NATIONAL ECONOMIC AND SOCIAL COUNCIL

Opportunities, Challenges and Capacities for Choice

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PREFACE

Since 1986, the National Economic and Social Council has produced four 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), and *Strategy into the 21st Century* (1996) – 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 fifth review of economic and social strategy entitled *Opportunities, Challenges and Capacities for Choice*. The *Overview, Conclusions and Recommendations* has already been published as NESC Report, No. 104.

This report, which was prepared prior to *Budget 2000*, is divided into three parts as follows: Part I, entitled Background for Strategy, has three chapters that review the changing context for policy development in Ireland over the past decade and outline the challenges of economic integration. It includes the Council's vision of the kind of society we should and can aspire to over the next decade.

Part II outlines the underpinning required to deliver this vision in an economically, socially and environmentally sustainable way. It is divided into two parts. Part IIA, entitled Adjustment to Further Economic and Social Integration, has five chapters. Chapters 4 to 8 present analyses of macroeconomic policy, fiscal policy, wage determination, labour market adaptability and employability, and enterprise policy. Part IIB, entitled Tackling Key Societal Imbalances and Enhancing Social Inclusion, has three chapters. An analysis of unemployment, poverty and social exclusion in Chapter 9 is followed by consideration of policy in regard to infrastructure in Chapter 10 and housing in Chapter 11. Part III, entitled Adapting Institutional Structures, has two chapters. Chapter 12 presents an analysis of institutional structures and how they should be adapted to ensure an effective policy process. This is followed a by brief concluding chapter which highlights key dimensions of the Council's vision and of the strategy for its achievement.

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1 The chapters have been renumbered since the publication of the *Overview, Conclusions and Recommendations* in NESC Report No. 104.

ABBREVIATIONS

ABP	Area Based Partnership
APSS	Approved Profit Sharing Schemes
ASTI	Association of Secondary Teachers in Ireland
BERD	Business Expenditure on Research and Development
BES	Business Expansion Scheme
BIM	Board Iascaigh Mhara
BLG	Better Local Government
BMW	Border, Midland and Western Region
BTWA	Back to Work Allowance
CAP	Common Agricultural Policy
CAT	Capital Acquisitions Tax
CB	Child Benefit
CBI	Confederation of British Industry
CCI	Chamber of Commerce of Ireland
CEC	Commission for the European Communities
CEEC	Central and Eastern European Country
CEEP	European Centre of Enterprises with Public Participation
CFP	Common Fisheries Policy
CGT	Capital Gains Tax
CHP	Combined Heat & Power
CIF	Construction Industry Federation
CORI	Conference of Religious of Ireland
CP	Community Platform
CPI	Consumer Price Index
CSF	Community Support Framework
CSO	Central Statistics Office
DAC	Development Assistance Committee
DETE	Department of Enterprise, Trade and Employment
DG	Directorate General
DBG	Delivering Better Government
DIRT	Deposit Interest Retention Tax
DSCFA	Department of Social, Community and Family Affairs
DTI	Dublin Transportation Initiative
DTO	Dublin Transportation Office
EAGGF	European Agricultural Guarantee and Guidance Fund
EAP	Employment Action Plan
ECB	European Central Bank
Ecofin Council	Council of European Union Economics and Finance Ministers
EHB	Eastern Health Board
EMU	Economic and Monetary Union
EPOC	Employee Direct Participation in Organisational Change
ERHA	Eastern Regional Health Authority
ERM	Environment Resources Management
ESDP	European Spatial Development Perspective
ESF	European Social Fund
ESOT	Employee Share Ownership Trust

ESRI	Economic and Social Research Institute
ETUC	European Trade Union Confederation
EU	European Union
FÁS	Training and Employment Authority
FDI	Foreign Direct Investment
FIT	Fast Track to Information Technology Initiative
G7	Group of seven most industrialised countries: US, Canada, France, Germany, UK, Italy and Japan. Sometimes called G8 when Russia attends meetings.
GAIE	Gross Average Industrial Earnings
GAO	General Accounting Office
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
GNP	Gross National Product
HR	Human Resources
IBEC	Irish Business and Employers Confederation
ICMSA	Irish Creamery Milk Suppliers Association
ICOS	Irish Co-operative Organisation Society
ICSTI	Irish Council for Science, Technology and Innovation
ICT	Information and Communications Technology
ICTU	Irish Congress of Trade Unions
IDA	Industrial Development Agency
IEA	Institute of European Affairs
IFA	Irish Farmers’ Association
IFSC	International Financial Services Centre
ILO	International Labour Organisation
IMPACT	The Pubic Sector Union
IMF	International Monetary Fund
INOU	Irish National Organisation of the Unemployed
IPA	Institute for Public Administration
IPC	Irish Productivity Centre
IT	Information Technology
LR	Live Register
LTU	Long–term Unemployment
MNC	Multinational Corporation
NACE	General Industrial Classification of Economic Activities in the European Community
NAIE	Net Average Industrial Earnings
NAPS	National Anti-Poverty Strategy
NCP	National Centre for Partnership
NDP	National Development Plan
NESF	National Economic & Social Forum
NGO	Non-governmental Organisation
NOW	New Opportunities for Women
NSDS	National Spatial Development Strategy
NUI	National University of Ireland
NWCI	National Womens’ Council of Ireland
NWO	New Forms of Work Organisation

NYI	National Youth Council of Ireland
OECD	Organisation for Economic Co-operation and Development
P2000	Partnership 2000
PAYE	Pay As You Earn
PC	Personal Computer
PCW	Programme for Competitiveness and Work
PES	Principle Economic Status
PESP	Programme for Economic and Social Progress
PNR	Programme for National Recovery
PPP	Public Private Partnership
PRI	Policy Research Initiative
PRP	Performance–related pay
PRSI	Pay-related Social Insurance
PTJI	Part-time Jobs Initiative
QNHS	Quarterly National Household Survey
R&D	Research and Development
REPS	Rural Environment Protection Scheme
RTD	Research and Technological Development
RTDI	Research, Technological Development and Innovation
S&E	Southern and Eastern Region
SAYE	Save As You Earn
SDZ	Strategic Development Zone
SEWG	Social Economy Working Group
SFA	Small Firms Association
SFADCo	Shannon Free Airport Development Company
SIPTU	Services Industrial Professional Technical Union
SME	Small and Medium-sized Enterprise
SMI	Strategic Management Initiative
SW	Social Welfare
SWA	Supplementary Welfare Allowance
SWITCH	Simulating Welfare and Income Tax Changes
TAC	Total Allowable Catch
TEN	Trans European Network
TLA	Third Level Allowance
UCD	University College Dublin
UN	United Nations
UNCTAD	United Nations Conference on Trade & Development
UNICE	Union of Industrial and Employers Confederations of Europe
UWWTD	Urban Waste Water Treatment Directive
VAT	Value-Added Tax
VRT	Vehicle Registration Tax
VTOS	Vocational Training Opportunities Scheme
WTO	World Trade Organisation

PART I

Background for Strategy

CHAPTER 1

THE CHANGING CONTEXT FOR POLICY DEVELOPMENT

1.1 INTRODUCTION

The 1999 NESC Strategy exercise comes at the end of a five-year period of robust economic and employment growth that has greatly changed popular perceptions and expectations in Ireland. This contrasts strongly with the dire economic conditions that confronted the social partners in 1986 when the first Strategy document was produced by the Council. Unwelcome as these conditions were they stimulated agreement by the social partners on difficult economic and social priorities. They also inspired a shared goal of a society that would achieve a level of economic and monetary stability, would secure employment growth and would allow participation in Economic and Monetary Union (EMU). This goal and the associated strategy provided the consistent framework for action that yielded success.

We have now attained EMU membership and are recognised as a success story in terms of key macroeconomic characteristics by European Union (EU) and Organisation for Economic Co-operation and Development (OECD) standards. Furthermore, by historical standards we have attained an impressive level of prosperity characterised by sustained population and employment growth, falling unemployment, increasing living standards for those in employment and sustained net immigration. This prosperity signals enormous capacity for action to make success self-sustaining and to handle deficits, but it also signals risks.

For a decade now, the economy has shown record expansion and after a slow start employment growth has recently been buoyant. Serious problems certainly remain – in fact they are starker against the transformed background. Nonetheless for the first time in many years Ireland has the capacity both to press on with economic development – where there is some way to go yet – as well as to tackle important remaining deficits. But unless these objectives are deliberately pursued, the opportunity to achieve both goals as part of a coherent vision could be missed.

Before outlining the Council's view of the sort of economy and society Ireland should aspire to build over the next decade, which we do in Chapter 2, it is important to situate Irish society at the end of the 1990s in terms of key changes over the past twelve years of partnership agreements. By referring to Irish society we are emphasising that this Strategy report is informed by a broad range of considerations and not exclusively by economic or social policy considerations. The aim is to present an analysis that recognises the interaction of social, economic and environmental factors within the framework of Ireland's changing demographic characteristics and within the context of increasing economic integration at several levels. None of these changes is occurring in isolation, all are linked and mutually interacting.

Ireland's dramatic macroeconomic changes since the mid-1980s have been extensively rehearsed over the past couple of years and have been the subject of analysis by several Irish and international experts (for example, Duffy *et al*, 1997 and 1999; Gray (ed.), 1997; Sweeney, 1997; O'Hearn, 1998; Barry (ed.), 1999). There is not universal agreement on the sources of Ireland's current economic success but all analysts agree on the importance of the consensus on key economic and monetary objectives which has characterised the period since 1987 and of the demographic and educational dividends that we have enjoyed. Another key factor is the consistency of adherence to policies to achieve overarching objectives such as meeting the criteria for EMU. The broader story of social change in Ireland has received less attention and accounts published in the 1990s have tended to focus on change since the 1960s to the end of the 1980s or early 1990s rather than the recent decade. These analyses paint a picture of a society that has changed rapidly since the 1960s: it is younger, better educated, more urbanised; it is characterised by considerably increased participation of women in the labour market and in the public sphere in general; it is more diverse in its social structure and more open to change; it is also a society in which marked social inequalities persist (Breen *et al*, 1990; O'Connell and Rothman, 1992; Clancy *et al* (eds), 1995; McLaughlin, 1993). The latter conclusion is not challenged by more recent evidence (for example, Callan *et al*, 1999; Curtin, Haase and Tovey (eds), 1996; Barry, 1998; Collins and Kavanagh, 1998; Nolan, Whelan and Williams, 1998; O'Connor, 1998; Peillon and Slater (eds), 1998) and the deficits are, to a considerable extent, more obvious because of the remarkable successes and the overall transformation of the society.

In analysing Irish society in 1999, in the context of change over the twelve years since the first partnership agreement, these two dimensions of performance – the success and the deficits dimensions – must be recognised if we are to build constructively on our achievements. The first is the more widely-discussed dimension and leads to a focus on managing economic success and maintaining its momentum in the context of increased economic integration. This entails recognition that we now have a high-performance economy, that yields significant employment increases and the resources that allow a wider range of policy choices; there have been major improvements in educational participation and completion rates and involuntary emigration has been replaced by immigration; we have a National Anti-Poverty Strategy (NAPS) that has been successful in terms of several of its, albeit modest, targets; we have a range of equality legislation, structures and institutional mechanisms that enhance the prospects of real progress in this area; despite difficulties and delays in implementation, we have a commitment to differential impact assessment at policy design and review stages, as reflected in poverty and equality proofing and we have a broad partnership ethos that pervades the policy process. Addressing the deficits can be a broadly or narrowly focused exercise. A narrow focus would necessitate analysis of those deficits that directly militate against the maintenance and enhancement of economic success: physical infrastructure and other competitiveness deficits; housing choice, affordability and supply deficits; educational disadvantage; deficits in childcare services that inhibit labour force and/or educational participation. A broader focus would consider deficits in terms of more encompassing conceptions of economic and social progress, based on a broader view of the determinants of competitiveness and a long-term perspective on economic development. It would entail taking into account broad equality and environmental considerations and the side-effects of success. It would also entail recognition of sustainability in economic, social and environmental terms.

Addressing the two dimensions does not imply discrete projects. For example, managing economic success and maintaining its momentum are dependent on success in addressing a broad range of deficits both economic and social. Maintaining competitiveness is a prerequisite for lessening social exclusion and enhancing social cohesion. It is now recognised that many of the problems associated with social exclusion, such as educational disadvantage, long-term unemployment, poverty, homelessness, drug addiction and certain forms of crime are constraints on economic development and on the competitiveness that underpins economic development. Furthermore, these are indicative of failures in several policy areas. These policy areas include infrastructural development and its spatial distribution, education, labour market, housing, health and social welfare policy and often reflect failure to co-ordinate policy across areas to meet particular needs. Solutions to these problems imply the need for an integrated approach to social inclusion, employment and competitiveness. While it is recognised that social cohesion is essential to the achievement and maintenance of the partnership ethos that has developed over the past decade, it must also be recognised that sustainable social cohesion needs a broad base. Social exclusion is likely to threaten this. The simultaneous achievement of these various dimensions of societal success means that our overarching policy objective must be to sustain economic success while incorporating as broad a range as possible of the population in its production and distributing the gains in a way that will enhance social cohesion, lessen social exclusion and not militate against economic competitiveness. This raises the issue of the self-sustaining balance amongst income-creating activities, service provision, income distribution and redistribution.

Section 1.2 provides an overview of where Ireland is located relative to its past performance on key economic and socio-economic indicators, taking 1987 as a base year. Section 1.3 broadens the discussion to take into account key indicators of social inclusion and social protection. Section 1.4 identifies issues related to competitiveness. Section 1.5 points to the changing context and identifies possibilities and constraints associated with rural-urban population distribution, and with demographic, educational and labour force changes. The policy context is influenced not only by quantifiable changes such as these and their consequences but also by qualitative, cultural and attitudinal changes, some of which characterise all developed societies and some which are relatively unique to the Irish context. Section 1.6 identifies success and deficit and/or imbalance in relation to infrastructure, housing and environmental sustainability. It distinguishes deficits and/or imbalances that are a side-effect of success, those that are the result of policy failure and those that have arisen because new issues have attained prominence in public policy. Section 1.7 concludes and outlines the structure of the report.

1.2 1987 TO 1999 – CONSISTENCY, SUCCESS AND OPPORTUNITIES

Nineteen eighty-seven is recognised as a breakpoint in contemporary patterns of social partnership and social cohesion in Ireland (Box 1.1). It is also identified as a breakpoint in terms of key economic and socio-economic outcomes. The importance of consensus on key monetary, economic and social objectives and the partnership ethos reflected in the four multi-annual national agreements have been acknowledged as key contributors to the economic and socio-economic success of the past decade (Duffy *et al.*, 1997; Government of Ireland, 1991, 1994 and 1996; Gray, 1997; NESC, 1990, 1993a and 1996a; Sweeney, 1997).

Table 1.1 indicates remarkable progress over the 12 year period from 1987-1999 on several key measures of macroeconomic and socio-economic performance. This is most dramatically reflected in the increase in employment, the decrease in unemployment and the change from budget deficit to surplus. A comparative focus also indicates remarkable success as is outlined in Table 1.2 (and Appendix Table A1.1) where Irish performance is situated relative to EU and OECD averages and relative to the performance of the United Kingdom (UK) and the United States (US) and three small

BOX 1.1

NESC Strategy Documents and National Programmes	
NESC Strategy Documents	National Programmes
1986: *A Strategy for Development*	1987-1990: **Programme for National Recovery (PNR)**
1990: *A Strategy for the Nineties*	1991-1993: **Programme for Economic and Social Progress (PESP)**
1993: *A Strategy for Competitiveness, Growth and Employment*	1994-1996: **Programme for Competitiveness and Work (PCW)**
1996: *Strategy into the 21st Century*	1997-1999: **Partnership 2000 for Inclusion, Employment and Competitiveness 1997-99 (P2000)**

open economies: Denmark, the Netherlands and New Zealand. Ireland's performance on GDP volume and employment growth is far in excess of all these comparators in the 1997-99 period, as is its decrease in the percentage of the labour force unemployed.

1.2.1 *Partnership 2000*

The success of the first three national programmes in terms of key macroeconomic indicators, living standards for those at work and in employment creation meant that the conditions in which the 1997 national agreement was negotiated differed very significantly from those of 1987:

> Over the period of the three national programmes, 1987 to 1996, there has been strong economic and employment growth, particularly in comparison to the EU and the OECD, which has been accompanied by low inflation, a significant fall in government deficit and debt ratios and a considerable increase in living standards (Government of Ireland, 1996: 9).

This changed context is reflected in a shift in the Council's 1996 *Strategy into the 21st Century* from the emphasis on coping with adversity that characterised previous strategy documents to managing economic success. This led to a focus on the evolution of the 'Irish

TABLE 1.1

Key Indicators of Macroeconomic and Socio-Economic Performance, 1987-1999

	1987-1990	1991-1993	1994-1996	1997-1999e
GNP % change	4.9	2.2	7.4	7.5
GDP % change	5.5	2.8	8.4	8.5
GDP per capita % change	5.8	2.3	8.5[1]	—
Inflation	3.1	2.5	2.2	2.0[2]
Employment (annual % change)	1.5	0.6	4.0	4.9
Labour Force Participation rate Male	83.2	75.9[3]	75.8	75.6[4]
Labour Force Participation rate Female	38.1	45.4[3]	47.5	49.7[4]
Unemployment % of the Labour Force	15.9	15.5	12.8	8.5
Long-term Unemployment % of the Unemployed	64.2	59.4	61.7	52.3[5]
Budget Deficit/Surplus	-4.3	-2.4	-1.6	+1.3[6]
Debt/GDP	107.2	94.3	80.2	59.2[6]
Debt/GNP	121.4	107.6	93.9	70.0

e: estimates.

[1] *1994-1995;* [2] *1997-1998;* [3] *1993;* [4] *1997;* [5] *April 1997-May 1998.* Calculated from CSO Quarterly National Household Survey Dec.-Feb. 1998, March-May 1998. [6] 1997-1998.

Sources*:*

GNP and GDP: 1987-1990, 1991-1993 CSO *Revised Economic Indicators since 1960: 1.*

1994-1996 Department of Finance (1998) Economic and Budgetary Statistics*: Table 13. 1997-1999 OECD (1998a), Economic Outlook. Paris: OECD, 63*:*103.*

GDP per capita % change: 1987-1990, 1991-1993 CSO *Revised Economic Indicators since 1960*: 3. 1994-95 OECD (1998b) *Historical Statistics* 1960-1995: Paris: OECD 50.

Inflation: 1987-1990, 1991-1993. OECD, (1998b). 1994-1996: *Budgetary and Economic Statistics* Table 56. 1997-1999 figure for Ireland from Central Bank, *Winter 1998*:40.

Employment (annual % change): Figures from *OECD 1998a*: 244. 1994-1996 and 1997-1999 figures from Department of Finance 1998, *Budget 1999.*

Labour Force Participation: 1987-1990 figures from OECD *1998b*: 41. OECD 1998a: 191-193.

Unemployment as a % of the Labour Force: 1987-1990, 1991-1993 OECD 1998b: 45. 1994-1996 figures from European Commission (1997a) *Employment in Europe 1994-6: 124.* 1997-1999 figures from *European Economy Supplement A: Economic Trends, 1998.*

LTU as a % of the Unemployed: Eurostat *Year Book, A Statistical Eye on Europe 1986-1996*: 127.

Budget deficit/surplus and general government debt as a % of GDP from Department of Finance 1998, Table 8; Debt/GNP calculated from Department of Finance data.

TABLE 1.2

Key Indicators of Macroeconomic Performance 1994-1996 and 1997-1999: Ireland in a Comparative Context

1994-1996	GDP Volume (annual % change)	Inflation	Employment (annual % change)	Unemployment (as a % of labour force)	Long-term Unemployment (as a% of the unemployed)	Budget Deficit/ Surplus
Denmark	3.4	2.1	0.9	7.4	28.9	-1.9
Ireland	**8.5**	**2.2**	**3.7**	**12.8**	**61.7**	**-1.6**
Netherlands	2.9	2.3	1.4	6.8	48.4	-3.2
New Zealand	4.0	2.6	4.1	6.8	26.1	+3.0
UK	2.9	2.7	1.1	8.8	42.9	-5.7
United States	2.8	2.8	1.7	5.7	10.4	-1.8
Total EU 15	2.3	2.8	0.2	10.9	48.7[1]	-5.1
OECD – Total	2.6	5.3	1.0	7.4	34.3	-3.1
1997-1999e						
Denmark	3.0	2.1[2]	2.0	6.6	27.2	+1.1
Ireland	**8.5**	**2.0**[2]	**4.9**	**8.7**	**52.3**	**+1.3**
Netherlands	3.4	2.1[2]	2.1	4.5	49.1	-1.5
New Zealand	3.1	1.2[3]	0.9	7.2	19.5	+1.2
UK	2.4	2.2	0.7	6.6	38.6	-1.0
United States	2.9	1.9[2]	1.5	4.5	8.7	0.25
Total EU15	2.6	1.8	0.8	10.6	50.2	-2.0
OECD – Total	2.6	2.6	1.2	7.1	32.7	-1.1

e: estimates; [1] 1995-1996; [2] 1997-1998; [3] 1997

GDP Volume: OECD 1998a *Economic Outlook, Paris: OECD: viii and 225.*

Inflation: 1994-1996 Department of Finance *Budgetary and Economic Statistics* Table 56. 1997-1999 figure for Ireland, US, the Netherlands and Denmark from Central Bank, *Quarterly Winter* 1998:40; UK, Total EU15 and OECD Total from *European Economy Supplement A: Economic Trends*, 1998. New Zealand from OECD, (1998a): 240

Employment (annual % change): *OECD (1998a):* 244

Unemployment (% of labour force): 1994-1996 European Commission (1997a) *Employment in Europe 1994-6*: 124. US and New Zealand figures from OECD (1998a): 245. 1997-1999 figures from *European Economy Supplement A: Economic Trends*, 1998

LTU as a % of the Unemployed: *OECD (1998a), Employment Outlook, Paris: OECD: 245.*

model' of economic management and a strong emphasis on broadening and deepening partnership at several levels and enhancing social inclusion. Consistent with the Council's analysis, *Partnership 2000 for Inclusion, Employment and Competitiveness* (P2000), agreed at the end of 1996, and covering the years 1997 to 1999, made a commitment to the continuance of the successful macroeconomic strategy pursued by the previous programmes. The concern with social equity in the earlier programmes shifted to a concern with social inclusion, which would be pursued as an integral part of the programme and "as a strategic objective in its own right" (Government of Ireland, 1996: 4.4). The social inclusion commitment was most clearly reflected in the proposed adoption of a National Anti-Poverty Strategy addressing unemployment, particularly long-term unemployment, educational disadvantage, income adequacy, disadvantaged urban communities and rural poverty. *Partnership 2000* also proposed "a new focus on equality" in relation to women, to people with disabilities and members of the Traveller community.

The success in macroeconomic measures achieved in the earlier programmes was enhanced through *Partnership 2000*. GNP grew by 8.0 per cent and 8.5 per cent in 1997 and 1998 respectively. The corresponding figures for GDP are 9.8 and 9.5 per cent. The government accounts shifted to surplus in 1997 and this reached two per cent in 1998. The debt/GDP ratio was reduced to 52 per cent, and the debt/GNP ratio to 68 per cent in 1998 and inflation has been maintained at a low level, 1.5 and 2.5 per cent in 1997 and 1998 respectively. Employment growth has exceeded the three-year projection of 114,000 and had reached 135,000 by the end of 1998. Despite net migration of 15,000 in 1997 and 22,800 in 1998, the unemployment rate had fallen to 6.4 per cent by the end of 1998 and this included a significant decrease in long-term unemployment as a percentage of total unemployment; this had decreased to 48.7 per cent by the last quarter of 1998. The mid-1999 unemployment figure was 5.7 per cent compared to an EU average of 9.8 per cent although five EU states still have significantly lower rates of unemployment than Ireland: the Netherlands (3.6 per cent), Denmark (4.6 per cent), Portugal and Austria (4.4 per cent) and Luxembourg (2.0 per cent).

The employment growth throughout the 1990s and in particular the employment creation record since 1994 – 197,000 jobs were created between 1994 and 1997 and 72,000 between 1997 and 1998 (September-November) – brought the numbers at work to almost 1.6 million compared to 1.2 million in 1994 and less than 1.1 million in 1987 (CSO, *Labour Force Surveys* and *Quarterly National Household Survey*, May 1999). Despite this, and the more than halving of long-term unemployment in the period from April 1996 to September to November 1998 – from 7.0 per cent to 3.1 per cent (NAPS, 1999: 51), there are still significant policy issues to be addressed in the area of long-term unemployment and its prevention, particularly in view of skill shortages at several levels of the labour market. These issues include active labour market policies, early-school-leaving in the context of labour shortages and the social economy. The first two are addressed in Chapter 7, within the context of national Employment Action Plan which has set a revised target of reducing the unemployment rate to five per cent and the long-term rate to two per cent by the end of the year 2000 (Department of Enterprise, Trade and Employment, 1999). All three are addressed in Chapter 9 in relation to long-term unemployment and action to address it.

We need to put our recent success (summarised in Table 1.1) and our favourable comparative location (summarised in Table 1.2) in a broader context if we are to get a rounded view of our situation that takes employment, competitiveness and social inclusion into account. Selected elements of the broader socio-economic profile of the country that are pertinent in this context are the level and change over time in poverty and social protection, the changing demographic and educational characteristics of the population, the changing sectoral composition of the labour force and Ireland's location on key competitiveness indicators.

1.3 SOCIAL INCLUSION, POVERTY AND SOCIAL PROTECTION

Social inclusion has been an objective of public policy not only in Ireland but in the EU as an institution and in several other member countries for at least a decade. Rather than being succinctly defined, social inclusion is usually used to denote the obverse of social exclusion. This is defined in *Partnership 2000* as cumulative marginalisation from production (unemployment), consumption (income poverty), social networks (family, neighbourhood and community), decision-making and from an adequate quality of life (Government of Ireland, 1996: 4.3). There is widespread acknowledgement that unemployment is the key contributor to social exclusion. Consequently, its significant reduction, in particular the halving of long-term unemployment between 1996 and 1999, has contributed to the reduction of the overall level of social exclusion over the past few years. But, as was recognised in the National Anti-Poverty Strategy (NAPS), unemployment is not the only contributor to social exclusion. Poverty and educational disadvantage are significant contributors in their own right, as are less than adequate income maintenance payments and urban and rural disadvantage (NAPS, 1997). We address these issues in Chapter 9 in the context of our discussion of Poverty, Unemployment and Social Exclusion. Increasingly it is recognised that housing status is a significant contributor to social exclusion. We address this issue in Chapter 11 in the context of an integrated approach to housing policy. In the next section we present a brief overview of key findings of the *Living in Ireland Survey* (LIIS) (Callan *et al* 1996a and 1999) and social protection measures with a view to broadening our overview of the context within which this Strategy is being prepared. In contrast to data on key macroeconomic indicators, employment and unemployment, data on poverty and social protection are not as recent. The latest poverty data come from the 1997 *LIIS* published this year (Callan *et al*, 1999). The EU comparable social protection measures are for 1996.

1.3.1 Social Protection, Relative Income Poverty and Consistent Poverty

Social transfer payments in Ireland, as elsewhere, greatly mitigate the marked inequality in the distribution of direct income that characterises all developed economies. Social protection expenditure in Ireland was 19 per cent of GDP in 1996 – this was the lowest expenditure in the EU where average and median social protection expenditures were 28 and 29.5 per cent of GDP respectively (Table 1.3). However, the Irish expenditure as a percentage of GNP was 22 per cent and this is the more appropriate indicator in the case of Ireland. Neither of the figures reflect marked changes from 1980 or 1990, although both have been one percentage point higher in particular past years. Because of Ireland's increasing GDP and GNP, the 1996 figures reflect considerable real increases in social expenditure over the past decade. Measured in purchasing-power standard, our position has improved somewhat relative to the EU average between 1990 and

TABLE 1.3

European Union Countries: Social Protection Expenditure as a % of GDP, 1980 – 1996

Country	1980	1990	1994	1995	1996
EU	24.3 (12)	24.2 (10)	28.6 (15)	28.4 (15)	27.8 (15)
Belgium	28.0	26.6	29.0	29.7	30.0
Denmark	28.7	30.3	35.1	34.3	33.6
Germany	28.8	–	28.9	29.4	30.5
Greece	9.7	–	20.8	21.0	23.3
Spain	18.1	19.9	22.4	21.9	22.4
France	25.4	27.7	30.5	30.6	30.8
Ireland % GDP	**20.6**	**19.1**	**20.3**	**19.9**	**18.9**
% GNP	**20.7**	**21.7**	**23.1**	**23.0**	**22.0**
Italy	19.4	24.1	25.8	24.6	24.8
Luxembourg	26.5	23.5	24.7	25.3	26.2
Netherlands	30.8	32.4	32.7	31.6	30.9
Portugal	12.8	15.5	21.0	20.7	21.6
UK	21.5	23.0	28.0	27.7	27.7
Austria	–	(26.7)	29.7	29.7	29.5
Finland	–	(25.5)	34.7	32.8	32.1
Sweden	–	–	37.6	35.6	34.8

Source: Eurostat, (1998, 1999a), *Social Protection, Expenditure and Receipts* Luxembourg: European Commission: Table B1.1.

1995. While our relatively low social expenditure is due partly to our low old-age dependency and associated relatively low expenditure on old-age and survivors' benefits – less than five per cent of GDP compared to over 12 per cent of the EU15 in 1995 and 1996 – the exclusion of this category of expenditure still leaves our expenditure below the EU average but exceeding Portugal, Spain, Italy and Greece when expenditure is calculated on GDP terms and also Austria when Irish expenditure is calculated as a percentage of GNP.[1]

Despite the impact of social transfer payments in mitigating the marked inequality in the distribution of direct income, which characterises all economically developed countries including Ireland, relative income poverty in Ireland is high by EU standards and increased over the 1987 to 1997 period. The proportions of the population estimated to be living on incomes below 50 and 60 per cent of mean income in each year increased by one percentage point each over the 1994-97 period, to 22 and 35 per cent respectively. The proportion below the very lowest relative income threshold (40 per cent of the mean), however, increased by three percentage points to 10 per cent, the first recorded increase since the situation began to be monitored in 1973 (Table 1.4(i)). The risk of falling below the 50 and 60 per cent relative income lines was particularly high for unemployed people, disabled people and those on 'home duties' and the relative income poverty risk for the latter group increased significantly over the 1994 to 1997 period.

On the other hand, the indicator of consistent poverty used in the NAPS, which combines a measure of deprivation of a basic necessity and relative income poverty, shows a decrease using the 50 and 60 per cent poverty lines. From 1987 through 1994 to 1997 there was a fall from 10 to 9.0 to 7.0 per cent in the population experiencing consistent poverty based on the dual criterion of enforced deprivation of a basic necessity and the 50 per cent poverty line. When the deprivation measure is combined with the 60

1 Excluding expenditure on pensions and survivors, Irish social protection expenditure was 14.4 per cent of GDP in 1996 compared to an EU average of 17.7 per cent of GDP.

per cent line a fall from 16 to 15 to 10 per cent occurred over the same period (Table 1.4(ii)).

TABLE 1.4 (i)

Percentage of Population in Households below Relative Income Thresholds, 1973 – 1997

	1973	1980	1987	1994	1997
	Per cent of all persons				
Extent of Relative Poverty:					
Below 40% line	8	8	7	7	10
Below 50% line	15	16	19	21	22
Below 60% line	25	27	30	34	35

Source: National Anti-Poverty Strategy (1997), Callan, T. *et al* (1996a) *Poverty in the 1990's Evidence from the 1994 Living in Ireland Survey.* Dublin: Oak Tree Press. Callan, T. *et al* (1999) *Monitoring Poverty Trends Data from the 1997 Living in Ireland Survey*. Dublin: ESRI, Department of Social Community and Family Affairs, Combat Poverty Agency.

TABLE 1.4 (ii)

Estimates of Population in Poverty based on Relative Income Thresholds combined with Indicator of Basic Deprivation, 1987 – 1997

	1987	1994	1997
	Per cent of all persons		
Relative Income Threshold and Basic Deprivation:			
Below 40% line and basic deprivation	3	2	3
Below 50% line and basic deprivation	10	9	7
Below 60% line and basic deprivation	16	15	10

Source: See Table 1.4(i).

There is no EU indicator that allows us to situate Irish performance relative to our EU partners on the dual measure of consistent poverty. The only EU comparative data are for 1993. Using the 50 per cent relative income poverty line we are ranked fourth of the EU countries, after Portugal, Greece and the UK, with the highest rates of poverty amongst individuals in households and second after the UK in terms of children in poverty.

Clearly we do not find the same level of progress in this area of policy as we find in the macroeconomic area or in employment creation and unemployment reduction. Yet, there has been progress and the continuing commitment by the social partners and Government on a mechanism to address poverty – the National Anti-Poverty Strategy – is likely to enhance progress over the next few years. Furthermore, the poverty and equality proofing of policy is in the process of being implemented. The rigorous adherence to such an approach at the policy development and review stages is important in relation to amelioration and prevention. The present context of economic prosperity should provide a favourable climate for the institutionalisation of such an approach. The success achieved through concerted effort in relation to unemployment provides an example to be emulated. In Chapter 9 we analyse poverty, unemployment, social protection and social exclusion and evaluate progress against the backdrop of the new strength of the Irish economy. We identify progress and deficits and make a series of recommendations under the headings of (i) poverty and income adequacy and (ii) unemployment, inclusion and equality. In Chapter 2 we stress the importance of full implementation and monitoring of all initiatives in these areas within the context of a strategic framework for action on equality.

1.4 COMPETITIVENESS

Ireland's successful macroeconomic performance has enhanced our competitive position in some areas particularly as reflected by our public finances, employment growth and unemployment but our competitiveness profile is dependent on best practice in several areas including: labour costs and productivity; education levels, policy and performance; training; technological innovation and performance; trade, investment and financial markets; environmental status and monitoring; and infrastructure, particularly transport and telecommunications (National Competitiveness Council, 1998a, 1999). Most of these issues are pertinent to aspects of this Strategy and are discussed in Chapters 3 and 6 to 11. Some, such as skill shortages and infrastructural deficits and environmental sustainability are the focus of considerable attention.

The Council emphasises that competitiveness is a moving target in a changing context. A commitment to competitiveness calls for recognition that our success on particular dimensions is likely to be matched by our competitors sooner rather than later, and that the areas in which competitiveness is to be achieved must be constantly reviewed. As a small open economy in the context of globalisation, the pace of necessary change and restructuring is to a considerable extent dictated by our competitors and potential competitors. Successful adaptation to continuing change is the essential means through which economic and social success and, in particular, full employment and social inclusion are sustained. It is the dynamic expression of competitiveness. In this context we highlight two related issues that are crucial to achieving competitiveness in the period ahead: the Information Society and lifelong learning. The stress on the importance of the Information Society is built on the anticipation of a revolution in information and communications technology (ICT) over the next decade, which is likely to change the face of the global economy and bring about enormous change in economic and social structures. While Ireland has performed well at the outset of the information revolution it needs to build on this success recognising that our ability to position the economy strategically to cope with the Information Society and the promotion of research and development (R&D) will be critical in determining our competitiveness over the next decades. A commitment to lifelong learning is an essential element of the framework for achieving a knowledge-intensive, high-skilled human resource base which is crucial to the development of the Information Society and reaping the opportunities afforded by such development.

Despite rapid growth and considerable overall success over the 1990s Ireland still has significant gaps to make up in relative income levels – GNP per capita is about 10 per cent lower than the

EU average. Despite our success in employment creation and decreasing unemployment, we still have higher unemployment rates than many of the small open European economies and employment growth must be maintained at a higher level than many of our competitors if we are to absorb our growing labour force. Much of our success is attributable to the attraction of foreign direct investment (FDI). Its retention and the attraction of further such investment is dependent on the maintenance and enhancement of our competitiveness position. In tandem with this, the indigenous sector must be strengthened by addressing the problem of low productivity and supporting the repositioning of indigenous manufacturing enterprises to move to higher value-added activities. We discuss these issues in Chapter 8.

Ireland has made progress in many key competitiveness indicators but significant deficits are identified in the National Competitiveness Council's 1999 *Annual Competitiveness Report,* particularly in infrastructure. For example, Ireland ranks 17th of 18 countries in rail infrastructure and 15th of 19 in road infrastructure. Ireland is not in the top quartile of the comparator countries in any of the four telecommunications infrastructure indicators used (mainlines per 100 inhabitants; internet hosts and mobile subscriptions per 1,000 capita; and per capita expenditure on telecommunications). The Competitiveness Council identifies seven critical areas for public policy action that can make a major contribution to Ireland's competitiveness performance. These are (i) social cohesion, (ii) people, (iii) costs, (iv) infrastructure, (v) e-commerce, (vi) competition and regulation, and (vii) science and technology. It argues that Ireland must aim for ranking among the top 25 per cent of countries in each of these areas of national competitiveness if it is to achieve enduring competitive success and the associated economic and social progress (National Competitiveness Council, 1999: xiv). Consistent with this we point out in several places throughout this Strategy that key influences on competitiveness are also central to the development of a more inclusive society.

As the pace of globalisation continues, the pressure for competitiveness is reinforced by rapid technological change, increased capital mobility and expanding trade opportunities. As a small open economy, Ireland is particularly exposed to these currents, so that the drive for successful adaptation to change must remain at the centre of national policy. It is critical for Ireland to develop world-class research and development capability in niche areas of ICT and biotechnology as recommended by the Irish Council for Science, Technology and Innovation (ICSTI) as a result of its Technology Foresight exercise. It is also necessary to build a strong indigenous industrial sector with the capability to develop new products/ services and to successfully penetrate new markets. The crucial importance of FDI for the Irish economy further reinforces the centrality of maintaining competitiveness. Any development that would diminish our competitiveness would, over time, have an adverse effect on this investment, which has been a fundamental driving force in the success of our economy over the past decade.

Since trade with the UK remains significant for the Irish economy, safeguarding Ireland's international competitiveness *vis-à-vis* movements in UK domestic costs and sterling remains an important policy concern for the medium-term. This means taking account of price movements in the UK, to the degree that is appropriate for different sectors of the domestic economy. Moreover, general measures to improve the responsiveness of the economy to outside shocks – including improvements in labour market adaptability and giving fiscal policy room to manoeuvre – would help to lessen the disturbance to the Irish economy of any sudden change in the value of sterling.

We stress the importance of sustainable and balanced regional development throughout this report. Competitiveness of regions is a key dimension of such development. In this regard a recent EU report is of considerable significance. The *Sixth Periodic Report on the Social and Economic Situation and Development of the Regions of the European Union* identifies four key causes which underlie the competitiveness of regions:

(i) the structure of economic activity: the regions with the highest levels of GDP per head tend to have a relatively high concentration of employment in market services and/or manufacturing;

(ii) the extent of innovative activity, measured by the number of patent applications;

(iii) regional accessibility; and

(iv) the skills of the workforce.

The association between these four factors and GDP per head across the EU suggest that if differences in their values across regions could be eliminated, regional disparities in output would be considerably reduced. This would require major changes in other areas, particularly in institutional factors such as the efficiency of public administration and the range of support services available (European Commission, 1999a: 93).

Competitiveness is not merely about economic growth and consistent and effective responses to changed circumstances; it is fundamental to combating social exclusion. There is a reciprocal relationship between competitiveness and social inclusion. Competitiveness helps to generate the resources to enhance social inclusion and increased social inclusion facilitates enhanced competitiveness. The guiding objective is an economy that is structured to achieve self-sustaining competitiveness in the context of increasing economic integration.

1.5 THE CHANGING CONTEXT

The changing context in which this Strategy is being formulated is discussed in Chapter 3 in terms of the impact of globalisation, increasing EU integration and the North/South dimension but there are also significant internal changes that have implications for this Strategy. Key elements of this changing context are increased urbanisation, demographic and educational change and their implications. Parallel to these changes there have been significant socio-cultural and attitudinal changes, some of which characterise all economically developed economies and some of which are relatively unique.

1.5.1 Changing Rural-Urban Balance

For the past several decades Ireland has been undergoing a marked change in the spatial distribution of its population. This is most sharply reflected in the growth of Dublin and its environs and the increasing sparseness of population in many counties in the West, North-West and Border regions. While the most marked influx of population has been into the Dublin area the process of population change, which is strongly reflected in increasing urbanisation, is a national phenomenon and was particularly marked in the 1970s. In 1996 less than 35 per cent of the population lived in rural areas compared to over 40 per cent in 1971. The pervasiveness and varying intensity of urbanisation mean that it contributes to similarities as well as differences across and within regions. The key point is that its implications for public policy cannot be ignored. Its major consequences for all aspects of public policy have become increasingly obvious over the past several years and its implications for social and economic infrastructure are recognised in the *National Development Plan 2000-2006* (Government of Ireland, 1999a), as it is in our discussion of infrastructure and housing in Chapters 10 and 11. But urbanisation has major consequences for the spatial distribution of all public services and raises important issues relating not only to provision in urban areas but access to services for the increasingly geographically-dispersed population in rural areas and the vibrancy of these areas as communities. Services for an increasing urban population must not be at the expense of the rural population. The Council believes that adequate services, including transport, and access to information technology (IT) in rural areas are likely to stem unbalanced urbanisation. It is not a question of urban versus rural in relation to employment and service need. The focus must be on the appropriate tailoring of employment and services to need. Poverty and affluence, economic success and economic decline are not exclusively urban or rural phenomena. They exist to varying degrees and in a variety of forms in urban and rural settings. The key to appropriate service provision is the recognition of local conditions and resources.

The principal influence on settlement patterns is the composition of economic activity.[2] The decline in agricultural employment and the increase in non-agricultural employment have intensified over the

2 An analysis of key indicators of regional economic and social profile is undertaken by Fitz Gerald *et al*, who conclude that it is desirable “to devise a regional development strategy to ensure a more balanced pattern of settlement and economic development” (1999: 44-48 and 299-304).

past decade and this has been associated with considerable population movement both within and between regions. The changing sectoral composition of the economy is analysed in Chapter 8 where it is argued that industrial policy has an important role to play in achieving the objective of regional development. Selected larger towns and medium-sized cities should play a crucial role in the concentration of services, transport systems, telecommunications, community infrastructure and as distribution centres and markets and make it possible to ensure that all rural areas are within commuting distance of an employment centre. The Council argues that this must be coupled with a broad rural development policy that effectively addresses social exclusion as well as economic and social development.

1.5.2 Demographic Change

Demographic changes have consequences not only for the economy, particularly via labour market participation and retention rates, but also for the welfare state broadly conceived or, to be more precise, the income maintenance and social service aspects of public services. These latter consequences are reflected not only in changing demand for public services but also in changing supply of caring services and in the division of responsibility for such services amongst the state, the market, the community and voluntary sector, and the family.

Ireland has enjoyed an increasingly favourable demographic pattern over the life of the four national agreements and this will continue for the foreseeable future. The measures which best summarise the impact of the marked changes in Irish demographic characteristics over the past couple of decades are changing age dependency ratios (Table 1.5). The decrease in overall dependency from the mid-1960s to the present and the projected continuing decrease up to 2006 reflect a marked decrease in young dependency, which will continue well into the next century. In the short term, old-age dependency is also decreasing but this trend will be reversed during the next decade and it is projected to increase from 17.6 in 1996 to 28.3 in 2031 and to continue increasing steeply thereafter for several decades. While the increased figure will still be low by EU standards, the experience of countries with currently high old-age dependency points to the need for long-term planning for the increase in pension costs and the associated caring needs of an increasing dependent aged population. Our 1995 and 1996 social protection expenditure on old-age and survivors' benefits was under five per cent of GDP, that is the lowest amongst our EU partners. The EU average expenditure was just over 12 per cent and excluding Ireland ranged from 8.0 to 15 per cent of GDP. In addition to the income maintenance costs associated with increasing old-age dependency in the future, the present regional variation in dependency has significant implications for the spatial distribution of care services (See Appendix Table A1.2).[3]

TABLE 1.5

Age Dependency Ratios, 1981-2031

AGE DEPENDENCY RATIOS			
Year	**Young**	**Old**	**TOTAL**
1981	51.4	18.2	69.6
1986	48.1	18.0	66.1
1991	43.4	18.5	61.9
1996	36.5	17.6	54.1
2001	*32.6*	*16.6*	*49.2*
2006	*31.2*	*16.5*	*47.7*
2011	*33.0*	*17.9*	*50.9*
2016	*33.5*	*19.1*	*52.6*
2021	*32.2*	*22.9*	*55.1*
2026	*30.2*	*25.6*	*55.8*
2031	*28.6*	*28.3*	*56.9*

Note: Projections in italics.
Source: Population Census, Projections from CSO (1999a) *Population and Labour Force Projectors 2001-2031*, Dublin: Stationery Office.

3 The Department of Finance estimates that to broadly maintain the current level of pension provision "an annual provision of more than 1.4% of GNP would be required to meet the extra Social Welfare pension outlays to 2056 because of growing numbers of Social Welfare pensioners relative to likely numbers of PRSI contributors" (*Report of the Budget Strategy For Ageing Group*, 1999: paragraphs 3.1.1 and 3.3.1).

Decreasing dependency figures have an immediate pay-off in terms of a decreasing economic dependency ratio, which is now coming into line with the EU average (Table 1.6) and an increasing labour force. This decreasing dependency has implications at the macro-level in terms of ability to meet demands for services and income maintenance but also has implications at the micro-level in terms of disposable income and lesser demands for care of dependent people for the average household. It reflects decreasing family size which, in turn, reflects, and is a facilitator of, increased female labour force participation, especially the participation of married women with children. This has implications for services, as will be illustrated in the analysis of childcare services in Chapter 7, but it also has more extensive implications for the division of responsibility amongst the state, the market, the community and voluntary sector, and the family for service provision for dependent people. In general, it implies a larger role for the market, the state and the community and voluntary sector relative to the family.

TABLE 1.6

Economic Dependency in Ireland and EU12, 1986 – 1997

	IRELAND		*EU12*
Year	**Number of Dependants**		
	Per 100 in labour force	**Per 100 at work**	**Per 100 at work**
1986	170.7	227.7	—
1991	162.7	210.9	143.0
1997	135.8	162.6	144.9

Sources: Fahey, T. and J. Fitz Gerald, (1997) *Welfare Implications of Demographic Trends*, Dublin: Combat Poverty Agency. Table A3 updated by Eurostat (1999b), *Labour Force Survey 1997*. Luxembourg: European Commission.

This decrease in dependency reflects an almost consistently decreasing fertility since the early 1980s to the degree that Ireland is no longer exceptional in terms of fertility amongst its EU partners although still at the high end of the EU spectrum. Ireland's fall in fertility has been accompanied by a marked increase in the share of fertility occurring outside marriage. While the rates are 20 to 25 per

1,000 for women in the 20-24 to 35-39 age cohorts, the rate of most concern from a service provision perspective is the 14 per 1,000 rate for women in the under 20 age group. These changes mean that the issue of lone parenthood and the appropriate range of services, whether these be housing, educational, labour market support services and/or income maintenance payments, to meet the associated range of needs is an increasingly important public policy issue. There is also an issue of prevention here since several studies have established a strong link between early-school-leaving and young parenthood (Fahey and Fitz Gerald, 1997: 60).

Ireland's employment population ratio and labour force participation rates, especially the female labour force participation rate, are still below the EU15 average but have increased significantly over the past decade (Table 1.7). The increase in female participation is particularly marked. It increased from 32 per cent in 1986 to 42 per cent in 1997 and 46 per cent in 1999 (March-May).[4] This is a dramatic increase by any standard and is most marked for married women, and those aged between 25 and 45 (Table 1.8). The change in female participation in the 25-44 age group is illustrated by the increase in the employment rate from 36.2 per cent in 1987 to 57.1 per cent in 1997.[5] This increase is strongly related to a change in educational participation and completion, a change that is particularly marked for the female population which tends to have a slightly higher level of educational completion than the male population. While the majority of women in the older age groups have only primary education, the vast majority of those in their late twenties have at least completed upper secondary education, and the composition of entrants to third-level education has now shifted in favour of women. The highest female labour market participation rates are for those with third-level education and this has increased over the past decade from what was already a relatively high level. The group that has shown the most marked increase in labour-force

4 These figures are lower than the OECD figures in Table 1.7 because they refer to the population aged 15 and over whereas the OECD figures are confined to the age group 15-64.

5 The corresponding figures for women aged 45-64 are 21.1 to 31.2 (Annual Labour Force Surveys).

TABLE 1.7

Employment-Population Ratios and Activity Rates for Persons aged 15-64, 1990 – 1998

Employment/population ratio %									
	Total			Male			Female		
	1990	**1994**	**1998**	**1990**	**1994**	**1998**	**1990**	**1994**	**1998**
Denmark	75.4	72.4	75.3	80.1	77.6	80.2	70.6	67.1	70.2
Ireland	**52.3**	**52.3**	**59.8**	**67.8**	**64.4**	**71.4**	**36.6**	**39.9**	**48.2**
Netherlands	61.1	63.8	69.8	75.2	74.5	79.9	46.7	52.7	59.4
New Zealand	67.3	67.8	69.5	76.1	76.0	77.1	58.5	59.7	62.1
United Kingdom	72.4	68.8	71.2	82.1	75.4	78.1	62.8	62.1	64.2
United States	72.2	72.0	73.8	80.7	79.0	80.5	64.0	65.2	67.4
EU15	61.5	59.6	61.1	74.4	70.1	70.2	48.6	49.1	51.3
OECD-Europe	61.0	58.9	60.1	75.0	70.2	70.6	47.1	47.8	49.0
Total OECD	65.2	63.9	65.1	78.1	75.2	75.8	52.4	52.9	54.3

Labour force participation rate									
	Total			Male			Female		
	1990	**1994**	**1998**	**1990**	**1994**	**1998**	**1990**	**1994**	**1998**
Denmark	82.4	78.8	79.3	87.1	83.7	83.5	77.6	73.8	75.0
Ireland	**60.2**	**61.4**	**65.0**	**77.7**	**75.9**	**77.8**	**42.6**	**46.9**	**52.1**
Netherlands	66.2	68.7	72.9	79.7	79.8	82.8	52.4	57.4	62.9
New Zealand	73.0	73.9	75.2	83.0	83.2	83.5	63.2	64.7	67.1
United Kingdom	77.8	76.2	75.9	88.3	85.2	83.9	67.2	67.1	67.8
United States	76.5	76.7	77.4	85.6	84.3	84.2	67.8	69.4	70.7
EU15	67.1	67.2	67.9	79.8	78.1	77.6	54.5	56.4	58.0
OECD-Europe	66.5	66.2	66.3	80.5	78.0	77.5	52.6	54.5	55.0
Total OECD	69.3	69.3	69.0	82.6	81.2	81.0	56.3	57.7	58.7

Source: OECD (1999a), *Employment Outlook*, Paris: OECD: 225-227.

participation is married women with completed second-level education. In contrast, participation amongst those with only primary education is still low and has shown little change since 1988. While the increase in educational completion levels has been an important influence on female labour force participation, it is not the only factor. The changing economic environment, which has increased demand, and changing family size, which facilitates participation, have also contributed.

Yet, it must be borne in mind that 23 per cent of women in the labour force were part-time in 1997 compared to 5.4 per cent of men. The part-time pattern was particularly marked for married women, of whom 30 per cent were part-time compared to 13.7 per cent of single women. These part-time figures may reflect choice for mothers of young children and this appears to be borne out by some survey analysis or it may reflect best choice in the context of the non-availability of suitable and affordable childcare options for many families and a relatively inflexible organisation of employment.

TABLE 1.8

Labour Force Participation Rates (ILO) Classified by Sex, Age and Marital Status, March-May 1999

	Females				Totals		
	Single	Married	Separated	Widowed	Females	Males	Persons
15-19	24.8	*	*	*	24.8	33.1	29.0
20-24	71.0	57.3	*	*	71.0	77.9	74.3
25-34	85.4	66.3	57.8	43.0	85.4	92.0	84.5
35-44	79.2	58.6	66.9	58.8	79.2	85.4	77.4
45-54	67.3	46.3	57.9	49.3	67.3	72.4	68.3
55-59	55.7	29.9	49.7	32.1	55.7	57.5	53.0
60-64	33.0	17.9	25.1	16.1	33.0	53.7	37.2
65+	3.7	2.8	6.5	2.4	3.7	21.8	8.0
Total	56.2	45.3	56.2	9.0	56.2	65.6	57.9

Source: CSO (1999), *Quarterly National Household Survey, Second Quarter 1999.*

Note: * Sample occurence too small for estimations.

1.5.3 Educational Change

There is widespread acknowledgement that a key building block of Ireland's widespread social change over the past several decades, and of its more recent economic success, is its increasingly well-educated population and especially its well-educated younger labour force. Participation in third-level education, has increased steadily over the past couple of decades and this augurs well for the individuals concerned and for the economy. Education exemplifies more clearly than any other social policy area the linkages amongst employment, competitiveness and social inclusion. Both Irish and international data demonstrate the links between education and earnings, on the one hand, and between unemployment and level of education, on the other (OECD, 1998c: 358, Table F7.2; OECD, 1997a; Barrett, Callan and Nolan, 1997; Collins and Kavanagh, 1999).

The 1999 *Annual Competitiveness Report* (National Competitiveness Council, 1999) concludes that Ireland has a roughly middle position amongst economically developed countries in education levels. Its 'stock' of education is below average for the EU, but underlying trends will improve this, particularly the large percentage of younger persons who have higher education qualifications and/or who are enrolled in tertiary education (Table 1.9). Their entry into the labour force will enhance the overall skill and productivity levels. Yet, there is still considerable ground to be made up relative to several of our EU and OECD partners. In 1996 50 per cent of the labour force aged 25-64 had completed their education at the lower secondary-level or below. This percentage is decreasing annually but so is that of most of our EU and OECD partners. Ireland ranked 19th of 25 countries in terms of the percentage of the population aged 25-64 with at least upper second-level education. Of greater concern in terms of the future labour force is the fact that enrolment of those aged 15-24 still showed a marked drop after age 15 in 1995: only 81 per cent of 17 year olds and 73 per cent of 18 year olds were still in education and this pattern has continued. This compares with 93 and 83 per cent respectively in the Netherlands. This is an area of concern for the National Anti-Poverty Strategy. We discuss it in Chapter 9 where we point to early-school-leaving as a generator of current and future unemployment.

One of the most significant deficits in Ireland's educational

TABLE 1.9

Key Irish Education Statistics in Comparative Perspective Mid-1990s (Rank in OECD)

	Educational Participation – age 16 (%)		**Net Enrolment in Tertiary Education – age 18-21 (%)**		**% of Population 25-64 that has attained Third-Level Education**		**% of Population (25-64 yrs) that has has At Least Upper Secondary-level Education**		**School Expectancy for a 5-Year Old Child (years)**		**% of People Aged 25-34 with Higher Education Qualifications**	
Country	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank
Ireland	**88.9**	**(16)**	**31.4**	**(6)**	**23**	**(8)**	**50**	**(19)**	**15.6**	**(19)**	**31**	**(4)**
Denmark	92.8	(12)	8.5	(21)	22	(10)	66	(12)	17.1	(10)	24	(16)
Netherlands	98.4	(3)	24.0	(11)	23	(8)	63	(13)	17.5	(4)	25	(10)
New Zealand	97.7	(5)	29.4	(8)	25	(5)	60	(16)	17.2	(8)	24	(12)
UK	82.3	(22)	26.9	(10)	22	(10)	76	(6)	17.3	(7)	24	(12)
US	85.6	(20)	34.6	(5)	34	(2)	86	(1)	16.8	(14)	35	(2)

Source: Adapted from the National Competitiveness Council (1999) *Annual Competitiveness Report 1999*, and based on OECD, *Education at a Glance* 1996 and 1998.

performance is in the area of adult literacy. Irrespective of which scale is considered – prose, document or quantitative – our performance is poor in absolute terms and comparatively as demonstrated in the International Adult Literacy Survey (OECD, 1997a). This is of major significance, not only in terms of social exclusion, but also in terms of competitiveness. The literacy demands of several jobs is increasing and in addition there is an increase in skill shortages throughout the labour force. In view of these facts, high levels of literacy deficits impose costs that are not sustainable for the individuals concerned or for the Irish economy. We consider this issue further in Chapter 7 in the context of lifelong learning and the Council's argument that the drive towards lifelong learning has to include a commitment to increase basic literacy and numeracy skills, particularly in the adult population.

Data on educational disadvantage does not allow analysis of change over time or comparatively, but the once-off estimate available for 1995, which indicates that 16 per cent of the school-going population are educationally disadvantaged, is a cause for significant concern and concerted remedial action. Comparative figures are available on variation in student achievement. The 20.6 per cent of Irish students categorised as low achievers in reading is considerably higher than the 15 per cent expected, although we perform better in mathematics and science. In addition, our mean score in reading is third lowest of the 18 countries for which comparable data are available. Again we perform better in mathematics and science (OECD, 1997a).

There is considerable evidence to indicate a strong link between level of education and status in the labour market and in particular the level of unemployment. The OECD's 1995 analysis of the Irish economy stressed the importance of education in regard to income inequality in Ireland. In particular, it stressed the importance of education in improving a person's 'market value' and hence income (OECD, 1995a: 75). With the increasingly knowledge-based economy this link is becoming more important.

Education presents a mixed message in terms of success and deficits. Education is cited in all reviews of Irish economic success as a major contributor. This contribution reflects vision and action initiated three decades ago which has been bearing fruit in the guise of an increasingly educated population over the past couple of decades. There is a deficits side reflected in a series of related problems, namely early-school-leaving, underachievement and adult literacy problems. While these may be considered minor problems in the context of the overall success of the system they are highly significant, not only for the individuals concerned, and in the generation of social exclusion, but from a competitiveness point of view, particularly in the context of increasing skill shortages. These problems are not amenable to any one solution. They must be addressed and prevented within the mainstream educational system, and addressed in the non-traditional and adult education system. The Green Paper, *Adult Education in an Era of Lifelong Learning*, sets out an approach based on a commitment to lifelong learning which is crucial to social inclusion and competitiveness. The European Employment Strategy also identifies lifelong learning as one of its key policy areas. The Council strongly supports lifelong learning, defined as learning over the entire lifespan from pre-school to adult education, as an important basis for enhanced adaptability and employability, as well as personal fulfillment and social inclusion. The immediate priorities for lifelong learning are outlined in Chapter 7.

1.5.4 Social, Cultural and Attitudinal Change

The policy context is influenced not only by quantifiable changes such as urbanisation and demographic and educational change but also by qualitative social, cultural and attitudinal changes, some of which are directly associated with these more easily quantifiable changes.

All of the changes outlined in the previous sub-sections have implications for the immediate public policy context but their implications are even more significant for the longer term. For example, changing rural-urban balance has consequences for all areas of public policy, in particular for spatial planning and infrastructural development, urban and regional policy, industrial, social, health and educational policy. Decisions in these areas respond to, but also shape and mould, settlement patterns, which in turn influence future directions of policy. It is essential that the changing demographic and social composition of the population be appreciated in the public policy process. The population being planned for now is younger, more urban, better educated, more mobile, more diverse as reflected, for example, in the increasing role of women in the labour force and the public sphere generally and by an increasing but modest ethnic and racial diversity. This is all occurring within a changing context characterised by greater access to information than has ever been the case previously.

Other changes that reflect social, cultural and attitudinal change and are relevant to the public policy context include increasing differentiation between institutional spheres such as between church, state, family and economy – many of these changes also reflect and are reflected in the changing role of women in the economy and society. These changes are unique to Ireland only in their recency. Over the past decade the consequences of changing expectations associated with changing economic conditions and greater familiarity with conditions in other EU countries are obvious influences on the public policy context.

Other noteworthy changes that impact on the public policy process are the increasing mobilisation around environmental sustainability and neighbourhood protection issues. The perceived risk of environmental disaster, risks associated with basic utilities such as water, risks associated with food production and distribution and with services such as blood processing have assumed considerably greater prominence now than in the mid-1980s and have implications for attitudes to public authorities. At the other end of the mobilisation spectrum in terms of individual rights versus the common good are exclusionary mobilisation movements against housing, or other services, for groups such as Travellers, homeless people, drug addicts and former psychiatrically-ill people. These movements raise important issues about the balance between individual rights and the common good.

The key issues for an effective public policy process, particularly the planning process, is how public authorities respond to this changed context including the qualitative social, cultural and attitudinal change. Enhanced solidarity in a rapidly-changing society such as ours depends on active trust coupled with personal and social responsibility for others. When we talk of active trust it refers to trust that is achieved because of positive evaluation of the public policy process. It presumes participation and an open policy process, characterised by visibility of procedures, and a visible balance between individual rights and the common good.

Public policy choices that will shape the future direction of society must be responsive to changing residential, educational, employment and lifestyle choices and the process must also recognise the changing context within which Ireland is located. While responding to immediate needs, public policy needs to be framed within a vision of the kind of society for which it is planning. The Council's vision and how it is to be achieved is outlined in Chapter 2.

1.5.5 Changing Perceptions of Social Inclusion and Equality

Parallel to these changes there has been a change in the perception of what is considered acceptable and feasible in terms of distribution and redistribution – this is reflected in the changing emphasis on social inclusion and equality in the Irish policy framework. The significant social change that has characterised Irish society over the past couple of decades is reflected in changing expectations of the policy system and these changes are significant for the strategic analysis of Irish economic and social policy. The impact of the wider participation that now characterises the policy process was reflected in *Partnership 2000*. In addition to the traditional focus on social equity that has characterised all of the national agreements, *Partnership 2000* identified social inclusion and as part of this, what it called 'a new focus on equality' as a policy concern. Concepts such as 'equality proofing', 'poverty proofing' and 'mainstreaming' have all entered the policy context during the life of this programme. Policy proofing refers to "a formal mechanism by which policies are assessed at design and review stage for their likely impact on a particular area of concern, e.g. the family, poverty, equality, job-creation potential, ethnic origin etc." (*Partnership 2000* Monitoring Group paper, number 40, 1998:1)[6]. The application of such an approach on a consistent basis affords an opportunity for follow through on policy commitments in a way that has not characterised the policy process to-date.

Consistent with the approach adopted in *Partnership 2000* it is clear that an equality dimension is part of any overall framework of social inclusion. But while inequality, social exclusion and poverty have overlapping dimensions they are not synonymous. Social exclusion is broader than income poverty but narrower than inequality in all its dimensions. Targeting social exclusion has generally become identified with targeting income poverty, deprivation in material resources and factors associated with these. Consequently, those inequalities that are not directly reflected in material deprivation, such as some status inequalities, tend not to become the focus of programmes targeted to social exclusion. This issue is addressed at some length in Chapter 2 in the context of an analysis of the implications of a commitment to equality in the public policy process.

The approach adopted in this Strategy is to analyse in a dedicated chapter policies relating to long-term unemployment, poverty and social exclusion and to integrate an equality perspective into the analysis of all policies and programmes and where appropriate to identify specific measures targeted at groups experiencing inequality because of their status. This implies support for the administrative procedures of poverty and equality proofing at the policy development and review stages, which are already being developed.

The Council recognises that the very rapidity of change can be expected to fuel new and dormant forms of social exclusion and is already doing so as is evident in housing. We emphasise the importance of openness to change as the dynamic expression of competitiveness. The public policy process must be equally open to change in identifying and responding to indications of social exclusion.

6. Prepared by Department of the Taoiseach – unpublished.

1.5.6 Expectations and Choices

The issues discussed in this section suggest considerable change over the past 12 years in the context within which policy must now be developed. Not all of these changes are congruent. For example, these changes, together with our increasing knowledge of service standards in other EU countries, reflect, and contribute to increasing expectations of what is an acceptable level of services. But these increasing expectations are rarely considered in the context of the continuing emphasis on tax cuts. But taxation is only one side of a coin, the other side of which is services. This issue is considered in Chapters 2 and 4 in the context of the opportunities, challenges and choices we now face.

1.6 SUCCESS, DEFICITS AND IMBALANCES

The appreciation of the success achieved over the past 12 years has to be put in the context of a realistic appraisal of the deficits and the challenges to be met. Some of these deficits/imbalances are the side-effect of success, some are the result of policy failure and some have come about because of attitudinal change that has forced new issues to prominence in the policy context. Examples of the latter are environmental and economic sustainability. They are a reflection of success rather than failure and as is outlined in the previous section have assumed considerably greater importance as issues of public concern over the past decade. Both of these concerns inform the analysis throughout the report.

There is now widespread recognition of infrastructural deficits, both economic and social, and recognition of these is central to the National Development Plan for 2000–2006. Infrastructure is an area that reflects policy failure but also the exacerbation of deficits and imbalances due to our success. This issue is discussed in Chapter 10 which takes a broad focus recognising that physical infrastructure has social and economic dimensions and that public policy-makers must consider infrastructure in relation to areas of social provision such as housing, health, education, social services, community amenities and green space and must recognise social, economic and environmental sustainability as inherent elements of policy development. While taking account of work done by others, especially the ESRI report for the National Development Plan (Fitz Gerald *et al*, 1999), Chapter 10 considers two sets of issues, one related to priorities and balanced infrastructural development, and the second related to management and performance. These are of course connected:

(i) What are the priorities in terms of balanced infrastructural development? Infrastructural deficits are not equally distributed across geographical areas and/or communities. Consequently the specification of priorities for the achievement of balanced development involves not only equity and efficiency considerations but social inclusion and equality considerations.

(ii) What steps need to be taken to improve efficiency in the use and management of infrastructure provision in Ireland?

An important issue to be considered in relation to infrastructure is the implications for the present strategy of past failures to plan for infrastructural development. What can we learn from the process? A similar set of questions is addressed in Chapter 11 in relation to housing where it is argued that housing policy must adopt an integrated approach that recognises the linkages amongst housing tenures and that housing policy and development must be linked to wider issues of social and economic policy including spatial planning at regional and national levels. Some of the process and institutional issues are taken up in Chapter 12 where we focus on institutional capabilities and the changes necessary to meet the opportunities, challenges and choices we face over the next decade.

1.7 CONCLUSIONS

In conclusion, reviewing the twelve-year period covered by national agreements in terms of success and deficits and imbalances, the success scenario is the most readily evident in comment on the period and is clearly supported by the evidence on the macroeconomic picture. Similarly achievements in the educational sphere have been remarkable although deficits have been identified. Despite demonstrable and consistent improvements in the living standards of those in the labour force due to the combination of modest wage increases and reduced taxation during the partnership era there is a widespread perception that the benefits are not widely distributed. This is in part associated with differential gains but also with a narrow interpretation of the changes achieved. While it is often acknowledged that higher wages were foregone in the interest of job creation, it is less often recognised that this increasing job creation has enhanced the likelihood of sustained improved living standards, and that impersonal changes, such as the decreasing debt to GDP ratio, are associated with sustained improvement in living standards. Similarly, in the context of a favourable demographic context, the major improvements in educational participation and completion rates, while set in train before this period, create the conditions for sustained and equitably shared improvement in living standards. These issues are discussed in Chapter 2 in the context of the opportunities and challenges we face and the choices open to us in the context of a high performing economy.

The structure of this report is as follows. In Chapter 2 we outline the Council's vision of the kind of society we should and can aspire to over the next decade. Chapter 3 reviews the challenges of economic integration. Part II outlines the underpinning required to deliver this vision in an economically, socially and environmentally sustainable way. It is divided into two parts. Part II A, entitled Adjustment to Further Economic and Social Integration, has five chapters. Chapters 4 to 8 present analyses of economic management; fiscal policy; wage determination; labour market adaptability and employability; and sectoral development. Part II B, entitled Tackling Key Societal Imbalances and Enhancing Social Inclusion, has three chapters addressing key societal imbalances and social inclusion. An analysis of unemployment, poverty and social exclusion in Chapter 9 is followed by an analysis of infrastructure in Chapter 10 and housing in Chapter 11. Part III has two chapters. Chapter 12 presents an analysis of institutional structures and how they might be adapted to ensure an effective policy process. This is followed by a brief concluding chapter which highlights key dimensions of the Council's vision and of the strategy for its achievement.

TABLE A1.1

Key Indicators of Macroeconomic Performance, 1987-1999 Ireland in a Comparative Context

1987-1990	GDP Volume (annual % change)	GDP per capita (annual % change)	Inflation	Employment (annual % change)	Unemployment (as a % of labour force)	Long-term Unemployment (as a% of the unemployed)	Budget Deficit/ Surplus
Denmark	0.9	0.8	4.0	-0.2	7.0	23.9	+0.2[1]
Ireland	**5.5**	**5.8**	**3.1**	**1.5**	**15.9**	**64.2**	**-4.3**
Netherlands	3.2	8.5	0.9	2.2	8.6	45.5	-5.0
New Zealand	0.08	-0.5	8.5	-1.0	6.1	—	-4.3
UK	3.1	2.7	6.5	2.4	7.6	39.9	-0.3
United States	2.7	1.7	4.5	2.1	5.5	—	-2.3
Total EU15	3.2	2.9	4.5	1.5	9.2	50.7[1]	-3.4
OECD – Europe	3.2	2.6	6.9	—	8.9	—	—
OECD – Total	3.2	2.4	7.4	1.9	6.7	—	-1.9

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TABLE A1.1 – *continued*

Key Indicators of Macroeconomic Performance 1987-1999 Ireland in a Comparative Context

1991-1993	GDP Volume (annual % change)	GDP per capita (annual % change)	Inflation	Employment (annual % change)	Unemployment (as a % of labour force)	Long-term Unemployment (as a% of the unemployed)	Budget Deficit/ Surplus
Denmark	1.0	0.07	1.9	-1.0	9.6	27.8	-2.4
Ireland	**2.8**	**2.3**	**2.5**	**0.6**	**15.5**	**59.4**	**-2.4**
Netherlands	1.7	1.0	3.0	1.6	6.6	48.5	-3.3
New Zealand	2.0	0.9	1.6	0.3	10.0	—	-3.0
UK	-0.1	-0.5	3.7	-1.8	9.3	35.6	-5.6
United States	1.4	0.3	3.4	0.4	7.0	—	-3.8
Total EU15	0.5	0.06	4.4	-1.0	9.6	43.6	-5.3
OECD – Europe	0.7	0.06	7.2	—	9.2	—	—
OECD – Total	1.2	0.3	5.1	0.2	7.1	—	-3.6

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TABLE A1.1 – *continued*

Key Indicators of Macroeconomic Performance 1987-1999 Ireland in a Comparative Context

1994-1996	**GDP Volume (annual % change)**	**GDP per capita (annual % change)**	**Inflation**	**Employment (annual % change)**	**Unemployment (as a % of labour force)**	**Long-term Unemployment (as a% of the unemployed)**	**Budget Deficit/ Surplus**
Denmark	3.4	3.2	2.1	0.9	7.4	28.9	-1.9
Ireland	**8.5**	**8.5**	**2.2**	**3.7**	**12.8**	**61.7**	**-1.6**
Netherlands	2.9	2.2	2.3	1.4	6.8	48.4	-3.2
New Zealand	4.0	2.8	2.6	4.1	6.8	26.1	+3.0
UK	2.9	2.8	2.7	1.1	8.8	42.9	-5.7
United States	2.8	2.0	2.8	1.7	5.7	10.4	-1.8
Total EU 15	2.3	2.3	2.8	0.2	10.9	48.7[2]	-5.1
OECD – Europe	—	2.0	—	—	9.7	47.2	—
OECD – Total	2.6	1.6	5.3	1.0	7.4	34.3	-3.1

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TABLE A1.1 – *continued*

Key Indicators of Macroeconomic Performance 1987-1999 Ireland in a Comparative Context

1997-1999*	GDP Volume (annual % change)	GDP per capita (annual % change)	Inflation	Employment (annual % change)	Unemployment (as a % of labour force)	Long-term Unemployment (as a% of the unemployed)[4]	Budget Deficit/ Surplus
Denmark	3.0	—	2.1[3]	2.0	6.8	27.2	+1.1
Ireland	8.5	—	2.0[3]	4.9	8.5	52.3	+1.3
Netherlands	3.4	—	2.1[3]	2.1	5.2	49.1	-1.5
New Zealand	3.1	—	1.2[4]	0.9	6.6	19.5	+1.2
UK	2.4	—	2.2	0.7	6.5	38.6	-1.0
United States	2.9	—	1.9[3]	1.5	4.9	8.7	0.25
Total EU15	2.6	—	1.8	0.8	10.0	50.2	-2.0
OECD – Europe	—	—	—	—	—	47.6	—
OECD – Total	2.6	—	2.6	1.2	7.1	32.7	-1.1

GDP volume and GDP per capita: 1987-1990, 1991-1993-figures from CSO Revised Economic Indicators since 1960; OECD 1998b. Historical Statistics, Paris: OECD: 50; 1994-1996, 1997-1999 figures from OECD (1998a) Economic Outlook: 63, Paris: OECD: viii and 225.

Inflation: 1987-1990, 1991-1993 OECD 1998b: 91; 1994-1996 Budgetary and Economic Statistics Table 56; 1997-1999 figure for Ireland, US, Netherlands and Denmark from Central Bank, Winter 1998:40; UK, Total EU15 and OECD Total from European Economy Supplement A: Economic Trends, 1998; New Zealand from OECD (1998a): 240.

* estimates; [1]1988-1990; [2]1995-1996; [3]1997-1998; [4] 1997.

Employment (annual % change): OECD 1998a.

Unemployment (% of labour force): 1987-1990, 1991-1993 OECD 1997b: 45.

1994-1996 figures from Employment in Europe 1997:124. US and New Zealand figures from OECD (1998a): 245. 1997-1999 figures from *European Economy Supplement A: Economic Trends, 1998.*

LTU as a % of the Unemployed: Eurostat Year Book, A Statistical Eye on Europe 1986-1996: 127. 1994-1996, 1997 data from OECD (1999a) *Employment Outlook*, Paris: OECD: 208.

APPENDIX

TABLE A1.2
Age Dependency Ratios by Region and Sub-Region

Region	Dependency Ratio		
	Young	*Old*	*All*
NW/Donegal	71.0	37.2	108.2
Midlands	71.5	35.4	107.0
West	68.4	35.5	103.9
North East	69.6	32.7	102.3
South East	67.6	31.7	99.4
Mid West	66.2	30.9	97.1
South West	63.9	31.4	95.2
East	58.8	24.3	83.1
Sub-region	***Young***	***Old***	***All***
Roscommon	70.7	45.6	116.3
Leitrim	68.8	47.5	116.2
Mayo	72.5	42.6	115.1
Cavan	73.1	40.5	113.5
Longford	73.8	38.5	112.3
Donegal	73.5	35.6	109.1
Monaghan	73.3	34.3	107.5
Offaly	72.5	32.4	104.9
Tipperary, N.R.	68.6	35.9	104.5
Laoighis	71.5	32.6	104.1
Kerry	66.7	37.0	103.8
Sligo	66.1	36.6	102.6
Tipperary, S.R.	68.5	34.0	102.6
Westmeath	70.2	31.4	101.6
Kilkenny	68.6	32.5	101.1
Clare	68.7	32.4	101.1
Wexford	68.3	31.2	99.5
Carlow	69.4	29.3	98.7
Galway	66.2	31.6	97.8
Meath	70.4	25.4	95.8
Waterford	64.8	30.9	95.7
Louth	65.9	27.9	93.8
Cork	63.1	29.7	92.8
Limerick	64.0	28.4	92.4
Wicklow	65.8	26.3	92.1
Kildare	67.8	18.2	86.0
Dublin	55.9	24.7	80.6

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TABLE A1.2 – *continued*

County Borough/ County	Dependency Ratio		
	Young	*Old*	*All*
Galway County	72.2	37.4	109.6
Waterford County	68.4	34.5	102.9
Cork County	66.7	29.6	96.3
Limerick County	66.7	27.8	94.5
Limerick Co. Borough	58.4	29.5	88.0
Waterford Co. Borough	60.6	26.9	87.5
Cork Co. Borough	55.2	30.0	85.2
South Dublin	70.2	14.5	84.7
Fingal	68.4	14.9	83.2
Dun Laoghaire-Rathdown	53.7	28.2	81.9
Dublin Co. Borough	46.4	31.1	77.5
Galway Co. Borough	54.6	20.5	75.1
State	**63.9**	**29.4**	**93.4**

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Source: NESC (1997) *Population Distribution and Economic Development*, Report No. 102. Dublin: NESC: Table 2.16.

CHAPTER 2

OPPORTUNITIES, CHALLENGES AND CAPACITIES FOR CHOICE

2.1 INTRODUCTION

The title of this document – *Opportunities, Challenges and the Capacities for Choice* – reflects the new situation created by Ireland's success on key macroeconomic parameters. In contrast to the external discipline and constraints that characterised the past 12 years we now have opportunities and capacities for choice. We also have challenges associated not only with internal developments but with changes in our external environment. Our present success is based on a policy process that delivered consistency in key policy areas over the past 12 years of partnership. Our new situation demands a reinvigorated policy process that recognises new challenges. These include a changed context reflected in a more integrated economic environment internationally, a society characterised by continuous technological change, an increasing knowledge-based labour market and a growing recognition of internal bottlenecks, such as skill shortages and infrastructural and social deficits, that threaten the sustainability of success. The call for a new policy process is not a suggestion that successful strategies be discarded. Rather it is built on recognition of the need for continuity *and* change which would result in choices to address current problems within a framework that would ensure long-term sustainability. These choices would be reflected in public and private sector adaptability and efficiency and a partnership process that is responsive to new and emerging needs.

In Section 2.2, we sketch the sort of economy and society Ireland should aspire to build in the period ahead and in Section 2.3 we spell out the implications of this vision. In Section 2.4 the focus is on the foundations and principles that underpin our commitment to a socially inclusive society, namely a commitment to enhancing equality and the development of citizenship rights. In Section 2.5

we outline key issues relating to social partnership and in Section 2.6 briefly consider public expenditure adaptability and the role of the voluntary sector insofar as they underpin the developments we outline. In Section 2.7 we sketch a scenario for the decade ahead.

2.2 VISION – OPPORTUNITIES AND CAPACITIES FOR CHOICE

Given our present social and economic context, what is the appropriate vision not just for the immediate future, but for the next decade? 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 to the constantly evolving requirements of international competitiveness, understood as the necessary condition of continuing economic and social success.

The vision of a society that displays these characteristics and provides an improved standard of living has implications for policy choices across a wide range of issues. But choices merely seeking to preserve what we have are not sufficient – the goals which underpinned our recent success are no longer adequate. In part, this is because the actions necessary to secure jobs and living standards will be very different in the period ahead. It is also because wider aspects of the quality of life, and the need for fairness in economic and social affairs, have acquired a much greater significance over recent years.

This vision has several dimensions the most important of which are:

(i) economic inclusion based on full employment;

(ii) social inclusion, reflecting full participation in those activities which constitute the norm in society;

(iii) successful and continuing adaptation to change as the dynamic expression of competitiveness;

(iv) commitment to the utilisation and development of the potential of the Information Society and the promotion of research and development;

(v) commitment to lifelong learning;

(vi) sustainable and balanced development between regions and between urban and rural areas;

(vii) commitment to the further development of the European Union and international solidarity; and

(viii) an entrepreneurial culture.

The first three of these build on the commitment to social inclusion, employment and competitiveness articulated in *Partnership 2000.* The other five dimensions of our vision broaden the scope of the overarching societal objectives necessary to meet the challenges and take advantage of the opportunities that characterise our current context and reflect choices for a vibrant, inclusive and sustainable society.

2.3 BUILDING ON ACHIEVEMENTS BY BROADENING THE SCOPE – KEY OBJECTIVES

The objectives of employment, social inclusion and competitiveness outlined in *Partnership 2000* are the essential building blocks for an economically successful and just society. But we must ensure that each is recognised as an equal and essential element of the whole. The three are mutually supporting and essential dimensions of a successful model. None of the three can be considered an option contingent on a favourable economic climate that can be put on the back burner during times of economic constraint.

In considering the implications of a vision based on a commitment to social inclusion, employment and competitiveness we need to move from broad general aspirations to an approach that has coherence and applicability in relation to each. This is essential if the implications for specific policy areas are to be identified and carried through in the development of policy. We must also recognise the changed context. While our commitment to employment, social inclusion and competitiveness as objectives of policy must be constant they must be supplemented by other objectives as outlined above.

2.3.1 Economic Inclusiveness Through Full Employment

A full-employment society means full employment based on a high employment/population ratio and high labour force participation of men and women and the absence of long-term unemployment. It means full-time high-quality employment where that is the choice but it also means flexibility and adaptability both on the side of employers and employees. Dynamic flexibility implies a commitment to continuous production and product innovation and upgrading of skills – this contrasts with static flexibility to short-term shifts in market conditions (Cohen and Zysman, 1987: 133-4). On the part of employees it implies adaptability and lifelong learning; on the part of employers it implies the creation of the necessary conditions to facilitate such adaptability. This includes recognition of the need for balance between work and family responsibilities not only by employers but through the public policy framework. Such recognition would be reflected in financially accessible high quality childcare, maternity and parental leave and flexibility in employment structures.

The goal is an adaptable, forward-looking society with a labour force characterised by a range of skills appropriate to the opportunities associated with the increasingly knowledge-based economy and society. The underpinning of this kind of society is a high quality educational system with universal completion to at least the end of the second-level cycle, a high quality training structure, a well-developed lifelong learning system and a support structure that facilitates employment and/or education for those with caring responsibilities.

2.3.2 Social inclusion

Partnership 2000 made a commitment to pursue social inclusion "as a strategic objective in its own right" with the primary objective that "the benefits of economic growth and related social improvements, are shared by all sections of the Irish population" (Government of Ireland, 1996: 4.4). Social inclusion is to be achieved through action against social exclusion through "a strategy which enhances equality and counters discrimination in both employment and non-employment areas" (5.1). Social exclusion is described in *Partnership 2000* "as cumulative marginalisation: from production (unemployment), from consumption (income poverty), social networks (community, family and neighbours), from decision-making and from an adequate quality of life" (4.3). The strategy to enhance equality involves the development of a framework "to pursue in particular the full integration of women and of people with disabilities, and of members of the Traveller Community, into Irish society" (5.1).

Several measures to address social exclusion and enhance equality were identified in *Partnership 2000* and are being implemented to varying degrees. Action in this regard is reflected in equality legislation, in particular the Employment Equality Act, 1998, the Equal Status Bill, 1999, and in the Parental Leave Act, 1998.[1] The National Anti-Poverty Strategy was launched in 1997. Its first evaluation, published in July, 1999, recorded some significant achievements but these must be interpreted within the context of the relatively modest targets set in 1997 and data timeliness limitations (National Anti-Poverty Strategy, 1997; 1999).[2] The greatest success in terms of combating social exclusion in the Irish context has been in the area of production through the continuing reduction in unemployment. Given the pivotal role of unemployment in generating social exclusion this undoubtedly has had an impact on

1 This was enacted to meet EU obligations rather than as a commitment under *Partnership 2000*.

2 The data published in 1999 relate to 1997 and demonstrate that the targets set for 'consistent poverty', that is relative income poverty combined with a measure of deprivation of a basic necessity, were already achieved in 1997. These targets and related issues are discussed in Chapter 9.

the other aspects of social exclusion but there are still significant problems in relation to unemployment for particular social groups and in terms of poverty and cumulative marginalisation.[3] However, the success achieved to date in reducing the magnitude of exclusion should allow for more effective targeting of its persisting elements.

