected by poverty, social exclusion and inequality in policy development and delivery.

It is clear that the processes of liberalisation, secularisation, pluralisation and individualisation contain a complex mixture of positive and negative elements. Indeed, these processes are related to the underlying economic trends described earlier.

While all these changes are related, it is probably incorrect to view them in a deterministic way. Thus, while a more liberal and plural society can be a more violent and materialistic one, this is not necessarily so. The Council believes that, working with what we have been given by nature and history, the quality of collective and individual life remains open to the influence of reason, engagement and solidarity.

In a like manner, the Council does not see the trends to liberalisation, secularisation and individualisation as ‘modernisation’, of a linear, deterministic or predictable type. Most of the cultural and social elements of earlier decades – spirituality, family, music, sport and local loyalty – are still present. But they are adopted and used in varying combinations, to form a range of identities. Consequently, there are now many different ways of being Irish, religious, a woman, a man, a mother, a father, a farmer, a teacher, a manager, a worker, a volunteer or a social or political activist.

On balance, Ireland’s social and economic development has been enhanced by the emergence of a more autonomous, varied and open civil society. But this presents in a new form the underlying challenges of achieving a society that the enables the full flourishing of all its people.

2.4 The Social Vulnerabilities of Irish Development

The Council’s account of Ireland’s social development combines the social side of earlier patterns of failed indigenous development and the social side of a dynamic regional economy in an age of

information technology. This is by no means a complete account⁴. It can be contrasted with a number of alternatives, each of which claims to have a comprehensive explanation. These alternatives see Irish social policy and organisation as fatally contradictory, characterised by ‘economic success and social failure’, and trace this to dependence on inward investment (Kirby, 2002, and O’Hearn, 2001). Ireland’s recent experience is explained by the state’s adoption of a neo-liberal economic and social strategy and social partnership is seen as a mechanism by which social groups are co-opted to neo-liberalism (Kirby, 2002, p. 163).

While the Council does not accept the perspectives summarised above, it is clear that Ireland’s small size, historical experience, institutional structures and type of economic development contain undoubted social vulnerabilities. These vulnerabilities include the following:

- The legacy of limited indigenous development created significant inequalities in opportunity and unfair outcomes and yielded limited resources for social protection and social services;
- Economic openness creates the possibility of extensive decline, which can create unemployment, poverty and emigration;
- Economic openness creates the possibility of extensive growth which, in certain circumstances, can have a number of negative social effects:
 - Increased earnings disparity;

4 Nor is it a complete account of how public policy has shaped both earlier indigenous development and more recent economic and social trends. In introducing the recent ESRI study *From Bust to Boom*, Nolan *et al.* emphasise the fact that the state plays a central role in the shaping of developmental and distribution outcomes. The authors add, ‘However, we treat each of these state roles as largely referring to the relatively distinct and identifiable institutional realms of industrial and economic development and welfare state policy’ (p.3). The future development of the economy and society, and perhaps the analysis of past developments, requires that the developmental and welfare dimensions of public policy be more closely linked (see Chapters 3 and 8 below).

- Rapid population increase, with attendant problems in provision of public services, transport, health-care, education and housing;
- A rapid switch from emigration to immigration;
- The over-riding need to achieve non-agricultural development implies policies oriented towards extensive growth and a rapid development of the enterprise sector, driven to a significant degree by the attraction of inward investment, which can, in the wrong circumstances, yield inequality of opportunity and relatively high levels of income inequality;
- The over-riding need to create employment implied approaches to economic and social policy that maximised job creation and minimised the risk of work disincentives, which can risk poverty and unacceptable levels of inequality;
- The consensus-orientation of both the society and the policy system, though it has many advantages when well coordinated, makes socially beneficial policies and institutions vulnerable to blockage by narrow interests;
- Centralised and/or bureaucratic systems for providing social services run the risk of rigidity, inefficiency, high-cost and limited response to citizens diverse and changing needs; and
- The institutional and religious legacy created a mixed economy of welfare which, though it can be highly targeted on the least well off, is vulnerable in a number of ways:
 - It can become a 'two-tier' system;
 - It can delegate social services to organisations that adopt hierarchical and inflexible modes of delivery;
 - It may not respond flexibly to new social needs and changing circumstances;
 - Structural problems in service delivery may provide a disincentive to greater welfare effort and encourage disengagement from the public system;

- Welfare benefits may progress unevenly or fall behind wider income trends; and
- It can provide inadequately for those not attached to the formal labour market.

The implications of these vulnerabilities for national strategy are discussed in Section 3 below.

Part II

Vision

CHAPTER 3

EXPERIENCE, UNDERSTANDING AND NEW POSSIBILITIES

3.1 From Review to Strategy

This section identifies how the review in Part I of the report provides the basis for the Council's proposed economic and social strategy in Part III. The faculty that takes us from the past to the future is vision – vision as hope, as clear sight of realities, as perception of shared pressures and concerns and sight of new possibilities. Hence, vision is the central theme of the chapter.

3.2 Vision as Hope: A Successful Society

In its 1999 *Strategy* report, the Council proposed a new vision for Ireland. It argued that the foundations of a successful society are:

- a dynamic economy, and
- a participatory society,
- incorporating a commitment to social justice,
- based on consistent economic development that is socially and environmentally sustainable,
- which responds especially to the constantly evolving requirements of international competitiveness, understood as the necessary condition of continuing economic and social success.

This vision had several dimensions, the most important of which were:

- economic inclusion based on full employment,
- social inclusion, reflecting full participation in those activities which constitute the norm in society,
- successful and continuing adaptation to change,

- commitment to the utilisation and development of the potential of the Information Society and the promotion of research and development,
- commitment to lifelong learning,
- environmentally sustainable and balanced development between regions and between urban and rural areas,
- commitment to the further development of the European Union and international solidarity, and
- an entrepreneurial culture.

The Council also pointed out that the realisation of its vision would have a number of practical beneficial consequences for individuals and for society. These would include:

- every child would leave primary school literate and numerate;
- every student would complete a second cycle programme appropriate to the individual's capacity and interests;
- every person seeking employment would be equipped with the personal skills and supports to find satisfying employment at reasonable rates of pay;
- every person would have access to lifelong learning, a sense of personal security in a changing work environment, an opportunity to balance work and family commitments and a capacity to share the gains made by successful competitive firms and high performance public bodies;
- every family would have access to healthcare, affordable housing appropriate to their needs, good quality childcare and a well functioning public transport system;
- every firm would have the capacity to compete effectively in the global market place, through enhanced partnership with their employees and a supportive business environment backed up by an appropriate macroeconomic policy;
- every region would have an efficient physical infrastructure to support sustainable economic activity, and promote social cohesion, based on a balance between urban and rural needs;

- disadvantaged communities would have received the benefits of an investment programme and more responsive public services to overcome the accumulated burden of unemployment and marginalisation; and
- average living standards (GNP per capita) would have exceeded the EU average, those dependent on transfer payments would share in the increased affluence and a reduced rate of poverty would ensure a more widespread participation in the lifestyle of a mature developed economy.

The Council reiterates the vision of a successful society outlined in 1999. It remains of the view that a successful society is one in which individuals, families, associations and communities, whether geographical or interests based, can flourish and in which the public system enables them to achieve their changing goals. It should be clear from this account of a successful society that equality is one of the central concerns of the Council: equality of educational service and opportunity, of access to training and employment opportunities, of chances to balance work and family life, of access to the key services that assist well-being, of local and regional infrastructure, in short, equality of status in access to the services of the public system. The major challenge is to identify what would be necessary to achieve the outcomes listed above and to build a consensus to meet these requirements.

3.3 Vision as Sight

In order to motivate and guide action, the successful society must be visible, at least in outline, from where we are. This means that it must be based, to a significant degree, on economic, social and policy experience – vision as sight. This section outlines how the Council sees Ireland’s past economic and social experience.

Understanding Ireland’s Experience

A key aspect of vision is clear sight of past experience. Ireland’s economic and social experience is documented and interpreted in Chapters 1 and 2 of the Strategy report, and summarised above.

Overall, Ireland's dramatic economic performance in the 1990s was caused and sustained by three main factors:

- **The national policy and institutional framework**, which was consistent, highly focused on competitiveness and employment-creation, innovative and problem-solving;
- **An export sector** that was greatly expanded and increasingly concentrated in high-value, high-growth market segments;
- **The European Union**, because it increased market access through creation of the single market and negotiation of WTO agreements, created a level playing field through re-regulation, provided a relatively stable monetary environment and supported Ireland's infrastructural and social development.

As discussed in Chapter 2 above, Ireland's social evolution in the past decade was shaped by that economic expansion and also in significant ways by the legacy of the past and by public policy (and see Section 3.3 below).

Trusting Ourselves: Revising Means and Goals

A critical aspect of vision is clear sight of how public policy, the social partners and others have influenced the economy and society, and how they can influence it in future. Over recent decades the Council and others developed a particular view of what a successful economy would look like, what role public policy has in promoting economic and social development, the nature and role of social partnership, the desirable and likely pattern of enterprise-level partnership, the contribution that EU membership can make and the social patterns and social policies that would be evident in a prosperous economy. Our view on these issues was, in large measure, derived from study of the patterns of economic and social life, and public policy, found in the richer states that we aspired to catch up with, and was often described as a superior 'model'.

Now that a significant degree of economic and social catch up has been achieved, a more successful economy, society and public system looks significantly different from the model that was

envisaged. This new view is by no means complete, but some of its key features are identified in here and, in more detail, in Chapter 3 of the main Strategy report. More important that the substance of the new view, is the way in which actual developments differ from our best strategies, and how this forces us to alter how we think strategies, models and plans – and, most of all, about experimental action.

Taken together, the slight deviation from the expected model or goal on many fronts – the role of the state, business development, social partnership, industrial relations, the EU and social policy and patterns – amounts to a significant deviation on all taken together. What is clear from Ireland’s experience is that:

- Ireland does not fit neatly into any existing model or category of socio-economic development;
- Much greater economic and social progress occurred than was deemed possible within the models that informed earlier analysis;
- Ireland has succeeded with an eclectic approach, that seeks to adopt the best features of different socio-economic models;
- Many of the new economic and social possibilities were discovered by experimental problem-solving action involving government, the social partners and others; and
- Changes in many parts of the economy, society and the state can amount to significant change in the whole.

Because of this, the Council rejects any one-dimensional view, that the changes in the past decade are due to a single factor, whether it be fiscal correction, tax reduction, inward investment, educational attainment, market liberalisation, high technology, European integration, labour supply, changes in social policy or, indeed, social partnership itself. In contrast, the Council believes that the changes since the late 1980s – in the economy, business, public policy, enterprises, the EU and society – have been the product of wide-spread policy and institutional adaptation and experimentation. Although not derived from a preconceived plan or model, each change has been deliberate.

It is the willingness and ability to change policies, arrangements and institutions that ultimately underlies Ireland's success. This is confirmed by the fact that Ireland continues to achieve less in precisely those areas where we have not adapted institutions, policies and arrangements.

As in its previous Strategy reports, Council's identifies in this report what it sees as the key strategic goals of public policy in the coming years and the policy priorities that it views as necessary to achieve those goals. But, based on the experience summarised above, it recognises that an effective public system is one which learns from experience and experimentation to continuously improve policy and implementation. Indeed, it emphasises that the goals of policy must themselves be revised in the light of experience. Rather than see public policy as guided by timeless high-level goals, it understands it as a problem-solving process which is guided by action-oriented co-ordination and information. This reflects the fact that the life of the society – like that of individuals, the public system and the economy – is realised in history.

3.4 Seeing Ireland's Enduring Vulnerabilities and Challenges

The Vulnerabilities of Irish Economic Development and Ireland's Enduring Economic Challenge

The Council's analysis and interpretation of our long-run economic development lead it to conclude that Ireland' small size, peripheral location and the type of economic development achieved in recent years contains undoubted vulnerabilities. The Council believes that acceptance of the core elements of Ireland's economic strategy demands a recognition of the vulnerabilities listed in Section 1.3 above. Accepting the country's position as a regional economy, which must retain high-value economic activity, means that we have to focus on what is necessary to make that economy:

- (a) Competitive in a changing world;
- (b) Environmentally sustainable;

- (c) Efficient, though finding and implementing appropriate market and regulatory regimes in different areas; and
- (d) Socially acceptable (see below).

These are the major challenges that must be met if Ireland is to secure its long-run economic and social development.

The Vulnerabilities of Irish Social Development and Ireland's Long Run Social Challenge

The Council's analysis and interpretation of Ireland's long-run social development lead it to conclude that Ireland's small size, historical experience, institutional structures and type of economic development contain undoubted social vulnerabilities. These social vulnerabilities, listed in Section 2.4 above, arise from three general sources:

- **The legacy of the past and public policy**, that yields a society containing greater inequalities of opportunity and outcome than is desirable;
- **The economic context**, which requires competitiveness, high levels of employment and which can give rise to extensive growth (or decline);
- **The organisational challenge** of providing quality public services in an age when citizens' needs are varied, complex and changing and in which the limits of bureaucratic delivery are acutely felt.

It is clear, therefore, that there is no comprehensive doctrine – of the market, the state, society or globalisation – that uniquely explains Ireland's current social situation and unambiguously guides action.

The understanding of Ireland's economy and society outlined above, and the identification of the social problems to which Ireland is vulnerable, helps us to identify the policy challenges that must be addressed if Ireland is to secure its long-term social and economic development:

- Recognising the legacy of the past, we must not only reduce inequalities of outcome, but systematically re-balance opportunity in favour of the least advantaged;
- Accepting our adoption of an internationalised economy and a social model based on high levels of employment, we must recognise that this combination can, in certain circumstances, tend to inequality and poverty, and we must have a major policy focus on addressing these problems.
- Accepting our adoption of an internationalised economy and a social model based on high levels of employment, we must recognise that this combination can tend to put pressure on the family and other social relationships. We have to identify the things we value and find ways to protect them;
- Accepting our adoption of an internationalised economy and a social model based on high levels of employment, we must recognise that this approach is only socially acceptable and economically sustainable if a few key aspects of personal and social well-being – housing, education, health services, transport, enough income to live with dignity and, nowadays, training and life-long learning – are secured for everybody.
- Recognising the limits of centralised or bureaucratic provision of complex services, we must examine the content, delivery, monitoring and evaluation of public policy and services. This recasting of public policy must include reconsideration of the roles of central departments, agencies, professionals, branch offices and citizens in setting goals, delivering services and monitoring performance. This is one reason why the Council sees organisational change as central to Ireland’s current challenge and gives it considerable prominence in its proposed Strategy (see Sections 6.2 and 7.1, as well as Chapters 8, 9 and 10 below).

These are the major social challenges that must be met if Ireland is to secure its long-run social and economic well-being.

3.5 Seeing Ireland's Current Situation

A third aspect of vision is seeing Ireland's current situation clearly. This section applies the analysis of Ireland's vulnerabilities to the economic and social experience in the past two years and to its current context.

Economic Vulnerabilities Materialised

The Council suggests that Ireland's current economic situation can be understood by noting that several of the vulnerabilities, listed above, have arrived together:

- A loss of competitiveness through:
 - Sharply increased non-wage costs;
 - Upward pressure on living costs and wage costs, in the context of slower productivity growth;
- The high-tech downturn in the US;
- Exchange rate developments that no longer cushion any loss of cost-competitiveness;
- Unresolved internal issues: particularly concerning land, housing, settlement;
- A sharp deterioration of the public finances, reflecting:
 - The economic slow-down; and
 - Pro-cyclical policy;
- Insufficient delivery in many public services;
- Slow progress on other changes: such as Science/Technology and life-long learning;
- Expensive and slow progress on some key infrastructural developments;
- Growing pressure on the environment from several sources

These problems define the immediate context in which the Council's Strategy is framed.

Social Vulnerabilities Materialised

The Council believes that our immediate social situation can be understood by noting that several of Ireland's vulnerabilities, discussed above, have materialised together over recent decades and in recent years.

- The major industrial shake-out in the 1980s created problems, the legacy of which is still present;
- Extensive growth of the national economy has had many positive social effects, but has also contributed to several social problems:
- Increased land and house prices, that are influencing wage bargaining, increasing inequality, raising business costs, and increasing the cost of public infrastructure;
 - Pressure on the health services, which most adversely affect those reliant on the public system;
 - Pressure on the family through long commuting times and shortages of childcare;
 - Increased immigration, which has benefited the economy significantly, can nevertheless give rise to certain problems and pressures;
 - Social resources and capabilities, including those within the family, are now stretched in some areas;
 - Environmental problems, as evidenced in difficulties in waste management;
 - Rapid development may lower the aesthetic quality of the built environment;
 - Centralised and rigid systems of social policy and social services have proved unable to meet the needs of citizens, and this is felt most acutely by those reliant on the public system;
- Public policies to combat exclusion and inequality have progressed significantly – through the formulation of

strategies and allocation of resources – but now confront real challenges of implementation (see Chapter 8 below);

- Ireland has experienced a relatively large increase in earnings dispersion in a context in which the dispersion of earnings was already high by international standards;
- While Ireland continues to have a tax and welfare system that significantly reduces the degree of inequality in market incomes at any given time, and changes in the welfare system have contributed to a number of positive social developments, the overall balance of tax and welfare changes have been more favourable to those on higher incomes.

The materialisation of these vulnerabilities provides the agenda that must be addressed if Ireland is to achieve fair and sustainable social progress.

3.6 Seeing Shared Pressures and Concerns: Competitiveness, Quality of Life and Fairness

In developing its new *Strategy* report, the Council identifies the principal influences and pressures on three main dimensions of economic and social life: competitiveness and organisational performance, quality of life and the fairness of opportunities and outcomes.

Influences and Pressures on Competitiveness and Organisational Performance

We now know that competitiveness and organisational performance are influenced by a wide range of indigenous, international and policy factors. In addition to the normal influences, a number of new pressures are now being experienced. As discussed in Chapter 3 of the main *Strategy* report, these include: domestic economic management; transport access, commuting time, quality and costs; problems of labour supply (including the issues of childcare and immigration); wages and salaries; and staff capability and flexibility. Public policy and the action of the social partners must address the main pressures on competitiveness and organisational performance.

Influences and Pressures on the Quality of Life, Including Life at Work

Despite the economic and social advance of recent years, there are a number of influences and pressures on the quality of family and work life. As indicated in Chapter 3 of the main Strategy, these include: earned and other income sources; childcare, care of older people and people with disabilities; transport access, commuting time, quality and costs; housing access and costs; enterprise-level partnership; health services access and costs; the quality and price of services; the benefits and difficulties of immigration; environmental problems; and time constraints that make it difficult to balance work, family and community life.

These pressures, which affect different people in different ways, must be addressed if people are to feel that the economic breakthrough is worthwhile, and are to be willing to make the changes necessary to secure the foundations of long-term prosperity and a more equal and socially inclusive society.

Influences and Pressures on the Fairness of Opportunities and Outcomes

In addition to these pressures on competitiveness and the quality of life, there is a widespread sense that opportunities and outcomes are still not fairly available to all. Some of the influences and pressures on the fairness of opportunities and outcomes, identified in Chapter 3 of the main Strategy report, are as follows: earned and other income sources; health service inequalities; housing access, costs and location; education and learning inequalities; quality of work life; transport access, commuting time, quality and costs; the availability and price of services; childcare, care of older people and people with disabilities; the availability of recreational and cultural amenities; and the benefits and difficulties of immigration.

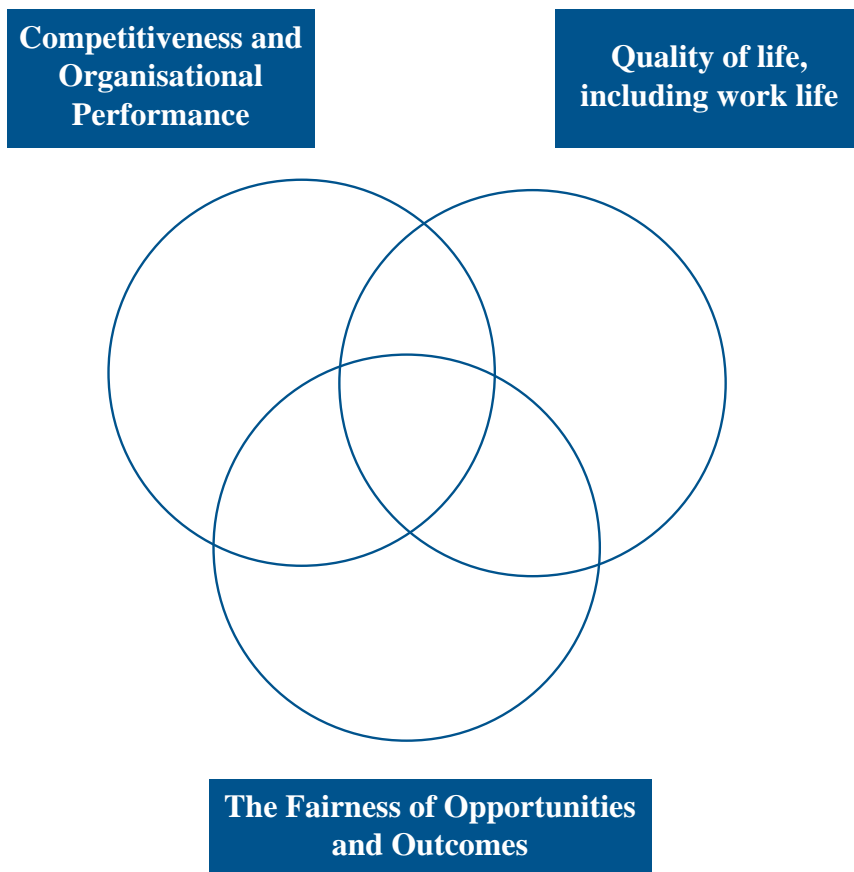
The Council's *Strategy* report reflects its belief that unfair opportunities and outcomes are damaging to social cohesion, competitiveness and the quality of life. The fairness of opportunities and outcomes should be one of the primary goals of public policy, the social partners and Irish society, and not a secondary objective.

Shared Influences and Pressures

Representing these influences and pressures graphically, it is clear that there is a significant overlap. Many of the pressures on competitiveness and organisational performance, quality of life and fairness are similar.

Figure 3

Influences and Pressures on Three Main Dimensions of Economic and Social Life



A partial view of any of these influences or issues can be damaging and even self-defeating. The Council believes that viewing the competitiveness, quality of life and fairness dimensions *together*

allows us to enlarge our thinking and enhance the effectiveness of policy and behaviour, on the part of government and social partners alike.

3.7 Disclosing New Possibilities

The final aspect of vision is seeing new possibilities. These are more often disclosed through action and experimentation, than through analysis or ideological debate. The Council believes that new possibilities in four areas are particularly relevant:

- The emerging new centre in public administration;
- The emerging patterns in the workplace and organisation;
- The emerging Developmental Welfare State;
- A new kind of social partnership, that will be appropriate to a new kind of public administration, a new kind of workplace and new approaches to welfare and social service provision.

Each of these is briefly described below. The Council emphasises that it is here sketching future possibilities rather than recommending precise lines of policy.

The New Centre in Public Administration

Many of the macroeconomic, distributional and structural supply-side problems, identified throughout this report, pose major organisational challenges to government, public agencies, business, trade unions and the community and voluntary sector. In addressing these problems, we must take account of changes in the capabilities of government and the social partners, and new patterns of public management across the world.

In Ireland and elsewhere, the traditional administrative state delegated authority to civil servants and to interests in civil society, such as trade unions, employers' associations, and others. While this remains an important aspect of democratic governance, it was increasingly recognised that these forms of delegation were not sufficiently accountable or co-ordinated. The complexity, volatility

and diversity of economic and social problems, and of social groups, was seen to undermine the capacity of traditional, post-war, legislative and administrative systems.

In response, some countries adopted an approach known as New Public Management (NPM). Determination of policy was to be separated from its execution. The scope of departments, programmes and agencies was reduced, so that they could aim for defined outcomes, assessed against global performance measures. Despite some successes, this approach has not achieved the ‘straight line accountability’ it sought. First, it has proved impossible to separate strategy from implementation, or more generally, conception from execution. Second, narrowing programmes in the interest of accountability had the unintended consequence of the making it more difficult to co-ordinate the narrower entities. This is evident in what are often called ‘cross-cutting’ or ‘wicked problems’, such as the improvement of education or the provision of treatment to drug abusers. In these and other problems, policy must draw on the local knowledge of service providers and service users *and* requires co-ordination of service provision across a wide range of agencies. Across the democratic world attention has now turned to finding better ways to address these problems.