The acknowledgement of social exclusion and of the need to enhance equality have been associated with recognition in the policy process of practices such as policy proofing for specific conditions and mainstreaming of programmes adapted to specific groups (see Box 2.1). While these are important additions to the policy framework, they must be supplemented by recognition that our current economic conditions afford us the opportunity to address in a significant and effective way key elements of the social exclusion to which these processes are directed. This would imply a *targeted investment-oriented approach to poverty relief and social inclusion* and would necessitate a programme of measures, that are time-limited and that would be designed as far as possible to reconnect communities damaged by unemployment and poverty with the labour market and society at large. Such initiatives should facilitate the development of the infrastructure necessary for communities to harness the social capital and capacity necessary for development.[4] Despite the fact that the majority of people affected by poverty and social exclusion are not spatially concentrated it is clear that there are spatial concentrations of unemployment, poverty and exclusion. Consequently, there must be a dual policy focus directed to the social groups who are excluded and those at greater risk of exclusion but also focusing on the locations where cumulative disadvantage is pervasive. Both approaches are

3 All the issues outlined in this section are analysed in Chapter 9.

4 In its 1996 Strategy the Council identified the importance of social resources and capacities which reside in the social relationships between people and focussed on three clusters of such relationships – those centred on family, gender and community (NESC, 1996a). The concept of social capital is relevant to the ability to mobilise such resources and capacities. Social capital is about relationships between members of a community; it has to do with level of political trust and civic engagement. A decline in social capital is reflected in a decline in membership of voluntary organisations and in collective political participation (Putnam, 1994).

necessary for the social cohesion to underpin negotiated consensus on economic and social objectives. It is the spatial concentration of cumulative disadvantage that is the focus of the targeted special investment-oriented approach. It is not a substitute for the social inclusion focus of the National Development Plan.[5] It is a complement directed to areas that, due to long-term and cumulative exclusion, need an extra impetus to create the conditions that will allow them to harness their resources. Social cohesion needs to be fostered through the broadening of participation in society. We now have the capacity to choose the investment that can underpin such participation. This is an essential prerequisite for the exercise of citizenship obligations.

The goal is a society that generates social inclusion. While responding to social exclusion is an essential element of policy it is only a stage on one of the paths to an inclusive society. It reflects a commitment to addressing problems that have arisen. The causes of these problems must also be addressed. The other path to an inclusive society is a comprehensive strategy to enhance equality and counter discrimination in both employment and non-employment areas. The commitment made in *Partnership 2000* must be re-affirmed and the measures already taken must be comprehensively implemented and supplemented where necessary. This calls for a rights-based approach to ensure full citizenship for all people in Ireland. The objective must be a policy process where actions against social exclusion, including policy proofing and mainstreaming, are taken-for-granted dimensions of the policy process but are not seen as substitutes for fundamental change in access to the opportunities and resources necessary for social inclusion.

Social inclusion constitutes an essential aspect of the vision, not only because of the inherent importance of citizenship rights and obligations but also because social cohesion and economic prosperity are dependent on a fair society. Social inclusion is essentially about full participation in society and such participation

5 Neither is it a substitute for the programmes in operation to tackle social disadvantage, such as labour market, training and education programmes.

BOX 2.1

Policy Proofing and Mainstreaming

Policy proofing and mainstreaming are related concepts and sometimes appear to be used interchangeably. As with all social inclusion measures, they are centrally concerned with creating a more just and equitable society. As such they must be part of the wider social inclusion framework.

Policy proofing refers to “a formal mechanism by which policies are assessed at design and review stage for their likely impact on a particular area of concern, e.g. the family, poverty, equality, job-creation potential, ethnic origin etc.” (*Partnership 2000* Monitoring Paper, Number 40, 1998:1) The application of such an approach on a consistent basis affords an opportunity for follow-through on policy commitments in a way that has not characterised the policy process to date.

The term ‘mainstreaming’ is used in a variety of ways in public policy documents. The most widely used of these are the following:

(i) recognition and integration of the situations, priorities and needs of all socially excluded groups in all policies and at all stages of the policy process with a view to promoting equality;

(ii) applying the lessons of successful pilot projects, for particular socially excluded groups, to general policy and practice.

The first usage is exemplified in the following European Union definition addressed to the situation of men and women:

“… the systematic integration of all the respective situations, priorities and needs of women and men in all policies and with a view to promoting equality between women and men and, mobilising all general policies and measures specifically for the purpose of achieving equality by actively and openly taking into account, at the planning stage, their effects on the respective situation of women and men in implementation, monitoring, and evaluation” (European Commission, February 21, 1996 “Incorporating equal opportunities for women and men in all Community policies and activities” COM/96/67 final).

The second usage is exemplified by the following Department of Enterprise, Trade and Employment statement:

“Mainstreaming … is extracting the important lessons from the Employment Initiative and applying them to policy and practice: it envisages a process whereby this can be achieved and a mechanism to review progress. It does not encompass the provision of funding to facilitate the ad hoc continuation of pilot projects, which have a finite life span.”

is possible only with access to core, taken-for-granted rights and the fulfilment of the associated obligations that characterise full membership of society.

Citizenship *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. Citizenship *obligations* refer to such obligations as the payment of taxes and the fulfilment of obligations implied by access to services and benefits. But citizenship responsibilities are much broader than these formal obligations imply. They entail recognition of mutuality as reflected by participation in, and contribution to, the community if one has resources to do so. We outline key considerations relating to citizenship rights and obligations in Section 2.4.5

2.3.3 A Competitive Economy Achieved Through Continuous Adaptation to Change

The crucial importance of competitiveness to our economic well-being has been evident, not only in the Council's strategy documents (NESC 1986, 1990, 1993d, 1996a) but in the publications of other bodies such as Forfás (forthcoming) and, explicitly, in the publications of the National Competitiveness Council (1998a, 1999). The maintenance of competitiveness is even more important within the single currency area than previously – compensation for loss of competitiveness through devaluation is no longer an option. But competitiveness is not just fundamental to economic stability and growth. Its broader impact is reflected in how it translates into improved living standards for those in employment, helps to generate increased employment and facilitates the conditions for redistribution through taxes and social transfers. Consequently, it is fundamental not only to maintaining the economic stability on which our economic success depends but to combating social exclusion. This is clearly illustrated in the key items identified in the 1999 *Annual Competitiveness Report* as threatening "the capacity of the economy to fulfil its medium-term economic potential – the basis for future social progress". The items identified are skill shortages, poor transport infrastructure, underdeveloped environmental infrastructure, inadequate housing supply and unbalanced regional development (National Competitiveness Council, 1999: x). It is pointed out that improvement of our competitive position in key areas is fundamental to closing the wealth gap with other economies. This is not just a desirable end in itself, it also reflects increased employment and the means to increase social inclusion.

Successful adaptation to continuing change is the dynamic expression of competitiveness, which represents a necessarily moving target. As the pace of globalisation continues, the pressure for competitiveness is reinforced by rapid technological change, increased capital mobility and expanding trade opportunities. The requirement is an economy that is competitive in key dimensions not only *vis-à-vis* traditional competitors, but *vis-à-vis* our current and future competitors for investment and trade. Because of increasing economic integration and changing product and market characteristics our competitors may be located anywhere in the world and the sources of competition may change over time.[6]

Competitiveness is not merely about economic growth and consistent and effective responses to changed circumstances; it is fundamental to combating social exclusion. There is a reciprocal relationship between competitiveness and social inclusion. Competitiveness helps to generate the resources to enhance social inclusion, increased social inclusion facilitates enhanced competitiveness. The guiding objective is an economy that is structured to achieve self-sustaining competitiveness in the context of increasing economic integration. In this context, we wish to highlight two related issues that are crucial to achieving this objective in the period ahead: the Information Society and lifelong learning.

6 See Chapter 3 for discussion of the implications of economic integration.

2.3.4 Utilising and Developing the Potential of the Information Society

We have addressed the challenge of competitiveness in terms of continuing adaptation to change because it is not simply about doing things more cost effectively, it is also about doing things better. Moreover, we anticipate that, over the next decade, a revolution in information and communications technologies is likely to change the face of the global economy and will bring about enormous changes in economic and social structures in developed economies.

Ireland has performed remarkably well as an economy at the outset of this information revolution. However, much more needs to be done, and it needs to be done quickly, if the country is to reap the opportunities provided. This includes the need to:

(i) build a competitive, knowledge-intensive, high skilled human resource base committed to lifelong learning;

(ii) create the conditions necessary for timely investment in the necessary infrastructure, by providing a competitive market that is attractive to national and international companies;

(iii) ensure that policy in respect of information and communications technologies and related sectors maximises competition in the interests of consumers;

(iv) ensure that universal access is available to advanced telecommunications and electronic commerce infrastructure and services, anticipating effective demand, so as to facilitate economic development, as well as the social benefits for citizens resulting from the provision of government services electronically and full and active participation in the Information Society;

(v) ensure the capacity to adapt to the information revolution on the part of all members of society. This implies not only universal access but a commitment to facilitating access through education and demonstration of the relevance and advantages of the information revolution to all sectors of the population, for example in facilitating access to public services, to education and to employment. Enhancing the capacity to adapt to the information revolution should not be seen as an option, it should be recognised as an essential driver of the process in the long-term.

Our capacity to position the Irish economy strategically to cope with the Information Society and the promotion of research and development will be critical in determining how competitive we are in the early years of the next millennium.

2.3.5 Lifelong Learning

A commitment to lifelong learning is fundamental to our vision of a successful society. The Council defines lifelong learning as learning over the entire lifespan. It includes all learning activity, whether taken on a formal or informal basis, with the aim of improving knowledge and skills and promoting personal fulfilment. A commitment to lifelong learning demands universal attainment of literacy and numeracy at primary level, and completion of second-level education, a high level of participation (by international standards) in third-level education, in employment-related training, in second-chance and adult and continuing education. This conception of education is a common platform to meet our key objectives of full employment, international competitiveness and social inclusion.

2.3.6 Sustainable and Balanced Regional Development

The Council's vision of the future entails the pursuit of balanced regional development that is associated with sustainable urban and rural adjustment attuned to changing economic, demographic and social structures. This requires, in turn, an accelerated programme of balanced, economically and environmentally sustainable, infrastructural development that is geared to underpinning our economic success and contributing to, and enhancing, the social cohesion on which our current economic prosperity is built. This implies a broad definition of infrastructure encompassing both economic and social dimensions. It suggests infrastructural development that is planned, co-ordinated and implemented in a timely manner and which reflects the potential for linkages between policy objectives. A particular priority is the potential for enhanced infrastructure links with Northern Ireland.

The need for more balanced spatial development requires greater emphasis on regional development policies. The regionalisation arrangements negotiated by Ireland in the context of Agenda 2000 discussions resulted in the designation of two regions in Ireland for Structural Funds purposes – the Border, Midlands and West (BMW) Objective 1 Region and the Southern and Eastern (S &E) Objective 1 Region in transition.

In order to achieve greater regional convergence of per capita incomes and output it will be necessary to increase the attractiveness of poorer regions for investment in industry, tourism and natural resources. This will require:

(i) improvement in the quality of infrastructure in less-developed regions, particularly roads, water and sanitary services and advanced telecommunications;

(ii) building up the capacity of these regions to attract indigenous and foreign direct investment through the development of regional gateways;

(iii) giving more favourable support to productive investment in less-developed regions as is provided in the Regional Aid Guidelines;

(iv) augmenting the human capital stock of poorer regions;

(v) strengthening their research and technology development (RTD) capacity; and

(vi) developing the institutional framework necessary to support the development of all regions by providing direction, coherence and support for a strategy for development as indicated in the White Paper on Rural Development (Department of Agriculture and Food, 1999a).[7]

7 The National Spatial Development Strategy outlined in Chapter 10 would provide a framework for the co-ordination of physical development.

The National Development Plan has focused on these types of actions to promote regional development. In addition, it provides support for measures to address the significant intra-regional variation in the distribution of poverty and economic deprivation, which the Council has demonstrated in earlier work.

A society built on a commitment to achieving and maintaining regional balance must be based on the recognition of the constant need to adapt to new needs, lifestyle choices and opportunities but within a policy framework that is attuned to the long-term consequences of current choices, including the spatial distribution of economic, educational and social activity.

The impact of advanced information and communications technologies on economic growth and employment generation necessitates access to advanced, high-capacity, low-cost communications/electronic commerce infrastructure and services. While major urban centres in Ireland may be adequately served by the market, public investment is required to leverage infrastructure investment in economically marginal areas – both urban and rural. This is necessary to pump-prime electronic commerce flagship projects such as research into the next generation of internet technologies, and to accelerate investment in public electronic commerce systems and services, including enabling public assets to be utilised to support the Government's Information Age Strategy.

The expected outcome of such investment would be:

(i) the attraction of further investment to locations outside the major urban centres;

(ii) the opening up of decentralisation opportunities to redress broader infrastructural and socio-economic imbalances within the country and opportunities for the development of a more socially-inclusive Information Society; and

(iii) the provision of public services electronically, which enhance access and reduce costs and as a consequence ensure full and active participation by all citizens in the Information Age. The type of services most suitable would include education services, virtual libraries, one-stop-shops and access to specialised health services.

2.3.7 Commitment to the Further Development of the European Union

Consistent with our commitment to the European Union and our improved economic conditions we can now firmly establish our vision of a country that participates in, and contributes to, the European Union and other supra-national bodies on an equal footing with all our European partners. This implies building on our achievements in these fora and recognising that an active participation, including a commitment to leadership in development co-operation and the affirmation of citizenship rights at an international level, has widespread positive consequences for the reputation of Ireland and its citizens. It also implies optimising the advantages of our location within the European Union coupled with our success in attracting high levels of investment in leading-edge technology from other locations, particularly the US. The lessons to be garnered from this dual character of our economy, and particularly the adaptation of our labour market, are relevant not only for our future success, including our ability to attract continued investment, but also for our EU partners.

2.3.8 An Entrepreneurial Culture

All of the dimensions outlined so far presuppose, either directly or indirectly, a context characterised by an entrepreneurial culture. An entrepreneurial culture implies a climate of development that values creativity, innovation, risk-taking and initiative. The fostering of an entrepreneurial culture is essential for the development of new enterprises, the growth of SMEs and an expansion in related employment. The challenge now is to maintain a constantly regenerated environment that is conducive to innovation and risk-taking, to ensure continued success, and to inspire a commitment to this and a sense of possibility for all citizens.

Entrepreneurship has traditionally been discussed in relation to commercial activities and it is of crucial importance to a vibrant business environment. However, it is increasingly recognised that entrepreneurship, in the sense of vision, drive, creativity and commitment to the achievement of desired objectives, is equally important in the public sector, both commercial and non-commercial, and in the community and voluntary sector. As we outline below, the achievement of the Council's vision for Ireland over the next decade and the achievement of the associated strategy are also dependent on the adaptation of the institutional capacity of our current public policy framework. The creativity and commitment of social entrepreneurs in the community and voluntary sector are also of crucial importance in the identification of new possibilities for development and service delivery in health, housing, education, social services and other policy areas.

The Council believes that the development of Irish society would be enhanced both economically and socially through an increased commitment to fostering an entrepreneurial culture, broadly conceived. Key mechanisms for this should be developed in the mainstream educational system but also through the entire lifelong learning process.

The vision outlined here takes account of the present prosperity, and how it was achieved, as well as the challenges and risks that continue to face Ireland at home and abroad. It recognises the newly-achieved capacity to meet these challenges and the possibilities for choice in terms of future direction. It implies a commitment to consolidate and build on our achievements, to address the deficits which are clearly evident, and to push the boundaries of development to ensure a self-sustaining success that is equitably shared.

2.4 FOUNDATIONS AND PRINCIPLES UNDERPINNING A SOCIALLY INCLUSIVE SOCIETY

Throughout this document we identify a strategy to build on, and consolidate, our commitment to a society characterised by social inclusion, employment and competitiveness. Because of the importance the Council accords to social inclusion, we spell out here the principles that underpin our conception of a socially inclusive society. These are a commitment to enhancing equality and the development of citizenship rights "against which achievements can be measured and aspirations directed" (Marshall, 1964: 84).[8] We also identify recent progress in enhancing equality made through legislation, institutional structures and other policies, and identify priorities for action.

2.4.1 Action to Enhance Social Equality – International Conventions and Charters

There is now widespread acknowledgement of the crucial importance of social equality as a principle underpinning public policy and the associated importance of the recognition of, and respect for, fundamental rights accompanied by appropriate policies. This is reflected in several international conventions and declarations to which Ireland subscribes, for example, the United Nations Declaration on Human Rights, the International Convention on Economic, Social and Cultural Rights and the Convention on the Elimination of All Forms of Discrimination against Women.[9] It is reflected in International Labour Organisation (ILO) conventions several of which Ireland has ratified. It is also reflected in the Council of Europe Convention on Human Rights and the European Social Charter; the European Union Treaties, Charter, social action programmes, and documents. Since the European context has a more immediate impact on Irish policy and practice we now outline key European Union measures and developments insofar as they relate to the enhancement of equality in Ireland. We then briefly

8 In discussing citizenship T.H. Marshall, on whose analysis much current work on citizenship rights is based, stated that there is no universal principle that determines what the rights and duties of citizenship shall be "but societies in which citizenship is a developing institution create an image of an ideal citizenship against which achievements can be measured and towards which aspirations can be directed" (Marshall, 1964:84).

9 The Irish Government has indicated its intention to ratify the International Convention on the Elimination of All Forms of Racial Discrimination and to lift one of its reservations to the Convention on the Elimination of All Forms of Discrimination against Women (United Nations Human Rights Website, Committee on Economic, Social and Cultural Rights, Summary Record of the 14th Meeting, 4 May, 1999).

outline the implications of the 1998 Belfast Agreement for equality structures.

2.4.1.1 The European Union

The Council has previously considered at some length the social dimension of the European Union. It has welcomed its contribution to the cohesion and stability of the Union as a whole and concluded that it had a relatively positive shaping influence on social policy in Ireland (NESC, 1989, 1997). Other analyses have demonstrated its positive influence on equality between women and men (Laffan, 1991; Jackson, 1993; O'Connor, 1994). The concern here is with drawing attention to European Union Treaties, Charter, social action programmes and documents that have an equality dimension.

EU documents and policy initiatives have consistently affirmed the importance of equality on gender lines European Commission, 1998b; Meehan, 1993; Hantrais, 1995; see Box 2.1). The EU has developed a strong focus on social inclusion over the past decade. All European Union institutions aim to ensure that the issue of gender equality is taken into account across all relevant policy areas. The EU Structural Funds Regulations make a commitment to promote equality between men and women and combat any discrimination on the grounds of race, ethnic origin, disability or age (Ref: 12/60/99 quoted in Mullally, 1999: 49-52). The European Social Fund Regulations relating to Equal Opportunities similarly specify that "programming and implementation of the actions financed by the Fund… contribute to the promotion of equality of opportunity between men and women and the promotion and retention of disadvantaged groups and individuals in the labour market" (extracts from the Regulations on the European Social Fund relating to Equal Opportunities quoted in Mullally, 1999: 53). Equality of opportunity is a fundamental aspect of the European Employment Strategy put in place at the Luxembourg Jobs Summit in November, 1997. The 1999 EU Employment Guidelines consider the gender equality issue in terms of how Member States will address the gender gap and implement policies to reconcile work and family life. They focus on promoting the integration into working life of people with disabilities, ethnic minorities and other groups and individuals who may be disadvantaged. The EC Treaty establishes procedures to secure the protection of fundamental rights. It empowers the Council to take action (through policies and proposals) to combat and prevent discrimination on grounds of sex, racial or ethnic origin, religion, belief, age or sexual orientation. It also lays the ground for measures to achieve equality between men and women including positive action.

The debate on fundamental rights in the European Union was launched by the report of the 'Comité des Sages' presented at the first Social Policy Forum in March, 1996.[10] It stressed the need to strengthen the sense of citizenship and democracy in the EU by treating civil and social rights as indivisible, as well as formulating rights that reflect technological change, environmental concerns and demographic developments. The most recent contribution to that debate is the report by an Expert Group on Fundamental Rights (1999) which was established by Directorate General (DG) V.[11] The Group was asked to review the status of fundamental social rights in the treaties, in particular the Treaty of Amsterdam, and consider the possible inclusion of a Bill of Rights in the next revision of the Treaties. It made ten recommendations including one for a comprehensive approach to the protection of fundamental rights and the indivisibility of both civil and social rights. The Group points out that the "history of the European Communities offers many examples of the efforts to regard social rights as a group of rights with less relevance than traditional civil and political rights. The quest for 'indivisibility' counters all attempts to maintain the separation and to deny social rights the rank conceded to civil and political rights" (Expert Group on Fundamental Rights, 1999: 22). It is noteworthy that rather than further deliberation and formulation of a new Bill of Rights, it recommends the recognition of rights built on the European Convention on Human Rights, "which has become through the case law of its organs, a common European Bill

10 The Committee had seven members – three former senior politicians and four academics.

11 The Group had eight members from academic institutions across the EU including as President Spiros Simitis of the University of Frankfort.

BOX 2.2

The Council of Europe

The European Convention on Human Rights, which protects civil and political rights, was supplemented by the European Social Charter, which was signed in 1961 and which protects fundamental social and economic rights. Ireland is a member of the Council of Europe and a contracting party to the Convention and Charter. The Charter and its Additional Protocol of 1988 guarantees a series of rights that can be divided into two categories relating to Conditions of Employment and Social Cohesion. The social cohesion provisions include:

- the right to protection of health, the right to social security, the right to social and medical assistance and the right to benefit from social welfare services;
- the right of children and adolescents to protection against physical and moral dangers;
- the right of families and their individual members to legal, social and economic protection;
- the right of migrant workers and their families to protection and assistance; and
- the right of elderly persons to protection.

The Social Charter was revised in 1996 to bring it up to date and to extend its scope to new categories of rights. The revised Charter came into force on the 1st July, 1999. The main changes include:

- the strengthening of equality between women and men;
- the right of disabled persons to personal social integration, to individual independence and to participate in the life of the community;
- the strengthening of the right of children and adolescents to social, legal and economic protection;
- the right to protection in cases of dismissal;
- the right of workers to dignity;
- the right of workers with family responsibilities to equal opportunities and treatment;
- the right to housing; and
- the extension of the prohibition of discrimination (Council of Europe Website).

While these rights can be accepted selectively by the Contracting Parties, subject to a minimum number of acceptances, states often use the European Convention of Human Rights and the associated case law as a guide. The Council of Europe's Social Charter did not have the same legally binding status as the Convention but it established a set of policy objectives that later served as a blueprint for the European Community Charter. Both the Preamble and Art. 136 of the EC Treaty refer to fundamental social rights by pointing to the 1961 European Social Charter (Council of Europe) and the 1989 Community Charter.

of Rights" (*op. cit:* 23) (see Box 2.2). But the identification and enumeration of rights is not an end – the process must remain open to adjust its leading principles to societal change. It concludes that the identification of fundamental rights must be accompanied by fundamental policies. If the advice of the Expert Group is incorporated into the next revision of the Treaties, these rights and policies would become "integral and closely linked components of the single system of fundamental rules which govern the activities of the European Union" (*op. cit:* 25).

The Council of Europe and the EU are not the only external influences and standards against which we measure progress at present. Earlier this year an Irish delegation made a presentation to the UN Economic and Social Committee on Ireland's compliance with the International Convention of Economic, Social and Cultural Rights for the years 1996-98. This was a wide-ranging report which made reference to the Belfast Agreement, equality legislation, the National Anti-Poverty Strategy (NAPS), social protection, the Refugee Act, the status of people with disabilities and mental handicap and the Education Act. The Committee welcomed progress in several areas, including unemployment reduction, and the development of the NAPS. One of the key criticisms was the absence of a human rights perspective in the NAPS and it was recommended that it be amended to remedy this. It also expressed concern about illiteracy, poverty and the level of social welfare payments. It noted discrimination against Travellers and people with disabilities in employment, education and housing. It recommended that justiciable economic, social and cultural rights be incorporated into the Constitution. Other recommendations included a rights-based Disability Bill, the ratification of the International Convention on the Elimination of All Forms of Racial Discrimination and action on poverty.

2.4.2 Action to Enhance Social Equality – the Belfast Agreement and Human Rights Structures

The 1998 Belfast Agreement has implications for equality legislative provisions and associated equality structures. The 1999 Equal Status Bill, discussed below, will fulfil part of the equality commitments of the Agreement. The establishment of the Human Rights Commission outlined in the Human Rights Commission Bill published in 1999 will enhance these. The Office of the High Commissioner for Human Rights has advised on this and the Taoiseach has made a commitment to exceed the requirements of the Belfast Agreement and to endeavour to set, rather than follow, standards for best practice in the field (United Nations Human Rights Website, Committee on Economic, Social and Cultural Rights, Summary Record of the 14th Meeting, 4 May, 1999). Section 2 of the Act defines human rights as "the rights, liberties and freedoms conferred on, or guaranteed to, persons by the Constitution and the rights, liberties or freedoms conferred on, or guaranteed to, persons by any agreement, treaty or convention to which the State is party" (Human Rights Commission Bill Explanatory and Financial Memorandum: 2). This definition means that the responsibilities of the Commission will be very broad.[12] However, the Bill specifies that the perceived rights under some of the treaties to which the State is party may not, on their own, be justiciable before Irish courts at present. For example, while the European Convention on Human Rights was signed by Ireland in the 1950s, it has not been incorporated into Irish law but this is currently under review arising from the obligations of the Belfast Agreement. If the provisions are given effect in Irish law, the associated rights will be justiciable. As a further commitment to the Belfast Agreement, Ireland has indicated its intention to ratify the Council of Europe Convention on National Minorities and four supplementary international agreements with the British Government.

12 Consistent with this the Commission will have responsibility not only for examining law and practice with reference to human rights and fundamental freedoms contained in the Irish Constitution but also the European Convention on Human Rights, the U.N. Covenant on Civil and Political Rights, the U.N. Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of all Forms of Discrimination Against Women, the Convention on the Rights of the Child and the Framework Convention for the Protection of National Minorities and any other Conventions and Agreements ratified by the state in the future for example the Convention on the Elimination of All Forms of Racial Discrimination, the Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment which are under consideration.

2.4.3 Action to Enhance Social Equality – Partnership 2000 and Associated Responses

Noteworthy amongst the Irish documents relating to the enhancement of equality are the Council's last Strategy document (NESC, 1996a) and *Partnership 2000* (Government of Ireland, 1996). In that Strategy document the Council reiterated its long-standing commitment to action on unemployment and social exclusion. It supported the enhancement of equality through "the promotion of equality of opportunity, participation and outcome as a positive good". It argued for "key anti-discrimination and equality measures, both legislative and practical, by a range of actors" – in this regard it identified action in relation to gender, disability and Travellers (NESC, 1996a: 214). As outlined above, *Partnership 2000* made several commitments both in terms of action for greater social inclusion and "a new focus on equality" directed to the full integration of women, people with disabilities, Travellers and other groups experiencing discrimination. This commitment to equality encompassed both employment and non-employment areas. Action in this regard is reflected in equality legislation, in particular the Employment Equality Act, 1998, and the Equal Status Bill, 1999, in the establishment of equality structures to implement this legislation and in policies in other areas.

2.4.3.1 Equality Legislation

The Employment Equality Act, 1998, and the Equal Status Bill, 1999, are two of the major legal initiatives in the equality area during the period of *Partnership 2000*. The Employment Equality Act, 1998, outlaws discrimination on nine distinct grounds: gender, race, religious belief, disability, age, membership of the Traveller community, marital status, family status and sexual orientation. The 1999 Budget included £3.7 million to cover the cost of the existing level of activity of the Employment Equality Agency as well as the increased cost that will arise as a result of the establishment of the Equality Authority and the Office of the Director of Equality Investigations under this Act. The Act was implemented with effect from October, 1999, when both offices were officially opened.

The Equal Status Bill was published in April, 1999 and is expected to be enacted early in 2000. This gives protection against discrimination in non-workplace areas and thus complements the Employment Equality Act. The 1999 legislation replaces the earlier Equal Status Bill, 1997, which was found to be unconstitutional by the Supreme Court because it required employers and service providers to make such special provisions as would facilitate people with disabilities who could not otherwise access the employment or service. The Supreme Court held that this was a breach of property rights unless there were only nominal costs involved.[13] The broad thrust of the 1999 measure is the same as the 1997 Bill but the amendments to meet the Supreme Court's requirements have weakened it. Specifically, employers and service providers now *may* be required to provide special arrangements to facilitate a person with a disability who could not otherwise access the employment or service and then *only if there is only nominal cost involved*. The Bill prohibits discrimination on the grounds of gender, marital status, sexual orientation, religion, age, disability, race, colour, nationality, national or ethnic origin and membership of the Traveller community. The Bill deals with discrimination outside of the employment context, including education, the provision of goods, services and accommodation and the disposal of property. Services are broadly defined to include access to public places, banking and insurance services, entertainment, facilities for refreshment and transport.

Another relevant piece of equality legislation is the Parental Leave Act, 1998, that was enacted to meet EU obligations. It is discussed in Chapter 7, where its potential contribution to helping parents to reconcile work and family responsibilities is noted as well as its likely contribution to the equal opportunity for women and men. However, the leave is unpaid and this is likely to constrain take-up by low-income parents.

In 1998 the Housing (Traveller Accommodation) Act was passed which gives effect to commitments contained in *Partnership 2000*.

13 The original Bill on employment equality was also found to be unconstitutional on this ground.

Under the Act, local authorities, in consultation with Travellers are required to draw up, adopt and implement a five-year programme to meet the existing and projected accommodation needs of Travellers in their areas. This includes an assessment of the specific needs of Travellers including the need for halting sites. The Act also amends planning legislation to require planning authorities to include objectives regarding Traveller accommodation in their county/city development plans. It also put on a statutory basis the National Traveller Accommodation Consultative Group that advises the Minister for the Environment and Local Government on any general aspects of Traveller accommodation. This is discussed in Chapter 11 in the context of Traveller accommodation. It is pointed out that this Act is the most comprehensive legislation on Traveller accommodation enacted to date and the Council argues strongly that its implementation be monitored effectively and action taken to ensure its full implementation. This monitoring is crucial since the provision of Traveller accommodation has been impeded by discrimination and objections by the settled community and a failure to recognise members of the Traveller community as citizens entitled to the same rights and obligations as other citizens. The Equal Status legislation should help to broaden this appreciation.

The Refugee Act was passed with all-party support in 1996 and welcomed by the non-governmental organisations (NGOs). Only five sections of the Act have been implemented and these came into effect in September, 1997. The numbers of refugees and asylum seekers increased very considerably after 1996 – from a couple of hundred to over 6,000 in 1999 and it was argued that this made aspects of the 1996 Act unworkable. The Immigration Act of 1999 made some amendments to the administrative provision of the Refugee Act.[14] These include the appointment of a Commissioner with the power to delegate the right to hear refugee and asylum applications and four Independent Appeals Authorities. These changes are expected to reduce the waiting period for determination of applications to eight to nine months and appeals to three months.

14 It also made provision for deportation that is constitutionally acceptable – this followed a court challenge. The total number of applications outstanding, including appeals, was 8,725 at the end of November 1999.

A system of legal aid through the Legal Aid Board has also been introduced in 1999 and a Refugee Advisory Board representative of NGOs and Government Departments is to be established to advise on policy, practice and procedures. The Minister for Justice, Equality and Law Reform announced in July, 1999 that asylum seekers whose applications are over 12 months old and not determined would be entitled to work with from effect from 26th July, 1999 provided they had applied for asylum before that date. Despite these changes there are major challenges relating to asylum seekers and refugees. The most significant is racism which can influences all aspects of economic and social life. The enactment of the Equal Status Bill should provide for some remedies in this area.[15]

2.4.3.2 Other Equality Commitments under Partnership 2000

The June 1999 review of *Partnership 2000* records significant progress on the commitments on equality entered into in 1997 (*Partnership 2000* Monitoring Papers, 23 June, 1999). In addition to the equality legislation outlined above this review noted increased female labour force participation and efforts to improve the participation levels of women, and lone parents in particular, in FÁS training programmes and initiatives relating to childcare. The former issues are discussed in Chapter 9. Childcare is discussed at some length in Chapter 7 in relation to employability. The Council recognises that childcare is not exclusively a women's issue nor is it exclusively an employment issue. It is important in relation to child development and in facilitating parental participation in education and training and in fulfilling the public policy commitment to lifelong learning. However, it is also a crucial element of any package of family-friendly policies that can facilitate labour force participation and labour market adaptability – for this reason it is discussed in Chapter 7 where the Council recommends a package of measures that will balance demand, supply and cost pressures.[16]

15 As is noted in Chapter 11 refugees and asylum seekers are particularly vulnerable in relation to affordable accommodation – this is associated with their concentration in areas of high disadvantage (Moran, 1999: 280).

16 Childcare is one of the family-friendly policies advocated in the EU Employment Guidelines.

The review of progress also noted several initiatives relating to people with disabilities and Travellers. Traveller accommodation is discussed in Chapter 11 as is the issue of accessible accommodation for people with disabilities.

Consistent with the Council's position, *Partnership 2000* recognised unemployment as the single biggest contributor to social exclusion and poverty. As is outlined in Chapter 1, this has been one of the major success areas in Irish public policy over the past several years. Unemployment in the second quarter of 1999 was under six per cent and long-term unemployment was 2.5 per cent. Policy initiatives, progress, ongoing developments and outstanding issues in this area are discussed in Chapter 9.

2.4.3.3 Equality Institutions and Mechanisms

One of the most important areas in which *Partnership 2000* has facilitated the enhancement of equality is in the establishment of institutional structures and/or the change of traditional administrative responsibility. The National Anti-Poverty Strategy and associated monitoring and evaluation procedures comprise one of the most significant equality institutions established in Ireland. While the targets set may be questioned, as we do in Chapter 9, its establishment signifies recognition of poverty as a significant problem in the public policy process. Its existence provides the potential for concerted action. Similarly the Equality Authority and the Directorate of Equality Investigations have the potential to ensure both public awareness of equality issues and to take action against possible infringements of equality rights. The National Disability Authority appointed in 1998 has the mandate to give independent expert advice on disability issues to the Minister for Justice, Equality and Law Reform, to engage in research and the development of standards and codes of practice for programmes and services for people with disabilities and to monitor the implementation of these. It has the potential to ensure comprehensive services for people with disabilities but it is not expected to be functioning fully until well into the year 2000.

The change of administrative responsibility for a policy issue can be far more than administrative tinkering. It can be highly significant not only from a service-enhancement point of view but also symbolically. An example of such a change is the transfer of primary departmental responsibility for employment and training policy for people with disabilities from the Department of Health and Children to the Department of Enterprise, Trade and Employment. This reflects a commitment to the promotion of the employment of people with disabilities in open employment and was accompanied by initiatives by FÁS in relation to accessibility.[17, 18]

These changes are an important start but without monitoring of implementation we do not have the information necessary to make an informed judgement of progress on commitments. There are very significant data limitations constraining a true evaluation of progress. While we have reliable and timely data on employment and unemployment, the situation in relation to income and other areas is far from satisfactory although the situation is improving.[19] For effective evaluation of policy initiatives and their implementation we need data that are timely and can be dis-aggregated by social category and where appropriate by location.

2.4.4 Social Exclusion and an Inclusive Society

The preceding analysis indicates considerable activity against social exclusion. Key areas for action have been identified and progress has been made in equality legislation and institutional mechanisms. Yet, it is clear that there is considerable way to go if we are to

17 Despite these changes there are significant accessibility issues for people with disabilities not only relating to access to commercial, social and entertainment venues but to some public service venues and most noteworthy to public transport. These are real barriers to inclusion. The Council strongly recommends that existing commitment to accessibility be implemented and that all physical infrastructural developments under the National Development Plan be made accessible where relevant (see Chapter 10).

18 Several Task Forces including Inter-Departmental Task Forces have been established to help implement equality commitments made in *Partnership 2000*. The latter reflect recognition of the importance of cross-cutting issues in the policy process (see Appendix Box A 2.1).

19 We discuss the income issue in Chapter 9.

achieve a socially inclusive society. Action *against social exclusion* is clearly premised on a commitment to reducing the impact of inequality and this pursuit is rarely challenged. It is premised on an equality of formal rights, opportunity and access. In contrast, *action for a socially inclusive society* is likely to pose challenges to these taken-for-granted conceptions of equality in the public policy process. It is likely to raise questions about the contribution of inequality of condition to inequality of outcome**.** A hierarchy of equality objectives is identified in the literature on equality, particularly the literature on equality in education (Baker, 1998; Lynch, 1999).[20] Such a hierarchy in terms of stages and objectives was identified in a report on equality proofing by the NESF (1996: 11-19; see Appendix Box A2.2). Rather than rehearsing the arguments relating to the hierarchy of equality rights here the Council proposes that recognition of such a hierarchy should inform the context within which policies are conceived and evaluated.

2.4.4.1 Framework for Action on Equality

The Council reiterates and reinforces its support for the enhancement of equality through "the promotion of equality of opportunity, participation and outcome as a positive good" (NESC, 1996a: 214). It argues that public policy is an essential mechanism for combating discrimination and enhancing equality. Consistent with this it calls for the full implementation and monitoring of existing measures and the evaluation of achievements against an agreed set of standards. The Council supports the creation of a

20 Baker (1998) identifies three basic conceptions of equality in contemporary egalitarian theory: basic equality, liberal equality and radical equality. Basic equality acknowledges that all persons are equal in dignity and worth and this is fundamental to all egalitarian theory. It defines freedom from rather than freedom to. The liberal egalitarian view accepts this and moves beyond it to the protection of basic rights. In the policy field it is associated with equality of opportunity. "It recognises that society is stratified and proposes that equality policies should be directed towards equalising opportunities for various types of mobility (educational, occupational, career, intergenerational, etc.) within a stratified system" (Lynch, 1999: 13). Radical equality theorists do not accept major structural inequalities as inevitable. They argue for substantive economic and political equality and argue that the focus of policy should be on how to eliminate major inequalities and hierarchies (Lynch, 1999: 13).

Strategic Framework for Action on Equality which would include the comprehensive strategic implementation of the recommendations on past/current equality agendas and the development of equality agendas for the 'legislatively new groups' experiencing discrimination.

2.4.4.2 Standards for Progress Evaluation

What are the standards against which we should judge progress? The discussion of international declarations and charters proposes a rights basis against which progress on equality should be judged and aspirations directed. The Council supports this but recognises that the identification of rights without benchmarks may be an empty exercise. Furthermore, rights are not just a question of access to services but have implications for the quality and effectiveness of services as reflected in outcomes. In view of our present level of economic development, it is realistic to adopt as benchmarks in key areas of social development outcomes that match those of our EU partners in line with the continued development of our economy up to and beyond the EU average. These areas include standards of health, education, housing, training, social protection and social services including standards relating to accessibility for people with disabilities. Benchmarks in these areas are standards against which achievements can be measured and aspirations directed. This does not imply replication of any particular policy model from other countries – how standards are met depends on unique national conditions and policy choices. In line with the Council's emphasis on rights and obligations, these standards are to be seen as reflecting the combined impact of personal responsibility, employment relations and public policy.

2.4.5 Social Inclusion, Citizenship Rights and Obligations

Social inclusion is essentially about full participation in society and such participation is dependent on access to citizenship rights and the exercise of citizenship responsibilities. Citizenship rights are often conceived narrowly as those adhering to nationality and passport rights but this is only one element of citizenship or membership of a community. When we refer to citizenship rights and obligations we include not only the widely taken-for-granted civil and political rights and obligations but also social, economic and cultural rights that guarantee equality of opportunity and access to education, employment, health, housing and social services. The associated citizenship obligations include the payment of taxes and the fulfilment of the requirements implied by access to services and benefits.

Civil, political, social, economic and cultural rights and obligations characterise, to varying degrees, membership in all economically developed societies. Civil and political rights relating to liberty of the person and property rights, and the right to vote and to organise, have a long history. They date from the eighteenth and nineteenth centuries in most Western European countries although their universal application has been much later in all countries. While civil and political rights and obligations are, now, generally uncontested in Western European countries there is far less agreement on social, economic and cultural rights and obligations. Social and economic rights and obligations are far more recent in origin than civil and political rights; their development broadly parallels the development of the range of social and economic policies broadly identified as the welfare state. Noteworthy amongst these policies are health and education, social services, income maintenance and a recognition that the state has an obligation to act in the event of market failure as reflected, for example, in unemployment. The recognition of cultural rights is even more recent. The scope and quality of social, economic and cultural rights vary considerably across countries and are contested to varying degrees in most countries. Whereas equality in civil and political rights implies treating everyone the same, and are consistent with equality of opportunity, equality in social, economic and cultural rights may imply recognising difference associated with particular conditions or statuses that exclude individuals from the mainstream and framing policy accordingly. Consequently, some of these rights may enjoy less support than civil and political rights and those social rights that have a more universal potential uptake such as education up to the end of the second cycle. Furthermore, the obligations associated with social, economic and cultural rights are less clearly defined than are the obligations associated with civil and political rights.

Citizenship rights are not independent of one another; for example, the exercise of civil or political rights may be dependent on access to economic, social and cultural rights. This was recognised by the EU Expert Working Group on Fundamental Rights (1999) – it stressed the indivisibility of civil and social rights. It is important to bear in mind that rights that are universal in principle may not be universal in practice since their exercise may depend on financial, educational or time resources. Neither are citizenship rights and obligations independent of one another. The fulfilling of obligations, for example civil and political obligations, is dependent on access to economic, social and cultural rights and the enhancement of rights on a broad basis is dependent on widely-based participation or at least representation in decision-making.

The view of the Council is that social inclusion is not based on a set of specific rights understood in a justiciable sense.[21] 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. The goal is a society based on recognition of firmly based and interdependent citizenship rights and associated obligations, not just civil and political rights, including participatory rights, but also social, economic and cultural rights. As pointed out earlier citizenship responsibilities are not confined to clearly defined formal obligations linked to specific rights. Citizenship obligations entail recognition of mutual dependence as reflected in participation in, and contribution to, the community. This means a society that generates equality rather than inequality and that affirms opportunity and participation as mechanisms towards the achievement of other objectives and as a goal in its own right.

21 The Council recognises that developments at EU level and in Ireland in relation to the Human Rights Commission may at some stage in the future bring the issue of justiciability into consideration.

2.5. SOCIAL PARTNERSHIP

Social partnership has helped to deliver industrial peace and moderate pay settlements in Ireland. These have improved competitiveness and in conjunction with favourable external economic developments played a crucial role in converting strong economic growth into the remarkable job gains achieved in recent years. In turn, higher levels of employment have contributed to sharply falling unemployment and to lower levels of poverty.

But social partnership is far more extensive than national level fora, such as the Council and the negotiation of national agreements. It is reasonable to speak now of *a social partnership ethos* in the public policy area. It is now inconceivable that major policy initiatives would be taken without some consultation with, and/or involvement of, the social partners and this is reflected at both national and local level. In addition, there is increasing emphasis on the value of, and need for, partnership at the enterprise level.

At national level partnership has become more encompassing through the inclusion of the Community and Voluntary Sector on the Council. Recent national level partnership initiatives have included the Expert Working Groups on the Social Economy and on Childcare, the National Consultative Committee on Racism and Interculturalism – a partnership body of non-governmental organisations, state agencies, social partners and Government Departments; the Committee to monitor and co-ordinate the implementation of the recommendations of the Task Force on the Travelling Community, the National Crime Forum and the National Forum on Early Childhood Education.

The most innovative aspect of Irish partnership is action at the local level in what was identified in the 1991-93 *Programme for Economic and Social Progress* as an Area-Based Response to Long-Term Unemployment (Government of Ireland, 1991:75-78). The immediate impetus for this approach was the recognition that a community response in particular local areas was essential if long-term unemployment was to be lessened. This reflects the 1990 EC resolution on action to assist the long-term unemployed and recommendations made by the Council in *A Strategy for the*

Nineties (NESC, 1990). While the Area-Based Partnerships (ABPs) are the clearest and most direct expression of the interest in extending social partnership to the local level, the emphasis on local development arises from considerable experience over a longer period. This has included projects under the EU Pilot Programme for Integrated Rural Development (1988-90) and the first LEADER initiative for rural development (1989-93), projects affiliated in the Third EU Poverty Programme, and community development projects supported by the Department of Social, Community and Family Affairs and the Combat Poverty Agency. This experience and the success of the initial ABPs gave rise to considerable proliferation of area-based partnership initiatives. This proliferation, while reflecting the strength of the partnership ethos, may now be a limitation on the original targeting of areas particularly affected by long-term unemployment and social exclusion. This is not an argument against partnership but an argument for a focused and concentrated targeting of those areas most damaged by long-term unemployment and the associated cumulative exclusion. We return to this issue in Chapter 9 where we outline our proposal for a targeted special investment package.

Local partnership initiatives now include not only the ABPs but County Enterprise Boards, the Local Employment Service, Community Drugs Teams and Educational Disadvantage Programmes. The proposed County Development Boards which are being established following the recommendations of the Task Force on the Integration of Local Government and Local Development Systems (Department of the Environment and Local Government 1998b) will also have a partnership-based membership, comprised of local government, local development bodies, the social partners and relevant state agencies. These bodies will develop County Strategies for Economic, Social and Cultural Development. By forging a direct link between local government and the social partners they add a new dimension to partnership at the local level.

The Council recommended action to implement enterprise-level partnership in its last Strategy report (NESC, 1996a) and this was reflected in *Partnership 2000* which identified the extension of partnership arrangements at enterprise level as an objective.

Progress in this area is reflected in the establishment of the National Centre for Partnership in 1997, whose key role is to promote partnership through facilitating trust and co-operation between employers, employees and unions. The Centre utilises facilities of IBEC, ICTU and state agencies in carrying out its activities. Progress at the enterprise level and outstanding issues in this area are discussed in Chapter 7. Informed by the international evidence, the Council recommended in its 1996 Strategy (NESC, 1996a), that there be no attempt to impose a uniform model of enterprise partnership. Consistent with this the approach has been one of tailoring the partnership approach to fit particular employment contexts. Despite progress it is clear that there is considerable scope for development in this area. The paradox identified above of the mis-match between national prosperity and a more complex and pressurised work life points to the importance of a partnership approach at this level.

It would be a mistake to take the virtuous circle – competitiveness, employment, decreased social exclusion – associated with current social partnership structures for granted or to assume that their achievements to date are sufficient to generate a self-sustaining dynamic economy, and an inclusive and participatory society. Furthermore, it would be a mistake to conceive social partnership narrowly as what happens in the negotiation of centralised agreements or to assume that there is one perfect model of partnership agreement at the national level or only one national-local level balance. Instead, we should consider what actions are needed to secure the foundations of partnership structures broadly conceived. The objective is a negotiated consensus on key economic and social issues not adherence to a particular formula.[22] Ireland is not the only country with successful social partnership structures at present. Both the Netherlands and Denmark have social partnership approaches that have achieved long-term viability. It is noteworthy that each has adapted its structures for negotiated consensus to changing circumstances and this has contributed to their long-term

22 As is pointed out in Chapter 12 social partnership should not exist as an end but as a means to an end.

viability (SER, 1995; van Empel, 1997; Visser, 1997; Etherington, 1998).[23]

The Council strongly re-affirms its commitment to social partnership. We believe that this allows us to continue the pursuit of consistency between levels of action, which is necessary for continued growth and development. The benefits of social partnership at the national, local and enterprise level are widely acknowledged. The Council believes that complementary partnership processes at the regional and sectoral level could have much to contribute in the forthcoming policy context. Our concern here is not with negotiations about pay but with the broader policy context where challenges relating to skill shortages and lifelong learning need to be addressed. Sectoral agreements may well provide scope for the development of our recommendations in these and other areas.

At the regional level our concern is with enhancing the possibilities for the development of a partnership ethos in concert with the development of the Regional Authorities and Assemblies. Partnership at the local level has evolved to a very vibrant and effective level. At its best it is a very significant contributor to policy development and service delivery. This developed out of active co-operation of voluntary and statutory agencies and central government. The development of partnership at the regional level into an effective contributor to the policy process is dependent on a similar process of development.

The objective in Ireland must be a social, economic and policy framework that generates social inclusion in tandem with economic success. This must permit further improvements in employment and living standards, and more widespread opportunities for all members of Irish society including the opportunity to participate in partnership structures. This should achieve a more balanced pursuit of each of the foundations on which the arrangement rests – competitiveness, employment and inclusion – and broaden partnership to recognition of mutuality based on the further

23 The Dutch experience is discussed in Chapter 6 in the context of wage formation.

development of individual citizenship rights and obligations. The exercise of obligations is dependent on participation and vice versa.

2.6. UNDERPINNING DEVELOPMENT THAT IS SUSTAINABLE ECONOMICALLY, SOCIALLY AND ENVIRONMENTALLY

The remainder of this Strategy document is directed at the underpinning required to deliver development sustainably. This is discussed under the broad headings of (i) adjustment to economic integration and (ii) tackling key societal imbalances and enhancing social inclusion. In considering the implications of these issues we also analyse how institutional structures can be adapted to ensure an effective policy process. Here we briefly highlight two issues that are not specifically discussed in the rest of the report. The first, public expenditure adaptability and efficiency, cross-cuts all of the objectives identified above. The second, the voluntary sector, contributes not only to the vibrancy of civil society which is a significant contribution to social cohesion but also makes a significant contribution to service delivery.

2.6.1 Public Expenditure Adaptability and Efficiency

Public services built on a balance between efficiency and equity, with a commitment to transparency and accountability are a key underpinning of the principles and objectives identified above. Public expenditure has grown rapidly in Ireland during the 1990s yet there is considerable evidence of problems in particular areas as reflected in the quality of some health, education and social service facilities, long waiting lists for particular social and health services and in infrastructural deficits.

It is recognised that many of the social problems associated with social exclusion, such as educational disadvantage, long-term unemployment, poverty, homelessness, drug addiction and certain forms of crime are indicative of policy failures in several policy areas. These areas may include infrastructural development and its spatial distribution, education, labour market, housing, health and social welfare. Policy failures often reflect failure to co-ordinate across areas to meet particular needs or failure to anticipate needs associated with changing demographic and/or economic conditions. Good examples of both kinds of failure are childcare and housing in the late 1990s. Solutions to these problems imply the need for a policy approach to social inclusion, employment and competitiveness that recognises the linkages amongst them and a public service that is not only efficient but adaptable to changing conditions and emerging needs.

It must be asked if the growth of expenditure both in terms of the division between, and within, particular functional areas is addressing key priorities of economic and social development? While individual Departments and agencies may be adopting a more strategic approach under the Strategic Management Initiative, we do not have a transparent system in which the public, the social partners and legislators can be aware of what choices are being made and debate issues of allocation in an informed way and on a timely basis. The following issues are important in this regard and each must be considered with reference to the ability of the public finance system to respond to changing needs and/or conditions in a sustainable and flexible way in the context of EMU constraints and an increasingly integrated economic environment:

(i) trends in public expenditure between and within functional areas of expenditure allocation with reference to key public policy objectives;

(ii) agreed principles that would achieve an equitable and efficient distribution of public spending in the event of an economic downturn as opposed to across-the- board cuts or cuts where political resistance is least effective irrespective of key social objectives;

(iii) the overall system of management of public expenditure under the SMI in terms of their impact on transparency, accountability, equity and efficiency; and

(iv) the division of responsibility across Departments. The very dispersed division of responsibility is exemplified by childcare. It must be asked if this fragmentation and the consequent need for extensive inter-departmental consultation was a contributing factor to the delay in formulating a policy.

2.6.2 The Role of the Community and Voluntary Sector

The policy process over the past twelve years has been underpinned by a commitment to partnership for key group interests. This has been broadened over time to include a wider range of interests (NESF, 1997a). It has been argued above that the development of partnership processes at the sectoral and regional levels could have much to contribute in the emerging policy context. Furthermore, the Council believes that it is now necessary to further broaden the scope of this partnership of groups to the recognition of mutuality through a strong commitment to the development of citizenship rights and participation at the individual level. The recognition of mutuality is inherent to the social partnership process and ethos and allows for the expression of citizenship commitment through participation in the development of communities at various levels and in various capacities. The development of citizenship rights and the exercise of citizenship responsibilities are important in their own right but may provide an additional benefit in facilitating greater participation through voluntary activity.

The Community and Voluntary Sector contributes not only to the vibrancy of civil society, which is a significant contribution to social cohesion, but also makes a significant contribution to service delivery. The sector, variously defined, has played a key role in service delivery in Ireland. This has been recognised in NESC reports and has been affirmed in various official reports including most explicitly in the Green Paper on the Voluntary Sector (Department of Social, Community and Family Affairs, 1997) and the Green Paper on Adult Education in an Era of Lifelong Learning (Department of Education and Science, 1998). The key role of the voluntary sector in Area-Based Partnerships has been widely recognised, as has the success of many of these initiatives (OECD, 1996). This success points to the importance of affirming and supporting the role of the voluntary sector not only in informing the long-term development of Irish society but also in contributing through participation at various levels in service delivery. The support through the public policy process must be more than symbolic. It must support the sector to address the pressures on it, whether these relate to a decrease in participation, funding levels and processes, accountability or recognition. The Council believes that the forthcoming White Paper on the Voluntary Sector should contribute to the vibrancy of the sector and help enhance its role as a social partner, as a service provider, as a substantial employer and economic and social contributor in its own right, and as a resource for community development.

2.7 SCENARIO BASED ON RENEWAL, OPPORTUNITY AND REFORM

Based on the principles and objectives outlined above, the scenario for the decade ahead assumes further economic development combined with more whole-hearted commitment to social justice and a wide-ranging programme of reform. Inevitably, this sketch is a simplification but it provides a broad indication of a possible path Ireland might follow in the first decade of the next century.

This scenario would aim at the twin goals of a dynamic economy and a participatory society. It would pursue strong and lasting growth in employment, focused particularly on the long-term unemployed and other socially excluded groups. The policy framework would continue to rest on the principles of price stability, prudent public finances, macroeconomically appropriate wage developments and markets that operate efficiently.

This approach is based on recognition of the interconnection between economic and social policy and therefore on the desirability of using some of the proceeds of current economic strength to position Ireland to face challenges ahead. By seeking to extend the benefits of economic renewal to every individual, it would allow them the opportunity to realise their full potential and, at the same time, to add to the economic success of the economy as a whole.

In a setting of economic buoyancy, some further improvements in public services would be possible, especially if extra spending is allied to structural reforms to improve the efficiency with which public expenditures are transformed into public services. Structural reform of the undesirable features of the Irish tax system could be undertaken at a time when the potential losers from tax reform could be compensated as part of an overall package to improve the equity and efficiency of the Irish tax system.

There are lessons from the scenario just considered. The best use of Ireland's present economic success – which cannot last forever – would be to apply it to a programme of national renewal. Then as the boom gradually ebbs, the economy and society would have been placed in a strong position to withstand the challenges and strains ahead in particular by seeking to ensure that no section of the population had been left behind.

Present economic conditions afford ample opportunity to address Irish unemployment and other inequalities in a comprehensive manner and to start to rebuild the communities damaged by such problems. The past five years have shown what an economic and social renaissance could mean for Ireland. Its full realization remains a major challenge though an achievable goal for the Irish people in the new century. This path would require Ireland to seize the opportunity for economic renewal based on a renewal of individual opportunities.

2.8. CONCLUSION

The vision outlined for the next decade of a dynamic economy and a participatory society, based on continuing economic development combined with a commitment to social justice, incorporates several dimensions and is built on the recognition of vastly increased capacity for choice. It also recognises the challenges and risks that continue to face Ireland at home and in the European and global context. This recognition of capacity and risk is coupled with a commitment to building on achievements by broadening the scope of the underlying objectives of employment, inclusion and competitiveness. It also incorporates a commitment to broaden participation. It is now necessary to broaden the scope of this partnership of groups to the recognition of mutuality through a strong commitment to the development of citizenship rights and responsibilities. These must include not only civil and political rights but social, economic and cultural rights and responsibilities. It must build on successful existing policies and services, addressing imbalances and deficits and planning for the achievement of the desired services and standards. This must be linked to recognition of the economic and social capacity to seize and build on the opportunities that now allow for the development of a self-sustaining competitive and socially inclusive economy and society.

APPENDIX

BOX A2.1

Partnership 2000 – Miscellaneous Initiatives

Inter-Departmental Committee on Childcare	This Committee was established to evaluate, cost and prioritise the proposals in the report of the Expert Working Group on Childcare which reported in February, 1999, along with the child care proposals in the reports of the National Forum on Early Childhood Education, The Commission on the Family, and the Action Programme for the Millennium.
Women's Health Council	This Council was established in accordance with recommendations contained in the plan for Women's Health 1997 to 1999 which was launched in April, 1997. The Council is representative of a wide range of interests concerned with women's health including the National Women's Council of Ireland, the members of professions closely involved with women's health, women in the labour force and service providers.
National Breast Cancer Screening Programme Steering Committee	Phase one of the National Breast Screening Programme covering the Eastern, Midland and North Eastern Health Board areas commenced in October, 1999.

Steering Committee on Violence Against Women	This Committee is working on the development of a national response to this issue. It is representative of a wide range of interests. Its objectives include: ensuring that regional and local structures are established, developing public awareness campaigns, co-ordinating and advising on the distribution of resources amongst the eight health board regions, co-ordinating and advising on ongoing development of policies including those concerning perpetrators, criminal justice intervention, services and supports.
Regional Committees on Violence Against Women	These have been established in each of the eight health board regions and will draw together the services available to women in the regions.
Committee on the Implementation of the Recommendations of the Task Force on the Travelling Community	The Committee is chaired by the Department of Justice, Equality and Law Reform and is representative of Traveller interests, each of the four pillars in *Partnership 2000* and relevant Government Departments.
National Consultative Committee on Racism and Inter-Culturalism	This is a partnership of non-governmental organisations, state agencies, social partners and Government Departments. The Committee is to provide an ongoing structure for programmes and actions to combat racism, advise the Government on racism and inter-culturalism and promote a more participative and intercultural society inclusive of persons such as refugees, Travellers and minority ethnic groups in Ireland.
Inter-Departmental Task Force on the Report of the Commission on the Status of People with Disabilities	This Task Force is chaired by the Department of Justice, Equality and Law Reform
Monitoring Committee on the Implementation of Quota for Employment of People with Disabilities in the Public Sector	This Committee is chaired by the Department of Justice, Equality and Law Reform and is responsible for the monitoring of the three per cent quota in the public sector other than the civil service.

BOX A2.2

Conceptual Framework for Equality – Stages and Objectives

Stage	Concept of equality/ objective to be pursued
1	Equality of formal rights, opportunities and access
2	Equality of participation
3	Equality of outcome or success
4	Equality of condition

Source: NESF (1996) *Equality Proofing Issues*, Report No. 10: Figure 2.1.

CHAPTER 3

THE CHALLENGES OF ECONOMIC INTEGRATION

3.1 INTRODUCTION

Economic integration is frequently discussed in the context of Economic and Monetary Union but EMU is only one level of integration. It must also be considered in terms of Republic-Northern Ireland relations. Both of these levels are part of, and influenced by, the processes of global economic integration. The challenges arising at each of these levels will inform all of this report's analysis.

This chapter will set the *context* and examine the *implications* of economic integration for the Irish economy and society and how these should influence this Strategy. The chapter will form an introduction to many of the issues discussed in subsequent chapters. Economic integration will be examined at three levels: globalisation, European integration and enhanced links between the Republic and Northern Ireland. These are not the only levels of economic integration that could be discussed. They are chosen because they are likely to have the most pronounced effects on Ireland over the period of this Strategy.

While the Council acknowledges that there are some dimensions of integration that are beyond direct Irish influence, it remains important to clearly affirm the principles that the Council believes should underlie Ireland's approach to integration.

The basis for closer economic integration should be the pursuit of mutual benefit. This is just a simple extension of the market principle that has dominated economic life for centuries: people come to the market because they wish to exchange their goods and services for those belonging to someone else. This exchange or market mechanism provides a source for mutual benefit. This is not to say that integration does not bring costs, but the overall outcome should be positive. Where particular groups or sectors are negatively affected by integration, policy should ensure that these effects are temporary and are not overly burdensome. Aligned to this, is the principle that the benefits from integration should be equitably distributed.[1] This distribution should cut across countries, regions and social groups. Furthermore, access to the driving forces of integration should be open to all. Thus, integration should not compound or create new forms of social exclusion. Finally, integration should allow for a deepening and widening of participation by all members of society. As closer economic integration increasingly implies a pooling of policy instruments for mutual benefit, it is paramount that individuals feel engaged in that process, either through common understanding and support or through involvement in the decision-making processes that filter down to local areas.

The structure of this chapter proceeds as follows. Section 3.2 examines globalisation, its extent and the opportunities and threats that it presents. Section 3.3 reviews European integration, focusing in particular on EMU and the future development of the EU. Section 3.4 examines the potential for economic integration at the Republic-Northern Ireland level. Section 3.5 looks at the implications of economic integration for national governance. Section 3.6 presents brief conclusions.

3.2 GLOBALISATION

Globalisation is a term that has become part of everyday language in the 1990s, although it is invariably used too freely to represent any world-wide process. It is a term that connotes momentum, suggesting an almost unstoppable force over which people (national governments, firms, individuals) have no control.[2] Globalisation is not a new phenomenon, although its drivers and characteristics have changed. Figure 3.1 traces the history of globalisation over the last

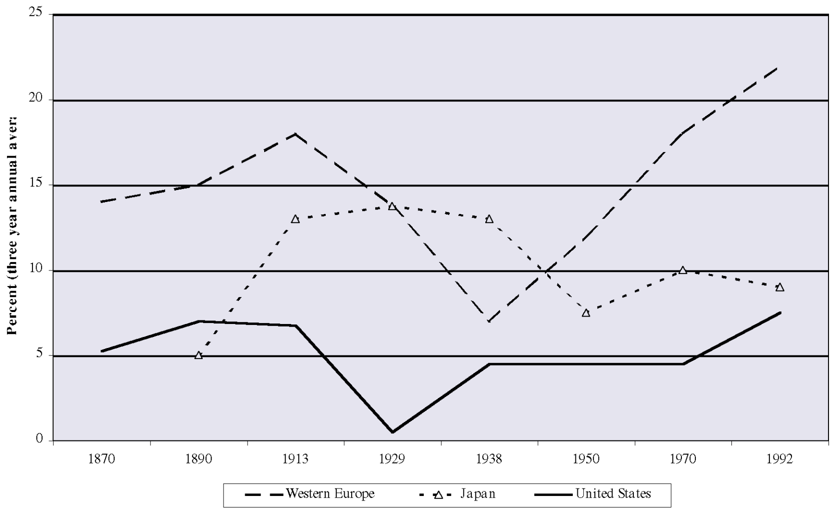
1 For example, at a meeting in February 1999, the G8 Labour Ministers agreed that a blueprint for sustaining globalisation should be designed. It was argued that one of the fundamental principles for sustainability is that the benefits of change are widely shared.

2 Whether this is in fact true is discussed later.

120 years. It shows the ratio of exports to national income for the US, Western Europe and Japan since 1870.[3] The figure clearly shows that each of the three regions is no more open now than they were just before the First World War. Indeed, the First World War marked the beginning of more protectionist policies, which continued through the Great Depression and the Second World War, only to be gradually loosened again with the establishment of the General Agreement on Tariffs and Trade (GATT) in 1946.

FIGURE 3.1

Japan, United States and Western Europe: Merchandise Exports as a share of GDP, 1870-1992



Source: Rodrik, D. (1997), *Has Globalization Gone Too Far?*, Figure 1.1.

Nonetheless, there are fundamental differences between globalisation now and globalisation at the turn of the century. First, there are more restrictions on immigration now than there were then. This has led to the current situation whereby capital is mobile internationally but labour is not. In previous periods, there was little difference between the mobility of capital and labour. Second, in previous periods of globalisation, trade was based more on

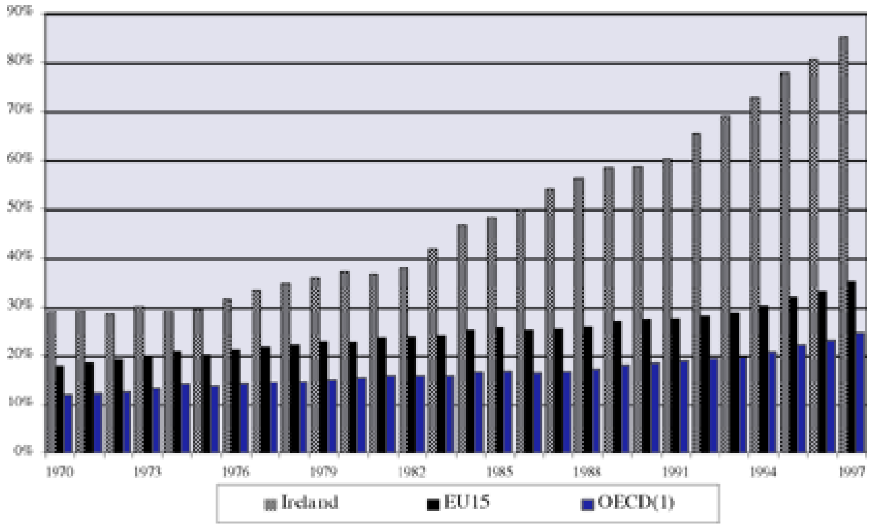
3 It is acknowledged that trade is just one measure of globalisation.

traditional comparative advantage so that countries rarely engaged in intra-industry trade (i.e. trade in similar goods). Most trade consisted of the exchange of non-competing products such as primary products for manufacturing. Third, at the turn of the century, governments were not as involved in large-scale social welfare provision as they are today. This more pro-active role on the part of today's governments makes life in an interdependent world economy more difficult for today's policy-makers (Rodrik, 1997).

FIGURE 3.2

Export Growth, 1970-1997

(Exports as a percentage of GDP, constant prices and exchange rates)



Source: OECD (1999), *National Accounts, Main Aggregates, Volume 1, 1960-1997*

Note: (1) Excludes the Czech Republic, Hungary, Poland and Korea.

However, the most critical distinction between globalisation now and that experienced before the First World War is the difference in the nature of income-generating assets. A century ago, the international division of labour was primarily based on the spatial allocation of natural resources, for example, land or minerals. Nowadays, the capabilities of a country to produce wealth also rest on the extent to which it can *create* new resources or assets, for example, information, IT capacity, new management techniques (Dunning, 1993). This is significant because it presents opportunities for countries that are not well-endowed with traditional natural resources to grow and develop.

In general, there are three main driving forces of globalisation: technology, trade liberalisation and increased capital/financial flows. There is a certain amount of disagreement over the relative importance of each of these. However, it is probably sufficient here to acknowledge that while all of these forces have individually driven globalisation, they all have interacting effects. Indeed, it is these interacting effects that help to create the momentum that characterises globalisation today. The following sub-sections examine each of these influences in turn.

3.2.1 Technology

Technology has always been an important driver of globalisation and economic integration but its form has changed considerably since the period of globalisation at the turn of the last century. In the nineteenth century, the main technological driver of globalisation was transport which helped to link cities and countries at relatively low cost. At the end of the twentieth century, it is information technology (IT), particularly developments in computing and telecommunications, that is driving globalisation. Our perception of geographic space has been dramatically transformed by these developments. That people can now have instant access to other individuals, organisations and markets anywhere in the world through the Internet is a clear indicator of a borderless economy, where timezones and language differences are less relevant. Technology has also contributed significantly to the development of trans-national production networks, whereby production processes can be unravelled and established across the world depending on relative skill, cost and market conditions.

TABLE 3.1

The Information Age: Technology Penetration

	Mobile Phones (per 1,000 people) (1996)	Faxes (per 1,000 people) (1996)	PCs (per 1,000 people) (1996)	Internet Hosts (per 10,000 people) (July 1997)
EU				
Austria	74.0	35.4	148.0	108.3
Belgium	47.0	17.8	167.3	84.6
Denmark	250.0	47.6	304.1	259.7
Finland	292.0	31.5	182.1	653.6
France	42.0	32.7	150.7	49.9
Germany	71.0	19.5	233.2	106.7
Greece	53.0	2.9	33.4	18.8
Ireland	**82.0**	**22.4**	**145.0**	**90.9**
Italy	112.0	31.4	92.3	36.9
Netherlands	52.0	32.3	232.0	219.0
Portugal	67.0	5.0	60.5	18.3
Spain	33.0	16.6	94.2	31.0
Sweden	282.0	45.3	214.9	321.5
UK	122.0	30.8	192.6	149.1
Non-EU				
Australia	208.0	26.3	311.3	382.4
Canada	114.0	23.6	192.5	228.1
China	6.0	0.2	3.0	0.2
India	0.0	0.1	1.5	0.1
Japan	214.0	102.2	128.0	75.8
US	165.0	64.6	362.4	442.1
World	28.0	8.9	49.9	35.2

Source: World Bank, *World Development Indicators 1998* available at World Bank website: http://www.worldbank.org

IT developments have led to what Quah calls the ‘weightless’ economy. This concept refers to the ever-increasing fraction of GDP that resides in economic commodities that have little or no physical manifestation. The weightless economy is more than just the increasing value of the services sector in the economy, although this is a large part of it. It also includes functions like the manufacture of semiconductor and microprocessor chips because the chips contain ever increasing value inside ever-reduced physical material (Quah, 1997a).

There are a number of implications of the emergence of this weightless economy (Ruggiero, 1997). First, it implies an economy where geographic distance and time will matter less. Transaction costs for consumers and businesses will fall as the number of steps between buying and selling – e.g. distribution, retailing etc – are compressed. This can be seen in the development of e-commerce. Second, the development of the weightless economy has necessitated the creation of a global infrastructure of cables and networks. Third, in the weightless economy, information and knowledge are more important than the traditional factors of production – land, labour and capital. Knowledge is not replacing these traditional factors but is influencing the way in which they are utilised. In particular, it is the way that a product is bundled or packaged together that is important. Finally, it is argued that technology offers the potential to equalise relations between countries, regions, firms and individuals. However, it is easy to overstate this point. The IT revolution has the power to both equalise *and* divide. Half of the world's population still lives in countries where there is less than one telephone per 100 habitants (Quah, 1997b). Even in developed countries, unequal access to IT has become another source of exclusion for certain social groups.

The implications of technology-driven economic integration for Ireland really depend on the thrust of related policy decisions over the next few years. Ireland is in a fortunate position in that much of the recent economic growth has come from technology-based industry. In this, Ireland has benefited directly from the emergence of the weightless economy. Crude transportation cost considerations and traditional peripherality concerns no longer matter as much as they did 15 years ago.

IDA Ireland has had considerable success in marketing Ireland as a technology hub, with many US companies locating their European bases here. Ireland is the world's second largest exporter of software, supplying 60 per cent of the European software market and is host to 40 per cent of U.S. shared-service, call and technical support centres located in Europe (Advisory Committee on Telecommunications, 1998). In recent years, offshoots from that foreign investment have sprung up in the form of small, Irish-owned IT companies.

Of course, many Irish firms are not part of the weightless economy in that they produce goods that have physical form. However, technology can still benefit such firms through the wider use of the Internet, e-commerce, tele-working and just-in-time delivery systems. In this regard, workplace technology penetration, which is relatively low among Irish SMEs, needs to be actively encouraged.

There are four key technology areas that require immediate policy action: infrastructure; competitive market conditions; human resources development; and access.

3.2.1.1 Infrastructure

Following years of disadvantage, Ireland made the giant leap in telecommunications investment in the 1980s when it invested in network digitalisation technology that enabled it to leapfrog its competitors. However, so rapid is the pace of development in the information and communications technologies (ICTs), that that type of investment commitment is now required on an almost ongoing basis simply to keep up. The most immediate requirement is investment in our broadband telecommunications capabilities[4] that will form the necessary infrastructure base for the growth of the new service industries that Ireland wants to attract as part of the development of the Irish e-commerce hub. The Government has been pro-active in its response to this need by establishing a public private partnership with a private sector telecommunications company to lay a new cable that will provide a high-speed, high-capacity telecommunications link to the rest of the world. EU funding has also been made available to telecommunications

4 “Broadband” refers to the high-capacity fibre-optic cables and switching devices called ATM switches, which are required to provide high-speed transmission of large volumes of information (National Competitiveness Council, 1998a).

providers in Ireland to enable them to invest in bandwidth capacity outside the main urban conurbations.

3.2.1.2 Competitive Market Conditions

Competition in the telecommunications market in Ireland, while increasing, is still quite limited. The decision by the Government to bring forward the date of full liberalisation of the telecommunications market from 1 January, 2000 to 1 December, 1998 was a clear signal of the importance that the Government attaches to the sector. Other significant decisions include the privatisation of Telecom Éireann in 1999 and the divestiture of Cablelink. However, liberalisation requires careful regulation to ensure fair and open competition. The Director of Telecommunications Regulation has made substantial progress in opening up the telecommunications market in Ireland, but it should be noted that this work has really only just begun.[5]

Increased competition should help to reduce costs and increase the international competitiveness of Irish firms in the global marketplace. Internet usage is largely driven by the availability and cost of advanced telecommunications services. In most European countries, costs are largely usage-based, a factor that has hampered the development of the Internet and its business potential throughout Europe. While Ireland has had some of the highest Internet access charges in Europe, the introduction of flat-rate charging, as in the US, would enable us to jump ahead of our European competitors in the development of Internet business services such as e-commerce. Examining other communication costs, Ireland is relatively competitive for international call costs. However, connection and rental charges are high, as are local and national call costs. Indicating the degree of competition in the market, Ireland's mobile phone tariffs are well below the EU average (National Competitiveness Council, 1998a, 1999).

5 According to a recent study conducted by British Telecom, the Republic of Ireland's telecommunications industry is ranked fourth out of ten in Europe in terms of its progress towards liberalisation. A similar study carried out before liberalisation in the Irish market had ranked Ireland ninth out of ten countries surveyed (reported in The Irish Times, 5th February 1999).

3.2.1.3 Human Resources Development

Ireland is already experiencing skill and labour shortages in the technology sector because of rapid growth in recent years. The *First Report of the Expert Group on Future Skills Needs* (1998), which focussed specifically on the needs of the technology sector, estimated that if high growth continues, there will be an annual shortfall of some 2,200 technologists in Ireland over the next five years. In order to meet this gap, the Expert Group made a number of recommendations in the following areas: recruiting from abroad; in-company training; conversion courses; accelerated learning programmes; and modular delivery of programmes. The Government has since taken steps to increase the number of places available on technology courses.

The aim is to increase the flexibility of skill provision in order to match the requirements of the ever-developing technology sector. The Advisory Committee on Telecommunications has already endorsed the recommendations of the Expert Group, which it views as a "priority". Furthermore, if we really want to develop the technology sector in Ireland, the HR needs of the sector should be assessed on an ongoing basis. Technology skills should be developed at the earliest possible stage of education, including primary education. Technology careers should also be actively promoted amongst women and young girls, who have traditionally been under-represented in the sector. The potential of the long-term unemployed to pursue careers in the technology sector should also be exploited. The recently-launched Fast Track to Information Technology (FIT) initiative, whereby 3,500 individuals (mostly long-term unemployed) will receive training and be offered full-time employment in the technology sector in the Dublin area, is an innovative example of how this can be achieved. The Information Society Commission (1999b), in its report *Building a Capacity for Change: Lifelong Learning in the Information Society*, identifies these and other education issues that require attention if we are to fully capitalise on the emerging Information Society.

3.2.1.4 Access

The IT revolution has led to concerns about the potential for technology to become a source of division and exclusion, with the development of information 'haves' and 'have-nots'. Age, educational status and income or social group can be factors in determining access to and understanding of technology. While it is neither possible nor appropriate for everyone to become skilled in the requirements of the technology age, those who have the desire or interest should be given every opportunity to do so.

There is growing awareness of these types of access issues in both Europe and Ireland. Of particular relevance at European level are the EU Green Paper, *Living and Working in the Information Society: People First* (1996) and the final report of the High Level Expert Group, *Building the European Information Society for Us All* (1997), both of which recognised the potential of ICTs to increase social exclusion. At national level, the publication of a number of related reports, particularly the *Report of the Information Society Steering Committee* (December 1996) and the establishment of the Information Society Commission in May 1997, were important starting points. However, the report of the Steering Committee was criticised for over-emphasising the technical needs and potential benefits of the new ICTs and for not pressing the need for actions to ensure equality of access, which it discusses in only very general terms (Preston, 1997; Melody, 1997; Trench and O'Donnell, 1997).

The Information Society Commission was also initially criticised for not prioritising the importance of equal access, although in its second report (Information Society Commission, 1999a) access is identified as a priority area for the Commission. Access is also highlighted as a priority in the Government's *Action Plan for Implementing the Information Society* (Government of Ireland, 1999b).

3.2.2 Trade Liberalisation

Trade liberalisation is another significant factor driving globalisation. The current phase of globalisation began in the aftermath of the Second World War, when the first GATT talks were held. Since then, there have been seven further rounds of trade talks (see Table 3.2). Over the first twenty years, the multilateral negotiations focused on tariff trade barriers but since the mid-1960s, the ambit of GATT and now the World Trade Organisation (WTO) has broadened to include other non-tariff barriers to trade.

Despite the success of the various GATT rounds, there is some disagreement over whether the world really is becoming more open to trade. In many cases, countries can exercise considerable control over the implementation of agreements, in terms of products covered and the period over which product markets will be liberalised. Once a particular barrier to trade is outlawed, countries may switch to other measures, thereby following the letter if not the spirit of the agreement.

TABLE 3.2

GATT/WTO Rounds

Date	Venue/Name	Subject	No. of Participating Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960-61	Geneva (Dillon Round)	Tariffs	26
1964-67	Geneva (Kennedy Round)	Tariffs and anti-dumping measures	62
1973-79	Geneva (Tokyo Round)	Tariffs, non-tariff measures, "framework" agreements	102
1986-94	Geneva (Uruguay Round)	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc.	123
1999/2000-	Geneva (Millennium Round)	Agriculture, services…	135 (Nov. 99 membership)

Source: Adapted from Table 4, *The Economist Survey of World Trade*, 3 October, 1998.

The debate about the 'openness' of world trade also rests on whether we should really talk about regionalisation rather than globalisation. This is because much trade in the advanced world takes place within regional trading blocs rather than as part of a global phenomenon. Most of the WTO's 135 members (as of November 1999) are involved in some type of regional trade agreements, mainly with their principal trading partners or neighbouring countries. To date (as of November 1999), the GATT/WTO has been notified of 194 regional trade agreements of which 107 are still in force. However, the proliferation of regional agreements in recent years has caused some disquiet. The issue is whether the growing trend towards regionalisation is a help or a hindrance to the pace of multilateral trade liberalisation.

Some regional agreements discriminate against non-participating countries. For example, NAFTA employs *rules of origin*[6] in the textile/apparel sector that discriminate against non-members. MERCOSUR increased its common external tariff in late 1997 and seems unsure about extending its liberalisation to broader groupings (Bergsten, 1998).[7] However, despite these examples, there is still some value in regional agreements.

First, there is merit in a transition to a more global trading system. Bergsten (1998) argues that the modest liberalisation achieved through regional agreements can eventually lead to much broader liberalisation because it enables countries to understand the implications and experience the benefits of liberalisation on a small scale before extending the process further. Second, regional agreements can act as useful models for broader global agreements. For example, agreements on environmental standards, investment and competition policies that originated in regional groupings were included in some form in the final Uruguay Round agreement. Third, where regional agreements have adverse effects on non-members, it provides an impetus for non-members to seek broader, multilateral agreements. Bergsten cites the example of the EU as an important driving force to multilateralism, arguing that the expansion of the

6 Difficulties over rules of origin of intermediate inputs occur because of the increasing internationalisation of production. Companies carry out different stages of production in different countries, some of which may not be members of the relevant regional trade agreement.

7 See Table 3.3 for a description of NAFTA and MERCOSUR.

EU to include the UK and other countries (including Ireland) in the early 1970s was an important factor in the American decision to insist on the Tokyo Round in the 1970s. Similarly, the EU decision to launch the Single Market strategy in 1985 added to the US determination to begin the Uruguay Round in 1986.

TABLE 3.3

Regional Free Trade Arrangements

(Share of World Trade, 1998)

Regional Agreement	Participating Countries/Territories	% of World Trade
EU (European Union)	Germany, UK, France, Italy, Denmark, Netherlands, Belgium, Ireland, Spain, Portugal, Greece, Luxembourg, Austria, Finland, Sweden	22.8
EUROMED (European Union and Mediterranean countries)	EU Members + Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, the Palestinian Territories	2.3
NAFTA (North American Free Trade Agreement)	Canada, Mexico, U.S.	7.9
MERCOSUR (South American countries)	Argentina, Brazil, Paraguay, Uruguay	0.3
FTAA* (Free Trade Area of the Americas)	NAFTA + MERCOSUR Members + Antigua & Barbuda, Bahamas, Barbados, Belize, Bolivia, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Peru, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenandines, Suriname, Trinidad & Tobago, Venezuela	2.6
AFTA (ASEAN (Association of South East Asian Nations) Free Trade Agreement)	Vietnam, Laos, Myanmar, Thailand, Malaysia, the Philippines, Brunei, Singapore, Indonesia	1.3
ANZCERTA	Australia, New Zealand	0.1
APEC* (Asian Pacific Economic Cooperation)	ANZCERTA + NAFTA Members + Brunei Darussalem, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Papua New Guinea, the Philippines, Singapore, Taiwan, Thailand.	23.7
Total		**61.0**

Source: Adapted from Table 1 in Bergsten, C.F. (1998), *Fifty Years of the GATT/WTO: Lessons from the Past for Strategies for the Future*, Institute for International Economics Working Paper 98-3.
Note: * Share of world trade excludes sub-regionals.

Officially, the WTO views regional trade agreements as complementary to multilateral trade agreements. However, it recognises that in certain circumstances regional agreements can hurt the trade interests of non-member countries. The WTO has a number of rules on regional trade agreements that try to overcome these problems. Nevertheless, the WTO obviously sees some possible contradictions between regional and global agreements. In February 1996, the WTO established the Committee on Regional Trade Agreements to examine regional groups and to assess their consistency with WTO rules. This work is ongoing.

In recent years, there has also been growing debate on the merits of including a 'social clause' in trade agreements, in other words, that countries engaged in international trade should have a legal obligation to observe certain fundamental rights (usually labour standards, such as the abolition of child labour) which should be enforceable through trade sanctions. Those opposed to a social clause argue that it is just another form of trade protectionism. This is a controversial issue in the international arena. While all sides agree that the abuse of fundamental rights is deplorable, there is disagreement over the best way of protecting and upholding those rights, whether it be through trade sanctions, through improved economic development, through the existing framework and compliance mechanisms of the International Labour Organisation (ILO), or by more direct means.

3.2.3 Increased Capital/Financial Flows

The third driver of globalisation is increased capital flows. The complete liberalisation of capital markets is a relatively recent phenomenon. While the US has had relatively free capital markets for many years, most other OECD countries only began to liberalise in the 1970s. At the same time, capital began to flow into developing countries. This inflow largely collapsed in the early 1980s with the debt crisis and new capital flows only began to return to the emerging markets at the end of the 1980s. In Europe, 1992 marked the end of capital controls, although reductions had been taking place since 1987.