For a variety of reasons, Ireland has not adopted the New Public Management approach. This puts a greater onus on us to show that our alternative approach – based on partnership and the Strategic Management Initiative (SMI) – can do better in addressing cross-cutting problems. The Council believes that in working out how Ireland is to achieve a complex set of productivity improvements, infrastructures and public services, consideration should be given to the best organisational arrangements that are now emerging in public administration in many countries.

Among the most promising new arrangements, are those in which local actors are given freedom to set goals for improvement and are given the means to achieve them. In return, they must propose measures for assessing their progress and provide rich information on their own performance. The centre pools the information and ranks by reference to, periodically revised, performance measures.

This approach increases local innovation, but makes the local transparent. The centre retains the right to sanction those who continually fail. But it does so to complement, not undermine, local autonomy. There are a number of instances of this new approach in Ireland in recent years, identified in Chapter 3 of the main Strategy report.

Some consideration of these possibilities is necessary if Ireland is to achieve the services that are urgently necessary for competitiveness, well-being and social inclusion. On international and Irish experience, it seems impossible for a centralised government system, on its own, to achieve a complex set of supply-side infrastructures and services. But, equally, an adequate shared understanding and policy approach to these problems cannot be achieved by high-level analysis and negotiation among the social partners.

The Council believes that an important dilemma facing public policy and partnership derives from the fact that neither government, of traditional kind, nor social partnership, as it currently exists, are capable of meeting the key challenges. Many of these policies can only be agreed, analysed and changed in the context of doing them. Indeed, where successful experimental approaches have emerged (in Ireland and elsewhere) it is the local units that do the problem solving. Consequently, the achievement of continuous improvement, supply-side infrastructures and services pose major organisational challenges to government, public agencies, business, trade unions and the community and voluntary sector.

Emerging Possibilities in the Workplace and Organisation

A second new possibility that can be discerned is the workplace of the future. A growing consensus exists in relation to the Irish competitive and social vision. This consensus centres on ambitious aspirations to build up and develop a highly skilled, adaptable and flexible labour force capable of sustaining international competitiveness and public sector modernisation.

According to Forfás, our future success will be fundamentally dependant on our ability to achieve an environment where research and knowledge, high level skills and expertise, high quality

infrastructure and business services are combined in a flexible and creative way.

Equally, the provision of modern public services capable of responding effectively and efficiently with integrated solutions to people's changing needs requires a commitment to organisational change and co-operative working relationships.

Achievement of these ambitious aspirations requires a recognition that people's working lives are also undergoing major change, as are their preferences with respect to when, how and even where, they wish to seek employment and undertake work. Work-life balance as a concern has been driven by cultural change, by the rising female participation rate and its effects on gender relations in the home, by care responsibilities, by increasing travel times to work, and by changes in patterns of production and service delivery that involve some dissolution of conventional boundaries between leisure and work periods. Also, surveys have revealed a growing interest among employees in participation, involvement and partnership.

There is evidence in both the private and public sector, that, in response to the pressures for change in patterns of employment and work systems driven by these trends, organisations are willing to radically re-think critical aspects of organisation, control and management, with significant beneficial consequences for both the organisations and the individuals involved.

Improving the knowledge-creating capacity of the workplace, the effective handling of problems and the achievement of continuous improvement are now at the heart of work organisation in many areas. To capture the benefits of co-operation, flexibility and learning, organisations are moving away from hierarchical structures and are focusing partnership on issues relating to higher organisational performance, sustaining competitive advantage, modernising public services and promoting co-operative working relationships and arrangements that are flexible and responsive to employees changing needs.

The implications of these changes for the labour market, organisational adaptiveness, human resources and industrial

relations in short, for the workplace are understood to be demanding and some of these have been sketched out in very broad and general terms by institutions such as the National Centre for Partnership and Performance, Forfás and the Labour Relations Commission, as well as in programmes such as the Strategic Management Initiative.

However, as pointed out by the NCPP (2001), there has been relatively little systematic focus on preconditions in the workplace for the type of competitive advantage and forms of public service delivery Ireland seeks to pursue, and no systematic attention has been devoted in business, trade unions or the policy community to the changes in practices, policies and institutions required to align the labour market and world of work to the competitive and social vision to which Ireland stands committed (NCPP, 2001).

Our capacity to understand trends driven by new competitive pressures and new employment preferences has been limited by the quality of information, data and analysis hitherto available. There is growing recognition that an effective policy response to the changing workplace will be predicated on a qualitative change in the nature of deliberation and analysis in this areas. The Council notes and welcomes, the commitment in the Programme for Government to “request the National Centre for Partnership and Performance to establish a Forum on the Workplace of the Future to help establish a comprehensive agenda on this issue”. In the Forum, a critical issue is how best to align workplace and organisational development with Ireland’s competitive and social vision, as well as with the preference and needs of employees.

The Council believes that the establishment of a Forum on the Workplace of the Future offers the opportunity to generate and disseminate knowledge of workplace change and modernisation, to foster in-depth discussion in this area and to undertake, in the field of employment, work and organisational change, the kind of fundamental review already undertaken by the Council and other bodies in areas of industrial policy, education, European integration, taxation and social policy.

From a Differentiated to a Developmental Welfare State

A third emerging possibility is a new kind of welfare state, more suited to the economic, social and technological realities of the 21st century. To sketch the possible shape of a Developmental Welfare State, we outline some key characteristics of the existing system and ways in which they might be modified. A key challenge for Ireland is to devise a welfare system that not only addresses social risks and needs more adequately, but also connects more fully with the flexible development state (FDS) described in Chapter 1, hence the term Developmental Welfare State.

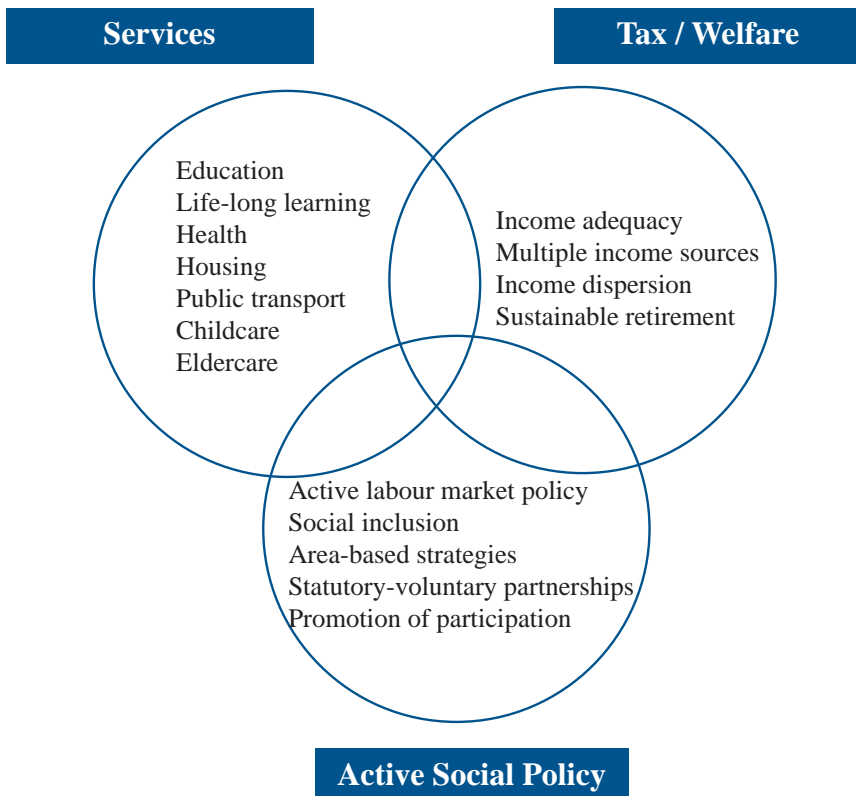
The evolution of the Irish welfare state is discussed in Chapter 2 above (and in greater detail in Chapter 2 of the main Strategy report). As noted there, Ireland's system of income protection contains a mix of universal, insurance-based and residual payments. Consequently, it can be termed 'differentiated' (Mishra, 1990). Because it evolved in response to the claims of different 'constituencies', it can also be termed the 'Clientelist Welfare State' (Peillon, 2001). Some aspects of the development of the Differentiated Welfare State in Ireland help us to anticipate the main outlines of its possible successor:

- Means-tested social assistance of long duration for people of working age coped with the fact that the economy did not employ a significant proportion of the population;
- With a chronic shortage of employment, membership of the labourforce (and associated entitlements) were narrowly defined;
- A dualism developed between those with a relatively firm attachment to the paid workforce (supported by insurance-based payments and tax expenditures) and those with a tenuous link (supported by means-tested payments and services);
- The social welfare sphere took over where the economic sphere left off; it dealt with the failures of the economic model, the damage it had wrought, or simply with where it had been unable to reach.

- There was high support for the welfare state partly because a high proportion of the population were beneficiaries, albeit in quite distinct ways.
- The assumption of a principal breadwinner underpinned the structure of payments;
- The state was central in administering social policy programmes and there was limited involvement of local authorities.
- While the voluntary and community sector was relied on, the contractual arrangements with it were unsatisfactory in numerous ways (Peillon, 2001).

Figure 4

The Developmental Welfare State



The conceptualization of the welfare state outlined here and in Chapter 2 can be used to sketch what a Developmental Welfare State might look like (see Figure 4). A first circle groups services that would become available to all members of society. The State would be involved in ensuring that services were provided, whether provided by government or others. A second circle encompasses the redistributive activity of taxation (including tax expenditures) and *all* social transfers. Cross-cutting challenges that require an *integrated* response would be here; for example, an effective floor to incomes, ‘making work pay’, more freedom to interrupt employment for caring or educational purposes, restraining income inequalities, and meeting the income challenge of population ageing. The third circle represents active social policy: active labour market policies, social inclusion policy, strategies for urban regeneration and rural development, and more formal involvement of voluntary and community organisations in shaping policies, delivering services and monitoring outcomes.

The Developmental Welfare State (DWS) would regard itself as neither contesting nor compensating for the functioning of a competitive, knowledge-based regional economy, but as an integral part of it. It would adapt to changes in family patterns, demography and social values. It might also be termed the ‘Integrated Welfare State’ because of its characteristic emphasis on achieving integration across programmes and between the economic and the social spheres (Mishra, 1990; Peillon, 2001). It would differ in the following ways from the traditional welfare state:

- Social protection would have *direct economic functions*, promoting growth, countering inflation, enhancing productivity, strengthening social cohesion;
- With no significant reserves of untapped workers, the DWS would target *high employment rates and life long learning*;
- It would facilitate movement in and out of the workforce;
- The assumption of a ‘family breadwinner’ would give way to a recognition of new family structures and participation patterns;

- Deliberation and improvement would take place at different levels, with central agencies retaining a key monitoring role;
- There would be greater involvement of local government in ensuring the delivery of quality services (e.g., childcare, social inclusion);
- There would be greater diversity of service provider – public, semi-public, private, non-profit, trade union and community and voluntary sector – and a more integrated system of planning and monitoring;
- Statutory-voluntary relations would be more formal and integrated, with state agencies having a greater say in the standard of the services to be provided, and in monitoring outcomes;
- There would be an evolved system of governance that balances the interdependence and autonomy of the various stakeholders;

The Developmental Welfare State in advanced countries is likely to address a similar set of tasks concerning:

- The *quality of childhood*, to raise the productivity of the future labour force and stem the intergenerational perpetuation of social disadvantage;
- A *women-inspired transformation of employment* as work-life is recast to enable women and men balance home responsibilities and employment;
- The *quality of employment* would replace the reduction of unemployment as a target for improving individual and social well-being;
- The maintenance of '*one nation*' in retirement.

The Council sees such a Development Welfare State as an interesting new possibility that might evolve from the changes already taking place in Ireland's system. The changes outlined above provide a sketch of a new possibility, rather than a list of recommendations that the Council has agreed. Whatever model of

welfare emerges, it believes that the strengthening of services (the first circle in Figure 3) is crucial at this stage in Ireland's development (a) to provide greater security to the increasing proportion of the population in employment and enable them to enjoy a higher level of well-being for any given level of disposable income, and (b) to lessen the dualism between the population relying on insurance-based/tax-subsidised supports and those relying on means-tested ones.

A New Approach to Social Partnership

The Council believes that social partnership has made a significant contribution to Ireland's economic and social development. It has done this by identifying and addressing important tasks facing Irish society.

In previous Strategy reports the Council has offered the following characterisation of partnership, as it has developed since 1987:

- (i) The partnership process involves a combination of *consultation, negotiation and bargaining*;
- (ii) The partnership process is heavily dependent on a *shared understanding* of the key mechanisms and relationships in any given policy area;
- (iii) The *government* has a unique role in the partnership process. It provides the arena within which the process operates. It shares some of its authority with social partners. In some parts of the wider policy process, it actively supports formation of interest organisations;
- (iv) The process reflects *inter-dependence* between the partners. The partnership is necessary because no party can achieve its goals without a significant degree of support from others;
- (v) Partnership is characterised by a *problem-solving* approach designed to produce consensus, in which various interest groups address joint problems;
- (vi) Partnership involves *trade-offs* both between and within

interest groups;

- (vii) The partnership process involves *different participants* on various agenda items, ranging from national macro-economic policy to local development (NESC 1996a, p66).

This list can be seen as both a *description* of the partnership process, as it is, and a set of *conditions* for effective participation in the process.

A distinction can be made between two different conceptions, or dimensions, of partnership:

- Functional interdependence, bargaining and deal making; and
- Solidarity, inclusiveness and participation.

Effective partnership involves both of these, but cannot be based entirely on either. While these two dimensions are both present, even together they are not adequate.

There is a third dimension of partnership, which transcends the two discussed above. Partnership involves the players in a process of deliberation that has the potential to shape and reshape their understanding, identity and preferences. This idea, that identity can be shaped in interaction, is important. It is implicit in the description of the process as ‘dependent on a shared understanding’, and ‘characterised by a problem-solving approach designed to produce consensus’ (NESC, 1996a, p. 66). This third dimension has to be added to the hard-headed notion of bargaining, (and to the idea of solidarity), to adequately capture the process.

Partnership can only retain its relevance if it continues to identify and tackle the substantive problems confronting the economy and society. Partnership can work only if its structures and methods are in tune with underlying trends in technology, society and organisation.

The Council believes that the vision and analysis set out in this report provides guidance on how partnership might be re-vitalised and recast:

1. Given the shared analysis of Ireland's development and vulnerabilities, partnership must be structured to address the most pressing vulnerabilities and problems while attending to long-term development;
2. Given the analysis of how past progress was achieved – without rigid models and revising both means and goals – partnership must remain flexible;
3. Given past experience that successful new approaches are more often discovered by experimental action than by analysis or ideological debate, partnership must focus on concrete projects, joint action and deliberation based on experience.

The analysis of the existing and possible emerging institutional elements of Ireland's economy and society also has implications for partnership. The important existing elements and new possibilities sketched above are:

1. the flexible developmental state;
2. new approaches to public administration, services and accountability;
3. the developmental welfare state;
4. the emerging workplace of the future.

Partnership must facilitate the emergence of new possibilities, such as those listed above. Whatever form the new arrangements take, a critical task for Ireland, if the economic and social are to be more complementary, is to connect economic development, public sector modernisation and welfare more closely with one another. Partnership can assist or hinder this.

These are the contexts in which the partnership procedures must be reviewed. In many respects, the 'Frameworks' in the Programme for Prosperity and Fairness (PPF) embodied the kind of flexibility that is suggested by the analysis reported above. Yet they have not been entirely satisfactory. In developing partnership, clarity should be sought on:

- issues that can be decentralised and do not need to be on the agenda of national partnership;
- issues that are national, but could be addressed more effectively if there were more focus on implementation;
- issues that require to be in the social partnership process at national level, which might be either:
 - national-level policies, such as taxation;
 - local or sectoral issues, but where the national-level social partners can contribute collectively and individually;

The Council is not in a position to identify what problems fall into each of these categories.

In exploring these possibilities for the future of partnership, it is clear that the partnership agenda now overlaps with three other agendas:

- The Strategic Management Initiative and modernisation programme in the public service;
- The need for further reform of local government, further devolution and clarification of the relation between local government and local partnership; and
- The NESF's programme of work on social capital, the commitment in the 2002 Programme for Government to 'promote social capital in all parts of Irish life through research' (p.21) and the identification of social capital, particularly for disadvantaged communities, as a 'key objective' of the NAPS (2002, p. 8).

The Council believes that these possibilities for partnership, and synergies with other programmes, must be actively explored.

Part III

Strategy

CHAPTER 4

RECASTING IRELAND'S CONSISTENT POLICY FRAMEWORK FOR THE COMING YEARS

In this Chapter, the Council outlines the consistent policy framework that has informed its *Strategy* reports since 1990, and recasts that framework for the years ahead. This involves agreement on the parameters of macroeconomic policy, distributional arrangements and structural or supply-side measures. This Chapter outlines how the Council now approaches the task of putting policies in the three 'boxes' of a consistent policy framework: macroeconomic, distributional and structural.

4.1 The Council's Consistent Policy Framework 1987 to 2002

In its previous *Strategy* reports (1986, 1990, 1993, 1996 and 1999), the Council set out a framework that informed its contribution to social partnership and policy. It argued that there are three requirements for a consistent policy framework in a small, open, European democracy:

- (i) **Macroeconomic:** the economy must have a macroeconomic policy approach that underpins low inflation and steady growth of aggregate output;
- (ii) **Distributional:** there must be an evolution of incomes which ensures continued improvement in competitiveness, which handles distributional conflict in a way which does not disrupt the functioning of the economy and which is fair; and
- (iii) **Structural:** there must be a set of complementary policies which facilitate and promote structural change in order to maintain competitiveness, eliminate barriers to participation and achieve social cohesion in an ever-changing environment.

The manner in which a consistent and effective overall approach is developed varies considerably across countries. Consideration of how various countries, with different structures and political traditions, operate economic and social policy suggest that the

system must be internally consistent, and must be suitable for the economy and society to which it is applied.

Through the 1990s, the first (macroeconomic) of these requirements was met by adherence to the ERM and transition to EMU. The Council argued that the second (distributional) of these requirements is best met by a negotiated determination of incomes and that, to be really effective, such a negotiated approach must encompass not only the evolution of pay, but also taxation, the public finances, exchange rate and monetary policy and the main areas of public provision and social welfare. In pursuit of the third (structural) requirement, the Council and others advocated a major programme of structural reform. The Council argued that such reforms are best achieved with the active consent and participation of those who work in public agencies and with the participation of affected citizens and groups.

The analytical framework was further developed in the 1996 *Strategy* report. In the context of globalisation, the Council argued that:

- (i) Most of the policies which affect Ireland's prosperity and social cohesion are *supply-side* policies – i.e. those that improve quality, quantity and allocation of resources and capabilities;
- (ii) Given rapid economic change, national policies must produce *flexibility*; and
- (iii) Successful national supply-side policies, directed towards innovation, competitiveness and inclusion, depend on the high level social cohesion and co-operation that the state can both call upon and develop.

This suggested that once a consensus on macroeconomic policy is in place – and if it is reflected in government policy, wage bargaining and management – the main focus of policy analysis and development should be the supply-side measures that influence competitive advantage, social cohesion and societal well-being, and the institutional arrangements which encourage discovery and implementation of such measures.

4.2 Recasting Ireland's Consistent Policy Framework for 2003-2005

The Council believes that the consistent policy framework outlined above still provides a useful guide to the formulation of a strategic approach that can command the agreement of the social partners. However, in view of the new challenges noted above, the changing domestic and international environment and the evolution of policy, it is now necessary to describe Ireland's consistent policy framework in new terms. This requires, first, that we analyse and understand Ireland's experience in the past decade and a half – as has been done in Chapter 2 above. Second, it requires that we review and recast the relationship between the macroeconomic policy, distribution and structural or supply-side measures. Third, it requires that we review and revise the content of policy within the each of the three boxes (macroeconomic, distributional and structural).

The Changing Relation Between Macroeconomic, Distributional and Structural Issues

The relation between the three categories of policy has changed over time. In the difficult economic period from the late 1970s to the late 1980s, the three existed in a vicious circle: the failure to adequately adjust to the structure of the economy to international competition (combined, for some of the period, with adoption of a short-term orientation in public policy), created a fiscal crisis and rising taxation which, in turn, created distributional pressure in which both profitability and real take-home pay were eroded.

During much of the period from 1987 to 2000, the three existed in a virtuous circle: the macroeconomic, distributional and structural developments readily supported and reinforced one another. The rapid 'growth of the cake', reduced the salience of distributional issues and itself produced a significant amount of structural change.

The long period of rapid growth brought the three elements into greater tension with one another, as structural and supply-side bottlenecks and problems in service delivery impacted on inflation, the public finances, wage bargaining and the value of fixed

incomes. At the same time, macroeconomic developments, particularly the weakness of the euro and pro-cyclical policy, impacted on distribution, competitiveness and supply-side bottlenecks. This highlighted how critical structural and supply-side changes are if a consistent macroeconomic and distributional approach is to be maintained.

While the slowing of economic growth in the past year and a half might be thought to reduce tension between the three, since it relieves some of the most acute bottlenecks, this is a limited and temporary effect. In fact, the slowing of growth has added another strand to the tension between the three elements of policy. The shortfall of revenue has increased the difficulty of maintaining the public investment programme and improving public services. In a context of continued high inflation, this puts pressure on wage bargaining. Independently, the slowing of output and earnings growth means that attention tends to shift from ‘growing the cake’ to ‘dividing the cake’. Distributional issues – over pay, prices, housing, service availability, rent earning, taxation and profits – become more salient (as is discussed further in Chapter 6).

These developments increase the importance of a consistent approach, yet makes it more difficult to achieve. This is one way of characterising the challenge that government and the social partners now face. The difficulty makes it tempting to achieve a minimal consistency between macroeconomic and distributional approaches. Maybe structural and supply-side improvements are too hard to agree, too dear or too difficult. Maybe they can wait. The Council rejects this approach. A minimal consistency between macroeconomic and distributional approaches will not work:

- It will not work because social exclusion cannot be further reduced if the quality of services is not greatly improved (see Chapter 8 below);
- It will not work, because competitiveness cannot be sustained for long if infrastructure, R&D, utilities and a skilled flexible workforce are not available;

- It will not work for long as a distributional settlement because wage earners will continue to face high prices, poor services, expensive housing and long commuting times;
- In consequence of these three, it will not work as a public finance strategy, because government will be under short-term pressure from all sides and would not have up-graded the productive potential of the economy or the public service by appropriate supply-side measures, thus weakening its long-term budgetary position;
- It will not work as social partnership, since it would not be social partnership, merely an old-style tri-partite deal of the sort that failed through much of the 1960s and 1970s. Partnership involves not only consensus, but also recognition of necessary change.

Consequently, a consistent policy approach must include a vigorous programme to improve structural and supply-side factors.

Redefining the Content of Macroeconomic, Distributional and Structural Approaches

The Council's proposals on macroeconomic policy are outlined in Chapter 5 below. The two key problems addressed there are inflation and the public finances.

The distributional issues addressed in the Strategy are:

- Wage bargaining;
- Poverty, exclusion, inequality and welfare; and
- The broad parameters of social provision, especially on health.

The Council's views on wage bargaining are outlined in Chapter 6 below.

The Council's proposals on poverty, inequality and exclusion are summarised in Chapter 8 below. It argues that Ireland's social welfare state needs to adopt a more developmental form than hitherto. Individuals and groups need more active supports as they

seek to maximise the potential and minimise the dangers that attend major changes in employment, family patterns and demographic trends.

The social partners have a historic opportunity to now guide the evolution of Ireland's social assistance and social insurance systems to align and converge into a truly developmental welfare state that secures social inclusion while respecting economic exigencies.

The Council believes that structural/supply-side issues are now of central importance. The structural, supply-side and organisational challenges fall into three broad groups:

- Major national investments – in transport, childcare, information and communications technology and networks, energy, R&D and physical planning;
- The provision of services and regulatory regimes to citizens, enterprises and to voluntary groups; and
- The creation of flexible learning organisations that achieve continuous improvement, equality of opportunity and fair outcomes.