There are benefits to opening up capital markets. First, it enables individuals, companies and countries to maximise returns because they can invest globally rather than just locally. Second, it enables people to diversify risk more efficiently because they can choose investments in countries or business sectors that are not cyclically linked. Third, international capital markets encourage sustainable economic policy-making. Unsound policies can spark speculative capital outflows and higher domestic interest rates.[8] Of course, this also highlights one of the costs to capital market liberalisation. As illustrated by experience in 1997-1999, more open financial markets can perpetuate financial crises. The recent global economic crisis is a reminder that closer economic integration can propel a regional crisis into a global one. However, as economies co-operate on collective action to deal with the threat of global economic downturn, it also shows that greater policy co-operation arising from integration can help to tackle such crises.

Increased openness has also made capital much more mobile. This makes capital and financial flows very hard to tax, resulting in an increasing burden of taxation in most countries on the less mobile factor – labour. Mobile investment flows can also increase the vulnerability of employment. In a global economy, there are no longer jobs for life. There are also magnification effects: sustainable domestic policies are 'doubly' rewarded because capital will flow into the country; unsustainable policies are 'doubly' costly because capital will flow out.

The opening up of capital markets has had a big impact on foreign direct investment (FDI). FDI by multinational companies (MNCs) is estimated to have reached a record figure of between US$430-440 billion in 1998, after increasing substantially in 1997. Significantly, the 1998 increase occurred despite slower world economic growth and the crises in the financial markets, although FDI flows into Asia and the Pacific Rim did not increase much because of these crises. Sales of foreign affiliates have grown faster than world exports of goods and services, and the ratio of FDI to world GDP has grown twice as fast as the ratio of merchandise trade to world GDP, suggesting that the expansion of international production has deepened the integration of the world economy beyond that achieved by trade alone (UNCTAD, 1998b). One of the main driving forces of globalisation and increased economic

8 Although, unsound economic policies are just one of a range of possible causes for speculative attack.

integration is the growing importance of cross-border mergers and acquisitions. It is now a primary objective of many MNCs to divest themselves of non-core activities and strengthen their competitive advantages through acquisitions in core activities. One of the main consequences of this is greater industrial concentration in each business sector.

Ireland has been very successful in attracting FDI. In 1997, Ireland attracted nearly US$4.3 billion of FDI flows, mostly from the US. MNCs continue to be attracted by Ireland's low corporate tax rate, the stability of the economy and the availability of a skilled labour force at competitive wage rates. However, with labour shortages and other constraints beginning to emerge in the economy, we may find it increasingly difficult to attract FDI in the future. IDA Ireland recently announced a shift in its focus towards achieving a more equitable regional spread of new FDI projects and a consolidation in the business of foreign companies already established here. This re-focusing reflects the new division of the country for EU Structural Funds purposes and the commitment by Government to improve regional infrastructure.

Of course, economic integration is not just about capital and trade flows between the advanced and newly-industrialising countries. Integration also highlights the acute needs of less-developed countries. Unfortunately, for the most part, these escalating needs have not been matched by a strengthening of responsibilities on the part of the more advanced countries. Over the period 1992 to 1997, total aid from Development Assistance Committee (DAC)[9] member countries fell from US$60.8 billion to US$47.6 billion, or from 0.33 per cent to 0.22 per cent of their combined GNP. Only four countries – Denmark, the Netherlands, Norway and Sweden – exceeded the UN target of 0.7 per cent of GNP in 1997. In contrast, aid flows from the G7 countries have declined 12 per cent since 1995, and represented only 0.19 per cent of their combined GNP in

9 The international forum for defining aid is the OECD Development Assistance Committee (DAC).

10 The reasons for this fall in aid are varied but include growing scepticism about the effectiveness of aid in raising growth and national pressures due to increased fiscal discipline.

1997.[10] The contribution of Ireland to aid flows stands in stark contrast. Over the same period, the Irish aid budget trebled in cash terms, moving from 0.16 per cent to 0.31 per cent of GNP. In 1999, the Irish aid budget is expected to reach £178 million or approximately 0.35 per cent of GNP[11] and the Government remains committed to meeting the 0.7 per cent UN target and moving as quickly as possible to an interim target of 0.45 per cent. At the same time, steps are underway for Ireland to become, for the first time, a direct contributor to the joint IMF/World Bank Debt Initiative. The underlying motive for these moves is the recognition that our recent economic success – achieved in part through our involvement in the economic integration process – presents an opportunity to assist development in third world countries.

3.2.4 Labour Market Issues

The previous subsections examined issues concerning the three main driving forces of globalisation. A principal theme linking these driving forces is the effect that each has on labour market outcomes. Indeed, one of the main reasons why globalisation is feared by many ordinary individuals is the presumed effect it has on domestic labour markets. This issue was discussed in a recent IMF paper by Slaughter and Swagel (1997). They note that the current phase of globalisation has *coincided* with higher unemployment among the less skilled and with widening income inequality but set out to test whether globalisation actually *caused* these problems.

The main trend in labour markets in advanced countries over the last 30 years has been a shift in demand away from less skilled towards more skilled workers, resulting in large rises in wage and income inequality between the more and less skilled in some countries (particularly the US but also the UK) and unemployment among the less skilled in other countries (particularly in Europe). The differences in labour market structures explain the different outcomes for wages and employment across countries. Countries

11 For consistency, this estimate is based on the old method of calculating GNP. Under the new standardised method introduced by the Central Statistics Office and across the EU in November 1998, the Irish aid budget in 1999 represents approximately 0.31 per cent of GNP.

with flexible decentralised labour markets experienced increasing wage inequality, while countries with less flexible and more centralised labour markets experienced increasing unemployment (Slaughter and Swagel, 1997).

Slaughter and Swagel review the extensive literature and empirical analysis that have attempted to explore whether globalisation has caused these trends. They distinguish between the effects of two of the main drivers of globalisation: trade liberalisation and technology. Overall, most evidence suggests that international trade has had only a modest effect on wages and employment in advanced economies. There are a number of possible reasons for this. First, it is possible that advanced economies have not become substantially more open to trade because while tariffs have fallen, they have been replaced by non-tariff barriers. (This was discussed earlier in Section 3.2.2.) Second, firms in advanced economies may simply have upgraded their product mix by producing higher value-added goods. In this way, foreign competition has been blunted and has not led to significant changes in relative product prices.[12] For example, about 70 per cent of the overall shift in US labour demand in manufacturing was a change in skill demands *within* industries, not *across* industries from less to more skill-intensive. Thus, all industries are becoming more technology-intensive and are employing more high-skilled workers. Third, income gaps have also widened in developing countries, suggesting that labour demand in these countries has also shifted towards high-skilled workers. This is contrary to expectations of trade liberalisation leading to a boost in the demand and therefore in the wages of unskilled workers in developing countries (Slaughter and Swagel, 1997). This in turn suggests that technology has a far more significant effect on labour demand than trade.

12 According to economic theory, import competition from developing countries lowers the price of products made by low-skilled workers in developed countries relative to products made by high-skilled workers. Changes in product prices alter the profit opportunities facing firms leading to a shift in resources away from those industries in which profitability has fallen and towards the industries in which it has risen. This causes a shift in the demand for labour, which, if labour is immobile, leads to a rise in wages in the more profitable industries. However, there is little empirical evidence to support this theory.

Most research concentrates on the labour market effects of trade with developing countries. Rodrik (1997), however, argues that because most advanced economies trade mainly with other advanced economies, this type of research only tells half the story.[13] He argues that trade amongst advanced economies has led to an increase in the elasticity or sensitivity in the demand for unskilled labour. For example, in an empirical study, Slaughter (1996)[14] shows that the demand for production labour in the US has become more elastic since the 1960s in most manufacturing industries and that the elasticity tends to be higher in industries that show greater levels of international integration. Rodrik argues that it is this effect on the elasticity of labour demand as opposed to the relative shift in demand for unskilled workers that should be examined more closely because it is more pervasive. He argues that it is a direct consequence of international economic integration and is independent of economic structure or the identity of trade partners. Rodrik contends that the increased elasticity of labour demand results in greater instability in labour market outcomes because it implies that a labour demand shock will result in greater volatility in earnings and hours worked. He also argues that it has contributed to the weakening of unions in the US. However, he does not provide evidence of causation between these trends and globalisation. This is an area that needs further empirical analysis.

In conclusion, in the ongoing debate about the impact of globalisation on world labour markets, most of the empirical evidence appears to show that it is increased use of technology and not increased trade that has reduced the demand for low-skilled workers in developed countries. In addition, there is some evidence that increasing trade between advanced countries has coincided with an increase in the elasticity of demand for low-skilled workers, leading to greater volatility in earnings and hours worked. However, there is still insufficient empirical evidence to establish a direct causal link between these two trends.

13 Most trade between advanced countries tends to be intra-industry rather than inter-industry trade.

14 Referenced in Rodrik (1997).

Thus, increased globalisation, particularly through the impact of technology, can produce negative labour market outcomes, especially for unskilled and low-skilled workers. Under these circumstances, the most appropriate policy response is to try to increase the employability and adaptability of such workers through enhanced training and education opportunities, so that affected workers can upgrade their skills to match the demands of the changing world economy. Chapter 7 discusses these and other policy responses in more detail. Of course, there are some unskilled and low-skilled workers for whom major re-training and upgrading of skills may not be an option. As Chapter 9 highlights, this is a particular problem for older, low-skilled males, especially those who are long-term unemployed. Such individuals may require more intensive one-on-one support, a greater concentration on the development of general skills such as presentation and oral skills, and sometimes the continued provision of supported employment opportunities. Chapter 9 discusses these in more detail.

3.3 EUROPEAN INTEGRATION

NESC previously examined European integration and enlargement in a 1997 report (NESC, 1997a). That report highlighted five key issues: Eastern enlargement and integration; social Europe; EMU; cohesion and public finances of EU; and policies for growth, competitiveness and employment. A number of questions were raised regarding the implications for Ireland of EU developments in these areas. The general conclusion was that Ireland has more to gain than lose from EU integration and enlargement. Certainly, there are tensions between national policy-making and European policy but the correct balance can be struck. As NESC (1997a) reiterated, the advance of integration has altered the way policy is made, both within and between Member States. Continuation of European integration:

> …will increasingly *embed* the national within the European and the European within the national, and create European-level *interaction* not only between governments, but also between enterprises, trade unions, interest associations and social movements (NESC, 1997a: 21).

In this section, we discuss five aspects of European integration. First, the implications of EMU for fiscal and labour market policy are discussed, as is the potential threat of asymmetric (that is, region-specific) shocks. Second, we broadly analyse tax policy issues in Europe. Third, we summarise the rationale for and implications of Agenda 2000. Fourth, we discuss the renewed importance of competitiveness in an integrated European and global economy. Finally, the future direction of European social policy is explored.

3.3.1 EMU

The most immediate economic integration challenge faced by Ireland is that arising from our membership of EMU. While involvement in EMU should, over time, lead to greater integration with our fellow EMU members (see below), there are more immediate policy questions because the Irish economy is currently out of synchronisation with other EMU members (see Figure 3.3). These problems are of course exacerbated by the fact that our main trading partner, the UK, has chosen to remain outside EMU for the foreseeable future.

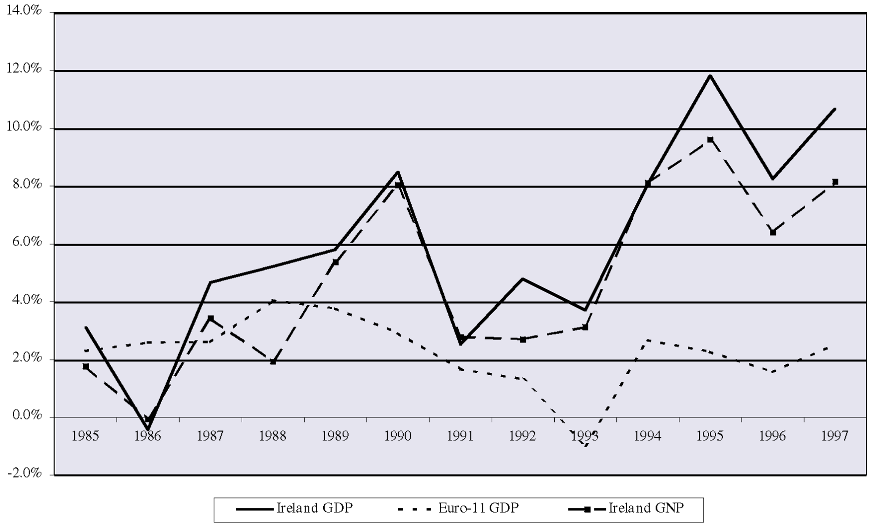
There are obvious benefits from EMU such as reduced interest rates, the elimination of exchange rate risk, lower inflation and the benefits of increased competition, but the pooling of the exchange rate and interest rate instruments at European level poses potential difficulties for policy-making, particularly during economic crises but also in boom periods.[15] In general terms, this new economic environment requires greater creativity in both public policy and in the workplace so that alternative instruments can be effectively used in the place of the more traditional economic instruments mentioned above. The principal alternative macroeconomic tools that can be used to help Ireland (and other countries) adjust to asymmetric shocks in EMU are fiscal policy and labour market flexibility.

15 See Baker *et al*. (1996) for more complete exposition of the economic implications of EMU membership for Ireland.

FIGURE 3.3

GDP/GNP Growth Rates, 1985-1997: Ireland and Euro-11

(at constant prices and exchange rates)



Source: OECD (1999), *National Accounts, Main Aggregates 1960-1997*.

3.3.1.1 Fiscal Policy

National governments can adjust to negative asymmetric shocks by using fiscal policy to boost demand during economic crises. However, use of fiscal policy within EMU is constrained by the Stability and Growth Pact which imposes a 3.0 per cent deficit limit on national budgets and allows for penalties if countries infringe this deficit limit. The Stability and Growth Pact means that countries must try to balance their budgets on average over a business cycle.[16] However, in practice this may be a difficult policy to pursue if it requires governments to cut budgets in circumstances of recession and rising unemployment.

Ireland is fortunate to be in a budget surplus position going into

16 According to the European Council Resolution on the Stability and Growth Pact (Council Resolution 97/C236/01), Member States "…commit themselves to respect the medium-term budgetary position of close to balance or in surplus set out in their stability or convergence programmes…"

EMU, measured at 2.4 per cent of GDP in 1998. An issue that has not yet been fully examined is how much of a surplus governments need to maintain in boom times in order to provide sufficient scope for accommodating shocks within the constraints of the Stability and Growth Pact. Thus, membership of EMU highlights the importance of sound management of the public finances not only during economic downturns but also during upswings as well. Chapter 4 of this report discusses fiscal policy under EMU in more detail.

3.3.1.2 Labour Market Flexibility

While labour market flexibility can mean both flexibility in migration and in wages, much of the debate has centred on migration as the main adjustment mechanism in monetary unions, particularly the implications of the low rate of migration in Europe. There are many potential reasons for the low rate of migratory flows in Europe including cultural and language barriers, housing policies and social welfare systems. Some argue that Europe uses other adjustment mechanisms to make up for its low labour mobility such as adjustment in labour force participation rates (Decressin and Fatás, 1995). Others argue that the potential for increased labour mobility is higher than typically perceived in Europe because of the flow of immigrants and refugees moving through Europe. However, the traditional reluctance of host countries in Europe to welcome foreign workers may limit the extent to which such workers can provide labour market flexibility. The recent debates in Ireland over whether those seeking refugee status should be allowed to work highlights that the employment status of foreign workers is a difficult issue in a buoyant labour market, let alone in a depressed one.[17]

Another argument is that labour mobility has simply not been tested because the pattern of national wage-setting has left workers with little incentive to move (Obstfeld and Peri, 1998). There is a great

17 Following a Government decision in July 1999, asylum seekers who have been in the country more than 12 months and who are still awaiting a determination of their application for refugee status have been given the right to seek work in Ireland.

deal of debate on whether EMU will lead to an increase in wage flexibility and/or labour mobility. The argument is that employees will see that devaluation is no longer an option and so are unlikely to demand excessive wage increases. However, empirical research has tended to show that while there is some increase in wage flexibility as a country's exchange rate commitment hardens, there is no significant increase. (Eichengreen, 1997).

The NESC has previously discussed wage bargaining in the context of EMU, disputing, in particular, the claims that centralised wage bargaining is inconsistent with a fixed exchange rate policy (NESC, 1996a). The Council has highlighted the flexibility of the national wage agreements and the role that co-ordinated wage bargaining has played in creating an attractive macroeconomic environment. Thus, rather than being antithetical, labour market flexibility and co-ordinated wage bargaining should be seen as compatible. Indeed it is through a co-ordinated and consensual approach that flexibility measures are likely to have most success.[18]

3.3.1.3 Asymmetric Shocks

How real a threat are asymmetric shocks? As stated at the beginning of this section on European integration, it is generally assumed that the probability of asymmetric shocks should diminish within EMU because of the policy co-ordination that EMU implies. However, shocks that are independent of policy will remain.

For Ireland, the most likely asymmetric shock would be the threat of sterling depreciation. Despite increased market penetration into Continental Europe, the UK remains Ireland's largest single trading partner (see Table 3.4). With the UK choosing to remain outside EMU for the foreseeable future, Ireland will not be able to reap the full benefits of monetary union and will remain vulnerable to sterling movement. With none of the other EMU members having such close trading ties with the UK, the European Central Bank

18 Chapter 7 of this report discusses labour market adaptability and employability in more detail.

would be unlikely to adjust monetary policy to accommodate sterling depreciation.

TABLE 3.4

Distribution of Trade by Area, 1998

(% of total exports/imports)

Areas	Exports	Imports
EUROPEAN UNION	67.6	53.8
United Kingdom	22.2	33.6
of which: Great Britain	19.6	30.9
Northern Ireland	2.6	2.7
Germany	14.6	6.2
France	8.3	3.9
Netherlands	5.5	3.1
Belgium and Luxembourg	6.4	1.2
Italy	3.3	1.9
Other EU	7.2	4.0
EURO AREA	42.2	18.6
OTHER EUROPEAN COUNTRIES	5.0	3.4
OTHER COUNTRIES	27.4	42.8
US	13.7	16.1
Japan	2.6	7.1
OECD	90.5	83.0

Source: CSO, *Trade Statistics,* December 1998

Another potential source of asymmetric shocks that will remain is that which relates to the differing production structures that exist across Europe. There is considerable disagreement about whether the EMU process will lead to a convergence of production structures, thereby reducing shocks stemming from asymmetric production structures. One argument states that trade integration encourages economies to specialise in production according to comparative advantage, leading to diverse rather than symmetric production structures, thereby leading to less synchronised business cycles and increasing the risk of asymmetric shocks. However, another argument is that when economies have similar per capita income levels (suggesting similar patterns of comparative advantage), trade is more likely to be based on product differentiation and economies of scale than comparative advantage. Thus, it is argued that production structures could become more symmetric within EMU so that shocks resulting from changes in taste and technology will also become more symmetric.

As Frankel and Rose (1996) highlight, both these arguments seem plausible *in theory* and therefore the balance between the two is ambiguous. However, the *empirical* evidence is unambiguous. Using a panel of 30 years of data from 20 industrialised countries, they find a strong positive relationship between the degree of bilateral trade intensity and the cross-country bilateral correlation of business-cycle activity. In other words, greater trade integration has historically resulted in more highly synchronised cycles.

Of course, as with all empirical evidence on EMU, the past is not necessarily a good indicator of the future.[19] And, crucially, Ireland's dependence on US multinationals for much of its growth (particularly in the high technology sectors) means that whatever the symmetries in production structures within EMU Member States, Ireland will remain exposed to production shocks stemming from the US. For example, of the £383 million in grant-aided fixed investment by foreign companies in Ireland in 1997, £323 million, or 84 per cent, came from the US (OECD, 1998).[20]

3.3.2 Tax Policy at European Level

There has been a great deal of discussion at European level on whether closer economic integration requires greater tax co-ordination or even harmonisation. Those in favour argue that some form of co-ordination (if not harmonisation) is required to make the single currency work effectively. Opponents argue that Europe is still a collection of nation states with very different unemployment rates, labour markets and welfare systems. With independent exchange rate and interest rate policy no longer an option following EMU, it is important that national governments should be able to

19 The Lucas critique argues that history may be an irrelevant indicator of the future if a substantial policy change occurs.

20 The data used by the OECD were compiled by Forfás. They exclude the Shannon Free Airport Industrial Zone.

retain other economic instruments, such as fiscal policy, for coping with national divergences.

In recent times, Ireland has come under some pressure from its European partners about the low rate of corporate tax on the apparent basis that it gives unfair competitive advantage to Ireland as a location for FDI. The fact that, despite our recent high growth rate, Ireland continues to receive significant structural funding and will continue to do so on a transitional basis, has led to talk about the need to correct the anomaly of net recipients of EU cash being ‘tax oases’.

Average nominal EU corporate tax rates range from 30 to 40 per cent. By comparison, the standard corporate tax rate in Ireland is at 28 per cent (10 per cent for manufacturing and in the International Financial Services Centre) and is set to move to a single rate of 12.5 per cent on trading income by 2003. However, the real effective rates in many European countries are significantly lower than the nominal rate because of the existence of numerous tax break schemes throughout the EU. These are currently being investigated by an EU working group on harmful tax competition.

The difficulties that Ireland is currently experiencing in Europe about our low corporate tax rate are at least partly due to misunderstandings and misrepresentations both in Europe and in Ireland. First, the lower corporate tax rate has benefited certain sectors of the Irish economy greatly, particularly in attracting foreign investment in manufacturing and international financial services. However, it is not the only reason for our recent economic success. Ireland is fortunate to have benefited from a number of other positive factors, all of which have come together at the same time. Among these are: the recent rapid growth in the labour force and the resulting reduced dependency ratio; the rapid rise in educational attainment which was reinforced by the reversal of migration trends; the improvement in infrastructure as a result of EU funding; and the broad consensus between political parties and social partners on an economic strategy of correcting public finances, improving competitiveness, maintaining low inflation, establishing good industrial relations, facilitating necessary institutional change and promoting the importance of policies to ensure social cohesion. Our European partners see the external factors (structural funding and tax-led foreign investment) far more readily than they see the internal factors for success (social partnership, demographic change and human capital development). It is clear that we need to better communicate the reasons for the success of the Irish economy. We should also stress that our success is relatively new and therefore potentially fragile and that success has not been felt by all sections of Irish society.

Second, it is probably true that we have not yet grown used to our new status as the 'Celtic Tiger' within the European and global economy. As we mature as an economy and a society, we need to alter our relationships with our European partners and with other competitor nations. Fitz Gerald (1998) has emphasised the danger of asking too much of EU partners. This theme has also been taken up by the ESRI, which has argued that it is necessary to prioritise those economic policies that may be challenged by our European partners:

> Thus, at least privately, the absolutely essential elements of our economic strategy, such as the relatively low rate of corporation tax, should be distinguished from such useful but essentially minor aims as gaining an additional tranche of structural funds or even prolonging the life of duty-free travel (ESRI *Quarterly Economic Commentary*, November 1998: 28).

Signs of this altered relationship were evident in the negotiations on Agenda 2000.

Finally, tax harmonisation is beyond the current remit of the European Union. Indeed in the past, the EU has always acknowledged that taxation is a matter for *national* governments except where approximation is needed to complete the internal market, as is the case of excise duties and value-added tax. The Commission cannot force a country to raise its taxes just because other countries have higher rates. Indeed, some countries are doing the opposite and are following Ireland's lead by cutting corporate tax rates. For example, the Danish Government has recently announced that it will introduce a zero tax rate for repatriated dividends of international holding companies based in Denmark. The British Government has equally defended its right to implement tax policy as it sees fit and in doing so has become a strong ally of Ireland in Europe on this issue.

The European Council in Vienna in December 1998 reached the following conclusion on this matter:

> The European Council welcomes the report of the [Ecofin] Council on reinforced tax policy co-operation and emphasises the need to combat harmful tax competition. Co-operation in the tax policy area is not aiming at uniform tax rates and is not inconsistent with fair tax competition but is called for to reduce the continuing distortions in the single market, to prevent excessive losses of tax revenue or to get tax structures to develop in a more employment-friendly way.

This text will form the basis for future discussions at EU level. Ireland should seek to ensure that such discussions focus on the real effective level of taxation, taking account of differences in the accounting rules and tax bases between Member States, and that account is taken of the competitive position of the EU *vis-à-vis* other countries and the need to promote growth and employment in the Community.

3.3.3 Agenda 2000

The European Commission published its Agenda 2000 proposals in July 1997 and final agreement on the proposals was reached in March 1999. Agenda 2000 sets out the Commission's strategy for strengthening and widening the Union through the early years of the next century. It covers four key areas:

- CAP reform, including rural development and agricultural structures;
- reform of structural policies;
- EU enlargement; and
- budgetary reform.

Each of these areas is of course linked. In particular, underlying each is the recognition that budgeting and financing within the EU will have to be reformed.

The need for further CAP reform is driven by the next round of WTO talks which is due to begin in late 1999/early 2000 and the recognition that the CAP, as it now exists, will be too expensive in an enlarged EU. There is also some recognition that while the 1992 MacSharry reforms were a step in the right direction, they also created problems, particularly on the distribution side.[21] The European Commission's approach to agricultural policy and CAP reform is based on the 'European model of agriculture'. This model envisages the creation of a European agricultural sector that is competitive, diverse, environmentally-friendly and sensitive to the needs and wants of rural communities as well as consumers. Chapter 8 reviews the implications of Agenda 2000 for the agricultural sector in more detail.

Reform of structural policies is mainly re-organisational. The present seven policy objectives will be reduced to just three and their management is to be simplified and decentralised through the operation of a new partnership between the Commission, the Member States and the regions. The existing framework and co-ordinating regulations are to be amalgamated to form one all-embracing general regulation. The existing EAGGF[22] Structural Funds Regulation is to be repealed and consequently the existing regulation on the financing of the CAP will be broadened to include the Guidance as well as the Guarantee side of the EAGGF. Community Initiatives are to be reduced from thirteen to four, covering broad themes: INTERREG (transnational, cross-border and inter-regional co-operation); LEADER (rural development); URBAN (economic and social regeneration of towns, cities and suburbs in crisis); and EQUAL (new transnational co-operation to fight discrimination and inequality preventing access to

21 Although recent evidence from the Teagasc 1997 National Farm Survey suggests that this is less of a problem for Ireland than for other EU countries. For example, the Survey found that in 1997, 80 per cent of CAP payments in Ireland went to the top 60 per cent of farmers.

22 The European Agricultural Guarantee and Guidance Fund.

employment). Of particular interest to Ireland are the special transitional provisions for Member States moving away from Objective 1 status. Here, Ireland negotiated transitional funding of 1.773 billion euros for the transition region of Ireland resulting from the new classification of the regions.[23]

Preparations for further EU enlargement are continuing. Six countries – Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia – have received broadly favourable opinions from the European Commission on their membership applications and accession negotiations are proceeding. Accession itself, however, is unlikely to begin until 2002 at the earliest.

The NESC has always approached the issue of Eastern enlargement on a very practical footing. As was highlighted in NESC (1997a), there is an understanding that relationships with Central and Eastern European countries (CEECs) have changed forever. Therefore, the issue is not a debate about the principle of Eastern enlargement but rather how the nature and substance of those new relationships should evolve and develop. NESC distinguished between the direct and indirect effects of enlargement. The direct effects relate to trade and FDI. Enlargement obviously implies an expansion of the EU market by more than 110 million people. This represents a significant opportunity for Irish producers if they can take the necessary steps to remain competitive. On the downside, certain industries such as clothing and textiles will be vulnerable to competition from lower cost Eastern European producers. For the agricultural sector, enlargement has to be seen as part of the wider process of integration, including the implications of CAP reform and the upcoming WTO talks. The indirect effects of enlargement occur where it has an impact on Ireland through its broader impact on the EU. The serious concern here was always that Ireland would lose some of its Structural Funding because of the integration of the much poorer CEECs into the Union. In practice, Ireland's

23 Some 1.215 billion euros were secured for the new Objective 1 region, while 100 million euros will be available to Ireland for the PEACE Programme. The Cohesion Fund will provide over 0.5 billion euros to Ireland for transport and environment projects.

advancement to average EU income levels through our own rapid growth is the real reason for any decline in Structural Funds.

In terms of budgetary reform, Agenda 2000 provides a new budgetary framework that takes account of the further development of Community policies and the impact of enlargement. Additional resources will come almost exclusively from expected natural increases in growth in member countries. Critically, it now seems likely that Ireland will move from being a net beneficiary to a net contributor. While this will not happen overnight, it looks increasingly likely after 2006.

Undoubtedly, Agenda 2000 presents significant challenges for Ireland, both sectorally and nationally. However, these challenges are the natural outcome of our recent economic success and our continued commitment to European integration. The Institute of European Affairs (IEA) has argued, quite correctly, that Agenda 2000 requires a profound re-adjustment in strategic orientation at the EU level (IEA, 1999). The task is about managing success. This Strategy report aims to offer suggestions on how to do that.

3.3.4 Competitiveness

With industries and companies now operating on a global scale, competition for trade and FDI has increased significantly. EMU has accelerated this trend within Europe. This presents a set of opportunities and challenges for the Irish business sector. The opportunities lie in the creation of a market of more than 290 million people (Euro-11 population), which has to be served. The challenges exist in trying to increase competitiveness to gain some of that market share.

Competitiveness has never been more important than it is now. Within EMU, exchange rate policy cannot be used to improve competitiveness.[24] Instead, national governments must rely more on structural reform policies, such as investment in education and training, and tax and welfare reform. These types of policies were

24 Although, it is acknowledged that Ireland used its exchange rate policy only in very rare and exceptional circumstances.

always available to national governments but were less aggressively pursued because of the long lead-time before the effects could be realised. Within the global economy, competitiveness lapses will not be forgiven quickly. There will always be some other country, region or company competing for your customer.

The response of many Irish companies to globalisation and EMU will be to try to increase scale. The recent spate of mergers and acquisitions in a wide range of industries such as financial services and the food industry are an indication of this trend. Indeed, recent reports suggest that in 1998, British companies led the way in foreign acquisitions. This reflects the eagerness of companies outside the euro area to establish or build on their presence in euro-area countries.[25] Scale is viewed as an essential attribute for companies trying to compete on a European and global basis. With the single European currency, investments will increasingly be made on a pan-European basis and there is general acceptance that investors, both domestic and foreign, will want to invest in larger companies. We will begin to see the emergence of more Irish multinational companies, as Irish-based companies expand overseas to Continental European markets.

For small- and medium-sized companies (SMEs), the challenges of economic integration are substantial. Many such companies operate in more traditional sectors of the economy, with the main export destination, if any, being Great Britain and Northern Ireland. With the UK choosing to remain outside EMU for the foreseeable future, these companies will not be able to maximise the benefits of EMU membership. Maintaining competitiveness with the sterling area will be a priority. Firms will have to operate with greater flexibility. Improved productivity will have to come through technological innovation, the introduction of flexible work practices[26] and other measures. The UK's non-membership of EMU also presents difficulties in trying to develop the indigenous sector on an island of Ireland basis. There is potential for small firms to develop and grow in scale by tapping into the island of Ireland market and using it as a

25 Reported in The Irish Times, Monday, 25th January 1999.

26 Chapter 7 discusses new systems of work organisation in more detail.

vehicle for further overseas expansion at some future date. A dual-currency island of Ireland may curb any natural momentum that exists for this. This will be discussed in more detail in a later section of this chapter.

On the plus side, the trend towards greater integration can provide opportunities. Advancements in ICTs mean that it is much easier for small firms to market products, develop niche markets, keep in contact with customers and competitors, develop just-in-time stock and delivery mechanisms and achieve associated efficiency savings. However, the reality is that much of the *potential* of ICTs to aid SMEs in doing business in the European and global marketplace remains untapped, because of cost (perceived or real), inadequate training and support services, time constraints and sometimes because of apprehension. The Information Society Commission and IBEC are running a joint awareness campaign through 1999-2000 to try to encourage SMEs in particular to become actively engaged in e-commerce. The recent announcement of additional European funding to encourage SMEs to take up e-commerce is also significant.

3.3.5 Social Europe

The case for a social dimension to economic integration in Europe has always been recognised by Member States. On efficiency grounds, a social dimension enhances the mobility of workers between Member States, for example, through mutual recognition of educational qualifications or entitlement to social protection. On equity grounds, this social dimension can be used to compensate or correct for the uneven effects of economic integration on different social groups or regions. This type of argument already underpins the Structural Funds. Finally, there is now understanding and acceptance that the long-term coherence and cohesion of the EU must ultimately depend on there being shared concern for well-being in different parts of the EU. This reflects the belief that priorities for social inclusion and protection have to be considered alongside any drive for economic growth and development, and the achievement of competitiveness (Begg, 1994). Thus, social policy is increasingly viewed as a *productive factor*, supporting economic growth and increased competitiveness, as well as tackling disparities.

In recent years, European social policy has focused on employment as the essential link between the economic and social spheres of policy in Europe:

> …it is a Europe at work that will sustain the core values of the European social model (European Commission, 1998b: 8).

This has found expression in the adoption of the Amsterdam Treaty in 1997 which, amongst other things, provided for the inclusion of a new title on employment in the Treaty establishing the European Union.[27] This new title establishes a co-ordinated employment strategy designed to encourage a skilled and adaptable labour force and to promote European labour markets that are responsive to economic change. The Amsterdam Treaty was followed closely by the Luxembourg Jobs Summit in November 1997 which established a process for co-ordination, based on the EU Employment Guidelines. These Guidelines are framed around four pillars:

- Pillar 1: Improving Employability
- Pillar 2: Developing Entrepreneurship
- Pillar 3: Encouraging Adaptability in Businesses and their Employees
- Pillar 4: Strengthening the Policies for Equal Opportunities.

Each Member State is required to produce an Employment Action Plan annually, in line with the Guidelines, which are themselves updated every year. The objective is to place employment high on

27 The Amsterdam Treaty came into force on 1st May 1999, following ratification by all Member States. The Treaty has also provided a basis for strengthening and broadening European social policy. As well as the introduction of the new employment title referred to above, the Treaty includes some new provisions on (and in some cases legal commitments to) equal opportunities and mainstreaming, social exclusion, anti-discrimination, public health and a re-assertion of Member States’ commitment to fundamental social rights as defined in the 1961 European Social Charter and the 1989 Community Charter of the Fundamental Social Rights of Workers.

the European policy agenda and to treat it as a matter of common concern which requires co-ordination and some exchange of experience. Notably, however, responsibility for the implementation of Member States' Action Plans remains under the control of individual Member States and their social partners, although the European Council can make recommendations to Member States on their employment policies.[28]

This theme of employment as the fundamental link between European economic and social policy is also evident in the European Commission's *Social Action Programme 1998-2000* (European Commission, 1998b). This is the Commission's third Social Action Programme and is clearly set against a backdrop of closer economic integration. The Programme highlights three particular social challenges:

1. The continuing problem of high unemployment in many Member States, particularly for young people, women and the long-term unemployed. The challenge is to try to draw on this labour reserve by boosting employability and enhancing labour mobility;
2. The changing world of work brought about through increased globalisation and the emergence of the Information Age. This presents a core challenge in terms of trying to establish the correct balance between the flexibility required by firms and the security desired by employees; and
3. The continuing existence of poverty and social exclusion. The challenge posed is to adapt social protection systems to better meet existing demands in a cost-effective manner while still ensuring a high degree of responsiveness to new needs and changing circumstances.

Reflecting these challenges, the *Social Action Programme 1998-2000* identifies lines of action under three main headings:

- Jobs, skills and mobility;
- The changing world of work; and

28 The Employment Guidelines are discussed in more detail in Chapter 7.

- An inclusive society.

There is clear overlap between the EU Employment Guidelines and the *Social Action Programme 1998-2000*. Both recognise the challenges and opportunities of an integrated world and European economy and see maximising employment, and particularly employability, as the best way of equipping individuals for that new environment. This is seen as the most effective way to tackle social problems, maintain Europe's prosperity and ensure the long-term sustainability of the European social model.

A further development is the European Employment Pact which was launched at the Cologne European Council meeting in June 1999. The Pact brings together all of the EU's employment policy measures under three pillars (Figure 3.4): the Luxembourg process, which refers to the European Employment Strategy discussed above; the Cardiff process, which involves structural reform to improve the efficiency of the goods, services and capital markets; and the Cologne process, which involves the co-ordination of economic policy and improved interaction between wage development and monetary, budget and fiscal policy through macroeconomic dialogue. The Cologne process represents a significant innovation, in that for the first time, the traditional social partners at EU level (employers and unions) will be brought into a structured, regular macroeconomic policy dialogue with the Ecofin and Social Affairs Councils, the European Central Bank and the European Commission.

One of the key features of European social policy is the growing recognition of the role of the social partners and other social non-governmental organisations. Social dialogue is the term used to describe the consultation procedures involving the social partners at European level. The three organisations representing the social partners at European level are the European Trade Union Confederation (ETUC), the Union of Industrial and Employers Confederations of Europe (UNICE) and the European Centre of Enterprises with Public Participation (CEEP). The social dialogue was formally recognised in the Single European Act 1987 (Article 139), whereby the European Commission has to encourage and

FIGURE 3.4

EUROPEAN EMPLOYMENT PACT

TITLE	Luxembourg Process (agreed at Luxembourg Extraordinary Jobs Summit, November 1997)	Cardiff Process (agreed at Cardiff European Council Meeting, June 1998)	Cologne Process (agreed at Cologne European Council Meeting, June 1999)
DESCRIPTION	Co-ordinated Employment Strategy	Economic and Structural Reform	Macroeconomic Dialogue
OBJECTIVE	Encourage a skilled and adaptable labour force and promote European labour markets that are responsive to change	Improve the competitiveness and functioning of goods, services and capital markets	Improve the interaction between wage developments, fiscal policy and monetary policy in the interests of growth and employment, while maintaining price stability
IMPLEMENTATION	• EU Employment Guidelines • National Employment Action Plans • Evaluation and identification of best practice through the Joint Employment Report	• National Structural Reform Reports	Two-Stage Approach: • Technical level involving a working party composed of members of relevant EU committees to discuss current and future developments • Political level involving an exchange of ideas between social partners, fiscal employment and monetary policy-makers through bi-annual meetings structured in the framework of the Ecofin Council.

facilitate consultation with the social partners on European social policy. Through the incorporation of the Social Policy Agreement, the Amsterdam Treaty affirmed the fundamental role of the social partners in the drafting and implementation of social policy initiatives. In addition, the establishment of a macroeconomic dialogue between the European social partners and fiscal, monetary and employment policy-makers through the Cologne process of the European Employment Pact, as outlined above, represents a significant innovation at EU level. This development has some correspondence with national partnership arrangements in Ireland. The overall aim at EU level is to try to achieve greater coherence and integration of economic and social policy, while still respecting the individual complexities of the participants.

However, while the Irish approach to social partnership has been broadened to include the Voluntary and Community sector, the EU approach has retained the traditional social partners (employers and unions) within the social dialogue, but has added a new separate strand of interaction through the development of a 'civil dialogue'. This is a new process that emerged from the 1992 Maastricht Treaty, the European Commission's 1993 Green Paper on Social Policy and the 1997 Communication on promoting the role of voluntary organisations and foundations in Europe. It involves the development of a systematic process of exchange of views between the European Commission and NGOs and other voluntary organisations, as representatives of civil society.[29] The civil dialogue is supposed to represent a two-way flow of information from:

- citizens to the European Commission, enabling the development of a European social policy that takes account of real needs and issues; and
- the European Commission to citizens, engendering a greater sense of European citizenship and participation.

The civil dialogue at European level is broader and less influential

29 Developments include the holding of European Social Policy Forums in 1996 and 1998, the creation of a new budget line to promote co-operation with NGOs and other voluntary organisations and to provide them with funding to engage in civil dialogue at European level.

than current Irish social partnership. Civil dialogue is broader both in terms of the groups who are allowed access (all civil associations from consumers to special interest groups, to clubs representing the interests of people with a particular hobby) and the issues that are addressed (far beyond social inclusion). However, the influence of civil dialogue on EU policy has so far been limited to consultation rather than providing a role in decision-making. Proposals for strengthening the civil dialogue further include the establishment of more structured meetings between European NGOs and the European Commission, the development of stronger associations within the NGO sector itself and the need to adequately fund the sector.

3.4 REPUBLIC – NORTHERN IRELAND

The Belfast Agreement presents opportunities for further economic integration on the island of Ireland (see Box 3.1). Some co-operation had started in 1994 with the first cease-fire, particularly in areas such as tourism, but the breakdown of that cease-fire in February 1996 meant that further development had to be postponed. At that time the potential for greater co-operation had already been identified through the work of the Forum for Peace and Reconciliation, which commissioned a number of consultancy studies on the social and economic consequences of peace in Northern Ireland (for example, KPMG Management Consulting (1995) and Bradley (1996)). While events have now overtaken those studies, their core conclusions, that peace could bring substantial economic and social benefits to the *island* of Ireland, still hold.

3.4.1 North-South Economies: A Comparison

Before proceeding with a comparative analysis of the North-South economies, it is important to understand that there are conceptual and practical difficulties in undertaking such an analysis (Bradley and Hamilton, 1998, 1999). These can affect the comparative analysis depending on what type of indicators are used. For example, per capita personal income figures can be distorted by the annual subvention that Northern Ireland receives from the UK Government. In 1995, this subvention amounted to just over £2,000 per person. While the Republic receives EU structural funding and CAP payments, these are substantially smaller than the Northern Ireland subvention. According to Bradley and Hamilton (1998, 1999), depending on whether CAP payments are included, EU aid to the Republic is between five times (including CAP) and nine times (excluding them) *smaller* per person than the Northern Ireland subvention. The subvention received by Northern Ireland also has obvious implications for comparing North-South public finances and related taxation and expenditure policies.

Finally, there are practical data problems in comparing Northern Ireland with the Republic. Regional accounts are usually presented differently to national accounts and there is often not the same level of disaggregation available. Time series analysis is also problematic because there are no sub-national price indices for the UK. Therefore analysis can only be made on a current prices basis or by using the aggregate UK price deflator which is unlikely to be an accurate representation of the price level in the North. In full recognition of these problems, some comparative analysis of the North-South economies is presented in Tables 3.5 to 3.10. Because a picture of the current status of their economies is sought, all data are the latest available. Relevant years and data sources are indicated.

Table 3.5 presents a snapshot of the North-South economies. The recent success of the Republic's economy is evident in the higher growth rate and per capita GDP figures. Until around 1992, the North's per capita GDP typically surpassed the South's. Notably, however, the North still records higher per capita personal disposable income than the South, although as outlined above, this is mainly due to the large subvention from the UK Government. Both economies have similar unemployment histories, with a high rate of long-term unemployment being a common feature. The North has a much higher share of public sector employment in the economy, which stands at just over 32 per cent of total employment in the North, compared with 19.3 per cent in the Republic.

BOX 3.1

North-South Co-operation and Implementation Bodies

The Belfast Agreemen, provides for institutional structures under which North-South co-operation could develop. In December 1998, the Northern Ireland Assembly agreed on North-South co-operation and implementation bodies, in line with the provisions of the Agreement. There will be six implementation bodies:

1. Waterways Ireland;
2. The Food Safety Promotion Board;
3. The Trade and Business Development Body;
4. The Special EU Programmes Body;
5. The North/South Language Body (An Foras Teanga / Tha Boord O Leid); and
6. The Foyle, Carlingford and Irish Lights Commission.

In addition, there are six matters for co-operation (through the mechanism of existing bodies in each separate jurisdiction):

1. Transport;
2. Agriculture;
3. Education;
4. Health;
5. Environment; and
6. Tourism.

There are difficulties in analysing the merits of this framework for co-operation. The implementation bodies are quite specific and are somewhat uncontroversial. The broadest body, covering “Trade and Business Development”, appears to be concentrating on trade promotion between the two regions and focusing more on matters relating to indigenous firms on both sides of the border rather than on the more controversial matters relating to attraction of foreign investment. The matters for co-operation are very rightly focused on supply-side areas. Although the co-operation headings are broad, the details are much more specific and narrowly defined. For example, under “Education”, there are just four areas listed for co-operation: education for children with special needs; educational underachievement; teacher qualifications; and school, youth and teacher exchanges. There is the possibility, however, that other areas for co-operation could be agreed upon in the future.

TABLE 3.5

The Economy: Republic and Northern Ireland

	Period	Republic (RI)	Northern Ireland (NI)
Population	1996	3,626,087	1,663,300
Employment	RI=99(Q2), NI=99(Q3)	1,591,100	688,000
Unemployment rate	RI=99(Q2), NI=99(Q3)	5.7%	7.8%
GDP growth rate (real, average annual)	1990-1997	5.7%	2.8%
GDP (at factor cost) (IR£M)	RI=98, NI=97	53,148	16,690
GNP (at current market prices) (IR£M)	1998	52,183	—
GDP per capita (at factor cost) (IR£)	RI=98, NI=97	14,657	9,965
GNP per capita (at current market prices)(IR£)	1998	14,391	—
Personal disposable income(IR£ per capita)	1996	7,166	7,976

Source: Central Statistics Office (CSO), various publications, Northern Ireland Statistics and Research Agency (NISRA) (1998), *Northern Ireland Annual Abstract of Statistics* and NISRA website, Northern Ireland Department of Economic Development, *Labour Force Survey, June-August 1999,* UK Office for National Statistics, *Regional Trends 33,* 1998.

Note: GDP and income date for NI converted to IR£ using 1996 and 1997 annual average IR£/STG£ exchange rates.

TABLE 3.6

Labour Force

	Republic (Mar-May 1999)	Northern Ireland (June-August 1999)
Unemployment Rate (%)	5.7	7.8
Pubic Sector Employment (% of employed)	19.3	32.1
Sectoral Breakdown (% of employed)	(Mar-May 1999)	(June 1999)
Agriculture	8.5	2.6
Industry	28.3	23.0
Services	63.1	74.4

Source: Central Statistics Office (CSO) *Quarterly Household Survey (Second Quarter 1999)* Norther Ireland Department of Economic Development, *Labour Force Survey (June-August 1999),* Northern Ireland Department of Economic Development, *Quarterly Employment Survey June 1999.*

TABLE 3.7

Structure of the Economy (% of GDP)

	Republic (1996)	**Northern Ireland** (1996)
Agriculture	**7.2**	**4.4**
Industry	**35.7**	**27.1**
Market Services	**42.7**	**39.5**
Distribution, hotels & catering	13.1	13.1
Transport and communications	5.8	5.3
Financial and business services [1]	6.5	17.0
Other services	17.3	4.0
Non-market Services	**14.3**	**29.0**
Public administration and defence	4.6	11.8
Education and health[2]	9.7	17.2

Source: Northern Ireland Statistics and Research Agency (1998), *Northern Ireland Annual Abstract of Statistics* and CSO, national income and expenditure data, detailed breakdown.

Note: [1] For the Republic, data are for "services of credit and insurance institutions" only.

[2] For the Republic, data refer to non-market services excluding public administration and defence.

The dependence of the Northern economy on the public sector is clear from looking at a sectoral breakdown in terms of output and employment (see Tables 3.6 and 3.7). Both indicate a stronger services sector in the North relative to the South, which is largely based on the public sector or non-market component of the economy. The Republic has a larger dependence on the agricultural sector, both in terms of output and employment. The industrial sector is more significant in the Republic than in the North, contributing 35.7 per cent to GDP versus 27.1 per cent. Of course, this aggregate figure hides the true significance of the difference in industrial structures between the two economies, namely the larger high technology base of the Republic's industrial sector.[30]

30 See Bradley and Hamilton (1998, 1999) for elaboration.

TABLE 3.8

Export Destinations

(% of total exports[1])

	Republic (1998)	**Northern Ireland** (1997/98)[2]
Republic	-	12.5
NI	2.6	-
GB	19.6	50.1
Other EU	45.4	17.2
Rest of World	32.4	20.2

Source: CSO Trade Statistics December 1998, NIERC/DED/IDB (1999), *Made in Northern Ireland Sold to the World: Northern Ireland Sales & Exports 1996/97-1997/98*

Note: [1]In the source material for Northern Ireland, the data refer to 'external sales', that is all sales outside Northern Ireland, including sales to the rest of the UK.

[2] Provisional.

TABLE 3.9

Republic's Exports by Sub-Sector, 1998

(% of total exports)

SITC Code	
0. Food and live animals	8.8
1. Beverages and tobacco	1.3
2. Crude materials, inedible except fuels	1.3
3. Mineral fuels, lubricants and related materials	0.3
4. Animal and vegetable oils, fats and waxes	0.1
5. Chemicals and related products	31.7
6. Manufactured goods classified chiefly by material	3.2
7. Machinery and transport equipment	36.7
8. Miscellaneous manufactured articles	11.8
9. Commodities and transactions not classified elsewhere	4.9

Source: CSO Trade Statistics December 1998

TABLE 3.10

Northern Ireland's Exports by Sub-Sector, 1997/98

(% of total exports)[1]

Sub-sector	
Food, drink and tobacco	24.9
Textiles, clothing & leather	15.9
Transport equipment	14.5
Electrical and optical equipment	13.2
Other machinery and equipment	8.1
Chemicals and man-made fibres	7.5
Rubber and plastics	6.0
Paper and printing	2.9
Other non-metallic minerals	1.7
Basic metals and metal products	2.5
Wood and wood products	1.3
Other manufacturing	1.5

Source: NIERC/DED/IDB (1999), *Made in Northern Ireland Sold to the World: Northern Ireland Sales & Exports 1996/97-1997/98.*

Note: [1] The figures used refer to 'external sales' that is all sales outside Northern Ireland, including sales to the rest of the UK. All data are provisional.

Finally, the data show the unequal trade linkage between the North and South (Table 3.8). Over 12 per cent of Northern exports are to the Republic, while less than 3.0 per cent of the Republic's exports are to Northern Ireland. Indeed, a high proportion of North-South trade – both ways – is in more traditional, low-technology products, mainly food and drink. Furthermore, much North-South trade takes place between SMEs, a trend that has been increasing over time (Bradley and Hamilton, 1998, 1999). The North's largest export market is Britain, accounting for about 50 per cent of all exports. The Republic's trade links are more diversified, however, with both Europe (excluding Britain) and the rest of the world now accounting for over 75 per cent of total exports.

3.4.2 Benefits of Co-operation

The benefits of greater economic co-operation between the North and South are similar to the benefits from increased economic integration on a European or even on a global scale. On the supply-side, integration should allow the exploitation of scale and agglomeration economies leading to increased efficiencies and reduced costs. These gains could occur at whatever level integration develops and in both private and public sectors. On the demand-side, an 'all island' economy would constitute a larger home market, which may aid the development of indigenous industry throughout the island.[31]

Bradley (1996) poses the question of whether the 'all island' economy can be seen as a *natural economic zone*, by which he means one that transcends and represents no threat to the political border of any nation. He makes a distinction between economic governance and political governance, arguing that the former refers to the manner in which the full range of economic policies is implemented in a state or arranged between states. He highlights the example of the EU, where the distinction between political and economic governance arises quite naturally, with many treaties dealing solely with economic issues. Drawing on the general themes of economic integration that now predominate, Bradley argues that what he calls the North-South axis is just as important as the East-West axis, by which he means the relationships of both Irish economies (North and South) with the EU, with Britain and with the rest of the world.

There is evidence that co-ordination and co-operation is happening spontaneously. For example, more than 2,000 companies on both sides of the border have been involved in the IBEC/CBI Joint Business Council since its inception in 1991. The Centre for Peace and Development Studies at the University of Limerick has recently compiled a second edition of its *Register of Cross Border Links in Ireland* (Murray, 1998). It identifies more than 500 organisations

31 Although the island of Ireland will always be small in the global marketplace, it could be an important testing ground for indigenous firms with overseas ambitions.

across a range of interests – economic, social and community – that are involved in cross-border activity, an increase of almost 50 per cent since the first edition in 1995.[32] For most of these organisations, the establishment of cross-border links was a simple pragmatic decision, based on a desire to overcome common obstacles (e.g. small firms on either side of the border facing similar marketing barriers) and to avail of new opportunities (e.g. improving access to common social and economic facilities). The context of increasing integration at a European and global level was also evident. For example, responses from farming groups on both sides of the border suggested that the major influence on their all-Ireland initiatives has been the changing programmes and the market context arising from Agenda 2000. Thus, it is clear that to a great many people, both North and South, closer economic co-operation simply makes practical sense.

In recognising that there are benefits to greater co-operation and economic integration on an island of Ireland basis, it is not assumed that each and every aspect of the economy could be organised on an all-island basis. In any particular case, the merits of co-operation would have to be established. It would be impossible, and indeed inappropriate, for the Council to present a detailed analysis of the pros and cons of co-operation on a sector by sector basis in this Strategy report. However, there are certain areas that should be explored by the relevant authorities for their co-operation potential including infrastructure, industrial policy, agriculture, the environment, energy, education and training, tourism and social inclusion initiatives. It should be noted that this list is not exhaustive and is merely meant to be suggestive. Indeed, it is notable that, for the first time, there is a joint chapter in the Republic's and Northern Ireland's development plans submitted to the European Commission in preparation for the next round of structural funding. Many of the above areas are explored in the joint chapter. Many are also included in the Belfast Agreement under the areas for co-operation between North and South, either by way of all-Ireland

32 The Register was compiled using a questionnaire issued to over 1,000 non-political groups, organisations, and commercial and industrial bodies.

implementation bodies or through the mechanism of existing bodies in each separate jurisdiction (see Box 3.1).

3.4.3 Co-operation Challenges

One of the most significant challenges for future co-operation is the North's non-participation in EMU. Unless and until the UK Government makes a decision to enter EMU, separate currencies will remain for the two parts of the island. This will deprive the all-island economy of the benefits of EMU arising from reduced transaction costs and the greater integration of product and labour markets.

Difficulties may also arise if sterling depreciates against the euro because the South will no longer have access to exchange rate policy that might traditionally have been used to regain competitiveness in these circumstances.[33] Thus, if these conditions held for a sustained period, firms in the North would gain a competitive advantage over their Southern rivals, potentially placing a strain on any newly-developed co-operation and linkages. Ironically, greater economic integration between the two economies would actually exacerbate the effects of such adverse exchange rate movements on the South not only because of the implied increased trade flows that co-operation would bring, but also because integration would confer increased economic viability on the Northern economy.[34] It would become a more viable market and location choice for firms, investors and consumers. This fear of sterling depreciation against the euro has so far not materialised. Indeed, in the first nine months of EMU, sterling has risen in value against the euro causing competitiveness problems for the North relative to the South. Therefore, in these circumstances, the potential for increased economic integration would be enhanced if the UK opted to join EMU sooner rather than later.

Economic co-operation on the island of Ireland will take place in

33 Chapter 4 explores the implications of a sharp fall in the value of sterling as one of its policy scenarios.

34 However, Chapter 4 argues any abrupt sterling-euro movements are considered unlikely.

the context of increasing integration both in Europe and globally. While both the Republic and Northern Ireland have strong trade links with Great Britain, Northern Ireland is more dependent on the mainland UK economy than the Republic and would therefore be more vulnerable to any downturn in the UK economy. The dependence of the North's economy on the UK will be maintained for as long as the UK stays out of EMU. This will inhibit closer economic integration of the Northern Ireland economy with Europe and globally, as it will affect integration on an island of Ireland basis. Indeed, this highlights that in analysing North-South integration and co-operation, there are some policy areas where it is the Republic-UK relationship that ultimately dictates progress.

Thus far, Europe has been very supportive of attempts to develop closer co-operation between Northern Ireland and the Republic, viewing it as an aid to the fostering of lasting peace, and economic and social cohesion. At the Berlin European Council meeting in March 1999, continued EU funding was agreed in support of the peace process in Northern Ireland. This renewed funding will assume even more importance following the change in the North's status from Objective 1 to Objective 1 in transition and the new designation of two regions in the South – the Border, Midlands and West Objective 1 region and the Southern and Eastern Objective 1 in transition region. While support in the past has tended to concentrate on the border counties, there is growing consensus on the need for future EU structural funding under INTERREG and the Special Support Programme for Peace and Reconciliation to be extended beyond the border counties to an all island basis (IBEC/CBI, 1998; Community Workers Co-operative and the Northern Ireland Council for Voluntary Action, 1998[35]). The concentration of such special funding in the border counties implies that the need is greater there than in the rest of the island. However, in terms of knowledge and mutual understanding, the reverse can be argued to be the case (Murray, 1999).

35 Although, the Community Workers Co-operative and the Northern Ireland Council for Voluntary Action go one step further, arguing that all EU Structural funding should be extended to an all-island basis.

How the island of Ireland fares in the context of globalisation will largely be determined by the structure and competitiveness of the two economies. As this section has already highlighted, the two economies are quite different, with the Republic characterised as more hi-tech and modern, while the North is more dependent on traditional sectors. Thus, for example, competition from cheaper Asian and developing economies will present both opportunities and threats for the island of Ireland. The Republic will be less affected because it has more high technology multinational investment, whereas the North is more vulnerable because of its dependence on more traditional sectors such as clothing and textiles. Neither the Republic nor Northern Ireland can be characterised as low cost economies and so will need to compete in terms of technology and quality factor inputs. This may present opportunities for co-operation in training and educational initiatives, as well as joint research and innovation developments.

3.5 GOVERNANCE

With increasing economic integration on many levels, there is some concern about the nature of governance and in particular, the role and power of the nation state in an integrated world. There are two perceived threats: the growing power of the market and the increasing role of supra-national authorites. A number of points can be made in relation to these concerns.

First, the issue should not be seen as a straightforward choice between national government and the market or some supra-national authority. It is more about how national government and these two other forces in the integrating world economy can best work together to achieve an optimal outcome. Certainly, the nature of policy-making has changed. But change does not necessarily mean a bad outcome. In fact, it is an essential prerequisite for *effective* policy-making. Government must adapt and develop with its economy and society. Otherwise, governance would be defunct.

Second, it is not correct to describe economic integration as leading to the loss of policy instruments by national governments. Within supra-national authorities, policies are agreed nationally and applied internationally based on consensus across nations. Thus, governments have not *lost* control of policy instruments. As in the case of EMU, they have simply pooled control by agreement and consensus at home and abroad. This consensus was achieved because of the recognition that this pooling of certain policy instruments at European level would be better for the individual countries concerned than continued national control.[36] In this way, national governance, when viewed as the activity or process of government, may actually have been strengthened by increasing economic integration.

Furthermore, it is erroneous to predict the end of the nation state because of the increasing importance of regional economies or 'natural economic zones' that often transcend national borders (Ohmae, 1995). Their emergence does not make national governance irrelevant. It merely changes it. While certain policies are no longer under the control of national governments, important policy areas remain under national control. Crucially, these areas, more structural in nature, are those areas highlighted by Krugman (1997) as being essential to the growth performance of regional economies such as Ireland. These include policies relating to innovation, education, labour markets and corporate governance.

Third, the extent of integration can be exaggerated. As Section 3.2 highlighted, on many levels, the world is no more integrated today than it was at the turn of the century. National government still has considerable control. Labour is not that mobile, especially in Europe. Liquid capital is mobile but much physical capital is immobile because it is impossible to liquidate fixed machinery quickly. And, while liberalised capital markets change the way national governments can implement policy, they also provide opportunities for national governments, in the form of new sources of capital for public projects.

Fourth, fears that economic integration may undermine national

36 Of course, in the case of EMU, there are both disadvantages as well as advantages to Irish membership (see Section 3.3 on European integration). However, on balance, for the country as a whole, membership is seen as advantageous (see Baker *at al*, 1996).

social protection systems in a ‘race to the bottom’ are also exaggerated because, as aforementioned, labour and capital are not fully mobile. Social protection has costs, whether an economy is integrated with its neighbours or not. Countries devise their own social protection systems according to their own social values, on the assumption that the societal benefits that result exceed these costs. Individuals, both workers and firms, make decisions on where they want to locate by considering the whole picture. The ‘race to the bottom’ argument assumes that capital and labour are attracted by loose regulation. This may be true for some industries and people but not for all. For example, the tourist industry prefers countries that control pollution levels, while company executives generally prefer to locate in countries with good quality education and health care systems. Also, there is little support for the claim that globalisation reduces environmental standards. Empirical evidence shows that differences in environmental compliance costs are a minor consideration in determining production costs across countries (Burtless *et al.*, 1998). Even in the US, which is often presented as the typical integrated economy, there are sharp differences in tax and social protection systems across states, based on the different values of residents. Importantly, integration does not mean homogeneity. For example, all that integration with the EU requires is an acceptance of and agreement with a broad set of principles and rules.

Fifth, many of the gains from trade and integration are due precisely to the fact that the playing field is not level. Trade benefits both parties because national environments – including natural resources and technology, as well as government policies – *are different*. Laws and regulations do not have to be identical. The rules just need to meet some minimum standard of protection and be clear enough for everyone to understand. As long as standards reflect the outcome of a legitimate political process in each nation, the outcome should improve overall welfare. An exception is where there are externalities, for example, where pollution crosses national borders. In these cases countries have tended to agree on a global approach, as in the Kyoto agreement on targets for greenhouse gases. Therefore, closer economic integration and national sovereignty need not be inconsistent. Together they provide the basic principles for managing a nation state in a global economy (Burtless *et al.*, 1998).

Finally, just as developments in the world economy require changes in national governance, they may also require some adjustment in global governance structures. Recent turmoil in the global economy suggests that international organisations like the IMF, the World Bank, the WTO and others may be in need of some reform and adaptation to reflect the changing global environment.[37] Many of these organisations were established at the end of the Second World War[38] and were designed with quite different functions in mind. Even the Treaty of Rome signed in 1958, on which the EU is based, was conceived in a very different age. While the recent global economic crisis was in part a consequence of the level of integration in the world economy, it also highlighted that global problems require global, co-operative solutions. It is the responsibility of all national governments to ensure that the organisations established to oversee global developments are still appropriate to global needs. Indeed, this should be seen as one of the primary functions of national government in a global economy.

At the same time, changes in national and international governance cannot be divorced from local governance. In an increasingly integrated world economy, the principle of subsidiarity should apply at the national as well as the international level. Thus, where policy actions and initiatives taken at the local level can be shown to be more effective, they should be pursued at that level.[39]

3.6 CONCLUSIONS

This Strategy report is fully informed by the challenges of closer economic integration. The importance of economic integration over

37 Recent estimates suggest that there are at least 350 intergovernmental international organisations with well over 100,000 employees (Krueger, 1998).

38 Although, the ILO was established at the end of the First World War.

39 Castells (1998) argues for a new form of state, which he calls the network state. It is a state characterised by the sharing of authority along a network. A network, by definition, has nodes, not a centre. He sees these nodes as varied in size but interdependent in the decision-making process.

this Strategy period and beyond is perhaps best illustrated by the many levels on which its influence is felt. This chapter has explored integration on a global, European and island basis but other levels of integration exist and, fundamentally, all levels are inter-linked.

The Council supports moves towards greater integration, recognising that while integration can pose challenges, it can also present opportunities. For policy-makers, the objective is to try to manage our involvement in the integration process so that the challenges are met and the opportunities are seized. And importantly, as subsequent chapters of this report show, national policy still has a critical role to play in managing that process.

PART II A

Adjustment to Further Economic and Social Integration

CHAPTER 4

MACROECONOMIC POLICIES FOR STABLE ECONOMIC GROWTH IN A SMALL ECONOMY

4.1 INTRODUCTION

For the past decade, Ireland has been preparing for European Economic and Monetary Union (EMU). With its commencement, Irish macroeconomic policy must take account of the powerful combination of a single currency and a single market in Europe. This chapter discusses how these new policy arrangements may be expected to work, and the factors that will be important in sustaining economic prosperity in the future.[1]

A theme of the chapter is the special position of the smaller EMU participants, such as Ireland, within the much larger EU economy. A recent influential account of the Irish economy (Krugman, 1997) has underlined how small economies differ from large economies in regard to the *mobility* of their workforce and capital stock. In contrast to a large economy, the workforce and the capital stock of a small economy can be highly mobile. Therefore, (and as Chapter 3 has also highlighted) the reward for getting policies right as well as the penalty for getting them wrong are both greater in a small economy. A successful smaller economy can expand very rapidly as both workers and corporate investment relocate there. The present flow of returning emigrants (and others attracted to Ireland) together with the substantial increase in Ireland's share of foreign direct investment (FDI) into Europe are examples of this process. But Ireland's loss of population in earlier decades is a reminder that the impact of economic openness can go in either direction. Ireland's emigration record is a sign that Ireland has long had some of the character of a small economy with a very mobile population; in this regard, EMU reinforces an existing position.

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

The single market will increase cross-border mobility. So will the single currency by reducing the cost of international trade and eliminating exchange-rate uncertainty with respect to participating currencies. Moreover, by making prices more transparent, the single currency will allow consumers to demand that firms match, on a quality-adjusted basis, the prices of competing suppliers from other regions.

Though helpful, the importance of this ‘small economy’ perspective should not be exaggerated, since Ireland remains a sovereign state with full autonomy across a wide range of policy instruments. This is illustrated by the contrast (made in Chapter 3) between the tax-setting powers of the Republic and Northern Ireland.

The advent of EMU, then, requires some adjustment in Irish economic policy-making. In particular, the shift of responsibility for some policies to the EU level makes careful use of the remaining policies all the more important.

When the Council published its first strategic review in 1986, it made recommendations in respect of five areas of macroeconomic policy, namely, monetary, fiscal, competition and incomes policies, and exchange rates. Responsibility for some of these policies has now been re-allocated, either entirely or in part, to the EU level. (Of course, prior to EMU the actual room for independent use of national-level economic policies was never unrestricted and their effectiveness may sometimes have been overestimated.)[2] Exchange rates no longer exist between the currencies that have been replaced by the euro. Monetary policy decisions have moved to the European Central Bank (ECB) in Frankfurt. National fiscal policy must be consistent with the terms of the Stability and Growth Pact, although this is certainly not a constraint for Ireland under present economic conditions. There remains some limited scope for Ireland to use its influence at EU level to see that EU decisions take appropriate

2 Honohan (1998a) points out that the scope for a more autonomous Irish monetary policy after the break with sterling and before the start of EMU (1979-1998) was not successfully converted into low average inflation, low average interest rates or a stable exchange rate for Ireland.

account of Ireland's circumstances. This would be of particular importance at a time of great economic strain.[3]

Other policies remain firmly in the realm of national decision-making. The choice in favour of a partnership approach to economic and social policy-making, including pay determination and incomes policy, is a national responsibility. So are important aspects of competition policy, although others are shared with the EU authorities. And, crucially, key supply-side policies that add to the productive capacity of the economy, including public investment, education and training, and encouragement for research and development (R&D) and for inward investment, are decided entirely or largely at a national level.

The remainder of this chapter is arranged as follows. The next section discusses the objectives towards which the instruments of policy are directed: stabilisation, growth and social justice. Section 4.3 elaborates on the scope for stabilisation in the case of a smaller economy within EMU. A number of possible disturbances to such an economy, and how they could be addressed, are discussed in the following section. Section 4.5 examines policies to support the longer-term objective of economic growth and the convergence of Irish living standards (on a GNP basis) to average EU levels. The recent record of fiscal policy and public expenditure, a key remaining macroeconomic policy instrument, is discussed in Section 4.6. The prospects for the public finances in the medium term and the main issues for fiscal policy are considered in Section 4.7. Section 4.8 presents conclusions and recommendations.[4]

4.2 THE GOALS OF POLICY: STABILISATION, GROWTH AND SOCIAL JUSTICE

Over the short-run horizon in which the business cycle operates, the objective for macroeconomic policy is to keep demand on a

3 The provisions of Article 103a of the Maastricht Treaty are, however, quite restrictive.

4 The text of the concluding section of this chapter has already been published as section 5 of the *Overview, Conclusions and Recommendations* of the present report.

relatively stable path, close to potential supply, in order to avoid recessions and to avoid the overheating and price pressures that come from excessive demand. In this way, policy seeks to prevent undue fluctuations in economic activity and employment. Such a policy is sometimes described by the expression 'leaning against the wind'. When the private sector of the economy is growing rapidly, public policy, according to this approach, would seek to dampen the growth rate, whereas when growth in the private sector is very weak, public policy would seek to stimulate the economy.

To work, such a counter-cyclical stabilisation policy must allow budgetary surpluses to build up in good times rather than allow the funds to be used to improve public services or reduce taxes. Whatever the basis, on other grounds, to add to spending or to reduce taxation, to do so would accentuate rather than dampen the economic cycle. It would also undermine the authorities' capacity to use fiscal policy to support demand in any subsequent downturn.

In the long-run – over a period of several decades – living standards depend principally on the rate of growth in a nation's ability to produce goods and services. If national income is plotted on a chart over several decades the cyclical fluctuations appear quite small compared with the dominant role of the long-run trend. For example, whatever might have been the best way to respond to the recessions in Ireland in the 1970s and 1980s, viewed from a longer perspective the striking feature of this period was the failure of Irish living standards, until the late 1980s, to converge towards the EU average.[5] Over the long term, therefore, the key to raising living standards is to accelerate the rate of increase of the supply capacity of the economy.

In addition to stability and growth, other policy objectives are also sought. First, from the viewpoint of social policy, governments engage in substantial redistribution of incomes. A market economy often produces a very unequal income distribution and the tax and welfare systems may be used to lessen inequality.[6] A large part of

5 See Barry (1999).

6 However, limits may be set to redistribution either by political constraints (the willingness of taxpayers to finance redistribution is not unrestricted) or by

the budgets of EU governments is devoted to this policy objective with varying degrees of success.[7]

More generally, Irish governments in the 1990s have sought to promote socially inclusive growth. This has meant orienting policy to improve access to, and participation in, Irish society. It has meant guaranteeing the rights of minorities, and working to reduce inequalities, including the gender aspect of poverty. These efforts have followed a partnership approach at national and local level including engaging in appropriate consultative processes and encouraging the involvement of the community and voluntary sector. Self-reliance and respecting individual dignity are principles that have also been pursued as part of this strategy (NAPS, 1999).

In addition, governments supply some goods and services that would not be produced, or at least would be under-supplied, by private markets. The technical argument for government provision or financing of these services is that they are of a fundamentally collective nature – if supplied at all, they must be supplied to everyone. Policing, defence, public administration and the provision of certain kinds of infrastructure are examples of services whose collective character offers a strong argument for their provision or financing by the state. A wider definition of public goods would extend to expenditures on health and education; this could be motivated both by social objectives such as inclusion or citizen rights, as well as the economic objective of equipping a productive labour force.

There is an important budgetary difference between, on the one hand, the goal of income redistribution and provision of public services and, on the other, the objective of stabilisation. The first two do not require government spending to be different to government revenue. Governments could perform these functions without running an unbalanced budget. However, a policy of 'leaning against the wind' necessarily involves running budget deficits and surpluses in order to dampen the business cycle

efficiency considerations (too wide a tax wedge lessens the attractiveness of working in the official economy).

7 See Atkinson (1998) for a recent survey of poverty in Europe.

originating in the private sector of the economy. And, in some circumstances at least, public investment also involves public borrowing.

This chapter concentrates on the policy objectives of stability and growth while the aim of greater social cohesion and reduced poverty is considered in detail in Chapter 9. In the next section, the means to effect short-run stabilisation are discussed for the case of a small economy in an economic and monetary union.

4.3 ECONOMIC STABILISATION IN A SMALL ECONOMY

At the overall EU level, certain forces operate to maintain approximate balance between aggregate demand and potential supply (see the discussion in Box 4.1). For a smaller economy participating in EMU, some of the same forces are absent.

First, there is no independent currency whose changing value can act as a mechanism of economic adjustment. One of the key economic arguments for EMU was that it would deny participants use of the exchange rate to recapture lost competitiveness and so discourage participants from any resumption of the wage-price spirals that destabilised EU economies in the 1970s and 1980s. Nevertheless, to achieve this improvement in the overall framework of policy, participants must now adjust to a severe regional shock, should one occur, without recourse to the exchange rate as a way to cushion the blow.

Second, in the absence of a separate currency, there is no independent interest rate to play the role of a buffer, as there would be in a national economy. Therefore, in a monetary union, the maintenance of competitiveness is crucial in the face of an economic disturbance. Competitiveness in this context is defined broadly to include all factors that contribute to the capacity of firms to compete in the international economy. It covers the pricing policies of firms as well as pay competitiveness. The latter includes the terms of pay agreements, some of which, under the present national programme, involve additional payments in return for such changes as the introduction of new technology and corporate restructuring. In addition, some agreements provide for team-working, annualised hours of work, flexible contracts and gain-sharing.[9]

Because of the absence of an independent interest rate, economic stabilisation in a small economy in a monetary union is a responsibility of fiscal policy. This is despite the reduced effectiveness of fiscal instruments in an open economy like Ireland (because some of the impact falls on trading partners rather than the domestic economy). Labour market adaptability can also contribute to economic stabilisation (see Chapter 7).

Fiscal policy has two aspects, one automatic and the other discretionary. The tax and welfare systems taken together act as an 'automatic stabiliser' of the economy. For example, if the government's budgetary target – say, a balanced budget – were to be expressed as an *average* over the business cycle (perhaps 3-5 years), surpluses could be allowed to accumulate in boom years and deficits in lean years. The tax and benefit systems would then act as a built-in stabiliser to cushion the impact of the business cycle.

One reason for averaging the budget balance over the business cycle is to avoid unduly frequent and potentially disruptive changes in tax rates or in the levels of public services. Just as individual families and companies tend to treat both good and bad years on the basis of some idea of the long-run trend, tax rates and spending programmes could also be set on such a medium-term basis. Then, if a series of bad years reduces a country's income, this argument suggests that public services should not be cut in line with falling tax revenues, nor tax rates raised, but that a steady flow of services be maintained and financed from borrowing. Equally, a few good years during which income and tax receipts rise should be used not to temporarily boost public spending or cut taxes but to increase government saving (including the repayment of debts incurred during earlier periods of deficit financing).

9 The maintenance of competitiveness is analysed at greater length in Chapter 6 on wages and Chapter 7 on improving labour market adaptability and employability.

BOX 4.1

Moderating the Business Cycle

In a well-functioning economy, total demand for goods and services matches the supply that the country can produce. However, in the short term, there is a business cycle – a sequence of expansions and contractions – arising from temporary deviations between economy-wide demand and potential supply.

These deviations occur because of disturbances to supply or demand. Growth of potential supply – the level of production if the labour force is fully employed and plant fully utilised – is relatively stable because (in national economies) the labour force and the capital stock normally change only slowly. Nonetheless, shocks do occur, of which the most important recent example is the oil prices increase of the 1970s which rendered many energy-intensive activities uncompetitive, causing potential supply to fall. The evolution of demand is generally less stable than supply. This is because spending by the main groups of private purchasers – consumers, investors and foreign buyers – depends not only on current economic conditions but also on more volatile factors such as expectations for the future. As a result, some of the components of private demand can undergo changes that are large relative to changes in the supply potential of the economy.

A number of self-correcting forces are set in train if a national economy's aggregate demand and potential supply move out of balance. When these responses operate relatively smoothly and quickly, the business cycle of that economy is moderated accordingly.

First, households generally try to maintain a smooth pattern of consumption rather than make erratic changes from year to year. Therefore, consumers tend to spend less than the full amount of a temporary increase in their income and this dampens the initial rise in demand. Second, and in a similar fashion, firms make investment plans in response to what they consider to be the permanent element in demand changes rather than allowing investment to mimic short-run economic fluctuations.

Third, and in tandem with the previous changes, the pricing policy of firms and the wage demands of employees are influenced by any imbalance between aggregate demand and potential supply. In an economy experiencing excess demand, firms find it easier to raise prices and employees to obtain wage increases.

Such price and wage rises also offset some of the initial increase in demand. These processes work in the reverse direction in an economy that suffers an economic recession. In these ways, significant discrepancies between demand and supply cause other changes in the economy that at least partially offset the initial divergence. However, adjustment through these automatic mechanisms is often sluggish. Therefore, when the imbalance is severe, macroeconomic policy may be used to speed up the adjustment.

While the instruments of macroeconomic policy can have powerful short-term effects on demand, because the size and the timing of the effect of a policy change are uncertain, demand management is no easy or mechanical task. An important final consideration is that fiscal policy can raise national income only temporarily not permanently. In contrast, successful supply-side policies – such as investment and training – by increasing the productive capacity of the economy can increase living standards on a sustained basis.

For some economies, it is desirable for fiscal policy to aim for a budgetary surplus rather than a balanced budget. An economy with a substantial public debt, or one facing large future liabilities, would be in this position. For instance, the decades after about 2020 will witness in Ireland a large increase in the number of retirees drawing state pensions relative to the size of the workforce paying taxes to fund the state's pension scheme.[10] To avoid a sharp rise in tax rates at that time, or a reduction in the value of pensions, it would be necessary to start to pre-fund these future commitments including by means of a budget surplus.[11] That surplus is best measured exclusive of purely temporary income (such as receipts from the sale of formerly state-owned companies) and taking account of the state of the economic cycle. A surplus that is purely cyclical would be offset by deficits in downturns leaving no net surplus over the economic cycle from which to fund future liabilities.

The approach to policy outlined here also leaves room for discretionary use of fiscal policy in the face of a major downturn. However, the build-up of very large public debts in Europe in the 1970s and 1980s has caused discretionary fiscal policy to fall somewhat out of favour. This is partly because of the serious technical problems associated with appropriate magnitudes and timing. Also, it is in the nature of a discretionary policy that it is unrestricted and so it may be deployed in a way that is not

10 See Fahey and Fitz Gerald (1997).

11 The Department of Finance estimates that meeting the extra pension and health costs due to ageing would involve setting aside annually sums of the order of 3.5 per cent of GNP.

consistent with the policy's objective. For example, Irish fiscal policy has long been pro-cyclical, adding to demand during economic booms while subtracting from demand during recessions.[12] Nonetheless, the principle that fiscal policy may be used to dampen the economic cycle, easing the adjustment in each direction, is clear.

Although fiscal policy can ease adjustment to disturbances it cannot make such adjustment unnecessary. For example, the oil price increases of the 1970s rendered many energy-intensive businesses permanently uncompetitive and this required a permanent structural change in the economy. No fiscal policy could allow an economy forever to escape that adjustment.

4.4 ADJUSTING TO DISTURBANCES: THREE SCENARIOS[13]

It is helpful for policy-makers, the social partners and the wider public to discuss the steps that would be called for by serious shocks to the Irish economy. The purpose of discussing certain scenarios is not to forecast the future but to highlight the relationship between the state of the economy, the tools of stabilisation (fiscal and labour market policies including competitiveness) and the goals of maintaining employment and living standards in ways that promote social cohesion.

How might a small economy be affected by a major economic disturbance and what should be the response of policy makers? Three kinds of possible disturbance are discussed in this section.

First, there could be a currency shock such as a large sudden fall in the value of sterling. Second, there could be a reduction in demand for European (including Irish) goods. Third, there could be a purely domestic shock to the Irish economy. Each possibility is considered briefly in turn. Special mention is made of the housing market because of the risk that an economic shock could be considerably

12 See Duffy, Fitz Gerald, Kearney and Shortall (1997:62).

13 Some of this section draws on two ESRI studies, Baker *et al*. (1996) and Duffy *et al*. (1999).

aggravated by the susceptibility of the present levels of house prices to an economic downturn.

4.4.1 A Sharp Decline in the Value of Sterling

One concern about Ireland's decision to participate in EMU is the absence from the euro, at least initially, of Ireland's largest single trading partner, the UK. Questions have been raised about the ability of the Irish economy to adapt smoothly to a sudden large fall in the value of sterling comparable with the difficult experience of the 'currency crisis' of 1992-1993.

An important point to stress, however, is that currencies do not change abruptly in value for no reason whatsoever.[14] On the contrary, long-run currency movements mostly reflect relative economic performance. For instance, the drop in the value of sterling and of the Italian lira in 1992, after these currencies left the Exchange Rate Mechanism (ERM), followed a prolonged loss of competitiveness relative to Germany for which the currencies' fall was one way to restore competitiveness. The two factors must be considered jointly. In the case of Ireland, the gain in competitiveness in the years before 1992 (when inflation was much lower in Ireland than in the UK) must be allowed for, as well as the loss of Irish competitiveness when sterling left the ERM. This approach shows that the total impact of the 1992 fall in sterling, however severe, was less negative for Ireland than a 'pure' fall in sterling without the prior gain of competitiveness. One lesson for today is that as long as the UK economy manages to avoid a return to a boom-and-bust cycle, the likelihood of a sudden large depreciation of sterling must be judged not to be very great.[15]

In its *Medium-Term Review 2000-2005*, the ESRI had the following to say about the risks of a fall in sterling:

14 Even a catastrophic loss of confidence, although certainly very damaging (such as the crisis afflicting Asia and other regions in 1997-1999), should not be permanent if there are no substantive problems affecting the economy in question.

15 A thorough analysis of the range of preparatory actions available to Irish companies exposed to sterling movements is set out in Forfás (1998).

> [Since 1996] sterling has appreciated strongly against the Irish pound, leaving the UK currency somewhat overvalued …there thus remains a considerable safety margin allowing an appreciation of the Irish pound (euro) to take place without all the serious consequences which the 1996 study [*Economic Implications for Ireland of EMU*, Baker *et al.*, 1996] examined. It is only if sterling were to fall significantly below parity that the effects would begin to be serious. Even then the adjustment that has taken place in the Irish economy, with a significant reduction in employment in the vulnerable sectors, means that the possible exposure to such a sterling shock is lower than it appeared in 1996 (Duffy *et al.*, 1999).

Notwithstanding these considerations, what might the impact on the Irish economy be of a sharp fall in sterling? In its 1996 study, the ESRI described the necessary response to shocks as follows: "In the absence of a change in exchange rates the only way for competitiveness to be restored in the face of a serious shock will be for prices and wages to adjust by a temporary change in the rate of inflation." (Baker *et al.*, 1996:105).

The ESRI presented evidence that Irish prices and wages would adjust sufficiently in the medium term to changes in exchange rates to restore competitiveness. However, the period of adjustment is long: up to three years in the case of prices and four years in the case of wages. The danger is that some firms, with their profitability squeezed by the adverse movement in the price of what they sell compared to the price of the labour and materials they buy, might not survive through the adjustment period. The larger the number of firms so affected, the greater the permanent impact of the sterling decline on the Irish economy. The smaller the number of bankruptcies, the nearer the Irish economy would be restored to its starting point.

While the adjustment is taking place, Irish growth would slow and jobs would be lost. However, a sharp drop in the value of sterling would also cause UK inflation to accelerate, thereby partly eroding the UK's initial gain in competitiveness. The Irish authorities could allow fiscal policy to compensate somewhat for the downturn in the economy, especially if the initial budgetary position was one of surplus.

4.4.2 A Shock Affecting the EU Including Ireland

A second possible disturbance would be one that affected all of the EU economy including Ireland. Consider a significant drop in demand for European including Irish goods. This could originate in a financial crisis in one region of the world, for instance, a very sharp fall in the US stock market, or a sharp tightening of monetary policy by the European Central Bank (ECB), or other causes. Such a shock would have a number of consequences. The fall in external demand for Irish goods would reduce Irish exports and employment in the exporting sectors. Unemployment would increase and inward migration would slow (depending on the severity of the downturn, net emigration might resume). Irish households, faced with greater uncertainty about incomes and jobs, would save more causing a decline in domestic demand that would impact primarily on the indigenous sector of the economy. The public finances would deteriorate because falling employment and spending would reduce tax revenues and add to public spending, including debt interest.

If the source of the shock were a financial crisis outside the EU, which the authorities wished partly to offset, interest rates could be lowered by the ECB. There might also be some loosening of fiscal policies at the EU level, although this would be limited by the high stock of public debt. On the other hand, an economic slowdown brought about as a matter of policy would not lead to offsetting macroeconomic policy measures.

For Ireland, the impact of this disturbance would depend on a number of factors. The size of the initial shock and the degree of partial offset by EU policy would clearly be important. Much of the adjustment to the disturbance would fall on Irish prices and wages which, as in the case of a currency shock, would adjust over the following three to four years to restore overall Irish competitiveness. The impact of the disturbance on the Irish housing market would be crucial; this is discussed in more detail in section 4.4.4 below.

Duffy *et al*. (1999) have sought to quantify the impact of a number of possible negative shocks to the Irish economy. This work is based on the ESRI macroeconomic model of the Irish economy and assumes that the external shock would have a sharp impact on the Irish housing market, causing prices to fall and house building to slow significantly. For example, it is estimated that if US equity prices fall by one-quarter this would – through its impact on the international economy and, in particular, on US multinational investment in Ireland – cause Irish GNP growth to slow by some three percentage points (to a growth rate of 1.5 to 2.5 per cent). The unemployment rate in Ireland would rise by three percentage points (compared to the baseline of no shock) and the balance on the public finances would deteriorate by 1.5 to 2.0 per cent of GNP. Although very unpleasant, the shock would be temporary and economic performance would recover after some three to four years.

The same authors estimate that a temporary but sharp tightening of euro monetary policy – a two per cent rise in interest rates – would cut Irish GNP growth also by some three percentage points. The unemployment rate would rise by two per cent and the fiscal balance would deteriorate by about 1.5 per cent of GNP. These magnitudes assume that the rise in interest rates would produce a significant downturn in the Irish housing market and hence a much more severe recession in Ireland than would be caused elsewhere in the EU. This issue is taken up in section 4.4.4 below.

Fiscal policy could partly offset some of the disturbance to the Irish economy especially if the Irish public finances started with a healthy surplus. Appropriate wage bargaining would also be crucial.

4.4.3 An Ireland-Specific Shock

Finally, there is the possibility of a disturbance that has an impact mainly on the Irish economy. In contrast to the previous two cases, a *positive* shock (that boosts the economy) is considered. A possible cause could be a very large expansion of an important segment of the foreign-owned industrial sector in Ireland.

Such a shock would expand Irish exports, employment and living standards and improve the state of the public finances. Depending on the initial amount of unused capacity in the economy, for some time there could be a sufficient number of workers with the right training to produce the extra goods and services in new or existing production plant. These facilities could be furnished with locally produced or imported capital equipment and the goods shipped to customers using the available transport infrastructure. However, if (as in 1999) firms encountered shortages – whether of suitable labour, of plant and equipment, or of infrastructure – the resulting rise in the price of inputs, including wages, would push up the firms' costs and begin to erode competitiveness.[16]

In contrast to the negative shocks discussed previously, adjustment to a positive shock produces upward pressure on prices and wages that generally meets less resistance than the downward adjustment required by negative shocks. If the market is left to itself, prices will rise, competitiveness will be lost and investment discouraged until the original demand disturbance has been dampened down to the point where supply can meet demand.

However, as the economic history of recent decades has illustrated, a temporary upward adjustment of wages and prices can, if it develops into a generally held expectation of future inflation, produce a prolonged wage-price spiral. This erodes competitiveness well beyond what is needed to eliminate the initial bottlenecks and shortages and, ultimately, threatens an economy with loss of production and employment.

As Fitz Gerald *et al*. (1999:101) argue:

> What is important is that the adjustment towards a higher, market-clearing wage does not feed into excessive expectations in the future … [Otherwise] if and when there is a significant slowdown in the economy we could find that the loss of competitiveness, which had occurred gradually over a period of years, would result

16 This process is sometimes called an appreciation of the real exchange rate. The real exchange rate is said to rise even when a country has no independent currency because higher prices with an unchanged currency value is identical to a higher currency value with unchanged prices.

> in an actual loss of employment in a more difficult external environment. If wages and prices were to rise above their long-term sustainable level, albeit under short-term market pressures, the long-term consequences could prove very serious for all involved … [since] it is extremely difficult to wind down/reverse any increase in real wage rates.

These authors also consider the quantitative impact of a period of excessive wage increases in conjunction with congestion caused by a shortage of infrastructure. Their estimate is based on a scenario in which wages in the Irish public and private sectors were to rise by one per cent each year faster than assumed for the ESRI *Medium-Term Review* (Duffy *et al*. 1997) forecast and costs in the private sector rise by an additional two per cent per annum (because of congestion and shortages). The effect is to slow Irish GNP growth by 1.5 per cent per year so that unemployment in 2010 is four percentage points higher than otherwise.

Therefore, careful management of an economic boom is crucial. Either the bottlenecks must be cleared away or the shortages will inevitably force up prices and wages. An uncontrolled spiral would be seriously damaging to the economy. This would be especially true for an economy in a monetary union in which a serious loss of competitiveness could not be restored (as was possible in the 1970s and 1980s) by subsequent compensating downward adjustment to currency values.

It would be possible for fiscal policy to dampen some of the disturbance without avoiding the need for adjustment elsewhere in the economy too. For example, by running a budget surplus, the boom in the private sector could be restrained, thereby giving more time for measures to deal directly with the shortages and bottlenecks. Wage bargaining procedures would also have an important role. A competitiveness-oriented pay policy would help by managing the adjustment of wages to the initial economic boost, and by ensuring that pay increases, that might have only temporary relevance because of labour shortages, did not become too rigid.

4.4.4 The Housing Market and a Shock to the Economy

The housing market both influences and is affected by the overall state of the economy. Links include the impact of housing conditions on consumer behaviour, on wage formation and on the banking industry and, in the other direction, the impact of employment growth or monetary policy decisions on housing conditions.

A particular danger is that of a bubble in house prices. The term ‘price bubble’ describes a situation where purchases are motivated mainly by expected future increases in prices rather than the fundamental value of the item itself. In housing this can happen because, when prices accelerate and threaten to move beyond the reach of participants in the market, buyers tend to extrapolate current price trends into the indefinite future. Buyers may conclude that they risk being locked out of owner-occupation for ever. This belief can produce panic buying of houses that exacerbates the original escalation of prices and gives a further twist to the spiral. For an interval the bubble feeds on itself. However, as a matter of logic, no single good or asset can rise in price indefinitely, because eventually its price would become infinite. At some stage the expectation of continued price increases is undermined and, if there is nothing to sustain them at those levels, prices will fall, perhaps sharply. This drop would be exacerbated by any delayed arrival of extra housing supply or by any recession caused by tight monetary policies aimed, amongst other things, at squeezing inflation out of the housing market. Such house price bubbles occurred in the late 1980s and early 1990s in many countries including the US, the UK, Japan and Scandinavia.

Kenny (1998) has examined, from a theoretical and an empirical perspective, the connections between the housing sector and the rest of the Irish economy. He notes that “sharp variations in house prices have tended to be associated historically with both macroeconomic instability as well as problems in the banking sector in many countries” (Kenny, 1998:13). Kenny, as well Bacon *et al*. (1998), have noted the initial mismatch between the increase in housing supply and housing demand in Ireland (although house building has since accelerated considerably). As housing supply catches up with demand, "it is reasonable to expect that house prices will overshoot their equilibrium level and then subsequently decline somewhat" (Kenny, 1998:62). This volatile pattern of 'overshooting'[17] can pose a threat to overall macroeconomic stability. It also has important implications for the distribution of income and wealth, as land and property owners and parts of the building industry gain at the expense of new entrants to the housing market.

The example of Britain and more particularly London at the turn of the 1990s offers a sobering picture of the dangers of volatility in the housing market. Muellbauer (1991:6) paints a picture of deep-seated structural problems in the British housing market that he characterises as a form of "destructive addiction [to] what, in essence, is land speculation". He notes that house prices are inherently unstable (prone to overshooting) because housing supply is slow to match changes in housing demand. However, these cyclical swings are made more severe by the further stimulation of housing demand resulting from "the British obsession with providing incentives for owner-occupation" combined with the restriction of housing supply resulting from "planning controls on land use [which] are some of the tightest in Europe" (Muellbauer, 1991:5). This led to an unsustainable rise in British home ownership. The final result was that, between 1990 and 1996, some 400,000 UK households or almost one million people had their homes repossessed by lending institutions.

A number of the structural characteristics that Muellbauer and others identify in the UK housing market would also seem potentially to apply to Ireland. This leaves the Irish housing market as a source of potential vulnerability in current macroeconomic management. A fall in house prices is not envisaged under a continuation of normal economic conditions. However, a severe negative shock to the Irish economy could have effects that would be much more serious than otherwise, and worse than elsewhere in

17 Overshooting in house prices describes the process whereby the delay in supply matching demand causes prices first to rise beyond their eventual equilibrium level before later falling back.

the euro-zone, if it triggered a fall in house prices and revealed that there had been a bubble in the Irish housing market. This consideration makes it all the more important that decisive progress be achieved in resolving the shortage of accommodation evident in Ireland today.

4.4.5 Lessons for Policy

The discussion of these scenarios suggests four main general policy conclusions. First, the impact of a currency shock on the Irish economy would be lessened to the extent that pricing and wage-setting behaviour adapted relatively rapidly to the need to moderate price and wage increases in order to restore competitiveness. Second, in order to be able to partly offset the impact of a negative shock to the Irish economy, fiscal policy should aim to maintain substantial overall budget surpluses at close to present levels. Third, under conditions of very strong economic growth that place upward pressure on wages, economic policy should seek to ensure that income expectations do not outstrip the capacity of the economy to meet pay demands, thereby jeopardising future employment and prosperity. Finally, a bubble in house prices would greatly increase the vulnerability of the economy to outside shocks. Economic stability would be improved by bringing housing supply further into line with housing demand.

4.5 POLICIES TO RAISE THE ECONOMY'S SUPPLY CAPACITY AND EFFICIENCY

Demand-side macroeconomic policies can help the economy to adjust to disturbances but they do not permanently raise national income above its potential level. On the other hand, successful supply-side policies, by increasing the potential of national income, offer the basis for sustained improvements in living standards, and are therefore the appropriate focus for economic policy over the longer term.

In addition to increasing the stock of productive resources in the economy, there is the objective of using those resources efficiently.

This aim may be promoted in a general fashion through competition policy as well as by special measures to encourage efficiency in the use of infrastructure, such as the road network, the water distribution system and other facilities subject to congestion.

The supply capacity of an economy depends on the productive resources that are available and on how successfully they are used to produce goods and services. The most important categories of productive resource are: the size and skills of the labour force; the volume of private plant and machinery; the stock of public infrastructure; and the ability to develop and apply knowledge and modern technology. It is customary to think of all of these resources (other than the numerical size of the labour force) as forms of capital and to call them, respectively, human capital, private capital, public capital and knowledge capital. In addition, increasing attention is now given to the contribution to economic and social well-being of 'social capital'. This term covers those assets that strengthen the network of relationships and shared values that allow a community, independently of the market and the government, to act on its own behalf (Sweeney, 1999:31-36).

The trend increase in the labour force is in large part determined by social attitudes relating to the birth rate and to the participation of parents in the paid labour force. In contrast, increases in the types of capital mentioned above depend on *investment* in the economy. An adequate rate of investment is necessary in order to expand the stock of private, public and knowledge capital and to finance improvements in human skills through the education system. However, in an economy operating at close to full capacity, it may not be easy to further increase investment because the necessary resources may already be employed producing goods and services elsewhere in the economy. A primary reason for the exceptional present performance of the Irish economy is the strong increase in each of these different types of capital during the 1990s.

A policy of attracting FDI to Ireland has led to a rapid increase in the stock of private capital, especially in manufacturing. Also, because of the concentration on certain high-tech industries, the policy has significantly extended the understanding and use of modern technology (knowledge capital) in the economy. The state's long-term policy of expanding the education system has raised the educational standard of new entrants to the workforce. These policies have also interacted in a beneficial way. The availability of staff with high levels of human capital has attracted greater levels of foreign investment, while the expansion of such industries has encouraged students to make full use of educational opportunities. The funding of public infrastructure partly under the EU Community Support Framework has produced a substantial rise in the stock of public capital. In addition, the fiscal correction of the late 1980s, by reducing and then eliminating public borrowing for current expenditure, released funds for investment. Finally, the moderate wage policies pursued over the same period made business activity in Ireland rewarding and attractive.[18]

The appropriate future policy in these areas is considered in greater depth in later chapters of this report. Income policy and the operation of the labour market are discussed in Chapter 6. The relationship of the education system to economic growth is discussed in Chapter 7. Policy towards industry and enterprise is examined in Chapter 8. The provision of additional infrastructure is analysed in Chapter 10.

In regard to income policy, labour productivity typically rises each year, spurred by advances in technology, by the increase in the number of better-educated workers in the labour force and by new investments that increase the capital available to the work force. Wages can therefore also rise each year without increasing unit costs and without causing prices to rise, as long as the increase in wages does not exceed the annual increase in productivity *correctly measured*. For Ireland, more than most countries, it is crucial that productivity, especially industrial productivity, be carefully measured. Honohan *et al*. (1998) show that, for parts of Irish industry, measured output (and therefore raw productivity statistics) are badly distorted by profit-shifting transfer-pricing policies.

18 A fuller explanation along these lines of the 1990s Irish growth experience may be found in Bradley, Fitz Gerald, Honohan and Kearney (1997).

Without correcting for such factors, it would be easy to seriously overestimate Irish national productivity.

Thus, in the long-term, the policy aims of stabilisation, growth and social justice require investment to expand the supply potential of the economy. In the short-term, fiscal policy can help to dampen the severity of economic upswings and downswings. The next section, therefore, considers the development of fiscal policy in the 1990s and especially since the Council's last strategic review in 1996.

4.6 FISCAL POLICY AND THE PUBLIC FINANCES

The setting of fiscal policy and the maintenance of competitiveness continue to be responsibilities of national policy-makers under EMU. Given the linkage between the state of the public finances and the scope for a counter-cyclical fiscal policy, this section reviews the evolution of the public finances during the 1990s.

4.6.1 The Evolution of Public Expenditure During the 1990s

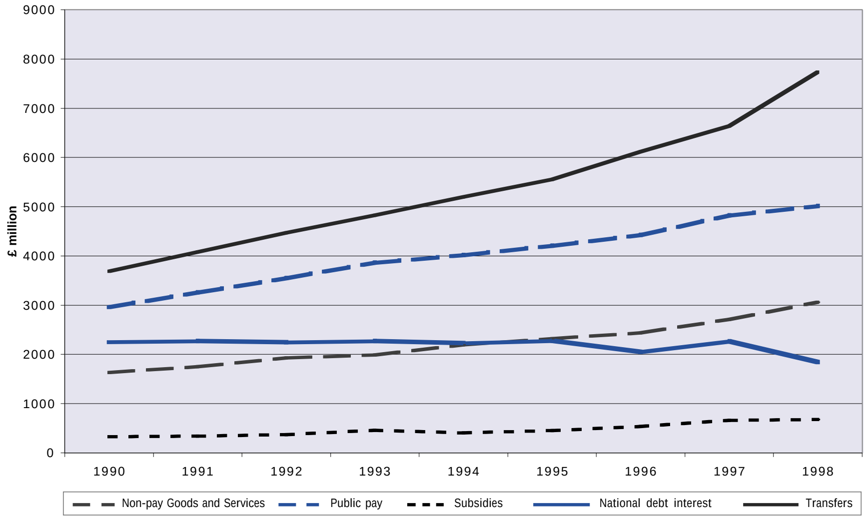
4.6.1.1 Nominal Current Spending

The recent trend in the main categories of public current spending is presented in Figure 4.1. The strong upward movement is apparent. However, since the rate of increase was broadly in line with the growth of the economy, the spending was financed from rising tax revenues without significant recourse to public borrowing.

Transfers (that is, pensions and other payments not related to work), public pay, purchases of goods and services by the public sector and subsidies all show a strong upward trend. In contrast, spending on debt interest was mostly flat and has fallen since the mid-1990s.

FIGURE 4.1

Nominal Public Current Spending 1990-1998



Source: Tables 19-21 of CSO (1999b), *National Income and Expenditure 1998* and Department of Finance.

Public pay accounts for a high proportion of total public spending. Increased expenditure on public pay could arise from higher pay *rates*, additional public *employment* or structural changes such as extra public holidays, increased employers' PRSI or extra overtime working. The Department of Finance estimates that, in the past ten years, about two-thirds of the increase in the Exchequer pay and pensions bill is due to pay *rate* increases.

In international terms, the share of pay in public spending in Ireland is high. For example, in 1996 (the most recent year for which internationally comparable statistics are available) staff pay accounted for 89 per cent of current Irish spending on primary and secondary education, as against 82 per cent in the OECD area in general (OECD, 1998c:129). Thus, 11 per cent of public education expenditure in Ireland is devoted to the non-pay costs of education whereas the OECD average is 19 per cent. One of the reasons for the high pay share in Ireland is that Irish teacher salaries are very high by comparison with other countries. For example, at the upper secondary-level, an Irish teacher with 15 years of service earned the equivalent of $37,150 in 1996, compared to an equivalent OECD average of $26,500 (OECD, 1998c:274).

Similarly, there has been a quite extraordinary rise in public spending on the Irish health services in the 1990s. Total current expenditure increased from £1.4 billion in 1990 to £3.2 billion in 1998 and a forecast £3.4 billion in 1999 (Department of Finance, 1999). Although throughput in the health services has certainly increased, it is not clear that the addition to the service is commensurate to the additional spending.

The Council believes that these issues deserve deeper investigation and it proposes to return to them later as part of its work programme.

TABLE 4.1

Annual Percentage Increases in Current Public Spending 1990-1998

	1990 £m	**1998 £m**	**Annual % Change**
Non-pay Goods and Services	1628	3059	8
Public Pay	2963	5013	7
Subsidies	324	678	10
National Debt Interest	2250	1842	-2
Transfers	3686	7733	10
Total	**10850**	**18325**	**7**

Source: Tables 19-21 of CSO (1999b) *National Income and Expenditure 1998* and Department of Finance.

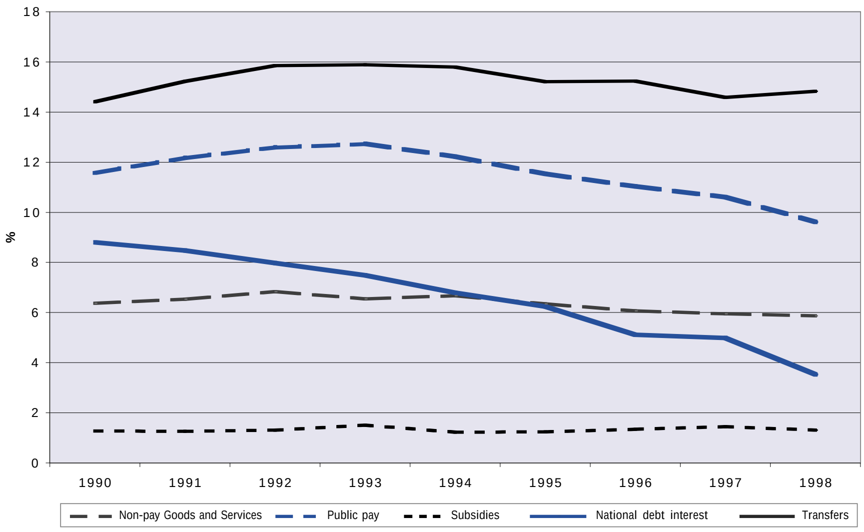
Table 4.1 presents spending data for 1990-1998 in terms of nominal (compound) annual growth rates. Public pay rose by seven per cent per year in the 1990s. Three of the other main categories of spending rose more rapidly, purchases of goods and services by eight per cent and subsidies and transfers by 10 per cent per year. An annual two per cent fall in debt interest expenditures held down the growth rate of annual total public current spending to seven per cent.

4.6.1.2 Current Spending as a GNP Share

These spending figures may also be viewed in terms of the share of national income (GNP) devoted to the spending programmes, as shown in Figure 4.2. Debt interest has fallen sharply this decade, from nine per cent of GNP in 1990 to under four per cent in 1998. The other categories of spending rose initially in the early-1990s but have generally declined since the mid-1990s. This contrast with the nominal spending trends reflects the exceptional rate of growth of the Irish economy in the 1990s.

FIGURE 4.2

Public Current Spending as a GNP Share 1990-1998



Source: Derived from CSO (1999b), *National Income and Expenditure 1998* and Department of Finance.

4.6.1.3 Real Improvements and Disimprovements in Public Services

Adding up over all of the programmes, total current public expenditure, at 35 per cent of GNP, was seven percentage points of GNP lower in 1998 than in 1990. The decline in the interest bill on the national debt contributed most to this reduction.

The expenditure figures reported above are nominal values. As with any cash magnitude, they are not necessarily a good indicator of the real change in the services being provided in return for the money spent. To attempt to measure the improvement or disimprovement in services, the nominal spending changes must be adjusted for the general level of inflation (as measured by the GNP deflator) as well as for a 'relative price' effect. The latter factor, stated simply, is any difference in the inflation rate prevailing in the public sector compared to the economy generally.[19] If inflation is faster in the public sector than in the economy generally, the *relative price* of public services increases, implying that there has been a smaller improvement in public services than would be suggested by adjusting the spending figures for the GNP deflator alone.

The results of such calculations are presented in Table 4.2.[20] The first and last columns show the GNP share spent on each programme at the start and the end of the period. Total spending is reported as the Gross Total on the second-last line of the table. (The 'net total' shows spending after deducting programme-linked receipts such as PRSI payments and certain fees.) These figures are not directly comparable with those of earlier sections of this chapter mainly because of the exclusion from Table 4.2 of expenditure on national debt interest.[21] In overall terms, the share of current public spending in national income stood at just over 30 per cent in 1998 down from 32 per cent in 1990.

In the period 1990-1998, (gross) nominal spending rose by 7.7 per cent annually. The annual inflation rate of the GNP deflator was 3.4 per cent. Therefore, there was an increase in deflated spending of 4.2 per cent each year. Adjusting for the divergence between

19 The treatment of productivity in the public sector, and especially any improvements or disimprovements in productivity, may have a substantial impact on the measurement of the relative price effect. This is the main qualification to the measurements reported and is discussed further below.

20 The methods used are described in OECD (1976).

21 For example, the annual growth rate of total current spending is given as 7.7 per cent in Table 4.2 but as 7.0 per cent in Table 4.1. A further reason for the difference is that the functional analysis of public spending is drawn from budgetary figures which are recorded on a cash basis, whereas the earlier breakdown was drawn from national accounts records which are prepared on an accruals basis.

national and public sector inflation (at 0.9 per cent) produces a rise in real spending of 3.2 per cent per annum. These calculations would suggest that there was a substantial real overall improvement in the quantum of public services in Ireland during the 1990s. At a functional level, there was considerable variation, ranging from a 9.0 per cent annual improvement in housing to a 7.6 per cent real reduction in subsidies.[22]

TABLE 4.2

Decomposition of the Growth of Public Current Spending 1990-1998

Functional Spending Categories	Initial GNP Spending Share	Nominal Spending	GNP Deflator	Deflated Spending	Relative Prices	Real Spending	Final GNP Spending Share
	1990	Annual % growth rate					1998
Economic Services	2.8	8.5	3.4	4.9	0.9	4.0	2.8
Health	5.7	10.6	3.4	6.9	0.7	6.2	6.6
Education	5.4	8.2	3.4	4.6	0.7	3.9	5.1
Social Welfare	11.9	6.4	3.4	2.9	-1.1	4.0	9.9
Housing	0.1	11.5	3.4	7.8	-1.1	9.0	0.1
Subsidies	0.7	-5.5	3.4	-8.6	-1.1	-7.6	0.2
Social Services	23.7	7.7	3.4	4.1	-0.2	4.3	21.8
Security	3.2	7.1	3.4	3.5	0.9	2.6	2.8
Other	2.4	6.7	3.4	3.2	0.9	2.3	2.7
Gross Total	**32.1**	**7.7**	**3.4**	**4.2**	**0.9**	**3.2**	**30.2**
Net Total	24.0	6.4	3.4	2.8	0.9	1.9	23.4

Source: Derived from Department of Finance (1999), *Revised Estimates of Public Services 1999* using OECD (1976) methodology.

An important statistical caveat concerning the measurement of real changes in public services is the treatment of productivity in the

22 The negative values in the ‘relative prices’ column for social welfare and housing correspond to *less rapid inflation* for the consumption deflator than the public sector deflator thereby magnifying (rather than reducing) the value of public expenditure for these spending categories.

public sector. In the absence of measures of service output it is impossible to gauge such productivity changes. The statistical convention used by the Central Statistics Office is to assume that there has been no change in productivity (in either direction).[23] In other words, extra public servants are assumed to produce extra services but existing public servants who are paid extra money are assumed to undertake the same work but at greater cost.

A key aspect of public expenditure developments is whether improvements in public services have been commensurate with the additional spending. In this regard, the Government decided in 1997 to establish a review of all public spending over a three-year period. To date, this has led to the undertaking of some 40 Expenditure Reviews that have sought to evaluate value for money in different areas of public expenditure. The remaining Reviews are scheduled for completion by April 2000. Although these reports are not intended for publication, they are intended to encourage Government Departments to examine and reflect on the relationship between the cost and the benefit of their activities. As the Reviews become more sophisticated, increasingly useful information should result and be made available to the public.

4.6.1.4 Nominal Investment Spending

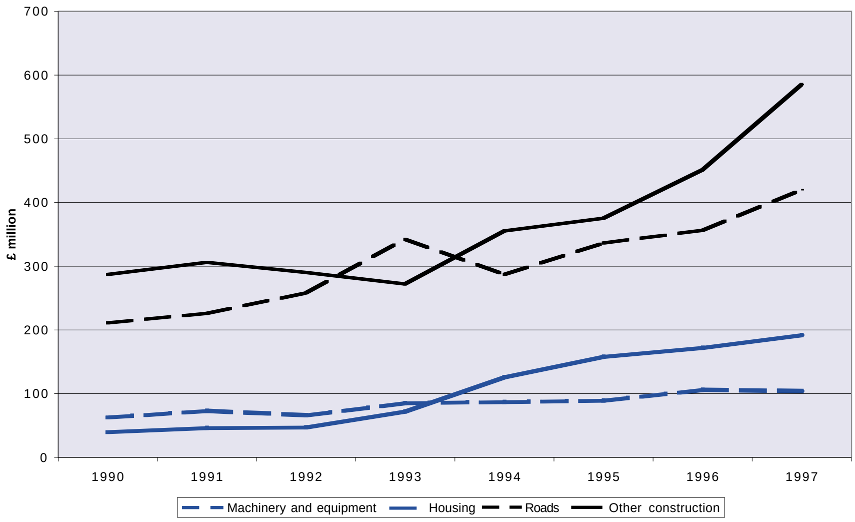
Public investment in the 1990s, presented up to 1997 (the latest available year) in Figure 4.3, has increased strongly though from a very low base. In cash terms, capital spending in 1990 was lower than in 1980 because the late-1980s correction in the public finances fell disproportionately on the capital account. In 1997, investment spending was more than twice as large in cash terms as in 1990. Indeed, these figures may understate the extent of the recovery if the quality of public investment improved during the 1990s partly because of the more stringent tests that had to be met by projects financed from the EU Community Support Framework. Purchases of machinery and equipment have been relatively stable in the 1990s. Expenditure on roads and (non-residential) construc-

23 This is the convention used in preparing the public expenditure deflators used to calculate the ‘relative price’ figure.

tion has doubled while that on housing has quadrupled, as Figure 4.3 shows.

FIGURE 4.3

Nominal Public Investment Spending 1990-1997



Source: Tables 25-27 of CSO (1999b), *National Income and Expenditure 1998*.

TABLE 4.3

Increases in Nominal Investment Spending 1990-1997

	1990 £m	1997 £m	Annual % Change
Machinery and equipment	63	104	6
Housing	40	192	22
Roads	211	420	9
Other construction	287	585	9
Total	**601**	**1301**	**10**

Source: Derived from Tables 25-27 of CSO (1999b), *National Income and Expenditure 1998.*

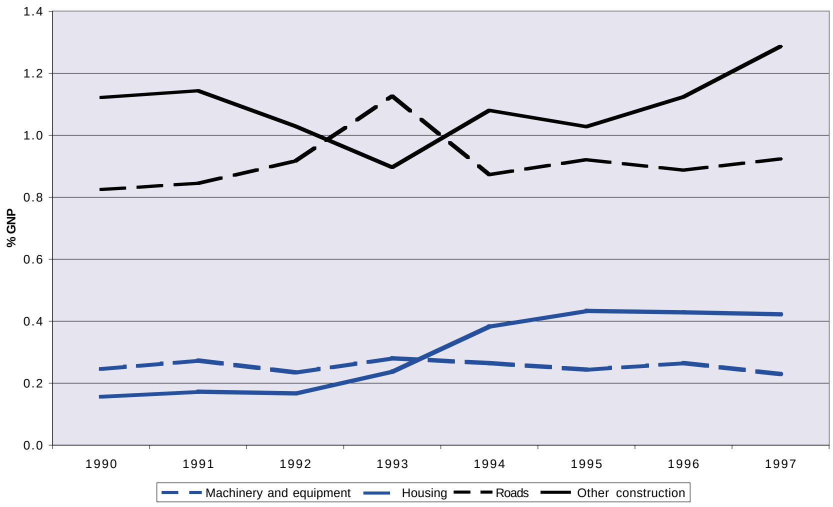
The same statistics are presented in terms of (compound) annual growth rates in Table 4.3. It shows that since 1990 public investment spending has grown by 10 per cent each year with housing spending over this period rising by an annual 22 per cent.

4.6.1.5 Public Investment as a GNP Share

Figure 4.4 shows that public investment at the start of the 1990s was low relative to GNP (2.3 per cent), having been as high as 5.5 per cent in the early 1980s. Taking the figures at face value (ignoring any improvement in the quality of investment), overall public investment rose very gradually in GNP terms to 2.9 per cent in 1997.

FIGURE 4.4

Public Investment Spending as a GNP share 1990-1997



Source: Derived from Tables 25-27 of CSO (1999b), *National Income and Expenditure 1998.*

4.6.1.6 Summary of Public Expenditure Trends

The statistics presented above may be summarised as follows. In the 1990s, current spending rose strongly. After allowing for economy-wide and public sector inflation, spending grew by 3.2 per cent per annum (Table 4.2). The share of current public expenditure in GNP stood above 50 per cent in the 1980s but had fallen to 35 per cent by 1998. Some of the fall is attributable to the decline in the interest bill on the national debt. A further influence is the changing demographic structure. As the share of children and pensioners in the population has fallen and unemployment has been substantially reduced, the cost (as a GNP share) to the Exchequer of important social expenditure programmes has diminished. However, the most important contributing factor is that very rapid economic growth has permitted absolute increases in spending in cash terms in conjunction with reductions of the share of national income devoted to these programmes.

4.6.2 Fiscal Out-Turn since the last Strategy Report

The Council's last strategy report, *Strategy into the 21st Century*, set out nine objectives for the development of the Irish public finances.[24] These fall into three groups: targets that have unambiguously been fulfilled; those that have not been fulfilled; and those where it is unclear how much progress has been made.

Three objectives have undoubtedly been attained: (1) adherence to the Maastricht Treaty and the Stability and Growth Pact; (2) a further fall in the debt/GDP ratio; and (3) a reduction in debt-servicing costs. Credit for these achievements could perhaps be divided between a highly favourable external economic environment and a now widely-shared desire amongst policy-makers and society at large to avoid any recurrence of the fiscal problems of past decades.

Two objectives have not been accomplished: (1) reform of public pay bargaining; and (2) a lower rate of public spending growth.

It is perhaps unclear how much progress has been made in regard to four other objectives: (1) improved public expenditure management; (2) a medium-term consensus-based programme of reform; (3) tax reform; and (4) additional spending on unemployment and social polarisation. However, in regard to the last two of these, the expenditure (including tax expenditure) commitments made under *Partnership 2000* have been met but their effectiveness in reforming the structure of the tax system and in reducing social exclusion is more questionable. Assessment of progress towards these objectives is complicated by the qualitative way in which the targets are framed.

24 NESC (1996a) chapter 14, section 2 (iii).

BOX 4.2

Public Finance Theory: One Way to Assess the Appropriateness of Public Spending

The appropriateness of a particular level of public spending is not a question that admits of a 'scientific' answer. About such an inherently political choice, there are widely divergent opinions for which careful arguments have been offered. These can only be reconciled, if at all, by an appeal to the desirability of certain economic and social objectives and to the effectiveness of particular means for achieving them. Nonetheless, without some framework, it is difficult to judge the appropriateness of spending trends.

'Optimal public finance theory' offers one approach. It distinguishes between two broad categories of public spending: public goods and income redistribution. ('Public goods' are services that, if supplied at all, must be provided to everyone; a classic example is national defense. A wider definition of public goods would extend to expenditures on health and education; this could be motivated both by social objectives such as inclusion or citizen rights as well as the economic objective of equipping a productive labour force.) From such a perspective, what quantity of public goods should be supplied? That depends on two considerations: (i) the public's demand for such services; and (ii) the 'deadweight' costs of the taxes needed to finance public services.

The latter factor arises because the application of a tax to a good or to an activity (such as work) leaves the after-tax price higher than the before-tax price. At the higher prices, consumers buy less and the taxed sector of the economy contracts. Taxes are said to be *distortionary*; they discourage the production and consumption of the items taxed. This does not mean that there should be no taxes. Rather, it suggests that in circumstances where the deadweight costs of additional taxation are particularly high, it is optimal to provide a smaller quantity of public goods than could be offered if taxes were less distortionary.

The other consideration in determining the optimal level of public spending is consumer demand. However, a major practical problem is to establish true consumer tastes for public services. People reveal their demand for private goods by the amount they are willing to buy at prevailing prices. But for goods provided by the state without a charge at the point of use, how is consumer demand to be determined? Moreover, demand depends on price; consumers would demand different quantities of public goods at different prices even if that price were paid indirectly through the tax system. Therefore, according to the optimal public finance perspective, if the existing levels of services and taxes reflect consumer tastes, then an argument for a *change* (up or down) would rest on demonstrating that there had been a change in the demand for public services or a change in the deadweight costs of taxation.

The other strand of public spending redistributes some income from the rich to the poor. The extent of such redistribution will depend on two new factors: (i) the strength of social solidarity and (ii) the number of people eligible for support. In this model of redistribution, the scale of transfers (and the level of taxes) would be higher where there is more social solidarity and higher incapacity or unemployment, and would be lower the greater the magnitudes of the factors that determine the deadweight costs of taxation.

To sum up: public good provision should be higher the greater is the demand for public goods, and should be lower the greater is social solidarity, the number of people eligible for support and the costs of taxation. Transfers should be higher the stronger are social solidarity and the number of claimants, and should be lower the greater is the demand for public goods and the costs of taxation.

A fuller presentation of the approach sketched here is to be found in Flemming and Oppenheimer (1996).

It is easier to judge progress where the Council advanced explicit fiscal targets[25]:

- a debt to GDP ratio of 70 per cent by 1999;
- a reduction in the public deficit to not more than 1.5 per cent between 1997 and 1999;
- real tax reductions representing at least 0.5 per cent of GDP each year;
- current public spending strictly limited to a 2.0 per cent real increase; and
- an action programme for social inclusion.

The first three objectives were achieved well ahead of the target dates proposed. The debt/GDP ratio fell to 70 per cent in 1996 and was further reduced to 52 per cent by the end of 1998. The government deficit declined to 0.5 per cent of GDP in 1996 and was converted into a *surplus* of 2.3 per cent of GDP by 1998 (Department of Finance, 1998a). There have been income tax reductions amounting in total to some £1.5 billion in the Budgets of

25 NESC (1996a) chapter 14, section 2 (iv).

1997, 1998 and 1999. This corresponds to some 2.5 percentage points of 1999 GDP.

As regards the objective of social inclusion, the National Anti-Poverty Strategy (NAPS), launched in April 1997, set out a number of central objectives. The 1998/99 Annual Report on Social Inclusion, published in July 1999, noted that key objectives for 2007 had been substantially achieved by 1998 (NAPS, 1999). In particular, the number of people in consistent poverty had been reduced by about one-third, unemployment and long-term unemployment had halved, and the income adequacy target had been reached. Although these objectives were considered by some to be modest, the speed of their attainment is remarkable.

These achievements are all the more striking because of the substantial margin by which the remaining fiscal target – the two per cent indicative spending ceiling – was breached. In the period 1996-1999 gross current non-interest spending is set to rise by nine per cent per annum.[26] Subtracting the estimated average annual GDP inflation rate over the same period (2.8 per cent)[27] leaves a real annual spending increase of some six per cent, three times faster than the Council's recommendation of a strict limit of two per cent.

That the debt, deficit and tax reduction targets put forward by the Council could still have been more than met, despite this higher than planned absorption of national resources by public spending, testifies to the very powerful expansion of the Irish economy in the middle to late-1990s. Nonetheless, a smaller part of national income was available than otherwise to be directed towards the other objectives set out by the Council.

4.7 MEDIUM-TERM FISCAL PROSPECTS

To provide a basis for its fiscal policy recommendations, the Council has made the following tentative projections of the fiscal

26 Department of Finance (1999), *Revised Estimates for the Public Services 1999*, Table 9.

27 Department of Finance (1998a), *Stability Programme 1999-2001*, Tables 1 and 3.

position to the year 2005 under a number of different scenarios (see the notes to the Table in Box 4.3). In the upper panel of the Table it is assumed that real economic growth and inflation are a steady five per cent and two per cent per annum respectively, giving nominal GNP increases each year of seven per cent.[28] Nominal public revenues rise almost in line with economic growth (6.5 per cent) and there is substantial public investment equal to five per cent of GNP throughout the period.

Although these assumptions represent a reasonable conjecture about future economic performance, they are not in any sense a forecast. The evolution of the fiscal balance then hinges on the real rate of increase in current public expenditure. As may be seen from the upper panel of the Table, if real current spending growth is less then real GNP growth – say four per cent a year – the 1999 overall surplus of two per cent would gradually edge upwards to reach four per cent by 2005. But if public real current spending rises faster than GNP – say by six per cent a year, which has been the trend during the 1990s – the budget stabilises at a one per cent surplus. The proposed public pension fund would reduce the net surplus by a further percentage point while leaving the underlying position unaffected.

The lower panel of the Table in Box 4.3 shows the evolution of the public finances with the same spending assumptions but slower economic growth. Real growth at a rate of 2.5 per cent – very respectable by both international and historical standards – combined with real current spending increases of four per cent a year would produce a balanced budget in 2003-2005. On the other hand, six per cent real current spending growth would imply a large deficit of four per cent of GNP by 2005 (before taking account of the pension fund), breaching by a wide margin the terms of the Stability and Growth Pact.

28 These assumptions are in line with those used in the official long-run projection of the Irish public finances published in the *Long-term Issues Group Paper* (Department of Finance, 1998b). They also broadly accord with the forecasts of the ESRI *Medium-Term Review 2000-2005* which assumes average GNP growth of 5.0 per cent and increases in the consumption deflator averaging 2.9 per cent over this period.

BOX 4.3

Projected Overall Fiscal Surplus/Deficit to 2005

Scenario A						
	5% real economic growth rate					
Surplus/deficit (as % GNP)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
With 4% real current spending growth	2	2	3	3	4	4
With 6% real current spending growth	1	1	1	1	1	1

Scenario B						
	2.5% real economic growth rate					
Surplus/deficit (as % GNP)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
With 4% real current spending growth	2	2	2	0	0	0
With 6% real current spending growth	1	0	–1	–2	–3	–4

The assumptions used to prepare the projection of the budgetary position in the above Table are as follows.

Economic Variables

GNP is assumed to grow by 5.0 per cent or by 2.5 per cent each year from 2000 to 2005.

Inflation is assumed to be 2.0 per cent per annum throughout the period.

Current Revenue

- Nominal tax revenues rise in line with nominal GNP (7.0 per cent in the top panel, 4.5 per cent in the bottom panel) which is equivalent to holding constant the average tax rate ;
- non-tax revenues evolve in line with inflation;
- social insurance contributions (PRSI and levies) rise proportionately to nominal GNP but only 80 per cent as quickly; and
- other current receipts remain constant in cash terms.

Current Expenditure

- Central Fund non-interest expenditure (mainly Ireland’s contribution to the EU budget) remains at 1.5 per cent of GNP throughout; debt servicing is taken as the 1999 level adjusted for envisaged debt repayment on which the interest rate payable is the present average of 8.0 per cent until 2002 and 7.0 per cent thereafter;

- public pay and pensions increase at a *real* rate of 4.0 or 6.0 per cent per year;
- non-pay spending (calculated on a gross basis, inclusive of PRSI and levy receipts) also rises in real terms by 4.0 per cent or 6.0 per cent each year.

Capital Expenditure

Public investment under the National Development Plan is assumed to be 5.0 per cent of GNP throughout the period. Due to the fall in capital receipts from the EU, there is a sharply rising borrowing requirement for public investment purposes.

Definition of Overall Fiscal Surplus/Deficit

The 'overall' fiscal balance is the current account surplus less the net capital deficit (capital expenditure less capital – mostly EU – receipts) without regard to the allocation of 1.0 per cent of GNP to a dedicated public pension fund.

Baseline Data

The 1999 baseline data (not shown above) are taken from the *Budget 1999 Statistics and Tables* and the *Revised Estimates for the Public Services 1999*, updated according to the end-September 1999 Exchequer Estimates statement.

The magnitudes in the Table of Box 4.3 must be treated cautiously. The projections are simple, mechanical extrapolations. There may also be inconsistencies between the different assumptions.[29] The calculations rest on sustained growth. Higher spending or lower taxes in any year would lower the surplus both directly and, by reducing debt repayment, also indirectly. However, the trends are probably a reasonable guide to one possible path for the public finances in 2000-2005.

The 'surpluses' of Box 4.3 do not represent a complete picture of the Irish public finances. This is because of the use of cash accounting (rather than accruals accounting) in the Government's accounts. The contrast between the two accounting systems can be illustrated with the example of a pension scheme that is created for the staff of a new government agency, funded on an actuarial basis from contributions deducted from the salaries of the newly-

29 For example, if the surpluses were instead used to cut taxes or further raise public spending, such a substantial boost to domestic demand, coming on top of already fast growth, might not be consistent with the assumption of a constant moderate inflation rate of two per cent.

appointed staff. A *cash*-accounting system would record the inflow of contributions but ignore the future liability and so record a 'surplus' in the accounts. An *accruals*-accounting system would record both the inflow of cash and the new future liability. Such accounts would show no surplus since the inflow and the liability would exactly cancel if the salary deductions were actuarially appropriate. In July 1999, the Financial Management Working Group proposed to the Implementation Group of the Strategic Management Initiative (SMI) that, amongst other reforms, a norm of accruals accounting for management accounting in the civil service be implemented over a five-year horizon.

In the case of the Irish public accounts, until very recently there were at least two significant off-budget liabilities. One was the old-age pension scheme. The cost of such pensions is set to rise substantially in the first half of the next century. Until 1999, no funds were being put aside to pay these pensions. Without pre-funding, either taxes would have to be increased in the future to pay for the pensions or the value of the pension would have to be reduced to fit the public revenues. Similar issues arise in regard to public service pensions. The cost of these schemes will begin to rise early in the next decade as some of the public servants employed in the recruitment drive of the 1970s begin to reach retirement age. Therefore, the Council welcomes the announcement in 1999 by the Government to allocate revenues equal to one per cent of GNP to a dedicated fund to begin to provide for the state's future liabilities in regard to social welfare pensions and public service pensions.

Funding these liabilities will be costly. But the case for putting aside funds for these purposes is strong during a period when the economy is likely to grow rapidly. This avoids the otherwise much more difficult choices in the future that might cause hardship later for taxpayers or pensioners or both. Moreover, it seems reasonable that these and any other liabilities should also be recorded in the public accounts. While official budgetary records are prepared in accordance with EU regulations – which at the moment do not make allowance for such liabilities as future pension payments – there would be a smaller risk of the scale of the underlying surpluses being overestimated if unfunded liabilities were also reported, perhaps in a set of satellite accounts.

4.8 CONCLUSIONS AND RECOMMENDATIONS

The Council notes that most of the explicit objectives proposed for fiscal policy in 1996-1999 were achieved well ahead of the target dates proposed, although public expenditure growth has been more rapid than was envisaged in 1996. The Council believes that a key aspect of public expenditure is whether improvements in public services have been commensurate with the additional spending. This question is not easily answered using currently-available statistics; these should be considerably improved, particularly in regard to the measurement of the quantum of public sector output.

Although the extra spending has been much greater than the two per cent real rate envisaged by the Council at the time of its last Strategy in 1996, rising tax revenues have financed the spending additions without extra recourse to public borrowing. Nonetheless, if these spending increases were to continue against a background of much slower economic growth, the health of the public finances would be seriously weakened.

In making recommendations for fiscal policy in the period 2000-2002, the Council seeks to avoid two dangers. One would be to use the proceeds of economic growth in a short-sighted way. This would involve temporarily boosting incomes and public spending on the basis of an assumed continuation of exceptional conditions, without funding the infrastructural investment and other measures essential to sustaining Ireland's economic performance. A second danger, in the Council's view, is an over-emphasis on longer-term factors that could unwittingly jeopardise the necessary consistency of approach by appearing to withhold justifiable improvements in economic rewards, while also postponing measures to tackle an evident imbalance between economic and social development in Ireland.

4.8.1 Budget Balance

The Council believes that, while growth remains strong, policy should aim to maintain substantial overall budget surpluses (excluding privatisation receipts) at close to present levels. Reasons for running a large fiscal surplus under present conditions include: avoiding a further stimulus to demand to prevent overheating; providing funds for public infrastructure investment, leaving fiscal policy with room for manoeuvre should there be an unexpected and serious deterioration in the economy; and repaying some of the debts incurred when the economy was weak in the past. The credibility of Irish economic policy would also be enhanced, thereby maintaining the confidence of domestic and foreign investors in the medium-term prospects of the Irish economy.

The Council welcomes the announcement by the Government to allocate revenues equal to one per cent of GNP to a dedicated fund to begin to provide for the state's future liabilities in regard to social welfare pensions and public service pensions.

4.8.2 Current Expenditure

The Council believes that, over the three years to 2002, the real increase in public expenditure should, at a maximum, correspond to the real growth rate of GNP. Allowing current public spending to grow by a rate no greater than the increase in GNP implies a significant slowdown on the trend increase in spending during the 1990s if, as expected, the economy grows more slowly in the period ahead. If the previous increases were to continue against a background of slower growth, the health of the public finances would be seriously weakened. The proposed objective is nonetheless consistent with significant increases in the volume of public services, especially on a cumulative basis. If spending is targeted at priority programmes, the scope for expansion would be greater still. From a strategic perspective, the Council believes that the present very favourable climate should be used to implement reform of the structure, management and financing of public expenditure programmes. This would help to place Irish public services on a sound basis for the next century.

4.8.3 Capital Expenditure

The Council considers that the priority in public investment spending is a major construction programme of physical infrastructure including accelerated development of the national road and public transport system and a significant increase in the housing stock. The new physical infrastructure should include both economic and social elements. Accordingly, the Council welcomes the broad thrust of the National Development Plan.

4.8.4 Tax Strategy

Allowing current spending to grow by rates no greater than the increase in GNP also implies keeping the present share of tax in GNP broadly unchanged. However, given the healthy state of the public finances, and the tendency for uncorrected 'fiscal drag' to cause public revenues to grow faster than the economy, there is scope for further tax reductions while holding the tax-take as a GNP share close to present levels. This opportunity should also be used to reduce the remaining undesirable features of the tax regime, especially the relatively high taxation of low incomes.

4.8.5 Public Sector Pay

Given the close association between public service pay and public expenditure, the Council believes that reform of the current system of public service pay determination is an important priority. It is a necessary element of wider public service reform to meet society's expectations of high-quality public services and to recruit and retain the necessary personnel. A greater emphasis on the relationship between public service pay and performance is a key dimension of reform. Some decentralisation of pay management and responsibilities to Government Departments and agencies is likely to be a necessary component of a more efficient pay determination system, which must also be consistent with the desired evolution in public expenditure.

4.8.6 Social Inclusion

Following a number of Budgets in which income taxes have been cut and overall public spending raised, there is a strong case for giving increased priority to social inclusion within public spending.

Consistent with these aims, the Council in this Strategy report advocates a three-pronged approach to problems of poverty and exclusion, covering social welfare, mainstream public policy programmes and a special investment package. If Ireland's economic performance should evolve very differently to current forecasts, for better or worse, a key test of social partnership would be its ability to evaluate the new situation and modify the medium-term strategy without losing sight of the longer-term vision. In particular, in any changes made to the strategy it would be important to balance the impact on current spending programmes that add to productive capacity, those that improve inclusiveness, and those that represent other forms of public consumption.

In the context of priorities, the Council, taking a global perspective, believes that Ireland's much higher national income of recent years would permit a considerable improvement in the resources provided in aid to the developing world.

CHAPTER 5

TAXATION

5.1 INTRODUCTION

Tax reform was the central component of the Council's *Strategy into the 21st Century*. The Council's tax proposals were informed by the following objectives:

(i) the creation of employment and the reduction of unemployment;

(ii) the need to underpin continued wage moderation by sharing the fruits of growth; and

(iii) the need to support investment.

The primary objectives of this chapter are to review recent tax policy in view of the Council's previous recommendations and to identify future priorities for tax reform. Section 5.2 compares taxation in Ireland to other EU countries. Section 5.3 reviews tax changes since 1996. The priorities for future direction of tax policy are identified in Section 5.4, while the issue of environmental taxation is examined in Section 5.5. The main conclusions and recommendations are presented in Section 5.6.

5.2 THE TOTAL TAX BURDEN AND COMPOSITION OF TAXATION

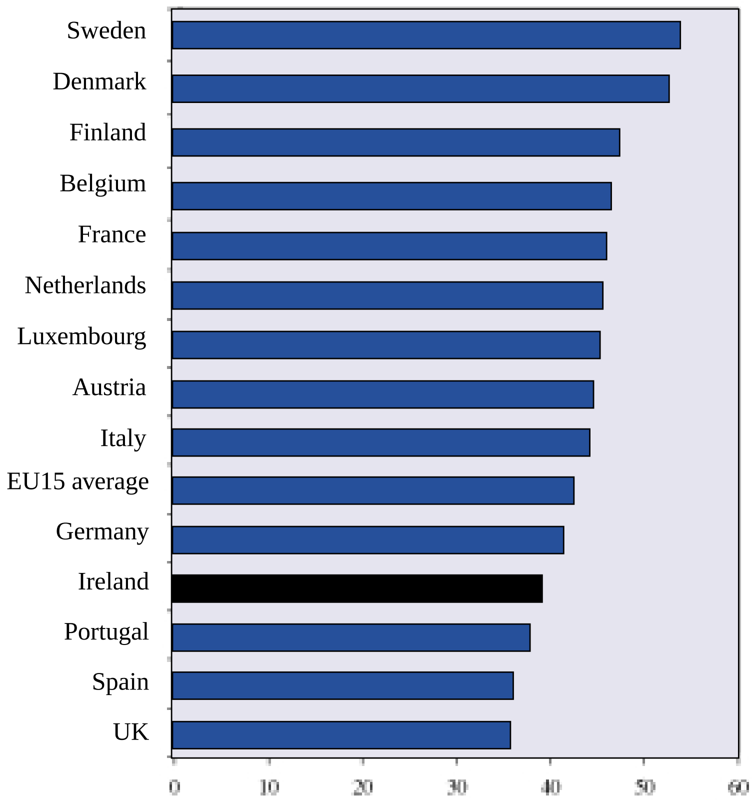
By EU standards the tax burden in Ireland in 1997 (39.2 per cent of GNP) was relatively low, with only the UK, Spain and Portugal (Greece not available) having a lower tax burden (see Figure 5.1).[1]

1 Tax is expressed as a percentage of GNP for Ireland and GDP for the other EU countries. There are two primary factors responsible for the difference between GDP and GNP in Ireland: the profits of overseas companies and interest payments on the foreign debt component of the national debt. In respect of the profits of multinational companies to a limited extent these are part of the tax base, since they are subject to 10 per cent corporation tax (more in the case of non-manufacturing companies). Thus, to some extent taxation as a percentage of GNP is an overstatement of the tax burden in Ireland, but it is the best available measure.

Over time, the composition of tax revenue in Ireland has become more similar to other EU countries, but some differences persist. The share of taxation accounted for by personal tax in Ireland (31.3 per cent in 1996) was above the EU average (26.0 per cent). The Irish tax system relies significantly less on social security contributions (13.5 per cent) compared to the EU average (28.9 per cent) and also less than the UK (17.3 per cent). There is significantly more reliance on indirect taxes in Ireland (39.7 per cent) compared to the EU (31.2 per cent). The share of tax revenue accounted for by property taxes in Ireland (4.8 per cent) is similar to the EU (4.4 per cent) but less than the UK (10.6 per cent).

FIGURE 5.1

Total Tax Revenue as a Percentage of GDP, 1997



Source: Eurostat and Department of Finance for Irish figures. In the case of Ireland tax is expressed as a percentage of GNP.

5.3 TAX REFORM IN RECENT YEARS[2]

In *Strategy into the 21st Century* the Council recommended that a specified proportion of GDP should be allocated to tax reductions and that these reductions should be targeted to those on low to middle incomes. In order to achieve this the Council argued that the priority should be given to increasing personal allowances rather than reducing tax rates. In relation to the tax base, the Council emphasised that the tax base should not be eroded by the proliferation of new reliefs. It was recommended that restrictions be placed on the value of existing discretionary reliefs and that there should be wider application of the standard rating of discretionary tax reliefs. Finally, the Council called for an early decision on the future of the corporation tax regime.

5.3.1 Average Tax Rates

Under *Partnership 2000* the value of personal tax cuts has been almost £1,500 million. The impact of these tax reductions on average tax rates for a single taxpayer and a one-earner couple at a range of income levels is shown in Appendix Table A5.1. These average tax rates are based on the income tax and PRSI paid by an individual on various percentages of average industrial earnings in 1999 and the equivalent level of real income in earlier years.[3] It can be seen from Appendix Table A5.1 that the reduction in average tax rates since 1996 was greatest in percentage terms for those on low incomes. For a single person on 50 per cent of average earnings, there was a decline in the average tax rate of over seven percentage points, compared to a decline of around four percentage points for a single person on 250 per cent of average earnings. When measured

2 The analysis of tax changes in this chapter was completed before the 2000 Budget.

3 The measure of average industrial earnings used is gross earnings for all industrial workers in manufacturing industry. This was equal to £278.08 per week in 1997 which is approximately £14,460 per annum. It is assumed that average industrial earnings increased by six per cent in 1998 and by five per cent in 1999 to give an estimated level of average industrial earnings of £16,094 in 1999. The equivalent level of real income was then calculated for earlier years using the CPI. This approach involves measuring tax reductions against a benchmark of indexing the tax system against inflation.

in real money terms,[4] the gains have been higher for those on high incomes, with a gain of £1,547 for a single person on 250 per cent of average industrial earnings, compared to a gain of £574 for a single person on 50 per cent of average earnings.

The decline in taxation under *Partnership 2000* represents a continuation of a trend since 1987: in most of the years since 1987, average tax rates have fallen. Again, the gains in percentage terms have been greatest for those on average and below average incomes. For example, for a single person on average industrial earnings, there was a decline in the average tax rate of 16 percentage points between 1987 and 1999 compared to a decline of just over 12 percentage points for a person on 250 per cent of average industrial earnings. In real money terms, the gains have been considerably greater for those on higher incomes. Between 1987 and 1999, a single person on average earnings had a real decline in his/her tax bill of £2,549 compared to a decline of £5,008 for a person on 250 per cent of average earnings.[5]

The 1999 Budget produced substantial tax cuts for those on low incomes. The key change in that Budget was the standard rating of personal allowances and their subsequent increase. The standard rating of allowances means that these allowances are of equal value to both standard and higher rate taxpayers. The subsequent increase in the standard-rated allowance produced a tax saving of £300

4 The procedure adopted in calculating tax changes in real money terms was as follows. First, the tax liability in nominal money terms was calculated for an individual on various percentages of average industrial earnings in 1999 and the tax liability and on the same level of real income in earlier years. The nominal tax liabilities for years before 1999 were then adjusted using the CPI so that they could be compared to the 1999 tax liabilities.

5 It is important to note that the changes in money terms given in the text refer to change in real terms. In nominal terms, a person on 250 per cent of average industrial earnings in 1999 paid two per cent more tax than a person on the equivalent real income in 1987 while over the same period the CPI rose by 34 per cent. This implies a substantial reduction in real money terms. A single person on average earnings in 1999 paid 20 per cent less tax in nominal terms compared to what would have been paid at the equivalent real income in 1987 and there was a decline of 60 per cent in real terms. However, since the amount of tax paid by the person on average earnings is less than that paid by a taxpayer on 250 per cent of average earnings, the decline in real money terms is also lower.

(single) or £552 (one-earner couple). This resulted in higher gains in percentage terms for those on low incomes paying tax at the standard rate only. The number of those exempt from tax as a percentage of total tax units increased from 22.9 per cent in 1998/99 to 27.2 per cent in 1999/2000. PAYE taxpayers are now exempt from tax if their increases are not more than £100 (single) or £180 (married, one-earner). For those over 65, single taxpayers are exempt from income tax with increases of not more than £125 and married couples are exempt with income of not more than £250 (see Appendix Table A5.4).

5.3.2 Marginal Tax Rates

For most taxpayers marginal tax rates have declined by between two to four percentage points since 1996 (see Appendix Table A5.2). However, for some low income taxpayers the decline in marginal tax rates was substantially higher, with a decline of almost 18 percentage points. This was due to a substantial increase in personal allowances that has greatly reduced the incidence of the 'marginal relief' system for low income employees. Over the longer period since 1987, there have been substantial reductions in marginal tax rates at all income levels.

5.3.3 The Tax Wedge

The trend in the average tax wedge in Ireland is shown in Appendix Table A5.3. The tax wedge is defined here as income tax plus employee and employer social security contributions as a percentage of gross labour costs. The decline in the tax wedge since 1996 has been fairly similar to the decline in average tax rates, with the largest decline in the average tax wedge in percentage terms for those on low incomes. For a single person on average industrial earnings, the tax wedge declined by around six percentage points since 1996. Over the longer period from 1987 to 1999 the tax wedge declined by almost 20 percentage points for a single person on average industrial earnings.

5.3.4 The Income Tax Base

The Council has on many occasions expressed its concern at the multitude of discretionary tax reliefs in the system. These reliefs can encourage activity that is considered desirable for economic or social policy reasons. However, the proliferation of discretionary tax reliefs erodes the tax base and the effective progressivity of the tax system.

TABLE 5.1

Discretionary Tax Expenditures

Allowance/Relief	**Estimated Full Year Cost**		
	Numbers	**£m**	**Year**
Relief in respect of medical insurance premiums	464,000	68.2	(2000/01)
Health expenses relief	86,500	24.3	(1997/98)
Employees' contributions to approved superannuation schemes	—	154.0*	(1996)
Employers' contributions to approved superannuation funds (net of pension payments)	—	266.0*	(1996)
Exemption of the income of approved superannuation funds (net of pension payments)	—	42.0*	(1996)
Retirement annuity premiums by self-employed	83,500	74.0	(1999/2000)
Mortgage Interest Relief	435,000	174.3	(2000/01)
Miscellaneous interest	6,100	6.5	(1996/97)
Exemption of interest on savings certificates, national instalment-savings and index-linked savings bonds	—	24.5	(1996/97)
Exemption from tax of certain social welfare payments:			
Child benefit	—	70.0*	(1997/98)
Maternity allowance	—	6.1*	(1997/98)

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TABLE 5.1 – *continued*

Discretionary Tax Expenditure

Allowance/Relief	Estimated Full Year Cost		
	Numbers	**£m**	**Year**
Exemption from tax of certain social welfare payments:			
Child benefit	—	70.0*	(1997/98)
Maternity allowance	—	6.1*	(1997/98)
Exemption under approved share option schemes		39.0	(1997/98)
Investment in corporate trades (BES)	4,200	45.0	(1997/98)
Urban Renewal (CT+IT)**	—	57.0*	(1998)
Rented Residential Accommodation (CT+IT)	—	26.2*	(1996/97)
Investment in Films (S.35) (CT+IT)	7 companies & 1239 individuals	11.3	(1996/97)
Resort Relief	—	5.0*	(1996/97)

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* According to the Revenue Commissioners, these figures are particularly tentative and subject to a considerable margin of error.

** The costs shown above are tentative estimates of the cost of capital allowances derived from the Department of the Environment and Local Government's estimates of expenditure on new construction and refurbishment projects for urban renewal. These statistics do not include any estimate in relation to seaside resorts, island resorts, Custom House Docks and certain Temple Bar projects. In this table, CT = Corporation Tax and IT = Income Tax.

Source: Revenue Commissioners

There have been several changes in tax reliefs since 1996. A significant reform was the introduction of a limit of £25,000 per annum on the amount of capital allowances for investment in property that a passive investor can claim against non-rental income. Restrictions or anti-avoidance measures have been introduced in relation to the Business Expansion Scheme (BES), film relief, the double rent allowance that applies in designated areas, tax relief for scholarships, and 'stripping' of interest bearing securities. Following the first Bacon (Bacon *et al*, 1998) report on house prices, interest is no longer allowed as an offset against rental income from residential property. Tax concessions in relation to special savings and investment products have been reduced.

While some restrictions have been placed on existing reliefs, at the same time a wide range of new reliefs have been introduced. New tax reliefs that have been introduced since 1996 provide support for a wide range of activities. Examples include training courses in the areas of information technology and foreign languages, Employee Share Ownership Trusts (ESOTs) and Save As You Earn (SAYE) schemes, investment in private nursing homes and investment in the Irish white fish fleet. An exemption from income tax has been provided for the first weeks of disability benefit, in line with a commitment given in *Partnership 2000*. The provision of childcare facilities by employers is no longer subject to benefit-in-kind taxation.

Many of the new tax reliefs differ from those that have recently been restricted. Restrictions have been placed on opportunities for tax planning, such as property investments and BES. Some of the new reliefs, such as the tax relief provided for training courses in information technology are not of the same nature as say, a BES investment. Many of the new reliefs are available at the standard rate only. Nonetheless, the introduction of a wide range of new allowances makes it more difficult to achieve the objective of a fairer and simpler tax system. A listing of selected tax expenditures with the most recent estimates of the costs involved is provided in Table 5.1. This table illustrates that the level of tax expenditures continues to be significant.

5.3.5 Corporation Tax

Agreement has been reached between the Government and the European Commission regarding the future of Ireland's corporation tax regime. Under the agreement, a general rate of corporation tax will apply to all trading income from 2003, subject to some transitional arrangements. The Government has announced that the general rate of corporation tax for trading income will be 12.5 per cent.[6] This agreement is significant because it secures the

6 Non-trading income will be charged at 25 per cent.

continuation of an attractive corporation tax regime over the longer term. Progress has been made towards the objective of a general rate of uniform corporation tax of 12.5 per cent. The standard rate of corporation tax was reduced from 32 per cent in 1997 to 28 per cent in the 1999 Finance Act.

When the decision on the new rate of corporation tax was announced, the Tánaiste and the Minister for Finance stated that:

> While the cost of these reductions should be partly offset by buoyancy factors, it will be necessary to look very closely on an ongoing basis at all existing business tax reliefs and the continued rationale of some or all of these. The Government will also examine in depth the scope for revenue raising measures aimed at supplementing the revenue yield from the business sector to ensure that the business sector will continue to contribute an appropriate share of overall tax revenue (Joint Statement, 22/07/98).

A number of measures have been taken to partly offset the cost of reducing the rate of corporation tax:

- tax credits on dividends have been abolished since April, 1999;
- ‘scrip dividends’ (i.e. shares provided by companies instead of cash dividends) are now taxed in the same way as cash dividends;
- a withholding tax on dividends at the standard rate applies from April, 1999;
- the ceiling for employers’ PRSI contributions has been increased to £35,000; and
- it is intended to introduce a surcharge on certain undistributed trading income of closely-held companies.

5.3.6 Capital Taxation

The standard rate of capital gains tax (CGT) was reduced from 40 per cent to 20 per cent in the 1998 Budget. There are indications that the reduction in the rate has led to an increase in disposals and thus may benefit the Exchequer, at least in the short-term. The reduction in the rate of CGT may stimulate investment. However, there is now a very large gap between the higher rate of income tax and the rate of CGT; this increases the incentive to find ways of converting income into capital gains. The distributional impact of this change is to favour those on high incomes.

The general reduction in CGT does not apply to capital gains made on the sale of development land. However, since the publication of the first Bacon report the Government has legislated for a temporary reduction in CGT to 20 per cent in relation to disposals of land for residential development for the next four years. A 60 per cent rate will apply to disposals of such land after the four-year period expires. Exemptions and reliefs from CGT have been further extended in the past three years.

Several amendments have been made to the legislation on capital acquisitions tax (CAT); i.e. tax on gifts and inheritances. The general effect of these changes has been to provide additional relief from this tax. Perhaps the most significant change over recent years has been a further increase in the relief available for qualifying business and farming assets; this relief is designed to facilitate the transfer of family businesses and farms across generations. The rate of relief for qualifying business assets was increased to 90 per cent in 1997. This implies that a child can now receive a gift or inheritance of this type of asset of up to £1.929 million without incurring any liability for CAT. In addition, further relief from CAT has been provided where an elderly brother or sister inherits the family home. In this case the value of the inheritance is reduced by 80 per cent or £150,000, whichever is lower. A similar relief for the family home has been introduced when it is inherited by other close relatives.

The 1997 *Finance Act* abolished the limited residential property tax. Following the Bacon report, stamp duties have been reduced on houses up to £500,000 in value and the structure has been changed to favour owner-occupiers.

5.3.7 Indirect Taxes

A number of measures have been taken to counter tax avoidance in this area. These include measures in relation to VAT on internationally operated phone services and VAT on property. There has also been measures introduced to tackle illegal sale of cigarettes. All pre-school and childminding services have been made exempt from VAT. The rate of VAT on magazines has been reduced from 21 to 12.5 per cent. A scheme for the VAT treatment of investment gold has also been adopted.

5.3.8 Conclusions on Tax Changes Since 1996

Since 1996 there have been substantial tax reductions. The cumulative value of income tax reductions has been approximately £1,500 million so that the commitment to tax reductions in *Partnership 2000* has been exceeded. There has also been substantial corporation tax reductions. In its last Strategy report, the Council was concerned not only with the level of tax reduction but also the nature of such reductions. The Council's recommendation that tax cuts should be focused on those on low to middle incomes has been broadly met. In percentage terms, the reductions have been greatest for those on low to middle incomes. The standard rating of personal allowances has been introduced and the level of personal allowances has been considerably increased as recommended by the Council. Most of this increase in personal allowances (over two thirds) took place in the 1999 Budget. The overall effect of tax reductions since 1996 has been consistent with the approach outlined by the Council in its last Strategy.

Significant restrictions have been placed on the value of certain tax reliefs for higher income earners; this applies in relation to capital allowances and BES. This is consistent with the recommendation of the Council in its last Strategy report that a limit be placed on the individual value of most discretionary allowances or reliefs. However, at the same time a wide range of new reliefs has been introduced and existing reliefs extended. This is contrary to the advice of the Council. With some exceptions, the new and extended reliefs are of most benefit to higher income groups. It is clear that the principle of a comprehensive definition of income for tax purposes has not been accepted. Some tax reliefs may have desirable economic or social effects. However, the continued proliferation of new tax reliefs without any obvious guiding principle is a cause for concern. A significant agreement was reached with the European Commission concerning the corporation tax regime. From 2003, there will be a general rate of corporation tax of 12.5 per cent. Considerable progress has been made in moving towards this lower rate of corporation tax.

The general trend in the area of capital taxation has been to reduce the burden of tax in this area. The most significant changes have been the reduction in the standard rate of capital gains tax and the abolition of the residential property tax. The reduction in the rate of capital gains tax is of most benefit to those on high incomes and creates a strong incentive to convert income into capital gains. In addition, there have been several smaller reliefs granted from both capital gains tax and capital acquisitions tax. Changes in the area of capital taxation also illustrate that the principle of a comprehensive definition of income (which would include capital gains and imputed income from owner-occupied property) has not been accepted in policy.

5.4 POLICY PRIORITIES

5.4.1 Principles of Taxation

The Council's position on the future priorities for the tax system is informed by the following principles:[7]

- The tax system should facilitate economic growth and employment creation.
- 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

7 These principles draw in part on Forfás (forthcoming) and the Commission on Taxation (1982).

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, as a minimum, should not make it more difficult for firms to compete in domestic and international markets.
- Income from different sources should be taxed in an equivalent way.
- The tax system in general should be neutral. 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.
- PRSI contributions should be evaluated as taxes. The Council supports the continuation of earmarked social security contributions but believes that these contributions should be evaluated using the same criteria that apply to the evaluation of taxes.

A central objective of this Strategy is to address the co-existence of long-term unemployment and labour shortages. There are many dimensions to this problem and these are comprehensively discussed in Chapters 7 and 9. The most effective way that tax policy can help the long-term unemployed to benefit from Ireland's employment boom is to cut the tax burden on the low paid. Furthermore, on income distribution grounds, it is also desirable to direct tax reductions towards those on low incomes.

5.4.2 The Overall level of Taxation

The appropriate level of the total level of tax is considered in Chapter 4 in the context of the medium-term evolution of the public finances. As noted in that chapter, given the healthy state of the public finances and the tendency for uncorrected 'fiscal drag' to cause public revenues to grow faster than the economy, there is scope for further tax reductions while holding the tax-take as a share of GNP close to present levels.

The Irish economy is now in its sixth year of strong economic growth. Tax cuts have contributed to the strong economic growth that has been achieved. However, at the current stage of the economic cycle, the level and design of tax cuts need to take account of possible overheating of the economy.

5.4.3 Personal Taxation

The introduction of standard-rated personal allowances means that policy-makers now have a straightforward and transparent mechanism to implement tax reductions. Subsequent increases in the standard-rated personal allowance will provide an equal reduction to most taxpayers. Hence, an increase in the standard-rated personal allowance is an ideal mechanism to provide tax cuts both to those on low incomes and to the generality of taxpayers. To realise the full benefits of transparency and simplicity, it is desirable that standard-rated personal allowances should be converted to full tax credits. In his Budget speech on 2nd December, 1998, the Minister stated that it is his intention that future Budgets would complete the changeover to tax credits.

A further step would be to move to refundable tax credits. Under refundable tax credits, if a person’s tax liability is less than the tax credit, this difference is paid to the taxpayer. This would mean that all taxpayers would then derive equal benefit from an increase in tax credits.

A reduction in tax rates would provide a highly visible reduction in marginal tax rates for most taxpayers. A reduction in rates is one way of providing tax relief for second-earners who face a particularly high tax burden (see Section 5.4.4 on the tax treatment of marriage below). A reduction in the higher rate of tax may help to attract highly skilled workers who are internationally mobile, although other factors such as house prices may be of greater significance.

The distributional impact of reducing tax rates and increasing personal allowances is shown in Figure 5.2, using the ESRI tax-benefit model SWITCH. In this analysis, the standard rate is reduced by two percentage points and the other changes have approximately the same cost in terms of revenue foregone; this allows a reduction in the higher rate of tax of 2.7 percentage points and an increase in the personal allowance of £540 (single)/£1,080 (one-earner couple).[8] For the purpose of this analysis, the population is divided into ten groups of family units of approximately equal size (deciles) and the graph shows the average percentage change in disposable income for each decile. The bottom decile represents the 10 per cent of tax units with the lowest income and so on. The income of each family unit is adjusted to take account of family size and composition.

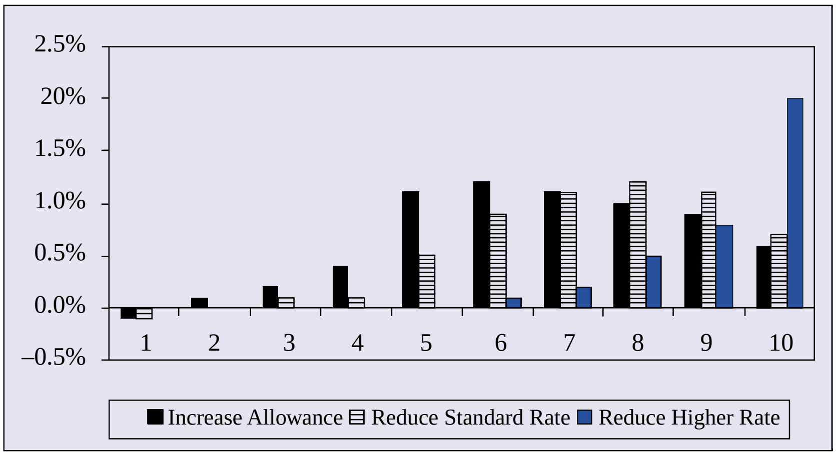
It can be seen that none of these changes have much impact on the lowest income deciles reflecting the fact that most family units in these deciles are not liable for income tax. The benefits of reducing the higher rate of tax are concentrated in the top three income deciles, particularly the top decile. It can be seen that a reduction in the standard rate produces benefits in the middle-income deciles, although an increase in the personal allowance has the most impact in the middle income deciles.

Another aspect of tax rates is the health contribution levy. This is a two per cent levy on all income, with an exemption for those earning less than £217 per week. The high exemption threshold helps those on low incomes although it also creates a discontinuity because once income exceeds the threshold, all income becomes liable for the levy. One advantage of abolishing this levy is that this discontinuity would be eliminated. Another advantage is that it would contribute to simplification of the system as it would reduce substantially the number of PRSI classes. A disadvantage of eliminating this levy is that there would be a substantial cost and little or no benefit to those on low incomes.

8 Each of these changes has a similar cost to the Exchequer in the SWITCH model. The estimated cost of tax changes to the Exchequer as estimated by SWITCH differs somewhat from but are close to the Revenue Commissioners' estimates.

FIGURE 5.2

Percentage Change inNet Income by Decile as a Result of Different Tax Changes



The Council attaches significant priority to an increase in the income level at which people become liable for the higher rate of tax. This can be achieved by an increase in the standard rate band.[9] In 1999/2000 almost 44 per cent of taxpayers are subject to the higher rate. This percentage has increased in recent years although the extent of such increase has been exaggerated by the removal of low-income taxpayers from the tax net. Since taxpayers who become exempt from tax would not previously have paid tax at the higher rate, this arithmetically increases the percentage liable for the higher rate. For this reason it would be more appropriate to state a target in terms of the percentage of tax units (i.e. including those exempt from tax that are subject to the higher rate).

The costs to the Exchequer of key tax changes are summarised in Table 5.2. It is clear that there are substantial costs involved. It is not possible to simultaneously and rapidly introduce all the changes that

9 Prior to the 1999 Budget, an increase in personal tax allowances reduced the amount of income liable to tax at the upper rate. However, an increase in the standard-rated tax allowance will only reduce a taxpayer's total tax bill but not the amount of income liable to tax charged at the higher rate. Therefore, to raise the level of income at which taxpayers become liable to the higher rate of income, it is necessary to widen the band of income for which tax is payable at the standard rate.

might be desired. Base broadening and the introduction of environmental taxes would facilitate the types of personal tax reductions that would be desirable.

TABLE 5.2

Cost to the Exchequer of Various Tax Changes for 2000/2001

	Full Year Cost (£million)
One Percentage Point Reduction in Standard Rate	110.6*
One Percentage Point Reduction in Higher Rate	78.2
Reduce Health Levy by One Percentage Point	246.5
Increase Exemption Threshold for Health Levy by £500	6.4
Increase Personal Allowance by £100 (Single)/£200 (Married)	38.6
Cost of Confining 80 per cent of Taxpayers to the Standard Rate/Marginal Relief	808.4
Cost of Confining 66 per cent of Taxpayers to the Standard Rate/Marginal Relief	383.0

Source: Revenue Commissioners.

* This assumes that the value of personal allowances is also reduced by one per cent as an automatic result of the reduction in the standard rate. If the value of personal and PAYE allowances is maintained, the cost is £191.8 million.

5.4.4 Tax Treatment of Marriage

The current tax treatment of marriage results in second-earners, who are typically women, facing a particularly high tax burden. This issue is of growing importance in the context of labour shortages. Under current tax arrangements, married couples receive double the allowances and bands of a single person. This applies to both one- and two-earner couples. Bands and allowances are transferable between spouses. These arrangements imply that when a second-earner (typically a woman) enters the workforce, the only additional allowance gained by the couple is an additional PAYE allowance of £1,000, since the first earner will already be entitled to a double allowance (and band). This implies that second-earners are taxed at a higher effective rate than any other group in the labour force. At the same time, the research evidence shows that the labour supply of married women is more responsive to financial incentives than any other group.

Options for addressing this problem were considered in the recent *Report of the Working Group Examining the Treatment of Married, Cohabiting and One-Parent Families under the Tax and Social Welfare Codes*. The most radical option is independent treatment of husbands and wives. This would mean that both spouses would be treated as single taxpayers, so there would be no difference in average tax rates between spouses (on the same income). Married women would benefit from a large reduction in their tax rate compared to the current position. The key disadvantage of a move towards independent taxation is that one-earner couples would experience an increase in their tax burden, since they would no longer have double allowances and bands. The introduction of independent taxation would also result in a significant increase in revenue. The ultimate impact of the change would depend on the use of this revenue. There are also intermediate options between full independence and full transferability. Most countries in fact lie between these extremes. It would be possible for example, to retain transferability of allowances but restrict transferability of tax bands. The report of the Working Group showed that approximately one-third of the cost is due to the transferability of bands rather than allowances. It is also possible to retain transferability for certain groups such as those with children and the elderly while restricting it for others.

The Group requested the ESRI to examine three options in this area. Each option involved restricting the transferability of the standard rate band. The three options comprised different ways of using this revenue. The first option was to use this revenue to increase Child Benefit. The second option was to use the revenue for a restructuring of child income support. This involved a parenting allowance of £30 per week for parents working full-time in the home, investment in pre-schooling up to age three and an increase in Child Benefit. The final option was to use the revenue for general income tax cuts. The first two options produced gains for the lower half of the income distribution while losses exceeded gains in the upper half of the income distribution. This reflects the fact that those in the lower half of the income distribution gained more from the increase in child-related payments than they lost in paying higher taxes. The distributional impact of the final option depends on the structure of the tax reductions but has little impact on the three lowest income deciles.

The Working Group was unable to reach a consensus on options in this area. Certain members of the group (including the Department of Social, Community and Family Affairs, the Combat Poverty Agency and the National Social Services Board) supported the redirection of some of the resources currently arising from the tax treatment of married couples to increased child-income support. However, the Department of Finance and the Revenue Commissioners were opposed to this as it would result in a greatly increased tax bill for some taxpayers. If restrictions on transferability were to be considered, the view of the Department of Finance and the Revenue Commissioners was that the resulting additional revenue would in the first instance be applied to a reduction in general income tax.

The main obstacle to restricting transferability of allowances or bands is that this produces very significant losses for one-earner couples. One way of improving incentives for second-earners without changing the incentives for one-earner couples is to increase the PAYE allowance. Second-earners derive the full benefit of an increase in the PAYE allowance because this allowance is not transferable. At the same time, one-earner couples and single people also benefit from an increase in the PAYE allowance.

A possible disadvantage of increasing the PAYE allowance is that self-employed taxpayers do not benefit. This could be addressed, if considered desirable, by extending the PAYE allowance to the self-employed. If the PAYE allowance were extended in this way, it would obviously no longer be the PAYE allowance. In the context of the issue of the tax treatment of marriage, the significant issue is that the PAYE allowance is non-transferable.

Another issue considered by the Working Group was the tax treatment of cohabiting couples. At present, the tax system does not recognise cohabitation so that cohabiting couples do not derive the benefits of transferability of tax bands and allowances. Capital taxes are also of concern to cohabiting couples. For the purpose of capital taxes, cohabiting partners are treated as strangers. The most significant implication of this is that the inheritance of a house by a cohabiting partner will result in a significant tax liability. The Working Group was "sympathetic in principle to changes in the tax legislation to address the issues raised relating to cohabiting couples" (p.11).

5.4.5 Property and Capital Taxation

The one form of property tax that exists in Ireland is the taxation of commercial property through commercial rates. The Council welcomes the Government's intention to introduce new legislation on the valuation of commercial property. There are advantages to basing commercial rates on land values or to taxing land values at a higher rate than the value of buildings. This would allow local authorities to share to some extent in the windfall benefits of the increase in land values without discouraging development. Indeed, taxing land values would discourage land speculation and encourage the efficient use of land. The approach of taxing land separately from buildings is well established elsewhere, including in several American cities (e.g. Pittsburgh). The feasibility of charging commercial rates separately on land and buildings should be examined.

The reduction in the rate of capital gains tax to 20 per cent provides an incentive to enterprise. However, it also provides a strong incentive to convert income into capital gains. The Council recommends that the new capital gains tax regime be monitored.

5.4.6 Indirect Taxation

The growth of electronic commerce has implications for the way in which business and consumer transactions are subject to indirect taxes. A recent report by the Revenue Commissioners (1999), *Electronic Commerce and the Irish Tax System*, identified VAT as the most urgent tax area that requires attention as a result of electronic commerce. The most significant problem arises in relation to the purchase by private consumers in Ireland of digitised products (i.e. a virtual product that can be downloaded over the Internet) from a non-EU based business. At present there is no VAT collected on such a transaction (see Revenue Commissioners, 1999, Table 4).[10] This is a cause of concern for two reasons. First, suppliers in the EU are at a competitive disadvantage compared to non-EU suppliers. Second, there is a threat to the VAT base. The level of such transactions is low at present but could grow rapidly. The solution to this issue is being discussed at EU level.

Another issue relates to transactions between EU countries in relation to digitised products. At present, these transactions are taxed in the country of supply. If the rate of VAT depends on the country of supply, then differences in VAT rates have an impact on trade patterns. The standard rate of VAT in Ireland is relatively high. The levying of VAT in the country of supply is contrary to the standard procedure in relation to VAT; generally VAT is levied in the country of consumption. EU guidelines state that in principle services supplied through electronic commerce should be taxed in the place of consumption but this is not yet reflected in the rules governing VAT. The Council supports the recommendation by Forfás (1999) that electronic commerce transactions should be taxed at the VAT rate in the country in which they are consumed. The options relating to the development of a VAT regime in Ireland that will best facilitate the growth of electronic commerce are being further studied by Forfás.

5.5 ENVIRONMENTAL TAXATION

5.5.1 Introduction

There is growing awareness of the need to ensure that economic development is consistent with environmental sustainability. Environmental taxes and charges represent one instrument for

10 In relation to physical products ordered by private consumers on the Internet from non-EU suppliers, VAT is collected by Customs at point of entry.

achieving this objective. Environmental taxes and charges are examples of ‘market-based instruments’. Other examples are tradeable permits and deposit-refund systems. The common feature of market-based instruments is that they provide incentives to encourage behaviour in line with environmental objectives. The alternative to market-based instruments is direct regulation, sometimes referred to as ‘command and control instruments’. Although to date environmental policy typically relies more on regulation than market-based instruments, there is growing use of market-based instruments across OECD countries.