Given the wide range of urgent structural/supply-side needs, in Chapter 9 the Council identifies the common elements that arise in all of them. Its work suggests that there are three common elements:

- The need to ensure scope for the necessary investment to take place in these areas, while respecting the Council's budgetary strategy;
- The need to ensure a high quality or standard of service and value for money in infrastructure, public services and regulation and to make effective use of existing infrastructure; and
- The need to make the organisational and institutional changes necessary to achieve co-ordination of a range of cross-cutting policies and organisations.

This analysis is not presented as an alternative to the existing modernisation and devolution processes in the public system. We

must explore how new ways of combining strategic direction, local innovation, transparency and accountability can be developed from the very significant change already underway in the public system, and how that can be built upon through a partnership process that delivers continuous adaptation and improvement in service delivery.

The Council sees three sets of related organisational and institutional challenges: in utilities and networked sectors, planning and infrastructure and services.

Three Sets of Institutional Challenges

Utilities and Networked Sectors	Planning and Infrastructure	Services
<ul style="list-style-type: none">● Electricity● Telecommunications● Gas● Parts of transport● Waste management	<ul style="list-style-type: none">● Spatial strategy● Infrastructure● Local planning● Local partnership● Local development	<ul style="list-style-type: none">● Transport● Health● Life-long learning● Housing● Welfare● Care services

Exploration of the best arrangements in each of these areas is a central task for government and the social partners. Willingness to adopt the best arrangements is the central test of social partnership.

At the same time, there is little point in agreed long-term vision and strategy if the immediate reality is not addressed in a consistent way – consistent in three senses: internally consistent policies, co-ordinated action by all partners and policy that is consistent with long-term economic and social development. The current problems should be seen, and addressed, as instances of the enduring vulnerabilities identified in Chapters 1 and 2.

4.3 Shared Understanding and a Consistent Approach

The Council's work on a new Strategy report is driven by the conviction that there are huge advantages to having a shared understanding of key economic and social mechanisms and a consistent approach across macroeconomic, distributional and structural policies. Without agreement on national priorities, each sector of the economy and of society is likely to pursue its separate aims in the years ahead in ways that, taken together, would overload Ireland's economic performance.

Something of this kind occurred during previous periods of Irish economic strength, to everybody's eventual cost. In this regard, in its 1996 report, *A Strategy into the 21st Century*, the Council pointed out that:

Although the Irish economy achieved significant economic growth, adjustment, modernisation and inward investment since 1960, these successes are qualified in important ways. Growth was not handled well. Awareness of the international environment was incomplete. The adjustment of indigenous enterprises to international competition failed more often than it succeeded. Job creation was insufficient, at times old jobs were lost at a remarkable rate and unemployment increased. High levels of savings and corporate profits were not matched by investment in the Irish economy. Inevitable adversities were allowed to become divisive and produced delayed and insufficient responses. Overall, there was an insufficient appreciation of the interdependence in the economy – between the public and the private sectors, between the indigenous economy and the international economy, and between the economic and the political (NESC, 1996a, p.4).

This interdependence takes new forms in Ireland's current economic and social situation. Current pressures – to improve public services, undertake capital investment to address infra-structural deficiencies, achieve continuous improvement through partnership, maintain fiscal balance, devise effective reward systems, enhance competitiveness, eliminate poverty and reduce inequality in a context of high employment and provide for long term environmental sustainability – must be addressed in a

consistent manner. The Council emphasises the importance of an integrated approach across key policy strategies (including the National Development Plan, the National Anti-Poverty Strategy, the Health Strategy, the Sustainable Development Strategy and the National Climate Change Strategy, the forthcoming National Spatial Strategy).

The Council wants to emphasise the inter-dependence between the economy and public policy, to which it also drew attention in 1996. In its 1996 *Strategy* report it said:

Failures since 1960 seem to have arisen when sight was lost of a third inter-dependence: that between the economic and the political. By this is meant the idea that inconsistent claims on national output, and damaging actions, can arise from either economic actors or policy-makers, or from the interaction between them. The areas of taxation policy and exchange rate policy illustrate this graphically. Success requires that both economic actors and policy-makers adopt a strategic, long-term, and mutually consistent approach. Opportunist behaviour in either sphere can damage economic performance directly. In addition, short-term or narrow action in one sphere tends to prompt similar responses in the other. A key requirement of national strategy is to adopt an approach which ensures a long-term orientation of both public policy and private economic actors, and which achieves consistency between the two. Later sections of this report identify how this requirement can best be met (NESC, 1996a, p.26).

Current developments illustrate that this observation has a renewed relevance.

In this Strategy report, the Council hopes to contribute to a new consensus on well-being, investment, services and competitiveness. The emphasis must be on generating returns for families, communities, workers and enterprises. Rather than focus on partnership itself, the Council emphasises that:

- With or without partnership agreements on the current model, Ireland has to devise a wage and reward system which is suitable for its type of economy and which achieves its social goals;

- Regardless of pay arrangements, public policy has to address a wide range of supply-side and distributional issues in a coherent way; and
- Whether pay is centralised or local, organisations in both the private and public sector have to enhance productivity and performance.

Consequently, the Council focuses its report on the substantive tasks outlined above, particularly ways in which their interaction can provide the basis of a coherent national strategy.

CHAPTER 5

MACROECONOMIC POLICY

This Chapter considers the first element of a consistent policy framework: a macroeconomic policy that ensures low inflation and sustainable public finances. Section 5.1 outlines the Council's approach to achieving low inflation while Section 5.2 outlines the principles that should guide the management of the public finances and the Council's proposals on public finance.

5.1 Inflation

In a small open economy, exchange rate movements and inflation in the main trading partners are key influences on inflation. However, inflation is not entirely determined through these influences. Much economic activity is non-traded and inflation in non-tradeables (mainly services) is influenced by the level of demand in the economy, and by wage and other costs. It is possible, in principle, to quantify the various direct 'beneficiaries' of increased prices (i.e., where the money goes), although there are no recent data available for Ireland.⁵

The increase in inflation in Ireland in recent years is not surprising, in view of the weakness of the euro, wage inflation arising from a tight labour market and the bidding up of the prices of fixed factors, such as property prices and rents. In addition to these factors, it is possible that there was a contribution to inflation from some traders taking advantage of the more buoyant economic conditions to achieve unwarranted increases in profits (profiteering)⁶. The role of

5 The composition of a unit of consumer expenditure in 1985 and hence of the 'beneficiaries' of higher prices were as follows: import prices (36 per cent), indirect taxes less subsidies (18 per cent), wages and salaries (25 per cent), agricultural profits (5 per cent) and profits/rents/depreciation (16.8 per cent). This disaggregation was provided by Professor John Fitzgerald of the ESRI.

6 A recent Forfás study examined the impact on prices of the euro change-over. It did not find evidence of widespread profiteering but there was preliminary evidence of unusual price behaviour in a number of services areas.

this factor is not known. Provided there is competition, including freedom of entry, this can only be a temporary phenomenon: profits that yield an above average rate of return will attract new entrants into a sector and bid down excess profits. This points to the role of strong competition, and recommendations to strengthen competition are presented below. The factors that caused inflation are now easing. The euro has strengthened recently, demand is now weaker in the economy and wage inflation is easing in some sectors.

The Council is firmly committed to the achievement of a reduction in the rate of inflation. In particular, the Council is committed to ensuring that a wage-price spiral does not become embedded in the economy. The target of the European Central Bank is for a rate of inflation in the euro zone of 2 per cent.

The Council recognises that the future rate of inflation is uncertain, reflecting uncertainty about exchange rate movements. One possibility is a large sudden increase in the value of euro relative to sterling and the dollar. This would have a beneficial effect in reducing inflation. However, if it was unexpected, it could have a number of negative consequences. It would result in a loss of cost competitiveness with effects on exports and employment. If inflation turned out to be lower than expected at the time when wages and social welfare benefits were set, then real wages and welfare benefits would be greater than expected and the Government's budgetary position would be weakened.

The following are the main instruments that are potentially available to address inflation:

- counter-cyclical fiscal policy;
- wage determination and incomes policy;
- competition policy and regulatory reform;
- labour market policies; and
- infrastructural capacity and planning.

Each of these is discussed briefly below.

Counter-cyclical Fiscal Policy

With the pooling of exchange rates and monetary policy instruments in the EU, the primary macroeconomic instrument available to manage demand is fiscal policy. It is well known that the effectiveness of fiscal policy is very limited in a small open economy such as Ireland. But this does not mean that it has no effect. Research suggests that fiscal policy in Ireland in recent years has been strongly pro-cyclical; i.e., it has added to the already strong growth in the economy (Duffy *et al.*, 2001). This is an undesirable policy approach. The Council recommends that fiscal policy should contribute to the stabilisation of the economy.

For the most part, public services are funded by taxation and are not included in inflation as measured by the CPI. Nonetheless, the costs of public services do have inflationary implications. Excessive costs in the public service can lead to higher taxation and put upward pressure on wages. The Council considers that public services should be improved and recommends improved management of public expenditure. This requires, among other things, the focussing of expenditure on priorities, a stronger evaluation culture, the use of sunset clauses to eliminate programmes that are no longer serving economic or social priorities and improved accountability for what is achieved through public expenditure⁷.

Wage Determination and Incomes Policy

Tighter labour market conditions seem to have been a key factor contributing to higher inflation in Ireland in recent years. With the economy at virtually full employment, it was appropriate that more of the benefits of economic growth were taken in the form of higher wages rather than increased employment. The strength of demand in the economy, in conjunction with rising wage and other costs, has the effect of increasing prices in the services sector. There is the danger that excessive price and wage inflation could lead to a loss of competitiveness and a rise in unemployment. Approaches to wage bargaining are discussed in Chapter 6.

⁷ These issues are discussed further in the Council's forthcoming report *Achieving Quality Outcomes: The Management of Public Expenditure*.

Employee financial involvement provides more flexible ways of allowing employees to share in the benefits of economic growth. Such schemes are not primarily aimed at the inflation problem but there are potential counter-inflationary effects. Employees who are able to share the benefits of higher profits are less likely to seek inflationary wage increases. The Council's view on this is outlined in Chapter 6, where wage bargaining is discussed.

Competition Policy and Regulatory Reform

Strong competition has numerous potential benefits. It can exert downward pressure on prices, encourage responsiveness to customer demands and promote innovation. Competitive forces can be impeded either through state-imposed regulations, such as those that existed until recently in the taxi market and still exist for pharmacies, or can be limited by collusion among private companies. Reforms to remove state-imposed obstacles to competition, and the pursuit of a vigorous competition policy to reduce private restrictions, can contribute to reducing inflation.

The Council strongly supports the strengthening of competitive forces across the economy through the more vigorous implementation of competition law and it supports the introduction of greater competition in sectors such as pharmacies, the drink trade and the professions. It recommends that the Competition Authority and the Director of Consumer Affairs be mandated and resourced, as part of a strategy against inflation, to prioritise investigations in sectors where prices do not appear justified by market conditions. Investigations by the Director of Consumer Affairs would complement those of the Competition Authority. They could cover a wider range of areas and be conducted in areas where there was no reason to suspect that there was any breach of competition law, but where greater transparency could help to stimulate stronger competition to the benefit of consumers.

In some parts of the economy, the achievement of appropriate prices through open competition is not feasible due to the nature of the sector. The Council supports the regulation of markets where lack of competition or other market failures apply (see Chapter 9 below).

The large increase in insurance costs is a matter of concern for the Council. While the cost of insurance is affected by the general increase in costs across the economy, there are some specific influences. The Council supports reforms to tackle excessive insurance costs, including measures to combat fraudulent claims, the reduction of legal costs and excessive compensation awards. In addition, there are a small number of insurance providers in the Irish insurance market. The Council supports the inquiry by the Competition Authority and Department of Enterprise, Trade and Employment into factors limiting the number of firms offering insurance in the Irish market.

Labour Market Policies

Inflation pressures emerged as the economy moved towards full employment. Policies that act to increase labour supply and address skills and labour shortages will tend to reduce wage inflation, which is also likely to weaken price inflation. Such policies include public employment services, active labour market policies (to help those experiencing social exclusion to re-enter the labour market), policies to encourage female labour force participation, policies that encourage workers to remain in labour force and policies that facilitate immigration⁸. Immigration is discussed in Chapter 8.

Infrastructural Capacity and Planning

While all public expenditure adds to demand (other things being equal), some forms of public investment are relevant to reducing inflation. In particular, the Council is aware that the cost and availability of housing is putting upward pressure on wages and it attaches a high priority to measures to improve affordability (see Chapter 9). For example, infrastructure investment that facilitates an increase in the supply of housing can help moderate inflation and alleviate congestion, a key constraint on competitiveness. While this investment may not reduce inflation in the short term, improving infrastructure is a preventive against inflation.

⁸ The Council notes that the NESF is undertaking work on the participation of older workers in the labour market.

5.2 The Public Finances

The growth of public expenditure since the publication of the last Strategy report in 1999 has been substantially faster than recommended by the Council. The real growth of supply services expenditure has been close to 10 per cent per year in the period since 1999, and the share of supply services expenditure in GNP has increased by three percentage points. The tax share of GNP declined, so the surplus in the public finances has been eliminated. It is now clear that the public finances for 2002 will be in deficit; the outturn is uncertain, but is likely to be a deficit of between 0.5 and 1 per cent of GDP on a general government basis.

The Council's position on the public finances is based on a range of principles. These principles concern the overall balance, expenditure and taxation.

Principles on Overall Balance

- **Sustainability:** the public finances must be managed on a sustainable basis. This means, among other things, that borrowing should only be undertaken if required for capital purposes, and only for projects that provide an adequate rate of return. Sustainability also requires that the public finances be managed such that the long term costs of an ageing population can be met without recourse to excessive levels of taxation.
- **Stabilisation:** The management of the public finances needs to take account of the stage of the economic cycle. At a minimum, the public finances should not add to cyclical fluctuations in the economy. When the economy is performing well, flexibility should be maintained in order to provide scope for some relaxation of fiscal policy in an economic downturn.
- **The EU Stability and Growth Pact:** Under this pact, the Government is required to maintain the public finances 'at close to balance or in surplus'. The relevant measure for this purpose is the general government balance (GGB), a measure

that encompasses the social insurance fund and the pension fund, in addition to the Exchequer.

Principles on Public Expenditure

- In view of the significant infrastructural deficits, capital expenditure needs to be sustained at a significant level of GNP to address these deficits. A crucial part of this is the implementation of the NDP. Capital spending includes spending on both economic infrastructure, such as roads, as well as social infrastructure, such as investment in facilities for childcare and eldercare.
- Public expenditure should be sustained at a level that is sufficient to address key social deficits, subject to being consistent with the strategy on the overall balance and a tax level that will facilitate growth and employment creation. Public expenditure should be managed in such a way that the above goals are achieved in the most effective way and at a minimum cost. The Council is concerned that there are weaknesses in how public expenditure is managed. The Council recommends that measures be taken to improve the management of public expenditure (see below).

Public service pay is a key element driving the growth of public expenditure. Public service pay accounts for approximately 39 per cent of gross supply services spending. The effective organisation and management of public servants, so that they provide services that meet the needs of society and the economy, is a critical priority for the Council. The system of public service pay determination needs to meet the following objectives:

- (i) to facilitate high performance in the public service, including the effective development of the Strategic Management Initiative;
- (ii) to provide pay settlements that are comparable to the private sector, taking into account differences in working terms and conditions; and
- (iii) to promote competitiveness.

Public service pay determination is discussed in more depth in Chapter 6 on wage bargaining.

Principles on Taxation

The Council's principles in relation to taxation are presented in Chapter 7, below. These principles do not show an optimal tax share of GNP. However, in view of (i) the expenditure objectives outlined above and the target of maintaining the public finances close to balance on a general government basis; and (ii) the fact that the outcome for this year will be a deficit in the GGB there would not seem to be scope for reduction in the tax share of GNP. If all these objectives are to be achieved, the option of a modest increase in the tax share of GNP from its 2002 level should not be excluded. The Council supports a widening of the tax base in a number of ways, as discussed in Chapter 7 below. However any such increase should be modest, since a substantial increase in the tax share of GNP would be inconsistent with the Council's principles because it could damage the competitiveness of the economy.

The Council's Proposals on the Public Finances

The Council's proposals on the public finances are based on analysis of the medium-term economic and social requirements. Ireland's medium and long-term development requires continued investment in public infrastructure of at least the current level of 5.5 per cent of GNP. The core elements of the Council's strategy for the public finances are:

- Continuation of infrastructural investment of at least 5.5 per cent of GNP in order to implement the NDP and other infrastructure projects;
- Public expenditure necessary to address the key social deficits, as identified in Chapter 8 below.

Meeting these goals will be very challenging. These key economic and social goals could be achieved in a number of ways: improved value for money and reallocation of existing expenditure to new priorities, a general government deficit (i.e borrowing) or by increased revenue, or some combination of all three. The Council is

strongly in favour of improved value for money and the allocation of expenditure in line with policy priorities. However, it does not consider that this will be sufficient to meet the objectives outlined above, so that the other mechanisms also need to be considered. The degree to which increased revenue to meet the priorities discussed above would be reflected in an increase in the tax share of GNP will depend on the rate of economic growth achieved, subject to the requirement of maintaining competitiveness. Likewise, the extent to which additional borrowing to fund capital investment increases the GGB as a per cent of GNP, depends on the rate of growth achieved. Consequently, a high priority must be given by all to growth-oriented policies and actions. Any increase in revenue must be achieved in ways that avoid disincentives to the deployment of mobile factors in productive activity in Ireland. Likewise, any increase in expenditure on current services must occur in a context of rigorous evaluation and public sector modernisation.

The Council, noting Ireland's obligations under the Stability and Growth Pact, believes that, taking account of the current constraints in the public finances and a growth rate that is below the economy's potential, in the short-term a modest level of borrowing (on a General Government basis) may be unavoidable. With a likely deficit this year in the region of 0.5 to 1 per cent of GDP and the prospect of modest growth next year, the challenge of stabilising the deficit at its current level should not be underestimated. The Council considers that the option of a modest increase in the share of taxation in GNP should not be ruled out. The Council expects growth to return to its full potential in the years covered by this Strategy. As growth returns to its full potential, the aim should be to restore balance in the public finances, with current public expenditure growing no faster than GNP and the debt ratio continuing its gradual decline.

In proposing this medium-term strategy for Irish policy, the Council also supports immediate adjustments necessary in the light of the shortfall in revenue. Some immediate adjustments are necessary in order to achieve a transition to lower expenditure growth. The Council emphasises that in making the transition to a lower rate of

expenditure growth, the distribution of the burden should be fair – in particular, that those on the lowest incomes should not bear the burden of adjustment – and, as noted above, that the priorities identified above be addressed.

The Council emphasises that this strategy is only feasible if public policy, and the action of the social partners, are both strategic and fair. The Council's Strategy involves identification of priority public investments and priority improvement in services. The criteria used in identifying these priorities should be the extent to which increased expenditure contributes to supporting a sustainable increase in living standards and an improved quality of life, a fairer and more equal society and environmental sustainability.

Improving the Management of Public Expenditure

Given the very strong growth of public expenditure in recent years, (of around 10 per cent per year over the period 1999 to 2002), the Council wishes to emphasise the importance of achieving better value for money in the public system. Higher public expenditure has been associated with improvement in the provision of some public services and a significant increase in public employment. However, the Council is concerned about the lack of transparency of what is achieved through increased public expenditure.

Future public expenditure should be based on clear plans on what expenditure is to achieve and be followed by publication of much clearer information on, and greater accountability for, what has been achieved. Expenditure decisions should be based on clearly defined economic and social priorities. There is a need to develop a culture in which evaluation plays a much more significant role in spending. To achieve this, further progress is required on public service modernisation⁹.

The EU Stability and Growth Pact (SGP)

The Council believes that there are good reasons for co-ordination of national fiscal policies in economic and monetary union. Fiscal

⁹ These proposals are outlined in the Council's forthcoming report *Achieving Quality Outcomes: The Management of Public Expenditure*.

policy in one member state can have spill-over effects on other member states. Too stimulatory a fiscal policy in the euro area requires the European Central Bank to tighten interest rates, with adverse effects on economic activity and employment in all member states. The need to treat economic policies ‘as a matter of common concern’ has been recognised by successive Irish governments and the Irish people when they endorsed the Treaty of Rome and the Treaty of Maastricht.

Indeed, it is particularly in the interest of small member states that the Union has the ability to co-ordinate fiscal policy. This is graphically illustrated by the way in which the unilateral approach to fiscal policy adopted by Germany after unification forced an increase in German and then European interest rates, such that ‘the incipient boom in Ireland was halted in its tracks in 1990’ (Fitz Gerald, 2002).

The European system of economic policy co-ordination contains a mixture of relatively hard and relatively soft methods of co-ordination, depending on the matter under discussion. The avoidance of excessive budget deficits is achieved through binding rules, set out in the Stability and Growth Pact, which can culminate in formal sanctions, including fines. By contrast, co-ordination of national economic policy through a set of ‘Broad Economic Policy Guidelines’ is relatively soft. Where a member state deviates from the Guidelines, the Council can issue a non-binding *recommendation* to the member state in question, which is not supported by any sanction.

The Stability and Growth Pact played an important role in facilitating the transition to EMU and provides part of the framework for co-ordination within the eurozone. Aspects of the Stability and Growth Pact have been criticised as inappropriate. The Council recommends that Ireland should develop its own view of the strengths and weaknesses of the SGP and participate constructively in discussion of it.

Uncertainties

The planning of the public finances should take into account the

possibility of a sharp appreciation of the euro and other possible adverse shocks and sufficient flexibility should be built in to accommodate their impact on the public finances.

CHAPTER 6

WAGE BARGAINING

6.1 Analytical and International Guidance: Learning Ahead of Failure

In a changing international context it is not easy to derive clear principles from theory or identify which are the best countries to learn from. Nevertheless, both analytical developments and experience in other European countries suggest a number lessons. The most important of these is one identified in earlier Council reports: that a shared understanding of the economic and social context, and of key mechanisms, greatly increases the probability of wage bargaining being conducted in a co-operative way, in which each party has an eye to their own long-term self-interest and the common good, and not to their short-term interest or purely sectional concerns.

The second lesson is that the chance of creating and maintaining a co-operative ‘mood of play’ depends as much on institutions as on the disposition of wage bargainers. Without supportive institutions, even altruistic wage bargainers can find themselves drawn inexorably into a zero-sum conflict or even a negative-sum situation, in which the attempt of each individually to rationally advance their interest can lead to a collective outcome that is worse for everybody. The relevant institutions range from the NESC, independent research bodies (such as the ESRI), the industrial relations machinery and law, the structures of bargaining, but also probably include institutions for training, life-long learning and enterprise-level partnership.

A third lesson, identified in a review of European wage developments prepared for the Council by Professor Jelle Visser¹⁰, is that purely centralised bargaining is likely to come under pressure, both because of short-term economic conjunctures and underlying trends

¹⁰ This review is available on request from the NESC Secretariat.

in markets, organisation and technology. A fourth lesson is that when tensions appear in centralised bargaining, there are significant benefits to moving to a form of ‘organised decentralisation’ or ‘co-ordinated centralisation’, rather than ‘unorganised’ decentralisation. The review by Visser concluded that ‘learning ahead of failure means that elements of variation and flexibility must be introduced before one of the sides in industry become disenchanted with centralised bargaining and its framework breaks down’.

The final lesson of international experience concerns some of the ingredients necessary to achieve a successful system of co-ordinated decentralisation. Visser suggests that to achieve successful devolution to lower bargaining levels, one needs stable partners, in whom one places confidence. Institution-building through organisational reform and mechanisms for conflict resolution are essential. Differentiation across sectors and, if it improves mobility, between geographic regions can improve the overall responsiveness of wage setting. The upgrading of public services – care provision, health services, housing and transport – helps the functioning of labour markets and gives people a better background for making real choices.