Environmental taxes and other market-based instruments often offer a more efficient way of achieving environmental objectives compared to command and control instruments. One application of environmental taxes is to levy a tax on pollution emissions. Such a tax can achieve a given reduction in emissions at minimum cost, since polluters who face lower costs in reducing emissions will cut emissions by more than those facing higher costs. In addition, the presence of a tax provides an incentive to innovate to find less polluting methods of production. Environmental taxes can also be applied to products. An environmental tax on a product that has adverse environmental effects provides an incentive to produce and consume less of this product. The recent proposal to place a tax on plastic bags is an example of an environmental product tax. The long-established differential in favour of unleaded petrol is an example of an effective environmental tax incentive.

The incidence of environmental taxes and charges across OECD countries in 1997 is summarised in Table A5.5. It can be seen that the range of environmental taxes in Ireland is relatively low. Three types of environmental taxes (taxes on petrol, diesel and the sale/use of motor vehicles) generated over 91 per cent of all environmentally-related tax revenue in 18 OECD countries in 1995. This implies that revenue contributed by environmental taxes is not necessarily related to the range of taxes used. In the case of Ireland, the share of environmental taxes in total tax revenue is above the OECD average, despite the limited range of taxes used (OECD, 1999c). An interesting feature of the table is the relatively wide range of environmental taxes in a number of small European countries, including Belgium, Sweden and, in particular, Denmark. This illustrates that competitiveness considerations need not be an over-riding obstacle to the introduction of environmental taxes, although of course they must be carefully examined.

The Government has expressed its support for the development of market-based instruments including green taxation in a 1997 report, *Sustainable Development: A Strategy for Ireland* and this has been reaffirmed in the recently published *Green Paper on Sustainable Energy*. A small number of environmental taxation measures were introduced in the 1999 Budget and Finance Act. Most of these relate to traffic problems:

- the provision of rail and bus passes by employers is now exempt from benefit-in-kind taxation;
- tax incentives have been provided for park and ride facilities;
- the issue of benefit-in-kind taxation on car-parking space provided by employers is under review; and
- the Vehicle Registration Tax (VRT) on larger vehicles has been increased.

The first three of these measures, in particular, should contribute to reduced traffic congestion since they increase the cost of using private transport while simultaneously reducing the cost of using public transport. The VRT is clearly a revenue-raising measure as well as an environmental instrument. Tax on liquid petroleum gas (a cleaner fuel than petrol) was also reduced in the 1999 Budget.

5.5.2 Policy Priorities in Relation to Environmental Taxation

5.5.2.1 Greenhouse Gas Emissions

Given the presence of *legally-binding* commitments, action to reduce greenhouse gases is an obvious priority. The EU has agreed to cut its emissions of greenhouse gases by eight per cent in

11 The base period is 1990 in respect of the most significant greenhouse gases. In relation to specified industrial gases, a 1990 or 1995 base can be used.

the period 2008-2012, against a baseline of 1990.[11] Ireland's agreed contribution to the EU target is to limit growth of greenhouse gases to 13 per cent over the same period. This is a demanding target because this limit will be reached in 2000. Thus, without corrective action, economic growth over the next ten years would result in Ireland substantially exceeding the 13 per cent limit. Ireland along with other developed countries is required to have made demonstrable progress in achieving its commitments in this area by 2005. Hence, urgent action is required.

In the 1999 Budget, the Minister for Finance referred to the possibility of using energy taxation to achieve our obligations in this area:

> Tax increases on energy and fuels can reduce emissions and bring about more efficient use of these products. The revenue raised might also be used to reduce taxation in other areas such as labour. However, increases in the price of energy and fuel adds to inflation and affects those on low incomes.
>
> We need however to put in place an agreed indirect tax policy which will assist us in meeting out international obligations on CO_2 emissions. Such a policy needs the support of all sections of the community as represented by the social partners. I am proposing, therefore, that the formulation of such agreed policy measures would be part of the discussion on the successor to *Partnership 2000*.

The Department of the Environment and Local Government has commissioned and published a report (the ERM report)[12] on the policy options to achieve Ireland's commitments in this area. This report distinguished between economic instruments and a range of targeted measures to achieve the required reduction in greenhouse gas emissions. The two economic instruments addressed in the report were a carbon tax and tradable emissions permits.

A carbon tax is a tax on fossil fuels. It would result in the price of fuels increasing in proportion to their carbon content. The ERM

12 This report was commissioned from Environment Resources Management (ERM) in association with Byrne O'Cléirigh and the Economic and Social Research Institute (ESRI).

report considered that the introduction of a carbon tax would be a worthwhile option (among other worthwhile options that are discussed below) for Ireland. In considering the effects of a carbon tax on the economy, the ERM report relied mainly on the earlier econometric work by Fitz Gerald and McCoy (1992). Fitz Gerald and McCoy found that the unilateral introduction of a carbon tax in Ireland, with the proceeds applied to a reduction in employers' PRSI, would result in an increase in both GNP and employment. This happens because Irish industry is not very energy intensive but it is a big employer of labour. The increased costs arising from the carbon tax to industry are outweighed by the savings in labour taxes. This analysis was concerned with the impact of a carbon tax on the economy as a whole and did not analyse the impact on individual sectors.

The ERM report also cited an analysis by Indecon Economic Consultants that showed that a carbon tax would result in a significant increase in costs for energy intensive sectors. This analysis did not take account of the potential benefits from recycling the revenue and does not undermine the conclusion of a net gain for the economy as a whole.

The European Commission has proposed the introduction of minimum rates of excise duties on energy products. These proposals relate to the taxation of petrol and other fuels, gas, electricity, turf and coal. This approach would be an alternative to a carbon tax. Ireland along with Spain are the two countries that are opposed to this measure at present. Agreement on a common approach at EU level would greatly facilitate progress in this area.

Emissions trading would provide similar incentives to a carbon tax. The basic idea is that a company would require a permit to emit greenhouse gases. The permit would provide the right to emit a certain volume of greenhouse gases. After an initial allocation of permits (how this is done is significant) companies can buy and sell permits. Those companies that can reduce emissions at lower costs can sell their permits to companies that face higher costs. In this way the total cost of achieving a given target is minimised. Initially permits may be given free to existing polluters (this is referred to as ‘grandfathering’) or they may be auctioned to the highest bidder. A Working Group is examining the desirability of introducing an emissions trading system in Ireland.

The alternative to the use of broadly-based economic instruments is a wide range of targeted mechanisms. Examples include fuel switching in the generation of electricity away from coal or peat towards greater use of gas, expanding the promotion of energy efficiency among both enterprises and households and investment in the development of renewable energy sources. Switching land use from cattle to forestry could also make a significant contribution. The approaches are not mutually exclusive. For example, provision of information on energy efficiency would help enterprises and households to respond to the incentives provided by a carbon tax or an emissions trading system. There is however a difference between the two approaches. The use of broadly-based economic instruments would mobilise market forces towards the achievement of the target and reduce the need for direct government intervention in different sectors of the economy.

Following the publication of the ERM report, the Department of the Environment and Local Government has been engaged in a consultative process on the most desirable options for achieving the required reductions. The Department will publish its greenhouse gas abatement strategy shortly.

The *Green Paper on Sustainable Energy* discusses a wide range of policy measures that can be used to reduce energy-related CO_2 emissions. The Green Paper envisages that economic instruments will play a significant role in this objective. In relation to residential consumers, the non-commercial public sector and small business, the Paper states:

> It is the aim of Government that economic instruments such as energy taxes or levies on energy consumers would act as a stimulus for more efficient use of energy for this large group of consumers. It is intended to negotiate changes via social partnership arrangements on a progressive basis between now and 2008. Energy efficiency in those sectors will be triggered by economic instruments and be supported by focussed information

> and awareness campaigns. Households suffering or at risk from fuel poverty will be protected. (Department of Public Enterprise, 1999: 4).

In relation to industrial and large-scale energy consumers, the Green Paper states that economic instruments (whether energy taxes, tradeable permits or some mixture of the two) will be the primary means of achieving efficiency on a least cost basis. The Green Paper recognises that economic instruments could be supported by voluntary agreements, although it is also noted that an element of compulsion is likely to be necessary if 'voluntary' agreements are to be effective in securing large-scale reductions. The Green Paper also addresses energy efficiency in the transport and electricity sectors. It discusses the contribution that can be made by renewable sources of energy, combined heat and power (CHP)[13], technology and energy research and development.

The Council welcomes the commitment in the Green Paper to the use of economic instruments to achieving energy efficiency and supports the use of regulatory measures to complement economic instruments. The Council also supports the promotion of reseach and development (R&D) in this area.

5.5.2.2 Transport

Transport is one of the key sources of growth of greenhouse gas emissions. There are also a wide range of other environmental problems associated with transport. The most obvious problem is traffic congestion but other environmental problems include local air pollution, accidents, degradation of infrastructure, noise, visual intrusion, and also soil and water pollution (Scott and Feeney, 1998).

Environmental taxes have an important role to play in addressing these issues, although, environmental taxes cannot be the only instrument to address transport problems. The growth of car

13 CHP is the simultaneous production and utilisation of heat and electricity from the same source. In certain circumstances it can offer energy saving advantages.

ownership is driven by rising affluence and the low density, suburban pattern of development. The planning of cities, including the planning of public transport, is a critical influence on car utilisation. However, this does not imply that the pattern of transport growth is not affected by incentives. As Scott and Feeney (1998) point out, a key feature is that the damage or costs imposed by increased transport activity are not borne directly by transport users. Transport taxes should be restructured to give more accurate signals to transport users regarding these costs. A limited number of such measures were taken in the 1999 Budget.

5.5.2.3 Environmental Services[14]

Environmental services in this section refer to water supply, waste water treatment and the disposal of solid waste. These services are supplied by local authorities. Although both businesses and households face charges for these services in most local authority areas, these charges are generally considerably less than the cost of providing these services. For example, Lawlor and Scott (1997) estimated that charges for waste water treatment only covered eight per cent of the cost of the service. The underpricing of these services is not an efficient means of helping those on low incomes or achieving environmental objectives. This underpricing encourages waste and environmental damage. The current structure of incentives encourages excessive water demand, excessive emissions and pollution content of waste water and excessive generation of solid waste. In effect reducing, reusing and recycling are discouraged.

The Council recommends that a significantly higher proportion of the costs of environmental services should be covered through charges. This is in keeping with the principle of sustainable development. Compensation should be provided for those on low incomes. The Council acknowledges that these charges have on occasion proved highly contentious. However, there is also evidence that the public is not opposed in principle to such charges.

14 This section draws on Lawlor and Scott (1997).

There is survey evidence that over 95 per cent of the public would prefer to pay for improved environmental services through charges rather than through higher taxation (Murphy, Scott and Whelan, 1994). The movement towards cost recovery should be preceded by a process of consultation. It is important that the public can see a clear link between charges and improved service provision. In relation to water, charges are only likely to support conservation if they are based on metering. The Council recommends that a study be undertaken on the feasibility of introducing universal metering in those areas in which the water supply is under greatest pressure. The structure of charges should not discriminate against any particular group (domestic, commercial, industrial) of users.

5.6 CONCLUSIONS

5.6.1 Tax Reform

Tax reform has been a significant element in Ireland's economic success in the 1990s and it should continue to play an important role in ensuring that the potential for full employment is achieved and also in promoting social cohesion. The Council welcomes the significant progress made in reducing the tax burden in Ireland, especially on the low paid. The Council notes that the standard-rating and subsequent increase in personal allowances in the 1999 Budget has been a key mechanism for delivering tax reductions to the lower paid.

5.6.2 Income Tax

The Council supports further reductions in income taxes. It attaches a high priority to increases in the standard-rated personal allowances (which are due to be converted to tax credits). An increase in the personal allowance/tax credit raises the threshold at which people enter the tax system. It is the most effective way of helping the low paid while at the same time providing tax reductions of equal amounts to most taxpayers in a straightforward way. The Council also attaches significant priority to an increase in the income level at which people become liable for the higher rate.[15]

The Council is concerned at the proliferation of new forms of tax relief without any obvious guiding principle. Some tax reliefs serve a useful purpose but a complex system of reliefs and allowances tends to encourage tax avoidance and evasion and causes resentment among those not in a position to benefit. Tax reliefs are also less visible than direct public expenditure and once introduced tend to grow automatically. The Council recommends that greater effort be devoted to the evaluation of tax expenditures on a regular basis and that such evaluations should be published.

5.6.3 Environmental Taxes and Charges

While the primary function of taxation is to raise revenue to provide public services and to permit income transfers, the Council believes that it is now appropriate for tax policy also to place a stronger emphasis on promoting environmentally sustainable development. The Council is strongly committed to urgent action to meet our obligations under the Kyoto Protocol. The Council believes that environmental taxes, charges and incentives have a role to play in addressing environmental issues. The design of environmental taxes, charges and incentives needs to pay close attention to equity and competitiveness concerns. The design of these measures should also take account of potential differences in impact across regions and should not undermine the prospects of balanced regional development. Meeting these requirements will be a complex task. The Council notes the *Green Paper on Sustainable Energy*, the imminent publication of the greenhouse gas abatement strategy and the ongoing discussions at the ECOFIN Council. An open consultative process on how best to address the challenges of Kyoto is now underway starting with the *Green Paper on Sustainable Energy*. While such a beginning is indeed welcome, the Council believes that these matters, so critical in terms of our long-term environment, must be addressed as a matter of urgency. In terms of implementation, there are grounds for concluding that the

15 This requires an increase in the band of income for which tax is payable at the standard rate. See Footnote 9 above.

institutional arrangements and the deployment of resources within and between relevant Departments should be strengthened.

The Council recommends that user charges should more adequately reflect the cost of providing environmental services (water, waste water and solid waste disposal) and these charges should be volume-based wherever possible.

5.6.4 Tax Evasion

The problem of tax evasion is a cause of concern for the Council. The Council notes that the report by the Comptroller and Auditor General has provided well-researched evidence that there has been systematic evasion of DIRT tax through the use of bogus non-resident accounts. There is also emerging evidence of other questionable tax practices. At the same time collection systems have become more effective and there is now more widespread recognition that tax evasion is an anti-social activity. The Council recommends that a stronger approach should be taken to tackling tax evasion, whether in terms of more effective implementation of existing legislation or new legislation. The Council welcomes the significant measures in the 1999 Finance Act to strengthen the powers of the Revenue Commissioners. The current DIRT inquiry of the Public Accounts Committee and the Moriarity Tribunal should be helpful in identifying what measures can usefully be taken to reduce tax evasion and fraud.

5.6.5 Property and Capital Taxation

The Council welcomes the Government’s intention to introduce new legislation on the valuation of commercial property. The feasibility of charging commercial rates separately on land and buildings should be examined. The Council recommends that the new capital gains tax regime be monitored.

5.6.6 Indirect Taxes

Electronic commerce has implications for the system of indirect taxation. VAT on electronic commerce transactions should be levied at the rate applicable in the country of consumption.

5.6.7 Local Taxation

Ireland is unusual among OECD countries in having a very low incidence of local taxation. In 1996, the share of local taxation in total tax revenue in Ireland was 2.3 per cent. This was lower than any other OECD country with the exception of Greece. While Ireland is a small country, the very low utilisation of local taxation cannot be solely explained in terms of size. Even OECD countries that are smaller than Ireland, such as Luxembourg and Iceland, have greater reliance on local taxation. The low share of local taxation in total tax revenue in Ireland is paralleled by the limited devolution of powers to local government.

The Council acknowledges that some reform of the financing of local government has taken place with the establishment of the new Local Government Fund. In addition, commercial rates are a substantial source of local authority income, representing one-quarter of the total income of local authorities. If any additional local taxes were to be introduced, this increase should be offset by reductions in income tax so that the total tax burden would not be increased.

5.6.8 Review of the Tax and Social Welfare Systems

A key theme of this Strategy report is the need for policies and institutions to adapt effectively to changes in economic and social circumstances. Such changes include demographic change, changes in work organisation, rising female labour force participation, changes in work and family responsibilities, changes in family formation patterns, the growing importance of environmental issues, changes in the structure of the economy and the evolution of e-commerce and the Information Society. The implications of particular changes for the tax and social welfare systems have been examined in a number of reports in recent years. For example, *The Report of the Working Group Examining the Treatment of Married, Cohabiting and One-Parent Families Under the Tax and Social Welfare Codes* has recently been published. The Revenue Commissioners (1999) have published a report on the tax implications of electronic commerce. Nonetheless, the Council considers that there is a need for a more comprehensive review. The Council proposes that a strategic review be undertaken of the adaptability of the tax and social welfare systems to changing economic and social conditions.

APPENDIX

TABLE A5.1

Average Tax Rates (Income Tax Plus Employee PRSI) at Various Percentages of Average Industrial Earnings 1987 to 1999, Holding Real Income Constant

(i) Single Person

	50%	75%	100%	150%	250%	500%
1987	25.3	33.0	40.0	47.6	52.2	55.6
1996	17.2	24.6	30.3	38.8	43.6	47.0
1997	15.6	22.8	27.9	36.8	42.4	46.4
1998	13.5	20.8	25.8	34.8	40.5	44.4
1999	10.1	18.2	24.2	33.6	39.7	43.9

Changes in Percentage Terms

	50%	75%	100%	150%	250%	500%
Change between 1996 and 1997	-1.6	-1.8	-2.5	-2.0	-1.2	-0.6
Change between 1997 and 1998	-2.1	-2.0	-2.1	-2.0	-1.9	-2.0
Change between 1998 and 1999	-3.4	-2.5	-1.7	-1.2	-0.7	-0.5
Change between 1996 and 1999	**-7.1**	**-6.3**	**-6.2**	**-5.2**	**-3.8**	**-3.0**
Change between 1987 and 1999	**-15.3**	**-14.8**	**-15.8**	**-14.0**	**-12.4**	**-11.6**

Changes in Real Money (£) Terms

	50%	75%	100%	150%	250%	500%
Change between 1996 and 1997	-132	-212	-398	-478	-469	-478
Change between 1997 and 1998	-166	-247	-332	-493	-778	-1569
Change between 1998 and 1999	-276	-307	-266	-286	-301	-403
Change between 1996 and 1999	-574	-765	-996	-1257	-1547	-2450
Change between 1987 and 1999	-1228	-1790	-2549	-3380	-5008	-9362

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TABLE A5.1 – *continued*

Average Tax Rates (Income Tax Plus Employee PRSI) at Various Percentages of Average Industrial Earnings 1987 to 1999, Holding Real Income Constant

(ii) One Earner Couple

	50%	75%	100%	150%	250%	500%
1987	13.7	23.4	28.2	34.7	43.8	51.4
1996	2.5	18.3	22.4	26.5	35.0	42.7
1997	2.1	16.3	20.4	24.5	33.1	41.8
1998	1.5	14.4	18.5	22.6	31.2	39.8
1999	1.6	9.9	15.0	20.2	29.6	38.9

Changes in Percentage Terms

	50%	75%	100%	150%	250%	500%
Change between 1996 and 1997	-0.4	-2.0	-2.0	-2.0	-1.9	-1.0
Change between 1997 and 1998	-0.5	-1.9	-1.9	-2.0	-1.9	-1.9
Change between 1998 and 1999	0.1	-4.5	-3.4	-2.4	-1.7	-1.0
Change between 1996 and 1999	-0.9	-8.4	-7.4	-6.3	-5.5	-3.9
Change between 1987 and 1999	-12.1	-13.5	-13.2	-14.5	-14.2	-12.5

Changes in Real Money (£) Terms

	50%	75%	100%	150%	250%	500%
Change between 1996 and 1997	-34	-242	-322	-483	-758	-768
Change between 1997 and 1998	-43	-230	-310	-471	-770	-1562
Change between 1998 and 1999	5	-543	-553	-574	-667	-769
Change between 1996 and 1999	-72	-1015	-1186	-1528	-2195	-3098
Change between 1987 and 1999	-973	-1630	-2122	-3504	-5717	-10071

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TABLE A5.2

Marginal Tax Rates at Various Percentage of Average Industrial Earnings 1987 to 1999, Holding Real Income Constant

(i) Single Person

	50%	75%	100%	150%	250%	500%
1987	42.75	55.75	65.75	59.0	59.0	59.0
1996	32.5	34.75	55.75	55.75	50.25	50.25
1997	30.5	32.75	54.75	54.75	50.25	50.25
1998	28.5	30.75	52.75	52.75	48.25	48.25
1999	28.5	30.5	52.5	52.5	48.0	48.0
Change between 1996 and 1999	-4.0	-4.25	-3.25	-3.25	-2.25	-2.25
Change between 1987 and 1999	-14.25	-25.25	-13.25	-6.5	-11.0	-11.0

(ii) One Earner Couple

	50%	70%	100%	150%	250%	500%
1987	42.75	42.75	42.75	49.0	59.0	59.0
1996	5.5	47.75	34.75	34.75	50.25	50.25
1997	4.5	32.75	32.75	32.75	50.25	50.25
1998	4.5	30.75	30.75	30.75	48.25	50.25
1999	4.5	30.5	30.5	30.5	48.0	48.0
Change between 1996 and 1999	-1.0	-17.25	-4.25	-4.25	-2.25	-2.25
Change between 1987 and 1999	-38.25	-12.25	-12.25	-18.5	-11.0	-11.0

TABLE A5.3

Average Tax Wedge at Various Percentages of Average Industrial Earnings 1987 to 1999, Holding Real Income Constant

(i) Single Person

	50%	70%	100%	150%	250%	500%
1987	33.5	40.4	52.0	52.6	55.0	57.0
1996	23.7	30.5	37.8	45.4	48.0	49.1
1997	22.2	28.9	35.6	43.6	47.0	48.6
1998	20.3	27.0	33.8	41.8	45.6	47.1
1999	17.1	24.6	32.3	40.7	45.4	46.7
Change between 1996 and 1999	-6.6	-5.8	-5.5	-4.6	-2.6	-2.4
Change between 1987 and 1999	-16.4	-15.8	-19.7	-11.9	-9.6	-10.2

(ii) One Earner Couple

	50%	70%	100%	150%	250%	500%
1987	23.2	31.8	36.1	40.1	46.2	51.9
1996	10.1	24.7	30.7	34.4	40.1	45.0
1997	9.7	22.8	28.9	32.6	38.5	44.2
1998	9.2	21.1	27.2	30.9	36.8	42.4
1999	9.3	16.9	24.1	28.7	36.2	41.9
Change between 1996 and 1999	-0.8	-7.8	-6.6	-5.7	-3.9	-3.1
Change between 1987 and 1999	-13.9	-14.9	-12.0	-11.3	-10.0	-10.0

Note: The average tax wedge is defined as income tax, employee PRSI and employer PRSI as a percentage of gross labour costs.

TABLE A5.4 (i)

Percentage of Tax Units in Different Bands

Tax Year	Exempt	Marginal Relief	Standard Rate	Higher Rate
1994/95	25.8	9.6	36.4	28.3
1995/96	24.5	9.6	37.5	28.4
1996/97	24.4	10.6	36.5	28.0
1997/98	23.3	8.1	36.7	28.9
1998/99	22.9	5.6	41.3	30.2
1999/2000	27.2	1.4	39.5	31.9
2000/2001*	25.8	1.4	38.6	34.2

TABLE A5.4 (ii)

Percentage of Taxpayers in Different Bands
(i.e. excluding those exempt from income tax)

Tax Year	Marginal Relief	Standard Rate	Higher Rate
1994/95	13.0	49.0	38.0
1995/96	12.7	49.7	37.6
1996/97	14.1	48.7	37.2
1997/98	10.5	51.8	37.8
1998/99	7.2	53.6	39.2
1999/2000	2.0	54.2	43.8
2000/2001*	1.8	52.0	46.1

*Pre Budget

Note: Figures from 1997/98 onwards are provisional and subject to revision.

Source: Revenue Commissioners.

Table A5.5 – Overview of environmentally-related taxes/charges in OECD countries (as of March 1997)*

Environmental measures	Australia	Austria	Belgium	Canada	Czech Rep.	Denmark	Finland	France	Germany	Greeece	Hungary	Iceland	Ireland	Italy	Japan	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Spain	Sweden	Switzerland	Turkey	UK	United States
Motor Fuels:																												
Leaded/Unleaded (differential)	●	●	●			●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●	●	●	●	
Gasoline (quality differential)							●																	●				
Diesel (quality differential)						●	●				●						●			●	●			●				
Carbon/energy content						●	●											●		●				●				
Sulphur content						●														●				●				
Other excise taxes (other than VAT)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●
Other Energy Products:																												
Other excise taxes	●	●	●			●	●	●	●	●	●		●	●	●	●	●	●		●			●	●	●		●	●
Carbon/energy tax		●	●			●	●											●		●	●			●				
Sulphur content			●			●		●							●					●	●			●				
NOx					●			●													●			●				
Vehicle Related Taxation:																												
Sales/Excise/Regist. tax diff. (cars)		●	●	●		●	●			●	●	●	●	●	●		●	●		●		●		●	●	●		●
Road/Registration tax diff. (cars)		●	●	●	●	●			●	●	●	●	●	●			●	●		●			●	●	●	●		●
Agricultural Inputs:																												
Fertilisers																				●				●				
Pesticides						●	●													●				●				
Other goods:																												
Batteries			●			●					●											●		●	●			
Plastic carrier bags						●					●	●									●							
Paper carrier bags						●																						
Disposable containers			●			●	●				●	●								●	●	●						
Tyres				●		●	●				●																	●
CFCs/halons	●				●	●					●										●							●
Disposable cameras			●																									
Lubricant Oil						●	●													●								
Oil Pollution	●						●															●						
Solvents						●																						
Disposable tableware						●																						

Table A5.5 - *continued*

Environmental measures	Australia	Austria	Belgium	Canada	Czech Rep.	Denmark	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Italy	Japan	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Spain	Sweden	Switzerland	Turkey	UK	United States
Direct Tax Provisions:																												
Env. Investments/accelerated depreciation	●	●	●	●	●	●	●	●			●				●		●	●		●	●	●						●
Free company car part of taxable income						●	●		●																			
Employer-paid commuting expenses part of taxable income	●		●			●	●		●													●	●	●			●	●
Free parking part of taxable income	●																											●
Commuting expenses deductible from tax. income only if pub. transport used																												●
Air Transport:																												
Noise	●		●					●	●		●				●			●		●	●			●	●			
Other taxes or charges				●		●														●		●		●				●
Water:																												
Water consumption	●		●		●	●	●	●	●		●						●	●		●	●	●		●	●		●	●
Sewage charges	●		●		●	●	●		●		●	●					●	●		●	●	●	●	●	●	●	●	●
Water effluents	●		●		●	●		●	●								●	●			●	●			●			
Manure																		●										
Waste Disposal and Management:																												
Municipal waste	●			●	●	●	●	●	●		●	●						●		●	●	●	●	●	●			●
Waste Disposal	●	●	●		●	●	●	●	●		●		●	●				●		●	●	●	●		●	●	●	
Hazardous waste	●	●	●		●		●	●	●		●	●								●	●	●						
Landfill							●											●				●					●	

*This table does not include taxes/charges levied at state or regional level.Differences in Government structures mean a complete cross-country comparison is not possible.

Source: OECD (1997), *Environmental Taxes and Green Tax Reform*, Paris, OECD.

CHAPTER 6

DOMESTIC ECONOMIC MANAGEMENT AND WAGE FORMATION

6.1 INTRODUCTION

An important dimension of economic policy is a system of income determination that is consistent with improvements in competitiveness, accords with ideas of fairness and secures industrial peace. This is the subject of this chapter. The structure is as follows. Section 6.2 provides a brief overview of the international evidence on the relationship between wage determination and economic performance. Section 6.3 reviews the growth of wages, profits and living standards in Ireland in the period since 1987. Wage determination in the public service is discussed in Section 6.4. Profit sharing and related forms of compensation are discussed in Section 6.5. Finally, issues in relation to future wage determination are considered in Section 6.6.

6.2 WAGE DETERMINATION AND ECONOMIC PERFORMANCE[1]

This section contains a brief discussion of recent research findings on the connection between wage determination and economic performance.

6.2.1 Centralised and Decentralised Bargaining

A paper by Calmfors and Driffill (1988) has had a major influence on research and discussion of wage bargaining over the past decade. Calmfors and Driffill demonstrated that both centralised and decentralised wage-setting systems worked well in terms of delivering wage moderation and low unemployment but that intermediate systems worked badly. The reasoning behind this

1 A more extensive discussion of this subject is provided in Chapter 5 of NESC (1996a). This section draws in part on that chapter.

phenomenon is as follows. Under decentralised wage bargaining, market forces deliver wage moderation and low unemployment. Under centralised wage bargaining, both unions and employers take account of the implications of wage bargaining in one part of the economy for others in the economy. In the intermediate case, however, neither market forces nor labour market institutions are strong enough to produce the socially desired outcome of low unemployment.

6.2.2 Co-ordination

There has been a shift in focus in discussion of wage bargaining from distinguishing between centralised and decentralised systems to concern with the degree of co-ordination. The Calmfors and Driffill argument in relation to centralised bargaining depends on employers and unions taking account of the external implications of wage bargaining. However, this is not solely determined by where wages are technically set. Some decentralised systems may in fact be highly co-ordinated. The best examples of effective decentralised systems in the Calmfors and Driffill argument are Japan and Switzerland. However, Soskice (1990) points out that in these countries there is a range of mechanisms that ensures a high degree of co-ordination of wage bargaining across the economy, even if most formal wage negotiations are concluded at company level. The common element in these two systems is the role of powerfully co-ordinated employer organisations and networks.

More recent research by Nickell (1997) confirms that co-ordination by unions and employers is associated with lower unemployment. In a lecture on developments in Sweden, Layard (1996) has also argued that, in the context of collective bargaining, there is no case for the view that more decentralised wage bargaining would be favourable to employment.

Irish experience also illustrates the need to go beyond a simple distinction between centralised and decentralised wage bargaining. Centralised wage bargaining since 1987 has contributed to a strong economic performance in contrast to the very poor performance for the first half of the 1980s. However, earlier Irish experience of centralised wage bargaining in the 1970s was not particularly satisfactory. A critical difference between the 1970s and the post-1987 experience has been the presence of consensus and a shared understanding of economic and social development among the social partners.

The Dutch model has been identified as a successful example of a decentralised but highly co-ordinated collective bargaining system (Visser and Hemerijck, 1997). The modern Dutch era of social partnership had its origins in a 1992 agreement between the social partners, known as the ‘Accord of Wassenaar’. This agreement followed a period of several years of ‘policy stalemate’ between the social partners. At Wassenaar, agreement was reached on a policy of voluntary wage moderation as part of a strategy for investment and employment growth. Agreement at national level was reached on wage guidelines, but not on precise and binding figures for maximum wage increases. Actual wage negotiations take place at sectoral level, but are informed by the centrally agreed guidelines. Originally employers agreed to a modest reduction in working hours in exchange for voluntary wage moderation. Subsequently the trade-off has been between tax reductions and wage moderation. The policies initiated at Wassenaar set in motion a virtuous circle of improved competitiveness, higher profitability, investment and strong job creation. There are strong similarities to the Irish experience of social partnership.

6.3 WAGE DEVELOPMENTS IN IRELAND SINCE 1987

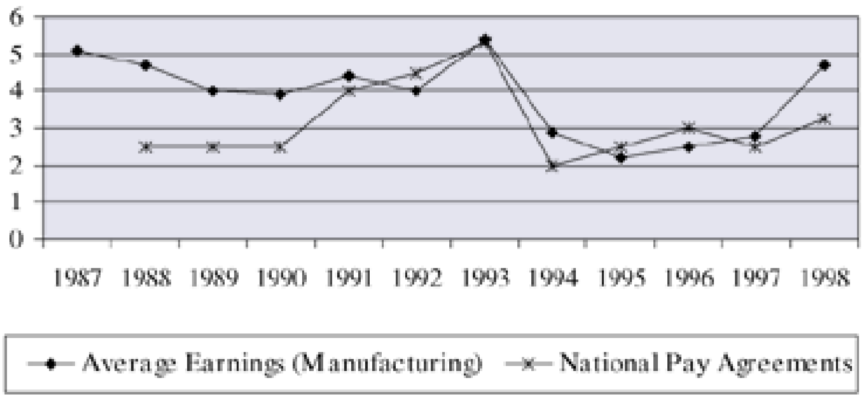
Since 1987 pay has been co-ordinated with a range of other policies through national programmes. The evolution of pay, living standards, profitability and the industrial relations climate in Ireland since 1987 is reviewed briefly in this section.

6.3.1 Trends in Earnings by Sector

Since 1987 national programmes have provided modest increases in nominal earnings. The basic pay increases provided by the agreements for the private sector along with the trend in average weekly earnings for industrial workers in manufacturing are shown in Figure 6.1. It can be seen that the average earnings of industrial workers have followed the agreements of the national programmes quite closely, with some element of wage drift. A complete correlation between the national agreements and average earnings would not be expected. The agreements refer to increases in *rates of pay* while average *earnings* are also influenced by factors such as changes in overtime, increments, compositional factors and so on.

FIGURE 6.1

Percentage Change in Average Industrial Earnings



Source: CSO, *Industrial Earnings and Hours Worked* and National Programmes.

Note: The full amount of the local bargaining clauses has been included. In the case of the PESP the 3.0 per cent local bargaining clause is spread over 1992 and 1993. For *Partnership 2000*, 1.0 per cent of the 2.0 per cent local bargaining clause is included for 1998.

Industrial workers in manufacturing represent a small proportion of the workforce. The trend in earnings since 1988 for a range of sectors is shown in Table 6.1.[2] Within manufacturing, the largest increase in earnings was for clerical workers, with an increase of 69 per cent in nominal earnings between April 1988 and September 1998. Average earnings for clerical workers in manufacturing in

2 The year 1988 is the initial year for Table 6.1 because several of these series are only available from that date.

December 1998 were just above £19,000. However, the CSO includes sales employees in the clerical category so this is likely to have increased this earnings figure. Average earnings for managerial employees in manufacturing increased by 60 per cent between 1988 and 1998 to reach over £28,000. For industrial workers within manufacturing, average earnings increased by around 54 per cent over the same period, while the average increase for all workers in manufacturing was 57 per cent.[3]

Earnings in building and construction have grown more rapidly than in manufacturing. For skilled workers in the building industry, nominal earnings have more than doubled since 1988. Average earnings for skilled workers in the building industry in 1998 were just over £22,500. The earnings of unskilled workers in building have increased by less than the rate for skilled workers, although the increase for unskilled workers (77 per cent between 1988 and 1998) has still exceeded that for all categories of manufacturing. Average annual earnings for unskilled workers in building were over £16,600 in 1998.

One possible factor behind the strong increase in earnings in the building industry is an increase in hours worked. Average weekly hours worked for skilled building workers increased by just over an hour between 1988 and 1998 and by half an hour on average for unskilled workers, while over the same period average hours worked in manufacturing declined by an hour. However, this difference between the trend in hours worked has only a very modest impact on the trend in earnings. The average level of hours worked in building, at over 46 hours in 1998, was relatively high.

The increase in earnings in financial services over the past decade (47 per cent) was less than the increase in manufacturing. Since 1988, average earnings in the public sector (exclusive of health)

3 The earnings data for manufacturing cited in this paragraph are based on the CSO's indices of earnings for manufacturing rather than actual earnings. These indices adjust for the effect of changes in employment composition and therefore provide a better measure of underlying trends than the average earnings figures themselves. The increase in actual average earnings was somewhat less than that shown by the indices.

have increased by 66 per cent. Pay developments in the public service are discussed in Section 6.4 below in more detail.

TABLE 6.1

Trend in Earnings by Sector
March 1988 = 100

	Manufacturing				Financial	Building & Construction		Public Sector (exc. Health)
	Industrial	Clerical	Managerial	All Employees		Skilled	Unskilled	
1988	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	132.1	138.6	135.6	133.6	129.4	147.6	138.8	137.6
Sept. 98	153.9	168.6	160.1	156.9	146.7	204.5	177.5	166.2
Dec. 98	£15,554	£19,066	£28,276	£17,973	£22,568	£22,501	£16,653	£23,220

Source: CSO, *Industrial Earnings and Hours Worked*. CSO, *Banking, Insurance and Building Societies, Employment and Earnings*. CSO, *Building and Construction, Earnings and Hours Worked*. CSO, *Public Sector Average Earnings.*

Notes: The indices in this table have been calculated from the index of each series as published by the CSO. In the case of building and construction the CSO does not publish indices so the figures above are based on actual average earnings figures.

6.3.2 Living Standards

Living standards, as measured by real take-home pay, have grown consistently in the period since 1987. The trend in take-home pay (that is, net earnings) after inflation for both single and married (one-earner) workers on average manufacturing earnings is shown in Table 6.2. Consistent increases in take-home pay that are sustained for several years produce substantial cumulative increases in pay. Between 1987 and 1999, the cumulative increase in real take-home pay for a person on average manufacturing earnings was over 35 per cent. This is in marked contrast to the decline in real take-home pay in the first half of the 1980s: during the seven years to 1987, manufacturing earnings increased by 101 per cent in nominal terms, but real take-home pay decreased by over seven per cent because of the impact of inflation and tax. The increase in real take-home pay under *Partnership 2000* has been larger than under previous programmes. During *Partnership 2000* (between 1996 and 1999), the total average increase in real take-home pay was 14 per cent for a single worker and 16.2 per cent for a married worker. It is clear from these data that quite apart from the wider beneficial effects of economic growth (employment etc.), there have also been substantial gains in real living standards for those in employment.

TABLE 6.2

Changes in Real Take-Home Pay, 1981-1999
(Average Manufacturing Earnings)
Annual Percentage Change

Year	Single	Married (1 Earner, 2 Children)
1981	-4.24	-6.09
1982	-5.02	-4.94
1983	-3.99	-3.33
1984	0.86	0.89
1985	1.03	1.55
1986	4.65	3.47
1987	-0.14	0.34
1988	4.16	2.41
1989	2.04	1.27
1990	1.73	1.15
1991	1.27	1.46
1992	3.20	1.87
1993	1.31	2.10
1994	3.12	2.34
1995	1.98	1.14
1996	1.96	1.70
1997	4.42	3.67
1998*	4.21	4.29
1999**	4.65	7.46

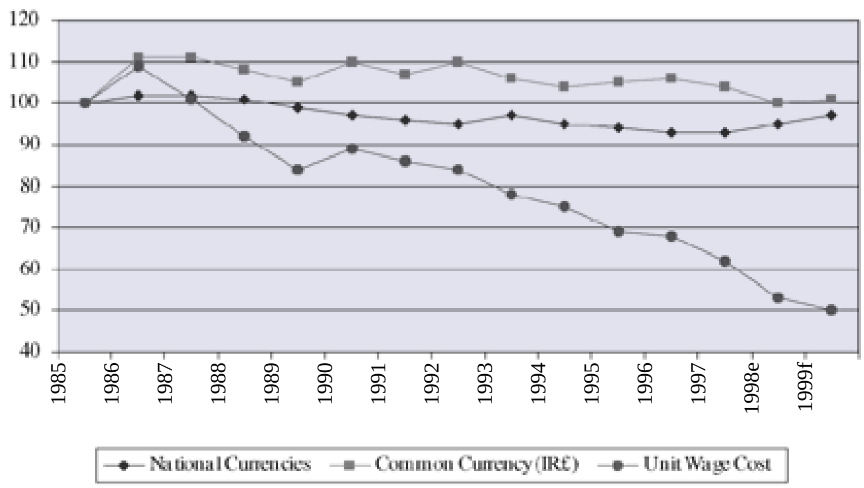
Source: Department of Finance.
*Based on increase for first three quarters of 1998.
**Projected.

6.3.3 Relative Wages

The trend in manufacturing earnings in Ireland relative to our main trading partners in both national and common currency terms is shown in Figure 6.2. Relative earnings in common currency terms can be interpreted as a measure of cost competitiveness. It can be seen that relative earnings in common currency terms increased sharply in 1986 (signifying a loss of cost competitiveness), while since 1987 the tendency has been for this measure of relative earnings to decline, although there have been non-trivial fluctuations in the intervening years. In 1998 and 1999 earnings in national currency terms increased faster in Ireland than among our main trading partners, but this was offset by exchange rate movements. The competitive position of Irish industry is currently benefiting considerably from the strength of sterling and the dollar against the euro. However, the indigenous exporting sector in particular could be quite vulnerable to a reversal of this strength.

FIGURE 6.2

Relative Hourly Earnings in National and Common Currency Terms and Unit Wage Costs for Irish Manufacturing, 1985-1999



Source: Central Bank, *Quarterly Bulletin*, Autumn 1999.
Note: e = estimate; f = forecast.

Another measure of competitiveness is unit wage costs. The trend in relative unit wage costs takes account of differences in productivity performance. Unit wage costs for Irish manufacturing relative to our trading partners have fallen consistently over the past decade due to the strong productivity performance of Irish manufacturing. However, the productivity trend for Irish manufacturing is dominated by multinationals in high-tech sectors so these data do not provide a good measure of the competitiveness of indigenous manufacturing.

A broader measure of competitiveness is unit wage costs in the *economy as a whole*. This measure is also influenced by the high-tech sectors but to a lesser extent than the measure of unit labour costs in manufacturing. Ireland has gained competitiveness over the past decade in terms of unit labour costs in the total economy although the most recent data indicate a change in this position. In 1997, unit wage costs in Ireland increased by 0.3 per cent. This was the sixth lowest in the OECD. In 1998, unit wage costs in the Irish economy increased by 1.7 per cent. This was above the EU average (1.0 per cent) and well above the euro area average (0.2 per cent). In 1998 Ireland ranked tenth in the OECD in terms of the increase in unit labour costs. It is projected that Ireland will fall to joint fifteenth in the OECD on this measure for 1999 (National Competitiveness Council, 1999: xiii).

6.3.4 Profits

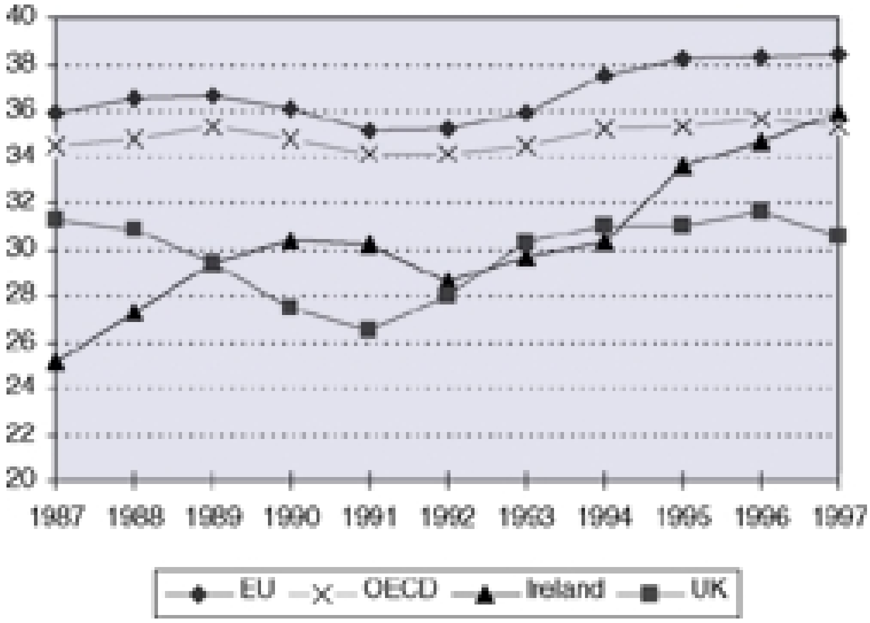
In addition to growth in living standards and employment, there has also been an increase in profitability in the economy. However, the level and growth of profitability may differ significantly between different sectors of the economy, so that the trend in the profit rate for the economy as a whole does not necessarily reflect the level of profitability in much of the economy.

Over the past decade, OECD data indicate that the capital income share in the Irish business sector (that is, outside the public service) has increased from 25 per cent in 1987 to almost 36 per cent in 1997. The extent of this increase is unusual among OECD countries. However, the actual level of the capital income share in Ireland in 1997 was just slightly higher than the OECD average (35.3 per cent).

This reflects the fact that ten years ago the capital income share in the business sector in Ireland was significantly below the OECD average, but has caught up since then. In 1997, the capital income share in the business sector in Ireland was still below the EU average (38.4 per cent) but above the UK (30.6 per cent).

FIGURE 6.3

Capital Income Share in the Business Sector



Source: OECD, *Economic Outlook*, June 1998.

The growth of the capital income share in Ireland is influenced by multinationals in the Irish economy. The capital income share as calculated by the OECD is a GDP-based concept so all of the profits of the Irish operations of multinationals are included. A crude way of considering the effect of multinational profits is to calculate the capital income share excluding the profits of all foreign-owned

4 The profits of foreign-owned companies include the profits of such companies in all sectors of the economy, including companies that were originally Irish-owned. It also includes dividend payments to foreign shareholders in Irish companies (e.g. Irish-owned banks).

companies.[4] The effects of excluding these profits are shown in Table 6.3.[5] If profit outflows are deducted from capital income, there is an increase of only one percentage point in the capital income share between 1990 and 1997. If, in addition to profit outflows, we also exclude the profits of foreign-owned companies that are retained in Ireland (that is, reinvested earnings), the capital income share declines by around one percentage point between 1990 and 1997. If the profits of foreign-owned companies in Ireland are deducted, it may be appropriate to add the profit repatriations to Ireland and the reinvested earnings of the foreign subsidiaries of Irish companies.

TABLE 6.3

The Impact of Multinational Profits on Capital Income Share (%)

	Capital Income Share in the Business Sector	Capital Income Share, Adjusting for:		
		(i) Profit Outflows	(ii) Reinvested Earnings (Foreign)	(iii) Overseas Profits of Irish Companies
1990	30.4	22.0	20.2	21.3
1991	30.2	23.2	20.7	21.5
1992	28.6	20.6	17.3	18.0
1993	29.7	20.9	18.4	19.0
1994	30.3	20.4	18.4	19.5
1995	33.6	23.2	19.3	21.1
1996	34.7	24.2	20.2	21.6
1997	35.9	23.0	19.3	21.1

Source: Calculated from OECD, *Economic Outlook database* and CSO, *National Income and Expenditure* and CSO, *Balance of International Payments.*

Profit inflows (£7 million in 1997) are very modest in comparison

5 Due to methodological changes in the national accounts and the balance of payments it is only possible to do these calculations on a consistent basis since 1990.

to profit outflows (£6 billion in 1997), but there are substantial reinvested earnings associated with Irish investments abroad (£670 million in 1997).[6] The effects of making this adjustment are shown in the final column of Table 6.3.

It can be seen that the capital income share is broadly stable when measured in this way. In adjusting for the effects of foreign-owned multinational companies on the capital income share, it would be desirable to exclude the wage bill of these companies from the denominator used (that is, total income in the business sector). The data are not available to make this adjustment so that the calculations shown in Table 6.3 exaggerate the effects of multinational profits. Nonetheless, it can be concluded that the increase in profit share is strongly influenced by the presence of multinationals in the Irish economy.

TABLE 6.4

The Wage Bill as a share of Value Added by Sector (%)

Sector	1987	1990	1996
Industry	54.7	52.5	45.7
Manufacturing	51.0	48.7	41.0
Building	80.6	76.1	71.6
Utilities	42.2	44.4	43.0
Market Services	47.8	44.5	45.2
Distribution	50.8	40.7	48.1
Professional	35.9	33.4	35.6
Financial Services	60.1	66.1	49.1
Transport and Communication	58.6	64.5	65.7

Source: Calculated from ESRI Databank.

The trend in wage share by sector 1987-1996 is shown in Table 6.4. There has clearly been a large decline in the wage share in manufacturing up to 1996. There has also been a significant decline

6 The substantial overseas profits of Irish banks are not included here. The CSO intends that these profits will eventually be included.

in the wage share for the building industry from the high level in 1987; that is, the profitability of the building industry has recovered from a low base.[7] However, in relation to market services, which is the sector in which most private sector workers are employed, the position is different. In this sector the wage share has been more stable with a modest decline from 57.2 per cent in 1987 to 54.2 per cent in 1996. The decline in the wage share within market services was driven by the decline in the financial services sector. It is clear from Table 6.4 that the decline in the share over the past decade has been due to the influence of a limited number of sectors.

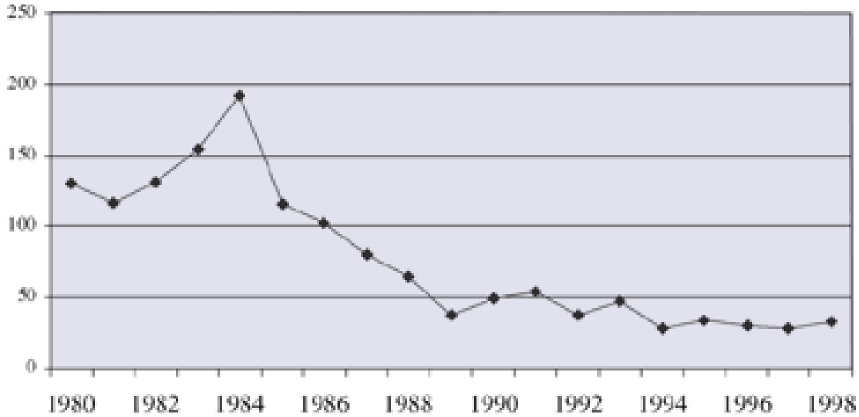
6.3.5 Industrial Disputes

An important dimension of social partnership has been sustaining industrial peace. Notwithstanding current pressures, the number of industrial disputes has remained low over the past decade (see Figure 6.4). There is also a downward trend evident in terms of numbers of days lost and numbers of workers involved in industrial disputes. In 1980, there were over 30,000 employees involved in industrial disputes, while this had fallen to around 8,000 in 1998. In relation to days lost in industrial disputes, over 400,000 days were lost in 1980 compared to less than 40,000 in 1998. Although the trend in relation to industrial disputes is encouraging, these data are subject to a number of caveats. First, non-strike forms of industrial action (e.g. work-to-rule etc.) are not included. Second, disputes that are settled without a stoppage of work are also excluded. Hence, disputes involving strike threats that are resolved in advance of strike action are not reflected in these data. Agreement on the evolution of incomes has helped to strengthen competitiveness by providing a supportive environment for managers and employees to focus greater attention on issues such as boosting productivity and developing new forms of work organisation (see Chapter 7).

7 The continuing relatively high wage share in the building sector is a reflection of the labour intensive nature of the sector and not an indication of low profitability.

FIGURE 6.4

Number of Industrial Disputes



Source: CSO, *Industrial Disputes.*

6.4 WAGE DETERMINATION IN THE PUBLIC SERVICE

The public service wage bill has a significant influence on the economy. The public service pay and pensions bill has increased from £2.9 billion in 1989 to £5.6 billion in 1998. The procedures for wage determination in the public service are somewhat different from the private sector, although efforts have been made over the past decade to achieve more consistency in the determination of public and private sector pay through national programmes. This section begins with a brief outline of how the public service pay system has evolved over the past decade. It then turns to recent public pay trends and finally discusses possible ways of reforming the current system.

6.4.1 Evolution of Public Service Wage Determination

The system of public service pay determination in Ireland has been strongly influenced by the report of a 1955 British Royal Commission. This report formulated two key principles for civil service pay: (i) comparison with the pay of private sector workers doing similar work; and (ii) in the absence of such comparisons, internal relativities should be used. These basic principles of external and internal relativities remain very important to the determination of pay in the Irish public service.

The growth of public service pay levels is determined by both general and special (more recently referred to as local bargaining) increases. At the time when the *Programme for National Recovery* (PNR) was being negotiated, a series of special claims was well under way in the public service, as noted in the previous Strategy. The PNR allowed for the processing of these claims but for budgetary reasons, their implementation was deferred. The actual payment of these claims was concentrated in the years 1989 to 1992.

Under the next national programme, the *Programme for Economic and Social Progress* (PESP) (1991 to 1993), pay increases in the public service other than basic pay increases were governed by the local bargaining clause. The local bargaining increases were limited to 3.0 per cent for the duration of the PESP, but discussions could be held regarding commitments that would increase costs further in subsequent years. In the event, however, no significant agreements were reached on local bargaining claims in the public service under the PESP.

The local bargaining clause of the PESP was subsumed into the next national programme, the *Programme for Competitiveness and Work* (PCW) (1994 to 1996). The PCW provided two options for local bargaining. Under option A, claims could be processed on the basis of changes in structures, work practices or other conditions. Under option B, claims could be made for a straight 3.0 per cent. Under either option, the PCW made explicit that both parties were committed to real changes involving savings and improvements in efficiency and effectiveness. Most of the local bargaining settlements under the PCW have been under option A (the restructuring option). The negotiation of these restructuring claims under the PCW has been a complex process and has extended through the period of *Partnership 2000*. It was understood initially that restructuring claims would cost 3.0 per cent. This was subsequently modified to around 5.5 per cent. Many settlements were reached on this basis including many civil service grades, teachers and all major local authority groups. A number of more recent awards have been considerably higher than this figure including nurses, prison officers, craft workers, general operatives and Gardaí. This has caused tensions between different groups of public service workers. Those who reached agreements early on in the PCW process feel they have lost out relative to the more recent settlements.

In the most recent agreement, *Partnership 2000*, the parties committed themselves to the delivery of a modernisation programme across the public service. At the same time, the parties also agreed to the principle that "change in itself is not the basis for claims for improvements in pay and conditions". *Partnership 2000* has a local bargaining clause for the public service and this is limited to 2.0 per cent.[8] Pay increases under the local bargaining clause are "conditional on there having been verified progress to a satisfactory level on implementation of the modernisation programme set out in Chapter 10 of the Partnership". At this stage agreement has been reached with a large number of groups including teachers, non-medical health staff and local authority staff on the application of a straightforward 2.0 per cent increase under the *Partnership 2000* local bargaining clause.

6.4.2 Trend in Public Service Pay

The trend and level of earnings for the public sector along with a number of other sectors were shown in Table 6.1 above. Between March 1988 and September 1998, the index of average earnings in the public sector (excluding health) increased by 66 per cent compared to an increase of 57 per cent for all employees in manufacturing and an increase of around 47 per cent for all employees in financial services. The increases in building and construction were higher than in the public sector. The average level of earnings in the public sector in 1998 (around £23,000), was higher than any of the other categories shown in Table 6.1, with the exception of managerial employees in manufacturing. Of course, a large number of workers in the public sector have earnings well

8 Recent pay settlements with groups such as nurses have been negotiated under the terms of the previous agreement, the PCW. The final settlement of the nurses dispute included a payment of 2.0 per cent under *Partnership 2000* but most of the increase provided to nurses was negotiated under the PCW.

below £23,000, just as many workers in other sectors have earnings below the average pertaining to their sector. Also, by definition, sectors with many workers earning below the average pay of that sector, must also contain many workers earning more than the average. Within the civil service 35 per cent of employees earned less than £15,000 as of July 1998. This includes job-sharers and part-time employees. The percentage of civil servants with earnings over £20,000 was 36 per cent (Institute of Public Administration, 1998).

These comparisons of public and private earnings are subject to several limitations. There are differences in the composition of employees across sectors so one is not comparing like with like. To determine whether or not there is a premium on earnings in the public sector, it would be necessary to use micro-level data to compare the earnings of similar workers in the public and private sectors. This exercise has been done for the UK by Bender and Elliott (forthcoming). Another limitation of comparing earnings figures is that such figures ignore non-pay aspects including pensions and security of employment. A third limitation of comparing trends over time is that the results are sensitive to the initial year chosen.

Looking at trends within the public sector, the largest increases over the March 1988 to December 1998 period were for defence and the Gardaí (81 per cent). In the case of the Gardaí, overtime is a major component of pay so the figures exclusive of overtime are also shown in this table. Excluding overtime, Gardaí earnings increased by 64 per cent over this period. The Gardaí have not yet accepted *Partnership 2000* and therefore have not yet received the standard increase under this agreement. The increases for other groups were in the range from 67-68 per cent (civil service, education and semi-state) to 73 per cent (regional, that is, mainly local authorities). The annual average increase in public sector earnings in the period since March 1988 has been 5.0 per cent[9] although it can be seen from

9 The earnings data for the public sector shown in Table 6.5 cover the period from March 1988 to December 1998. This is a period of 10.75 years and the annual average figure for earnings referred to in the text has been calculated on this basis.

Table 6.5 that during 1998 the increases for most groups have moved above 5.0 per cent.

TABLE 6.5

Trend in Public Sector Earnings
March 1988 = 100

	Civil Service	Defence	Gardaí Síochána	Gardaí Síochána (Ex. Overtime)	Education	Local/ Regional	Semi-State	Total Public Sector (exc. health)
1988	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	134.1	151.4	146.9	147.5	137.4	131.8	137.6	137.6
Sept. 98	165.7	170.5	183.6	162.2	165.5	167.7	163.8	166.2
Dec. 98	167.7	180.7	180.7	164.0	167.8	173.0	167.4	169.2
Percentage change Dec. 97 to Dec. 98	4.0	7.3	6.0	6.7	6.3	6.8	3.8	5.2
Dec. 98	£21,997	£19,009	£30,374	£26,371	£24,410	£18,897	£24,019	£23,220

Source: CSO, *Public Sector Average Earnings.*

The data on public service earnings do not reveal the problems and tensions that exist in relation to public service pay. First, there are a number of specific limitations to the public service earnings figures. The health sector accounts for one-third of the Exchequer pay bill and has shown the greatest increase in recent years. The CSO does not include this sector in its earnings figure for the public sector so it is not included in Tables 6.1 and 6.5. In addition, because of timing factors, the figures do not reveal the impact of all recent settlements. Second, despite the substantial growth in earnings across the public service shown in Table 6.5, there is significant discontent with pay outcomes in parts of the public service. Third, the figures do not take any account of different rates of productivity growth and change between the public and private sectors.

The role of change and productivity in the public service pay system was discussed in the Council's last Strategy report published in 1996. In that report the Council characterised three models of wage determination. The first model was the traditional public service system. Pay negotiation in the traditional model was based on an established conciliation and arbitration process in which arbitration was generally on the basis of comparisons with the private sector and internal public service comparisons. In granting increases based on comparability with the private sector, no conditions were attached concerning changes in work practices, organisation or efficiency. The Council identified a second model that it saw emerging under the PESP and the PCW. Under this model local bargaining in the public service had to take full account of flexibility and change. The Council saw this as a step towards a third model that operates in parts of the private sector. Under this third model, change is delivered by managers and workers without necessarily being reflected in pay increases and performance-related reward systems are becoming more common. At present, the public service still seems to be struggling to fully embrace the second model. At one level, this model is embraced. For example, the terms of the local bargaining clause of *Partnership 2000* require that local pay increases are conditional on verified progress on the modernisation programme. However, the Council is concerned that in practice this new system has still not fully taken root and is not adequately understood and accepted by all parties in the process.

6.4.3 The Future of Public Service Pay Determination

The issue of public service pay reform is much wider than merely controlling costs. Public service pay reform is a necessary component of the wider reform of the public service to ensure that the high quality public services expected by society are delivered at an acceptable cost. In Chapter 4 and elsewhere in this report the Council emphasises the importance of efficient management of public expenditure. Since pay accounts for 60 per cent of current supply services expenditure, this cannot be achieved independently of reform of public service pay.

In his address to the newly-appointed Council, in November 1998, the Taoiseach proposed that a greater emphasis on performance could be a way of bridging the gap between the aspirations of public service employees and the limits on public expenditure. One way of achieving this is the more widespread use of individual performance-related pay (PRP). However, greater emphasis on performance as a way of determining pay need not be restricted to individual performance. There should be a stronger focus on the relationship between public service pay and performance at national, sectoral and group levels as well as for individuals.

Some decentralisation of pay management and responsibility is likely to be a necessary component of a more efficient pay determination system. This would involve giving Departments and agencies greater flexibility to manage their expenditure on pay and other areas within a fixed overall budget. The delivery of a given quantity and quality of service under budget could be rewarded. This would shift the focus to rewarding the outcomes of change rather than paying for change. The experience of administrative budgeting under which Government Departments have been given greater freedom to manage their administrative expenditure could be built upon.

The use of individual PRP in the public service internationally is growing. In Denmark, the Netherlands and New Zealand, PRP applies in principle to all levels of the public service, although in practice there is a tendency to concentrate the available funds on rewarding the more senior levels. In the UK, it applies at all levels in the civil service. There is evidence that PRP in the UK public service led to an increase in productivity but at a cost in terms of a deterioration in work relations, such as reduced morale and co-operation (Marsden and French, 1998). In Canada, the United States and Ireland, the schemes are confined to senior managers (OECD, 1995c: 57). Until recently PRP in Australia applied only to senior managers, but since 1997 it has been extended across the public service. The international experience of PRP shows that there have often been problems associated with its implementation. There is some evidence that group schemes have been more satisfactory than individual schemes. Successful implementation of PRP is a complex and challenging task.

In recent years, the modernisation of the public service has become a more significant issue in the negotiation of public service pay, but relativities remain a central concern. Comparisons of some form are always likely to be a feature of pay negotiations: it does not make sense to discuss pay for a group of workers in isolation from what is happening elsewhere in the economy. However, permanently fixed relativities are unsatisfactory for both unions and the Government. If relative positions are permanently fixed, it is impossible to respond in a satisfactory way to significant changes in relative responsibilities and work practices, as well as pressures in relation to the recruitment and retention of staff without very large increases in the public service pay bill.

In its previous Strategy, the Council recommended closer synchronisation of public and private sector settlements. It was argued that when pay settlements take place at different times across the private and public sectors, what one group sees as a catch up another group sees as a pre-emptive advance. Recent developments in the public service also point to the desirability of achieving greater synchronisation within the public service. One of the current controversies in the public service, as noted above, is that the ‘early settlers’ under the PCW feel they have lost out relative to those who reached settlements more recently. There are of course logistical difficulties in simultaneously reaching agreement with a wide range of public service groups.

6.5 PROFIT SHARING, GAIN SHARING AND EMPLOYEE SHARE OWNERSHIP

6.5.1 Background

Profit sharing, gain sharing and employee share ownership are all mechanisms that enable employees to share in the benefits of the success of their organisation as well as the risks that are an inherent feature of any business enterprise. Financial involvement was identified in *Partnership 2000* as one dimension of enterprise-level partnership. A commitment was given in *Partnership 2000* to the introduction of more favourable tax treatment of employee share schemes and profit sharing as a means of deepening partnership and securing commitment to competitiveness at the level of the enterprise.

Profit sharing involves employees receiving a proportion of their incomes that varies with profits. If this income is cash, the terminology ‘profit related pay’ is sometimes used. Share based profit sharing involves allocating shares to workers on the basis of profits. Employee share ownership refers to arrangements that provide for broadly-based ownership of shares by employees in their own firm. This overlaps with the idea of share-based profit sharing.

The idea of gain sharing is that the gains from improved efficiency are shared between the company and employees. This differs from profit sharing since the level of profits may vary independently of the productivity of workers, for example, due to currency movements. Gain sharing is more complex than profit sharing since the measurement of gains will typically be more complex than the measurement of profits. The satisfactory operation of gain sharing requires a considerable amount of trust between employees and management. On the other hand, gain sharing is more flexible than profit sharing. Potentially, it can be applied to areas in which there are no profits such as the public service.

There is a natural link between financial participation such as profit and gain sharing and the new forms of work organisation and partnership that are discussed in Chapter 7 of this report. As noted in that chapter, with new systems of production and service delivery, where change is ongoing and where issues related to economic performance and efficiency are continually being addressed at a local level, the issue of employees’ interests comes immediately to the fore. Profit sharing and related forms of compensation offer a way of addressing employees’ interests in this context of continuous change.

Although there is a logical association between new forms of work organisation, partnership and financial participation, there is little evidence available on the interaction between these phenomena in Ireland. Analysis of a sample survey of Irish enterprises by McCartney and Teague (1997) found that firms with profit sharing or share ownership plans were more likely to have adopted new work practices. This was a small survey (157 establishments) and limited to a few sectors. The reorganisation of Aer Lingus under the Cahill Plan is a good example of the innovative use of profit sharing. In exchange for the sacrifices made under this plan, employees receive 10 per cent of the profits of the company over a number of years until £24.4 million has been paid out. Half is provided in shares. Employees in Telecom Eireann (now Eircom) agreed to major changes in work practices in exchange for 5.0 per cent of the shares of the company.

6.5.2 Incidence of Profit Sharing, Employee Share Ownership and Gain Sharing in Ireland

There are a number of sources of information on the incidence of alternative forms of compensation in Ireland. The most comprehensive of these is the *Irish Management Practice in the Changing Market Place* survey conducted at the Graduate School of Business at UCD. This survey was carried out between mid-1996 and mid-1997. This survey was of a statistically representative sample of the population of Irish workplaces. The survey estimated that 11 per cent of workplaces had profit sharing and 11 per cent had employee share ownership. This implies a maximum of 22 per cent of establishments with either profit sharing or employee share ownership. Some establishments would have had both profit sharing and employee share ownership so the total percentage with either of these forms of compensation would be below 22 per cent. This survey did not collect information on gain sharing.

More recent information on various forms of financial participation is available from an IBEC survey. This survey covered IBEC members with more than fifty employees. Four hundred enterprises, employing over 200,000 employees, responded to the survey. Of the firms who responded, the survey found that 58 per cent had some form of financial participation. These enterprises covered 150,000 employees. In over 80 per cent of cases, the financial participation scheme was open to all employees. Financial participation in this survey related to profit sharing, different types of employee share ownership, gain sharing and a miscellaneous other category. There is clearly a large difference in the incidence of financial participation between the IBEC and UCD surveys. The UCD survey did not include gain sharing and took place at an earlier date but these factors would not be able to explain the extent of the difference. The major difference is the different samples used for the survey. These two surveys would imply that profit sharing is more common among larger employers. This has the implication that the share of employees who benefit from financial participation will be larger than the number of enterprises who offer financial participation since the larger enterprises account for a disproportionate share of employment.

The SIPTU Research Department has monitored the introduction of financial participation agreements under *Partnership 2000*. It has estimated that 71 such agreements (covering gain sharing, profit sharing, share option or share purchase schemes) have been introduced under *Partnership 2000* among the approximately 3,500 employers covered by SIPTU. These results however are not directly comparable to those mentioned above since they refer specifically to agreements reached under *Partnership 2000*.

The Revenue Commissioners publish figures on Approved Profit Sharing Schemes (APSS) that qualify for tax relief. These schemes offer tax relief for share-based profit sharing. The number of employees who received shares from an APSS in the year to April 1998 was 26,258 (see Table 6.6). It is estimated that 141,340 employees have received shares at least once through an APSS up to 1998. This represents 10 per cent of total non-agricultural employment in 1998. In the year ending April 1999, 54 new schemes were approved which is double the number that were approved in the year to April 1996. There can be a lag between the approval of a new scheme and the issuing of shares to employees so the increase in new schemes is not fully reflected in the figures on the number of employees benefiting.

Comparative evidence on employee share ownership is reported by Clifford *et al.* (1997). In 1992, employee share ownership among manual employees in Ireland (10 per cent) was the third highest of

11 European countries, with only the UK and Norway having higher share ownership.

TABLE 6.6

Approved Profit Sharing Schemes, 1983-1999

Year ended 5th April	No. of extra schemes		No. of employees participating	Estimated value of shares appropriated	Average per employee	Estimated cost of tax relief
	Approved	Cumulative		£m	£	£m
1983	–	–	–	–	–	-
1984	2	2	7,478	2.6	348	1.1
1985	6	8	6,424	2.5	389	1.1
1986	7	15	5,465	5.3	970	2.3
1987	13	28	16,522	7.5	454	3.2
1988	18	46	19,206	11.9	620	5.1
1989	18	64	22,855	14.8	648	6.1
1990	23	87	12,175	10.4	854	4.1
1991	23	110	23,955	15.2	635	5.9
1992	11	121	22,352	16.1	720	6.2
1993	9	130	20,421	14.8	725	5.3
1994	4	134	21,638	14.5	670	5.4
1995	8	142	23,802	17.9	752	6.5
1996	27	169	25,727	30.8	1,197	11.1
1997	37	206	34,191	38.3	1,120	13.8
1998	32	238	26,258	31.3	1,192	11.0
1999	54	292	–	–	–	–
Total			**288,469***	**233.9**	**811**	**88.2**

Source: Revenue Commissioners (Direct Tax Statistics Office).

* This count is of employees who have participated more than once. The Revenue Commissioners estimate that a total of 141,340 have participated at least once in an approved profit sharing scheme up to 1998.

6.5.3 Tax Incentives

Tax incentives to encourage employee financial participation have been long established in Ireland but have been made considerably more generous in recent years. The tax incentives to promote an APSS referred to above were first introduced in the 1982 Finance Act. Before then any form of profit sharing in Ireland was rare, confined mainly to senior management level (D'Art, 1992). Under the APSS, employees may be given shares in their company worth up to £10,000 per annum without being liable for any income tax. The terms of profit sharing schemes were made more favourable in the 1997 Finance Act and the scheme was extended to part-time employees. In the 1999 Finance Act, the £10,000 annual limit was increased to £30,000 on a once-off basis where certain conditions are satisfied. In particular, the shares must have been held in an Employee Share Ownership Trust (ESOT) for a minimum period of ten years.

The 1997 Finance Act introduced incentives to encourage the formation of Employee Share Ownership Plans (ESOPs). The basic idea of an ESOP is that a trust (that is, an ESOT) acquires shares in the employing company for the benefit of employees. ESOTs are being introduced mainly in commercial state enterprises that are in the process of being privatised.

New incentives to encourage employee share ownership were introduced in the 1999 Finance Act in the form of a Save As You Earn (SAYE) share option scheme. Under this scheme, employees agree to save for a fixed time period and are given the option to buy shares in their company at a predetermined price which may be at a discount of up to 25 per cent of the market value at the time. At the end of the savings period employees have a choice. They can take their accumulated savings and a tax-free bonus. Alternatively, they can avail of the option to purchase shares at the initial predetermined price. The profitability of realising the share options depends on what happens to the share price over the period of the savings contract. This gives employees an incentive to work towards increasing their company's profitability. The profits made on the exercise of the share option are free of income tax but subject to capital gains tax on disposal. In normal circumstances, exercising a share option would create a liability for income tax. By its nature, an SAYE scheme is voluntary so not all employees will necessarily participate.

Tax incentives may help to encourage employee financial involvement, but there are also potential disadvantages. As with other tax incentives, the schemes described here can create opportunities for tax planning. The UK experience of tax relief for profit-related pay illustrates the dangers involved. Profit-related pay in the UK became very expensive to the UK Treasury (the equivalent of 1.0 per cent off the standard rate of tax) and was simply a way of converting ordinary bonuses into tax-free lump sums.

6.6 FUTURE WAGE DETERMINATION

The partnership approach to economic management in Ireland since 1987 has produced remarkable results, most notably in terms of employment, unemployment, living standards and industrial peace. The current challenge is one of securing a continuation of economic success and addressing unresolved issues of social exclusion.

One aspect of policy that has been outside the partnership approach is housing. The previous programmes had commitments on social housing, but for the most part policy in relation to housing has not been influenced by the partnership process. The current situation in the housing market is cause for serious concern and makes it more difficult to achieve a co-ordinated approach to wage determination. The implications of the housing market for wages should not be overstated. Given Ireland's historically high rate of owner occupation, most people are insulated from the adverse effects of high house prices and high rents and those with mortgages have gained from lower interest rates. However, there are undoubtedly major problems for many people, not only renters and first-time buyers but also parents who have become involved in providing financial assistance to enable their offspring to buy a house. This may involve taking out a second mortgage. One disadvantage of a high rate of home ownership is a poorly developed private rental sector. Infrastructure and housing are addressed in Chapters 10 and 11 respectively. Tackling the housing problem depends among other things on a major investment in public infrastructure. Convincing measures to address housing are an important element of the continuation of a balanced approach to economic management.

One welcome aspect of Irish economic performance since 1987 has been the strong growth of employment and the reduction in unemployment. The ESRI *Medium Term Review 1999-2005* forecasts that the labour force will grow by an annual average of 2.0 per cent for the period to 2005, and by an annual average of 1.5 per cent for the five year period to 2010 (Duffy *et al.*, 1999). This is slower than the average rate of 3.0 per cent for the period 1995 to 2000. Nonetheless, a 2.0 per cent growth rate is equivalent to an annual increase in the labour force of 30,000 which represents substantial growth. If unemployment is to continue to fall in the context of this labour force growth, it will be necessary to achieve consistent employment growth considerably above the historical norm for Ireland, although at a slower rate than the last few years. The growth of earnings needs to be consistent with maintaining cost competitiveness if this employment growth is to be achieved.

Another influence on the growth of wages is the planned introduction of a minimum wage from April 2000. The effects of this measure have been examined in a recent report prepared by the ESRI for the Inter-Departmental Group on the Implementation of a National Minimum Wage (1999). This report used a rate of £4.40 per hour for its analysis. The immediate impact of the minimum wage on the wage bill was estimated to be an increase of 1.6 per cent. This does not take account of spillover effects; that is, increases in the wages of other employees as a result of the minimum wage. The extent of these spillover effects is uncertain but based on the researchers' central estimate, the total increase in the wage bill is 2.0 per cent. The other immediate effects were estimated as follows: a reduction in employment of 15,400; an increase in unemployment of 14,100; and an increase in inflation of 0.26 per cent. The long-run effects are somewhat lower as the economy adjusts. The immediate effects will occur at around the time of the expiry of the *Partnership 2000* agreement.

Of course, there are also positive effects to the introduction of a minimum wage. The gains in money terms for the family units affected are substantial. There is an estimated average gain of £30 per week per family unit. These gains are concentrated in the middle of the income distribution. This reflects the fact that those in the lowest income deciles do not rely much on wage income but depend mainly on social welfare income as well as income from self-employment, farm income and occupational pensions. The introduction of the minimum wage improves work incentives. In a simulation of the impact of the minimum wage using the ESRI tax benefit model SWITCH, the proportion of the unemployed facing replacement ratios over 50 per cent falls from 41 per cent to 23 per cent. The largest impact on labour supply is for women. It was estimated that the minimum wage increases female labour force participation by three percentage points while male labour force participation increases by 1.5 percentage points. The effects of the proposed minimum wage will need to be taken account of in the negotiations of a potential new agreement.

The Council believes that reform of the current system of public service pay determination is an important priority. It is a necessary element of wider public service reform that is required to meet society's expectations of high quality public services. A greater emphasis on the relationship between public service pay and performance is a key dimension of reform. Some decentralisation of pay management and responsibilities to Government Departments and agencies is likely to be a necessary component of a more efficient pay determination system.

The incidence of profit sharing and related forms of financial involvement in Ireland is increasing from a low base. The current economic buoyancy provides a favourable environment for the more widespread adoption of financial participation. Such financial participation may contribute to sustaining the current favourable economic performance because it allows employees to share the benefits and risks of economic buoyancy. Tax incentives may help to encourage employee financial involvement, but such incentives should be carefully monitored and evaluated as, in general, tax expenditures tend to make general tax reform more difficult (see Chapter 5).

In the current deliberations among the social partners on a possible successor agreement to *Partnership 2000*, one key question will be the appropriate scale of wage increases in the period 2000-2002. A number of factors must be allowed for. One imperative is competitiveness and the need to sustain job growth. A second requirement is the need to address on a sustainable basis the issue of labour shortages in parts of the economy. A third consideration is to find ways of sharing the benefits of growth while maintaining a capacity to respond to a major economic slowdown, were one unexpectedly to occur.

The challenge of providing a more rapid rate of improvement in standards of living, including social and other public services, while continuing to move towards full employment cannot be met by repeating the policy formulas of the past. What is needed is a new combination of competitive pay increases, further tax reductions, and an increasing emphasis on performance-related pay, applied in the public and private sectors. The Council's view is that the basic objectives in relation to pay determination are best met through co-ordinated wage bargaining, in which there is an element of co-operation and a focus on long-term interests. The continuation of a satisfactory pay determination system is most likely to be achieved through a negotiated consensus that includes agreement on pay, tax reform, the public finances, infrastructure, housing and policies to address social exclusion.

CHAPTER 7

LABOUR MARKET ADAPTABILITY AND EMPLOYABILITY

7.1 INTRODUCTION

Since the publication of the last Strategy report in 1996, there have been some dramatic changes in the Irish labour market. A significant increase in labour force participation has been surpassed by employment growth, leading to a halving of the unemployment rate in just three years (from 11.9 per cent in April 1996 to just 5.7 per cent in the second quarter of 1999). The long-term unemployment rate has also declined, falling from 6.9 per cent to 2.5 per cent over the same period.[1]

The increase in labour force participation has been driven by a number of factors. Rising Irish birth rates until 1980 have led to a rapid natural growth in the labour force. Net inward migration has replaced net outward migration as both returning Irish emigrants and other non-national immigrants choose to live and work in Ireland. Female labour force participation has also been increasing rapidly, although it still remains low by international standards. Employment growth has been fuelled by the general growth in the economy. Foreign direct investment in particular high-growth sectors and the favourable economic climate created through social partnership have played key roles in maximising job growth. Employment growth in excess of labour force growth has led to a sharp reduction in the unemployment rate. There are also emerging signs of a general tightening of the labour market across a range of sectors, including low-skilled sectors. For the first time in years, policy-makers are once again discussing the achievement of full-employment as a realistic goal.

In addition to these internal trends, the Irish labour market is

1 Chapter 9 analyses the long-term unemployment data in more detail, revealing that problems of continuing social exclusion remain despite the drop in registered long-term unemployment.

increasingly being influenced by external global phenomena. As Chapter 3 has already highlighted, increasing economic integration influenced in particular by the growing importance of technology and the mobility of capital and labour flows present new challenges, as well as opportunities. The drive for competitiveness remains imperative. As firms move up the value chain, a key source of competitiveness is the availability of a good quality labour force that is adaptable to changing circumstances and is willing and capable of up-skilling according to need.

In addition, existing systems of work may no longer be appropriate to changing lifestyles. In future, working lives are likely to become a much more diverse mix of requirements and choices that will have to include a balance between employment (job and tenure mixes), non-employment,[2] education and training, parenting and caring functions. A key means of achieving this balance is through promoting and encouraging adaptability and employability. For many individuals, particularly the low skilled and the unemployed, an adaptable labour market can increase fears of insecurity. Indeed, it is for these groups of people that concerted policy action is most appropriate. However, labour market adaptability and security need not be mutually exclusive. A distinction can be made between *job security*, which refers to an employee's probability of keeping a particular job, and *employment security*, which refers to the probability of staying in employment or finding new employment when first entering or re-entering the labour market (Buechtemann, 1993). Thus, security is increasingly based on adaptability and employability in the wider labour market rather than security in a specific job.[3]

All of these trends suggest that Irish policy-makers will have to

2 This could include situations whereby individuals choose not to work because of personal circumstances as well as periods of short-term, or frictional, unemployment.

3 In the report of the European Social Policy Forum 1998 (European Commission, 1998c:18), it is stressed that the "employability of individuals depends not just on aptitude, skills, educational qualifications and training, but also upon matters such as having a decent home, an income to meet costs such as transport for applying for jobs, access to healthcare and a secure position in society." Some of these issues are discussed in Chapter 9.

consider a wider set of labour market issues than has been the case in the past. Tackling high unemployment and maintaining low unemployment rates will remain a fundamental policy concern but other issues such as the up-skilling of the labour force and the promotion of family-friendly working policies will become even more important. These are the types of considerations that should inform policy in a full-employment economy. Fortunately, Ireland already has a framework, in the form of the European Employment Strategy, that can be used to address these concerns.

The European Employment Strategy was devised as a co-ordinated policy mechanism to try to modernise European labour markets by increasing the adaptability and employability of workers and firms, as well as those seeking employment. The aim is to develop a labour market that is more adaptable to change such as the challenges imposed by a macroeconomic shock or the opportunities presented by globalisation and new technologies. Recent employment trends differ across Member States, with Ireland achieving the fastest employment growth in recent years, while other countries such as Germany and France have recorded low or negative job growth. However, the European Employment Strategy is broad-based and provides scope for policy action depending on individual and often varied circumstances.

One of the important features of the European Employment Strategy is the role assigned to Member States' social partners in both developing and implementing the strategy. With this in mind, the remainder of this chapter analyses labour market adaptability and employability within the framework of the European Employment Strategy. Section 7.2 examines the Employment Strategy in more detail and the Irish response to it. In particular, it highlights that the social partners are assigned an active role in three key areas: the promotion of lifelong learning; the implementation of family-friendly working policies including childcare and parental leave; and the development of new forms of work organisation. Sections 7.3 to 7.5 of the chapter discuss each of these in turn. Section 7.6 presents conclusions and recommendations.

7.2 EUROPEAN EMPLOYMENT STRATEGY

Following adoption of the Amsterdam Treaty in 1997, the EU Member States agreed to a co-ordinated employment strategy designed to encourage a skilled and adaptable labour force and to promote European labour markets that are responsive to economic change. The European Employment Strategy (sometimes referred to as the Luxembourg process) was conceived as a parallel process to the introduction of EMU, with EMU helping to improve Europe's ability to handle macroeconomic shocks through the convergence and co-ordination of economic policies and the European Employment Strategy helping to improve the structural transformation and modernisation of European labour markets.[4]

The European Employment Strategy is framed around Employment Guidelines that are updated annually (see Table 7.1). Each Member state is required to submit an Employment Action Plan in line with the Guidelines on an annual basis. The first set of EU Employment Guidelines was agreed to at the Luxembourg Jobs Summit in November 1997. Following submission and evaluation of Member States' 1998 National Employment Action Plans, the 1999 EU Employment Guidelines were agreed to at the Vienna EU Council meeting in December 1998. The 1999 Guidelines contain only minor additions and modifications from the 1998 Guidelines. Thus, the four-pillar approach is maintained but Member States are to place more emphasis on:

- active measures, particularly reform of the tax and benefit system;
- lifelong learning, especially in the area of information and communications technologies and with careful consideration of access for older workers;
- certain disadvantaged groups, such as those with disabilities and ethnic minorities, who have difficulties acquiring skills and gaining access to the labour market;

4 The Employment Strategy also forms part of the European Employment Pact, which was launched at the Cologne European Council meeting in June 1999 (see Chapter 3).

TABLE 7.1

1999 EU Employment Guidelines

Pillar One: Improving Employability
Guidelines 1 & 2 Tackling youth unemployment and preventing long-term unemployment
Guidelines 3 & 4 Transition from passive measures to active measures
Guidelines 5 & 6 Encouraging a partnership approach
Guidelines 7 & 8 Easing the transition from school to work
Guideline 9 Promoting a labour market open to all
Pillar Two: Developing Entrepreneurship
Guidelines 10 & 11 Making it easier to start up and run businesses
Guidelines 12 & 13 Exploiting new opportunities for job creation
Guidelines 14 & 15 Making the taxation system more employment friendly
Pillar Three: Encouraging Adaptability of Businesses and Their Employees
Guidelines 16 & 17 Modernising work organisation
Guideline 18 Supporting adaptability in enterprises
Pillar Four: Strengthening Equal Opportunities for Men and Women
Guideline 19 Gender mainstreaming approach
Guideline 20 Tackling gender gaps
Guideline 21 Reconciling work and family life
Guideline 22 Facilitating reintegration into the labour market

Source: Department of Enterprise, Trade and Employment (1999), *Ireland Employment Action Plan 1999*

- exploiting the potential of the relatively employment-intensive services sector;
- the reconciliation of work and family life; and
- equal opportunities between men and women under all pillars of the Guidelines, using benchmarking and mainstreaming approaches.