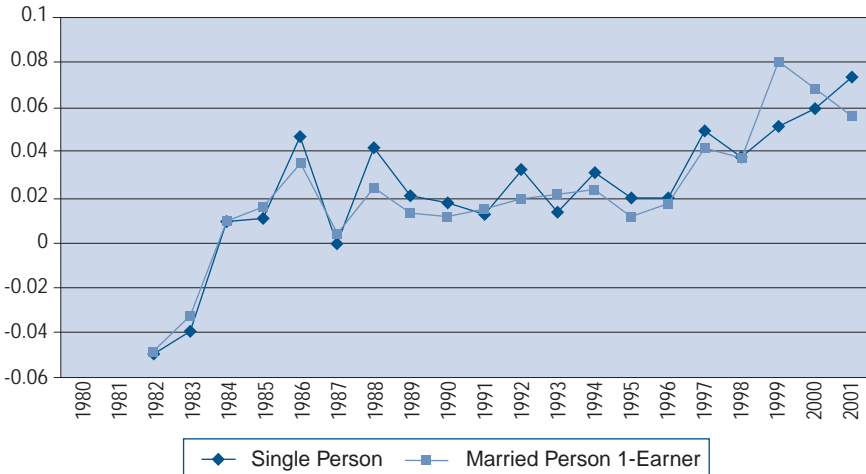
6.2 Wage and Competitiveness Developments

Since 1987 there has been a very substantial increase in real take-home pay and recent years have seen larger increases. The trend in real take-home pay is illustrated in Figure 5. Between 1987 and 2001, the cumulative increase in real take-home pay for a single person on average earnings was 59.8 per cent, while the corresponding increase for a married person (one-earner family, two children) was 53.3 per cent. Over the 1990s, the growth of wages in manufacturing in Ireland has been similar to our trading partners. In recent years, however, wage growth has significantly exceeded increases in our trading partners. This has occurred in the context of relatively high general price inflation in Ireland, as well as other pressures, such as housing affordability and high childcare costs. Until recently, the impact of wage increases on competitiveness was partly offset by the weakening of the euro. The trend in wage cost

competitiveness varies significantly by sector, but overall there has been a sharp decline in wage cost competitiveness since 2001. Other pressures on competitiveness include other cost increases, transport congestion and skill shortages. The decline in cost competitiveness is a matter of concern for the Council.

Notwithstanding some difficulties, the Council notes that the number of industrial disputes under the PPF has generally remained low. The Council recommends that voluntary codes to address the maintenance of essential services should be honoured by each sector.

Figure 5
Annual Change in Real Take-Home Pay



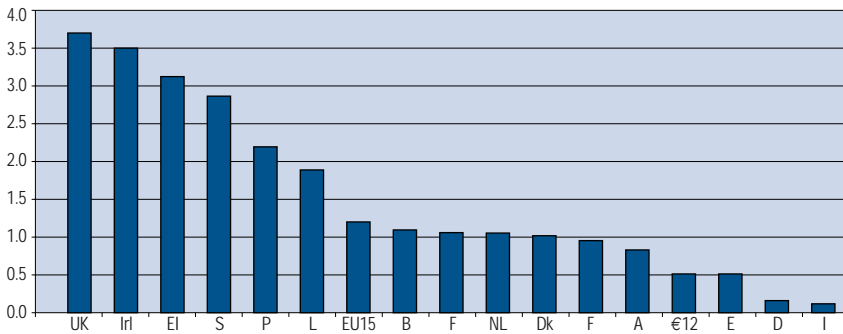
Source: Department of Finance.

In *nominal* terms, the average growth of pay in Ireland was 7.75 per cent per year between 1998 and 2001, the highest in the EU. Over this period, the increase for the EU average was 3 per cent per year, while for the Eurozone the average was 2.5 per cent per year. Inflation was also higher in Ireland, thus reducing the *real* value of this growth in pay. Comparative trends in *real* pay in the years 1998 to 2001 are shown in Figure 6 below. Over this period, the increase in real pay in Ireland averaged 3.5 per cent per year. This was the

second fastest rate of increase in the EU, with only the UK having higher growth of 3.7 per cent per year. The average increase for the EU was 1.2 per cent per year, while for the Euro area the real increase was just 0.5 per cent per year. These figures do not take account of tax changes or changes in public services.

Figure 6

**Real Gross Pay Change
1988 to 2001 Economy-wide**



Source: *European Economy*, No. 2, Table 23.

Variation and Trends in Wage and Profit Shares

The recovery of the Irish economy in the late 1980s and through the 1990s was associated with an increase in profitability, as well as increased living standards and employment. Rates of profitability and trends in profit shares differ significantly across sectors. The trend in wage share in the main sectors and in the overall non-agricultural economy are shown in Table 1. This shows that while the wage share of total gross value-added fell by around seven percentage points in the overall non-agricultural economy, this was driven by trends in the manufacturing sector. The bottom row of Table 1 shows that wage share in the overall economy, outside of manufacturing, was broadly stable between 1991 and 1999.

Indeed, trends in wage and profit share also vary significantly within manufacturing. The falling wage share within manufacturing as a whole is mainly due to a number of high-tech sectors. This is

illustrated in Table 2, which shows labour costs as a share of value added in selected high-tech sectors and in overall manufacturing.

Table 1

The Wage Bill as a share of Gross Value Added in the Non-Agricultural Market Economy

	1991	1994	1999
Manufacturing	47.6	43.3	28.7
Building	78.1	77.5	67.9
Utilities	47.2	46.0	48.7
Market Services, excluding rents	45.6	45.8	47.6
Total	48.6	47.0	41.4
Total excluding manufacturing	49.2	49.1	50.3

Source: Calculated from the ESRI database.

Notes: Imputed rents on home ownership are excluded from market services and the totals shown. Data on imputed rents supplied by the CSO.

The high-tech sectors selected in Table 2 have: (i) a low labour share of value-added; (ii) rapid employment and output growth; and (iii) a high level of foreign ownership. The wage bill in these selected high-tech sectors fell from just over 20 per cent in 1991 to just under 11 per cent in 1999, while for the rest of manufacturing the wage share fell by around two percentage points, from 46.6 per cent in 1991 to 44.7 per cent in 1999. The selected sectors identified in Table 2 employed around 55,000 people in 1999, representing around 22 per cent of manufacturing employment and 3.5 per cent of total employment. Thus, sectors employing a low share of total employment account for most of the decline in the wage share in manufacturing and also in overall national output.

The evidence analysed above would suggest that the position is not substantially altered since the Council's 1999 analysis, which indicated that the capital income share was broadly stable, if adjustment is made for profit outflows (NESO, 1999, p.241-2).

Table 2

Labour Costs as a Share of Value-Added in Manufacturing

	NACE code	1991	1994	1999
Other Foods etc	154, 156, 1588, 1589	13.8	11.7	7.5
Other Organic basic Chemicals	2414	10.4	6.8	3.6
Basic Pharmaceutical Products	2441	21.2	11.1	5.2
Pharmaceutical preparations	2442	32.7	23.5	13.4
Recorded media	223	7.3	12.3	11.1
Computers	30	31.1	37.1	28.4
Communications equip.	32	47.1	53.4	17.0
Total High-tech sectors		20.4	18.6	10.7
Other Manufacturing		46.6	44.3	44.7
Total Manufacturing		39.0	35.5	24.9

Source: Calculated from CSO revised time series based on the *Census of Industrial Production* (Census of Industrial Enterprises).

Note: The labour shares in this table are expressed as a percentage of gross value-added at market prices, while Table 2 refers to gross value-added at factor cost (i.e., adjusting for excise duties and other indirect taxes and operating subsidies.) The former variable is not available in the *Census of Industrial Production*.

6.3 Adapting Ireland’s Partnership System to a New Context

With or without national partnership agreements on the current model, Ireland has to devise a wage and reward system that is suitable for its type of economy and which achieves its social goals. The key danger in wage bargaining at present is that average wage and price inflation continues up to the point where there is a significant loss of competitiveness, resulting in a rise in unemployment.

The pay determination system must meet a number of objectives. It must achieve outcomes that maintain cost competitiveness and full

employment, including the ability to respond to shocks, such as would occur as a result of a sharp appreciation of the euro. It should avoid embedding inflationary expectations into the system and achieve outcomes that are consistent with a reduction in inflation. It must provide for an acceptable sharing of the benefits of growth. It must be consistent with high-performance work practices and associated reward systems. It must be consistent with a sustainable public finance position.

Wage Bargaining in Competitive Enterprises

The Council's conclusion is that these objectives are best met through co-ordinated wage bargaining, in which there is an element of co-operation and a focus on long-term interests. This implies a partnership approach to both the current conjuncture and longer term structures.

In the short-term, an effective system of wage bargaining must achieve a consistent and viable outcome, given the pressures of prices, housing costs, public service levels, rents, taxation, reward systems, international competition and profit levels. This would include taking into account wage developments in other Euro zone countries and Ireland's principal trading partners. During the 1990s, that approach, used in many EU member states, did not seem appropriate in Ireland, given the rapid pace of economic growth and the dynamic structural change in the Irish economy. Now that growth has slowed – and Ireland's competitiveness is not automatically maintained by the virtuous circle described in Chapter 1 – comparison with wage growth in other countries may be a useful component of an effective wage determination system.

In the medium term, the partners should work with government to weaken the pressures listed above by altering some of the key parameters. This can be done by reducing inflation, improving those services that are now scarce and expensive, reducing the cost of housing, improving infrastructure and settlement patterns, extending gainsharing and widening the tax base.

An effective partnership agreement would, first, deal with the current conjuncture, in which the claims on economic output must

be made consistent with one another and, second, alter the parameters of pay and profits by creating a shared understanding on key services, taxation and productivity.

Among the parameters that shape wage bargaining at any given time is the extent and pattern of financial participation of employees in business. Financial participation takes many forms, including profit sharing, gainsharing, share option and share purchase arrangements. In its 1999 *Strategy*, the Council observed that the incidence of profit sharing and related forms of financial participation in Ireland is increasing from a low base. It expressed its view that financial participation can help sustain business performance at enterprise level and economic performance at national level. Research suggests that financial involvement is closely associated with many of the other work practices that characterise high-performance enterprises. The National Centre for Partnership and Performance (NCPPE) is undertaking research on the role of financial participation in organisational change and performance in Ireland.

While there has been some spread of employee financial participation in recent years, the Council considers that there is considerable scope for greater use of these arrangements. This would allow increases in income that are responsive to changing economic circumstances as well as supporting the gains that can be achieved through greater partnership at the level of the enterprise. The Council urges the social partners to actively promote and support more widespread financial involvement. This would occur in the context of Ireland's voluntary system of industrial relations.

Wage Bargaining in the Public Service

In its 1999 *Strategy* the Council argued that a stronger emphasis on the relationship between public service performance and pay is a key dimension of reform. The initial steps taken in the PPF to link pay to public service modernisation and reform should be built upon. It is now important that performance become the focus, rather than modernisation *per se*.

The Council considers that further devolution in relation to HRM

issues in the civil service is desirable. The issue of organisational flexibility must be addressed with greater urgency.

Since its 1996 *Strategy*, the Council has emphasised that change must be seen as an ongoing process in the both private and public sectors and does not in itself provide a basis for pay increases. The Council recognises that benchmarking is an improvement on the earlier system of special pay awards and relativities and is potentially a step towards a more effective system of pay determination. If public servants are to be paid at levels similar to the private sector, then it is appropriate that they meet comparable standards of performance and accountability on an ongoing basis, having regard to enduring differences between the two sectors. The benchmarking pay awards involve substantial pay increases (an overall increase in pay costs of 8.9 per cent and an estimated gross Exchequer pay cost of €1.1 billion) that are designed to bring pay in the public service to levels comparable with the private sector. These new pay levels can only be regarded as sustainable if they are matched on an ongoing basis with high standards of verifiable performance. In a difficult public finance situation, such a large step-adjustment in public pay warrants a step-increase in flexibility and step-adjustment towards new systems of continuous improvement.

Conclusion

Current pressures on wage bargaining include inflation, high living costs, expensive housing and childcare, long commuting times and relatively limited public services. The Council believes that a satisfactory approach to wage determination is most likely to be achieved if it is part of a consistent policy approach to macro-economic policy and a vigorous programme to improve structural and supply-side factors. Taking account of the current environment and the experience of wage bargaining in Ireland and elsewhere, the Council is on balance of the view that a negotiated consensus between the social partners covering a range of issues, including incomes, is likely to be the most effective way of addressing both current pressures, especially those on employment, and medium-term challenges.

CHAPTER 7

TAXATION AND SOCIAL PROTECTION

7.1 Principles of Taxation

- The tax system should facilitate economic growth and employment creation and, in particular, should not act as a disincentive to those on low incomes to take up employment.
- The tax system should be fair. There are two dimensions to fairness or equity. Horizontal equity means that people in similar circumstances on the same income should pay the same amount of tax. Vertical equity means that people on higher incomes should pay more tax.
- Tax bases should be as comprehensive as possible.
- The tax system, at a minimum, should not make it more difficult for firms to compete in domestic and international markets.
- Income from different sources – whether employment, self-employment, investment, or social welfare – should, as far as practical, be taxed in an equivalent way.
- The tax system should only be used to influence personal or business choices where there is a clearly defined justification for doing so, and where the tax system is an effective instrument for achieving this. Departures from neutrality should only take place where there are well defined externalities and where the benefits exceed the costs.
- Administrative and compliance costs should be minimised.
- The system of taxation needs to be able to adapt to changing economic circumstances.
- The Council supports the continuation of earmarked social security contributions, but believes that compulsory social insurance contributions should be evaluated using the same criteria that apply to the evaluation of taxes.

7.2 The Council's Proposals on Taxation

Personal Tax

It is clear from Chapter 5 that the scope for personal tax cuts is very limited. The Council recommends that tax credits should, at a minimum, be indexed to price inflation and should lift those on the minimum wage out of the income tax net.

The Council has on several occasions expressed its concern at the highly complex system of tax reliefs and the lack of any clear principles in the evolution of these reliefs. The Council believes that such reliefs should only be introduced and retained where they provide clear economic and social benefits that exceed the costs of the reliefs. The Council recommends that tax expenditures should be considered in the current adjustment in public expenditure. Furthermore, the Council recommends that tax expenditures should come within the scope of the existing programme of Expenditure Reviews. The Council is of the view that there is scope for the abolition of some reliefs that do not reflect economic and social priorities. The Council notes that many existing reliefs are standard-rated and recommends the extension of standard rating to other reliefs. A list of tax reliefs is presented in the Appendix.

Indirect taxes

In the absence of policy change, excise duties (set in nominal terms) will fall in real terms, thus resulting in a real tax cut. The Council recommends that excise duties should, as a norm, increase at least in line with inflation. If excise duties were used as part of the climate change strategy (see below), then duties on energy would also rise by more than inflation.

Environmental taxation

In its last Strategy report the Council expressed its support for a greater emphasis in tax policy in promoting environmentally sustainable development. The Council notes that one initiative in this area, the tax on plastic bags, was a notable success and believes that there is scope for the use of environmental taxes, charges and

incentives in a range of areas, consistent with maintaining competitiveness. The design of environmental taxes, charges and incentives (including investment incentives) needs to pay close attention to equity, competitiveness and employment concerns. The design of these measures should also take account of potential differences in impact across regions and sectors and should not undermine the prospects of balanced regional development. The design of environmental taxation should take into account the need for international co-ordination.

The Kyoto agreement to reduce greenhouse gas emissions, with a view to addressing the problem of climate change, was ratified by Ireland and the EU in 2002. It is expected that a sufficient number of parties to the agreement will have ratified it by next year, and the agreement will then enter into force. Hence, it is expected that the targets for reducing greenhouse gas emissions will shortly be legally binding with penalties for non-compliance. The Council notes that the Government has published its *National Climate Change Strategy*. There will be costs involved in reducing greenhouse gases, but the Council believes that Ireland should meet its commitments in this area. It emphasises the importance of an equitable sharing of the burden of adjustment, while seeking to minimise the impact on competitiveness and employment. Significant policy actions will need to be taken to meet these commitments. The Council considers that economic instruments – including taxes, negotiated agreements and emissions trading – have a key role to play in this area.

In the context of the tax and expenditure principles outlined above, the potential for the use of user charges could be evaluated. In any evaluation of the role of user charges, the relevant considerations include:

- how charges can reflect the cost of providing environmental services (water, waste water and solid waste disposal);
- how charges can be volume-based;
- their impact on the overall burden of taxes/charges;
- their impact on those on low incomes.

The case for considering the potential of volume-based user charges is that they might provide a way of encouraging efficient use of valuable resources.

Development Land Value Tax

The value of development land stems from the willingness of society to accept development and from the overall development of economic and social activity in the surrounding area. The Council therefore believes it appropriate that those whose assets gain in value from wider economic and social development should return some portion of their gain back to society. Property is an immobile factor, so that negative economic effects are minimised in comparison to the taxation of mobile factors of labour and capital.

One aspect of this is the increase in development land values generated by investment in new infrastructure. The benefits of the substantial programme of infrastructure investment that is now under way will accrue, to a significant extent, to these whose properties become more attractive as a result of this investment and hence appreciate in value. It has recently been proposed to use Section 49 of the 2000 Planning and Development Act to charge a levy on development land along a section of the Luas line. The Council regards this as an appropriate extension of the existing Local Authority levies for sanitation and roads. The Council supports measures of this nature to recover some of the increase in development property values generated by investment. It intends to undertake a further study of housing and development land policy. Among the issues to be considered are the relative mobility of different factors of production and appropriate taxation of windfall gains that arise from general economic and social development.

Conclusion

The Council believes that the tax system should facilitate economic growth and employment creation, while at the same time supporting social inclusion. To the extent that there is any scope for personal tax reductions – given the need for infrastructure investment and improvements in public services – the Council recommends that

greater progress be made towards exempting those on the minimum wage from income tax.

Noting the significant developments in income, wealth and expenditure patterns which have accompanied economic growth, the Council recommends, with the aim of achieving further base-broadening, that the scope for new sources of revenue be kept under review.

7.3 Principles of Social Protection

- A comprehensive system of social protection rests on four pillars: that provided by the state, what is purchased through the market, what is provided by the voluntary organisations of civil society, and the caring carried on within the family.
- The state's primary interest is to guarantee the quality of social protection and the attainment of outcomes and not to privilege one pillar over another.
- The state's action in protecting people from need should complement and not undermine the provision which people are able to make for themselves.
- The state has the responsibility to monitor the comprehensiveness and effectiveness of social protection and ensure that gaps and shortcomings are addressed.
- Social protection provided directly or indirectly by the state takes the form of public services, tax expenditures and income transfers, and activist measures.
- Where resources permit and economic initiative is not weakened by procuring them, universal public services are more effective in achieving social inclusion and supporting an efficient labour market than services targeted on need.
- Income transfers based on the insurance contributions of workers and their employers constitute an important sub-system of social protection, reflecting the central role of paid employment in generating wealth and solidarity within society.

- It is important that the regulations governing social insurance keep pace with changes in employment patterns and risks.
- Income transfers based on need should be sufficient to enable individuals who are dependent on them to live life with dignity in their society.
- Income transfers which leave people in need and economic distress neither foster the supply of workers needed by a knowledge-based, competitive, economy nor do they strengthen social attachment.

7.4 The Council's Proposals for the Strategic Development of Social Protection

The Adequacy of the Lowest Social Welfare Payment to Meet Basic Needs

There is substantial international evidence that relatively generous rates of social welfare payments are compatible with high employment rates and good economic performance, and that the disincentive effects of social welfare usually flow more from aspects of programme design and delivery rather than levels of payment.

Ireland's lowest rate of social welfare payment has increased much faster than the cost of living since 1994. Notwithstanding this, the Council still does not consider \$118.80 per week (January 2002), where it constitutes a person's entire money income, is sufficient to live life with dignity in contemporary Ireland. It recommends that the government implement, as soon as resources permit and earlier than 2007 if possible, its commitment to bring this to €150 (in 2002 terms).

The Adequacy of the Lowest Social Welfare Payment for Participation in Society

The Council believes that an adequate money income is a necessary but not a sufficient condition for many people to participate in society. One quarter of a million people who are the recipients of the

lowest social welfare payment are of working age, most of whom have a status outside the labour force. While unemployment was once the major cause of poverty, being poor in Ireland has become more closely, although not exclusively, associated with a status outside the labour force.

Studies of older workers, women returners, and men in receipt of disability payments confirm that a status outside the labour force was not the direct choice of a significant number of people of working age. It was the end of a process of drift from displacement, through discouragement and disillusionment, to detachment from the workforce. The Council is concerned that no person of working-age should be given the impression – even as they receive income support from the state – that they are considered to have no talents or skills of value to society. Consideration could be given to extending the supports available to those on the Live Register (to help them return to work, education or training) to people of working age outside the labour force.

The well-being of individuals in receipt of long-term social assistance, or otherwise wholly detached from the workforce, is the Council's primary concern in the area of social protection. Participation in the mainstream of society for people of working age generates self-respect and gains the respect of others. Higher employment rates, lower poverty rates and greater social cohesion are major societal benefits that result from respect for the individual. The Council recommends that this perspective should continue to inform Ireland's practice of 'activation', encouraging people to move from welfare dependence to work. It believes that for a significant number of people of working age currently on means-tested social assistance, participation will involve employment. But it accepts that other forms of participation can generate self-respect and gain the respect of others – caring for a dependent person, voluntary social or cultural work, returning to education, etc.

The ability of people to build up credits within the social insurance system – on foot of different types of socially valuable participation made within the home and the community – should be actively explored.

The Adequacy of Ireland's Lowest Social Welfare Payment for a Dignified Retirement

The Council notes the increased vulnerability of people who have retired on state pensions to fall behind the average living standards of society, and even into relative income poverty, the more successful is the country's economic performance.

It welcomes the commitment in the Programme for Government (2002) to raise the lowest pension rate to at least €200 by 2007, and the Qualified Adult Allowance for pensioner spouses to the level of a full non-contributory pension. It believes these are important responses to major social inequalities, e.g. the substantial rise in the risk of relative income poverty faced by older people since 1997, the fact that life expectancy continues to be lower for lower socio-economic groups and the greater risk that women run of poverty in old age. For all these reasons, the Council recommends that the position of people dependent on state pensions *relative to average living standards* should be kept under active review.

Household Strategies and Social Welfare Payments

The social welfare code needs to harmonise more with labour market developments and with progress in individualising the tax code. The Council recommends that more rapid progress be made in ensuring that the social welfare code facilitates the choice of couples to make separate and independent claims. It suggests that consideration be given to abolition of the 'limitation rule' to remove the normative assumption of a household breadwinner underlying the current code. The Council also suggests that consideration be given to allowing those seeking *part-time* employment, because of caring responsibilities in the home, to register as seeking work. The ability of people to build up credits within the insurance system – on foot of different types of socially valuable participation made within the home (as carers, as assisting in a family business including a farm, etc.) – should be explored.

The Adequacy of Ireland's Lowest Social Welfare Payment to Ending Child Poverty

There is mounting international evidence that a dynamic knowledge-based society is putting a growing premium on the quality of childhood, and that a society which does not accord high priority to tackling child poverty is, by omission, perpetuating major social inequality. In the light of this evidence, the Council recommends that government should pursue with even greater vigour its goal of eliminating child poverty from Irish society.

Ireland may still not have found the best package of income support for children in low-income households. In 2000, more than 8 per cent of children were below the 60 per cent income threshold and experiencing basic deprivation, and the extent of the average shortfall in the equivalised weekly income of their households was more than €50. Child Benefit has been raised substantially in recent years, but some 28 per cent of this increase is estimated to have gone to the top 30 per cent in the income distribution, as against 21 per cent to the bottom 30 per cent. The effect of freezing the nominal value of Child Dependent Allowances is estimated to have offset more than half of the benefit to parents in low income households of the increase in Child Benefit.

The Council welcomes the substantial increases in Child Benefit, which provides a significant degree of horizontal equity and has a role as an anti-poverty measure that is free of disincentive effects. It recommends that the design of a second tier of income support for children in poor families be actively studied in the light of Ireland's new circumstances.

CHAPTER 8

POLICIES ON POVERTY, EXCLUSION AND INEQUALITY

8.1 Assessing Developments Since 1999

In the European Union, a deeper awareness developed during the 1990s that the modernisation of social policy is integral to enabling a dynamic and competitive knowledge-based economy develop. At the same time, a mistrust of what building such an economy under conditions of globalisation entails for social inclusion was articulated more strongly.

The Council considers that a notable achievement in Ireland since 1987 is the recognition by the social partners that social and economic policies are mutually reinforcing. This complementarity is particularly evident between the National Employment Action Plan and the National Anti-Poverty Strategy. Significant social deficits still remain, partly the legacy of the past and partly the result of the very speed and nature of the economic growth that Ireland enjoyed until 2001. In addition, changes in employment, the family and population ageing are creating new vulnerabilities that require new methods and more resources for social protection.

The Council is aware of differing perceptions as to whether, overall, Ireland has become a fairer and more just society in line with its improved economic circumstances. It is aware that poverty and social exclusion in Ireland have multiple aspects and are the end-products of processes which undermine the well-being of individuals, families, social groups and communities. An unacceptable incidence of social risks and levels of need still arise for:

- Children;
- Young people;
- Lone parents;
- Women;

- People with low levels of education or skill;
- People who are ill or with disabilities;
- Travellers;
- Migrants and members of ethnic minority groups;
- Older workers; and
- Older people.

8.2 The Irish National Anti-Poverty Strategy

The National Anti-Poverty Strategy (NAPS) is ‘a major cross-departmental policy initiative by the Government’ (*Sharing in Progress*, 1997) in which the voluntary and community sector, the social partners, users of services and people with first hand experience of poverty, are consulted and participate. The Council regards NAPS as an important landmark in Irish social policy and the moment when a multidimensional and dynamic understanding of poverty and social exclusion was endorsed by all organs of government as their collective responsibility, and when a practice of consultation and partnership with civic society was embraced.

In the revised National Anti-Poverty Strategy (2002), the Council welcomes in particular:

- the recognition that new factors keep emerging which fuel poverty and social exclusion until they are identified and redressed. These include growing difficulties in accessing housing/accommodation and health services, and racism;
- stronger emphasis on access to quality public services as having a major role to play in combating poverty and social exclusion, on discrimination and the denial of equality as factors limiting access to services and employment, and on the need to accommodate and not just recognise diversity;
- the key remit envisaged for local government in developing social inclusion strategies at local level;

- the acknowledged need to incorporate more formally the role of the community and voluntary sector and of volunteering in general;
- the inclusion of the family as an actor in the social process; and
- the governments' commitment to raise the lowest social welfare payments to €150 per week (in 2002 terms) by 2007.

The first five years of NAPS (1997-2002) have provided a central focus for the formulation of policies and targets and the allocation of resources. The Council makes some preliminary observations, which might help NAPS become more effective in reaching its targets and securing its outcomes.

- All parties need to attend to the task of devising arrangements that can achieve effective implementation of the strategic programmes set out in the NAPS.
- Government departments and state agencies need to do more to ensure their engagement in local partnership arrangements is real rather than formal.
- Care should be exercised less a growing procedural complexity make it more difficult to maintain clarity of purpose and a central focus on outcomes.
- An evidence-based approach to policy making (including impact assessment) should be adopted, recognising its dependence on appropriate information, as highlighted by the Council in *Review of the Poverty Proofing Process* (NESC, 2001).
- A more formal and institutionalised role for the community and voluntary sector in deliberating policy, providing services and evaluating outcomes has implications that need to be more fully articulated and embraced.
- The contribution that improving the quality of employment can make to achieving the 2002 targets should be maximally allowed for.

- The implications of making entitlement and access to a range of quality public services a key element in NAPS – and of committing service providers, users and the social partners to jointly setting standards and agreeing on monitoring procedures – should be more fully articulated and explored.
- The impact of changes to the family, and the contribution of the family as an actor should be more fully integrated into its analysis and policy.
- The challenge of the new cultural diversity in Irish society – and of how to ensure the necessary conditions for the successful integration of ethnic minority groups and migrant workers – requires greater attention.
- There should be more attention given to the overall pattern of distribution in income, state benefits, and tax expenditures, in order to ensure the creation of a more equal and inclusive society and the need to surmount two-tier systems and the development of ‘solidarity without equality’ (Ó Riain, 2000).
- The NAPS should be aligned fully with the EU National Action Plans for Social Inclusion (NAPincl) and should be included in the Open Method of Co-ordination developing across the EU.

8.3 Rights

The Council’s 1999 Strategy Report

In its 1999 *Strategy Report*, the Council identified the importance of citizenship rights and obligations. Citizen *rights* encompass not only the core civil and political rights and obligations but also social, economic and cultural rights and obligations which are embedded in our political culture and which underpin equality of opportunity and policies on access to education, employment, health, housing and social services (1999, p.55).

The Council made clear that, in its view, social inclusion is not based on a set of specific rights understood in a justiciable sense. ‘We are referring to equal access to those social benefits and

services that are taken for granted by members of society – this means access to benefits and services and participation in decision-making that are not linked to social and economic status’ (NESC, 1999, p.78). The Council recognised that ‘the identification of rights without benchmarks may be an empty exercise’ (p.76). Indeed, ‘rights are not just a question of access to services but have implications for the quality and effectiveness of services as reflected in outcomes’ (p.76).

Recent Developments

In recent years, there have been a range of developments which require the Council and Irish public policy to give further consideration to the issues of social and economic rights. These include:

- The agreement on the EU Charter of Fundamental Rights as a political declaration by the European Council;
- The second periodic report of the UN Committee on Economic, Social and Cultural Rights on Ireland’s implementation of the International Covenant on Economic, Social and Cultural Rights;
- The incorporation of the European Convention on Human Rights (ECHR) into Irish law;
- The establishment of the Human Rights Commission in July 2002, in accordance with the Good Friday Agreement;
- The Supreme Court decisions in the *Sinnott* and *T.D.* cases in 2001;
- The review of NAPS, which linked the question of citizenship rights to the specification of detailed standards on access to services; and
- The Council of Europe’s recently published report *Access to Social Rights in Europe* (Daly 2002).

The Complex Meaning, Justification and Institutionalisation of Rights

In discussion of rights a distinction is often made between:

- **First generation rights:** the traditional liberties and privileges of citizenship, covered by the first 20 articles of the United Nations Universal Declaration of Human Rights (UDHR), such as free speech, religious liberty, the right not to be tortured, the right to a fair trial and the right to vote;
- **Second generation rights:** the socio-economic rights also outlined in the UDHR, such as the right to a standard of living adequate for health and well-being, including food, clothing, housing, work, medical care, education and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood beyond control; and
- **Third generation rights:** the rights of communities and whole peoples, including language rights, the right to national self-determination and the integrity of culture and ethnicity.

The Council emphasises that there are complex philosophical, political, legal and practical issues involved in the identification, creation, legislation and vindication of rights, especially social and economic rights. These include:

- The basis on which socio-economic rights are defended;
- Shifting views of the similarity/difference between socio-economic rights and civil/political rights;
- The task of identifying what duties arise from the existence of socio-economic rights;
- A tension between the air of absolutism that can attend rights discourse, and the modern consensus that it is not possible to establish rights on universally valid foundations;
- The need to distinguish between moral rights and legal rights;
- The fact that assertion of rights cannot provide an escape from scarcity, trade-offs, balances and compromises, including conflicts between rights themselves;
- The dependence of effective socio-economic rights on fairly widespread public support;

- The fact that commitment to socio-economic rights does not necessarily entail commitment to judicial review, a Bill of Rights or insertion of socio-economic rights in a constitution;
- The variety of legal, policy and institutional methods that can secure socio-economic rights;
- The tension between constitutional rights and democracy;
- The tension between constitutionally defined socio-economic rights and normal functions of revision, reform and innovation in the public policy and law;
- The tension between rights and human sympathy, and the difficulty of identifying when each is appropriate and effective;
- The tension between highly specified and precise socio-economic rights and the *right to participate* in the shaping of policy, conditions and rights;
- The mutual dependence of rights, capacities and identities; and
- The need to find a conception of rights, and an approach to rights, that can both recognise these complexities and still acknowledge the widespread conviction that rights ought to be respected and the belief that their extension and evolution is closely associated with enlargement of our understanding of humanity and citizenship.

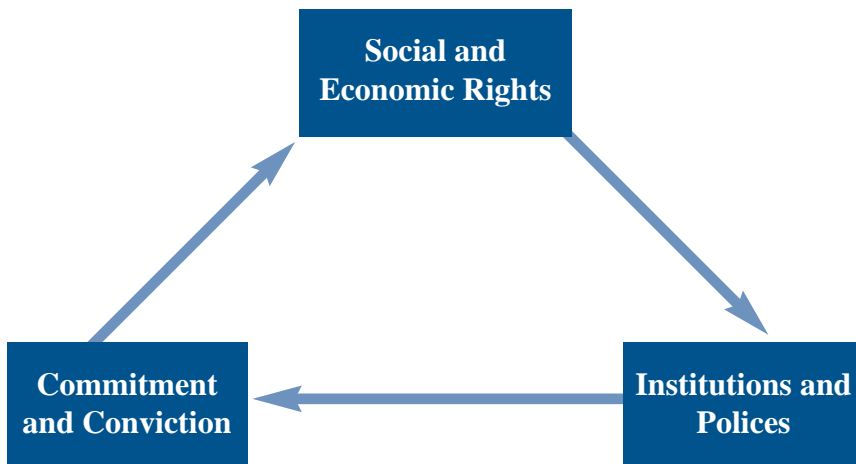
The Council remains convinced of the validity of core socio-economic rights. However, in view of the complexities listed above, it does not presume that they can always deliver the *simplicity* that is sometimes supposed to be their main advantage (see UN, 2002). Rights are subject to disagreement (NESC, 1999, p.77-78). Many social rights, like social services, are best achieved when they are co-produced by the citizens themselves. Complex social and economic problems require complex solutions, many of which can only be discovered in practice.

The link Between Rights, Institutions and Commitment: a Loop not a Line

Experience worldwide shows that the reality of rights depends on the creation of effective institutions and policies. This is true of both socio-economic rights and civil and political rights. It is also clear that rights require a commitment; indeed, without establishing a widespread commitment, it is hard to establish a right. Furthermore, even when a legal right has been established, its effectiveness is heavily dependent on its widespread acceptance.

Figure 7

The Interconnection of Rights, Institutions and Commitment



Experience suggests that the connection between commitment, rights and institutions/policies is a loop, not a line¹¹. This is illustrated in Figure 7. Furthermore, it seems possible to enter that loop anywhere. A right may be established by proclaiming it, but that is rarely achieved. A right may be established by directly

11 A somewhat similar approach is adopted in the Council of Europe's report *Access to Social Rights in Europe*: 'The underlying view is that access to social rights forms a chain whereby the declaration and framing of the right, the process whereby it is to be realised and the activities and resources necessary to realise it ...are all interconnected' (Daly, 2002, p. 31).

persuading society of the priority that should be given to ensuring that citizens receive a certain good or service. That is certainly one way in which socio-economic rights are created. It is also common for socio-economic rights to emerge from the creation of institutions and policies. Indeed, that was precisely the argument of T.H. Marshall in his celebrated paper on the UK welfare state as a system of socio-economic rights (Marshall, 1964). In Ireland, this process is demonstrated, for example, by the development of Rape Crisis Centres. A gap in existing health and police services was identified. Institutions were created to provide these services – and, as important, to demonstrate that they could be provided and how they could be provided. This, in turn, led to widespread expectation that such services should be available. These services, and the types of respect and procedures implicit in them, are now seen as a right.

The Council sees the challenge of social and economic rights as involving the challenge of creating effective institutions and policies for social and economic services. This implies that we focus on the connection between rights and standards.

Rights and Standards

An important contribution to the Irish debate on social and economic rights has been made by those who propose that we explore the connection between rights and standards. It has been argued that if social and economic rights are to be delivered in practice then it is necessary to:

- develop specific, detailed norms in relation to these rights;
- establish how these norms or standards are to be monitored;
- clarify obligations of the state in relation to each of the norms e.g. by reference to indicators and benchmarks;
- establish accessible, transparent and effective mechanisms of accountability in relation to each of the norms or standards; and
- ensure that all members of society are fully aware of the rights and standards that they are entitled to expect.

The Council endorses these proposals. The question is: at what level, and by what procedure are standards to be set, performance to be monitored and accountability to be secured? The challenge outlined above, while it can be seen as the challenge of socio-economic rights, is nothing less than the challenge of finding more effective approaches to public administration, citizens participation and accountability, especially in the social area.

High-level comparisons of how health, education or welfare in Ireland compare with other EU countries have a role. But standards and benchmarks that not only tell how things are, but also how they can be improved, are much more specific and detailed. This can include comparison of the effectiveness of different approaches to administration, service provision and client/community participation.

The link between socio-economic rights, standards and public reform was emphasised in the Framework Document of the Revised NAPS. The Consultants drew attention to the fact that across the EU, there is now a major quality improvement drive underway in the public services, ranging from standards set at the national level to those locally developed. Increasingly, indicators are being developed to measure good quality and user entitlements. Much of the debate about citizens' rights is focused on client participation, information on the level and type of services to be provided and the requirement that service delivery agencies set quality targets and report their performance against them (Goodbody Economic Consultants, 2001 p.90). They emphasised that much of the work emanating from the SMI process in the Irish public service is inspired by such values.

This focus was reflected in the Revised NAPS. It said 'detailed standards in relation to access to services will be set out'. Accordingly, the NAPS will:

- Move towards formal expressions of entitlement;
- Monitor, by means of indicators, access to services;
- Continue to pursue a much greater focus on effective outcomes and indicators to monitor outcomes.

The Council sees these as key challenges now.

Conclusion

The Council believes that, working in the context of the National Economic and Social Development Office (NESDO), it has a duty to clarify some of the complex issues surrounding socio-economic rights listed above.

Given the link between rights and standards, the Council proposes that a new national programme should contain a process to explore how standards of public service can better be identified, monitored, achieved and improved in order to vindicate socio-economic rights. This will require considerable extension of the progress made in the SMI and Delivering Better Government and will require the active involvement of all the social partners.

8.4 Equality

Achieving equality is a central element of the NESC vision for a successful society. The Council recognises the achievements made to progress equality in Irish society through the adoption of equality legislation and through the establishment of the equality institutions. However, inequality, discrimination and exclusion persist across the nine grounds and in some instances may have significantly increased. In order to achieve a more equal society, the Council, in line with NESF, identifies each of the following as important spheres (NESF, 2002):

- **Legislation:** National legislation has a proven role in the pursuit of equality and the effectiveness of legislation should be kept under review, in the light of the experience of implementing the current legislation. Incorporating EU Directives have often provided an opportunity to enhance our equality legislation and may do so in the future. Groups and agencies should be required to produce and implement equality policies and action plans;
- **Institutions:** Strong and widely respected institutions with adequate resources and the full backing of the State are crucial to realise equality;

- **Mainstreaming:** The mainstreaming of equality and evidence-based policy making should lead to significant changes in how services are designed and delivered and how the underlying policies are devised and implemented. For mainstreaming of equality to be effective requires an increased capacity within the civil service and public agencies to engage with and work on equality issues;
- **Participation and decision-making:** The current emphasis is on putting in place new structures to promote participation by the broad community and voluntary sector. However, realising objectives of social inclusion, equality and true participation requires (a) specifically targeted supports to marginalised groups and their organisations and (b) institutional change at both operational and policy level in order to ensure that these participatory structures bring about real and sustainable change;
- **Monitoring and review:** To realise equality within the economic, political, socio-cultural and affective contexts demands monitoring and review procedures, covering all aspects of the equality infrastructure. This requires planned systems for the gathering and analysis of equality data.

Key determinants of progress towards equality will be the strength and reputation of the institutions charged with promotion of equality and, across a wide range of policies, the ability to recast national frameworks and institutions in the light of local innovations.

8.5 Cross-cutting Areas Involving NAPS and Other Strategies

The Council is concerned that the public at large, and those involved in policy delivery, may find it hard to see how the multiple initiatives – consisting of the National Anti-Poverty Strategy, the National Employment Action Plan, the National Health Strategy, National Children’s Strategy, and others – relate to one another and the overall direction in which they are taking Irish society. In identifying four cross-cutting themes in what follows, the Council is

not seeking to deflect attention from the agenda set out in the Revised National Anti-Poverty Strategy. However, the Council believes that four areas, in particular, cut across the many faces and complexity of disadvantage and exclusion, and that solid progress on these four fronts will impact favourably on every aspect of the social inclusion and equality agendas. The four areas are:

- Ending child poverty and educational disadvantage;
- Building a new infrastructure of care;
- Improving the prospects of those who undertake low skilled work;
- Responding to new population flows and cultural diversity.

Each of these is addressed in turn in the next four sections.

8.6 Ending Child Poverty and Educational Disadvantage

The Council appreciates the common interest of the National Children's Office, the National Office of Social Inclusion, the Combat Poverty Agency, the Department of Education and Science, voluntary organisations and many health, educational and early childhood initiatives in eliminating child poverty and tackling educational disadvantage. It emphasises the pivotal significance of these issues in limiting the perpetuation of social disadvantage and providing a solid foundation to Ireland's future prosperity. Its recommendations on child income poverty are outlined in Section 7.4 above.

Child poverty is not just economic. The Council notes the call by the Chief Medical Officer (Department of Health and Children, 2001) that 'basic universal health provision, such as free access to primary care for all children, should be considered' and recommends that further analysis be made of this possibility.

The broader vision of the Council encompasses a time when all children in Ireland, no matter the social and economic circumstances of their parents, will be able to avail of comprehensive health services, pre-school facilities and neighbourhood amenities

on an equal footing. It advocates this objective for egalitarian reasons and because it believes Ireland simply cannot afford not to do so. It will be far more difficult to construct a dynamic, knowledge-based and competitive economy if a significant section of the population is condemned to marginality.

An issue closely related to child poverty is educational disadvantage. The target of increasing the percentage of young people completing the Leaving Certificate to 90 per cent by 2000 (NAPS, 1997) has not been met; it reached 82 per cent in 2000 (NESF, 2002b). Some 15 per cent of young people were finishing school with their Junior Certificate only and a further 3 per cent with no qualification at all. There are considerable grounds for concern, therefore, that almost one in five young people are leaving the educational system without the preparation they need to become fully integrated into working life. Many of them will face increasingly bleak prospects in adult life because of their underperformance at school.

The causes of underperformance at school are economic, social and systemic (i.e., lying within the educational system itself). On the economic front, the buoyant labour market of the 1990s created a supply of 'youth jobs' among others, and young people who found school of little relevance to their needs were particularly likely to abandon education in order to seize the status and freedom that comes with earning. On the social front, parents who themselves did not stay in school long, are struggling with financial difficulties, rearing their families in disadvantaged neighbourhoods, in conflict with each other, or unfamiliar with Ireland's mainstream culture, are less likely to be in position to provide their sons and daughters with the full range of supports they need to do well at school. On the systemic front, there is evidence that, while in school, the benefit young people extract from it has much to do with their social background rather than their level of intelligence or ability, i.e., the curriculum, pedagogy and 'culture' of the school suits some young people more than others.

It is imperative that all young people should receive a foundation in their schooling on which they can build satisfying lives as adults.

The Council supports the view that education consists of personal and social development, as well as career development and preparation for a productive role in the economy. The interests of those who will *not* complete the Leaving Certificate, as well as of those who, upon completing it, will *not* transfer to Third Level, must also be served by the educational system. International evidence suggests that success in reducing educational disadvantage is closely linked to success in diversifying what is on offer *within* the senior cycle of secondary education (in curriculum, courses and pedagogies) to cater for a wider range of student intelligences and abilities. The Council underlines the importance of the on-going work of the National Council for Curriculum and Assessment in this regard. It is pointed out that the 1997 target to raise the Leaving Certificate completion rate to 90 per cent did not adequately reflect the legitimacy of interventions outside the mainstream school setting (Goodbody, 2001), and the Council supports the view that youth organisations should be supported in widening ‘non-formal provision for early school leavers’ (NESF, 2002b).

Early school leaving is more properly seen as the culmination of a long process of failure, low self-esteem, poor adjustment, low aspirations, low intellectual stimulation and poverty, rather than as an event. It follows that a holistic approach is needed which incorporates the school without leaving it all to the school. The Council points out that combating early school leaving and educational disadvantage is an objective requiring the integrated response that local partnership can help provide.

Despite over two decades during which social class inequalities in educational participation have been of concern, the evidence is that relative inequalities have declined little, and that the stark contrasts which used to characterise participation at secondary level have moved on to characterise third level participation and performance. Active parental selection of schools means that schools are more likely to reinforce existing social inequalities than contribute to reducing them. The Council believes that the objective of greater equality remains important to the quality of Irish society and the foundations of its prosperity. It is confident that the elimination of

child poverty and the embrace by the secondary school system of the interests of young people not progressing to the Leaving Certificate will prove to be important milestones in achieving greater equality, and it underlines the urgency of these issues.

8.7 Building a New Infrastructure of Care

Changes in the world of work and the family are combining to erode the traditional patterns by which Irish society maintained the most important infrastructure of them all, that supporting caring. Children, young people, older people, people with disabilities, and sick people could traditionally rely on the availability of a household member, almost always a woman, to provide a first and often sufficient level of care, leaving subordinate roles to state services or purchased market services. This is no longer feasible for a growing number of households, nor is it a just and fair expectation to hold of women as a gender. Women have entered the workforce in growing numbers, but the caring that is available from public and market services has not expanded at a proportionate rate.

The Council regards the rise in the participation rate of women in the Irish economy as reflecting and reinforcing an enduring and far reaching transformation in Irish society. Ireland is in process towards, rather than having arrived at, a sustainable balance in how a modernised welfare state, the private sector and voluntary organisations complement each other to ensure a solid infrastructure of care services.

The Council regards the growth in childcare places under the Equal Opportunities Childcare Programme (EOCP) of the National Development Plan, 2000-2006, as not adequate to meet the scale of need. By November, 2002, it had supported 40,840 new places or just under 20 per cent of the estimated total needed (210,000 places). The Council notes that 37 per cent of the seven-year budget has been allocated to achieve this, yet believes that the core constraint in the medium term continues to be the capacity of the childcare sector to bring new places on stream. The Council recommends that funding should be increased when and as there is

the capacity to use it and that the lead agencies in administering the EOCP should be pro-active in ensuring growth in the number of successful applications to use its funds.

The Council underlines the urgency of this issue. It believes that parents are currently paying too high a price, in emotional and health terms as well as finance, for the absence in this country of the types of services which are widely available in other advanced societies. The Council would like to see the availability of high quality child-care facilities for pre-school children across the nation in a realistic timescale and welcomes the challenge in the targets set at the Barcelona European Council (2002). It believes that here, as in other fields, the weakness of local government in Ireland, and its undeveloped role as service provider, poorly positioned the country to respond with the decisiveness and effectiveness that profound social change required.

It welcomes the establishment of the County Childcare Committees and the comprehensive approach they have taken in their five-year Strategic Plans (2002-2006). A network covering the state has been established, in which all stakeholders are represented and for which standards and outcomes have been set and are monitored. The Council believes this partnership approach at local authority level offers the real prospect of childcare services becoming available to all parents, and of stemming the development of a two-stream system that divides and separates local children on the basis of their parents' income. It recommends that the relative achievements of the different County Childcare Committees be monitored in order to identify as quickly as possible what works in Irish circumstances. It recommends that the Inter-Departmental and Inter-Agency Synergies Childcare Group, through which the several government departments and state agencies co-ordinate their work, use the SMI framework to formulate a clear national policy that will ensure the best guidance and fullest support to the County Childcare Committees.

This policy should include a national policy on childminders that will enable people with skills and experience in caring for children, and parents with needs for childcare services, to efficiently find

each other. The Council notes the simplicity and attractiveness of the innovation by FAS whereby it pays childminders, sourced by its trainees, directly for their contribution to freeing people for participation on its mainline programmes.

The Council believes that a variety of different models for providing childcare should be fostered, and that it is the quality of the service that counts, not the origin of the service provider. It recommends that the County Childcare Committees actively examine the development of a template for childcare centres run as social associations that would increase the capacity of voluntary and community groups to attract funding. It also recommends that serious consideration be given to public-private partnership arrangements with commercial providers to widen the social mix being catered for through their centres and justify a higher public subvention to their construction.

The Council notes the particular shortfall to date in proposals to develop after-school services for older children (where school authorities and parent groups might be expected to have a particular interest). It recommends that the Department of Education and Science pay particular attention to identifying and surmounting any obstacles that may make the use of idle school buildings available for after-school child minding.

Care of Older People and People who are Ill or With Disabilities

A particularly successful innovation has been the introduction of the Carer's Allowance, and the provision of respite care to carers by the Health Boards. Over 19,000 people now receive the Allowance and the Council considers it a headline example of how Ireland is building a new infrastructure of care. The Council underlines the continuing need to enhance the status of carers and to facilitate their transition into further employment, education, training, when they so wish it. It is important that Ireland learn from best international practice as to how the population of working age can be supported in responding to the needs of the 'oldest old' (80+) and the growing number of them who chronically ill and physically or mentally frail.

Currently, only acute cases of need requiring a person to leave

employment are catered for. The ability of workers to access caring services for older or disabled dependants in more tailored ways remains restricted, and the Council urges that the necessary services be fully developed. Priority should be given to promoting and enabling maximum independence and autonomy for both older people and people with disabilities within the design and provision of care.