TABLE 7.2

Irish Employment Action Plan:
1998 Outturn and 1999 Estimated Expenditure (current prices)

	1998	1999	% change
Pillar 1: Improving Employabilty	(£M)	(£M)	
Public Employment/Training Services (Admin.)	56.0	60.9	8.8
ALMPs/In-work subsidies	367.4	401.3	9.2
Training/Education	110.2	139.1	26.2
Other employability-enhancing expenditures including local initiatives	335.5	415.0	23.7
Schemes supporting employment of persons with disabilities(1)	–	3.1	3.0
Sub-total	***869.1***	***1,019.4***	***17.3***
Pillar 2: Developing Entrepreneurship			
ALMPs	61.7	78.8	27.7
Loan Subsidy	1.4	1.3	-7.1
Small Business Operation Programme	10.2	28.1	175.5
Community Enterprise Boards	22.7	21.8	-4.0
Training Networks	0.0	3.0	–
Enterprise Ireland	–	60.0	–
Sub-total	***96.0***	***193.0***	***101.0***
Pillar 3: Encouraging Adaptability			
Training Measures	13.3	31.1	133.8
Sub-total	***13.3***	***31.1***	***133.8***
Pillar 4: Strengthening Equal Opportunities			
Equality Infrastructure	0.6	3.7	487.3
Childcare	2.2	2.8	27.5
Schemes supporting employment of persons with disabilities(1)	3.0	–	3.0
Sub-total	***5.9***	***6.5***	***11.4***
Total	**984.3**	**1,250.0**	**27.0**

Source: Department of Enterprise, Trade and Employment (1999), *Ireland Employment Action Plan 1999.*

Note: (1) Expenditure for Employment Schemes for Persons with Disabilities is reclassified from Pillar 4 to Pillar 1 over the 1998 to 1999 period.

This new emphasis is clearly reflected in the re-structuring of expenditure under Ireland's 1999 Employment Action Plan (Table 7.2).[5] Expenditure under Pillar 2 (Developing Entrepreneurship) is expected to more than double in 1999, largely due to the increased provision for establishing an appropriate support network for small businesses, many of which will be service-oriented. Expenditure on Pillar 3 (Encouraging Adaptability) is estimated to increase by over 130 per cent (mainly in continued training measures), although this Pillar will still only account for about 2.5 per cent of total Action Plan expenditure. Employment support for persons with disabilities and other disadvantaged groups (such as Travellers) has been re-classified to form part of Pillar 1 (Improving Employability).[6] This should enable such support to be integrated and mainstreamed within other employability measures. Finally, the 1999 Employment Action Plan prioritises the establishment of an equality framework (primarily the appointment of an Equality Authority and a Director of Equality Investigations, as provided for in the Employment Equality Act 1998), with an almost five-fold increased expenditure commitment.

The Council broadly supports the co-ordinated approach to employment contained in the EU Employment Guidelines and the Employment Action Plans. The co-ordination of different aspects of employment policy across Member States is the appropriate response to the challenges and opportunities of the increasingly integrated global and European economies. These require countries to become more flexible and adaptable to changing circumstances. This is also reflected in the multi-annual nature of the process, with the Guidelines and Employment Action Plans under continuous review. While the European Council can make recommendations to individual Member States on their Action Plans, drafting and implementation is the responsibility of Member States and their social partners. A guideline, rather than a prescriptive approach, is also welcome. It ensures co-ordination, while still preserving the

5 Of course, expenditure is only one criterion for examining the effectiveness of a programme.

6 Previously, these measures were included under Pillar 4 (Strengthening Equal Opportunities).

autonomy of individual Member States to interpret the Guidelines in accordance with national circumstances and needs.

The EU Guidelines represent a significant shift from actions that tackle long-term unemployment after it has developed, towards policies that aim to prevent the emergence of long-term unemployment. Preventative measures are covered by Guidelines 1 and 2, while measures to assist those who are already long-term unemployed (reintegration measures) are only referred to but not in a specific guideline. The Council endorses the importance of preventative measures, but would be concerned, particularly given Ireland's history of long-term unemployment, if this new emphasis occurred at the expense of reintegration measures, and if such a shift were to be overly reflected in ESF-funded programmes in the future. In this regard, the Council endorses the continued prominence given to measures to tackle long-term unemployment in the Irish Employment Action Plan and recommends that this prominence should continue while the problem persists.

As aforementioned, one of the important features of the European Employment Strategy is the role assigned to Member States' social partners in both devising and implementing the strategy. The Council welcomes this role but is concerned that it remains underdeveloped in Ireland. The Council recommends that the social partners in Ireland be given a more direct formal role in the development and implementation of the Irish Employment Action Plan. The Department of Enterprise, Trade and Employment should agree with the social partners a formal institutionalised process through which active consultation and co-operation can take place on the Irish Employment Action Plan. This would also be in line with recommendations made in the European Commission/ European Council's draft Joint Employment Report,[7] which called for more "concrete evidence" on the role of the social partners in the 1999 Irish Employment Action Plan.

The EU Employment Guidelines assign a direct role for the social

7 The draft 1999 report is available at http://europa.eu.int/comm/dg05/empl&esf/empl2000/jer99_en.pdf. The final report will be available towards the end of 1999.

partners in relation to three specific areas. Guidelines 5 and 6 (Encouraging a partnership approach) urge the social partners to work with their Member States to promote employability through the encouragement of training and lifelong learning. Guideline 16 (Modernising work organisation) invites the social partners to negotiate agreements to modernise work organisations that will enhance productivity and competitiveness and achieve the appropriate balance between flexibility and security. Finally, Guideline 21 (Reconciling work and family life) calls on the social partners, in co-operation with Member States, to design, implement and promote family-friendly policies including childcare and parental leave.

Using these guidelines as a basis for discussion, the remainder of this chapter explores the current situation and potential policy options under each of these three areas. This focus should not be interpreted as undermining the Council's commitment to any other of the EU Employment Guidelines. Indeed, many of the Guidelines touch on areas that are discussed elsewhere in this Strategy document (for example, tax and welfare reform, active labour market policies, regulatory reform). The focus on these three areas is based on a recognition, as discussed in Section 7.1, that there are broader labour market issues that need to be addressed and an awareness of the special responsibility ascribed to the social partners in tackling these three areas. The next section discusses lifelong learning, identifying a number of priorities for policy action. Section 7.4 examines the current status of childcare and parental leave arrangements and makes a number of recommendations for improvements in provision. Section 7.5 reviews the development of new forms of work organisation in Ireland. Section 7.6 concludes the chapter and presents recommendations.

7.3 LIFELONG LEARNING

Lifelong learning is essential to the development of an effective economy and society. The links between continued education and training and economic and social development are well documented.[8] Recent economic theory acknowledges the importance of human capital development and highlights the linkage between skills development and productivity. Rapid technological and structural change mean that continued training and skills formation are essential requirements in a dynamic labour market. Human capital is also a key element in providing the research and information base on which technological progress and sustainable productivity growth can be achieved. Furthermore, OECD studies have highlighted human resource development as a factor that enhances labour market adaptability and facilitates structural adjustment.

With the increasing use of technology in the workplace, individuals need to constantly upgrade and adapt their skills. The technology momentum has also clearly divided the workforce between the skilled and the unskilled. Continuous education and training can help to ensure that people are not left behind, leading to social and economic disadvantage. Training can also help to reduce the insecurity that many feel in the new work environment. Continuous training can thus help people to feel that they have a 'stake' in the world of work because it leads to significant enhancements in their employability.

EU Employment Guidelines 5 and 6 focus on the importance of training and lifelong learning as a means of developing a skilled and adaptable labour force. The Irish Employment Action Plan adopts the EU Employment and Labour Market Committee's definition of lifelong learning:

> …all purposeful learning activity, whether formal or informal, undertaken on an ongoing basis with the aim of improving knowledge, skills and competence.

While the Council acknowledges the importance of lifelong learning for improving employability and adaptability, it views lifelong learning as essential for personal fulfilment outside the labour market as well.

The promotion of lifelong learning is one of the policy areas where

8 See NESC (1993b) for a complete review.

the EU Employment Guidelines identify a particular role for the social partners. This reflects the growing opinion that it is through social partnership, or other mutual understanding arrangements, that training systems capable of meeting changing skill demands can best be devised and introduced (Ashton and Green, 1996; ILO, 1998; Green, 1999). This type of co-operation enhances the responsiveness of the education and training sector to the needs of the economy, while still prioritising the needs of the individual.

The Council acknowledges the significant improvements that have been made to the education and training system in Ireland. In particular, the introduction of free secondary education in 1967 has been acknowledged by most observers as contributing greatly to our recent economic success. However, the Council argues that another significant policy step-up is required if we are to cope with the challenges of the increasingly knowledge-based and economically interdependent world economy. This step-up requires renewed commitment to lifelong learning, that seeks to translate aspirations and proposals into actions.[9]

In this regard, the Council welcomes the proposal in the 1999 Irish Employment Action Plan for the Department of Enterprise, Trade and Employment in collaboration with the Department of Education and Science to establish a working group on lifelong learning. The working group is expected to be established in late 1999 with the aim of developing a strategic framework and defining participation targets for lifelong learning in the context of the EU Employment Guidelines. The strategic framework will be developed within the context of the broad definition of lifelong learning adopted in the 1999 Irish Employment Action Plan (see above). The framework is also likely to be influenced by a scoping report on lifelong learning currently being prepared by the ESF Evaluation Unit of the Department of Enterprise, Trade and Employment. The scoping report is expected to discuss how the concept of lifelong learning is evolving in Ireland and relative to our EU neighbours. The working

9 Some lessons may be drawn from Northern Ireland's action plan on lifelong learning, *Lifelong Learning – A New Learning Culture for All* (1999), which sets out the Northern Ireland's policy on lifelong learning following consultation on its Green Paper, *The Learning Age.*

group is expected to adopt a broad but focused approach. This implies the identification of priorities from across the whole spectrum of education and training that are essential for the development of lifelong learning.

The Council recommends an active role for the social partners on the working group on lifelong learning. The Council's priorities for the development and promotion of lifelong learning are detailed in the following sub-sections. In line with OECD recommendations, policies to establish and promote lifelong learning have to include a commitment to early childhood education, a good standard of primary, secondary, tertiary and adult education, clear pathways from one stage to the next and clarification of the roles and responsibilities of the various partners involved. The Council recommends that these themes should be used as a guide to the development of a strategic framework for the promotion of lifelong learning.

7.3.1 Early Childhood Education

The *Report on the National Forum for Early Childhood Education* (1998) outlines the benefits of early education such as raising individual potential, promoting social inclusion, increasing returns on educational investment and enhancing future employability. These benefits are particularly pronounced for children from disadvantaged backgrounds whose participation in such programmes can lead to improved education participation and achievement in later life, as well as enhanced self-esteem and employment prospects. Society also benefits through the subsequent savings made in, for example, the costs of remedial education, income support and joblessness.

Internationally, early childhood education is defined as education from birth to six years of age. Because of the well-developed system of national primary education at Junior and Senior Infant levels in Ireland, the proportion of children receiving early primary education is quite high at 55 per cent of 4-5 year-olds and 99 per cent of 5-6 year-olds. For children under four years of age, the principal publicly-funded initiative is the pilot Early Start Pre-

School Programme which is targeted at disadvantaged areas. Some 40 schools and around 1,600 children are currently involved in the pilot Early Start programme. Future direction of Early Start will largely depend on the outcome of an independent evaluation currently being undertaken by the Educational Research Centre at St. Patrick's College, Drumcondra. The Department of Education and Science is also due to publish a white paper on early education before the end of 1999. Pending the expected publication of these reports, the NESC argues that the targeted provision of early education should be maintained. Linkages between pre-school and primary school should also be enhanced so as to maximise the benefits of these types of early intervention measures. Development should also proceed in cognisance of the support structures already in place within the family and the wider community.

7.3.2 Tackling High Drop-Out Rates

Ireland has high school drop-out rates at both second- and third-level. In the current buoyancy of the Irish economy, there are fears that these drop-out rates will accelerate as young people are attracted by the prospects of relatively high wages rather than the opportunity to continue or pursue further education.

The problem of high drop-out rates at second-level is not a new phenomenon. Students in Ireland are legally obliged to participate in school until the age of 15 years, which is about average in OECD countries.[10] Approximately 4.4 per cent of young people at that age are not enrolled in school in Ireland, well below the OECD average of 11.5 per cent (OECD, 1997a). After that, however, Irish second-level non-completion rates rise considerably but remain below OECD averages. For example, 22.9 per cent of young people at typical upper secondary graduation age (in Ireland usually, 17-18 years) are not enrolled in any kind of education.[11] While this is a

10 Although legislation to increase this requirement to 16 years is being progressed through the Houses of the Oireachtas.

11 Data refer to full- and part-time enrolments in all levels and types of education, attending both public and private institutions. Data refer to the 1994/95 school year.

high figure, it is nearly half the OECD average of 44.9 per cent.[12] Nevertheless, a drop-out rate of nearly 23 per cent is undesirable in a growing economy.[13] It should also be borne in mind that this figure represents an average over the entire second-level system. There are a number of schools where the drop-out rate is significantly higher. For example, more recent data from the Department of Education and Science show that about nine per cent of schools have a senior-cycle drop-out rate of more than 50 per cent. Measures to increase senior cycle retention rates should be targeted on such schools.

The repercussions of leaving school without formal qualifications are considerable. Such individuals are likely to experience high unemployment rates and relatively low earnings. The 1997 ESRI School Leavers Survey indicates that almost 60 per cent of unqualified[14] school leavers are unemployed; unqualified school leavers spend on average one year out of work and earn on average 30 per cent less than the mean hourly earnings for all leavers who entered employment (Collins and Williams, 1998).[15]

The ESRI Survey also shows that two-thirds of unqualified school leavers are male. Indeed, there are stark differences in the qualification levels of male and female school-leavers. For example, 87 per cent of female school-leavers in 1995/96 left school having completed the Leaving Certificate, versus just 75 per cent of male school-leavers. The diverging educational experiences and outcomes of male and female school leavers is an issue that needs to

12 Second-level graduation age varies across countries which can lead to an over- or under-statement of non-completion rates when comparing by simple age groups. This comparison of enrolment 'at typical graduation age' tries to get around these measurement difficulties by more accurately comparing 'like with like' based on typical graduation age rather than the more simple age classification.

13 Ireland has low completion rates for older age cohorts (e.g. those aged 25 years and older) relative to other OECD countries, although completion rates have been improving over time.

14 That is, those leaving school without any formal school qualifications such as the Junior Certificate, the Leaving Certificate, or any other formal qualifications.

15 The Survey covers 2,800 school leavers in 1995/96 who were interviewed in the period October to December 1997.

be analysed, particularly as the continuing shift in the economy from industry to services, will reduce available opportunities in what have traditionally been seen as male occupations. This evidence suggests that specific policy measures may be needed to target male school students because of their higher drop-out rates relative to female students.[16]

However, a significant problem for implementing policy to address high drop-out rates is the difficulty in trying to target those most in need. For example, according to the ESRI Survey, 69 per cent of 1995/96 school-leavers with no qualifications were not participating in any further education or training programmes. However, recent policy changes, such as the systematic engagement introduced under the Irish Employment Action Plan, may help to improve targeting. The Department of Education and Science has also recently announced a new scheme aimed at encouraging pupils to stay in school to the end of the Leaving Certificate. The scheme will give discretion to individual schools to devise and implement measures that will keep their students in school. The Council welcomes this innovative approach to tackling early-school-leaving. The Council recommends that other innovative approaches should be developed for schools in rural areas, which may not have the same concentrations of educational disadvantage as urban areas, but which still have problems of early-school-leaving that need to be addressed.

Of course, high drop-out rates are not the only problem. A significant number of those young people who complete secondary education leave school without formal qualifications or the basic skills and competencies required to participate in today's labour market. Nearly nine per cent of the students who sit a minimum of five subjects in the Leaving Certificate each year do not receive a minimum of five Grade D3s at any level. However, this figure may decline in the future as more students are given the opportunity to pursue the Leaving Certificate Applied and Vocational options. In 1998/1999, only 183 schools (out of a total of 759 second-level

16 These could be included as part of any general programme for tackling secondary school drop-out rates.

schools) made the Leaving Certificate Applied available to their students. In the same period, the Leaving Certificate Vocational Programme was made available to 448 schools. The Council recommends that access to all available certificate options should be widened.

While high drop-out rates have been a fairly common feature of the education system at secondary level, there is growing evidence of high attrition rates at third level as well. A study carried out for the Commission on the Points System estimated third-level attrition rates of 26 per cent,[17] while other evidence suggests completion rates of just 80 per cent at degree level and only 65 per cent at technician level in Irish third-level technology courses (Expert Group on Future Skills Needs, 1998). Despite these high rates, Ireland's third-level drop-out rate compares relatively well with other countries. For example, OECD figures for Ireland show a third-level non-completion rate of 23 per cent, with only four countries having lower levels (UK, Japan, Hungary and the Czech Republic) and 15 countries having higher drop-out levels (OECD, 1998c). But this should not give rise to complacency. The continuation of high drop-out rates at third level could seriously damage the Irish economy's ability to compete in the global marketplace and will perpetuate patterns of social exclusion through future generations.

There are a number of possible reasons for high drop-out rates at third level, including students' lack of knowledge about the course undertaken and a poor appreciation of what third-level study involves. This suggests the need for better partnerships between third-level institutions and secondary schools. Greater effort should be placed on matching students with college places more carefully and promoting more non-traditional places, such as at vocational level. The availability of good quality career guidance seems essential here. Improved guidance might also help to eliminate the inherent problem with the points system, whereby students make

17 This figure represents the proportion who entered college in 1992 and had not completed by 1998. The figure includes three per cent of students who were still continuing their studies and a further two per cent who completed their courses but failed their final year exams.

their course choices according to what they think they will achieve rather than what they actually want to pursue as a career or education choice. There is also some anecdotal evidence that, despite the abolition of third-level fees, cost remains a big factor in the decision to leave college, especially for those who have to find accommodation away from the family home.

7.3.3 Vocational Training[18]

Over the last 10 years, the Irish education system has made a significant effort to try to adopt a broader approach to education than the traditional academic orientation. In particular, the development of the Leaving Certificate Vocational Programme and the more recent Leaving Certificate Applied are important steps in ensuring the availability of school-based programmes that stress the importance of technical and life skills, as well as academic excellence. In 1997/98, 20 per cent of senior-cycle students were enrolled in the Leaving Certificate Vocational programme, while 5.0 per cent were involved in the Leaving Certificate Applied. Both are seen as contributing to higher second-level retention rates by offering a more appropriate choice of senior-cycle study.

At post-secondary level, the principal vocational education route is through post-Leaving Certificate courses and apprenticeship training. The apprenticeship training system has recently been reformed from one based on time served to a standards-based programme. There is also an increasing number of entrants who have completed upper secondary education (46 per cent in 1998/99 according to FÁS estimates). This likely reflects the broadening of the secondary curriculum to include vocational and applied subjects. It also highlights that securing interest in education at a young age is fundamental to promoting lifelong learning. However, the participation by women in apprenticeship training remains low – of the 18,400 registered FÁS apprentices at the end of June 1999, only 109, or 0.6 per cent were women. The Council recommends

18 This sub-section discusses only initial vocational training and continuing vocational training that is pursued outside the workplace. Workplace-based training is discussed separately in a later sub-section of this chapter.

that FÁS should intensify its efforts to increase the participation of women in apprenticeship training, drawing on the experience of other successful programmes such as the New Opportunities for Women (NOW) programme.

For those who leave school without formal educational qualifications, other options are available, including Youthreach and Community Training Workshops. There are also a range of vocational training options for the unemployed, particularly the long-term unemployed. The principal one of these is the Vocational Training Opportunities Scheme (VTOS), which provides a range of vocational training options to long-term unemployed persons over the age of 21. There are approximately 5,000 participants currently engaged in the VTOS, up from just 247 in 1989, its year of inception.

The Green Paper on Adult Education (Department of Education and Science, 1998) highlights the literacy problem in Ireland as the most urgent adult education concern. The Green Paper cites evidence from the 1995 OECD International Adult Literacy Survey which shows that about 25 per cent of the Irish population is at the lowest literacy level. Most of these are concentrated in the older age groups and tend to be associated with low income, unemployment and low education levels. The OECD survey also showed that low literacy levels tend to be associated with low participation in adult education and training programmes. This highlights that continued participation in further training requires basic literacy and numeracy skills. Therefore, any drive towards lifelong learning has to be grounded in a commitment to increase these basic skill levels. The Green Paper made a number of recommendations including the development of a National Adult Literacy Programme, the development of a back-to-education initiative, improved support services for both students and education providers such as guidance and childcare and the establishment of a forum for best teaching practice. A white paper on adult education will be published before the end of 1999. The Council welcomes this renewed commitment to adult education, which it argues is essential to the development of lifelong learning. The Council recommends that appropriate measures should be undertaken as soon as possible to translate the recommendations of the upcoming white paper into policy actions.

More work needs to be done to promote vocational training amongst schools, students, parents and firms. Most evidence shows that countries that ensure clear progression pathways with multiple entry and exit points have managed to raise the attractiveness of vocational education and training (OECD, 1999a). The improved system of certification and accreditation proposed in the recently-enacted Qualifications (Education and Training) Act 1999 is an important step. The Act will establish the first national system of certification, covering the full range of qualifications from basic literacy certificates to specific skills training to further and higher education. A new National Qualifications Authority will be set up to act as the overall guarantor of the quality of further and higher education. The Authority will oversee two new bodies:

- the Further Education and Training Awards Council, which will incorporate the current further education and training certification functions of FÁS, the National Tourism Certification Board, Teagasc and the National Council for Vocational Awards; and
- the Higher Education and Training Awards Council, which will incorporate the higher education and training certificate functions of the National Council for Educational Awards and other bodies.

A key emphasis of the Act is the importance of ensuring progression pathways within education and training, so that each qualification has the potential to lead to a higher qualification. This integrated approach to certification and accreditation, which envisages simple literacy courses as much connected to the education and training system as third-level courses, is an essential requirement of the emerging learning society.

The establishment of a national qualifications framework should also help to promote international recognition of awards and international mobility. The mutual recognition of international qualifications is relatively undeveloped. For example, despite a

1989 EU directive promoting mutual recognition of higher education diplomas, there is still no EU-wide accreditation system for schools or universities (Bean *et al.*, 1998). The Council recommends that the new National Qualifications Authority should aim to establish either bilateral or multi-lateral links with similar authorities in other countries so that students can maximise the benefits of their training when working or pursuing further education abroad. The establishment of such links would also help to identify best practice training systems.

7.3.4 Curriculum Development

With globalisation, language skills are becoming more important. Labour mobility can play an important role in helping the economy to adjust. Ireland has a long history of emigration and migratory movement as a means of adjustment to economic downturn. However, most migration has taken place to other English-speaking countries, mainly the UK and the US. While these destinations will always be the most popular, enhanced language training at *all* levels of education would provide young people with the necessary skills to choose other destinations. Efforts should also be made to diversify language take-up in school. For example, despite the fact that Spanish is the most common spoken language in the world after Chinese Mandarin, less than three per cent of Leaving Certificate students choose to learn Spanish.[19]

Up until recently, languages were not extensively taught at primary level. However, in September 1998, the teaching of modern languages at primary level was introduced. Currently, 284 primary schools are participating in this pilot scheme, covering a range of European languages. According to the Department of Education and Science, the teaching of foreign languages will be gradually mainstreamed when the pilot phase ends in June 2000. The Council fully supports this proposal and recommends that this mainstreaming should take place as quickly as possible.

19 Chinese Mandarin is not offered as a Leaving Certificate subject while the most popular Leaving Certificate language subject (excluding Irish and English) is French, which is only the thirteenth most widely spoken language.

Enhanced language training could also play a vital role in providing people with the skills necessary to obtain a job at home. Over the last few years, IDA Ireland has attracted over 50 multilingual teleservice operations to locate in Ireland and is expected to continue the development of the teleservice industry in future years. Teleservice companies have been attracted to Ireland because of the high standard telecommunications system here and also because of the young, well-educated and often multilingual labour force that exists here. Continued growth in this important sector therefore requires continued investment in language training.

Language training could also provide the necessary framework for enhanced cultural education. As foreign immigration into Ireland has soared in recent times, there are reports of growing hostility towards these new immigrants, particularly refugees and asylum seekers.[20] While much of this reaction is embedded in the legal environment which, up until recently, prohibited immigrants awaiting residency hearings from working,[21] it also has foundations in our failure to fully appreciate the culture and history of the peoples involved. There are many who advocate that non-EU immigrants could add a key flexible component to the Irish labour market. However, to fully integrate immigrants into the workforce, considerable work needs to be done to improve understanding.

The Council is concerned at the declining number of second-level students taking physics and chemistry at Leaving Certificate level. This is a particular concern as the role of technology becomes more important in the global economy. Reasons often cited for the decline include the pressure of the points race, the lack of suitable facilities and qualified teachers, and especially in the case of girls' schools, the unavailability of technical subjects as course options. The Council supports recent initiatives by the Department of Education and Science to promote science and technology subjects, including

20 It is important to recognise the duality of acceptance and understanding that currently exists in Ireland *vis-à-vis* EU and non-EU immigrants.

21 Effective from 26 July 1999, all those asylum seekers who have been in the country for more than 12 months and are still waiting final determination of their application for refugee status have been given the right to seek work.

the commitment to introduce a new science course at primary level and a £15 million investment in physical resources and staff development for the teaching of physics and chemistry at second level.

7.3.5 Responsiveness to the Needs of the Economy

To make training and education systems in Ireland more responsive to the needs of the economy will require more co-operation and partnership between educational institutions, employers, employees and students. This type of partnership approach already exists, for example, with IBEC's Business and Education Links Programme and ICTU's Youth Start both of which are trying to develop the relationship between second-level students and the world of work. The introduction of more work experience programmes at second level through Transition Year, the Leaving Certificate Applied and Vocational programmes, as well as Post-Leaving Certificate courses, should also foster closer ties. This approach could be extended if, where appropriate, practical work experience were considered as part of third-level education. A number of universities have built work experience into course programmes, for example, Dublin City University's INTRA (Integrated Training Programme), NUI Galway's PEP (Professional Experience Programme) and the University of Limerick's Co-operative Education Programme. Other third-level institutions could draw on their experiences. Universities and colleges could also consider offering more flexible ways of learning to allow a broader range of students to participate (e.g. women, mature students, people from disadvantaged back-grounds) including distance learning, part-time study, and modularization. Finally, in the continuing vocational training sector, training organisations and national authorities should work more directly with companies to ensure that courses are directly related to the needs of the enterprise.

The Expert Group on Future Skills Needs was established to identify emerging skill shortages and suggest ways of overcoming them. The Group's first report focused on the skill requirements of the technology sector. The Expert Group estimated that nearly 8,300 technologists will be required annually from 1997 to 2003.[22] However, it estimated that the supply of technologists will be just 6,100 per year, leaving a shortfall of 2,200. The Expert Group recommended a range of strategies to overcome this shortfall including conversion courses, employee up-skilling and improved completion rates. The Government response to these recommendations has been rapid with additional funding being made available to both FÁS and third-level colleges to increase the number of places available on technology courses. The Expert Group is due to publish a second report on the medium-skills sector shortly. The Council supports the work of the Expert Group and welcomes the prompt action of the Government in addressing the issues raised. The Council recommends that any further work by the Expert Group should be accorded the same priority.

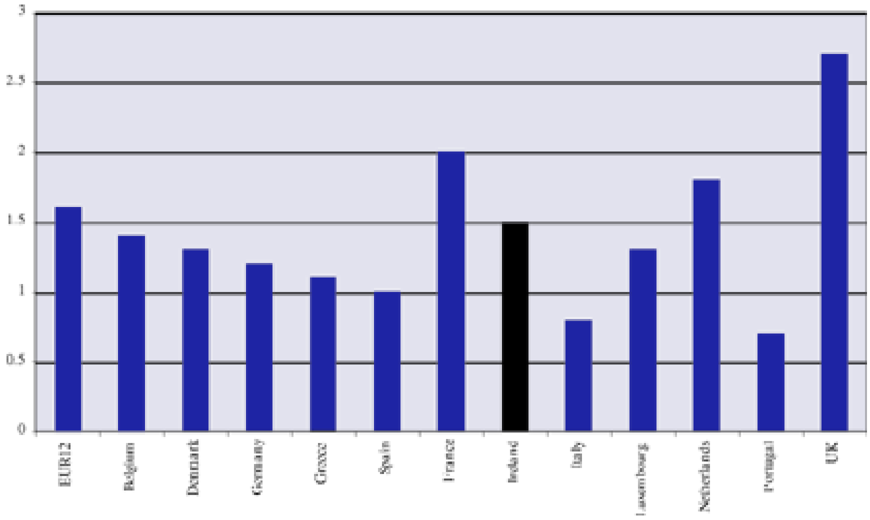
7.3.6 Company Training

From the company point of view, competitiveness has to be underpinned by training. In Ireland, because of our relatively young population, 80 per cent of the workforce that will be working in 10 years time is already working. Thus, raising and refining the skills of those already employed is a crucial factor in Ireland's drive for continued competitiveness (National Competitiveness Council, 1998a). There is also a clear link between labour market adaptability and employability and the workforce's capacity for innovation, which, as Chapter 8 shows, is becoming a crucial factor for competitiveness. Training can be seen as a way of retaining valuable employees. Training can promote progression and internal mobility within a firm rather than external mobility to another firm. Employee up-skilling can also provide a solution to the skill shortages that many companies are experiencing.

22 This estimate is based on their high growth employment scenario, which assumes continued economic growth in Ireland and the undertaking of recommended actions to tackle the current skills constraints. The Expert Group recommended that Ireland should plan on the basis of this high employment growth scenario as it provides a significant upside potential for the economy with limited downside costs.

FIGURE 7.1

Costs of Company Training Courses as a Percentage of Total Labour Costs of Enterprises, 1993



Source: European Commission (1997c), *Key Data on Vocational Training in the European Union.*

The most popular types of training in Irish companies are external training courses and on-the-job training. According to a 1993 FÁS survey, 58 per cent of Irish companies who trained their workers provided external training courses, with 56 per cent providing on-the-job training (FÁS, 1995).[23] Contrary to popular belief, Ireland does not compare poorly with the rest of Europe in its expenditure on company training. In 1993, the EU average was 1.6 per cent of total labour costs, with Ireland just below that at 1.5 per cent (see Figure 7.1). However, this is still below the 3.0 to 5.0 per cent figure generally assumed to be necessary.

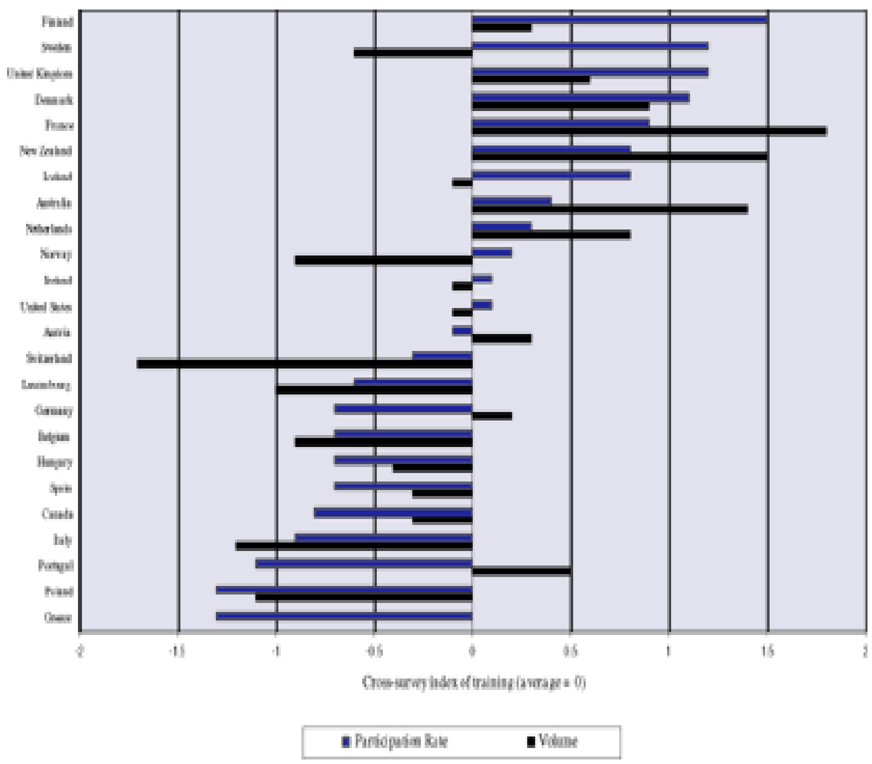
Preliminary results from a recent IBEC training survey of its members show a more up-to-date picture. Firms indicated that in 1998 they spent approximately 3.98 per cent of payroll costs on training. There are some differences in expenditure on training

23 Some companies provided more than one type of training and therefore the percentages do not sum to 100.

across firm size, but these are not as marked as might have been expected. For example, SMEs (firms with less than 50 employees) spent 3.8 per cent of payroll costs on training while larger firms (with 100 or more employees) spent 4.3 per cent of payroll costs on training. The survey results show no significant difference in training costs between Irish and foreign firms (4.1 and 4.0 per cent respectively). Thus, these preliminary results suggest that respondent firms are investing more in company training.

FIGURE 7.2

Job-related Training relative to OECD Average (Cross-survey Indices)



Source: OECD (1999a), *Employment Outlook.*

A more complete picture of Ireland's comparative position emerges from recent analysis by the OECD (1999a). Using data available from four 'harmonised' surveys of continuing training of adult workers,[24] the OECD constructed a cross-survey index of participation rates (employees aged 25 to 54 years) and volume (average hours of training per employee aged 25 to 54 years) in job-related training in the 1990s. The results are presented in Figure 7.2. The data clearly show that Ireland has achieved no more than a middle ground in job-related training with participation rates slightly higher than all countries surveyed and volumes slightly lower. The figure also shows that many of our competitor countries, such as France, the UK and Denmark, are significantly ahead in training provision and participation.

Continuing education and training, particularly company training, is essential for promoting adaptability and employability of firms and employees. The Council recommends that employers, employees and their representatives should, as a priority, devise appropriate mechanisms to promote lifelong learning in the workplace. This could draw on work currently being undertaken by the Department of Enterprise, Trade and Employment to review the support structures for company training, funding and grants mechanisms. Such mechanisms could include more delivery of training by the social partners themselves, particularly in the context of encouraging new work practices and enterprise partnership.

It is generally accepted that there are efficiency and equity grounds for public investment in education and training.[25] However, it is in the area of company training that some of these arguments are less persuasive simply because the benefits of such training are likely to accrue to the company and/or the individual. Nevertheless, there is considerable evidence that training is not evenly distributed. For example, there is growing evidence that part-time workers and workers on temporary contracts receive less training than full-time workers. Given the increasing trend towards such non-typical work arrangements, this evidence does not bode well for the development

24 OECD (1999a:139-141) has more detail on the surveys and comparison difficulties.

25 See Chapter 4, Section 4.2 and Box 4.2 for a general discussion of the rationale for public spending.

of the learning society. It is also a cause of concern given that women account for over 70 per cent of part-time employees in Ireland and therefore may be excluded from training opportunities. Equally, most studies tend to show that employers train their better educated workers more, which suggests that training by firms may reinforce patterns of poorer labour market performance of the less well-educated (OECD, 1999a). For example, data from the International Adult Literacy Survey show that for a range of OECD countries in 1994/95,[26] less than 14 per cent of those with up to lower secondary education received job-related training, compared to 28 per cent of those with upper secondary and 44 per cent of those with tertiary qualifications. The data for Ireland show an even worse position, with less than nine per cent of those with up to lower secondary education receiving job-related training, compared with 19 per cent of those with upper secondary and 34 per cent of those with tertiary education (O'Connell, 1999).

All of this evidence suggests that there remains a role for government investment in continuing and company training, although this intervention should be targeted and should only continue for as long as the market failure exists. The needs of those with poor educational attainment, who may be undertaking low-skilled and low-paid work, should be a particular focus, as should the training needs of part-time workers and women. A primary aim of any intervention should be to inform companies of the benefits of company training. Thus, initiatives such as the recently launched Training Networks Programme which will encourage firms, particularly SMEs, to pool resources to tackle common training needs should be encouraged. Public funding for the Programme is committed for the initial three-year period, after which it is envisaged that the Programme will be self-sustaining.

7.4 CHILDCARE AND PARENTAL LEAVE

EU Employment Guideline 21 calls on Member States and social

26 Figures are an unweighted mean of 11 countries (Australia, Belgium (Flanders), Canada, Ireland, the Netherlands, New Zealand, Poland, Sweden, Switzerland, UK and US).

partners to design, implement and promote family-friendly policies, including childcare and parental leave. This recognises that the pursuit of equal opportunities in labour market participation will fail unless it is based on an acceptable reconciliation between work and family life.

In the context of this chapter, the Council is placing emphasis on the provision of childcare and parental leave as a means of increasing labour market adaptability and employability. However, the Council fully recognises the other important roles of childcare and parental leave. These include child development (particularly for children from disadvantaged backgrounds), supporting family life, increasing options for women (of which moving into paid employment is just one[27]) who are traditionally the primary care-givers and also providing opportunities for men to play a more active child-caring role. In the case of childcare, the Council understands that these benefits are crucially dependent on the provision and accessibility of *high quality* care arrangements. Therefore, for any family-friendly policies to be effective, they have to take on board these wider issues.

For the past 20 years or more, women have accounted for the entire growth of the workforce in the EU. Almost two-thirds of net additional jobs created in the EU between 1994 and 1996 went to women. Participation of women is still lower in all EU countries than is participation by men. The proportion of women working part-time, under fixed-term contracts, and in temporary positions has also increased significantly. This increase in temporary employment is indicative of increasing labour market adaptability and means that employers also need to adapt to the requirements and capacities of individuals and to capitalise on their potential. In Ireland less than one-third of the female population (aged 15-64) participated in the labour market in 1985, with about 16 per cent of this group employed on a part-time basis. The most recent Quarterly National Household Survey shows that the female participation rate

27 For example, childcare is important for improving women's access to education and training and is therefore essential for the development of lifelong learning.

had increased to 46 per cent in the second quarter of 1999, with 30 per cent employed part-time. Despite the substantial increase in female labour force participation, barriers exist that hinder even greater participation. The most significant of these is the availability of good quality, affordable childcare.

Acceptance by women of precarious positions in the labour market stems in large part from the absence of adequate childcare that is adaptable to their needs. Most countries' working hours do not take school hours into consideration.[28] Lunch breaks and post-school care may mean that women are often forced to find work with very limited or variable hours, in order to allow them resume care of their children (P2000 Expert Working Group on Childcare, 1999). The lack of adequate childcare increases certain individual and social costs, not only due to the loss of income within families but also following the depreciation of the qualifications and skills of individuals who are forced to leave the labour market for childcare reasons. It also exacerbates bottlenecks in the economy due to emerging skill and labour shortages, with women who wish to work unable to fill available vacancies because of the lack of affordable childcare facilities.

During the 1990s, the Government made a number of commitments to the provision of childcare facilities mainly to ensure that women with young children would have the same opportunities as men to participate in employment. Commitments on childcare were made in the PESP (1991-1993) and in its successor, the PCW (1994-1997), also in the *Programme for a Partnership Government* (1993-1994), in the *National Development Plan* (1994-1999) and the *National Development Plan* (2000-2006). More recently the *Report of the Commission on the Family* (1998), the *Report on the National Forum for Early Childhood Education* (1998), and the *Report of the Partnership 2000 Expert Working Group on Childcare* (1999) signal the Government's policy interest in childcare and also respond to the greater public awareness of, and concern for, the care of young children.

28 Sweden and France are obvious exceptions.

7.4.1 Demand for Childcare

Table 7.3 shows estimates for the current usage of paid childcare in Ireland classified by the mother's employment status. The data reveal a number of interesting points.

TABLE 7.3

Usage of Childcare by Mother's Employment Status (%)

Type of paid childcare used in reference week	Home Duties	Full-time job	Part-time job	Unemployed /Other	All
	Mothers with youngest child aged 0-4				
Did not use paid childcare	82	22	47	75	62
Creche/nursery/ kindergarten/ other pre-school	16* 17**	14* 24**	21* 29**	25 –	17* 21**
Minder in minder's home	1	45	18	–	14
Minder in child's home	–	11	9	–	4
Paid relative	–	8	5	–	3
Column total	100	100	100	100	100
(Row percent)	(57)	(23)	(16)	(4)	(100)
Number	376	155	106	26	663
	Mothers with youngest child aged 5-9				
Did not use paid childcare	99	68	84	94	91
Creche/nursery/ kindergarten/other pre-school	–	–	1	–	–
Minder in minder's home	–	10	8	–	3
Minder in child's home	1	19	3	–	5
Paid relative	–	3	4	6	1
Column total	100	100	100	100	100
(Row percent)	(63)	(18)	(17)	(2)	(100)
Number	309	89	82	13	495

Source: Goodbody Economic Consultants (1998a :6), *The Economics of Childcare*, Table 2.1.

Notes: * Used creche, nursery, kindergarten *only* (used in calculation of column totals).

** Used creche, nursery, kindergarten *plus* other form of childcare.

First, the majority of mothers with children aged 0-4 (62 per cent) and aged 5-9 (91 per cent) do not use paid childcare. This partly reflects the high proportion of women outside the labour force in Ireland, but it also signals the significance of the unpaid informal sector in Ireland.[29] For example, among mothers with children aged 0-4 years who were in full-time jobs, 22 per cent indicated that they made no use of paid childcare. It seems likely that fathers and other unpaid relatives (especially grandmothers) are the main source of childcare here.

Second, the most widely-used form of paid childcare was that provided by crèches, nurseries, kindergartens and other pre-school arrangements. Usage was largely confined to mothers with children aged 0-4 years. However, the most popular type of childcare for *working mothers* was a childminder in the minder's home, with 45 per cent of mothers with children aged 0-4 years who are in full-time employment using such arrangements.

Third, there is a stark difference in the usage of paid childcare depending on the age of the mother's children, with usage of some form of childcare far more common among mothers with children aged 0-4 years than aged 5-9 years. This likely reflects the entry of children into the formal education system, but it also masks the very real problem that parents have in terms of finding suitable childcare for after-school hours, school holidays and during periods of illness.

Estimates for the expected future demand for childcare in Ireland largely depend on the expected growth in the female labour force participation rate, the fertility rate and the expected take-up of full-time versus part-time jobs by working mothers. In their study to the P2000 Expert Working Group on Childcare, Goodbody Economic

29 The informal sector refers to those childcare providers who are not "notified" under the Child Care Act 1991, which stipulates that family day carers minding more than three children under six years of age (not including their own children) are required to notify their local health board and are subject to inspection. Those childcare providers covered under the 1996 Childcare Regulations, which were introduced under the 1991 Act, are referred to as operating in the formal sector. As the majority of childminders in Ireland care for fewer than four children, the Regulations cover only a minority of childminders.

Consultants estimated that the demand for childcare in Ireland could increase by 25 to 50 per cent over the period to the year 2011.[30] Assuming a continuation of current childcare choices, demand is likely to be for arrangements other than group care. At present, working mothers tend to use childminders, while those on home duties usually avail of playgroup facilities. However, given the tightening labour market, there is unlikely to be a sufficient increase in the supply of individual childminders, suggesting that demand for group-based facilities will increase (Goodbody Economic Consultants, 1998a).

7.4.2 Supply of Childcare

There are currently no official figures on the numbers of childcare providers in Ireland. However, Goodbody Economic Consultants (1998a) estimated that there are approximately 3,000 childcare providers in the formal sector, caring for children aged 0-6 years and a minimum of 30,000 in the informal childminding sector, caring for children aged 0-9 years. These estimates include an unknown number of part-time providers in both the formal and informal sectors, as well as a significant number of providers on the 'edge' of the formal sector (providing care for a relatively large number of children in their own home but not currently registered).

The supply of childcare services is unable to meet existing or expected future demand. The 1996 Childcare Regulations, which were introduced under the Child Care Act 1991 to raise standards for childcare provision, have also unwittingly led to a contraction in supply because of the strict enforcement of new carer-to-child ratios and adequate space-per-child requirements. This has resulted in a loss of almost 2,000 childcare places in 1998, 500 of which are in the Eastern Health Board region. Supply is also being affected by the emerging labour market shortages in the economy, with existing childcare centres unable to recruit or retain staff when alternative job opportunities with better wage rates are widely available. For

30 The estimates assume a 37 per cent increase in the female labour force participation rate, a halving of the ratio of part-time to full-time working mothers and a doubling in the take-up of childcare by women on home duties.

example, staff costs average £130/£140 gross per week (or about £3.38 per hour for a 40-hour week) for junior staff and £160/£200 for senior staff (or about £4-£5 per hour for a 40-hour week) (Goodbody Economic Consultants, 1998a). Providers are unable to raise wage rates without increasing prices to parents.

While the 1996 Childcare Regulations have had a major impact on the formal sector, the majority of childcare providers are operating in the informal sector and are therefore outside the scope of the Regulations. The financial loss to the Exchequer due to the potential lack of tax and social welfare compliance in the informal sector represents another significant problem. The high costs associated with moving from the informal to the formal sector (in terms of compliance with the 1996 Regulations) act as a further brake on the development of the childcare sector as a whole.

7.4.3 Cost of Childcare

The cost of childcare and the lack of available quality childcare provision are significant factors contributing to the lower female participation rates in the labour market in Ireland. According to 1998 estimates, on average the cost of childcare varied between £56 and £71 per child per week. Charges are higher in urban areas and for babies. Prices averaged £55 per week for full-time care outside Dublin (Goodbody Economic Consultants, 1998a). Anecdotal evidence suggests that childcare costs have increased significantly since these figures were compiled. This reflects rising labour costs and the cost of compliance with the 1996 Childcare Regulations.

Table 7.4 shows that childcare costs in Ireland as a proportion of average earnings are one of the highest in Europe. This level of cost means that total household income may drop where a mother takes up full-time employment. This is a critical issue at a time when 70 per cent of employers are experiencing recruitment difficulties (IBEC, 1998a). In many instances, it seems likely that individuals are being prevented from joining, or are opting out of the labour force because of the cost of childcare.

TABLE 7.4

Comparative Cost of Full-Time Formal Childcare, 1996

	Childcare Costs	**Net Childcare(1)**
	(% of average earnings)	(ECU per month)
Belgium	0	0
France	0	0
Germany	3	76
Sweden	7	244
Austria	8	183
Denmark	8	190
Italy	8	480
Luxembourg	8	546
Finland	9	226
Netherlands	13	458
Portugal	13	200
Spain	18	243
Ireland	**20**	**414**
UK	23	487
Greece	36	338

Source: Goodbody Economic Consultants (1998a), *The Economics of Childcare in Ireland*, Table 2.6.

Note: (1) Refers to two-earner couple, 1.5 average male earnings.

7.4.4 Policy Options

Following the publication of the *Report of the P2000 Expert Working Group on Childcare*, the Minister for Justice, Equality and Law Reform announced the establishment of an Interdepartmental Committee to evaluate, cost and prioritise the childcare proposals of the *Report of the P2000 Expert Working Group*, the *Report of the Commission on the Family*, the *Report of the Forum on Early Childhood Education* and the *Action Programme for the Millennium*. The Interdepartmental Committee is expected to make recommendations to Government in Autumn 1999. Table 7.5

summarises the main childcare policy proposals contained in each of these documents.

TABLE 7.5

Childcare Policy Proposals

(A) P2000 EXPERT WORKING GROUP

Supply-side measures

1. Capital grants/reliefs for providers
2. Tax allowance for childminders
3. Employment encouragement grants
4. Tax relief for employers investing in childcare
5. Funding for local level measures
6. Improve local authority planning guidelines

Demand-side measures

1. Childcare subsidies
2. Improvements to FIS
3. Increase ceilings for lone parent payment
4. Personal tax relief
5. Remove treatment of childcare as benefit-in-kind

(B) COMMISSION ON THE FAMILY

Supply-side measures

1. Tax allowances for employers investing in childcare
2. Planning approvals for shopping and housing developments conditional on childcare provision
3. More pro-active public sector in increasing childcare places
4. Additional grants and allowances for services for children with special needs
5. Social partners should encourage workplace facilities
6. Technical assistance and employment support for providers

Demand-side measures

1. Options for children under 3 years of age:
   (a) £30 parent allowance for parents who work full-time in the home
   (b) PRSI-funded extended parental leave with a weekly parental benefit
   (c) £30 universal Child Benefit
2. For children 3 years to school-going age: the payment of an Early Years Opportunities Subsidy (£1,000 per child per annum) to provide children with opportunities to participate in pre-school, nurseries, etc.

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TABLE 7.5 – *continued*

(C) NATIONAL FORUM FOR EARLY CHILDHOOD EDUCATION
1. no *specific* childcare recommendations 2. the state should ensure that childcare facilities are provided, financially supported, accessible and of high standard 3. emphasises importance of family-friendly employment conditions 4. stresses importance of the recognition of qualifications of childcare workers 5. positive discrimination should be adopted towards children from disadvantaged backgrounds, children of minorities and children with special needs
(D) ACTION PROGRAMME FOR THE MILLENNIUM
1. commitment to implement Child Care Act in full 2. proposes introduction of tax allowance for carers of children

Source: Compiled by NESC Secretariat *page 2 of 2*

It is important to recognise that these reports have different terms of focus and therefore the recommendations of each can only be analysed in that context. All the reports place the needs of children and their parents as a priority but within that, other issues are also addressed. The primary emphasis in the *Report of the P2000 Expert Working Group on Childcare* is to develop a childcare strategy that will support an increase in female labour force participation and that will help to develop the childcare sector as a legitimate business. The *Report of the Commission on the Family* has a much wider brief, placing childcare in the context of the needs of the child and the family as a whole. The *Report of the National Forum for Early Childhood Education*, as the name suggests, has a specific education focus that balances consideration of the needs of care and education providers with those of children and their parents. Finally, the *Action Programme for the Millennium* is a broad programme for government, of which childcare is just one of many policy priorities identified.

The Council does not wish to pre-empt the recommendations of the Interdepartmental Committee. Their impact, in terms of increasing labour force participation, providing support for parents and children and the associated distributional impact will depend on the package and design of measures to be introduced. Nevertheless, the Council wishes to make a number of recommendations. First, in recognition of the varied roles that childcare plays, the Council argues that there can be no ‘magic bullet’ solution. Thus, the Council favours the introduction of a programme of suitable measures, rather than one or two isolated proposals. This was the approach adopted by the P2000 Expert Working Group which recommended a full package of demand- and supply-side measures.

Second, on the supply-side, the Government has made some recent policy changes to encourage employers to provide childcare facilities, such as exemption from benefit-in-kind taxation for the provision of certain childcare facilities and the introduction of capital allowances for expenditure on childcare facilities. However, employer-provided facilities remain under-represented in the sector. A possible reason that has emerged is the confusion surrounding the criteria for planning approval. Inconsistencies exist both within and between local authorities and between planning authorities and local health board inspection teams on basic issues such as the cost and processing of planning applications and with regard to space and numbers (P2000 Expert Group on Childcare, 1999). Clarification of all planning requirements should be pursued as a priority to encourage both employers and other potential service providers into the childcare sector. Small firms, that would be unable to invest in childcare facilities on their own, should be encouraged to enter into collaborative projects with other firms. The Government might also consider once-off measures that would help existing providers to meet the costs of compliance with the 1996 Childcare Regulations. Targeted support for community-based childcare initiatives in disadvantaged areas should be maintained. Finally, it is also important to link childcare with the other fundamentals of working life. For example, the Commission on the Family recommended that planning approval for new housing developments should be made conditional on provision being made for childcare facilities, in the same way as roads and public transport. In this regard, the Council welcomes the proposal in the new Planning and Development Bill, 1999, whereby the provision of childcare facilities has been included as an objective that must be provided for in area development plans.

Third, the main arguments on how to support childcare have focused on the provision of tax reliefs versus benefits. In line with the Council's general principles towards taxation, the Council favours the elimination of as many tax reliefs as possible because of efficiency considerations. The fact that tax solutions tend to favour higher earners and give no benefit to those not working is also undesirable. Therefore, any moves towards tax-based solutions should be accompanied by measures that would aid those on low incomes and those who are outside the tax net. Equally, a universal childcare benefit would not be targeted at those most in need but would be neutral with respect to choice of childcare and would be independent of labour market status. In this regard, the Council favours an increase in Child Benefit as part of the policy response to demand-side difficulties. If Child Benefit were assessed as taxable income, targeting of lower income families would improve. This would make a significant contribution to alleviating child poverty. However for the after tax value of Child Benefit to make a meaningful contribution to childcare costs, its gross value would have to be increased substantially. This highlights the difficulty of reconciling childcare and child poverty objectives through the taxation of Child Benefit. It may therefore be necessary to introduce other measures to address the childcare affordability issue.

Finally, any childcare policy or programme will require coherent management. There are currently 10 Government Departments involved in some way in the co-ordination of childcare measures (Goodbody Economic Consultants, 1998a). The fragmentation of responsibility has been recognised by all of the recent studies as a major problem. Thus, the P2000 Expert Working Group recommended a National Childcare Framework that included local planning via County Childcare Committees and national co-ordination via a National Childcare Management Committee and an Interdepartmental Policy Committee. The Commission on the Family also called for some kind of co-ordinating mechanism at national level. The Council supports the arguments for a more structured approach to childcare policy planning and implementation.

7.4.5 Parental and Other Family Leave

Parental leave was introduced in Ireland in December 1998. This leave entitles all parents of young children born on or after 3rd June 1996, a total of 14 weeks unpaid leave.[31] The leave is non-transferable and can be taken as a continuous block or as a number of broken periods with the employer's agreement. The leave must be taken before the child is five years.[32] An employee must have completed one year's continuous employment before commencing parental leave. Where the child is approaching five years of age and the employee has more than three months but less than one year's service, there is provision for *pro-rata* parental leave. The Parental Leave Act 1998 also gives all employees a right to limited paid leave for family emergencies. This leave is called *force majeure*. The maximum *force majeure* leave, which may be availed of, is three days in 12 consecutive months or five days in 36 consecutive months.

The introduction of parental leave is 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. However, parental leave in Ireland is unpaid. 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. The Commission on the Family (1998) recommended that the PRSI maternity benefit should be extended to cover parental leave, at an estimated annual cost of £40 million. The P2000 Expert Working Group on Childcare supported this proposal. In recognition of these equity concerns, but also the need to take account of the competing demands on state

31 At least six weeks advance notice is required from the employee.

32 Although, under the EU Directive on Parental Leave, parental leave could apply to children up to eight years. Choice of age limit was left to the discretion of individual Member States.

funding and company revenues, the NESC recommends that further analysis should be undertaken on ways to make the take-up of parental leave more equitable.

While the introduction of parental leave is welcome, the Council recognises that there is a significant minority of people who have to balance the competing demands of work and other care arrangements, such as looking after elderly parents and sick relatives. In the draft 1999 Joint Employment Report, the European Commission/ European Council highlighted the lack of "concrete initiatives" on care for dependants other than young children as a particular deficiency in most Member States' Employment Action Plans. The Council supports the introduction of other types of family leave arrangements that would enable employees to balance work and family responsibilities. Examination of the implementation of family leave arrangements in other countries may be a useful guide for possible implementation in Ireland.

7.5 NEW FORMS OF WORK ORGANISATION[33]

One of the primary motives of the EU Employment Guidelines is the modernisation of European labour markets. Pillar One (Improving Employability) focuses on increasing the opportunities and competencies of employees and those seeking work. Pillar Two (Promoting Entrepreneurship) seeks to improve opportunities for firms on both a business and sectoral level so as to maximise employment. Pillar Three (Encouraging Adaptability of Businesses and their Employees) is centred much more on the workplace and on how to make it more adaptable to changing economic circumstances. Within this Pillar, Guideline 16 invites the social partners to negotiate agreements to modernise work organisation that will enhance productivity and competitiveness and achieve the appropriate balance between flexibility and security.

A formal process towards modernising work organisation changes

33 This section draws on background material prepared for the Council by Dr. John Geary, Centre for Employment Relations and Organisational Performance, Michael Smurfit Graduate School of Business, University College Dublin.

in Ireland began with Chapter 9 of *Partnership 2000* which seeks to extend partnership to the enterprise level. Partnership was defined as:

> …an active relationship based on recognition of a common interest to secure the competitiveness, viability and prosperity of the enterprise. It involves a continuing commitment by employees to improvements in quality and efficiency; and the acceptance by employers of employees as stake holders with rights and interests to be considered in the context of major decisions affecting their employment… Partnership involves common ownership of the resolution of challenges, involving the direct participation of employees/ representatives and an investment in their training, development and working environment. (Par. 9.8-9.9: 62)

The objectives and proposed development of enterprise partnership were clearly outlined. *Partnership 2000* also agreed to the establishment of the National Centre for Partnership as a facilitator and promoter of enterprise partnership.

The following sub-sections explore the rationale behind the introduction of new forms of work organisation, their diffusion in Ireland and reasons why they may not be more fully taken up. Finally policy implications are briefly discussed. The Council re-affirms that, as argued in NESC (1996a), there is no one model of enterprise partnership that is applicable in all circumstances. The appropriate role for the social partners is to advise, facilitate and initiate change, where change is deemed appropriate by both employers and employees.

7.5.1 Understanding New Forms of Work Organisation

The term 'new forms of work organisation' is often used to embrace a variety of workplace changes. In this chapter, the term is used to refer to changes in 'work practices'. This includes initiatives like functional flexibility, broadly defined work assignments, multi-skilling, team-working and changes in working-time arrangements. 'New' work practices are different to older work practices in that job descriptions are more broadly defined, strict lines of demarcation separating the duties and responsibilities of employees give way to more flexible forms of work organisation, and employee participation in decision-making is encouraged. Where these new practices combine with increased investment in employee training, the acquisition of new skills, new payment systems and provision for employment security, analysts talk of the development of new work *systems*.

It is widely believed that the introduction of new work practices can make a significant contribution to improving employees' motivation and, in turn, to enhancing organisational performance and labour market adaptability. New work practices that permit employees more discretion, involvement and flexibility encourage employees to work with more enthusiasm and to higher effort levels. By removing the monotony, routine and close surveillance often associated with traditional forms of work organisation, employers are able to enrich employees' work experience and tap into their creative energies. There is also the benefit that by making the workplace more enriching, many shopfloor problems and discontents may be removed. In Sweden's car industry, for example, new work practices were introduced in the 1970s and 1980s not because of a managerial commitment to the idea of employee participation *per se*, but because of a concern with high levels of employee turnover and absenteeism that had at their root traditional work structures and unattractive jobs. In more recent years, there has been a growing realisation that employees who are engaged by their work are more likely to think constructively about difficulties than those who are supervised closely and permitted little discretion. Further, there is also an increasing awareness that by involving employees in work-related matters and by providing them with more information on the organisation's performance, they are made aware of the need for improved performance standards and the part their efforts make in such endeavours.

The international evidence to date would suggest that employees generally welcome changes in work practices, particularly those that allow for more responsibility and autonomy. However, the benefits are sometimes accompanied by an increase in employees' pressure and stress levels. A recent review of empirical work suggests that while new work practices can promote an increase in worker-management co-operation, the work environment can become more demanding and onerous (Edwards *et al.*, forth-coming).

There is considerable empirical evidence both in the US and Europe to suggest that where organisations introduce new work practices, the improvements in organisational performance and labour market adaptability can be considerable (see Applebaum and Batt, 1994; Ichniowski *et al.*, 1996; Sisson, 1997). A point that must be emphasised, however, is that the benefits that accrue to firms from such changes can rarely, if ever, be attributed to one causal factor. Rather it is in combination or in ‘bundles’ that these changes have their greatest impact. Pil and MacDuffie (1996), for example, argue that changes in work practices are more effective in contributing to organisational performance when they ‘fit’ with, or are supported by, other changes in management practice.

7.5.2 The Diffusion of New Work Practices in Ireland

Three recent studies have attempted to examine the diffusion of new work practices in Ireland. This sub-section reviews the main results of each of these studies.

The first study is the *Irish Management Practice in the Changing Marketplace* survey conducted by a team at the Graduate School of Business at University College Dublin between mid-1996 and mid-1997. This is the largest survey conducted to date of management practices in Ireland and is the first to have examined work organisation and employee relations practices at the workplace level. The second is the EPOC (*Employee Direct Participation in Organisational Change*) study conducted in 1996 by the European Foundation for the Improvement of Living and Working Conditions. It surveyed ‘direct participation’ in 1996 in firms across all economic sectors in ten European countries, including Ireland. The third study is the IBEC survey of *Partnership at Enterprise Level*. It surveyed IBEC member enterprises with 50 or more employees across a range of sectors. It is important to highlight that each study is not directly comparable because of differences in sample data, survey questions and definitions. Nevertheless, each contributes to our understanding of workplace change in Ireland and relative to our European neighbours.

The findings from the UCD survey confirm that experimentation with new work organisation strategies in Ireland is impressive. For example, 67 per cent of workplaces reported that they had made some changes to work practices, 59 per cent had team-working, 15 per cent used quality circles, 71 per cent had a total quality management programme and 64 per cent had made changes to working time arrangements. Taken on their own, these findings would suggest that new forms of work organisation are quite widespread in Ireland, and compare favourably with most other countries.

Notwithstanding the significance of these findings in relation to the *incidence* of new forms of work organisation, evidence from the survey suggests that the *depth* of new work practices is more limited. First, there is the recency of such innovations. Taking the example of team-working, it was found that only 19 per cent of workplaces had introduced it three or more years ago. As such, it is only likely to be firmly embedded in a fifth of Irish workplaces. Thus, it is still too early to assess team-working's durability or permanence in Irish workplaces. Second, there is the issue of the level of discretion permitted to employees under these new working arrangements. Nearly half of workplaces had made significant advances towards developing sophisticated forms of team-working, while in the remainder team members were still only allowed limited discretion in their work practices.

The UCD workplace survey identified a number of factors that were positively associated with advanced forms of work organisation. Most noteworthy was the importance of the financial services sector as a predictor of the existence of team-working in its various forms. Other variables that produced consistently robust results, particularly in explaining team-working of an advanced form, were establishments that produced customised products or services and workplaces that operated in high-tech sectors. Contrary to expectations, factors such as exposure to *intense* market pressures,[34] nationality[35] and workplace size registered weak and/or inconclusive results.

The EPOC survey, which covered a range of sectors also tried to move beyond incidence figures to look at the intensity of team-working.[36] The survey found that only 17 per cent of Irish firms using team-working did so at a high intensity level; most (51 per cent) did so at a medium level and a third at a low level. The survey also distinguished between two types of team-working. One type permits greater autonomy to team members, who are drawn from a variety of skill groupings and provided with extensive training; the other places strict limits on team autonomy and tends to use fairly homogeneous groups of employees doing routine tasks. This distinction is useful in accounting for the different economic effects of team-working. The EPOC survey found that organisations that used teams that were allowed greater autonomy were considerably more likely to report improvements in organisational performance along indicators like reductions in costs and through-put times, improvements in quality and, most strikingly, increases in total output. They were also more likely to indicate a decrease in sickness and absenteeism levels. In Ireland, the more advanced type of team-working was rare. Only 0.3 per cent of companies had adopted it, compared with a ten-country average of 1.4 per cent and a high of 4.6 per cent in Sweden.

Because the IBEC survey covered predominantly large firms (about 78 per cent of respondent firms had more than 100 employees) from

34 That is, team-working does not appear to be a crisis solution. As with most workplace innovations, significant resources are required for successful implementation, suggesting that firms need sufficient space to develop team-working and other work organisation changes. Such room for manoeuvre may not come during periods of *intense* market competition.

35 The results indicate the absence of an association between teams and whether a company was foreign- or Irish-owned, although amongst the former group, US-owned workplaces were more likely to have introduced new work practices (see Geary and Roche, 1999).

36 The survey measured intensity by examining scope (the rights of employees to make decisions without reference to management on how they performed their work in areas like scheduling and allocation) and the degree of autonomy permitted (measured by the control employees had over the choice of team members and the issues the group might address).

its own member listings, care has to be taken with generalising the results. However, its principal advantage is that it was conducted more recently than the other surveys. The survey indicated that progress has been made on furthering enterprise-level partnership in Ireland. For example, 63 per cent of firms had team-working, 43 per cent had continuous improvement and 37 per cent had total quality management. However, significant changes in working-time arrangements were more unusual with, for example, only 11 per cent of firms indicating that they had introduced annualised hours. With regard to the level of job control provided to employees, the survey indicated that employees in 57 per cent of firms had high levels of job autonomy. The IBEC survey found that employee control was more common in monitoring quality standards (54 per cent of firms) than in setting personal performance standards (33 per cent).

In summary, the evidence from all three surveys suggests that the diffusion of new forms of work organisation in Ireland is relatively high, but that, so far at least, the intensity of these new work practices is less well developed, with only about half of firms permitting employees high levels of job autonomy.

7.5.3 Factors Influencing the Adoption of New Work Practices

Given the evidence that the introduction of new work practices can bring substantial economic benefits, why is it that they are not used more widely? The following factors would seem to be the most important.

7.5.3.1 Market Contexts and Competitive Strategies

The market context of a firm is important. The evidence presented above would suggest that new work practices are perhaps most appropriate and effective where customers' needs are highly specialised and change over short periods, but are perhaps less appropriate in the production of standardised goods, or in the provision of uniform services. Thus there may be little incentive or real need in some organisations to adopt innovative work systems:

the achievement of competitive advantage is secured through other means.

7.5.3.2 Destroying Existing Competencies

There are the difficulties associated with learning new practices and unlearning old ones. In any such process, there is bound to be an element of what Pil and MacDuffie (1996) refer to as 'competence-destroying', where an organisation puts to one side the competencies and understandings obtained under the older system of work organisation. As a consequence, organisational performance, at least at the early stages, is likely to suffer as management and employees strive to grapple with the demands of introducing new work practices. In anticipation of the difficulties and costs – and perhaps with no clear or shared view of the potential benefits – of introducing such a new system, it is not surprising that many organisations should seek to incrementally adopt single practices. In doing so, employers and employees are – unwittingly perhaps – judging the contribution of individual practices in isolation from the potential of a total system. But, as has been stressed, it is only when practices are introduced in an integrated or 'bundled' manner that a significant impact on organisational performance is likely to accrue. Thus, the danger of the incremental approach is that, as the individual parts of the new system are taken up and are subsequently judged not to have generated economically important effects, they are dropped before the value of a new system could be properly established.

7.5.3.3 The Institutional Context of Innovation

The reasons why the development of workplace partnership arrangements may ease the introduction of new work practices and lead to economic benefits are complex and not easily understood, but perhaps one of the clearest presentations as to why this is the case has been that of Streeck (1995). He argues that economic adjustment has required a fundamental transformation in the mechanisms of management-union (employee) dialogue and interaction. The move from mass production to 'flexible specialisation' has unleashed a series of industrial relations and human resource management imperatives. The background to this is well-recorded and well-known. New production strategies require a decentralisation in decision-making processes, the winning of employees' active consent and commitment, the creation of new structures to allow for employee involvement informed not by bureaucratic rules and procedures but by the articulation and communication of organisational objectives and economic imperatives. Here though is the crux of the argument: the old system of industrial relations rarely encountered such frequent and radical change within the workplace; employees' interests were precise and confined such that they could be addressed through representative structures at defined intervals at the top of the organisation. With new systems of production and service delivery, however, where change is ongoing and where issues relating to economic performance and efficiency are continuously being addressed at a local level, the issue of employees' interests comes immediately to the fore. For this reason, issues of economic performance and employees' concerns and interests must be addressed simultaneously and at all levels in the organisation.

The diffusion of new work practices in any country will depend on the supporting framework for change. In recent years, there have been some notable attempts by the Irish trade union movement to strategically reorient its policies to favour new forms of work organisation and to promote workplace partnership arrangements with employers. IBEC has also initiated and supported efforts designed to see a wider diffusion of workplace partnership arrangements. Furthermore, IBEC, ICTU and other agencies have collaborated on several change programmes (for example, the joint IBEC/ICTU PACT project and the IPC/IBEC/ICTU NWO project[37]) aimed at fostering new forms of work organisation and partnership. While these have directly involved only small numbers

37 The PACT project was funded under the EU/ADAPT initiative. Eight regionally based PACT teams were established with representatives from IBEC, ICTU and the participating companies. Twenty-four companies are participating in the project, including equal balance of Irish-owned and multinational companies and representing a broad range of sectors. The New Forms of Work Organisation (NWO) project involved 10 organisations participating in workplace change programmes.

of companies, their principal objective has been to establish diagnostic tools and other support material that will be used to promote partnership and work organisation changes more widely. As stated in NESC (1996a) and in Chapter 9 of *Partnership 2000*, there is no evidence that any one model of partnership is superior to any other. These highlight that partnership can be developed in a variety of arrangements and methods.

7.5.4 Policy Implications

There can be little doubt that the introduction of new work practices can bring substantial benefits both to employers in terms of increased workforce flexibility, co-operation and commitment and to employees in terms of more challenging and satisfying work. It has been well documented in international research that these benefits can be maximised by integrating changes in work practices with changes in industrial relations and human resource management practice. It needs to be recognised, however, that no one model of work organisation, whether it be 'new' or more traditional, may provide a suitable basis for all companies to respond to the challenges ahead. It is up to firms, in consultation with their employees, to assess their marketplace and the contribution that workplace changes can make to their continued competitiveness, viability and prosperity.

The social partners, in line with commitments in *Partnership 2000*, will continue to work with the Irish Productivity Centre (IPC), the National Centre for Partnership (NCP) and other relevant organisations to facilitate and support the introduction of new work practices in co-operation with employers and their employees. Priorities for the promotion of workplace changes over this Strategy period should be developed. These could include the identification of best practice, the wider dissemination of case studies illustrating success stories and the establishment of network support structures amongst firms that would enable both employers and employees an opportunity to share and learn from their experiences.

A second area of policy, that needs to be looked at in more depth, is the area of training. The evidence clearly demonstrates that the acquisition of technical, behavioural and analytical skills is important for new work practices' effective implementation. Section 7.3 has already discussed company training in the context of promoting lifelong learning. Particularly important for new work practices is the development of general skills (for example, problem-solving skills and team-working skills). In this context, Crouch *et al*. (1999) have advised governments and social partner organisations to work together to devise a common set of building blocks that measure these general skills as well as developing sample test instruments and training materials. This way, the costs of creating high-skill standards for new work systems would be reduced for everyone. Exemplar awards may also be made to those companies that represent outstanding examples of workplace innovation. The establishment of such awards can make a further contribution beyond the positive recognition afforded to the winners. It would provide examples that other organisations can emulate and the establishment of the criteria for the award would make available to all firms guidelines as to how changes in work practices can be made to achieve economic gains.

Chapter 9 of *Partnership 2000* recognises the central role that training can play in the development of new forms of work organisation. IBEC and ICTU, in co-operation with the NCP, have developed training materials for use in connection with joint union/management partnership training. Both organisations are also involved in the Training Awareness Campaign which aims to promote awareness of the benefits of training, particularly in the context of developing new forms of work organisation. In its report on team-working, IBEC stresses the importance of ongoing training in the development of team-approaches to work (Doherty, 1998). The Council recommends that collaboration between employers and trade unions on training materials and best practice should continue and be updated following further consultation and feedback from participating firms and employees.

7.6 CONCLUSIONS AND RECOMMENDATIONS

The European Employment Strategy was devised as a co-ordinated policy mechanism to try to modernise European labour markets by increasing the adaptability and employability of workers and firms, as well as those seeking employment. The aim is to develop a labour market that is more adaptable to change such as the challenges imposed by a macroeconomic shock or the opportunities presented by globalisation and new technologies.

The Council broadly supports the co-ordinated approach of the European Employment Strategy but recommends that the social partners should play a more active role in the development and implementation of the Irish Employment Action Plan. The Department of Enterprise, Trade and Employment should agree with the social partners a formal institutionalised process through which active consultation and co-operation can take place on the Irish Employment Action Plan. This would ensure that the Employment Action Plan remains a relevant policy document, and indeed a plan for action.

While the European Employment Strategy is framed around a number of policy areas, the social partners are assigned a direct role in the design and implementation of policy in three key areas: lifelong learning; childcare and parental leave; and work organisation changes. Using the Employment Strategy as a framework, this chapter has reviewed trends and policy issues in each of these areas.

The Council views lifelong learning as learning over the entire lifespan. Lifelong learning can provide the basis for enhanced adaptability and employability, as well as personal fulfilment. The discussion in this chapter covered a range of policy options over the learning span, from early education to company training. This highlights that there should be no terminal stage of education and that formal and informal training environments are equally important.

The Council identifies a number of immediate priorities for lifelong learning:

(i) Early Childhood Education: pending the expected publication of the Government's white paper on early childhood education, the Council recommends that the targeted provision of early childhood education should be maintained. Linkages between pre-school and primary school should also be enhanced so as to maximise the benefits of these types of early intervention measures. Development should proceed in cognisance of the support structures already in place within the family and the wider community.

(ii) Tackling high drop-out rates: the Council is concerned that high drop-out rates at both second- and third-level will undermine future growth rates and lead to higher unemployment. Most studies show that early and sustained interventions are crucial for securing the interest of young people in continued learning. Thus, efforts to improve attrition rates are fundamental to the development of lifelong learning. The Council welcomes the recent announcement by the Department of Education and Science of a new school-based scheme to tackle early school-leaving. The intractability of the problem suggests that novel ‘bottom-up’ approaches may yield greater success. The Council recommends continued investment in innovative approaches that generate positive outcomes, including approaches that will deal with the particular problems experienced in rural areas. The Council also commends the work of local and community-based organisations in reducing drop-out rates in their local areas. Third-level attrition rates may be reduced by more careful matching of students with college places and promoting more non-traditional places, such as at vocational level. The availability of good quality career guidance seems essential here. The Council also recommends greater co-operation between schools, community groups and third-level institutions and the provision of more flexible ways of learning (including distance-learning, part-time study and modularisation). These would allow a broader range of students to participate and would also enable students to balance study and other work and family responsibilities.

(iii) Vocational Training: the Council welcomes the broadening of the education system from its traditional academic orientation to include other important vocational and life skills. However, new certificate options at second-level are still not available to all students. The Council recommends that access to all available certificate options should be widened. Access to other vocational training, such as VTOS, should also be improved through the introduction of part-time options and greater modularization.

(iv) Literacy and Numeracy Skills: recent international surveys have highlighted Ireland's low literacy and numeracy levels, particularly among older age groups. The Council argues that any drive towards lifelong learning has to be grounded in a commitment to increase basic literacy and numeracy levels, particularly in the adult population. The Council firmly supports the Green Paper on Adult Education's proposal to develop a National Adult Literacy Programme. The social partners could play a key role here.

(v) Progression Pathways: the Council welcomes the new Qualifications (Education and Training) Act 1999 which will establish the first national system of certification and accreditation. The Council recommends that the new National Qualifications Authority should aim to establish links with similar authorities in other countries so that students can maximise the benefits of their training when working or pursuing further education abroad. Pathways to lifelong learning are also dependent on greater co-operation between students, parents, schools, universities and firms. The aim should be to make the education and training system more responsive to changes in work and family lifestyles, as well as economic circumstances.

(vi) Company Training: the Council argues that companies have an important role to play in developing lifelong learning. The needs of those with poor educational attainment, who may be undertaking low-skilled and low-paid work, should be a particular focus. The Council recommends that employers, employees and their representatives should, as a priority, devise appropriate mechanisms to promote lifelong learning in the workplace. This could draw on work currently being undertaken by the Department of Enterprise, Trade and Employment to review the support structures for company training, funding and grants mechanisms. Such mechanisms could include more delivery of training by the social partners themselves, particularly in the context of encouraging new work practices and enterprise partnership.

(vii) Non-formal Education: the Council believes that personal and social development, through non-formal education comprises an essential element of lifelong learning, complementing formal academic and vocational education processes. The Council recognises the value that the provision of opportunities in this area can bring to individuals and society, not least facilitating participation in civil society. There have been some key developments in this field in recent years, particularly in the youth work area where legislation and planning processes have been initiated.

The Council welcomes the proposal in the 1999 Employment Action Plan for the Department of Enterprise, Trade and Employment in collaboration with the Department of Education and Science to establish a working group with the aim of developing a strategic framework and defining participation targets for lifelong learning. The Council recommends an active role for the social partners on this working group. This reflects the growing opinion that it is through social partnership that training systems capable of meeting skill demands can best be devised and introduced. This type of co-operation enhances the responsiveness of the education and training sector to the needs of the economy, while still prioritising the needs of the individual.

The Council is fully committed to the development of family-friendly working policies that will enable employees to contribute more fully both to their workplace and home lifestyles. Childcare is a difficult policy question to address because it impinges on a wide variety of issues relating to child welfare, equal opportunities, the role of the family and so on. Therefore, the Council argues that there can be no ‘magic bullet’ solution to the current childcare problem. The solution lies in a package of appropriate measures that will balance demand, supply and cost concerns.

On the supply-side, the Council supports continued capital allowances for expenditure on workplace-based childcare facilities but also calls for measures to aid existing independent registered facilities to meet the requirements of the 1996 Childcare Regulations. Efforts should also be made to overcome planning difficulties and inconsistencies which have hampered the development of the childcare sector. Targeted support for community-based childcare initiatives in disadvantaged areas should be maintained. Regarding implementation, the Council is concerned that the involvement of a large number of Government Departments in childcare initiatives has resulted in a fragmentation of responsibility for childcare policy. The Council recommends a more streamlined approach to childcare policy planning and implementation.

On the demand-side, the Council favours an increase in Child Benefit as part of the policy response to demand-side difficulties. This would be neutral with respect to childcare choice and labour market position. Including Child Benefit as taxable income would yield resources that could be used to raise its overall value which would then be particularly advantageous to low-income groups. This would make a significant contribution to alleviating child poverty. However, for the after-tax value of Child Benefit to make a meaningful contribution to childcare costs, its gross value would have to be increased substantially. This highlights the difficulties of reconciling childcare and child poverty objectives through the taxation of Child Benefit. It may therefore be necessary to introduce other measures to address the childcare affordability issue.

Finally, the Council welcomes the recent introduction of parental leave but is concerned that because it is unpaid, it will remain an option open only to those on higher incomes. Further analysis is required to investigate ways to make the take-up of parental leave more equitable. In recognition of the significant minority of people who have to juggle the competing demands of work and other care responsibilities (for example, elderly parents, sick relatives etc), the

Council also supports the introduction of other types of family-leave arrangements that would enable employees to balance work and home lifestyles. Examination of the implementation of family-leave arrangements in other countries may be a useful guide for possible implementation in Ireland.

The final area that the Council has considered in this chapter is the diffusion of new work practices in Ireland. The introduction of new forms of work organisation is seen as one possible way for firms to cope with economic change and remain competitive in the global environment. Survey evidence reviewed in the chapter suggests that the incidence of new forms of work organisation is comparable to other European countries but that the depth of change is less well developed. The social partners, in line with commitments in *Partnership 2000*, will continue to work with the IPC, the NCP and other relevant organisations to facilitate and support the introduction of new work practices in co-operation with firms and their employees. Priorities for the promotion of workplace changes over this Strategy period should be developed. These could include the identification of best practice, the wider dissemination of case studies and the establishment of network support structures amongst firms that would enable both employers and employees an opportunity to share and learn from their experiences.

Partnership 2000 identified training as an important tool for facilitating the introduction of new practices into the workplace. The Council recommends that training materials developed under existing pilot projects should be disseminated to all relevant firms and trade unions and be subject to further review and modification based on their wider application. General skills (for example, problem-solving, team-working, communications skills) are particularly important for the development of new work practices. The Council recommends the development of appropriate company training and testing materials for these general skills. These types of skills should also be given more emphasis in the traditional education sector. At secondary-level, general skills could most usefully be developed in Transition Year where there is less emphasis on academic subjects and where students often participate in some form of work experience in co-operation with local employers. At third-level, the increasing trend towards modularization provides an opportunity to develop training modules where students could learn general skills that they would find useful both in their studies and in their future careers.

The growing importance of new work practices, adaptation to change and lifelong learning as sources of competitive strength suggests that a shift in enterprise policy and related resources may be required to ensure the continued development of these factors. This would be in line with the recommendation in Chapter 8 for a re-alignment of state support from capacity expansion to building business capability.

CHAPTER 8

ENTERPRISE POLICY

8.1 INTRODUCTION[1]

The competitiveness of enterprise in Ireland is an essential requirement if the Council's vision of a dynamic economy and participatory society is to be achieved. The context of global economic integration in which Irish enterprises compete has been outlined in Chapter 3. The current phase of globalisation seems to have worked to Ireland's advantage to date. Technological developments have reduced somewhat the significance of transport costs as a factor shaping the geography of economic activity. One aspect of this is the growing importance of trade in services. Even in terms of trading goods, a shift towards goods with high value-to-weight ratios (computer chips rather than coal) has taken place (Krugman, 1997). These developments have reduced the significance of geographic peripherality. The Irish economy has prospered from these developments through effective policies but this success should not be taken for granted. There are many dimensions to sustaining enterprise competitiveness that are addressed both in this report and in the forthcoming Forfás report, *Enterprise 2010*. In this chapter, the focus is on enterprise issues at broad sectoral level.

The structure of this chapter is as follows. Section 8.2 provides a brief discussion of the changing labour market context.[2] The performance of the manufacturing and services sectors is discussed in Sections 8.3 and 8.4. The need to adapt industrial policy to changing economic circumstances is discussed in Section 8.5. The contribution that reform of regulation and competition policy can make to enhancing performance, particularly in services, is discussed in Section 8.6. Agricultural policy issues are discussed in Section 8.7 and rural development is discussed in Section 8.8.

1 This chapter draws in part on a draft report, *Enterprise 2010* prepared by Forfás.

2 Unemployment trends are examined in Chapter 9.

Section 8.9 discusses policy issues in relation to the fisheries sector. Conclusions are presented in Section 8.10.

8.2 EMPLOYMENT PERFORMANCE

Since 1994 there has been strong growth of employment, with average annual increases of around 70,000. Between 1998 and 1999 there was an even more remarkable increase in employment of close to 100,000. All sectors have participated in the growth of employment since 1994, with the exception of agriculture. Agricultural output increased modestly over this period so that the decline in agricultural employment is a reflection of the sustained growth in productivity in this sector rather than a decline in output. In terms of job numbers, most of the new jobs have been in services, mainly private services. The construction sector has also shown rapid employment growth and the level of employment in this sector exceeded 140,000 in the second quarter of 1999.

As a result of strong employment growth, unemployment has fallen sharply and indeed labour shortages have emerged in some sectors. Enterprise policy must adapt to the tighter labour market situation. However, it is important to find the appropriate balance. The rate of expansion of the labour force will slow down over the next decade but there will still be substantial labour force growth. The ESRI *Medium Term Review: 1999-2005* forecasts that the labour force will grow by an annual average of 2.0 per cent for the period to 2005 and by an annual average of 1.5 per cent for the next five year period to 2010 (Duffy *et al.*, 1999). A 2.0 per cent growth rate is equivalent to an annual increase in the labour force of over 30,000 which represents substantial growth. It is important to sustain employment growth while at the same time adapting to a tighter labour market.