Family Friendly Employment Policies

In its 1999 Strategy, the Council said ‘the introduction of parental leave was an important first step in helping parents to reconcile work and family responsibilities. It should also promote equality of opportunity for women who tend to be the primary care-givers by building greater flexibility into working arrangements’. The Council noted that parental leave in Ireland is unpaid and considered that ‘this gives rise to serious equity concerns as it is unlikely that low income parents will be able to avail of parental leave because of the implied loss of earnings’ (1999, 299).

The Council welcomes the extension by eight weeks of paid and unpaid maternity leave (March, 2001) and the extensive review undertaken of current provisions governing parental leave (April, 2002). It notes that a number of issues concerning maternal and adoptive leave are outstanding. It notes the diversity of EU practice in this field and the current difficulties that have been experienced in reaching consensus on what further legislative measures Ireland should take. It further acknowledges the other important steps that have been taken in helping people to reconcile work and caring responsibilities, viz., the Carer’s Leave Act, 2001, and the Carer’s Benefit Scheme.

The Council believes that the agendas of competitiveness and equality overlap more than they differ and that empirical verification of the benefit – in reduced absenteeism, lower staff turnover and higher productivity – of family friendly employment policies that are properly structured and agreed would contribute to greater consensus. It recommends that experience in selected countries with high standards be more intensively studied and that

intermediate policy objectives be considered to keep policy reform moving in this area, e.g., ensuring couples have the option of keeping one parent with an infant from birth until its first birthday, through the aggregation of maternity and parental leave, agreeing a list of flexible working arrangements and encouraging employers to provide at least one of the agreed arrangements to workers with pre-school children.

The Council recommends that progress in all these areas be accelerated rather than slackened because of its appreciation that women, family life and children are continuing to experience exceptional stress in Ireland, arising from people's difficulties in balancing work and home responsibilities. It regards the major change that is taking place in how the dependent members of Irish families are cared for, and its consequences for women, as considerably strengthening the case for a degree of individualization of social welfare (for which the case was made in Chapter 7). It points out that, for the Irish economy to remain attractive to internationally mobile knowledge workers, and for companies to be able to attract and retain workers with significant caring responsibilities, greater progress needs to be made in facilitating employees to balance their work and home lives.

8.8 Improving the Prospects of those who Undertake Low Skilled Work

The most remarkable feature of the economic boom of the 1990s was not the attainment of sustained high economic growth but the extent of the employment expansion associated with it. It is now clear that, in addition to high economic growth, it took the cumulative impact of lower taxes (particularly on low earnings), improved incentives for welfare recipients, wage moderation, the erosion of anti-competitive practices and, in general, an improved environment for small and medium-sized enterprises, to allow low productivity service jobs to expand alongside high productivity employment to the extent that they did.

The Council believes that further success in reducing poverty and

securing wider social inclusion and greater equality in Ireland through an emphasis on employment, now needs a careful analysis of the potential of relying on the expansion of relatively low skilled jobs in market services. The emphasis must shift from employment *per se*, to the quality of jobs.

The Council is aware that attaining the EU target of an employment rate for women of 60 per cent by 2010 will make the largest demands on women with low levels of education, whose current employment rate is far below the 60 per cent threshold. Their social inclusion through employment, however, raises particular issues. The obstacles that these women face include the responsibility many have to care for young children, disincentives arising from the tax and social welfare systems, and an erosion of skills and confidence caused by being out of employment for a long time.

Chapter 8 of the main Strategy report reviews evidence that contact with the social welfare system is highly beneficial for low-skilled women. The Council believes that this evidence further strengthens the case for a degree of individualization of social welfare payments and for ending any normative assumption in the social welfare code that households are supported by a principal breadwinner.

A Focus on the Quality of Jobs

The Council recommends that increased priority be given over the coming years to improving the quality of the employment experience for those who take relatively low-paying jobs. The Council notes the evidence that extremely low rates of social assistance, of themselves, are a poor incentive to take employment and more likely to lead to de-motivation, a deterioration in skills, and a general erosion in social belonging.

Making Work Pay

The Council points out how important it is that Ireland should continue to pursue policies that ensure that relatively low skilled work pays. The Council recommends progressing – as soon as circumstances permit – with implementing the decision that has been taken in principle to remove workers on the National

Minimum Wage from the income tax net. It also cautions against allowing the financial incentive to hold relatively low-paying jobs deteriorate by, for example, not up-rating earnings disregards in line with inflation or unduly tightening eligibility to retain secondary benefits. In this context, consideration should be given to the position of low-earning employees. The level of the minimum wage itself must be kept under review and adjusted appropriately.

Targeting Low Skilled Workers for Training and Further Education

The Council recommends that the National Training Advisory Committee consider ways that might influence companies to target the least skilled members of their workforces for training. It also recommends that consideration be given to enabling small firms to co-operate, on a geographical or sectoral basis, in some form of shared training resource for their employees. The work of the Task Force on Life Long Learning should also be fully considered.

Respecting Diverse Employment Contracts

The Council regards the introduction of the Protection of Employees (Part-Time Work) Act 2001, as an important milestone in extending improved protection to almost 300,000 part time workers, many of whom are women. It recommends that data be gathered on the working hours of new and relatively low-skilled entrants to the workforce and to their progression in the employment contracts offered them.

Sensitive Activation

The Council believes that wider and more enriching options should be provided for people of working age than the indefinite receipt of a welfare payment. It accepts that activation may come too late for some people, and be too early for others, while urging great caution in using the term ‘unemployable’. While a decent income and/or types of sheltered employment are the most humane societal responses in some cases, the Council is of the view that high support programmes in which employers participate and partnerships such as EQUAL can produce the optimal outcome for a great number of people. The Council welcomes, in particular, the recognition of the

several purposes which came to be served by the Community Employment Programme, viz., preparation for work in the formal economy, sheltered employment and the provision of needed local services. When making changes to CE it should be clear how these purposes will continue to be met by other programmes if not by CE.

8.9 New Population Flows and Cultural Diversity.

The most vulnerable among the non-EEA nationals living in Ireland are refugees and asylum seekers awaiting a decision on their status. The Council has an undivided and impartial concern for civil liberties within the state and believes that arrangements governing asylum seekers should be exceptional only in so far as they are strictly necessary, and should be kept under review. The single best way to bring them to enjoy the same treatment and rights as others in the state is through ensuring the speedy, courteous and impartial processing of their claims.

The Council recommends that members of ethnic minority groups granted refugee status or leave to remain should be facilitated in participating fully in mainstream society as speedily as possible. It welcomes the perspective on integration provided by the Inter-departmental Working Group on the Integration of Refugees in Ireland (1999): 'Integration means the ability to participate to the extent that a person needs and wishes in all of the major components of society, without having to relinquish his or her own cultural identity'.

The Council notes that the skilled and unskilled work of non-nationals from outside the European Economic Area (EEA) has been, and is, playing an important role in enabling Irish growth rates to remain high, international companies to remain here, public services to be improved, and private services to expand.

The Council recommends that the relevant authorities pay particular attention to ensuring that the terms and conditions of employment, access to accommodation, and, where it applies, protection of human rights and civil liberties enjoyed by non-nationals comply with national standards. Standards of accommodation are also of

concern and close monitoring by organisations and support groups working with migrants is to be welcomed.

There is already evidence that Ireland is capable of repeating the experience of other countries, i.e., resorting to low skilled migrants to carry out work where the pay and conditions have become increasingly unattractive to the indigenous population. The Council is deeply concerned that FAS should find grounds for thinking that some employers in Ireland are substituting domestic unskilled workers with cheaper foreign labour because of the latter's lower expectations concerning wages and conditions, and that part of the rise in youth unemployment during 2002 may be attributable to these employers' preferences for Work Permit recruits rather than young Irish persons (FAS, 2002: 33-34).

While the Council is of the opinion, overall, that the work of low-skilled non-nationals in the Irish economy and their presence in Irish society is of modest proportions, and has a strongly positive nature for immigrants and host society alike, it is aware that tensions have been allowed to develop in other European countries between the economic case for a greater reliance on immigrant workers and the social case for moving more slowly. It believes that the experience of other EU Member States should be studied in this regard so as to encourage the development of pre-emptive policies in Ireland that will ensure a continuing welcome here not just for low-skilled labour but for the persons who provide it.

It recommends that government draw up, in consultation with all interested parties, a clear national policy on migration from outside the EEA. This national policy is needed because the cumulative impact of different developments (the strength of the economy in the 1990s, European integration, economic globalisation, political instability around the world) has generated a level of net migration that has taken some people by surprise. The Council believes that government should respond by being more pro-active in outlining what is happening, linking it to choices which the Irish people have made (for prosperity, solidarity within Europe, and shared responsibility for global imbalances), explaining its beneficial effects, and specifying what government is doing to manage it.

The Council notes that there is no authoritative overview available of the scale, composition and net implications for the Irish labour market and society of the net population movement taking place between Ireland and countries outside the EEA and English-speaking world under the different headings.

A national policy on migration would be based on a realistic appraisal of the forces increasing population flows between non-EEA countries and countries such as Ireland, and of the scope for policy to manage this development. It would be informed by international research on the economic and social benefits and costs of migration, and constitute a further expression of Ireland's strong commitment to foster equality in its society and appreciate different cultures. The policy would, among other things:

- set a framework for population inflows through different routes of entry (work permits, work visas, student visas, refugees and asylum seekers granted refugee status or leave to stay, family reunification, etc) which is conducive to economic and social development;
- specify the type of contributions sought, currently and in the future, from skilled and unskilled migrant workers to Ireland's economic and social life;
- embrace in a proactive manner Ireland's responsibilities under international and European law;
- specify mechanisms that achieve integration in a way that is consistent with Ireland's anti-racist policy and respects the dignity and rights of all members of society;
- specify (after a review and any necessary adjustments) the instruments, procedures and resources needed by the Irish authorities to regulate inflows into the state and protect the interests of those legitimately present within it;
- identify whether and which specific supports and services are needed by people from outside the EEA. This would include estimating the implications for social services, from the provision of interpreters and language teaching to housing,

education and health, of the scale and composition of the population inflows;

- acknowledge and make practical provision for the important role of organisations and groups in civil society in achieving the satisfactory integration of immigrants into local communities;
- ensure satisfactory data is gathered and research carried out to track the social progress of immigrants in Ireland; and
- strengthen Ireland's participation in shaping and monitoring the common immigration policies of the EU.

The Council is ready to assist the government and other bodies, including within the EU, in developing a more adequate analytical framework for thinking about migration policy and helping to create a consensus in Irish society on this issue.

The Council believes that a vibrant Irish society is one which is plural and capable of on-going transformation through embracing cultural diversity as much as by initiating economic and social innovations. It reiterates the perspective on integration provided by the Interdepartmental Working Group on the Integration of Refugees in Ireland (1999): 'Integration means the ability to participate to the extent that a person needs and wishes in all of the major components of society, without having to relinquish his or her own cultural identity'. The Council would like to stress, however, that cultural identities are not immutable nor impervious to the society within which people are living. On the one hand, it is important that Irish society appreciate the limitations of a mono-cultural model and not accept that any public service or institution should presume upon assimilation to established and majority symbols, meanings, values and norms. On the other hand, it should learn from international experience that respect for cultural identity does not, and should not, mean the fragmentation of society with, for example, the embracing of identity politics (Young, 1999). A society that is culturally diverse does not mean that society becomes a space to be occupied by strictly equal cultures which are largely autonomous from each other and essentially engaged in reproducing

a distinct way of life for their members. On the contrary, the Council believes that society is stronger when interaction and mutual influence between the cultural groups within it are at a high level and where the set of values, norms and behavioural patterns common to membership of the society is as wide as possible. This is consistent with each group having a right to their cultural identity and expression.

8.10 Monitoring Social Inclusion

It is important that uncertainty in 2002 about the prospects for the world economy and concerns about the budgetary position in 2002-03 should not prevent further improvements being made in the capabilities of the Irish social policy process.

The Council believes it is time to consider alternative measures to monitor poverty in what is a profoundly changed society. Indicators of deprivation and poverty should be kept under review. It recognises that the development and adoption of new measures would warrant the adoption of new targets also.

One of the seven indicators relating to social cohesion being considered by the European Commission [COM (2000), 594] is a measure of the degree of income dispersion – in practice, the income quintile ratio (S80/S20); i.e., it compares the share of a country's income received by the highest earning 20 per cent with that share received by the lowest earning 20 per cent. This is because wide inequality – of itself – can reflect poor levels of social cohesion, erode social capital, and heighten the risk of social exclusion for those at the lower end of the income distribution (Government of Ireland, 2001). A variety of different social studies underline the damaging effects on people of living life on money incomes that are an extreme distance from the levels prevalent in their societies. The Council supports the adoption of some measure of income dispersion in Irish society as a legitimate focus of social policy.

CHAPTER 9

INFRASTRUCTURE, PUBLIC UTILITIES AND SPATIAL DEVELOPMENT

9.1 Introduction

Ireland is currently facing an infrastructural deficit, identifiable through the absence of a road network of sufficient quality to link major settlements, the possibility of future electricity generation shortages and a low level of communications connectivity within the country. Infrastructure contributes to the Council's vision in a number of respects. This Chapter also considers the role of public utilities, the role of finance and cost recovery for infrastructural projects and the regulatory and spatial institutions required to deliver quality infrastructure in a timely manner.

In its 1999 *Strategy* (NESC, 1999) the Council identified what it believed to be five areas of crucial importance in Ireland's infrastructural deficit: housing; public transport; roads; cultural and recreational infrastructure; and telecommunications infrastructure. In addition to the five priorities identified in 1999 the Council notes two additional priorities in 2002: energy and waste management.

The Council's Approach

Five main analytical ideas inform the Council's analysis of infrastructure utilities and housing.

- Our idea and goal of spatial balance evolves in response to the dynamic of economic and social development.
- The Council can envision a set of institutions which is more centralised, in a few key respects, yet much more decentralised in general.
- The current approach to the funding of infrastructure, and cost recovery following its completion, is built upon a set of conventions and we should be open-minded to changes in our approach.

- In regulating utilities we have to resolve issues of two kinds. The first concerns the balance between single utilities and multi-utilities, whereby one firm engages in the provision of many services with associated economies of scope and scale. The second concerns the balance between short-term cost containment and profit, on the one hand, and long-term or strategic provision, on the other.
- In regulating public utilities there is a spectrum of institutional arrangements, running from pure competition to intra-organisational change, rather than a single model capable of meeting public policy goals.

Despite the wide range of infrastructural and utility issues, the Council identifies three common elements:

- the need to ensure the necessary investment takes place in a cost effective manner;
- the need to ensure a high quality or standard of service in infrastructure, public services and regulation; and
- the need to achieve the necessary institutional and organisational change.

This chapter addresses each of the three common elements in turn, and applies them to the three substantive issues: infrastructure, the regulation of networked sectors, and spatial development.

9.2 Ensuring the Necessary Investment Takes Place

Investment in infrastructure is the responsibility of a variety of actors. The infrastructural deficits identified by the Council are the responsibility of central government, local government, semi-state bodies and their regulatory agencies, the private sector and voluntary bodies. Pressures may arise on the provision of infrastructure due to funding constraints, regulatory and market uncertainty, inappropriate market structure or co-ordination failures between different actors.

Infrastructure Financing and Cost Recovery

Recent reports and statistics indicate that the National Development Plan is unlikely to be delivered either on time or on budget (Fitzpatrick Associates, 2002; Indecon, 2002; Department of the Environment and Local Government, 2002). In Chapter 5, the Council indicated that infrastructural investment remains a key priority. Given the pressures on the public finances, it is necessary to address the issue of financing. As regards housing, the Council believes that the necessary financial resources should be made available to deliver on the commitments in the National Development Plan and elsewhere.

Infrastructure must be paid for, whether through general taxation by today's generation, or future ones, or through charges for access to infrastructure¹². To the extent that government borrowing is not possible, or deemed undesirable, alternative means to finance the necessary infrastructure must be considered. The existing financing of infrastructure and the recovery of costs are based on a set of conventions that differ across sectors and are somewhat arbitrary in nature¹³. It is important to recognise that these conventions can be modified.

Given the limits on public borrowing and taxation noted in Chapter 5, alternative methods of financing infrastructure and recovering costs must be considered. These include:

- Public Private Partnerships (PPPs);
- Public recovery of some of the increased land values that arise from development; and
- User charges.

12 While there is an ongoing programme of capital investment infrastructure the Council notes that in a number of sectors there is currently a “hump” of investment above normal levels of activity. Depending on the regulatory system adopted, such a “hump” can give rise to the need for significant increases in tariffs as is the case with both the electricity and gas programmes, with an associated burden on Ireland's economic and social development.

13 An example of this is the dichotomy between the ability of semi-state bodies to finance infrastructure provision through borrowing and the limited ability to do so for infrastructure provision financed through general taxation.

Each is briefly discussed here.

In its 1999 *Strategy* report the Council discussed the financing of infrastructure and, in particular, the role for Public Private Partnerships (PPPs). The Government has recently published its own framework on PPPs (Dept. of Finance, 2001). It emphasises the need for PPPs to yield value for money to the exchequer, allocate risks to the party best able to control and manage them, and maximise the benefits of private sector efficiency, expertise, flexibility and innovation. The Council supports this assessment. The potential of PPPs has not been fully realised and there may be other ways to capture some of the benefits that private sector involvement can deliver. The Council re-asserts its previous position that PPPs should be seen as much as a way of procuring private sector efficiency and expertise as a pure financing mechanism for funding infrastructure. However, private sector operation does not necessarily imply efficiency, and parts of the public sector have developed expertise in the management of large-scale projects. Overall, the public system needs to develop the skills to draw both quality and value from whatever funding and delivery mechanisms are chosen.

A second method of financing is public recovery of some of the increased value of land created by development. The government has introduced such a measure in the affordable housing provisions of the Planning and Development Act, 2000. A portion of the ‘betterment’ of land conveyed by planning permission is captured through transfer to the local authority at existing use value. There is no *a priori* reason why a similar concept cannot also be extended to other infrastructure projects, such as roads or sanitation. This approach is advocated by the Council in Chapter 7 above¹⁴. In addition, the Government has recently announced proposals for a National Development Finance Agency as a means of financing national infrastructural projects. The Council believes that mechanisms of this nature should be further explored.

14 A scheme which captures a proportion of the benefit of infrastructural provision is already available under Section 49 of the Planning and Development Act, 2000 in the form of a development levy for the granting of planning permission.

A third method of finance is cost recovery through user charges, such as tolls on roads or bridges or payment for services, such as electricity and other utilities. However, the incremental cost of making use of infrastructure may be very low, particularly outside of times of peak demand¹⁵. Hence it may not be sensible or feasible to design charges based on marginal cost. Hence, cost recovery for infrastructure often differs substantially from what economists call 'normal' goods.

The Council recognises the importance of many of the services provided by national infrastructure and hence the universal nature of their provision. It was for this reason that many of these services evolved under state planning and ownership. In the provision of some services, precedent has dictated that access charges, where applicable, are levied on a uniform basis, whereas in other cases a more incremental, or cost reflective, approach has been adopted. As outlined in Section 7.1 above, the potential for the use of user charges could be evaluated.

No one principle of pricing is superior in all cases and, therefore, a case-by-case analysis is required. However, the Council cautions against the introduction of purely cost-reflective pricing without consideration of the other important objectives to be fulfilled through the provision of infrastructure. Where models of cross-subsidy are employed to meet such objectives, consideration should be given to the possible distributional and efficiency effects.

New Regulatory Approaches to Public Utilities

We are witnessing important changes in the regulation of utilities, such as telecommunications, energy, water and postal services. The EU internal market programme has prompted a move from government control to independent regulatory agencies and attempts to create a single European market in these services. In assessing these changes and future policy options, several issues arise:

15 Moreover, the infrastructure may itself seek to correct for other external costs present in the system, but not accounted for, such as congestion or to serve a social objective, and may require a pricing mechanism that captures these important effects

- The effectiveness of regulation in meeting customers needs in a cost-effective way;
- The ability of the regulatory regime to create real or virtual competition;
- The effectiveness of regulation in meeting social obligations;
- The effectiveness of the regulatory regime in securing sufficient long-term investment in capacity to meet future economic and social needs; and
- The accountability of the regulatory system to the democratic system.

Some of these issues are addressed here.

The Council believes that universality of service, where applicable, is compatible with a new regime characterised by the introduction of controlled competition, independent sectoral regulation and the operation of some national infrastructure by private owners. However, it recognises that this requires high quality regulation and institutional arrangements that ensure accountability (see below).

The Council recognises that there are a number of key areas where the necessary investment in infrastructure may not be forthcoming. These would include the provision of:

- sufficient electricity generating capacity (including from renewable sources);
- a sufficient level of waste infrastructure provision; and
- provision of high bandwidth communications infrastructure.

Lack of sufficient investment may be due in part to regulatory or market uncertainties or lack of sufficient co-ordination between appropriate actors.

Given the importance of such infrastructure the Council does not believe that their provision can be left entirely to the market. The Council recognises the current initiatives being undertaken by the Commission for Electricity Regulation (CER), but urges all relevant

agencies to move quickly to ensure that Ireland's electricity demands are met.¹⁶ The Council welcomes the Government's initiative in seeking to stimulate provision of broadband infrastructure, leverage additional private sector investment and overcome the possibility of resting at a low-level equilibrium. The Council also supports an appropriate level of on-going direct support for the promotion of renewable energy.

Waste Management

The Council believes that the effective management of the waste problem is one of the highest priorities in Ireland for the next three years and every aspect of the waste hierarchy must be addressed to tackle it. The effective management of waste will need to incorporate both regulatory and spatial institutions. In the spatial dimension there is currently a lack of co-operation within and between regions in addressing the waste management crisis. At present, the problem seems to be passed from one agent to another:

- overly optimistic recycling targets may mask the need for a more concerted incineration and landfill policy;
- increased producer responsibility is limited by the fact that much of the resulting waste stream is imported from abroad;
- there is a tension between an enhanced civic culture, in which citizens would take more responsibility, and the incentive to free-ride.

Given the lack of co-ordination between all agents many can free-ride. The drive to tackle waste management ought to encompass all of civil society and incorporate not only waste management companies and local authorities but also enhanced producer and consumer responsibility and will have to be premised upon a set of institutions with sufficient power of delivery to ensure a satisfactory outcome. In this context, the Council welcomes the announcement by the Government in its recent policy statement to establish a

16 The Council notes that the CER has recently commenced a process of giving further consideration to the issue of security of electricity supply in the context of an overall market review. The Council urges the speedy implementation of the conclusions of this process.

National Waste Management Board and calls for this to be established immediately.

9.3 Delivery of Quality Infrastructure, Planning and Regulation

Quality Spatial Development

The Council has previously identified the need for analysis of overall settlement patterns and clarification of policy goals concerning settlement (NESC, 1994). The Council sees the National Spatial Strategy (NSS) as a response to this and notes that the NSS is about to be published. The Council believes that a national spatial strategy should provide a number of inputs to assist national development:

- It should provides a systematic analysis of spatial trends within Ireland over recent decades;
- It should add significantly to our knowledge of activities in different geographical areas and shed light on the relative economic and social performance of each area;
- It should provide a template for the development of the country over 20 years that provides a balanced approach across all sectors and regions;
- It should propose a coherent strategy for managing the spatial dimension of Ireland's economy and society, focusing on the development of a number of strategic locations for certain kinds of investment;
- It should provide an implementation framework to be led by the Department of the Environment and Local Government, but encompassing a wide range of public agencies within the overall framework.

In line with its earlier work on national and rural development, the Council emphasises that a successful regional and settlement strategy will be of benefit to all areas and interests. Experience shows that a zero-sum view of spatial development, in which progress in one area is seen as a loss to other areas, is not only

divisive but also short-sighted, since it is at odds with the dynamic of regional development. Consequently, it argues that spatial strategy that met the requirements listed above should not be seen as creating winners and losers.

The Council believes that a national spatial strategy involves new approaches at several levels: national strategic investment, regional planning and local government. There will have to be regional planning guidelines in all areas, following the example of the guidelines for the Greater Dublin Area. An integral part of a national spatial strategy is an improved system of local government. To be effective a system of land use regulation must integrate the needs of local communities with overall national policy objectives. It must be able to process the demands of society for increased development in a timely manner and it must ensure that development takes place in a co-ordinated fashion. Ireland's planning system has not consistently met these goals.

It is clear that Ireland is now experiencing 'urban sprawl' with an increasingly monocentric society focused on Dublin with regional development in Cork, Limerick, Galway and Waterford. The question is how to devise a policy to achieve spatial balance that does not restrain the dynamic of economic and social development. The Council cautions against forcing an over-defined pattern of regional dispersion on Ireland which may entail higher indirect costs for society, curtail choice, restrict business development and ultimately reduce welfare. A wide variety of different agents will be required to co-ordinate their approaches to development if a balanced regional approach is to succeed and, therefore, working out the appropriate institutional arrangements will be a major challenge. The Council returns to the issue of institutional arrangements in spatial development below.

The Council welcomes the enactment of the Planning and Development Act, 2000, which has made substantial steps toward structured development planning at a regional and local level, streamlined the system and placed sustainable development at the heart of the planning system. As outlined in the Planning and Development Act 2000, the purpose of the planning system is to

provide in the interest of the common good for proper planning and sustainable development including the provision of housing.

As a general principle, subject to good planning practice, the planning system should endeavour to accommodate rural-generated housing needs to sustain the rural community. The Council recognises that rural development in Ireland is characterised by a dispersed village pattern and that rural hinterlands are a key component of desirable settlement hierarchy. If each settlement is designed well, its contribution at a national level will tend to be positive. The Council believes that well-designed localities are the first building-block in a good spatial strategy.

The Council believes that better, not less planning is required. The value attributable to development land stems from the willingness of society to accept overall economic and social developments. The Council, therefore, believes it appropriate that those who gain from society's willingness to accept such development should return some portion of their gain back to the overall enhancement of society. It intends to explore further how this might be done in its forthcoming study on development land and housing.

Quality Planning and Evaluation

An important element in ensuring the delivery of a quality service that best meets citizens' needs comes at the stage of programme planning and evaluation. The Indecon report on the evaluation of the public transport programme suggested that lessons could be learnt with respect to the planning process that would overcome some of the incrementalism involved in the design of the current plan. The Fitzpatrick Associates Report on the roads programme argued that there are a number of improvements in programme management that could be implemented, including increased use of formal appraisal techniques *ex ante*. The Council supports both these recommendations. In addition the Council recommends that the plans for road building be re-examined to see whether all of the planned projects are essential¹⁷.

¹⁷ This should take into account the 1998 National Roads Needs Study (NRA, 1998).

The Council recommends the consideration of a broader decision making approach, conducted in a transparent manner, followed up by effective monitoring of policies, and learning from the mistakes, and believes it has the potential to deliver better policy evaluation, and in particular infrastructure provision than would otherwise be the case.

Quality Delivery

One important reason for the substantially higher than estimated cost out-turn in the programme of national infrastructure delivery has been the higher than anticipated cost of land acquisition. While it is necessary for those whose land is acquired to be reasonably compensated for the value of such land, and some reasonable cost for the inconvenience and attachment which such acquisition brings, the overall developmental objectives of society must be taken into account. As set out in Article 43 of the Constitution, individuals have the right to own private property which, like other rights, must “be regulated by the principles of social justice”, and which can only be de-limited by the State “with a view to reconciling their exercise with the exigencies of the common good.” The role of land in national development will be addressed in the Council’s proposed study on housing and land policy. Among the issues to be considered in that study will be the role of social housing in achieving housing affordability and social cohesion.

The Council recognises that the necessary project management resources to deliver large-scale infrastructure projects are limited. One approach has been to let private contractors take both the risk and responsibility for project management and delivery. There may be increased scope for this. A second approach would be for the public sector to build a core competency in project management capability which would be non-sector specific in nature and could be employed throughout the wide remit of public sector infrastructure delivery. There is a role for each approach.

The Council believes that Ireland must develop the capacity to better achieve the planning and implementation of national infrastructure programmes in a co-ordinated manner.

9.4 Institutional Arrangements

Institutions for Spatial Development

There is an ongoing debate on the appropriate balance between local, regional and national decision makers in infrastructural and spatial planning and provision. While the Council is in favour of more devolution to the local level in many policy areas, infrastructure and spatial planning is a national issue and, therefore, requires national co-ordination. A major challenge is to devise institutional arrangements which combine national strategy with regional co-ordination and local devolution. The devolution of decision making to the appropriate level is one of the eleven principles of sustainable development identified by Comhar.

Ireland has a fragmented set of institutions in the spatial dimension combined with a set of unclear and underdeveloped linkages between them¹⁸. The Council believes that national authorities have a strategic role in planning, particularly in planning major infrastructural projects. This needs to be informed by local communities and local government level to ensure that development builds quality localities and communities. The Council believes that the County Development Boards (CDBs) have an important role to play in this regard. There is a need to clarify the relationship between local and regional actors.

The Council calls for a more structured set of guidelines setting out national planning policy on sustainable settlement patterns, settlement density, rural dwellings and renewable energy projects, which would inform planning at the local authority level and help ensure the overall objectives in the National Spatial Strategy are

18 In addition to national policy set by central government, there are regional assemblies, regional authorities, County Development Boards, local authorities as well as specific agencies that transcend local authority boundaries such as Údáras na Gaeltachta, the Western Development Commission and Shannon Development. The Council believes that the establishment of the Greater Dublin Area with its associated remit represents a first attempt to cut across the plethora of organisations engaged in spatial planning and infrastructural provision.

met. Meanwhile infrastructure and other developments of a national importance should be decided upon at a national level while remaining open to some degree of local accountability.

There is significant interaction between land use and infrastructural requirements. The spatial distribution of housing, workplaces, shopping, educational establishments and other services has a major impact on the infrastructure required to provide essential services. The Council suggests that high priority be given to devising institutional arrangements that can co-ordinate spatial planning and infrastructural provision to deliver a more sustainable pattern of settlement and land use. The Council believes that progress along this path is by its very nature incremental and that, while Ireland has progressed substantially in many respects, it also has some way to go in others.

Institutions for Utility Regulation

As noted above, the provision of utilities through networked industries such as electricity, gas and telecommunications has undergone fundamental transformation in recent times with the establishment of independent regulatory bodies. We have briefly considered whether these new institutional arrangements meet a range of goals: customers needs, real or virtual competition, social obligations, long-term investment and accountability.

It is important that independent decision makers, be they regulators or state-owned enterprises, take into account overall social and government objectives. This is particularly the case for those bodies that are independent of the political process and, therefore, subject to more complex mechanisms of accountability. It was proposed in *Governance and Accountability* that the Minister would undertake a periodic formal evaluation of regulatory developments within the utilities area (Department of Public Enterprise, 2000). The Council believes that, in the next few years, it is appropriate that such a review be carried out, given the ongoing changes in respect of regulation of new sectors such as postal and aviation and gas combined with the increased uncertainty in infrastructure provision and the need identified by the Council for a co-ordinated and

strategic role in ensuring Ireland's overall societal and developmental objectives are met.

Such a review should also give consideration to the ongoing development of a multi-utility approach. There are substantial opportunities for spatial co-ordination and increased efficiency, combined with the potential for reduction in environmental impact from such an approach. The Council welcomes ongoing development of the multi-utility approach whether through formal integration and amalgamation of firms and regulatory bodies or through greater co-ordination between sectors.

The Council believes that independent regulation can be made to serve the goals listed above so long as it is governed in certain ways. First, as noted above, independent regulation of market providers cannot be relied on to undertake the strategic investments necessary to ensure upgrading and capacity in networked sectors.

Second, regulation in the Irish context must take account of the limited possibilities for competition. Where competition is not feasible, or not in the consumers' interest, it is necessary to find other means to ensure high performance and continuous improvement in service providers. Regulators, and possibly other agencies of public audit, have a key role here. The introduction of 'virtual competition' through exercises such as benchmarking or auditing, similar to those conducted by firms operating in the competitive market, can identify a level of costs, and in many cases organisational traits that represent best practice. By carrying out such exercises regulators can ascertain a reasonable level of costs to be borne by consumers and indicate areas where more efficient practice is possible.

Having ruled on permissible prices, a key challenge remains the ability within the utility or other regulated entity to initiate change and achieve improvement towards best practice. In other words, what can be done to maximise the impact of the regulator's report and ruling on business practice? The Council believes that this calls for the initiation of not only strategic management and a management culture driven by results but, in addition, a well developed

human resources policy and partnership system focused on both performance and work conditions. This may require external assistance through public audit and the NCPP. The Council believes that consideration should be given to finding arrangements that can assist organisational change and performance in providers.

CHAPTER 10

COMPETITIVENESS, CONTINUOUS IMPROVEMENT AND LEARNING¹⁹

10.1 Introduction

Continued success in enterprise development depends upon a combination of an appropriately skilled workforce, a drive to higher value-added products, processes and services, access to international markets and on-going change within the organisation, in addition to the general economic environment.

This chapter discusses these components of competitiveness in the context of Ireland's enterprise policy and deals with trends in industry, enterprise policy, and key elements of competitiveness including the provision of a skilled workforce, research and development, organisational performance and international access. In addition, it reviews important sectors of our economy that require more sector specific policies to address their on-going growth and development, principally agriculture and tourism

10.2 The Council's View of Enterprise Policy

The Council has argued in Chapter 1, that an understanding of Irish development can be assisted by Ó Riain's idea of the 'flexible developmental state' (Ó Riain, 2000). Such a model emphasises not only the importance of growth driven by foreign direct investment but also the embedding of foreign firms in the local economy and local networks of indigenous firms in the global marketplace. 'This ability is sustained by the multiple embeddedness of the state in professional-led networks of innovation and in international capital, and by the state's flexible organisational structure that enables the effective management of this multiplicity' (Ó Riain, 2000, p.158).

19 This Chapter draws in part on material on enterprise policy provided by the Department of Enterprise, Trade and Employment and Forfás.

The state in this approach is viewed as capable of nurturing development through its ability to attract international investment, embed it into the economy, develop local enterprise and embed this globally. The state may be autonomous in its policies but is also embedded in its approach as it works closely with individual firms both in Ireland and internationally. The flexible developmental state avoids overly deterministic accounts of state intervention and provides scope to acknowledge the activist programme underway within Irish firms and institutions.

Ó Riain's analysis fits well with Porter's three stage model of advancing national development: factor-driven, investment-driven and innovation-driven. To summarise, the factor-driven stage involves competition based on simple factors, such as commodity agricultural produce, and the exploitation of indigenous factor resources such as minerals. The investment-driven stage involves greater depth of industrial production, frequently driven by 'national champion' industries. The innovation-driven stage involves the development of industries involved in significant R & D and the emergence of indigenous firms capable of competing internationally and developing their own overseas presence.

In its 1999 *Strategy*, the Council argued that, in the context of a tighter labour market, enterprise policy needed to place greater emphasis on productivity and job quality than on employment creation alone. Elsewhere, the Council has argued that enterprise policy must be grounded on a stable macroeconomic policy and the establishment of the necessary factor pre-conditions for enterprise (NESC, 1996a, 1998).

The Council believes that Ireland has the potential to advance to the innovation-driven stage of development and that to do so enterprise policy must focus on competitiveness, continuous improvement and learning. Improvements across these areas and in the conditions which promote them have the potential to grow quality employment and productivity in both industry and services. The Council believes that support should be provided to enterprises only where it is required to address a market failure (NESC, 1986, 1989). Furthermore, the Council emphasises that value for money is as important

in industrial and development policy as in any other area of public expenditure. Consequently, expenditure on industrial policy, including tax concessions, must be subject to rigorous evaluation.

Achieving this development will depend on necessary pre-conditions in the broad competitiveness environment in areas such as regulation, market access and fiscal policy. However, in the context of the development model proposed by the Council in Chapter 1, an activism in enterprise policy also has a significant role to play.

10.3 Trends in Manufacturing and Internationally Tradable Services

The macro data show the growing importance of the services sector and construction in accounting for overall employment generation. However, given Ireland's position as an small open economy (SOE) and its dependence on trade, the performance and prospects of the manufacturing and international services sectors continues to deserve particular attention. The traded sector is important as a driver of the overall value chain as well as a generator of employment in itself. This is true for both foreign and indigenous firms.

In recent years, both indigenous and FDI firms have performed well. However, in the aggregate, a substantial performance differential between the two sectors remains in evidence.

Foreign-Owned Enterprise

Over the period 1990 to 2000, employment in foreign-owned enterprises grew by over 70 per cent, before a fall of 2.8 per cent in 2001. While there is an ongoing process of job losses from the existing stock of FDI, 2001 was the first time in 15 years that job losses exceeded job gains among IDA-Ireland companies. Over the past two decades, the composition of the foreign-owned sector has changed markedly as the chemicals/pharmaceuticals, ICT, and international services sectors have grown in prominence. The contribution of chemicals/pharmaceuticals to trade is especially noteworthy.

Irish-owned Enterprise

Between 1993 and 2000, employment in indigenous enterprise grew by almost 30 per cent and accounted for around 35 per cent of the net expansion in employment of the manufacturing and internationally traded services sectors. Employment growth in internationally traded services was faster than manufacturing, increasing more than fourfold between 1990 and 2000. The outstanding success of indigenous international services is the software sector.

One weakness in relation to the recovery of indigenous enterprise was modest progress in increasing manufacturing exports in the 1990s. Growth in manufacturing exports by indigenous firms between 1991 and 1999 was below the rate of output growth and the share of output exported fell from 34.8 per cent to 31.3 per cent.

10.4 Enterprise Support Policy

Enterprise support policy has shown itself to be adaptable over time. That process of adaptation needs to continue in light of the changing circumstances outlined in this report and the challenges now facing the economy and society.

The Council recommends that policy should move towards measures which promote growth in innovation and productivity leading to sustainable competitive advantage, rather than widespread financial support to firms.

In seeking to adapt successfully to a higher cost economy, a focus on organisational change also is important. To be successful in a high cost environment requires that organisations engage in continuous learning to achieve continuous improvements. An emphasis on problem solving capabilities and mutual sharing of gains are key characteristics of this approach.

Foreign Direct Investment

It is appropriate to continue seeking new inward investment in sectors where Ireland is competitive and has the potential to grow further. This can be achieved by focusing on niches in which Ireland can develop a world-ranking position. Within these niches, major

global companies would see Ireland as an essential place in which to have strategic operations. Appropriate investments in infrastructure, skills and R&D can help support the development of these niches. The concentration of elements of these supports in particular locations can help promote regional development and cluster dynamics, to the benefit of both foreign and indigenous firms. As a first step towards this goal, IDA Ireland has formulated proposals for the development of Strategic Business Areas (SBAs). The focus of the SBA initiative is on promoting cluster dynamics rather than simply helping individual companies to grow.

Enterprise policy can also help to support existing FDI enterprises in upgrading the nature of activity undertaken in the Irish subsidiary. IDA Ireland is working with client companies to assist them in developing strategic, value-adding functions. This is a difficult challenge and the methodology and techniques involved need to be further developed.

Indigenous Enterprise

The Council is strongly committed to the policies which promote the development of an indigenous enterprise sector capable of meeting world class standards and competing on an international basis. As Ireland moves into the innovation-driven stage of development, such enterprises would be expected to become more significant in the economy's development.

The Council notes that Enterprise Ireland's current business plan focuses on helping client companies to increase exports, productivity and employment and to promote the emergence of increased numbers of high potential startups. This focus is appropriate in helping indigenous enterprises upgrade their competitiveness and embedding in the economy an ongoing culture of entrepreneurship. Enterprise Ireland maintains a strong focus on sectors with growth potential. Its international services strategy sets targets for the development of informatics, digital media, eBusiness, and health sciences, while the agency has also adopted a detailed strategy for the biotechnology industry. Efforts to build up strong niches and clusters in high-tech sectors all require close links and co-operation between the enterprise and higher education sectors.

10.5 Science, Technology and Innovation

The process of competitiveness upgrading in both indigenous and FDI firms will be critically dependent on a positive environment for science, technology and innovation and the ability of firms to harness that environment to achieve competitiveness gains.

Ireland's gross expenditure on research and development has increased significantly in the period 1991 to 1999. However, the base from which Ireland has grown is low by international standards. During this period, Ireland's ranking amongst 26 OECD countries, as measured by the proportion of GDP devoted to R&D, improved but, at 18th position, remains low. With 1.2 per cent of GDP invested in R&D Ireland is significantly behind the EU average and well short of the EU target of 3 per cent by 2010. Ireland's spend is below the OECD average (2.21 per cent) and significantly below best performing countries such as Sweden (3.8 per cent), Finland (3.2 per cent), US (2.65 per cent) and Japan (2.9 per cent).

Table 3

R&D EXPENDITURE
Gross expenditure on R&D as a % of GDP and GNP
1991 to 1999

	1991	1993	1995	1997	1999
Gross Expenditure on Research and Development €m	345.4	501.8	667.4	856.2	1,075.6
GERD as a % GNP	1.07	1.30	1.43	1.45	1.42
GERD as a % GDP	0.92	1.16	1.27	1.28	1.21
Ireland's Rank (out of 26 countries) for GERD/GNP ratio	19	17	17	17	17
Ireland's Rank (out of 26 countries) for GERD/GDP ratio	21	18	17	17	18
EU Average (GERD as % GDP)	1.98	1.92	1.81	1.80	1.86
OECD Average (GERD as % GDP)	2.32	2.25	2.11	2.16	2.21

Source: Forfás; OECD – Main Science and Technology Indicators (Nearest year used where data is not available for a particular year).

Ireland's Business Expenditure on R&D (BERD), at around 0.9 per cent of GDP, is well below the OECD average of 1.5 per cent and has remained static since the mid-nineties. The EU 2001 Enterprise Policy Scoreboard ranked Ireland below 75 per cent of the EU average on BERD as a percentage of GDP and also on the number of high-tech patents.

Development of the STI Environment

The Council is concerned at Ireland's low overall level of expenditure on R&D and its poor performance in respect of business R&D. However, it notes that the research environment in Ireland has been significantly altered by the Government's decision in the National Development Plan to allocate almost €2.5bn to the Research, Technological Development and Innovation priority across all departments and agencies in recognition of: 'the evolution of the knowledge-based economy where intellect and innovation will determine competitive advantage' (Government of Ireland, 1999, p.128). There is also a role for government in relation to BERD through the application of an appropriate fiscal regime.

On foot of this decision, key investments aimed at building Ireland's research capability are now underway through Science Foundation Ireland, the Programme of Research in Third Level Institutions and through increased support aimed at building R&D capability and capacity in industry, including collaboration between industry and the third level sector²⁰.

The Council welcomes this decision, which can be viewed as an important investment in productive infrastructure. However, the Council notes that for maximum value-added to accrue from the investment, cohesive action is required from players in the national system of innovation namely, business enterprises, the higher education sector, research institutions, enterprise development agencies and the relevant government departments. It will require continued rapid development of R&D capacity and capability in the

20 Recent research carried out for InterTradeIreland identified significant deficiencies in the infrastructure for the commercialisation of research carried out in third-level institutions (Ryan and Forde, 2002).

higher education sector, achievement of world-class research excellence particularly in strategic areas allied to the needs of industry and attraction to Ireland of significant R&D activity. Building the R&D capability of industry and its absorptive capacity to utilise the human and technological outputs of the investment underway, will be key priorities. Research collaboration between industry and the third level sector must become fully embedded. A modern framework for commercialisation of the outputs of publicly funded research must also be developed. Expenditure on R&D policy should be subject to evaluation to ensure value for money.

10.6 A Skilled Workforce and Quality Employment

The substantial increase in the supply of labour in the 1990s resulted from the combination of demographic factors, increased participation rates and a reversal of many years of net outward migration. The Expert Group on Future Skills Needs (EGFSN) predicts that all three factors that have contributed to extensive growth are likely to decline over the coming years and they forecast labour supply growth to average in the region of 2 per cent (EGFSN, 2002).

Nevertheless, it is noted that the labour force is likely to increase by 200,000 people by 2007. The ESRI forecasts of employment growth predict the largest increases to be in the two services sectors, with non-market services employment forecast to rise by 23 per cent and market services by 18 per cent. Within the overall growth forecast, occupational forecasts by FÁS/ESRI to 2005 suggest that the greatest proportional increases will be in managerial, professional and sales workers. These forecasts are indicative of the dominance of the services sector and the increasing demand for knowledge workers.

A well qualified workforce will contribute to Ireland's productivity growth and competitiveness. In addition, lifelong learning can contribute not only to improved employment opportunities but to personal fulfilment and enhance societal well-being. It is clear that not only should the overall level of human capital available in Ireland be raised, but that its development should be focused on

these areas where Ireland is exhibiting skill shortages and be combined with a general programme of training and education that will facilitate workforce flexibility. The Council believes that the absence of an appropriately qualified workforce would be likely to be a significant stumbling-block in the development of the enterprise strategy outlined above. In addition, the Council believes that the opportunity for all elements of society to freely participate in programmes of education and skill upgrading are an important element in the ongoing tackling of social exclusion.

The Report of the Taskforce on Lifelong Learning which will shortly be published addresses a range of key issues such as the national qualifications framework, guidance and information, access and flexible provision, learning leave and training in employment which are required to upgrade skills and qualifications across the workforce. The Council is of the view that meeting the challenge of lifelong learning is critical if Ireland is to combine productivity and well being. To do so will require innovation on the part of the training and education institutions, employers, the social partners and individuals.

10.7 Organisational Performance

After decades in which the focus of analysis was on the structural weakness of the Irish economy and the structural weakness of Irish enterprises (because of small size, peripheral location and barriers to entry), attention is now turning to organisational capability and performance (NESC, 1998; O'Connell, 2001). This has potentially important implications for how we think about indigenous development and the role of public policy in supporting it.

The practice of business improvement – which can and should deliver mutual gains – rotates around processes of inquiry designed to highlight the reasons why processes do not work as they should and how they might be improved. It is this process of continuous investigation and learning that dominates the organisation. The environment in which firms operate now demands that companies successfully engage in this competitive benchmarking of their processes and performance.

Cost competitiveness and improved efficiencies within these companies are a function of management capability, staff competency, innovation and a general commitment to problem-solving. In these companies the continuous pursuit of corporate survival and improvement means that no stone is left unturned in the search for new ways to approach a problem – including, for example, contracting-out production activities where necessary.

The firm, in this view, is increasingly seen as a problem-solving entity. There are few restrictions placed on the boundaries of this activity – issues of hierarchy, corporate governance and geography are superseded (in the ideal case) by issues of problem-solving capability (ideas such as reputation and skill). The challenge for the organisation is to create the conditions to allow the most effective mix of skills to come together to solve a particular problem while also meeting overall requirements for corporate survival and improvement. Principles like control and trust remain important but the emphasis shifts to problem-solving.

In this world, there are no simple industrial policy solutions. The solution is complex and specific to each company. Each company examines in detail and on an ongoing basis its relative performance across a range of indicators – cost, innovation, quality, customer service, and technology. There is no single model or road to development – however there is a mode of analysis and learning and that is a customised mix of innovative organisational arrangements.

There is wider evidence that this type of organisational change and focus on learning is receiving increasing prominence in the competitiveness agenda of Irish firms (O’Connell, 2001). The Council believes that enterprise policy needs to immerse itself in the process of business improvement. It must become an effective functioning part of local, regional, national and international networks of activities.

This approach to industrial development suggests that cost, quality, high technology, or core and peripheral locations no longer define the limits or possibilities for industrial development. The driving feature underpinning international industrial development is the set of organisational characteristics that enable any given firm to blend

cost, quality, technology and location in a manner that will maximise competitive performance.

The tendency to consider policy routes for competitiveness as either low cost or high quality is increasingly superseded by a focus on organisational characteristics. In concrete terms, evidence is now emerging, which suggests that, with a customised mix of innovative organisational arrangements, it is possible to develop new routes for competitive survival. In broad terms, these routes transcend the dualisms of old – cost versus quality/innovation, and national versus global.

International Market Access

Given the small size of our domestic market Ireland is obviously highly export dependent. Consequently, public policies that influence physical access to other countries and continents should be viewed as part of industrial and business development policy. While aviation policy and maritime policy must seek the development of the aviation and shipping industries, they must also focus on how these sectors can facilitate or inhibit the development of the wider economy.

While physical access to international markets is obviously vital, the Council believes that virtual access through the reduction and abolition of barriers to trade is equally important. The Council has argued that access to Europe through the Single European Market programme has been a vital contributor to Ireland's economic development both directly and also indirectly through the attraction of foreign direct investment to Ireland. The Council welcomes the enhanced opportunities for the free movement of goods that will come through EU enlargement. The Council also wishes to see a satisfactory outcome to ongoing discussions at the World Trade Organisation.