Notwithstanding the buoyant economy, some jobs continue to be lost. In 1998, approximately 13,000 redundancies were notified to the Department of Enterprise, Trade and Employment for the purposes of redundancy payments. Faster income growth associated with a tighter labour market may accelerate job losses in some sectors. For example, the rate of decline of employment in agriculture is expected to accelerate and parts of manufacturing are under considerable pressure as discussed in subsequent sections. It is necessary to replace jobs that will be lost and it is also important to have effective labour market policies so that those who lose jobs in declining sectors are given assistance in finding employment in growing sectors. Labour market policies are discussed in Chapters 7 and 9.

8.3 MANUFACTURING

Whether performance is measured in terms of employment, output, productivity or exports, there has been an outstanding performance by Irish manufacturing over the past decade. This strong performance has been driven by the foreign-owned sector, although the Irish-owned sector has recovered over the most recent period.

8.3.1 Employment

Employment in manufacturing[3] grew from 213,435 in 1989 to 264,167 in 1998, an increase of 24 per cent. The rate of increase in foreign-owned manufacturing, at 33.5 per cent, was more than twice the increase for Irish-owned manufacturing (16.2 per cent). However, an interesting feature of the employment growth is that Irish-owned manufacturing accounted for close to 40 per cent of the increase in employment over this period. This represents a marked change in the historical performance of Irish-owned manufacturing.

There continues to be a notable difference in the structure of Irish-owned and foreign-owned manufacturing employment. It can be seen from the 1996 *Census of Industrial Production* that in five of the nineteen NACE sectors, foreign firms accounted for over 75 per cent of the sector's employment. These are drink and tobacco, chemicals, office machinery and computers, radio and television communications and medical and precision equipment. Irish-owned industry still has a relatively limited presence in the high-tech

3 Trends in manufacturing employment in this section are discussed using Forfás data. These differ somewhat from the *Labour Force Survey* (LFS) and the *Quarterly National Household Survey* (QNHS) data used in Table 8.1. The sectoral employment data in the LFS and the QNHS are based on the responses of individuals while Forfás data are based on a survey of companies.

sectors. However, an interesting feature of the growth of employment in Irish-owned industry is that the highest rates of growth occurred mainly in the high-technology sectors such as reproduction of recorded media (mainly software), medical

TABLE 8.1

Employment by Sector

	Labour Force Survey ('000)		Percentage Change	Quarterly National Household Survey ('000)		Percentage Change
	April 1994	**April 1997**	**1994-97**	**Q2 1998**	**Q2 1999**	**1998-1999**
Agriculture, Forestry and Fishing	147.7	141.5	-4.2	135.0	135.9	0.7
Industry	343.6	398.9	16.1	429.1	451.0	5.1
Other production industries	252.1	288.5	14.4	302.9	308.9	2.0
Construction	91.5	110.4	20.7	126.2	142.1	12.6
Services	729.2	839.6	15.1	930.5	1004.3	7.9
Wholesale and retail trade	169.1	193.3	14.7	211.4	223.3	5.6
Hotels and restaurants	68.4	76.4	11.7	98.1	102.6	4.6
Transport, storage and communication	55.9	65.0	16.3	86.9	96.0	10.5
Financial and other business services	114.3	134.7	17.8	171.8	195.8	14.0
Public administration and defence	66.4	72.2	8.7	70.7	74.4	5.2
Education and health	181.5	212.9	17.3	206.9	220.4	6.5
Other services	73.6	85.1	15.6	84.7	91.8	8.4
TOTAL AT WORK	1220.6	1379.9	13.1	1494.5	1591.1	6.5

Source: Department of Finance, *Economic Review and Outlook*, and CSO, *Quarterly National Household Survey.*

Note: There is a discontinuity in the data between April 1997 and Q1 1998 due to the introduction of the *Quarterly National Household Survey.*

precision and optical instruments, office machinery and computers, radio, television and telecommunications equipment and pharmaceuticals (O'Malley, 1998: 40-41).

Notwithstanding the strong growth of manufacturing employment, there have been significant job loses in some sectors. Employment has declined in non-metallic minerals, drink and tobacco, textiles and clothing, footwear and leather for both Irish-owned and foreign-owned manufacturing. In the case of drink and tobacco and non-metallic minerals, the decline in employment is a reflection of strong productivity growth rather than competitiveness problems. However, in the case of textiles and clothing there are significant competitiveness difficulties, although the pattern is by no means one of uniform decline. For example, the knitting industry (part of textiles) has had strong output growth. Some individual companies within these sectors have also succeeded in positioning themselves in higher value-added markets.

TABLE 8.2

Manufacturing Employment 1989-1998

Irish-owned Manufacturing	**1989**	**1995**	**1998**	**% Change 1989-98**
Non-Metallic Minerals	9,398	8,397	9,232	-1.8
Chemicals	3,291	3,749	4,266	29.6
Metals & Engineering	25,653	30,281	35,641	38.9
Food	33,111	36,763	38,135	15.2
Drink & Tobacco	2,050	1,704	1,754	-14.4
Textiles	5,017	4,661	4,244	-15.4
Clothing, Footwear & Leather	10,101	7,731	6,666	-34.0
Wood & Wood Products	4,415	4,694	5,477	24.1
Furniture	4,468	4,534	5,365	20.1
Paper & Printing	12,793	12,745	13,478	5.4
Miscellaneous Manufacturing	5,531	8,496	9,458	71.0
Plastics & Rubber	4,341	5,475	5,971	37.5
Irish-owned Manufacturing, Total	**120,169**	**129,230**	**139,687**	**16.2**

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Foreign-owned Manufacturing	**1989**	**1995**	**1998**	**% Change 1989-98**
Non-Metallic Minerals	2,957	2,292	1,949	-34.1
Chemicals	11,818	16,137	19,497	65.0
Metals & Engineering	42,589	59,315	72,362	69.9
Food	9,797	9,006	8,979	-8.3
Drink & Tobacco	6,019	4,976	4,581	-23.9
Textiles	7,142	6,210	4,500	-37.0
Clothing, Footwear & Leather	4,378	3,249	2,340	-46.6
Wood & Wood Products	490	459	842	71.8
Furniture	17	6	5	-70.6
Paper & Printing	2,134	2,163	1,801	-15.6
Miscellaneous Manufacturing	1,939	2,750	3,146	62.2
Plastics & Rubber	3,986	4,103	4,478	12.3
Foreign-owned Manufacturing, Total	**93,266**	**110,666**	**124,480**	**33.5**
All Manufacturing, irrespective of ownership	**1989**	**1995**	**1998**	**% Change 1989-98**
Non-Metallic Minerals	12,355	10,689	11,181	-9.5
Chemicals	15,109	19,886	23,763	57.3
Metals & Engineering	68,242	89,596	108,003	58.3
Food	42,908	45,769	47,114	9.8
Drink & Tobacco	8,069	6,680	6,335	-21.5
Textiles	12,159	10,871	8,744	-28.1
Clothing, Footwear & Leather	14,479	10,980	9,006	-37.8
Wood & Wood Products	4,905	5,153	6,319	28.8
Furniture	4,485	4,540	5,370	19.7
Paper & Printing	14,927	14,908	15,279	2.4
Miscellaneous	7,470	11,246	12,604	68.7
Plastics & Rubber	8,327	9,578	10,449	25.5
Total Manufacturing	**213,435**	**239,896**	**264,167**	**23.8**

Source: Forfás (forthcoming), *Enterprise 2010.*

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8.3.2 Productivity

Productivity in the manufacturing sector overall has grown by an annual average of close to 7.0 per cent during the 1990s. However, the *Census of Industrial Production* reveals a very large gap in productivity between Irish-owned and foreign-owned manufacturing. In fact, the gap is so large that it is very difficult to make meaningful comparisons. A more significant issue is how the productivity of Irish-owned manufacturing compares to the productivity of manufacturing elsewhere. Estimates of productivity in Irish-owned manufacturing compared to the EU average are presented in Table 8.3. These estimates indicate that the level of productivity for all sectors of Irish-owned manufacturing lies below the corresponding sector for the EU, with the single exception of medical and precision equipment. In some cases the gap is very large, particularly for electrical machinery, publishing and textiles.

One factor that influences productivity is scale. *The Census of Industrial Production* does not provide data on productivity classified by size of unit and nationality. However, Forfás derived an estimate of productivity (gross output less materials per worker) that can be used to make this comparison. This estimate of productivity indicates that productivity increases up to a maximum level for the size category of 100 to 199 employees. Above that level productivity declines but continues to be above the smallest size categories. If Irish-owned industry has above average representation of small firms, the sector-wide productivity will be lower relative to countries with a lower dependence on small firms.

An important issue is how policy can most effectively contribute to raising the level of productivity in Irish-owned manufacturing. The issue is discussed in Section 8.5 below.

TABLE 8.3

Estimated Productivity in Irish Manufacturing Relative to the EU Average, 1996

	Value Added Per Worker (000 ECUs)			Productivity of Irish-owned manufacturing as percentage of EU
	EU	Ireland (total manufacturing)	Ireland (Irish-owned manufacturing)	
Chemicals	76.0	219.8	61.5	80.9
Paper	50.0	44.5	39.6	79.2
Publishing	45.3	88.0	22.9	50.6
Transport Equipment	50.7	32.0	29.4	58.0
Food, Drink & Tobacco	45.8	71.6	33.6	73.4
Textiles	31.1	22.3	18.5	59.5
Wood	32.2	27.0	23.0	71.4
Medical & Precision Equipment	45.2	77.7	52.1	115.3
Non-Metallic Minerals	47.7	45.5	46.4	97.3
Electrical Machinery	47.0	44.2	19.4	41.3

Source: Forfás (forthcoming), *Enterprise 2010.*

Note: Value-added per worker for Irish-owned manufacturing was estimated by applying the following ratio (net output per worker in Irish-owned manufacturing to net output per worker in total Irish manufacturing) to value-added per worker for total Irish manufacturing.

8.3.3 Exports

The strong export performance of recent years has been dominated by foreign-owned firms. In manufacturing, foreign-owned firms accounted for 94 per cent of the increase in exports between 1991 and 1996. According to the Technology Foresight report (ICSTI, 1999a), just 50 companies account for half of total Irish exports.

Exports by Irish-owned manufacturing companies increased by just over 22 per cent between 1991 and 1996 (see Table 8.4). The share of output exported declined slightly from 34.8 per cent in 1991 to 34.0 per cent in 1996. This is an indication of the importance of domestic demand and increased sub-supply opportunities for Irish-owned manufacturing. Nonetheless, the 1996 level of export share still represents a significant increase on the position in 1986 when just 26.6 per cent of output was exported.

TABLE 8.4

Exports of Irish Owned Manufacturing Industry

Sector	Percentage Change in Exports 1991 to 1996	Exports as a Percentage of Output		Export £ millions
		1991	1996	1996
Food, Drink & Tobacco	5.3	38.5	35.9	2,205
Textiles	12.6	42.2	44.7	156
Wood	74.3	14.4	17.5	44
Paper	–	–	14.9	158
Chemicals	25.9	35.6	32.4	204
Minerals	22.1	22.4	19.7	126
Metals	30.5	35.0	33.0	224
Machinery	–	–	46.5	206
Electrical	108.0	51.9	48.0	275
Transport	–	–	51.3	189
Other Manufacturing	17.9	32.8	33.5	226
All Manufacturing	22.2	34.8	34.0	4,139

Source: CSO, 1991 *Census of Industrial Production*, Table 9 and 1996 *Census of Industrial Production*, Table 7.

The exports of Irish-owned manufacturing are dominated by food, drink and tobacco. This sector (which is mainly food) accounted for 53.3 per cent of the exports of Irish-owned manufacturing in 1996. This sector's exports (as recorded by the *Census*) have grown slowly in money terms during the 1990s (an increase of just over five per cent between 1991 and 1996) and this has depressed total export growth.[4] There was a strong increase in exports other than food, drink and tobacco for Irish-owned manufacturing of almost 50 per cent between 1991 and 1996. The share of output that was exported for non-food Irish-owned manufacturing increased slightly from 30.1 per cent in 1991 to 32.0 per cent in 1996. Export trends by sector for Irish-owned manufacturing are shown in Table 8.4. It can be seen that there was a substantial increase in exports of the high-tech sectors of electrical equipment and chemicals. Other sectors that showed large increases were wood, non-metallic minerals and basic metals.

The performance of the non-food Irish-owned manufacturing sector is encouraging. However, the growth has been from a low base. In money terms, the total increase in these exports between 1991 and 1996 was just below £650 million. The performance of the food industry is discussed in Section 8.3.6.

8.3.4 Research and Development

There has been significant growth in business expenditure on research and development (BERD) during the 1990s. BERD as a percentage of GDP has increased from 0.5 per cent in 1990 to 1.11 per cent in 1997. The 1997 level is close to the EU average of 1.15 per cent. Foreign-owned companies account for roughly two-thirds of total spending. BERD has increased for both Irish-owned and foreign-owned manufacturing. In Irish-owned manufacturing, BERD doubled as a percentage of output between 1991 and 1997. The increase in BERD as a percentage of output in Irish–owned manufacturing has exceeded the corresponding increase for foreign-owned manufacturing. In foreign-owned manufacturing BERD as a percentage of gross output increased from 1.0 per cent in 1991 to 1.2 per cent in 1997. This reflects in part the faster output growth in foreign-owned manufacturing.

While the trend in expenditure on R&D is moving in the right

4 In the *Census of Industrial Production*, it is noted that caution should be exercised when using the export results for the food manufacturing industries because of the varying interpretations by respondents of sales to EU intervention and to the Irish Dairy Board.

direction, there are still some causes for concern in this area. The Technology Foresight report (ICSTI, 1999a) has drawn attention to the fact that Ireland lacks a substantial core of companies with a commitment to research and development (R&D). For example, out of a population of 4,000 manufacturing and internationally traded services companies, only 50 spend close to £1 million per annum on R&D.

8.3.5 Regions

One of the features of Irish economic performance has been a concentration of growth in major urban centres. The regional distribution of permanent employment in manufacturing and internationally traded services is shown in Table 8.5. It can be seen that the regions with the strongest increase in employment over the period 1994 to 1998 were the Mid-East (40.2 per cent), Dublin (38.9 per cent), the West (29.8 per cent) and the Mid-West (22.4 per cent). The lowest growth was in the North-West or Border region (5.2 per cent). All of the regions with the largest increase in employment have a major urban centre. However, the growth of employment in the South-West was below the national average, despite the presence of a major urban centre.

The regional concentration of manufacturing and internationally traded services employment is a feature of both Irish-owned and foreign-owned enterprises, although the extent of the concentration is lower for Irish-owned enterprises. For foreign-owned enterprises, 47.6 per cent of the net increase in employment over the period 1994 to 1998 was in the Dublin region while the corresponding figure for Irish-owned enterprises was 41.4 per cent. There was a substantial increase in employment in Irish-owned enterprises in the Midlands region of 28.7 per cent, while for foreign-owned enterprises employment in this region increased only marginally.

TABLE 8.5

Regional Distribution of Permanent Employment in Manufacturing and Internationally Traded Services Enterprises

Region	1994	1998	Percentage Change 1994-1998
Dublin	59,835	83,133	38.9
Mid-East	17,841	25,029	40.2
Midlands	11,425	13,063	14.3
South-East	25,276	27,540	8.9
South-West	32,481	37,250	14.6
Mid-West	24,285	29,738	22.4
West	17,282	22,438	29.8
North-West (Border)	29,668	31,197	5.2
All Regions	**218,093**	**269,388**	**23.5**

Source: Forfás *Business Information System 1999.*
Note: Data refer to full-time permanent employment in enterprises listed in IDA Ireland, Enterprise Ireland and Shannon Development databases.

The concentration of agency-supported employment in urban centres is associated with the growing importance of the high-technology sectors and traded services. These enterprises have a preference for urban centres. There are a number of factors involved. One issue is the operation of local labour markets. The demand for advanced labour skills by both overseas and domestic investors has been rising. The larger urban centres are in a better position to meet these requirements. Those with the required skills are attracted to urban areas as such areas can provide a range of potential employers. The quality of life that a particular centre can offer is also a critical consideration. Another important issue is international access. Although physical transport costs are of less importance, the ability of customers and executives overseas to visit and communicate easily with the enterprise appears to be a key issue. This points to the importance of a targeted approach to improving the infrastructure of all regions. Chapter 10 presents a strategy for improved infrastructure based on the need for providing balanced regional development.

8.3.6 The Food Industry

The food sector was identified above as a key indigenous sector. Most of the employment (80 per cent) is in Irish-owned companies although just 42 per cent of the net output is by Irish-owned companies. This difference is explained by the influence of the 'other foods' sector. In 1996, the output of non-EU companies in this sector represented 45 per cent of the net output of the food industry but only 4.0 per cent of employment. This other foods category is dominated by cola concentrate production.

TABLE 8.6

Index of Food Industry Output

	1987	1990	1994	1998	Percentage Change 1987-1998	Percentage Change 1994-1998
Meat	100.0	122.4	129.1	152.4	52.4	18.0
Dairy	100.0	104.4	111.2	113.6	13.6	2.1
Milling/Feed	100.0	105.6	137.7	140.1	40.1	1.7
Bread, Biscuits & Flour	100.0	92.2	95.7	117.0	17.0	22.3
Sugar, Cocoa, Chocolate & Sugar Confectionery	100.0	126.9	141.7	127.7	27.7	-9.9
Other Foods	100.0	112.0	173.9	234.4	134.4	34.8
Drink	100.0	122.9	137.0	165.9	65.9	21.1
Total Food	100.0	111.5	143.9	174.0	74.0	21.0
Total Manufacturing	**100.0**	**131.3**	**177.5**	**313.9**	**213.9**	**76.9**

Source: CSO, *Industrial Production Index.*

There has been strong output growth in the food industry over the past decade. Between 1987 and 1998, output of the food industry increased by 74 per cent. This overstates the performance of the food industry generally because the output of the food industry was boosted by an increase of 134 per cent in the output of the 'other foods' sector. There was still reasonably strong output growth outside of this sector. Output of the meat industry has increased by over 50 per cent since 1987. Output growth for the dairy sector was quite low and there has been almost no output growth here for the last few years. This reflects the fact that the output of the main products in the dairy sector is limited by quota. Since 1987 output has increased in all sectors within food although in the last few years the output of the sugar, chocolate and sugar-confectionery industry has been declining. The drinks industry has shown strong output growth with an increase of 66 per cent since 1987.

The report of the Food Industry Development Group (1998) identified a number of general issues that need to be addressed if the food industry is to continue to develop. First, there is still an over-reliance on commodity-type products. Progress along the value-added chain has been limited and needs to be accelerated. Second, there continues to be scale-related difficulties in the industry. The limited scale of many enterprises in the sector inhibits cost competitiveness and access to markets and is a barrier to investment in innovation and in the development of human resources. Third, it is important that the highest possible standards of food safety are adhered to.

The structure of the food industry leaves it vulnerable to the trend of a reduction of agricultural support and protection. There is a particular need for the beef and dairy sectors to shift the focus from non-EU markets that depend on export refunds to the affluent EU market. A strategic development plan for the beef sector has been prepared through a partnership between Enterprise Ireland, the processors and farmers. There are two major objectives to the strategic development plan: rationalisation of the processing sector and the development of partnership between producers and processors. The long-term viability of the industry depends on an integrated supply chain between producers, processors and retailers.

The requirements for development in the dairy sector are identified by the Food Industry Development Group. First, there is a need to increase cost competitiveness at production and processing level; this will require greater economies of scale through rationalisation/consolidation. Second, the growth areas within the sector – food ingredients and cheese – must continue to be targeted. The food ingredients area offers the main opportunity but requires substantial investment in research and development and human resources. An analysis of the food ingredients sector by Goodbody Economic Consultants (1998b) found that most Irish food ingredients products were still of the low value bulk variety.

The Food Industry Development Group identified significant opportunities for development in consumer foods. This sector has performed strongly: sales increased from £939 million in 1994 to £1,300 million in 1998 while exports increased from £366 million in 1994 to £612 million in 1998. The general scale-related difficulties referred to above are of particular importance in this sector. Most of the companies in this sector are small (65 per cent of companies have sales of less than £5 million). Combined with the need to export at an early stage of development, this small scale puts them at a severe disadvantage on intensely competitive overseas markets. Increasing consolidation in the retail market is also a factor. The strength and buying power of supermarkets reinforces the need for scale on the manufacturing side.

There is a case for some state support to help in the repositioning of the food industry towards higher value-added products. As with state assistance for other manufacturing sectors, the focus should be on supporting the development of capabilities in terms of human resources, research and marketing, rather than simply assisting capital investment. Another factor critical to the future development of the food industry is the development of closer relationships between producers, processors and retailers to ensure that high standards of food quality, safety and traceability are achieved. This was referred to above in the context of restructuring of the beef industry but it applies generally throughout the food industry.

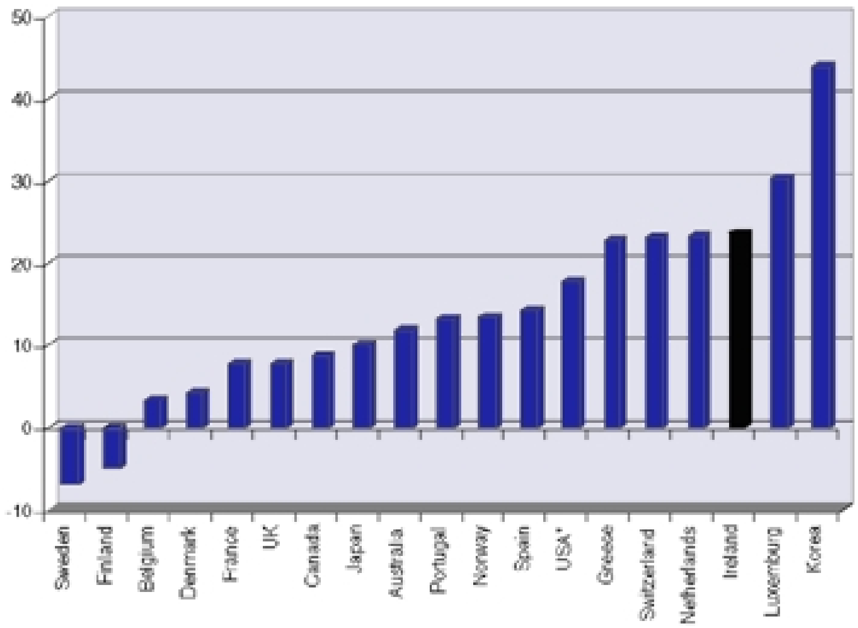
8.4 SERVICES

Most of the growth of employment over the past decade has been in services. It is well known that Ireland has outperformed other OECD countries in terms of the growth of manufacturing employment. It is perhaps less well known that the growth of services employment during the 1990s has also been amongst the highest in the OECD. Over the period 1990 to 1997, the only OECD countries that had stronger employment growth in services were Luxembourg and Korea.

Notwithstanding the strong employment growth in services, the recent OECD survey on Ireland has highlighted the fact that the share of output accounted for by services in Ireland is substantially lower than would be expected for a country at Ireland's stage of development and that this share has declined over the past decade (OECD, 1999b). However, this finding is based on GDP-based data and so is prone to the distortions that are a feature of such data for Ireland. In particular, parts of manufacturing have an extremely high level of value-added per employee. This leads to industry having a very high share of national output with a correspondingly lower share for services.

FIGURE 8.1

Total Percentage Change in Services Employment 1990-1997



Source: OECD, *Labour Force Statistics.*

*There is a break in the series for the USA.

Employment figures may provide a better indication of the ‘real’ structure of the economy. The share of employment in services in Ireland is close to the EU average: employment in services in Ireland was 61.7 per cent of total civilian employment in 1997, compared to an EU average of 65.2 per cent. Apart from measurement issues, the low share of services in output may also reflect lower productivity in services as well an under representation of higher value-added services.

This section discusses performance in internationally traded services, other general services and tourism. Tourism is an important internationally traded service sector but it is not conventionally included in the definition of internationally traded services used by the industrial development agencies. We follow this convention here, so tourism is discussed separately.

8.4.1 Internationally Traded Services

Since 1989, employment in internationally traded services has increased almost five-fold to reach over 46,000 in 1998. Employment in Irish-owned internationally traded services trebled over the same period. Software is included under internationally traded services and is a major contributor to employment and export growth. The strong employment growth in internationally traded services is one indication of how Ireland has benefited from the evolution of a ‘weightless economy’, as discussed in Chapter 3.

Services are becoming an increasingly important part of international trade. The data on the trade balance for services for Ireland presented in Table 8.7 indicate that Ireland has a large and growing deficit in services. The components of this deficit are royalties, licences etc. and other services. Other services cover a range of activities including technical and professional services, advertising and marketing, research and development services, inter-affiliate management fees. Software is also included in this category. To some extent, the large deficit in services is a reflection of Ireland’s success in attracting overseas investment. The subsidiaries of foreign multinationals based in Ireland import services from other divisions of the company. These imported services will often contribute to the production of a product that is subsequently exported. When the product is exported this shows up on the merchandise trade balance rather than the services balance. However, these data also point to the underdevelopment of higher level services in Ireland. The head offices of Irish multinationals export services to their subsidiaries abroad but the scale of such exports is low in comparison to the corresponding imports. The data on international trade and services raise a number of other significant issues:

- there is a comparatively low export propensity of services in Ireland. The share of services exports for Ireland as a proportion of total exports, at only 11 per cent, is amongst the lowest of countries with which we compete;
- Irish-owned service exporters have a high dependence on the UK: exports to the UK accounted for 38 per cent of Irish services exports in 1997;
- only 3.0 per cent of service businesses in Ireland are actively engaged in exporting.

It is important for policy to identify and address the constraints on the development of higher level services in Ireland. It may be that many such services have a natural tendency to be concentrated in major metropolitan cities. A study on internationally traded services is at present being undertaken by Enterprise Ireland.

TABLE 8.7

Services Trade Balance (£ Million)

	1995	1996	1997	1998
International Freight & Other Transportation	422	477	533	598
Tourism & Travel	109	-170	245	204
Royalties, Licences etc.	-1,617	-2,071	-2,655	-4,166
Other Services	-1,906	-2,358	-2,813	-4,347
Services Trade Balance	**-2,992**	**-3,782**	**-4,690**	**-7,711**
Merchandise Trade Balance	*7,459*	*8,756*	*11,084*	*15,396*

Source: CSO, *Balance of International Payments Series*, 1998.

8.4.2 General Services

Most services are not internationally traded. Forfás estimates indicate that general services (services other than internationally traded services) represented 58 per cent of total employment in 1998 and accounted for 63 per cent of employment growth over the period 1989 to 1998.

The level and growth of productivity in services is much lower than for manufacturing. In 1997 the level of productivity in services was less than half that of manufacturing and over the period 1992 to 1997 productivity in services increased by just over 5.0 per cent compared to an increase of over 40 per cent for manufacturing. Comparable data on productivity for the internationally traded services component are not available from the national accounts. However, Forfás estimates of productivity from its *Irish Economy Expenditure* survey suggest that the level of productivity in internationally traded services is comparable to manufacturing generally. Hence, the phenomenon of low productivity in services is mainly an issue for the services sector excluding internationally traded services.

The phenomenon of relatively low productivity combined with strong employment growth for non-traded services is not unique to Ireland and is at least in part related to the nature of the activity involved. Krugman has pointed out that:

> We are making rapid progress (in increasing productivity) in fields where the information required is relatively easy to formalise, to embody in a set of instructions to a robot or computer; we have made much less progress in activities, from cutting hair to medical care, where the information processing is of the exceedingly subtle and extremely complex kind that we call common sense. But the kinds of activities that we cannot program a computer or robot to do for us, that require the human touch, also typically require direct human contact. That is, precisely because farming, manufacturing and some impersonal services have become so productive, our economy increasingly focuses on the other things, the "non-tradable" activities that make up the "non-base" employment that occupies most people in modern cities (Krugman, 1996: 213).

This is not to imply that the level of productivity in services is fixed. Achieving productivity improvements in services will be important to achieving higher living standards. However, it should not be expected that comparable levels of productivity to manufacturing can necessarily be achieved.

The Central Bank of Ireland has drawn attention to the issue of inflation in services. The rate of inflation in services in 1998 averaged 3.5 per cent which was 1.1 percentage points higher than the increase in inflation in the overall index. Furthermore, the inflation rate for the services sector was restrained by sharp decreases in telecommunications prices. If this effect is excluded, the underlying rate of services inflation is close to 5.0 per cent and appears to be accelerating. This underlines the importance of a determined focus on improving productivity in this area. The approach adopted to competition and regulation in services can have an important influence on both productivity and inflation in this sector. The decline in prices in telecommunications is an illustration of the benefits of competition.

8.4.3 Tourism

Tourism is one of Ireland’s fastest growing services segments and is an interesting illustration of the challenges facing services. One of the key issues for the tourism sector is how to manage in an environment where public support, primarily in the form of EU funds, is declining. Other key issues are how best to reduce staff turnover rates while increasing the attractiveness of careers in tourism and how to increase productivity in the sector.

It is estimated that expenditure from tourism supported 119,300 direct and indirect jobs in 1997. Since 1993, tourism-supported employment has grown by 30 per cent. Overseas visitor numbers have grown from 2.3 million in 1988 to just over 5.0 million in 1997 while overseas revenue has increased from £841 million in 1988 to £2,105 million in 1997.

All regions have benefited from tourism growth with total revenue growth of 37 per cent over the period 1990 to 1997. The rate of growth in revenue in the South-East and West has been below the national average. Tourism job growth in the North-West exceeded the increase in industrial employment.

A strong focus is required on skills development and moving towards permanent employment packages for employees in the sector to reduce the very high rates of turnover that persist. Skill shortages are being addressed through the industry's Quality Employer Programme. There is a need to raise the quality of tourism products across the country, to achieve a better regional balance of tourism growth, to ensure that tourism development occurs in a manner that respects the quality and absorption capacity of local communities and landscapes, and to reduce seasonality. Marketing will need to be increasingly funded by the industry itself. However, market failure may continue to exist in relation to the marketing of Ireland as a destination. The benefits accruing from such marketing are spread very widely and ways of obtaining adequate voluntary contributions from individual businesses in the tourism industry will need to be developed. The National Development Plan 2000-2006 allocates funding to promote the island of Ireland as a tourist destination.

8.5 REFOCUSING INDUSTRIAL POLICY

It is widely acknowledged that industrial policy has made an important contribution to Irish economic success. In fact, the recent OECD survey on Ireland considered that the consistent policy approach to attracting inward foreign investment may be the most important policy channel that has underpinned Ireland's economic success (OECD, 1999b). Nonetheless, the very success of industrial policy in moving the economy towards full employment raises questions about the need for a refocusing of industrial policy.

8.5.1 Objectives of Industrial Policy

It is shown in the Forfás report *Enterprise 2010* that there is a continuing need for significant employment growth in manufacturing and internationally traded services. This derives from the objective proposed by Forfás of raising GNP per capita to 110 per cent of the EU average by 2010. This objective has sectoral implications because there is a large gap (as noted above) between both the level and growth of productivity in manufacturing and internationally traded services and the rest of the economy. Sustained productivity growth is required to achieve the target in relation to living standards. Forfás envisage a significant acceleration in productivity growth in the services sector generally from 0.9 per cent per annum during the 1990s to 1.5 per cent per annum in the coming decade. Even if this acceleration of productivity growth is achieved, continued employment growth and productivity growth will also be required in the higher productivity manufacturing and internationally traded services sectors. Agriculture will also contribute to productivity growth, both directly within the sector and also by releasing labour for other sectors. The job losses that will inevitably occur in some parts of the manufacturing and internationally traded services will also require gross job creation simply to maintain the level of employment.

While industrial policy has never had employment as its sole objective, it has been remarkably successful in this regard. One of the key variables in evaluating an investment project is the 'shadow price' of labour. This represents the authorities' view of the 'true' cost of labour. For example, if the shadow price of labour is set equal to 100 per cent of the market wage, then no social value is attributed to the increase in employment associated with the project. The lower the value of the shadow price used, the greater the measured social benefits will be. Until recently the development agencies used a very low shadow price of labour at 15 per cent of the wage paid. In other words, the alternative for an employee recruited into an agency-supported job was valued at only 15 per cent of the wage paid by that job. In the context of labour surpluses at all levels, a low shadow price was appropriate. However, as labour becomes a more scarce resource, a higher value is more appropriate. The need for change has been recognised and the shadow price used has been increased to approximately 50 per cent. Some commentators (OECD, 1999b; Honohan, 1998b) have argued that a still higher value would be appropriate.

In the context of a tighter labour market, enterprise policy needs to place more emphasis on productivity and job quality. At an aggregate level, there has been strong productivity growth in the internationally traded sector during the 1990s and it is important that this growth be sustained. There is a particular need to address the problem of low productivity in indigenous manufacturing. The tighter labour market and international competition will put pressure on companies to increase value-added per worker and policy should support this market-led process. A focus on productivity growth will have a number of implications. In practical terms it will mean only supporting new projects or new activities within companies where they will result in a productivity level capable of supporting a higher level of employee remuneration.

A stronger focus on the regional dimension of industrial policy is appropriate. Earlier work by the Council points to the significant influence of urban centres on settlement patterns (NESC, 1997b). The objective of balanced regional development requires an integrated approach to policy. Integration of industrial policy and the planning of infrastructure is of particular importance. A National Spatial Development Strategy (NSDS), as discussed in Chapter 10 would provide a framework for regional policy.

Business expenditure on research and development (BERD) has increased strongly during the 1990s so that in 1997, BERD amounted to 1.1 per cent of GDP, close to the EU average of 1.5 per cent. It is reasonable to expect that BERD should at least grow in line with output. There is also scope to increase the range of enterprises that are engaged in R&D. The Council supports the minimum target proposed by Forfás of doubling the number of companies spending at least £100,000 per annum on R&D. This applies to both Irish-owned and foreign-owned enterprises.

The current buoyant labour market circumstances raise the possibility of a trade-off between the further development of foreign and indigenous enterprises. This can occur if foreign direct investment (FDI) enterprises bid up wages and undermine the ability of indigenous enterprises to attract those with high skills.

This has not been a problem in the past due to widespread labour surpluses. However, Barry *et al.*, (1999) point out that as skill shortages develop in some branches of industry in Ireland the foreign and indigenous sectors may begin to crowd each other out in a more dramatic fashion than has been the case up to now. The impact of new FDI projects on the ability of indigenous enterprise to recruit and retain skilled labour is therefore a factor that needs to be taken into account in project appraisal.

8.5.2 Financial Incentives

The policy of the European Commission is to reduce the amount of state aid provided to enterprises throughout the EU. This objective is supported by Ireland. Recent Irish economic growth has reduced the maximum permitted aid ceilings. If current projections for growth are achieved, Ireland will not be permitted to grant any incentives for capacity and employment creation in most of the country from 2006.

The Council supports the conclusion of Forfás on policy for financial incentives:

> It would not be appropriate to unilaterally and abruptly eliminate financial incentives given the scale of the task in terms of increasing the number of higher value-added jobs, improving regional balance and raising productivity levels. However, the overall level of state aids must be reduced and incentives refocused to provide a significant differential between assistance granted in the developed and less developed regions and to promote productivity-enhancing/ capability-building activities such as research and development and in-company training (Forfás, forthcoming).

8.5.3 Repositioning of Irish-Owned Internationally Traded Businesses

The Council believes that the development of Irish-owned internationally traded businesses is an important priority. Such businesses may comprise Irish-based multinationals or small and medium-sized enterprises (SMEs) in the internationally traded sector. Forfás have identified several advantages to the development of these companies. Locally owned businesses generally have a complete range of functions in Ireland. They are more ‘rooted’ in the Irish economy. The assets of locally controlled multinationals generate profit inflows to the economy. Such multinationals are more likely to locate higher value jobs at home. The development of local companies acting as high quality sub-suppliers also enhances Ireland’s attractiveness as an investment location.

There has been a strong performance by indigenous enterprises in the traded sector over the past decade, as discussed above. However, a number of weaknesses remain. First, in the manufacturing sector there is a significant concentration of employment and output in low productivity sectors. Second, productivity levels across manufacturing are low by international standards. Third, indigenous enterprise is heavily reliant on the domestic and UK markets. These markets account for 80 per cent of sales by indigenous manufacturing.

Development policy must seek to systematically tackle the weaknesses of the indigenous sector, in particular the problem of low productivity. The focus of agency activities required to develop indigenous enterprise can be summarised as follows:

- assisting companies to build the scale necessary to compete effectively;
- support for in-company training to develop the skills of management and employees to international best practice standards;
- support for product and process development through direct support for in-company R&D and through building technology innovation networks (see below);
- helping with the provision and the availability of suitable financing by working closely with private sources; and
- support for international market development, including increasing the number of companies that operate in international markets.

Competitiveness depends critically on strengths in intangible areas such as employee and management skills, new forms of work organisation, research, innovation, marketing, technology and design. These aspects of competitiveness are becoming more important. It is in these intangible areas that the risks of investment are greatest. Private investors are more reluctant to support such investments as there is no asset to reclaim if the investment is unsuccessful. There should therefore be a decisive shift in the focus of state support from assisting the expansion of capacity to the development of business capability. It is acknowledged that policy has been moving in this direction.

The tighter labour market will reinforce pressure on vulnerable sectors that do not produce sufficiently high value-added per worker to support higher employee remuneration. Vulnerable sectors should not be neglected by policy. It is not possible to protect non-viable jobs but the focus should be on assisting vulnerable sectors in terms of developing their capabilities. There are opportunities to develop higher value-added products in all sectors. It is also worthwhile to develop sectoral initiatives for rapidly growing sectors. According to its recent strategy statement, Enterprise Ireland will take a lead role in fostering accelerated development in certain high potential sectors such as e-commerce, electronics, biotechnology and educational media.

8.5.4 Networks

One way of building capability among smaller indigenous firms is through the development of networks. The Council welcomes the recently launched Training Networks Programme.[5] This Programme seeks to mobilise companies to address common training needs. By pooling resources and by purchasing solutions to common training problems as a group, the costs of accessing training can be reduced for individual network members. As well as reducing costs, this

5 This Programme is operated by a newly-established private company, Skillnets.

approach may to some extent also address the 'free rider' problem associated with training.[6]

Another recent network initiative is the pilot programme on Inter Firm Co-operation Networks, operated by Enterprises Ireland. This had been recommended by a previous NESC (1996b) report, *Networking for Competitive Advantage*, based on the experience of dynamic European regions. It was also recommended by a report of the Science, Technology and Innovation Advisory Council (STIAC, 1995) entitled *Making Knowledge Work for Us*. A commitment was given in *Partnership 2000* to establish a pilot programme. The principle of this type of networking is that companies have access to the kind of resources which, operating alone, they do not have at their disposal. It enables SMEs to co-operate in a significant way in strategic activities such as marketing and product/process development. This approach is used in several OECD countries and the idea of the pilot programme was to test its applicability in Ireland. Over 70 SMEs were targeted in the pilot programme and the majority of them were interested in participating in a network. At the end of the pilot programme 17 new networks had formally come together or were at some stage of development. The main benefit was that the networks enabled the companies involved to work together as a team in strategic development of new business opportunities (O'Doherty, 1998). The Council recommends that the experience of this pilot programme and other network initiatives should be reviewed.

The Council also supports the recommendation of Forfás to encourage 'technology innovation networks', that provide companies with access to relevant research at national and international level. This would include stimulating research in third-level institutions that is of relevance to industry and identifying opportunities for the transfer of knowledge from research institutions or companies abroad to Irish companies. This would help to strengthen the national system of innovation, which was

6 The 'free-rider' problem refers to the phenomenon whereby one company is reluctant to invest in training because it fears other companies could hire its trained employees.

identified as an important priority in previous NESC reports (NESC, 1993a, 1996a; Mjoset, 1993).

8.5.5 Foreign Direct Investment

The internationally traded FDI sector has made a very strong contribution to Irish economic growth and development. Given the need to continue to achieve a significant level of job gains and to achieve a better regional distribution of internationally traded sector employment, Ireland will need to continue to offer an attractive overall package to mobile investment. Increased levels of competition from locations in Eastern Europe and the Far East reinforce the need to assist existing operations of multinationals located here to move up the value chain.

In relation to financial support for FDI, the Council supports the approach of Forfás that grant assistance for capacity expansion will be gradually phased out over time and in line with reductions in aid levels in similar regions of the EU. Financial incentives are only one component of the overall package. A decline in the provision of financial incentives points to the importance of the other elements of the package and it is essential that Ireland's competitive position in respect of these factors be enhanced. The key factors are the availability of a skilled and educated labour force, a consistent and transparent corporate tax regime, high quality infrastructure and competitive business services.

8.5.6 National Development Plan 2000-2006

The National Development Plan (NDP) includes a strategy for industrial development. As with other elements of the NDP, the industrial development strategy distinguishes between the Border, Midland and Western (BMW) region and the Southern and Eastern (S&E) region. The key elements of the industrial development strategy in the NDP are as follows:

- to provide selective support for FDI particularly in the BMW region. This strategy will be facilitated by the higher level of regional state aids permissible in the BMW region. There is a commitment in the Plan that IDA Ireland will seek to ensure that over the Plan period, at least 50 per cent of all new jobs from greenfield projects will be in the BMW region;

- to provide an integrated response to the needs of all indigenous firms across all sectors through, where appropriate, the implementation of business development plans by the development agencies;
- to address in a targeted way the specific needs of the food industry; and
- to strengthen the marketing capacity of Irish firms (Government of Ireland, 1999a: 19).

The NDP also provides for a major accelerated increase in research, technological development and innovation (RTDI) investment with the following objectives:

- to strengthen the capacity of Irish third-level institutions and other research establishments to conduct research relevant to the needs of the Irish economy;
- to strengthen the capacity of Irish firms to assimilate the results of R&D into their products and processes; and
- to provide support for sectoral research in agriculture, food, marine and the environment (Government of Ireland, 1999a: 19).

8.6 REGULATION AND COMPETITION

Regulation is a key instrument of government policy that is used to address a range of critical concerns such as worker and consumer safety; environmental protection; market/competition regulation; management of scarce resources, for example, licensing of the radio spectrum; and consumer protection in relation to price, quality and continuity of supply. However, the burden of regulation has built up over time so that some regulations are no longer appropriate to an economy and society that are undergoing rapid change. The Government has recently launched a programme of regulatory reform, *Reducing Red Tape: An Action Programme of Regulatory*

Reform in Ireland (Department of the Taoiseach,1999), that has been developed as part of the Strategic Management Initiative. Under this programme, each Government Department or office will list the relevant legislation and identify the scope that exists for consolidation, revision or appeal. There is to be particular reference to barriers to market entry and the administrative burden on small business.

One dimension of regulatory policy is the appointment of new industry regulators in areas that were formally state monopolies such as telecommunications and electricity. This raises an important institutional issue of the appropriate relationship amongst such industry regulators and between the regulators and the Competition Authority. The Minister for Public Enterprise recently announced that she intends to publish a discussion paper on the accountability arrangements in relation to the regulators in the public enterprise sectors and she sought submissions on the matter. Furthermore, sectors such as international financial services and e-commerce require cutting edge regulatory systems if Ireland is to maintain its competitive edge.

There are significant gains from regulatory reform. OECD research (as reported by Forfás, forthcoming) has examined the impact of regulatory reform in the business sector in five OECD countries: the US, Japan, Germany, France and the UK. This research estimated that there are substantial productivity gains from regulatory reform. For example, the estimated impact of regulatory reform on labour productivity in Germany was 3.5 per cent. This is the equivalent of four years of ‘normal’ labour productivity growth. The OECD research estimated that there were additional gains to capital productivity and total factor productivity. By enhancing productivity, regulatory reform can both deliver direct gains to consumers and enhance the competitiveness of the economy.

Based on experience in several countries, the OECD has proposed that the following key principles should inform regulatory reform:

- adoption of broad programmes of reform with clear objectives and an implementation framework;

- systematic review of regulations to ensure continued effectiveness;
- regulatory processes should be transparent, non-discriminatory and efficient;
- a parallel review of competition policy with a view to strengthening it, should be undertaken;
- regulations should be reformed to stimulate competition, with elimination where possible;
- eliminate unnecessary barriers to trade and investment; and
- identify linkages with other policy objectives and develop policies for these that also support regulatory reform (OECD, 1997c, as quoted in Forfás, forthcoming).

Forfás has identified utilities and business services as two priority areas for regulatory reform. Both of these sectors have strong linkages to the internationally traded sectors and in the case of utilities, there are significant direct effects on consumers. In relation to utilities the most significant progress has been made in relation to telecommunications. Full liberalisation of this sector was announced in 1998. The ongoing liberalisation of telecommunications has already delivered significant benefits in terms of lower costs and improved quality of service. There has been a large increase in the number of telecommunications operators. Liberalisation has stimulated a high level of investment in the physical infrastructure for telecommunications. The telecommunications sector is now regulated by the Office of the Director of Telecommunications Regulation.

In relation to commercial state enterprises, the most critical issue is the nature of the competitive conditions in which they operate. The Council's view on privatisation is that each case should be examined individually and a conclusion reached on the particular circumstances of each case. The Council welcomes the recent decision to use the proceeds from the Telecom Eireann flotation to establish a fund to meet future social welfare and public service pension liabilities.

The Council welcomes the Government's action programme of regulatory reform and believes that its effective implementation is important for the competitiveness of the enterprise sector. In addition, the Council supports the following recommendations proposed by Forfás in relation to regulatory reform:

- EU harmonisation efforts should be closely monitored;
- Ireland should participate in the OECD country review programme on regulatory reform;
- detailed regulatory reform of business services and transport should be initiated;
- the relationship between the regulators and the Competition Authority should be clearly defined and any necessary institutional changes undertaken;
- a Regulatory Impact Analysis should accompany any proposals for specific regulatory reform; and
- regulatory innovation in competitor countries should be monitored systematically and effectively (Forfás, forthcoming).

Progress in achieving these regulatory goals can be assessed by monitoring the degree to which fully competitive markets have been achieved, and the extent to which individual sectors are dominated by a small number of firms. In establishing targets, the focus should be on outcomes. Targets should take account of social goals including the need to provide services on a universal basis. For each sector specifically regulated, independent monitoring of improvements in efficiency and cost competitiveness should accompany standard measures of industry concentration.

The Council believes that competition addresses a critical societal concern – the concern to have desired goods and services delivered at optimum prices from the consumer viewpoint. In that context the Council continues to emphasise the importance to consumers of the work of the Competition Authority to broaden and deepen the operation of competitive forces.

8.7 AGRICULTURE

8.7.1 Introduction

Agriculture remains a significant part of the economy although its share is not as large as in the past. Agriculture accounted for 4.7 per cent of GDP and 8.7 per cent of employment in 1998. The broader agri-food sector (including food, drink and tobacco) accounted for 11.5 per cent of GDP and 11.8 per cent of employment in the same year. The agri-food sector is of particular importance in relation to trade, estimated to have accounted for one-third of net foreign exchange earnings in 1995.[7] This is a higher share of net foreign exchange earnings than might be expected; it reflects the sector's low import content and low profit repatriation.

The agricultural sector is characterised by strong productivity growth as a smaller agricultural workforce now produces a higher volume of output. Between 1971 and 1996 agricultural employment declined by over half while agricultural output per person more than tripled (Lafferty, Commins and Walsh, 1999). However, there is evidence that this productivity growth in Irish agriculture has come mainly from greater use of capital and intermediate inputs rather than from the application of new knowledge in the sector. This is of concern from the perspective of the competitiveness of agriculture (Matthews, 1999).

8.7.2 The Geographic Dimension of Restructuring

There is a marked geographical pattern to the structural change that is taking place in agriculture. A recent analysis (Lafferty *et al.*, 1999) shows that at the broadest spatial scale it is possible to distinguish the agricultural economy on either side of a line drawn from Limerick to Dundalk. North of this line mainstream commercial agriculture has been declining: major reductions in tillage, dairying, beef and cattle farming have not been offset by expansion in other conventional product areas. This decline in commercial agriculture in this region is associated with a number of

7 Based on a study by B. Lally as reported in the Department of Agriculture and Food's *1998 Annual Review and Outlook.*

features of the agricultural economy of this region: an older age structure, late transmission of family holdings and high percentages of farm holders who are farming on a part-time basis or who are not economically active at all.

South of this broad dividing line (that is, in the eastern and southern counties) a range of indicators point to a stronger commercial agriculture. In these counties the incidence of full-time farming is higher, farmers are more likely to take early retirement and to transfer their farms to the next generation at an earlier age. In these counties there is a more active land market and the renting of agricultural land is more widespread. The dairy sector is becoming more concentrated in the core dairying regions of the South and North-East.

8.7.3 CAP Reform

The development of Irish agriculture is strongly influenced by the ongoing process of CAP reform. The process of CAP reform is informed by a 'European model of agriculture'. The European Commission has identified the main elements of this model as follows:

- a competitive agriculture sector that can gradually face up to the world market without being over subsidised, since this is becoming less and less acceptable internationally;
- production methods that are sound and environmentally-friendly, and able to supply quality products of the kind the public wants;
- diverse forms of agriculture, rich in tradition, that are not just output-oriented but seek to maintain the visual amenity of our countryside as well as vibrant and active rural communities, generating and maintaining employment;
- a simpler, more understandable agricultural policy that establishes a clear dividing line between the decisions that have to be taken jointly and those that should stay in the hands of the Member States; and

- an agricultural policy that makes clear that the expenditure it involves is justified by the services that the society at large expects farmers to provide (European Commission, 1998a: 6).

The distinguishing feature of the European model of agriculture "lies in the multifunctional nature of Europe's agriculture and the part it plays in the economy and the environment, in society and in preserving the landscape" (European Commission, 1998a: 6). European agriculture has a number of social characteristics that should be preserved. These include the strict environmental and health criteria that operate within the EU and the historically determined family farm ownership structure. The task of achieving a competitive agricultural sector while simultaneously meeting social and environmental objectives is a complex one.

Agreement on CAP reform was reached in March 1999 in Berlin covering the years 2000-2006. In an analysis of the final agreement, it was estimated that the level of nominal income for Irish agriculture in 2007 will be similar to the income level in 1998 (Donnellan, Binfield and McQuinn, 1999). However, this analysis does not take account of any further changes arising from the next round of international trade negotiations (the Millennium Round) under the World Trade Organisation (WTO) that is due to begin in late 1999/early 2000.

8.7.4 Economic Growth and Agriculture

While Irish agriculture is critically influenced by external factors, in current circumstances there is a crucial national influence on the development of agriculture: the remarkable growth of the Irish economy. Agricultural economists explain the outflow from agriculture in terms of the interaction between push factors (such as low incomes in agriculture) and pull factors (the availability of employment and the income levels outside agriculture). According to Sheehy and O'Connor (1999), the alignment of these forces in favour of non-agricultural employment has never been so strong. Provided economic growth continues they expect a continuation of this strong alignment of forces in favour of non-agricultural employment. They expect an acceleration of the outflow from agriculture and would not be surprised if there was a doubling in the annual average rate of decline in agricultural employment (currently 2.5 per cent).

The securing of off-farm employment by farmers who continue in agriculture is a well established pattern of adjustment. The strong growth of recent years has resulted in a dramatic increase in this form of adjustment. Data from the National Farm Survey show that the percentage of farmers or spouses with off-farm employment has increased from 31 per cent in 1993 to 43 per cent in 1997 (Sheehy and O'Connor, 1999: 58).

8.7.5 Competitiveness

While there are uncertainties concerning the outcome of future WTO negotiations in relation to agriculture, it is clear that the long-term trend is of a progressive reduction of agricultural support and protection. The ESRI report on national investment priorities noted that the period for the national plan (2000-2006) may be the last opportunity for the agricultural sector to prepare for the very competitive environment that lies ahead (Fitz Gerald *et al.*, 1999).

A key structural weakness in Irish agriculture is the large number of non-viable holdings, often controlled by elderly farmers. The Council has previously recommended that Irish structural policy should give priority to achieving effective land-use rather than to maintaining the maximum number of holdings at inadequate income levels. This, however, was recommended only within the context of complementary productivity policies in non-agricultural programmes for rural areas and taking account of the early retirement scheme.

The main pro-active instruments for promoting structural reform used in Ireland are: (i) early retirement; (ii) assistance for young farmers (installation aid); and (iii) certain provisions of the tax system that encourage early transfer of land. The formation of farm partnerships is another mechanism that can assist the entry of young people to farming. Despite these measures the pace of structural change is slow. Between 1990 and 1997, the percentage of farmers under 35 was unchanged and the percentage over 65 increased slightly (see Table 8.8).

The effectiveness of the instruments for promoting structural change is partly offset by other policies that impede such change. For example, as Matthews (1999) points out, it is inconsistent with land mobility policy that retired farmers on PRSI pensions should receive headage payments. These headage payments are 100 per cent nationally financed in relation to farmers over 65. This issue also arises in relation to other forms of financial support such as Rural Environment Protection Scheme (REPS) payments. The conditions for eligibility in relation to the early retirement scheme also need to be examined.

TABLE 8.8

Age Structure of Irish Farmers 1990 and 1997

Age	**1990**		**1997**	
	Number (000)	**%**	**Number (000)**	**%**
Less than 35	23.0	18.5	19.4	18.4
35 – 44	25.0	20.6	21.5	20.4
45 – 54	27.1	21.7	25.9	24.6
55 – 64	29.8	23.9	21.3	20.2
65 or over	18.9	15.2	17.4	16.5
Number of Farmers	**124.6**	**100.0**	**105.4**	**100.0**

Source: CSO, Special Tabulation from the *Labour Force Survey.*

The case for structural change is based on the idea that younger, better-educated farmers are better positioned to ensure the future success of Irish agriculture. The provision of high quality training for the agricultural sector requires greater co-ordination between the Department of Agriculture, Food and Rural Development, and the Department of Education and Science. The recent Technology Foresight report by Forfás on the natural resources sector recommended a national manpower programme for science and technology in the agri-food area in order to raise Ireland's scientific and technological capacity to the level necessary to become an effective receptor of new technologies (ICSTI, 1999b).

Biotechnology is a new technology with the potential to significantly enhance agricultural productivity. However, aspects of this technology have caused serious concern from a consumer and environmental perspective. In 1998 the Minister for the Environment and Local Government initiated a consultation process on the environmental implications of Genetically Modified Organisms (GMOs) such as genetically modified crops. A panel was appointed to manage and report on this process. The consultation process has been the subject of some controversy. Several non-governmental organisations, who are critical of the use of GMOs, refused to participate in the final part of the debate. This panel issued its report in October 1999. It concluded that Ireland should adopt a positive but precautionary national policy position on GMOs, based on scientific risk assessment and management. This position has been adopted by the Government. There is a need to put in place a strategy to provide consumers with independent information in relation to biotechnology and genetically modified foods. The report of the panel and the Government statement on this report will guide Irish participation in EU negotiations on policy in relation to GMOs.

In relation to public assistance to encourage efficiency in agriculture, it is argued by Sheehy and O'Connor that priority to given to potentially viable farmers. These are farmers "who are at risk but who have the human, physical and financial resources to expand and compete. Potentially viable farmers do not have sufficient scale to earn reasonable incomes with prevailing policies, but with appropriate assistance could attain that scale" (Sheehy and O'Connor, 1999: 65). However all farmers face significant on-farm investment requirements to meet new environmental, animal welfare and quality standards. In this context, the Council supports the modulation of investment aids in favour of potentially viable farmers. The National Development Plan provides support to improve agricultural structures.

8.7.6 Low Farm Incomes

During the 1990s the growth of farm income in Ireland has compared favourably to the other EU countries. However, there is a continuing problem of low farm income among a percentage of farmers. The most recent data on poverty relate to 1997. In that year 12.5 per cent of households headed by a farmer were below the 50 per cent poverty line. This was a significant decline on the 1994 position when around 20 per cent of farm households were below the 50 per cent poverty line. Over this period total income in the agricultural sector declined in real terms, although real income per family worked increased by an annual average of 3.3 per cent, due to the decline in the number of family workers.[8] An increase in off-farm employment by farmers and spouses also reduced the risk of poverty among farm households. Over the same period the risk of poverty for other groups increased.

TABLE 8.9

Composition of Gross Farm Household Income
(Percentage of Gross Household Income 1994/95)

	Under 30 acres	30-50 acres	50-100 acres	100 + acres	Total
Agricultural Earnings (including direct payments)	13.5	31.5	51.0	68.2	51.3
Non-Agricultural Earnings	45.5	41.9	34.1	19.9	30.9
Other Direct Income	6.6	7.3	5.0	6.6	6.1
State Transfers	34.4	19.2	10.0	5.3	11.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Secretariat calculations based on CSO, *1994/5 Household Budget Survey.*

Agricultural income is only one component of the income of farm households. It accounts for roughly half of all income of farm households. For farmers with less than 50 acres, agricultural income accounts for only 14-30 per cent of household income. For these

8 Calculated from data presented in Sheehy and O'Connor (1999: 10).

households the most significant source of income is non-agricultural employment. State transfers are also significant. The significance of income from non-agricultural employment for smaller farmers implies that for such farmers the prospects for regional and rural development generally are of more significance than changes due to CAP reform.

Agricultural income itself is increasingly composed of direct payments. In 1997, direct payments accounted for 62 per cent of family farm income in Ireland (Department of Agriculture and Food, 1999b: 10). There is some scope for national discretion in relation to certain categories of direct payments. Of these the most significant are REPS and headage payments. These payments could be directed more effectively towards those on low incomes and to younger farmers.

The Local Development Programme has developed a 'smallholder initiative' to address the problems of low income smallholders. This initiative seeks to maximise the income opportunities of small-holder households, both on-farm and off-farm. Twenty-one rural resource workers are employed by local partnerships and community groups to work specifically with smallholder households (Curran, 1999).

A recent domestic policy initiative to address low farm incomes was the introduction of a new social welfare scheme, 'Farm Assist'. This replaces the previous smallholders' assistance scheme and is somewhat more generous than the previous scheme. Farm Assist is a means- tested social welfare payment based on the total income of the farmer and spouse. The number of applicants to date is about 7,400, including some 5,000 who have transferred from the long-standing smallholders' assistance scheme. About 1,000 still continue on the latter scheme pending completion of reviews. The take-up of the new scheme continues to increase slowly.

8.7.7 Environmental Issues

The impact of agriculture on the environment is a critical issue. Concern has often been expressed in relation to the adverse environmental implications of the CAP. While the precise impact is difficult to quantify, the CAP has contributed to environmental problems by encouraging over-expansion and over-intensification of agriculture (European Commission, 1998a: 41). However, there are other fundamental influences on the environment apart from the CAP, most notably technological progress.

One dimension of the 1992 CAP reform was the requirement to introduce an agri-environmental scheme to encourage environmentally-friendly farming practices. In Ireland this has been operationalised through the REPS. Under REPS, farmers receive payments in exchange for implementing farming practices and controlled production methods that reflect the need for environmental conservation and protection. There has been a strong response to this scheme in Ireland, with around 39,000 participants in the scheme at the end of 1998. The scheme covers 28 per cent of the agricultural land of the country. Given that society has concerns about the rural environment, it is appropriate to provide payments that are linked to environmental practices. The Government is required to adopt some form of agri-environmental payment scheme. However, there is national discretion over the design of such a scheme. This requires careful attention in order to ensure that real environmental benefits are realised in proportion to the expenditure involved. REPS is not a comprehensive answer to the environmental problems in agriculture, since a large percentage of agricultural land will not be covered by REPS. The environmental implications of the more intensive agriculture not covered by REPS must also be addressed.

8.7.8 Future Developments

The future evolution of agriculture and food was considered by the natural resources panel as part of the Forfás Technology Foresight exercise. The vision for the agri-food sector in 2015 is as follows:

- up to 25,000 commercial farmers, predominately dairy producers;
- approximately 25,000 to 35,000 part-time livestock producers deriving a significant portion of their income from farming;

- possibly 50,000 other land owners whose primary income will not be derived from farming;
- a small number of Irish multinational food companies;
- some 100 small- and medium-scale food companies supplying niche markets for prepared or semi-prepared consumers foods;
- Irish businesses will continue to develop strong market positions in the processing of food in Ireland and in the UK; and
- an expanded market for horticulture products (ICSTI, 1999b: 11).

The essential requirements to realise this vision are actions to develop a competitive agricultural sector along with opportunities for smaller farmers to obtain non-agricultural employment. It is beyond the scope of this report to comprehensively address the policies required in relation to agriculture. A comprehensive discussion of agricultural policy is provided by a recent report prepared by Sheehy and O'Connor (1999) for the Joint Oireachtas Committee on Agriculture, Food and the Marine. This report concluded that for the most part the outlook for agriculture is positive but stiff challenges will have to be faced both within the farm gate and beyond it. A strategy for the development of Irish agriculture and food over the next decade is being prepared by the Agri-Food 2010 Committee. This Committee is comprised of senior managers from the food industry, farm and trade union representatives, academies and the Director of Consumer Affairs. In view of the challenges facing the sector, the preparation of a strategy is an important exercise. The Committee is expected to present a report to the Minister early in the year 2000.

8.8 RURAL DEVELOPMENT

Economic and social changes, including agricultural restructuring, rapid technological progress and increased economic integration are posing challenges for rural areas. The Government has recently published a White Paper, *Ensuring the Future – A Strategy for*

Rural Development in Ireland. The White Paper defines the rural policy agenda as follows:

> All Government policies and interventions which are directed towards improving the physical, economic and social conditions of people living in the open countryside, in coastal areas, towns and villages and in smaller urban centres outside of the five major urban areas. In particular, policies will aim to facilitate balanced and sustainable regional development while tackling the issues of poverty and social exclusion (Department of Agriculture and Food, 1999a: vi).

The White Paper has adopted a very broad approach to rural development covering not only agriculture and opportunities for alternative enterprises in rural areas but also the other mainstream sectoral policies, infrastructure, public services, education, community development and targeted policies to address social exclusion.

The White Paper introduced new institutional arrangements to achieve progress on the broad rural development policy agenda. The process is to be driven by the Department of Agriculture, Food and Rural Development. 'Rural Development' has been added to the title of this Department following a recommendation in the White Paper. There will be a cabinet sub-committee (chaired by the Taoiseach) and an inter-departmental policy committee on rural development. A rural development forum will be established to inform policy. The different regional boundaries used by various state agencies are to be harmonised. A fund is to be established to support policy-oriented research on rural development. Administrative procedures for 'rural proofing' will be introduced for application by all Departments, to ensure that policy-makers are aware of the likely impact of proposals on rural communities.

In the White Paper, a commitment is given to the provision of essential public services to support viable rural communities. In its earlier report on rural development (NESC, 1994) the Council recommended a pilot programme on the integrated delivery of public services. The experience gained from this pilot programme is to be examined for application generally in the design and delivery of public services. A commitment is given to the provision of the necessary physical infrastructure so that rural communities can exploit information and communications technologies. The post office network is to be retained in rural areas.

The White Paper addresses the rural dimension of development policies. It notes that the achievement of balanced regional development is an essential part of the strategy being pursued by IDA Ireland and Enterprise Ireland. The White Paper considers that in the rural context, strengthening indigenous enterprise will generally be more successful in the long-term than attracting large-scale inward investment. Support for micro-enterprises is to be the responsibility of the County Enterprise Boards. In relation to rural tourism, the Paper points to the need to achieve critical mass at local level in order to establish the sector on a viable basis in the future.

The White Paper confirms that the Area Based Partnership approach to addressing disadvantage at local level will continue. In rural areas a single agency will operate both LEADER and the Area Partnership approach.

The Council welcomes the broad approach to rural development adopted in the White Paper. An inability to effectively tackle cross-cutting issues is a critical problem in the public service; this topic is discussed further in Chapter 12. The Council welcomes the new institutional arrangements contained in the White Paper that seek to achieve a co-ordinated approach to cross-cutting issues and recommends that the new institutional arrangements are quickly introduced.

Many of the commitments in the White Paper are reflected in the National Development Plan (NDP). A key theme of the NDP is balanced regional development. There is a *particular* focus in the Plan on strengthening the development potential of the BMW region through investment in infrastructure, the various enterprise sectors and human resources. In relation to infrastructure there are a number of commitments in the NDP that are of particular relevance to rural areas: investment in local and regional roads, investment in rural water schemes and village and urban renewal.

The Council believes that an effective regional development policy is essential to achieving the objective of rural development. Selected larger towns and medium-sized cities should play a crucial role in the concentration of regional services, public services, transport systems, telecommunications, community infrastructure and as distribution centres and markets for agriculture, tourism and other hinterland activities. These towns and cities could act as centres of dynamic regional systems of urban settlements of all sizes, fully integrated with rural areas. This approach should make it possible to ensure that all rural areas are within commuting distance of an employment centre. The preparation of a National Spatial Development Strategy as outlined in Chapter 10 would provide the basis for this approach. In the NDP the Government expresses its support for the development of a limited number of regional gateways along with a second tier of county or local level development hubs.

Rural poverty is one of the key themes of the National Anti-Poverty Strategy. It is important that rural development policy effectively addresses social exclusion in rural areas. The Council welcomes the commitment in the White Paper to the provision of essential public services in rural areas. The Council believes that policy should be balanced and equitable in terms of the treatment of urban and rural areas.

8.9 FISHERIES

8.9.1 Introduction

There are around 15,000 people directly employed in the fisheries sector in Ireland which, at just over one per cent of national employment, is similar to the software industry. While this is a low figure, it is of disproportionate significance in terms of its geographical dispersion, constituting indigenous resource-based employment in the more remote regions. Most of the employment (60 per cent) is in counties along the Western seaboard. The remote coastal areas in which fishing is concentrated are generally not suitable locations for FDI projects but indigenous development, including fisheries-related industries, is a very feasible objective. In 1998 the total value of Irish seafood exports, including fishmeal and direct landings by Irish vessels into foreign ports, amounted to £273 million.

8.9.2 Sea Fishing

The dominant influence on the sector is the EU Common Fisheries Policy (CFP). It is widely recognised that unsatisfactory terms were secured under the CFP on Ireland's accession to the EU. The CFP comprises a series of regulations and decisions that have been built up over the years and have evolved more in response to changing political balances than the pursuit of a particular strategy. The CFP sets maximum quantities of fish (known as total allowable catches, TACs) that can be caught every year. These TACs are divided among the Member States. The unsatisfactory terms of the CFP in relation to the Irish fishing industry is clearly illustrated by the allocation of quotas. Although Ireland has 13 per cent of the Community's maritime territory, Ireland has only 5-8 per cent of the EU TAC.[9] This is due to the original small size of the industry and the low allocation negotiated at EU entry in 1973 (BIM, 1999). It is informally estimated that non-Irish vessels catch at least £2 billion worth of fish from Irish waters annually (Irish Times, 11/12/98).

The CFP is due to be reviewed in 2002. This review arises from a specific provision of one of the CFP regulations:

> By December 31st at the latest, the Commission shall present to the European Parliament and the Council a report on the fisheries situation in the Community and, in particular, on the economic and social situation of the coastal regions, on the state of the resources and their expected development, and on the implementation of this regulation. On the basis of that report the Council acting in accordance with the procedure laid down in Article 43 of the Treaty, shall decide, before 31st December 2002, on any necessary adjustments to be made, in particular as regards

9 The total amount will vary from year to year depending on the size of the TACs for individual species (National Strategy Review Group in the Common Fisheries Policy, 1999).

> Article 7 (Shetland Box), and on the provisions which could follow the arrangements referred to in Article 6 (12 mile limit) of this regulation.

The scope of the review is a matter of political interpretation. The Council believes that there is a case for a comprehensive review and advocates the deployment of a diplomatic effort to bring this about. It will be a difficult challenge to secure any improvement on Ireland's historically weak allocation of fishing rights. Nevertheless, the Council considers that the Government should commit to seeking the following improvements:

(i) The 6-12 Mile Coastal Zone:at present, each EU Member State has control over inshore fisheries. The inshore area is defined as the area within 12 miles of the coast. However, in the Irish case, several countries have access to the 6-12 mile zone. The only Member State that provides some measure of reciprocal rights to the Irish fishing sector is Britain. It is difficult to see any equitable basis for the continuing access of otherMember States to the Irish 6-12 mile zone when Irish vessels do not enjoy similar access in the coastal zone of other Member States. The NESC recommends that access by all non-reciprocating Member States to the Irish 6-12 mile zone should be terminated. It also recommends that the 12 mile inshore zone should be extended to 50 miles. The EU parliament has recently voted to extend inshore fishing limits from 12 to 24 miles.

(ii) Quotas: the quotas were first agreed in 1983. The Council recommends that a major effort be made to secure an improvement in Ireland's low allocation of quotas to underpin the sustainable development of the industry. One of the principles that guides the CFP is 'relative stability'. This principle means that quotas are allocated on the basis of fixed quota 'keys'. The Council does not accept that these should be regarded as immutable. The formulas for quota assignment ought to provide a significant preference for the coastal state.

(iii) A Management Structure: a key objective of the CFP is to avoid excessive depletion of fish stocks. The conservation objective is being frustrated by indifferent observance of regulatory measures, facilitated by ineffective surveillance and enforcement. The NESC believes that a more effective management structure urgently needs to be put in place by the Commission to ensure that the regulations are implemented in a consistent way across Member States.

There are opportunities for expansion in relation to non-quota species. Until this year, blue whiting was a non-quota species but is now covered by quotas. Ireland has been allocated a quota share of 16 per cent of the EU blue whiting TAC. A significant improvement in Ireland's position was achieved during the course of the negotiations. However, the outcome remains that the bulk of the stock in this species off Irish waters has been allocated to the Netherlands and other Member States. The development of an Irish track record in current non-quota species, in anticipation of quotas, should be a key strategic objective of the sector.

In the past, Ireland has not fully utilised its quotas in relation to whitefish. This was due to the inability of the ageing whitefish fleet to go further offshore to fill these quotas. Increased landings of these whitefish quotas and non-quota species is one of the objectives of the current programme for renewal of the whitefish fleet. This programme provides both capital grants and tax concessions for investment in the whitefish fleet. There has been a strong response to this programme and £67 million of investment has been approved.

8.9.3 Aquaculture

Aquaculture, as noted above, has grown rapidly in Ireland over the past decade and created significant employment opportunities in remote coastal regions. This sector is not constrained by quota restrictions. One of the problems in the past has been the system of licensing. A more satisfactory licensing system has now been put in place, but there are still long delays involved in securing licenses. These long delays should be eliminated. The recently published strategy for the industry by BIM projects a doubling in the value of this sector by 2006 (BIM, 1999). This is to be achieved by developing critical mass, diversification and export market development. There is scope for rapid growth in this industry, carefully regulated to ensure that the development is on a sustainable basis commensurate with environmental concerns and the needs of other users of the marine resource.

8.9.4 Processing

There has been strong growth in the processing industry during the 1990s. Between 1990 and 1997, employment in fish processing increased by 36 per cent. However, over the past year factory output levels have fallen due to depressed markets for pelagic products in Eastern Europe and the Far East. This has been compounded by difficulties with fish supplies that continue to threaten employment levels. Problems such as these have contributed to a sense of crisis in the industry. The forthcoming review of the CFP will be critical to the future of the processing sector. Apart from this, the challenges facing the fish processing sector are similar in many ways to those facing indigenous industry generally. The recent BIM strategy report (1999) points to the need for the industry to reduce its dependence on international commodity markets and to reposition itself as a supplier of value-added seafood products. There are a number of strong Irish seafood consumer brands but the consumer foods seafood sector is described by BIM as ‘fragile’. The BIM strategy recommends the development of large scale, modern processing units that can be internationally competitive. There is also the possibility of addressing the challenges of scale and the costs associated with marketing and product development by building co-operative networks among the SMEs in the processing sector. This approach is recommended in a report by Goodbody Economic Consultants (1998b).[10] The Goodbody report also identified management capability as a key element in the future success of this sector. Goodbody recommended a management

10 This Goodbody report is a study of the Food, Drink and Tobacco Industry prepared for FÁS. It is one of a series of studies prepared for FÁS to place the manpower and training needs of individual sectors within a strategic framework.

development programme, possibly linked to the networking approach.

Several state agencies (Bord Iascaigh Mhara, Bord Bia, Enterprise Ireland, FÁS and Údarás na Gaeltachta) provide a range of support services (including human resource development, marketing, R&D) to the sector. The Council recommends a strategic review of the processing sector, including a review of the various services provided by state agencies. An inter-agency group should be established to enhance the extent of inter-agency co-operation.

8.10 CONCLUSIONS

Technological change and changes in the nature of international trade have facilitated Ireland's development as an export base. In particular, the shift to trade in services and products with a high value-to-weight ratio has reduced the significance of geographic peripherality (Krugman, 1997). However, Ireland's current success cannot be taken for granted. The general policies required to sustain economic success are discussed in other chapters of this report: fiscal policy (Chapter 4), taxation (Chapter 5), a consistent evolution of incomes (Chapter 6), labour market adaptability and employability (Chapter 7), infrastructure (Chapter 10) and housing (Chapter 11). Securing and enhancing Ireland's position in the changing global division of labour requires these general policies to be supplemented by the adaptation of the sectoral policies and regulatory reform.

Irish enterprises must be competitive in an increasingly integrated global economy. Developments in information and communications technologies (ICTs) are a key driving force in the process of globalisation. The Irish economy has benefited greatly from the contribution of high-tech enterprises in the ICT sector. However, the application of ICTs is not confined to the high-tech sector and it is important that smaller enterprises across the economy embrace the information revolution.

8.10.1 Services

The Council emphasises the importance of achieving stronger productivity growth in the services sector. The regulatory environment and approach to competition policy are a significant influence on the productivity of this sector. The Council welcomes the Government's action programme of regulatory reform and believes that its effective implementation is important for the competitiveness of the enterprise sector.

The Council believes that competition addresses a critical societal concern – the concern to have desired goods and services delivered at optimum prices from the consumer viewpoint. In that context the Council continues to emphasise the importance to consumers of the work of the Competition Authority to broaden and deepen the operation of competitive forces. The Council recommends that the relationship amongst the industry regulators and between the industry regulators and the Competition Authority should be clearly defined.

Tourism is one of Ireland's fastest growing service industries and is an interesting illustration of the challenges facing services. The key focus of tourism policy should be on skills development and marketing Ireland overseas. Skill shortages in the labour market should continue to be addressed by initiatives such as the industry's Quality Employer Programme. There is also a need to raise the quality of tourism products across the country, to achieve a better regional balance of tourism growth, to ensure that tourism development occurs in a manner that respects the quality and absorption capacity of local communities and landscapes, and to reduce seasonality. Marketing should be increasingly funded by the industry itself, but state support should be provided in relation to marketing Ireland overseas. This should be supplemented by contributions from individual businesses in the tourism industry. In view of the improved capacity of the industry to fund its own investment, the Council recommends a more restrictive approach to tax relief for tourism projects. This is consistent with the Council's general approach to tax expenditures as outlined in Chapter 5.

8.10.2 Manufacturing and Internationally Traded Services

Ireland's economic success has been driven by the strong growth of the manufacturing and internationally traded services sectors. The growth of these sectors has been dominated by foreign multinationals. This is illustrated by the fact that foreign manufacturing firms accounted for 94 per cent of the growth of manufacturing exports between 1991 and 1996. At the same time there has been a welcome improvement in the indigenous manufacturing sector and the emergence of a strong indigenous software sector.

If Ireland is to reach European living standards, continued expansion of the manufacturing and internationally traded services sectors is required. Industrial policy has to adapt to the environment of a tighter labour market and skills shortages. There is a particular need to address the problem of low productivity in indigenous manufacturing. Industrial policy should support the repositioning of indigenous manufacturing enterprises (including enterprises in vulnerable sectors) to help them move to higher value-added activities. There should be a decisive shift in state support from capacity expansion to building capability in terms of employee and management skills, new forms of work organisation, research, innovation, marketing, technology and design.

The food industry is a key indigenous sector. Key issues that need to be addressed are an over-reliance on commodity-type products and scale-related difficulties. There needs to be a national strategy to redirect Ireland's food exports to the EU consumer market based on the highest standards of food quality, safety and traceability. This is only possible in the context of much closer integration between farmers and food processors.

In relation to FDI policy, the Council supports the approach of Forfás that grant assistance for capacity expansion will be gradually phased out over time in line with the reduction in aid levels in similar regions of the EU. FDI policy should focus on attracting high quality projects and encouraging the existing base of multinational companies to undertake higher value-added functions, such as research, in Ireland.

Industrial policy has an important role to play in achieving the objective of regional development. Greater consistency will be required between infrastructure investment and the activities of the industrial development agencies in order to achieve the regional development objective.

A focus on long-term strategic planning is essential to ensure continued success in a changing environment. The Council recommends that regular reviews should be undertaken of the structures and programmes of the industrial development agencies.

8.10.3 Networks

One way of building capability among smaller indigenous firms is through the development of networks. The Council welcomes the recently launched Training Networks Programme which seeks to mobilise companies to address common training needs. Another network initiative is the pilot programme on Inter Firm Co-operation Networks. The Council recommends that the experience of this pilot programme and other network initiatives be reviewed. The Council also supports the recommendation of Forfás to encourage 'technology innovation networks', that provide companies with access to relevant research at national and international level.

8.10.4 Agriculture

The Council fully supports the principles of the European model of agriculture based on the family farm structure that underpins sustainable agricultural development and contributes to a viable rural economy.

In the context of the upcoming WTO negotiations, the Council recommends that Ireland should endeavour to ensure that the EU achieves full accommodation for the European model of agriculture. Recognising, however, that Irish agriculture and the food sectors will face increased competition on EU and third country markets arising from the liberalisation of trade, it is the Council's view that domestic policies and supports should also be sharply focussed on improving the sector's capacity to meet this challenge. Structural change that facilitates the entry of trained young entrants and increases the proportion of viable farms is a key requirement in this context. As with other sectors, there is a need to address labour shortages. Public assistance for investment in agriculture should be modulated in favour of potentially viable farmers. Ireland's food exports need to be increasingly redirected to the EU consumer market, and this offers the only long-term prospect of closing the price gap between Irish and EU producer prices. Policies to promote competitiveness should be complemented by attention to the environmental implications of agriculture.

8.10.5 Rural and Regional Development

The Council welcomes the new institutional arrangements proposed in the recently published White Paper that seek to achieve a co-ordinated approach to the many dimensions of rural development policy and recommends that the new institutional arrangements are quickly introduced. The Council welcomes the commitment in the White Paper to the provision of essential public services in rural areas. The Council also welcomes the commitment in the White Paper to ensuring that the necessary physical and telecommunications infrastructure is provided so that rural communities can exploit the enormous potential of ICTs. While major urban centres may be adequately served by the market, the Council recommends public investment to leverage infrastructural investment of this kind in economically marginal rural and urban areas.

The Council believes that an effective regional development policy is essential to achieving the objective of rural development. Its view of an effective regional policy is one that would make it possible to ensure that all rural areas are within commuting distance of an employment centre. The preparation of a National Spatial Development Strategy as outlined in Chapter 10 would provide the basis for this approach.

8.10.6 Fishing

The fishing industry makes an important contribution to the objective of balanced regional development. The single most important policy affecting the development of the industry is the Common Fisheries Policy (CFP) which is due to be reviewed in 2002. The Council recommends that a diplomatic effort be made to secure an improvement in the unsatisfactory treatment of the Irish fishing industry under the CFP. In the meantime, opportunities for development in relation to non-quota species, value-added from quota species, aquaculture and processing should be fully exploited. The Council also emphasises the importance of reducing dependence on international commodity markets and enhancing the development of the industry as a supplier of higher value-added seafood products. It recommends a strategic review of the processing sector, including a review of the services provided by state agencies and the establishment of an inter-agency group to enhance the extent of inter-agency co-operation.

8.10.7 The Environment

The Council is committed to environmentally sustainable development. The contribution that environmental taxes, charges and incentives can make to this objective and the implications of Ireland's commitments to reduce greenhouse gases under the Kyoto Protocol are discussed in Chapter 5. The Council believes that the burden of reducing emissions of greenhouse gases should be shared by all enterprise sectors and households, with protection for low income households. The exemption of particular sectors from action to reduce emissions increases the costs for other sectors. Measures to meet the Kyoto commitments must take full account of the need to maintain competitiveness and not undermine the prospects for balanced regional development. Investment in environmental infrastructure such as water supplies and waste management is discussed in Chapter 10.

PART II B

Tackling Key Societal Imbalances and Enhancing Social Inclusion

CHAPTER 9

POVERTY, UNEMPLOYMENT AND SOCIAL EXCLUSION

9.1 INTRODUCTION[1]

The new strength of the Irish economy is the fundamental backdrop to evaluating whether Irish society has become more just and socially cohesive in the process of becoming more wealthy. The pace of change is forcing a revision of targets and timetables for reducing social exclusion. But it may also be inviting an evaluation of the strategic analyses of problems that have been employed to date, and even the fundamental conceptualisations of the problems themselves as well as recognition of new sources of social exclusion.

While the growth in the Irish economy and strong position of the public finances mean that there are potentially more resources for addressing the position of the socially disadvantaged in the workforce and the population, the very rapidity of economic growth can be expected to fuel new and old forms of social disadvantage. International experience, in particular that of the US, warns Ireland that extremely rapid employment expansion can entail its own set of social costs. In the US, these have included a high incidence of very low earnings, strong inward migration pressures, the unsettling effects of high labour mobility and workplace insecurity, and the marginalisation of the minorities facing the greatest obstacles in relocating and retraining. The most evident and serious example of a cost associated with Ireland's economic boom is the shortage and price of accommodation. The cost of housing and homelessness have acquired renewed prominence as factors associated with poverty. Other new and old social problems being fuelled by the rapidity of economic growth include the situation of a growing number of refugees and asylum seekers, the heightened difficulties

1 This chapter draws on a background paper prepared by John Sweeney and Kieran McKeown, August 1999.

facing some urban and rural areas, the relative income position of people on social welfare, and so on. We are still far from being able to weigh the social benefits and costs of Ireland's rapid economic and employment growth.

Yet, the scale of the economic improvements over the period encompassing the last two partnership agreements, 1994-1999, have been underestimated in some of their positive social effects. This is illustrated particularly clearly in the manner in which targets set for reducing poverty (NAPS, 1997) and unemployment (Department of Enterprise, Trade and Employment, 1999) have been rapidly superseded. In fact, the speed and reach of recent developments make any review of the current situation with regard to poverty, unemployment and social exclusion unusually tentative. For example, data from the 1997 *Living in Ireland Survey* are only now coming on stream. They fundamentally revise the picture of poverty that was formed on the 1994 data but, even as we wait for the 1997 picture to come into focus, we are aware that rapid economic and employment growth in the last two years will have generated further significant changes.

Social exclusion is defined in *Partnership 2000* as cumulative marginalisation from production (unemployment), consumption (income poverty), social networks (family, neighbourhood and community), decision-making and from an adequate quality of life (Government of Ireland, 1996: 4.3). Our concern here is with income poverty and unemployment. Our analysis is complementary to our focus throughout this report on enhancing equality and achieving a socially inclusive society in tandem with the enhancement of competitiveness. We concentrate on national data and on targets, programmes and policies where the assumptions and/or outcomes need particularly close scrutiny in the light of the current unprecedented economic and employment expansion.