10.8 Agricultural, Food and Rural Development ²¹

Irish agricultural policy is significantly influenced by our

²¹ This section draws on a position paper prepared for the Council by Dr. Gerry Boyle of NUI Maynooth.

membership of the EU and by international agreements, such as the WTO, that are entered into by the Union on our behalf. Notwithstanding such constraints, however, it is important that Ireland has a clear and strategic approach in responding to and in influencing such externally determined policy initiatives.

The ‘European Model’ enshrines what may be regarded as the principle of *conditional competitiveness*. This principle implies that European agriculture and food production must be globally competitive but this must be achieved within the constraints of animal welfare standards, production practices (such as the non-use of artificial growth promoters), environmental standards and food traceability that are broadly acceptable to European taxpayers and consumers. While it may be reasonable to expect that in the long run the market will return a premium for food products that are produced according to these standards, it is clear that in the short to medium run European producers will be at a severe competitive disadvantage if corrective subsidies (in the form of CAP direct payments) are not permitted.

The primary role of agriculture in the EU is the production of high-quality food. It is clear that agriculture therefore fulfils important roles in addition to the production of foodstuffs and encompasses rural and environmental custodianship. The Fischler reforms proposed that future direct payments would be effectively be ‘decoupled’ from production (i.e. direct payments would be independent of current production levels). The implications of decoupling would probably be to reduce the levels of agricultural production and this may in turn impact negatively on output, employment and profitability levels in the food processing sector.

The Minister for Agriculture has proposed that the EU Commission should undertake a comprehensive impact analysis of the decoupling element of the Fischler proposals. He also recommended, as part of this analysis, that a full review of the farm income situation within the EU be undertaken. The Council supports this proposal but wishes to see it extended to encompass the food and agribusiness sectors. It also recommends that a similar

analysis be carried out on the Irish agricultural and food sector to inform the strategy that should be pursued by Ireland.

The Council supports the need to develop a profitable and competitively viable agriculture and food sector. The Council believes that there is substantial capacity in the twin policy pillars of ‘price and market’ and ‘structural’ policies to deliver ongoing development of the sector. In particular the Council supports ongoing Government intervention through research and advisory services, including programmes of agricultural training, to further improve competitiveness and measures to support increased diversity in rural and agricultural development combined with enhanced environmental sustainability.

10.9 Tourism Development

Given the climatic conditions and relative peripheral position, Ireland has traditionally ‘punched above its weight’ in the tourism industry. Tourism is a significant employer in Ireland, sustaining close to 140,000 jobs, up from 82,000 in 1990, and it is estimated that the hotels and guesthouses sector alone contributes 2.2 per cent of GNP (Department of Tourism, 2002; Irish Hotels Federation, 2001). In 2001, the tourist industry was subject to two unforeseeable negative shocks: visitor restrictions due to the Foot and Mouth Disease and the terrorism attacks in the United States.

The recently published consultancy report for the Irish Tourism Industry Confederation addresses the need for a future strategy for tourism. It shows a ‘deep deterioration’ in price competitiveness in the Irish tourism industry (Irish Tourist Industry Confederation, 2002). The report recommends the completion of a tourism development strategy which would focus on price competitiveness, access transport, enterprise development and quality of service. In addition the viability of developing new tourism regions should be examined.

In the early chapters of this report, the Council has noted that rapid extensive growth can bring certain problems, given the vulnerabilities of Ireland’s economic situation. This is particularly the case

in tourism where much of what is marketed as the Irish tourist experience is our natural landscape, culture and Irish hospitality. Rapid growth in tourist numbers alone may inhibit the delivery of this ‘core’ product, with the possibility of saturation, particularly in centres of rural tourism, such as Westport, Killarney or Cashel. In addition, the quality of the product (landscape, culture and hospitality) might be diluted as a result of rapid growth of the number of operators and the need to fill job vacancies rapidly.

Tourism makes a vital contribution to the local economy, particularly in rural areas. However, it is important that tourism dovetails with the local economy, both from the perspective of the local residents and for full enjoyment of the tourist experience. The Council believes that Ireland should continue a strategy that focuses less on visitor numbers and more on the revenue to be derived from visitors, particularly in rural areas.

The Council welcomes the consolidation of Bord Fáilte and CERT into one new authority. However, given that marketing of Ireland as a destination will now be carried out by Tourism Ireland, the Council believes that Bord Fáilte itself could have a reduced role. The training of personnel in key customer service attributes, and the reduction of staff turnover in the hospitality trade remains one of the key challenges for the tourism industry if it is to deliver on the high value-added strategy the Council envisions.

REFERENCES

- Barry, F. (ed.) (1999), *Understanding Ireland's Economic Growth*, London: Macmillan Press.
- Commission of the European Communities (2000), *Structural Indicators*, Com (2000) 594 Final, Brussels: European Commission.
- Crotty, W. and D. Schmitt (eds.), *Ireland on the World Stage*, Essex: Pearson Education.
- Daly, M. (2002), *Access to Social Rights in Europe*, Strasbourg: Council of Europe Publishing.
- Department of the Environment and Local Government (2002), *Housing Statistics Bulletin*, Various Quarters, Dublin: Stationery Office.
- Department of Finance (2001), *Framework for Public Private Partnerships*, Dublin: Department of Finance.
- Department of Health and Children (2001), *Annual Report of the Chief Medical Officer*, Dublin: Stationery Office.
- Department of Public Enterprise (2000), *Governance and Accountability: Policy Proposals*, Dublin: Department of Public Enterprise.
- Department of Tourism, Sport and Recreation (2002), *Establishment of a New Tourism Development Authority*, Dublin: Department of Tourism, Sport and Recreation.
- Duffy, D., J. Fitz Gerald, J. Hore, I. Kearney and C. MacCoille (2001), *Medium-Term Review: 2001 – 2007*, Dublin: ESRI.
- Expert Group on Future Skills Needs (EGFSN) (2002), *Prospects for 2002 and Beyond*, Dublin: Forfás.
- Esping-Andersen, G. (ed.) (1996), *Welfare States in Transition: National Adaptations in Global Economies*, London: Sage Publications.
- FÁS (2002), *The Irish Labour Market Review / 2002*, Dublin: FÁS – Training and Employment Authority.
- Fahey, T. (1999), *Success and Failure in Local Authority Housing: Causes and Remedies*, ESRI Seminar Paper, Dublin: ESRI.
- Fitz Gerald, J. (2001), “Fiscal Policy in a Monetary Union: The Case of Ireland”, in the *ESRI Quarterly Economic Commentary*, March 2001, Dublin: ESRI.

- Fitz Gerald, J. (2002), "Ireland in a Multi-Cultural Society" in Crotty, W. and D. Schmitt, *op. cit.*
- Fitzpatrick Associates (2002), *Evaluation of Investment in the Road Network*, Dublin: NDP/CSF Evaluation Unit.
- Forfás (2001), *Annual Competitiveness Report*, Forfás: Dublin.
- Goodbody Economic Consultants (2001), *Review of the National Anti-Poverty Strategy, Framework Document*. Dublin: Goodbody Economic Consultants.
- Government of Ireland (1999), *Ireland National Development Plan 2000 – 2006*, Dublin: Stationery Office.
- Government of Ireland (2001), *Ireland National Action Plan Against Poverty and Social Exclusion*, Dublin: Department of Social, Community and Family Affairs.
- Gray, A.W. (ed.) (1997), *International Perspectives on the Irish Economy*, Dublin: Indecon.
- Indecon (2002), *Evaluation of the Public Transport Priority*, Dublin: NDP/CSF Evaluation Unit.
- Irish Hotels Federation (2001), *Blueprint for the Future*, Dublin: IHF.
- Irish Tourist Industry Confederation (2002), *The Need for a Future Development Strategy*, Dublin: ITIC.
- Iversen, T. and A. Wren (1998), "Equality, Employment, and Budgetary Restraint: The Trilemma of the Service Economy", *World Politics*, 50, July: 507-46.
- Kirby, P. (2002), *The Celtic Tiger in Distress: Growth with Inequality in Ireland*, Hampshire: Palgrave.
- Krugman, P. (1997), "Good News from Ireland: A Geographical Perspective", in Gray, A.W (ed.) (1997), *op.cit.*
- Layte, R. and C.T. Whelan (2000), "The Rising Tide and Equality of Opportunity: The Changing Class Structure" in Nolan B., P.J. O'Connell and C.T. Whelan (eds.) *op.cit.*
- Marshall, T.H. (1964), "Citizenship and Social Class" in Marshall, T.H. *op.cit.*
- Marshall, T.H. (1964), *Class, Citizenship and Social Development*, Westport: Greenwood Press.

- Mishra, R. (1990), *The Welfare State in Capitalist Society: Policies of Retrenchment and Maintenance in Europe, North America, and Australia*, Toronto: University of Toronto Press.
- Mjoset, L. (1992), *The Irish Economy in a Comparative Institutional Context*, NESC Report No. 93, Dublin: NESC.
- National Anti-Poverty Strategy (12002), *Building an Inclusive Society: Review of the National Anti-Poverty Strategy under the Programme for Prosperity and Fairness*, Dublin: Department of Social, Community and Family Affairs.
- National Anti-Poverty Strategy (1997), *Sharing in Progress*, Dublin: Stationery Office.
- National Roads Authority (1998), *National Roads Needs Study*, Dublin: National Roads Authority.
- NCPP (2001), *Strategic Planning Discussion Document*, Dublin: NCPP.
- NESC (1981), *Industrial Policy and Development: A Survey of Literature from the Early 1960s to the Present*, Report No. 56, Dublin: NESC.
- NESC (1982), *A Review of Industrial Policy*, Report No. 64, Dublin: NESC.
- NESC (1986), *A Strategy for Development 1986-1990*, Report No. 83, Dublin: NESC.
- NESC (1989), *Ireland in the European Community: Performance, Prospect and Strategy*, Report No. 88, Dublin: NESC.
- NESC (1990), *A Strategies for the Nineties: Economic Stability and Structural Change*, Report No. 89, Dublin: NESC.
- NESC (1993), *A Strategy for Competitiveness, Growth and Employment*, Report No. 96, Dublin: NESC.
- NESC (1994), *New Approaches to Rural Development*, Report No. 97, Dublin: NESC.
- NESC (1996a), *Strategy into the 21st Century*, Report No. 99, Dublin: NESC.
- NESC (1996b), *Networking for Competitive Advantage*, Report No. 100, Dublin: NESC.

- NESC (1998), *Sustaining Competitive Advantage*, Proceeding of NESC Seminar, Dublin: NESC.
- NESC (1999), *Opportunities, Challenges and Capacities for Choice*, Report No. 105, Dublin: NESC.
- NESC (2001), *Review of the Poverty Proofing Process*, Report No. 106, Dublin: NESC.
- NESF (2002a), *A Strategic Policy Framework for Equality Issues*, Report No. 23, Dublin: NESF.
- NESF (2002b), *Early School Leavers*, Report No. 24, Dublin: NESF.
- Nolan B., P.J. O’Connell, and C.T. Whelan, (eds.) (2000), *Bust to Boom? The Irish Experience of Growth and Inequality*, Dublin: ESRI.
- O’Connell, L. (2001), *Breaking the Bounds of Peripherality: Irish Business in an Era of Multi Level Participative Internationalisation*, Ph.D. Dissertation, Dublin: UCD.
- O’Donnell, R. (2000), *Europe: The Irish Experience*, Dublin: IEA.
- O’Hearn, D. (2001), *The Atlantic Economic: Britain, the US and Ireland*, Manchester: Manchester University Press.
- Ó Riain, S. (2000), “The Flexible Developmental State: Globalisation, Information Technology and the Celtic Tiger”, *Politics and Society*, Vol. 28, No. 2, June: 157-193.
- OECD (2002), *Main Science and Technology Indicators*, Paris: OECD.
- Peillon, M. (2001), *Welfare in Ireland. Actors, Resources, and Strategies*, Westport, Connecticut and London: Praeger.
- PricewaterhouseCoopers (2002), *Comparative Consumer Prices in the Eurozone & Consumer Price Inflation in the Changeover Period*, Dublin: Forfás.
- Ryan J. and T. Forde (2002), *Baseline Survey of Commercialisation Staff and Skills in major R&D Performing Institutions in Northern Ireland and The Republic of Ireland*, Newry: InterTradeIreland, Unpublished Working Paper.
- UN (2002), *Concluding Observations of the Committee on Economic, Social and Cultural Rights*, E/C 12/1/Add. 77, New York: United Nations.

- Wood, A. (1994), *North-South Trade, Employment and Inequality: Changing Fortunes in a Skill-Driven World*, Oxford: Clarendon Press.
- Young, J. (1999), *The Exclusive Society*, London: Sage.

APPENDIX

Income Tax Allowances and Reliefs

Income Tax and/or Corporation Tax	Estimated Full Year Cost	
	€m	Year
Total Capital Allowances ²²	1649.2	1999/00
Rented Residential Accommodation (Section 23 type relief) (CT + IT)	19.8 #	2001/02
Section 84 (CT Only)	2.5	1999/00
Double Taxation Relief (CT + IT) ²³	181.4	1999/00
Investment in Films (S.35) (CT + IT)	24.2	1999/00
Group Relief (CT Only)	315.5	1999/00
Resort Relief ²⁴	Excess 317.4#	
Stallion Stud Fees	n/a	
Exemption of Forestry Profits	n/a	
Manufacturing Relief (CT only) ²⁵	2426.3	1999/00
Revenue Job Assist	2.7	1999/00
Exemption of Income of Charities, Colleges, Hospitals, Schools, Friendly Societies, etc.	87.1	1999/00
Exemption of Irish Government Securities where owner not ordinarily resident in Ireland	116.1	2000/01
Exemption of Statutory Redundancy Payments	11.6	1999/00
Reduced Tax Rate for additional redundancy payments	3.4	1999/00
Exemption from Tax of Certain Welfare Payments: Child Benefit Maternity Allowance	127.2 7.6	1999/00
Relief Under Profit Sharing Schemes	21.7	1999/00
Exemption Under Approved Share Option Schemes	3.1	1999/00
Investments in Corporate Trades (BES)	15.3	2001
Investment in Seed Capital	1.0	2000/01
Artists Relief	29.9	1999/00
Designated Irish Third World Charities	1.2	2000/01
Relief for Expenditure on Significant Buildings	1.9	1998/99
Service Charges	1.0	1999/00
Third Level College Fees	5.0	2000/01
Relief in Respect of Medical Insurance Premiums	160.0	2002
Health Expenses Relief	38.4	1999/00
Permanent Health Benefit contributions	3.6	2000/01

Income Tax Allowances and Reliefs – *continued*

Income Tax and/or Corporation Tax	Estimated Full Year Cost	
	€m	Year
Employees' Pension Contributions	456.0	1999
Employers' Pension Contributions	645.0	1999
Exemption of the Income of Pension Funds (Net of Pension Payments)	1274.0	1999
Self-employed Pension Contributions	169.5	1999/00
Mortgage Interest Relief	205.2	2003
Rent Paid in Private Tenancies: Over 55	1.0	2000/01
Under 55	17.2	2000/01
Expenses Allowable to Employees Under Schedule E	61.1	2000/01
Dispositions (Including Maintenance Payments made to Separated Spouses)	10.2	1999/00
Exemption of Interest on Savings Certificates etc.	81.9	1999/00

Source: Revenue Commissioners

Notes: CT = Corporation Tax

IT = Income Tax

= These figures are particularly tentative and subject to a considerable margin of error.

- 22 Cost of Urban Renewal is not currently available from the Department of the Environment. Commercial depreciation is not allowed for tax purposes. Normal annual wear and tear capital allowances are allowed by way of replacement. The above figure consists of all the wear and tear annual allowances for plant and machinery, industrial building and farm buildings as well as including accelerated allowances where appropriate. Most accelerated allowances have now disappeared.
- 23 Double Taxation Relief is allowed in accordance with International Double Taxation Agreements.
- 24 This figure shown for resort relief covers several years.
- 25 In regard to the reduced rate of tax for manufacturing profits, no account is taken of the fact that without these incentives, many enterprises might not have been set up here. To the extent that profits earned by such enterprises would not have been available for Irish tax purposes, part of the cost shown should be regarded as notional.

NATIONAL ECONOMIC AND SOCIAL COUNCIL PUBLICATIONS

NOTE: The date on the front cover of the report refers to the date the report was submitted to the Government. The dates listed here are the dates of publication.

<i>Title</i>	<i>Date</i>
1. Report on the Economy in 1973 and the Prospects for 1974	April 1974
2. Comments on Capital Taxation Proposals	July 1974
3. The Economy in 1974 and Outlook for 1975	Nov 1974
4. Regional Policy in Ireland A Review.....	Jan 1975
5. Population and Employment Projections: 1971-86.....	Feb 1975
6. Comments on the OECD Report on Manpower Policy in Ireland.....	July 1975
7. Jobs and Living Standards Projects and Implications	June 1975
8. An Approach to Social Policy	June 1975
9. Report on Inflation	June 1975
10. Causes and Effects of Inflation in Ireland.....	Oct 1975
11. Income Distribution: A Preliminary Report	Sept 1975
12. Education Expenditure in Ireland.....	Jan 1976
13. Economy in 1975 and Prospects for 1976	Oct 1975
14. Population Projects 1971-86: The Implications for Social Planning – Dwelling Needs	Feb 1976
15. The Taxation of Farming Profits.....	Feb 1976
16. Some Aspects of Finance for Owner-Occupied Housing	June 1976
17. Statistics for Social Policy.....	Sept 1976
18. Population Projections 1971-86: The Implications for Education.....	July 1976
19. Rural Areas: Social Planning Problems.....	July 1976
20. The Future of Public Expenditure.....	July 1976
21. Report on Public Expenditure	July 1976
22. Institutional Arrangements for Regional Economic Development.....	July 1976
23. Report on Housing Subsidies	Feb 1977
24. A Comparative Study of Output, Value-Added and Growth in Irish and Dutch Agriculture.....	Dec 1976
25. Towards a Social Report	Mar 1977
26. Prelude to Planning	Oct 1976
27. New Farms Operators, 1971 to 1975	April 1977
28. Service-type Employment and Regional Development.....	July 1977
29. Some Major Issues in Health Policy	July 1977
30. Personal Incomes by County in 1973	July 1977
31. The Potential for Growth in Irish Tax Revenues.....	Sept 1977
32. The Work of NESc: 1974-1976.....	Sept 1977
33. Comments on Economic and Social Development, 1976-1980	July 1977
34. Alternative Growth Rates in Irish Agriculture	Oct 1977
35. Population and Employment Projections 1986: A Reassessment	Oct 1977
36. University and Selectivity: Strategies in Social Policy.....	Jan 1978
37. Integrated Approaches to Personal Income Taxes and Transfers	Mar 1978
38. University and Selectivity: Social Services in Ireland	June 1978
39. The Work of the NESc: 1977	June 1978
40. Policies to Accelerate Agriculture Development	Sept 1978
41. Rural Areas: Change and Development	Sept 1978
42. Report on Policies for Agricultural and Rural Development	Sept 1978

43. Productivity and Management.....	Feb 1979
44. Comments on Development Full Employment.....	Dec 1978
45. Urbanisation and Regional Development in Ireland.....	June 1979
46. Irish Forestry Policy.....	Sept 1979
47. Alternative Strategies for Family Income Support.....	April 1980
48. Transport Policy.....	Mar 1980
49. Enterprises in the Public Sector.....	May 1980
50. Major Issues in Planning Services for Mentally and Physically Handicapped Persons.....	Oct 1980
51. Persons Incomes by Regions in 1977	
52. Tourism Policy.....	Dec 1980
53. Economic and Social Policy 1980-83: Aims and Recommendations.....	Nov 1980
54. The Future of the National Economic and Social Council.....	Feb 1981
55. Urbanisation: Problems of Growth and Decay in Dublin.....	Sept 1981
56. Industrial Policy and Development: A Survey of Literature from the Early 1960s to the Present.....	Feb 1981
57. Industrial Employment and the Regions 1960-82.....	May 1981
58. The Socio-Economic Position of Ireland within the European Economic Community.....	Sept 1981
59. The Importance of Infrastructure to Industrial Development in Ireland – Roads, Telecommunications and Water Supply.....	Sept 1981
60. Minerals Policy.....	Oct 1981
61. Irish Social Policy: priorities for Future Development.....	Nov 1981
62. Economic and Social Policy 1981 – Aims and Recommendations.....	Oct 1981
63. Population and Labour Force Projections by County and Region, 1979-1991.....	Oct 1982
64. A Review of Industrial Policy (A Summary of this report is available separately).....	Oct 1982
65. Farm Incomes.....	Nov 1982
66. Policies for Industrial Development: Conclusions and Recommendations.....	Oct 1982
67. An Analysis of Job Losses in Irish Manufacturing Industry.....	June 1983
68. Social Planning in Ireland: Its Purposes and Organisational Requirements.....	April 1983
69. Housing Requirements and Population Change, 1981-1991.....	August 1983
70. Economic and Social Policy 1982: Aims and Recommendations.....	April 1983
71. Education: The Implications of Demographic Change.....	April 1984
72. Social Welfare: The Implications of Demographic Change.....	April 1984
73. Health Services: The Implications of Demographic Change.....	April 1984
74. Irish Energy Policy.....	April 1984
75. Economic and Social Policy 1983: Aims and Recommendations A Review of the Implications of Recent Demographic Changes for Education, Social Welfare and the Health Services (Background Paper).....	April 1984
76. The Role of Financing the Traded Sectors.....	Oct 1984
77. The Criminal Justice System: Policy and Performance.....	Feb 1985
78. Information for Policy.....	July 1985
79. Economic and Social Policy Assessment.....	Jan 1985
80. The Financing of Local Authorities.....	May 1985
81. Designation of Areas for Industrial Policy.....	Nov 1985

82. Manpower Policy in Ireland.....	Jan 1986
83. A Strategy for Development 1986-1990 (A Summary of this report is available separately)	Nov 1986
84. Community Care Service: An Overview	Nov 1987
85. Redistribution Through State Social Expenditure in the Republic of Ireland: 1973-1980.....	Dec 1988
86. The Nature and Functioning of Labour Markets.....	Dec 1988
87. A Review of Housing Policy	Mar 1989
88. Ireland in the European Community: Performance, Prospects and Strategy ..	Sept 1989
89. A Strategy for the Nineties: Economic Stability and Structural Change.....	Oct 1990
90. The Economic and Social Implications of Emigration	May 1991
91. Women's Participation in the Irish Labour Market.....	Jan 1992
92. The Impact of Reform of the Common Agricultural Policy	May 1992
93. The Irish Economy in a Comparative Institutional Perspective.....	Jan 1993
94. The Association between Economic Growth and Employment	
95. Education and Training Policies for Economic and Social Development	Oct 1993
96. A Strategy for Competitiveness, Growth and Employment	Nov 1993
97. New Approaches to Rural Development	Feb 1995
98. Strategy into the 21st Century: Conclusions and Recommendations	Oct 1996
99. Strategy into the 21st Century	Nov 1996
100. Networking for Competitive Advantage	Nov 1996
101. European Union: Integration and Enlargement	Mar 1997
102. Population Distribution and Economic Development: Trends and Policy Implications	Dec 1997
103. Private Sector Investment in Ireland	Feb 1998
104. Opportunities, Challenges and Capacities for Choice, Overview.....	Dec. 1999
105. Opportunities, Challenges and Capacities for Choice.....	Dec. 1999
106. Review of the Poverty Proofing Process.....	Dec. 2001
107. Benchmarking the Programme for Prosperity and Fairness.....	Jan. 2002
108. National Progress Indicators	Jan. 2002
109. Achieving Quality Outcomes: The Management of Public Expenditure.....	Dec. 2002
110. An Investment in Quality: Services, Inclusion and Enterprise	Dec. 2002

NESC Research Series

RS

1. Clusters in Ireland The Irish Dairy Processing Industry: An Application of Porter's Cluster Analysis	Nov 1997
2. Clusters in Ireland The Irish Popular Music Industry: An Application of Porter's Cluster Analysis	Nov 1997
3. Clusters in Ireland The Irish Indigenous Software Industry: An Application of Porter's Cluster Analysis	Nov 1997

Proceedings of NESC Seminar

Sustaining Competitive Advantage.....	Mar 1998
---------------------------------------	----------