The chapter is structured as follows. Section 9.2 concentrates on what we now know about changes in the scale and incidence of income inadequacy. It makes use of early information from the 1997 *Living in Ireland Survey* and the first review of the National Anti-Poverty Strategy (Callan *et al.*, 1999; NAPS, 1999). It also draws on research that has become available recently on the patterns of income distribution between 1987 and 1994, including research on women and poverty, and reviews information on income adequacy *vis-à-vis* social welfare payments and the spatial concentration of poverty. Finally, it summarises the Council's recommendations on poverty and income adequacy. Section 9.3 makes use of the Qaurterly National Household Survey (QNHS) and Live Register figures to examine in some detail what we now know about trends in the level and incidence of unemployment. The different counts of unemployment are examined in terms of contribution to understanding various aspects of unemployment. Section 9.4 takes up the question of the role that direct policy interventions, as distinct from aggregate labour demand, may have played in routing more individuals from long-term unemployment to job-holding and, thus, to higher incomes. It adopts as its point of departure an analysis of the Live Register outflows over the past two years and examines six areas where public policies have been particularly active. The section also focuses on the paradox of long-term unemployment in the context of skill shortages and concludes with the Council's recommendations on unemployment. A concluding section summarises the principal issues that need to be addressed in order to increase the consistency and coherence of the different programmes tackling social exclusion.

9.2 POVERTY, SOCIAL PROTECTION AND SOCIAL EXCLUSION

There is widespread acknowledgement that unemployment is the key contributor to social exclusion. Consequently, its fall has contributed to the reduction in the overall level of social exclusion, although it continues to contribute to to social exclusion. As was recognised in the National Anti-Poverty Strategy, income poverty, in its own right, is a significant contributor to social exclusion (NAPS, 1997). In this section, we outline national developments in poverty, the spatial concentration of poverty and finally poverty and policy targets in a changing context.

9.2.1 National Developments

Poverty is defined in the National Anti-Poverty Strategy as follows:

> People are living in poverty, if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living which is regarded as acceptable by Irish society generally. As a result of inadequate income and resources, people may be excluded and marginalised from participating in activities which are considered the norm for other people in society (NAPS, 1997: 3).

The National Anti-Poverty Strategy, which was published in 1997, adopted as a target the reduction of consistent poverty by four to five percentage points over the decade, 1997-2007 (see Box 9.1). This measure of poverty is indicated by less than 50 or 60 per cent of average disposable income, and enforced deprivation of a basic necessity. Subsequent research has established that the target based on the 60 per cent threshold for 10 years ahead was being broadly reached even as the document was being published. Data from the 1997 *Living in Ireland Survey* (LIIS) were published in June, 1999, and they provide the first systematic overview of how the economic boom appears to be affecting the level of poverty.[2] As the following tables make clear, it provides evidence of a substantial reduction in 'consistent poverty' and, at the same time, a widening of relative income inequality.

9.2.1.1 Consistent Poverty and Relative Income Poverty

Table 9.1 gives estimates for the percentage of the population falling below two different measures of a fixed floor to Irish incomes. The top half of the table takes the measure of consistent poverty adopted by the NAPS, that is, one which combines a weak relative income position with evidence of the enforced deprivation of a basic necessity. From 1987 through 1994 to 1997 there was a fall from 10 to 9.0 to 7.0 per cent in the population experiencing

2 The lag in production of good data on income distribution and poverty is a constraint with which every review must cope. By contrast, good data on unemployment are available relatively quickly, thanks to the introduction of the Quarterly National Household Survey (QNHS) in late 1998.

BOX 9.1

A Note on Poverty and its Measurement

Absolute poverty is used to describe complete destitution and refers to "the struggle to survive, not having enough food to stay alive, indeed, not having the physical requirements of food, water, clothing and shelter" (NAPS, 1997). The concept of absolute poverty is often used in developing countries. In developed economies however, having an absolute minimum in nutrition and housing is generally not viewed as enough to eliminate poverty. What is considered adequate will change over time. It is recognised that close to subsistence level there is "some absolute minimum necessary for survival, but apart from this any poverty standard must reflect prevailing social standards: it must be a relative standard" (Piachaud, 1987:148). Consistent with this, the definition of poverty that has broad acceptability is that developed by Townsend (1979), whose emphasis on participation in society reflects the *relative nature of poverty:*

> Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged, or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities (1979:31).

This concept of poverty has been adopted by the European Union and most developed countries (Nolan and Callan, 1994).

The principal reason for using a relative concept of poverty is that acceptable standards of adequacy consider the broader living standards of society, and as general living standards rise, the poverty measure moves up. Perceptions of what is adequate may fall below average incomes when these are rising substantially as has happened over the past several years in Ireland. However, Callan *et al.* (1998) argue that over time increases in general living standards will be reflected in expectations about what is sufficient and what it means to participate fully in society. Although real income growth will have an obvious impact on poverty in the short-term, for a long-term outlook the approach to adopt in order to reduce poverty is to bring people more in line with average living standards. This is one of the main principles underlying the measure of *consistent poverty* adopted in the National Anti-Poverty Strategy (NAPS, 1997). This definition of poverty is based on a combination of relative income poverty (the 40, 50 or 60 per cent average disposable income lines) and a measurement of basic material deprivation. This is measured by recording the absence of key necessary items, for example, a warm overcoat, a meal with meat, fish or chicken every second day, experience of debt problems arising from ordinary living expenses or availing of charity [See Appendix Table A9.1].

basic deprivation in addition to income poverty based on the 50 per cent poverty line and a fall from 16 to 15 to 10 per cent at the 60 per cent line. Because of the time-lag in data availability it is not possible to identify the impact of the NAPS.

TABLE 9.1

Estimates of Population in Poverty based on (a) Relative Income Thresholds combined with Indicator of Basic Deprivation, and (b) Relative Income Thresholds, 1987-1997

	1987	1994	1997
	Per cent of all persons		
(a) Relative Income Threshold and Basic Deprivation:			
Below 40% line and basic deprivation	3	2	3
Below 50% line and basic deprivation	10	9	7
Below 60% line and basic deprivation	16	15	10
(b) Extent of Relative Income Poverty			
Below 40% line	7	7	10
Below 50% line	19	21	22
Below 60% line	30	34	35

Source: National Anti-Poverty Strategy (1997), Callan *et al.* (1996a) *Poverty in the 1990's. Evidence from the 1994 Living in Ireland Survey.* Dublin: Oak Tree Press. Callan *et al.* (1999) *Monitoring Poverty Trends Data from the 1997 Living in Ireland Survey*. Dublin: ESRI/Department of Social Community and Family Affairs.

Note:
1. The poverty lines used are mean disposable income per person where the mean is calculated across households and using equivalence scale A (1.0, 0.66, 0.33).
2. The data for the respective years are Callan *et al.* (1989; 1996a and 1999).

The very positive message in these figures raises the question of the extent to which this achievement is due to unemployed people finding jobs and, in the process, improving their income position. Earlier studies had made clear that poverty in the 1980s had been fuelled by rising and longer lasting unemployment (Nolan and Callan, eds, 1994), and the NAPS identified unemployment as one of three 'core issues' causing poverty (along with educational disadvantage and income inadequacy). As will be made clear later, unemployment, including long-term, has been substantially reduced. Also, the rapid employment growth has not been at the expense of productivity growth which could imply an increased incidence of low earnings and, thus, of a 'working poor'. Despite the fact that the most dramatic changes occurred from 1997 onwards, there were consistent employment increases and unemployment decreases from 1994-1997 (see Tables 9.9 and 9.10 below). It appears indubitable that greater access to employment has, indeed, played the key role in reducing consistent poverty. Rising unemployment had fuelled it in the 1980s; rising employment appears to have reduced it from the mid-1990s.

TABLE 9.2

Households below the 60% Income Line and Experiencing Basic Deprivation, 1994-1997

Composition of 'poor' households by Labour Force Status of reference person		
	1994	**1997**
Unemployed	35.7	31.9
Home Duties	28.6	27.2
Retired	13.0	14.7
Employee	7.4	11.6
Ill, Disabled	10.1	10.6
Self-employed	2.2	2.6
Farmer	2.8	1.3
Total	**100**	**100**

Source: Callan *et al.* (1999) *Monitoring Poverty Trends Data from the 1997 Living in Ireland Survey,* Dublin: ESRI /DSCFA

While this appears a reasonable assumption, Table 9.2 shows that the four years, 1994-1997, have not notably altered the association between poverty and labour force status. The composition, by labour force status of the reference person, of the 10 per cent of Irish households that remained below the 60 per cent poverty line and experienced some basic deprivation is given for 1997 and compared with 1994. Almost one-third of poor households in 1997 were headed by an unemployed person – a small reduction on 1994. The percentage headed by an employee, however, rose by 4.2 percentage points to 11.6 per cent; this suggests that the situation of being ‘working poor’ now characterises just over one per cent of households in the state. Households headed by someone on ‘home duties’ were the second highest household category experiencing poverty at this level – these are mostly women and we return to this in our discussion of increasing female poverty.

The same 1997 LIIS data, however, have a less encouraging message as regards developments in relative income inequality. The bottom half of Table 9.1 shows that the proportions of the population estimated to be living on incomes below 50 and 60 per cent of mean income in each year increased by one percentage point each over the 1994-97 period, to 22 and 35 per cent respectively. The proportion below the very lowest relative income threshold (40 per cent of the mean), however, increased by three percentage points to 10 per cent, the first recorded increase since the situation began to be monitored in 1973. This slippage at the very bottom of the income ladder means that measures of the depth of poverty also record quite a significant deterioration.

Table 9.3 illustrates that the risk of falling below the 50 and 60 per cent relative income lines was particularly high for unemployed people, people with disabilities and those on ‘home duties’. It also illustrates that the risk for the latter group increased significantly over the 1994 to 1997 period.

The overall poverty pattern emerging from the 1997 data can be summarised as a decreasing risk of relative income poverty for two-parent households with children, associated with decreasing unemployment. However there was an increasing risk for single-person households, households headed by a retired person or someone on ‘home duties’ and these categories are disproportionately female (Callan *et al.*, 1999).

TABLE 9.3

Risk of Falling Below 50 per cent and 60 per cent Relative Income Poverty Lines by Labour Force Status of Reference Person 1994 and 1997

	Relative Income Poverty Lines			
	50 per cent		60 per cent	
	1994	1997	1994	1997
Employee	3.1	6.6	27.4	12.4
Self-employed	14.7	20.4	19.0	31.7
Farmer	20.4	12.5	32.2	27.7
Unemployed	59.4	60.1	77.8	75.5
Ill/disabled	44.5	56.6	74.1	72.5
Retired	10.6	21.3	38.9	49.4
Home duties	34.9	51.2	71.3	78.1
All	**18.5**	**21.9**	**34.6**	**36.6**

Source: Callan *et al.* (1999) *Monitoring Poverty Trends Data from the 1997 Living in Ireland Survey*, Dublin: ESRI/DSCFA.

9.2.1.2 Women and Poverty

A recent study undertaken by the ESRI for the Combat Poverty Agency has analysed the increase in the risk of poverty experienced by households headed by women between 1987 and 1994 (Nolan and Watson, 1999). The risk of poverty at the 50 per cent relative poverty line for women who live alone rose during the 1987 to 1994 period from four per cent to 24 per cent and the risk for lone mother households in the same period rose from 17 per cent to 32 per cent. This meant that by 1994 the risk of poverty for these two groups was substantially higher than that of all other household types. Nolan and Watson argue that the most important factor contributing to the increase in poverty risk for female-headed households is the level of welfare payments on which many lone parents and households headed by single women depend. While increases in social welfare payments over this period, particularly the lowest payments, reduced the depth of poverty for these categories, these increases were insufficient to lift them out of poverty.[3] Over the same period other social welfare payments including old-age pensions increased more slowly. Consequently, by 1994 households headed by older people dependent on such pensions fell further below the poverty line and this of course increased the poverty risk for households headed by older women. It is probable that the recent substantial increases in old-age pensions have improved this situation. Furthermore, the non-cash benefits such as telephone rental, free electricity allowance and free travel, which are not available to other welfare recipients, are important contributions to the overall well-being of older people dependent on social welfare benefits.

Nolan and Watson (1999) conclude that the growing number of women living alone and female lone parent households are the driving forces behind the increase in the risk of poverty experienced by women. On the other hand, the degree of protection from poverty provided by living in a household in which they were not the household head is closely related to economic status – if not in paid employment living in such households substantially reduces the risk of poverty for young unattached men, women and lone mothers. However, these findings must be examined with care since they could imply overcrowding or hidden homelessness.

Of the minority of employees who live in poor households it is noteworthy that over half of these are in low paid jobs. Women employees in poor households are more likely to be low paid and in part-time employment. However, as is evident in other countries, women's pay, even low pay, can have a significant role in keeping households out of poverty. Nolan and Watson (1999) estimate that approximately one-quarter of households containing low paid women would fall below the poverty line in the absence of the women's earnings.

The findings relating to poverty amongst women, and lone parents

3 It is noteworthy that the risk of relative income poverty at the 50 per cent line increased significantly for those on 'home duties' in the 1994 to 1997 period (Table 9.3). It is probable that this overlaps to a significant extent with the lone parent category.

in particular, point to the importance of adequacy in social welfare payments and of policies facilitating labour market participation for those with caring responsibilities. This raises the issue of affordable and appropriate childcare and family-friendly policies. [4]

9.2.1.3 Social Welfare Payments, Income Adequacy and Poverty

Despite the fact that social welfare payments have increased in percentage terms more than gross earnings over the 1987-99 period, relative income poverty rates have increased. This is attributable to the fact that increases in social welfare rates have lagged increases in average disposable income to which the poverty lines are linked (Callan *et al.*, 1999). Increases in disposable income reflect the impact of taxation changes. Consequently, the distributive impact of the social welfare system cannot realistically be appraised without factoring in the impact of taxation changes. Such an exercise has been undertaken by Callan, Nolan and Walsh (1998) on the 1994 to 1998 Budgets. They conclude “that budgetary policy has, in general, allowed the incomes of welfare recipients to fall further behind average incomes, and has through tax cuts, particularly favoured top income earners” (26). This conclusion is challenged by some commentators on the grounds that it is based on a static analysis and does not take into account the beneficial consequences of the tax cuts particularly the reduction in unemployment.

The Commission on Social Welfare’s (CSW) minimum guideline relating to minimally adequate basic social welfare payments was met for all payments in the 1999 Budget. The minimum adequate was set at £50 per week in 1985 prices. Uprated for inflation this was £71.80 in 1999. Since the Commission reported in 1986 this has been the benchmark, or standard, against which the adequacy of social welfare payments have been judged. Social welfare payments now range from 100 to 123 per cent of the recommended minimum rate. Attainment of this rate means that there is now no agreed benchmark against which improvements in social welfare payments, other than old-age pensions, can be measured – the Government is committed to increasing old-age pensions to £100

4 We discuss these issues in Chapter 7.

per week by 2002. In line with this commitment old-age pensions were increased significantly in the last two Budgets.[5]

If enhancing equality is to be carried through the policy process and present levels of income inequality are not to increase, social welfare payments will have to be linked to changes in average incomes. The Council recognises that this raises complex measurement issues and policy choices, including the possibility of a trade-off between changes in income adequacy criteria and employment incentives. Notwithstanding these factors, the Council strongly recommends that social welfare payments be linked to improvements in the general standard of living. In view of this, and consistent with its medium and long-term vision for Ireland, and the fiscal strategy outlined in Chapter 4, the Council proposes that a new benchmark for the income adequacy of social welfare payments, other than old-age pensions, be established through the social partnership process. A time-frame over which it is to be achieved would also have to be agreed as would a mechanism to index levels of payment to improvements in the general standard of living once the benchmark has been reached.

Determining income adequacy, including the adequacy of social welfare payments, is a complex and value-laden project that has significant expenditure and distributive implications. The ESRI undertook a review of the CSW's minimum adequate income guidelines for the Department of Social Welfare – now Social, Community and Family Affairs – in 1996. This provides very useful information for any assessment of the adequacy of social welfare payments (Callan *et al.*, 1996b). Most significantly it points out that neither the Commission's methods nor any alternative provide

5 In 1999-2000 the basic payment for a single adult under Social Insurance Schemes ranges from £73.50 per week in the case of Unemployment Benefit through £89 per week for Contributory Old-Age Pension to £97.20 per week for Disablement Benefit. Under Social Assistance Schemes, the basic payments for most beneficiary categories range from £72 to £73.50, with Carer's Allowance at £76.00 and Old-Age (Non-Contributory) Pension at £78.50. The 1999 Social Assistance rate of £73.50 is about 24 per cent of Gross Average Industrial Earnings (GAIE) and 86 per cent of the 50 per cent Relative Income Poverty Rate uprated to 1999 using the increase in average industrial earnings.

‘scientific’ estimates of income adequacy that will find universal agreement.[6] Judgements, values and attitudes are involved. Research can inform but not substitute for these.

A number of options for benchmarking social welfare payments and for indexing can be identified. We outline three benchmark possibilities but acknowledge that several other plausible options exist and identify key considerations that will have to be taken into account in making a choice.[7] The three benchmark options most frequently cited are:

(i) The Commission on Social Welfare £60 rate in 1985 prices uprated to 1999: The Commission estimated the minimally adequate basic social welfare payment to be in the range of £50-£60 per week in 1985. It envisaged that the adequacy standard would move up over time in line with general living standards in the community. For the past 13 years the benchmark, or standard, against which the adequacy of social welfare payments have been judged was the floor of this range, that is £50 per week in 1986 prices and £71.80 in 1999 prices and this is what was achieved in the 1999 Budget. Uprating the top of the range, that is £60 per week in 1985, for inflation yields £86.10 in 1999 prices.

(ii) A percentage of Gross Average Industrial Earnings: It is noteworthy that the National Pensions Initiative suggested that social welfare pensions should be pitched at £96 in 1996 terms which happened to be 34 per cent of the 1996 Gross Average Industrial Earnings (GAIE). The 1999 long-term Social Assistance rate of £73.50 is about 24 per cent of GAIE and 31 per cent of Net Average Industrial Earnings (NAIE). While social welfare payments have increased more in percentage terms than GAIE since 1987, they have increased less in percentage terms than NAIE, which reflects tax reductions. For

6 The CSW applied seven different methods to establish an adequate income for a single adult living alone. The ESRI outlined six further perspectives on income adequacy.

7 The ESRI identified four measures of adequacy based on an update of the Commission on Social Welfare analysis.

example, taking 1987 as 100, the index of long-term rates of social welfare payment increased to 161.5 in 1999, the GAIE increased to 154.2 and NAIE to 184.7 (based on Department of Social, Community and Family Affairs calculations relating to a single person). The difference between the gross and net AIE reflects the impact of taxation changes in the latter. This difference suggests that if a steady relationship is to be maintained with the disposable income of the general population a percentage of the NAIE rather than the GAIE should be used as the benchmark. This would have the advantage of a built-in mechanism for indexation over time.

(iii) The 50 per cent average income threshold or poverty line: Average Weekly Household Equivalent Income for 1997 was established by the LIIS to be £156.96 (See Appendix Table A.9.2, Equivalence Scale A). Uprating 50 per cent of this – £78.43 – to 1999 using the increase in average industrial earnings yields a 50 per cent Relative Income Poverty Rate of £85.52.

It is noteworthy that the 50 per cent average income threshold in 1999 is very similar to the uprated CSW upper rate (£85.52 and £86.10) and each is approximately 37 per cent of NAIE and 28 per cent of GAIE in 1999.

The potentially substantial implications for expenditure and taxation of each of these options, and others, for benchmarking and indexation will require to be assessed in the context of the fiscal strategy set out by the Council earlier in this report. These implications will depend on the benchmark chosen and the time period over which it is decided to reach it.

Most long-term Social Assistance rates are £73.50 in 1999-2000. This means that they would have to be increased by £12 - £12.60 per week or 16 - 17 per cent to reach the 50 per cent Relative Income Poverty Rate, that is £85.50, or the uprated Commission on Social Welfare top rate, that is £86.10 in 1999.[8] This would involve a minority of all Social Insurance recipients – those on

8 The two lowest payments (the short-term Social Assistance Payments) would have to increase by a further £1.50 per week [Table 9.4 (i)].

Unemployment Benefit, Invalidity Benefit and Widow/er's Contributory Benefit and only the first category for the full amount. It would involve most Social Assistance categories, except for the Old Age (Non-Contributory) category which is already covered by the Government's 2002 £100 per week commitment [Table 9.4(i)]. An estimate of the cost involved can be arrived at from Table 9.4(ii), where the affected categories are marked by an asterisk. This sets out the cost of each £1 increase in social welfare payments in 1999 terms. For the Social Insurance and Social Assistance categories identified above, an additional cost *per annum* would arise of approximately £31.9 million per £1 increase *beyond the normal increases*. This comprises £15.2 million for the three Social Insurance categories, identified above, and £16.7 million for the Social Assistance categories other than the Old Age (Non-Contributory) and the 'Other Payments' categories [Tables 9.4(i) and (ii)]. If Social Assistance payments are to be brought up to a level approximating 50 per cent of average incomes or the higher Commission on Social Welfare rate, the additional cost in 1999 prices would be approximately £379 – £399 million *per annum*.

In deciding amongst the three options outlined above, the 50 per cent of the LIIS average income line has the advantage that it is an accepted cut-off for relative income poverty in Ireland and the EU. Unfortunately, there is no simple measure of 'incomes'. Data on changes in average incomes come from the *Living in Ireland Survey*, which involves a two-year time-lag. This means that unlike linking rates to the CPI (or above CPI as has been done over the past several years) there is no readily available indicator that can be used to track average incomes. While the 1997 figure has been uprated here using the increase in average industrial earnings this is an estimate and not necessarily a true reflection of 1999 incomes.

A more significant problem is that part of the reason for the increase in average household incomes over the past several years is that more people are at work. As more households contain an employee [rather than relying solely on social welfare (SW) income], and more households become two-earner rather than one-earner families, average household incomes rise – even if earnings were static, household incomes would increase in such a situation.

TABLE 9.4 (i)

Social Welfare Rates of Payment 1999/2000

Type of Payment	Dependents		
	Personal £	Adult £	Child £
SOCIAL INSURANCE			
Long Term			
Old Age (Contributory) Retirement Pension[1]	£89.00	£55.50	£15.20
Invalidity Pension[2]	£75.20	£49.50	£15.20
Widow/er's (Contributory) Pension / Deserted Wife's Benefit	£77.10	–	£17.00
Death Benefit Pension	£95.40	–	£17.00
Disablement Pension	£97.20	–	–
Short Term			
Disability / Unemployment Benefit	£73.50	£43.20	£13.20
SOCIAL ASSISTANCE			
Long Term			
Old Age (Non-Contributory) Pension	£78.50	£44.20	£13.20
Widow/er's (Non-Contributory) Pension	£73.50	–	–
Deserted / Prisoner's Wife's Allowance	£73.50	–	–
One-Parent Family Payment[3]	£73.50	–	£15.20
Orphan's (Non-Contributory) Pension	£51.60	–	–
Carer's Allowance	£76.50	–	£13.20
Long Term Unemployment Assistance	£73.50	£43.20	£13.20
Pre-Retirement Allowance	£73.50	£43.20	£13.20
Disability Allowance	£73.50	£43.20	£13.20
Farm Assistance	£73.50	£43.20	£13.20
Short Term			
Short Term Unemployment Assistance	£72.00	£43.20	£13.20
Supplementary Welfare Allowance	£72.00	£43.20	£13.20
OTHER PAYMENTS			
Living Alone Allowance	£ 6.00		
Over 80 Allowance	£ 5.00		
Child Benefit (monthly)[4] – 1st & 2nd Child	£34.50		
– 3rd & other children	£46.00		

1 If Adult Dependant is 66 years or over a rate of £59.90 is payable.
2 If Invalidity Pensioner is 65 or over a rate of £89.00 is payable.
3 Replaced Lone Parent's Allowance in January 1997
4 These rates apply from September 1999.

TABLE 9.4 (ii)

Cost to Improve Social Welfare Rates Estimated on the 1999 Distribution of Recipients

£1 per week across the board increase			£51m
Increase in personal rates		£44.8m	
Increase in Qualified Adult Allowance (QAA)		£6.1m	
£1 per week in Social Insurance payments costs			£25.1m
	QAA	**Personal Rate**	
Old Age Contributory Retirement Pensions	£2.2m	£7.7m	
* Widow's/Widower's Pensions		£5.1m	
* Invalidity Pensions	£0.6m	£2.4m	£18.0m
* Unemployment Benefit	£0.4m	£3.0m	
Disability Benefit	£0.4m	£2.3m	
Other Social Insurance Payments		£1.0m	£7.1m
£1 per week in Social Assistance and other payments costs			£25.8m
Old Age Non-Contributory Pensions	£0.3m	£4.8m	
* Pre-retirement Allowance	£0.3m	£0.7m	£6.1m
* Widow's Pensions		£1.0m	
* One Parent Family Payment		£3.9m	£4.9m
* Unemployment Assistance:			
– Long-term unemployed	£0.9m	£3.6m	
– Short-term unemployed	£0.5m	£2.0m	£7.0m
* Disability Allowance	£0.2m	£2.7m	
* Carer's Allowance		£0.9m	£3.8m
* Supplementary Welfare Allowance	£0.2m	£0.8m	
Other payments	£0.1m	£2.9m	£4.0m

*Included in estimates of cost given in text.

Source: Department of Social, Community and Family Affairs.

Linking SW rates to average incomes in the current situation is likely to increase SW rates faster in percentage terms than average earnings. Apart from adding further to the costs this could, in the longer term, lead to employment disincentive effects. The likelihood of these will be lessened by the introduction of the minimum wage and if taxation system changes are skewed towards lower paid workers as the Council advocates. The issue of disincentive effects is considered at length in the ESRI study (Callan *et al.*, 1996b).

There is also an issue of principle here: should SW incomes be linked (on a year-on-year basis) to changes in average incomes, if that average is driven significantly by substantial increases in high income levels, rather than by increases in low incomes? Should SW rates track all incomes, including those at the very highest income level and those at the very lowest level? A more appropriate option would be linkage to the incomes of those at work such as those on average industrial earnings (AIE), while taking the impact of taxation changes into account as reflected in NAIE. A further issue that needs to be taken into account is the impact of additional cash and non-cash benefits on disposable income.[9]

If a once-off, uniquely established figure such as the Commission on Social Welfare rate is used as a benchmark, the issue of an appropriate indexation mechanism must be considered. Similar issues arise in deciding on an indexation mechanism as arise in deciding on a benchmark. These include measurement issues, equity issues and disincentive effects for the low-paid. A balance between these factors needs to be achieved in indexation policy, while at the same time ensuring that, over time, the goal of similar increases for SW rates and average incomes is achieved.

The policy on SW rate increases over the past several years has been ‘above inflation’. While this has led to some criticism in recent years (when average incomes are increasing rapidly above inflation), it was to SW payees’ advantage when real incomes in the economy were falling, as in the early 1980s, that SW rates kept ahead of inflation. If payments were exclusively indexed to average incomes, there would be no increase in years when average incomes

9 Additional cash and non-cash benefits, such as medical card cover, and assistance with energy, housing and travel costs, have increased in importance since the Commission on Social Welfare reported.

are static. This hardly seems feasible. Indexation to the higher of inflation or incomes might seem attractive in this case, but it creates a ‘ratchet effect’, which means that over a long timeframe SW rates would grow faster than either incomes or inflation. While this could be legitimate during the period of achievement of an agreed benchmark it would not be legitimate or feasible in the long-term.

In conclusion, the Council is of the view that, in the longer term, poverty for some categories of the population will increase if social welfare rates do not match increases in average disposable incomes. In view of this, SW rates must be linked to improvements in the general standard of living. In tandem with this it must be recognised that for some social welfare recipients, the route out of poverty might not be solely through increases in SW rates, but by more opportunities to combine social welfare income with income from other sources, particularly employment – this will necessitate greater flexibility in the social welfare and taxation systems including in the consideration of eligibility for secondary benefits.[10] The Council notes, too, that average incomes can increase rapidly in times of economic expansion, and can fall (in real terms) in recession. Furthermore, the lack of a clear measure of average incomes makes indexation to incomes, on a year-on-year basis, problematic. In addition, at a time when average incomes are rising more rapidly than average wages (and particularly low wages), indexation to incomes may have disincentive effects. In deciding on the appropriate percentage for a benchmark such as Net Average Industrial Earnings it is clear that judgements, values and attitudes would play a key role. There is no uniquely right answer to the benchmark issue that will garner universal favour. Yet, there are sufficient sources of information to allow for agreement on an equitable and efficient decision on an appropriate benchmark and timeframe over which it can realistically be achieved. The Council believes that the social partnership process is the most appropriate mechanism through which a socially and economically acceptable and sustainable outcome can be forged.

Three additional dimensions of social welfare policy of concern to

10 These include medical cards and other benefits as outlined in footnote 9.

the Council are Child Benefit, Family Income Supplement (FIS), which it addressed in its last Strategy document, and individualisation of SW payments.

There is now considerable support for the argument that Child Benefit is the best family support option from an anti-poverty perspective. The Council has consistently argued for a substantially increased, universal and taxed Child Benefit. The difficulties of reconciling child care and child poverty objectives in relation to the taxation of Child Benefit have been outlined in Chapter 7. Despite these the Council continues to believe that Child Benefit is a potentially important contribution to the mitigation of poverty in families with children and the enhancement of equality. The advantage of increasing Child Benefit is that it provides support to families with children without any adverse incentive effects. Making Child Benefit assessable for taxation would have the effect of targeting it more effectively and freeing up money to increase its level. It would also be consistent with the Council's general principle that the tax base should be as broad as possible.

The basis for calculation of FIS was changed from a gross to a net income basis in the 1998 Budget. This was an important improvement but this payment continues to be plagued by low take-up. If it was paid through the tax system rather than as a social welfare payment, it is likely to be more acceptable to potential beneficiaries. The conversion of FIS to an equivalent tax credit is a narrower and more straightforward issue than the general introduction of refundable tax credits. FIS is a potentially effective way of providing support for those with families in low income employment. In view of these facts the Council recommends that the feasibility of payment of FIS through the taxation system be examined.

The individualisation of social welfare payments has been on the policy agenda for several years. The Council acknowledges the complexity of introducing change in payment systems and welcomes the analysis of this issue in the *Report of the Working Group Examining The Treatment of Married, Cohabiting and One-Parent Families Under the Tax and Social Welfare Codes*

(Department of Social, Community and Family Affairs, 1999: 139-44). It notes the agreement among the Group towards extending the administrative arrangements in the area of separate payments and also that the increase in social insurance coverage which is taking place at present would led to a greater degree of individualisation among social welfare recipients. The Council supports 'Administrative Individualisation', that is, the splitting of social welfare payments, which is available on request in certain cases at present. It supports the extension of the arrangement over time.

9.2.2 The Spatial Concentration of Poverty

A noteworthy feature of Ireland's first National Anti-Poverty Strategy was the degree of recognition it gave to the compounding effect of spatial concentrations of the main roots of individual social disadvantage, namely, educational disadvantage, unemployment and income inadequacy. For example:

> As well as considering [these] three core issues, it is also necessary to examine the consequences of high levels and concentrations of poverty … There is a complex relationship where consequences of poverty can become causes: a cyclical effect which can lead to the reproduction of poverty, and/or the deepening of inter-generational poverty in some areas and communities. There are areas throughout Ireland where there are concentrations of people living in poverty, often resulting in cumulative disadvantage. … It has been suggested that the experience of being poor and living in such an area is a qualitatively different, and usually worse, experience than being poor and living in a non-disadvantaged environment (NAPS, 1997: 16) .

We will review later one of the major strategies adopted specifically to address spatial concentrations of social disadvantage. Here, we briefly review the most recent evidence that bears on the spatial distribution of income inadequacy; this came on stream during 1998 and is based on analyses of developments between 1987 and 1994. In the following tables, we keep matters simple by concentrating on consistent poverty' as adopted in NAPS (1997).

TABLE 9.5

Risk of Consistent Poverty using the 60 per cent Income Line plus Basic Deprivation by Area and Tenure Type, 1987 and 1994

	All Households		**Housing Tenure Type**			
Area type			*Public*	*Other*	*Public*	*Other*
	1987	***1994***	***1987***		***1994***	
Waterford, Cork, Galway and Limerick cities	21.0	19.2	37.0	11.2	44.1	6.7
Dublin city and county	12.0	19.2	32.9	4.4	47.3	5.6
Town: >3000	18.1	18.7	31.2	11.8	39.9	13.0
Open country	15.5	9.6	32.8	14.0	17.5	9.2
Village/Town: <3000	23.6	21.7	52.0	12.0	47.5	12.6
All	16.4	14.9	35.8	10.9	42.4	9.0

Source: Nolan *et al.*, (1998), *Where are Poor Households*, Dublin: Oaktree Press: Tables 4.1 and 4.5.

9.2.2 1 Trends in urban and rural poverty

Tables 9.5 and 9.6 show, for 1987 and 1994, the risk and incidence, respectively of household poverty in five types of geographic area and, within each area, its risk and incidence in the two broad types of housing, namely, local authority ('public') and private sector.

The most remarkable feature in Table 9.5 is the substantial growth in the risk of poverty for households in Dublin city and county. At a time when the *risk* nationwide marginally decreased, it rose in Dublin from 12 to 19 per cent, a rise largely experienced by local authority households among whom the risk increased by 50 per cent; by 1994, almost every second local authority household in Dublin city and county was poor (47.3 per cent). The share of all poor households in the State to be found in Dublin city and county increased from 19 to 29 per cent, and in local authority housing in the region from 14 to 21 per cent (Table 9.6). In the other large urban areas in the State (Waterford, Cork, Limerick and Galway), the risk of poverty among households in local authority housing also increased, from 37 to 44 per cent; their local authority tenants had run a higher risk of poverty than their Dublin counterparts in

1987 but, such was the deterioration in the latter, they were faring relatively better than those of Dublin by 1994 (Table 9.5). In large towns (over 3,000 inhabitants), the association between poverty and being a local authority tenant also tightened over the period; the risk increased from 31 to 40 per cent. The proportion of all the State's poor households in the four cities outside of Dublin and in large towns increased by some three percentage points to 34 per cent by 1994 (Table 9.6).

TABLE 9.6

Incidence of Consistent Poverty using the 60 per cent Income Line plus Basic Deprivation by Area and Tenure Type, 1987 and 1994

	All Households		**Housing Tenure Type**			
Area type			*Public*	*Other*	*Public*	*Other*
	1987	***1994***	***1987***		***1994***	
Waterford, Cork, Galway and Limerick cities	11.0	11.3	7.3	3.6	8.6	2.7
Dublin city and county	19.2	29.5	14.0	5.1	21.0	8.6
Town: >3000	19.8	22.8	11.1	8.7	10.3	12.5
Open country	33.9	21.3	5.9	28.0	1.9	19.4
Village/Town: <3000	16.2	15.1	10.3	5.8	8.6	6.4
All	100	100	48.7	51.3	49.5	50.5

Source: Nolan *et al.*, (1998), *Where are Poor Households*, Dublin: Oaktree Press: Tables 4.2 and 4.6.

Table 9.5 also makes clear that small towns and villages had the unenviable distinction of being the area-type with the highest risk of poverty in both 1987 and 1994. In fact, in 1987, being a local authority tenant in a small town or village was associated with poverty to a quite exceptional degree (a risk of 52 per cent); by 1994, this association, although weakened a little, was still as strong as in Dublin where the situation had dramatically deteriorated. The incidence of poor households in these areas with such a chronically high risk hardly changed; it fell by one percentage point to 15 per cent (Table 9.6). It was in the open country that the sharpest reduction in poverty took place between 1987 and 1994 (1987, it should be noted, had been a particularly bad year for agricultural incomes); the risk there fell from 15.5 to 10 per cent, and the incidence of poor households from 34 to 21 per cent.

9.2.2.2 The Significance of Public Housing

What has been happening to the public housing sector in Ireland is a major factor affecting the experience of poverty in urban and rural Ireland. Even at its peak in 1960, when it constituted just under 20 per cent of the total housing stock, public housing was consistently targeted on low income families. Between then and 1996, the public housing stock dwindled to less than 9 per cent of all housing and, with this, came a much stronger association between being a local authority tenant and being socially disadvantaged simply because eligibility to public housing was increasingly confined to people with strong social needs (Fahey, 1999). For example, between 1987 and 1994, the socio-economic profile of local authority tenants, in urban *and* rural areas, showed "a substantial reduction in educational capital, a striking increase in the number of households in full-time unpaid home duties, the emergence of single parent households as a significant minority, and an increase in early retirement" (Nolan and Whelan, 1999:114). As public housing became increasingly reserved to people with limited own resources, a polarisation between local authority rented households and the dominant home-ownership sector deepened (Table 9.7).

TABLE 9.7

Risk and Incidence of Poverty by Type of Housing Tenure, 1987 and 1994

	60% Income Line and Basic Deprivation			
Type of Housing Tenure	*Risk*		*Incidence*	
	1987	***1994***	***1987***	***1994***
Owned outright	12.6	10.5	34.0	29.4
Owned with a mortgage	6.3	5.5	10.8	11.8
Local Authority tenant purchase	15.1	24.5	7.1	10.2
Local Authority rented	46.8	52.0	41.3	40.4
Other rented	21.3	15.3	6.8	8.2
All	16.4	14.9	100	100

Source: Nolan *et al.*, (1998), *Where are Poor Households*, Dublin: Oaktree Press: Tables 4.3 and 4.4.

9.2.2.3 Perspectives on Spatial Concentration

It is clear that the greater the incidence of public housing within an urban area or town the stronger the challenges it has been facing. However, the same evidence that establishes this clustering of social needs in public housing areas suggests that this has occurred primarily because of how people are selected into them, and fails to confirm any increase in an independent neighbourhood effect (one arising from within the areas themselves). The evidence, if anything, is to the contrary (Nolan, Whelan and Williams, 1999). While public housing in urban areas witnessed the deterioration in the socio-economic profile of its residents already mentioned, no evidence was found for an increased contextual effect, which is what theories of deepening alienation and an 'underclass' would lead one to expect. In rural areas, what evidence there had been in 1987 of a specific contextual effect over and above what 'ordinary' socio-economic factors could explain, actually disappeared by 1994, though local authority households in these areas – as already stressed – underwent the same tightening association with social disadvantage.

Another specific study of public housing in Ireland throws some light on this (Fahey, ed., 1999). It points to considerable diversity between and within public housing estates and paints a picture of, if anything, higher neighbourhood and community commitment than what characterises other types of housing area (the opposite of the 'underclass' thesis). However, exceptional problems of social order challenge this community ethos, with tenants sometimes experiencing acute vulnerability to the anti-social behaviour of small minorities. For this and other reasons, Fahey and his colleagues (Fahey, ed., 1999) underline the key contribution that local authority housing management policy can have in strategies for tackling urban disadvantage; they argue that it has an even more important role to play than physical refurbishment *per se*.

9.2.3 Poverty and Policy Targets in a Changing Context

To some extent, an economic boom of the sort Ireland has experienced since 1994 can be expected to widen income inequality: the higher skilled workers may experience the most rapid increases in earnings as skill shortages develop, the greater proportion of the overall population in employment may of itself move average individual income upwards, and more multiple earner households raise average household income. This widening of inequality could then be expected to reduce if as earnings at the bottom of the labour ladder began to be bid up, households unable to participate in the labour market had their transfer income linked to overall incomes rather than inflation, and childcare and other policies ensured no household with a member wishing to work was unable to do so. The strongest challenge to this expectation that any widening in income inequality is temporary is probably consideration of the multi-dimensional nature of poverty. One firm lesson from studies of poverty in Ireland over recent decades is that its causes are multiple and intertwined: the grind of living on a low income over a long stretch of time runs down assets, restricts socialising and participation in other networks, replaces savings with debts, erodes workplace skills, undermines self-confidence and the ability to present oneself well, and leads to poor health. Basic literacy problems and long-term unemployment continue to risk delinking individuals from the labour market totally and make their situation immune to aggregate labour demand. Such multiple deprivation is deep-rooted and unlikely to be cured by economic growth alone.

The picture emerging so far of developments in poverty since 1994 is nuanced. It is true that widening relative poverty is compatible with everyone becoming better off in a material sense because the threshold income by which people are being judged to be in relative poverty is itself steadily rising. However, relative income poverty – being significantly behind the prevailing income standards of one's society – remains a serious issue, capable of undermining people's sense of self-worth and esteem in the eyes of others, and of affecting their participation in civic, political, social and cultural life. People tend to have their expectations powerfully affected by what they see is characterising normal living in the society around them. While mean disposable income in Ireland in 1997 was some 20 per cent higher than in 1994, the plight of the 22 per cent living below 50 per cent of it should not be assumed to have become proportionately easier than that of the 21 per cent in the corresponding situation four years earlier. That would be to overlook the extent to which having to live on very low relative income leaves those doing so particularly vulnerable to an internalised sense of failure and to frustration at unrealisable expectations. In conclusion, therefore, it is important to acknowledge the work remaining to be done to combat social exclusion as much as the achievements to date. Even the most positive data, based on the dual measure of relative income poverty and material deprivation, suggest that one in ten Irish households was experiencing consistent poverty in 1997, at a time when the national economy was undergoing massive transformation and success.

9.2.3.1 The National Anti-Poverty Strategy

What are the appropriate targets for an anti-poverty strategy in this context? It is clear from the data reviewed here and the first review of the National Anti-Poverty Strategy (NAPS, 1999) that the targets set for that strategy were modest. This was argued by some analysts at the time although it should be acknowledged that the data which now allow us to examine the changes in poverty over the 1994 to 1997 period have become available only in mid-1999. While this is a vast improvement in the situation that has obtained to date it still reflects a time-lag of two years. In a rapidly changing economic and social situation this is a significant limitation. It also means that we do not have data that allow an appraisal of the effect of the NAPS. On the other hand it is important to acknowledge that monitoring and evaluation is written into this strategy and that data will become available over the next year which will allow an initial evaluation of its impact. In this context and affirming strong support for the NAPS, and particularly its commitment to monitoring and evaluation, the Council recommends:

- The percentage of the population that is 'consistently poor' is an important measure for targeting but the elimination of consistent poverty, as measured in the NAPS, does not equate with the elimination of relative income poverty as is indicated by the increase in the percentage of the population below the 40 per cent relative income cut-off, that is below £60 to £64 per week for each adult equivalent, depending on equivalence scale, in 1997. While the 'consistent poverty' measure should continue to be used the list on which it is based should be consistently evaluated to reflect changing circumstances.[11] The 50 per cent relative poverty criterion should continue to be used to monitor progress *vis-à-vis* our EU partners.
- The feasibility of targets for sub-groups of the population with particularly high poverty rates should be explored and programmes for these groups tailored to reach national targets.
- Unemployment targets as set by the Irish Employment Action Plan should be the guiding policy objective.
- Targets relating to the focus of health care and to health status are not included in the NAPS. In view of the consistent international evidence on the reciprocal association between

11 Such an evaluation was undertaken in the 1997 LIIS survey (Callan *et al.*, 1999: 72-3). See Appendix Table A9.1 for list of indicators.

poverty and health and the 1987 and 1994 evidence of the high risk and incidence of poverty for ill/disabled people it is important that targets in this area be included in the NAPS at its next review.

- All of the above are dependent on a commitment to enhancing the timely availability of data that can be disaggregated by social category and spatially. The enormous strides that have been made in this area to date should be adequately resourced to facilitate this objective.

9.2.3.2 Targeted Special Investment Approach to Poverty Prevention and Social Inclusion

Despite the fact that the majority of people affected by poverty and social exclusion are not spatially concentrated, it is clear that there are spatial concentrations of unemployment, poverty and exclusion. This spatial concentration is not lessening but intensifying due to the consequences of long-term unemployment, poverty and past policy choices. To stem the social and economic costs of this social exclusion the Council recommends a targeted investment-oriented approach to poverty relief and social inclusion. This would involve a programme of measures, that are time-limited and that would be designed to develop the infrastructure necessary for communities to harness the social capital and capacity necessary for their economic and community development. As is pointed out in Chapter 2 this is a logical development of the Council's emphasis in its 1996 Strategy on the importance of social resources and capacities which reside in the social relationships between people – those centred on family, gender and community (NESC, 1996a).

This special investment package implies a dual policy focus directed to the social groups who are excluded and those at greatest risk of exclusion but also focusing on the locations where cumulative disadvantage is pervasive. Both approaches are necessary for the social cohesion to underpin negotiated consensus on economic and social objectives. It is the spatial concentration of cumulative disadvantage that is the focus of the targeted special investment-oriented approach. It is not a substitute for the social inclusion focus in the National Development Plan, nor for the programmes in operation to tackle social disadvantage, such as labour market training and education programmes. It is a complement to both but directed to areas that due to long-term and cumulative exclusion need an extra impetus to create the conditions that will allow them to harness their resources. The investment would be directed to the provision of local multi-purpose physical complexes for the provision of community services – for instance, training and lifelong learning, childcare, cultural and recreational services as well as enterprise-support facilities – according to the greatest local need as identified by the communities in question on a partnership basis. Such infrastructure would not be a panacea for the economic and social problems of these communities. However, the Council believes that, allied to effective mainstream programmes, it would make an important contribution to enable the communities to harness their social capital, improve their capacity for economic and social development and enhance social cohesion. In implementing this programme lessons could be learned from the EU URBAN pilot programme where a budget of 10 million euros was invested in each of a number of urban areas of special need with a 100,000 population or more, across the EU (three in Ireland) to enhance business infrastructure, the physical environment, education and training and equality services. The proposed programme would differ on the population criterion but the targeting of a relatively small number of areas would be crucial for effectiveness. It would be directed towards the 25 most deprived urban and rural local authority housing estates. The Council is concerned that the effectiveness of some earlier targeted programmes was diminished through failure to adhere to the original principle of selectivity. The present recommendation is framed on the understanding that the specified targeting of this once-off and time-limited programme – three years – would be adhered to.

Social cohesion needs to be fostered through the broadening of participation in society. We now have the capacity to choose the investment that can underpin such participation. Such participation is an essential prerequisite for the exercise of citizenship rights and obligations. This proposed targeted programme is time-limited and must be operated in tandem with a clearly articulated programme to enhance the capability of general programmes to identify and respond not only to individual need but to concentrations of need. The guiding policy objective must be mainstream programmes that ensure there is no need for spatially targeted remedial programmes.

9.2.4 Summary of Recommendations on Poverty and Income Adequacy

There is a two-year time lag on data on poverty. In late 1999 we are still dealing with the national level findings on the 1997 *Living in Ireland Survey* although we have considerably more detailed analysis of the 1994 data. What we know from the 1994 to 1997 evidence on poverty and income adequacy is that we had in 1997 a significant, but decreasing, percentage of the population in 'consistent poverty'; a significant but increasing percentage of the population in relative income poverty; that the risk of poverty was increasing for some groups and had not significantly decreased for any of the groups traditionally experiencing high levels of poverty; and that despite its spatial dispersion there are significant concentrations of poverty. In this context the Council has made six recommendations arising from its analysis of poverty and income adequacy:

1. linkage of social welfare payments to improvements in the general standard of living: In view of this, and consistent with its medium and long-term vision for Ireland and with its fiscal strategy, the Council proposes that a new benchmark for the income adequacy of social welfare payments, other than old-age pensions, be established through the social partnership process and that a mechanism be agreed to index levels of payment to improvements in the general standard of living once the benchmark has been reached;
2. substantially increasing Child Benefit and making it assessable for taxation;
3. examination of the feasibility of payment of the Family Income Supplement through the tax system;

4. the extension of administrative individualisation of social welfare payments over time;
5. a review of the NAPS targets; and
6. a targeted special investment approach to poverty relief and social inclusion.

9.3 DEVELOPMENTS IN UNEMPLOYMENT

Recent OECD figures help to highlight the exceptional nature of Ireland's employment expansion by current international standards (Table 9.8). They demonstrate the extremely favourable context that has existed over the last six years for reducing unemployment, poverty and social exclusion. The scale of this expansion has meant that the Government target of a 7.0 per cent unemployment rate by end-year 2000, adopted in the light of the 1997 evidence, was achieved within a year of its adoption (Department of Enterprise, Trade and Employment, 1998).

TABLE 9.8

Employment Expansion, 1994-1999, Selected Countries

Region/Country	*Cumulative Employment Expansion, 1994-1999 (per cent)*
European Union	3
United Kingdom	5
Netherlands	13
Ireland	28

Source: OECD (1998) *Economic Outlook*, December, Paris: OECD (the annual growth rates used for 1998 and 1999 are estimates and projections).

9.3.1 Major Reductions in Unemployment

It is not unusual that increases in employment during an economic expansion are fuelled by 'hidden' groups of workers more than by reductions in the stock of unemployed people. Women come out of home duties, students leave the educational system and overseas workers return, to compete with the people openly unemployed for the jobs the expansion is bringing on stream. Table 9.9 shows that the absolute reduction recorded in unemployment between 1994 and 1999 would have filled, at best,almost one third (31 per cent) of the recorded absolute increase in employment over the same period (assuming that all individuals exiting unemployment were entering employment). However, the table also provides convincing evidence that the scale of the rise in employment in Ireland has been such that even a pattern whereby only one in three new jobs goes to currently unemployed people, has been sufficient to produce major reductions in the level and rate of unemployment. The numbers unemployed fell by 54 per cent between 1994 and 1999, while the numbers of long-term unemployed were reduced by 68 per cent. The unemployment rate (ILO definition) has fallen by nine percentage points to under six per cent, and the long-term unemployment rate by 6.5 percentage points to under three per cent.

TABLE 9.9

Unemployment, Ireland, 1994-1999, by ILO-count

Year	Total in Employment	Unem-ployed (ILO)	Unem-ployment rate	Long-Term Unemployed[1]	Long-Term Unemploy-ment rate	LTU share of total Unemployment
	’000	’000	%	’000	%	%
1994	1,220.6	211.0	*14.7*	128.2	*9.0*	*61.2*
1995	1,281.8	177.4	*12.2*	103.3	*7.1*	*58.9*
1996	1,328.5	179.0	*11.9*	103.3	*6.9*	*58.2*
1997	1,379.9	159.0	*10.3*	86.3	*5.6*	*54.3*
1998	1,494.5	126.6	*7.8*	63.5	*3.9*	*50.2*
1999[2]	1,591.8	96.9	*5.7*	41.6	*2.5*	*42.9*
1999/94	*130%*	*46%*		*32%*		

Source: QNHS, Second Quarter 1999, Table 4a.
Note: 1. ILO unemployment is long-term when it is one year or more since an unemployed person first began looking for work.
2. 1999 figures are for March-May (latest available).

Table 9.9 gives rise to optimism that long-term unemployment in Ireland is more responsive to aggregate labour market demand than theories of structural unemployment lead us to expect, and/or that the range of special measures already in place is, by and large, proving adequate to the challenge of enabling the long-term unemployed access the current employment expansion. Yet, this conclusion must be tempered by two considerations arising from international experience. There appears to be a strong secular trend in Continental EU and also in the UK and US labour markets for participation rates among older males – particularly the lower skilled – to decline significantly, meaning that their unemployment rate comes down partly because they withdraw from the labour force altogether (for example, into early retirement or as unable to work due to sickness or disability). The particularly intriguing lesson from the US and UK is that this phenomenon does not appear to slow in conditions of strong aggregate labour demand; some argue it is even speeded up by it (Employment Policy Institute, 1996).

A second reason for caution is that where exits from long-term unemployment (LTU) are, indeed, employment-related (into employment or education/training as a preparation for it), we know very little about the quality of the employment (in particular its likely duration) or of the education or training (and thus the likely progression into work) in question.

In view of these considerations we need to ask where people go who exit unemployment, looking at the possibility that they may not be among those taking the jobs and that, even when they are, their jobs may not take them out of poverty and social exclusion.

9.3.2 Using the Different Unemployment Counts

The Quarterly National Household Surveys (formerly the annual Labour Force Survey which it began to replace in 1998) and the Live Register between them provide three different measures of unemployment. The former gives us the ILO-unemployment count and the PES, that is 'Principle Economic Status', unemployment count (see Box 9.2). Their relative merits have received considerable analysis. NESF (1997b), among others, concluded that each of the counts provides useful information for domestic policy purposes. Considering these counts throws some light on the first of the concerns raised by international experience, namely, where people go who exit unemployment. None of the ways the three counts are kept, however, can throw much light on the second, that is, whether, when the unemployed take jobs, their jobs are of sufficient quality to take them out of poverty and social exclusion. The most convincing evidence on that remains indirect and is the reduction in poverty reviewed in the previous section.

These counts are commonly regarded as ranging from the most ‘strict’ and ‘rigorous’ – the ILO count – to the most ‘lenient’ and ‘loose’ – the Live Register count. Generally, there is little desire among researchers to question the central usefulness and importance of the ILO count, which remains the basis for the ‘standardised unemployment rate’ most used in international studies. Table 9.10 compares the three counts separately for men and women over the six year period, 1994-1999.

BOX 9.2

Characteristics of Unemployment Counts.

(a) *The ILO-unemployment count.* This is the count used for Table 9.9. Following International Labour Organisation (ILO) guidelines, respondents to the Quarterly National Household Survey (QNHS) are classified as ‘unemployed’ if their responses make clear they did not work even one hour for payment or profit in the last week, actively sought work in the previous four weeks, and are available to start work within two weeks. This rigour means some people may regard themselves as unemployed who are not counted as such because the criteria give more significance than they do, to some casual hours recently worked, to their not having done something quite specific to find a job, or to their unwillingness to say they would start a new job very soon. The main advantages of this count are the clear if restricted meaning it gives to unemployment, its international comparability which is a direct consequence, and its proven sensitivity to cyclical trends.

(b) *The PES-unemployment count.* The QNHS questionnaire, however, also asks people to choose from a list of eight supplied options, what is their ‘usual situation as regards employment’. If they pick one of three (‘looking for first regular job’, ‘unemployed, having lost previous job’ or ‘actively looking for work again after voluntary interruption’), their

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‘principal economic status’ (PES) is considered to be one of unemployment. Here, an ambivalence is tolerated. People may be classified as unemployed who could yet ‘explain’ perfectly well in their own eyes why they have not done something to actively search for a job, and/or are not in a position to begin a new one ‘just now’. Conversely, some may have actively searched and be prepared to begin a job immediately who, nevertheless, consider their situation as more fully described by another option on the list (principally ‘student’, ‘home duties’, ‘retired from employment’, or ‘unable to work due to permanent sickness or disability’). Their principal economic status would accordingly be the description they had preferred to ‘unemployed’ or a variant of ‘job seeker’. It is clear that this PES count allows for a duality that is present in some real life situations, e.g. where a person in ‘home duties’ has an eye out for a suitable job, or a retired person can be attracted back to work by the right job-offer.

(c) *The Live Register.* In every country, the public authorities have developed a public count to help them discharge the responsibilities assigned them by law towards those without work and looking for work. Who is entitled to come forward to register, what they can expect from doing so, and what is expected of them when they are so registered, differ considerably from country to country, and within the one country over time. These counts, therefore, bear the strong imprint of national labour markets as social institutions, and of social developments down through the decades. Ireland’s Live Register (LR) is no different. It counts each month all those in receipt of Unemployment Benefit or Unemployment Assistance, plus those who, though entitled to no payment, wish to have social insurance contributions ‘credited’ to them. In addition, casual and part-time workers who work for not more than three days in the week may be entitled to register on account of the days they do not have work. The monthly publication of the LR is now accompanied by a ritual denial that it is intended to function as an unemployment count. As currently constituted, it almost certainly overcounts unemployment among part-time workers and may still have, as a historical hangover, low numbers of married women. It is distinctly out of favour with most analysts for the main reason, however, that a significant proportion of those on it may have such personal and social needs as not to constitute part of the potential labour supply in any meaningful sense (e.g. Fitz Gerald *et al.*, 1999). However, it is a count of real people and remains a valuable starting point for identifying, for policy purposes, and in a way which surveys cannot, the actual individuals experiencing, or at risk of, social exclusion as well as those long-term unemployed who are ‘recoverable’ for the economy. It also provides considerable detail as to where people come from and go to (inflows and outflows).

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TABLE 9.10

The Unemployment Counts:
LR, PES and ILO – males and females, Ireland, 1994-1999

	Males ('000)			Females ('000)		
	LR[1]	PES[2]	ILO	LR[1]	PES[2]	ILO
1994	187.2	161.9	130.9	97.0	55.9	78.6
1995	179.2	142.0	109.1	96.8	47.9	66.2
1996	179.3	137.7	109.1	102.0	52.8	68.4
1997	159.5	130.6	97.1	97.4	48.3	62.0
1998	139.9	111.3	78.8	91.4	43.1	47.8
1999	101.3	89.6	59.4	76.7	35.4	37.5
1999/94	*54%*	*55%*	*45%*	*79%*	*63%*	*47%*

Sources: LR: 1994-1998: End April; and 1999: October, *Live Register Area Analysis,* October, 1999. Figures for 1998 and 1999 are from *QNHS Mar-May* and *QNHS, Second Quarter* 1999 respectively.

Notes: 1. Live Register.
2. Principle Economic Status.

The table confirms that using the ILO count indeed puts the good performance of the Irish labour market in its best light; by 1999 male and female ILO-unemployment had each dropped to 45 per cent and 47 per cent respectively of their 1994 levels. The PES count records significant falls too but alerts us to a more marked gender difference; it dropped to 55 per cent of its 1994 level for men and to 63 per cent of women over the five years. Comparing the PES and ILO figures for men, it is interesting that a fairly constant absolute gap separates them over the period. In the context of the decline in both counts, this means that one is more likely to find, in the male unemployment pool, men who appear to regard themselves as unemployed but not meeting the ILO criteria; a divergence has widened with the ILO count capturing progressively less of the PES count (some 80 per cent in 1994 but only 70 per cent by 1998). The opposite is happening for women. The two counts have come to converge more closely, and a situation where many more women were regularly classified as unemployed by ILO criteria who appeared not to have chosen so to describe themselves has been erased.

Developments in the LR count for males keep track of those for the

PES count but an even stronger gender contrast is revealed. Males on the LR had dropped to 54 per cent of their 1994 level by 1999, but the numbers of women ‘signing on’ had decreased only to 79 per cent.

9.3.4 Exploring The Gender Difference

Table 9.11 allows examination of how males who have a PES status of unemployed are classified by the ILO criteria, and whether a notable change appears to be taking place over time. It reveals an interesting development among unemployed males – the percentage of the PES unemployed also being classified as such under the ILO criteria has fallen by sixteen points over the 1994 – 99 period. This is not because the percentage of them failing the ILO search criterion in one way or another increased substantially – that would push up the percentage with a ‘marginally attached’ classification, but it rose only marginally. It is because the somewhat miscellaneous group termed ‘others not economically active’ edged up in absolute numbers, and markedly so as a percentage, to account for 23 per cent of all the PES unemployed.

‘Discouraged workers’ among the marginally attached received considerable scrutiny in 1993 (OECD, 1995b: 45-65) where it was concluded that Irish male discouraged workers were akin to the long-term unemployed: they did not exhibit a cyclical trend (rising and falling in line with unemployment) and featured a high incidence of people who had been without a job for three years or more. Table 9.11 indicates that during a period of sustained rise in aggregate labour demand, the sub-group of the male PES-unemployed who cannot be classified as either discouraged from job-seeking or ‘passively’ doing so, has become a significant part of the male unemployment pool. Examination of their particular patterns of response to QNHS questions suggests that although effectively in a different status – for example, ill-health, study, retirement – they persist in describing themselves as unemployed because they originally entered that status involuntarily because of unemployment. Until further study is done, however, our reasoning remains largely speculative.

TABLE 9.11

The ILO-classification of men who describe themselves as unemployed, 1994-1999 (males 15 and over)

	PES unemployed		… of whom ILO-unemployed		ILO 'marginally attached'		ILO 'others not economically active'		ILO 'at work'	
	'000	%	'000	%	'000	%	'000	%	'000	%
1994	161.9	100	123.6	76.3	13.6	8.4	21.9	13.5	2.7	1.7
1995	142.0	100	101.9	71.8	13.3	9.4	24.2	17.0	2.6	1.8
1996	137.7	100	103.1	74.9	8.8	6.4	23.5	17.1	2.4	1.7
1997	130.6	100	90.4	69.2	12.3	9.4	25.3	19.4	2.6	2.0
1998	111.3	100	73.4	65.9	8.6	7.7	25.3	22.7	4.0	3.6
1999	89.6	100	54.6	60.9	8.0	8.9	23.3	26.0	3.7	4.1

Source: *Annual Labour Force Surveys*, 1994-1997; *QNHS, Second Quarter* 1999.

1. 'marginally attached' includes discouraged workers (who say they want a job but are not looking because they believe they are not qualified or that no work is available) and passive job-seekers (who say they are looking but did nothing specific in the past 4 weeks to find work).
2. 'not economically active' is effectively a residual resulting from the progressive application of the ILO-guidelines; thus, all respondents not at work, not unemployed and not marginally attached fall into this category

Developments in the situation of women are best captured by asking a different question to that posed in regard to the male unemployment figures, namely, what PES-status have women who are classified as unemployed by the ILO-criteria?

The trend evident in Table 9.12 is that more women who are ILO-unemployed are also PES-unemployed, but the overlap in 1999 was only slightly more than half (50.7 per cent). A large percentage of women who are ILO-unemployed continue to regard their position in the home as their 'usual situation with regard to employment' (40 per cent). In absolute numbers, however, they have dropped by 57 per cent in six years which suggests that, as a 'hidden' source of labour supply, their significance is declining very rapidly.

TABLE 9.12

Women's own classification of themselves when the ILO considers them unemployed, 1994-1999 (females 15 and over)

	ILO-unemployed		… of whom PES -unemployed		PES-Home duties		All other PES	
	’000	%	’000	%	’000	%	’000	%
1994	78.6	100	39.7	50.5	34.8	44.3	4.2	5.3
1995	66.2	100	32.0	48.3	29.9	45.2	4.3	6.5
1996	68.4	100	35.5	51.9	29.2	42.7	3.8	5.5
1997	62.0	100	31.6	51.0	25.9	41.8	4.3	6.9
1998	47.8	100	25.7	53.8	18.9	39.5	3.2	6.7
1999	37.5	100	19.0	50.7	14.8	39.5	3.7	9.9*

Source: *Annual Labour Force Surveys*, 1994-1997; *QNHS, Second Quarter*, 1999.

Table 9.13 makes clear that the growing divergence between the LR and LFS-ILO counts of unemployment is, in fact, due to the different developments in the long-term unemployment component of each, and in particular to their handling of female long-term unemployment. A very steep drop in the ILO count of long-term unemployed women has had relatively little impact on the LR count. The same is not true for men where the LR count of male LTU had dropped to 59 per cent of its 1994 level by 1998. However, for men and particularly women the divergence between the two counts grew steadily over the five years.[12]

12 The Partnership 2000 Working Group on Women's Access to the Labour Market, which is to report before the end of 1999, recommends that the Central Statistics Office (CSO) undertake a more in-depth analysis, from the information currently available, of female unemployment levels and trends and that such analysis should be published on a regular basis. In doing so, the CSO should consult with and take account of the views of relevant organisations. In view of the complex reasons underlying people's choices regarding work, it also recommends that the CSO should incorporate into the QNHS as a special topic, the issue of what barriers exist to prevent women from accessing the labour market.

TABLE 9.13

The Long-Term and the Short-Term Unemployed, as measured by the Live Register and the Labour Force Survey by gender, 1994-1999

(a) the long-term unemployed (one year or over)						
Year	Males			Females		
	LR '000	ILO '000	LR/ILO	LR '000	ILO '000	LR/ILO
1994	98.5	85.4	1.15	36.8	42.9	0.86
1995	95.7	70.2	1.36	38.3	33.1	1.16
1996	95.6	69.2	1.38	40.8	34.0	1.20
1997	85.7	58.8	1.46	38.7	27.5	1.41
1998	70.4	46.3	1.52	34.6	17.2	2.01
1999	58.0	30.8	1.88	29.6	10.8	2.74
1999/ 1994	59%	36%		80%	25%	
(b) the short-term unemployed (less than one year)						
Year	Males			Females		
	LR '000	ILO '000	LR/ILO	LR '000	ILO '000	LR/ILO
1994	90.4	42.8	2.11	60.6	33.6	1.80
1995	84.9	36.7	2.31	59.4	31.4	1.89
1996	84.9	38.9	2.18	61.9	33.0	1.88
1997	73.7	35.1	2.10	58.7	31.9	1.84
1998	70.8	32.2	2.20	59.9	30.5	1.96
1999	58.6	28.2	2.07	51.9	26.8	1.94
1999/ 1994	65%	66%		86%	80%	

Sources: LR for April of each year; ILO count from Annual LFS 1994-1997, and QNHS *Second Quarter*, 1999.

These patterns prompt questions rather than answers: Has long-term unemployment among women been massively reduced over five years as the ILO count suggests, or left virtually unchanged as the LR implies? Has male LTU been reduced very substantially as the ILO count suggests, or reduced by a more modest amount as the LR suggests?

TABLE 9.14

Structure of LR Long-Term Unemployment by Gender and Duration, 1994-1998

	1994		**1996**		**1998**		**Change 1996-1998**	
	Persons	%	Persons	%	Persons	%	Persons	% p.a.
Males								
1-2 years	27,255	8.1	25,409	26.9	17,371	25.9	-8,038	-17.3
2-3 years	18,513	19.1	17,088	18.1	10,891	16.3	-6,197	-20.2
3+ years	51,087	52.7	52,019	55.0	38,711	57.8	-13,308	-13.7
All	96,855	100	94,516	100	66,973	100	-27,543	-15.8
Females								
1-2 years	13,136	38.0	15,173	37.1	12,966	39.0	-2,207	-7.6
2-3 years	7,128	20.6	8,695	21.3	6,401	19.3	-2,294	-14.2
3+ years	14,326	41.4	16,977	41.6	13,879	41.7	-3,098	-9.6
All	34,589	100	40,845	100	33,246	100	-7,599	-9.8

Source: CSO Live Register, half-yearly *Age by Duration of Unemployment Analysis*.

Note: Annual figures are averages.

Finally, it is possible to use the LR to look within the ranks of the LTU and distinguish between different durations. Table 9.14 confirms that, since 1996, the decline in long-term unemployment has affected individuals with even the longest durations. Men with unemployment durations of three years or more have been declining in numbers by 14 per cent a year over the two years 1996-1998, and women by nearly an annual 10 per cent. The table also confirms that a type of residualisation process is at work among long-term unemployed males: because those unemployed for three years or more are experiencing the slowest rate of reduction, they are accounting for a growing proportion of the stock of male LTU.

9.4 POLICY AND THE LONG-TERM UNEMPLOYED

In this section, we discuss six of the major ways in which policy may have influenced the developments in long-term unemployment which we have reviewed. The discussion is organised around one of the few sources of extensive information available as to where individuals leaving unemployment actually go, namely, the monthly figures on outflows from the LR published by the Live Register Management Unit of the Department of Social, Community and Family Affairs (DSCFA).

The acceleration since 1996 in the numbers of the very long-term unemployed leaving the Live Register evident in Table 9.14 is routinely ascribed to a combination of three factors: aggregate labour demand conditions, the effect of special labour market programmes (in particular, the Community Employment Programme and Back to Work Allowance Scheme), and the effect of tighter control measures. In Table 9.15, we look at the reasons given for closing claims over the 26 month period to April, 1999 (see note 2 to the table) for all claimants who left the Register, for men and women separately, and finally for that subgroup formed by those of both genders who had been over three years continuously on it. More detail on three of the main 'destinations' for all departing claimants is presented in Table 9.16.

9.4.1 Accessing Employment

Approximately one-half of those leaving the LR are taking jobs, the same proportion holding true for men and for women. This falls to 40 per cent for claimants who had been on the Register for over three years. We know nothing of the wage levels or expected duration of these jobs. The labour market destination of the LTU must be interpreted against the background of the several factors that are commonly regarded as making it particularly difficult to enter mainstream employment from long-term unemployment, for example the unemployment trap (Goodbody Economic Consultants, 1999), access issues in rural areas (Curtin *et al.*, eds, 1996), a mismatch of skills and labour market demand (NPL, 1998), negative perceptions by employers (ESRI Survey of Employers Perceptions) and poor quality of jobs available (Department of Enterprise, Trade and Employment, 1996). In view of these factors the fact that four out of ten of those on the LR for three years or more are accessing jobs suggests considerable heterogeneity amongst the long-term unemployed and indicates a more optimistic scenario than that presented when the labour market was less buoyant (Honohan, ed., 1997).[13]

TABLE 9.15

Analysis of Claim Closures, March 1997 to April 1999

Group	Found Work	Took up CE/PTJI[1], training or education	To other welfare scheme	Entitle-ment to UB/UA ended	Other	No reason	Claims Closed	
							%	Number
All Closures[2]	51.5	7.8	6.0	12.9	5.9	15.9	100	541,669
All Males	51.7	8.7	4.9	12.0	5.5	17.2	100	293,000
All Females	51.3	6.8	7.2	14.1	6.2	14.3	100	248,669
Closures by those over 3 years on LR	40.5	14.0	14.3	11.6	8.5	11.1	100	27,203

Source: Monthly Analysis of Live Register Data by the Live Register Management Unit of the DSCFA.

Note: 1 CE: Community Employment; PTJI: Part-Time Jobs Initiative.
2 The DSCFA figures are approximately 75 per cent of all closures computerised and analysable by duration (claims handled by employment exchanges rather than branch offices).

13 However, two recent evaluations suggest that there may be particular barriers experienced by some women. Both the *Evaluation Report on Equal Opportunities* by the ESF Evaluation Unit (1999b) and the Report of the Partnership 2000 Working Group on Women's Access to Labour Market Opportunities, which is forthcoming, explore and discuss the issues surrounding women's access to the labour market. The barrier which the Live Register presents for women's access is considered and measures are put forward to address the obstacles which women experience in accessing education, training and employment. The Report of the ESF Evaluation Unit outlines a range of actions to overcome the obstacles which it identifies including flexible training and education, increased local provision, qualitative supports to education and training, positive actions bridging programmes (ESF Evaluation Unit, 1999: 197-219).

TABLE 9.16

Further Analysis of Take-Up of Labour Market Programmes, Transfers to Other Welfare, and Reasons for Ending Entitlement – All Claim Closures, March 1997-April 1999

CE/PTJI, training or education[1]	%	Other welfare[2]	%	End entitlement[3]	%
CE & PTJI	59.2	Health-related	50.3	'Means test'	47.5
FÁS	28.3	Age-related	26.1	Failed criteria	22.5
VTOS & TLA	12.5	Child-related	23.6	Gone abroad	20.4
	100		*100*		*90.4*[4]

Source: Monthly analysis of Live Register Data by the Live Register Management Unit of the DSCFA. Authors' classifications.

Notes:
1. CE: Community Employment; PTJI: Part-Time Jobs Initiative; VTOS: Vocational Training Opportunities Scheme; TLA: Third Level Allowance.
2. Health-related = Disability Benefit*, Invalidity Pension and Disability Allowance (*calculated as 0.8 of total figure given for Disability Benefit and Maternity Benefit).
   Age-related = Pre-Retirement Allowance; Old Age Pension = Retirement Pension.
   Child-related = Maternity Benefit*, Maternity Allowance, One Parent Allowance (*Calculated as 0.2 of total figure given for Disability Benefit and Maternity Benefit).
3. Means test: Maximum UB paid, Means exceed limit, Means not disclosed. Fail criteria: Not available for work, Not genuinely seeking work.
4. The residual 9.6 per cent include: Not qualified, Deceased, Reached 66 years, In custody, Gone to college, Awarded in error.

A hypothesis worth exploring is that the policies that have sought to integrate the tax and social welfare systems and, generally, to 'make work pay' for those on the lowest wages have been having a cumulative effect since 1996. Separate analysis confirms that, while some 7.0 to 8.0 per cent of the 51.5 per cent of all claimants leaving the Register because they had found work (Table 9.15) availed of the Back To Work Allowance (BTWA); this rises to 32 per cent of the 40.5 per cent when the longest duration claimants are considered separately. Since its introduction in September 1993, the number of recipients of the BTWA has climbed steadily: 4,681 in 1994 to

21,080 in 1997. By 1997, for the first time, the slim majority were employees rather than self-employed. In partnership areas, the Area Based Enterprise Allowance closely resembles the BTWA for those who become self-employed. Participation had risen by 163.5 per cent in 12 months, from 1,627 (1996) to 4,287 (1997).

There have been other measures since 1996 helping to increase the financial returns to work for the least skilled: the Family Income Supplement was reformed in 1998 to pay the supplement on net rather than gross income; the Job Assist initiative was introduced in the same year; and (too soon to have an effect yet) tax credits have been introduced in 1999 which mean that the first £100 of weekly income of a single person is free from both PAYE and PRSI. These measures may well account significantly for the 11,000 very long-term claimants who left the Register to take a job during the 26 months to April 1999.

9.4.2 Direct Employment Programmes

Table 9.15 shows that approximately 8.0 per cent of people leaving the Live Register recently (slightly higher for men than for women) do so because they are accessing some form or other of labour market programme; this proportion rises to 14 per cent for the very long-term unemployed. Table 9.16 makes clear that almost 60 per cent of these are accessing the Community Employment programme (a very small number the Part-Time Jobs Initiative), while just over a quarter go onto a FÁS training programme and 12.5 per cent take some form of assistance for returning to education. One programme, namely CE, therefore, accounts for almost 5.0 per cent of the total outflow from the LR over these 26 months.

9.4.2.1 Community Employment

Community Employment (CE) was introduced in April 1994 and constituted a massive expansion of activity over the three programmes it replaced. Its introduction was on a huge scale that had immediate ramifications, for example in both crowding out other activities of the public employment service (Goodbody, 1997:112) and stimulating huge activity in the voluntary/

community sector. Within nine months, CE was offering 40,000 places – the three programmes for which it substituted had catered for 21,000 participants between them – and was the major State programme for the long-term unemployed, capable of absorbing a significant proportion of all the LTU. It underwent a major revision in 1996, and is currently undergoing a second. The 1996 revision was fundamentally to secure a refocusing on the long-term unemployed as people of relatively short unemployment duration were significantly present on the programme. The 1999 revision is primarily refocusing on people aged 25 and over, a restriction that will affect, in particular, young lone parents in urban areas whose participation increased dramatically from 1996 onwards in response to favourable financial incentives. The 1999 revision is also reducing the overall scale of CE in response to the high level of aggregate labour demand.

TABLE 9.17

Likelihood of CE participants being employed 1.5 years later, 1990-1997

Year	1990	1992	1994	1996	1997
%	22	14	18	36	34

Source: Deloitte & Touche (1998), *FÁS Follow-Up Survey:* Table 6.1
Note: Employment here does not include participation on a new CE or roll-over on an existing one.

CE has been described and analysed in several key reports (for example, ESF Evaluation Unit, 1995; Task Force on LTU, 1995b; Goodbody, 1997; Honohan (ed), 1997; Deloitte & Touche, 1998; ESF Evaluation Unit, 1998). We do not rehearse the arguments here but note that evaluation of the CE must take into account several key factors. Two are regularly adverted to. First, the number of participants who progress into mainstream employment must be assessed in the light of what their particular chances would have been without the programme, and whether they themselves or their sponsors were actively seeking such progression. Second, changes in the placement rate from year to year (Table 9.17) may reflect variously the impact of changed eligibility requirements, improvements to the quality of the programme, or wider national developments.

Third, there is no evaluation of CE 'outcomes' reflecting the dual main objectives of the programme. An assessment is commonly missing of the value of the services and, thus, of users' satisfaction that arise from CE-funded projects, many of which are specifically about meeting a local need. As for the reintegration objective, an assessment is also frequently lacking of the quality of the outcomes to which participants progress (for example, the duration and wage levels of employments secured).

Given this context it is important to note the following factors. First, the CE programme undoubtedly attracts a hugely disadvantaged section of the national workforce. Many of its participants have weak formal education, have had a long dependence on social welfare, and have low personal expectations. This reflects the tighter targeting undertaken in 1996. Many CE participants, therefore, are individuals who could be very hard to reach in other ways. This suggests that, other things being equal, it is worthwhile staying with the challenge of further improving the quality of CE and increasing the resources per capita needed to do this.

Second, CE was introduced and revised in a context of a consensus that a significant number of long-term unemployed people would not be needed for and/or would not be capable of holding jobs in the mainstream economy (e.g. Task Force on LTU, 1995b). Different streams were introduced within CE in 1996 to reflect this understanding. However, the national evaluations of participants' experiences undertaken to date do not allow any conclusion to be drawn as to whether participants on the Integration and Job Option streams experience their respective programmes differently, or even share the fundamentally different assessment of their prospects which underlie them (see the surveys of participants in Deloitte & Touche, 1998, and ESF Evaluation Unit, 1998). In other words, a major difference in the conceptions of the two streams is not 'tested' in any way on the motivation and experience of the participants. The current strength of aggregate labour demand in the economy and the signs of a stronger social dimension in the corporate strategies of large private sector companies suggest greater caution now in classifying potential CE participants as ‘unemployable’ in the mainstream economy.

Third, there has always been a tension in the CE between the objective of helping individuals re-integrate into the mainstream economy and that of supporting local organisations. The rapid expansion of the CE scheme has been primarily due to an alliance of interests between the authorities faced with a major unemployment problem and organisations based in disadvantaged areas seeking to increase the level of services and resources within those areas (see for example, Dineen, 1998).

9.4.2.2 Community Employment and the Social Economy

The vibrancy of the current labour market and the 1996 changes to the CE criteria have contributed to a significant decrease in the numbers of CE participants in many areas. This success has meant that meeting the reintegration objective of CE programmes is becoming more demanding and the need for review of traditional approaches more pressing. The introduction of a new social economy stream is an acknowledgement of this. It is probable, however, that the distinction between those sponsors dedicated to exploring the social economy and those committed to the integration objective is now so central that two wholly independent programmes are called for. This would finally free the integration option of the current CE programme from the ambiguity that has constantly attended its implementation. The Council recommends continuous evaluation of the CE programme in terms of how it meets the activation and training needs of various categories of unemployed people as well as community needs.

It is clear that the CE programme has functioned in many instances as a support to economic activities with primarily social objectives, that is in a social economy capacity. The concept of the social economy was given a strong endorsement in the EU White Paper of 1993 which considered that there was considerable scope for the authorities, through “tax exemptions, public/private partnerships, part work and part income support models, to engage people, voluntarily, in actions which close the gap between people wishing to work on unmet social needs" (European Commission, 1993: 134).

The *Report of the Partnership 2000 Working Group* (SEWG, 1998) usefully provides a typology of social economy enterprises, namely community businesses, deficient demand social enterprises, and enterprises based on public sector contracts. It is clear that some fundamental factors are common to these otherwise disparate types of activity, principally they are located between the public and private sectors and engage in activity to meet social objectives. This part of the social economy has two main objectives: to provide services to disadvantaged communities and to generate employment opportunities and experience for long-term unemployed.

The obligation to offer an integration path to the mainstream economy is not lessened by the decision to properly resource a social economy initiative. In fact, the view that social economy projects can be particularly appropriate to employing individuals suffering, or at risk of, social exclusion needs to be handled with acute care. Social economy projects must be based on a clear analysis of the market failures that are seen to be creating their niche between the conventional public and private sectors. For example, the principal reasons for market failure include the following:

- while positive externalities attend the consumption of a particular service, the users have insufficient disposable income to cover the full costs of providing it (for example, childcare services to single parents enabling more of them to take jobs, the insulation of homes of the elderly with low pensions, etc.);
- while positive externalities attend the employment given through providing a service, what end-users are willing to pay for the service is insufficient incentive to provide it (for example, the fiscal subsidies to home services given through Belgium's *Agences Locales d'Emplois* (ALEs) and Frances's service cheques);

- while one or both types of externality might exist, the collectivity in question which reaps the benefit (thus, the number of people in the ‘community of interest’ or the size of the local community) is so small that the level of service provision cannot hope to reach a break-even point (for example, local transport services, neighbourhood security, etc.).

The greater is the consensus on the social utility of the services being provided, the clearer and better is the status of the employment generated and the easier it becomes to attract and retain workers. In several countries, a clear conflict of interest has not been resolved between expanding the provision of services whose consumption is considered to bring significant – if local – externalities, and providing employment within the capacity of the long-term unemployed which enable them to enhance their skills. As with all labour market programmes including CE it is essential that social economy projects be consistently evaluated to ensure that they are meeting the dual needs of participants and communities.

The Council supports the commitment in the 1999 Irish Employment Action Plan to introduce a dedicated Social Economy Programme and recommends that the programme have two explicit streams: one to support organisations developing services that aspire to be commercially viable, and another to support organisations that address community needs but which despite support from other sources, are not self-funding. Where CE is currently being used to provide essential mainstream services, their continuation should be secured through funding from the appropriate Department or agency.

9.4.3 Training

Of the total outflows from the LR analysed in Table 9.15, some three per cent are accounted for by people going into training or education. This must be regarded as disappointing and confirms that there remain huge challenges in bringing training and education to the section of the population that, arguably, needs it most. The table confirms a situation on which there is considerable consensus, namely, people who are long-term unemployed are generally participating in programmes with the weakest labour market linkages (O'Connell and McGinnity, 1997).

The 1998 Employment Action Plan noted that just over 11 per cent of people on mainstream training were long-term unemployed; it considered this to partly reflect "a tendency (and frequently a preference)" for older long-term unemployed individuals to focus on programmes offering work experience or subsidised work (Department of Enterprise, Trade and Employment, 1998: 25). The evidence suggests that this tendency/preference is due primarily to a combination of the perceived lack of credibility of training and the greater financial attractiveness of non-training alternatives.

FÁS has published an Action Plan for the Long-Term Unemployed in response to the Government's decision to give greater priority to training programmes relative to employment programmes for the LTU. It is now committed to increasing the proportion of its trainee intake from the LTU to 21 per cent by the end of 1999. It is also supporting research into why the take-up of its training by LTU is low and will use the research to modify the design of training provision (FÁS, 1998:7). The ESF evaluation team, for example, have raised important questions here: are formerly long-term unemployed people dispersed through FÁS courses getting the additional supports they need to raise their performance? Is placement in a company an important contributor to success for them? It is clear that FÁS has set itself a very substantial target; the 16,457 long-term unemployed people it proposes to route through the different programmes it supports and into employment are, approximately, between one-fifth to over one-third of the stock of LTU in mid-1999 (depending on whether the LR or ILO count is used). However, it is also clear that the CE programme retains a dominant role in the realisation of this goal; some 63 per cent of the total outcome hinges on it. CE is a FÁS programme, of course, only in an indirect sense; progression achieved via it can validly be claimed by the sponsoring organisations themselves (and is, also, frequently claimed by Area-Based Partnerships). This makes clear that the stated intention of the authorities to shift the emphasis in provision for the long-term unemployed from direct employment programmes to training either has a very long way to go or involves substantially improving the training content of CE so that it more resembles being trained in and through a job placement.

9.4.4 Transfers to Other Welfare

We see (Table 9.15) that six per cent of all exits from the Live Register constitute a transfer to other forms of welfare (seven per cent for women, seven per cent for men). For those with the longest durations, however, this rises to over 14 per cent, a proportion marginally greater than that accessing labour market programmes. Of those transferring to other welfare, approximately one-half are doing so for what can be characterised as health-related reasons, with transfers to disability benefit being the most common; another quarter have age-related reasons, principally individuals opting for early retirement; the last quarter have reasons related to having or caring for children, principally women moving onto the One Parent Allowance (Table 9.16). The absolute numbers involved are modest and, we suggest, constitute no evidence of widespread 'welfare shopping'. That, for example, some seven per cent of those who had been on the LR for over three years and are leaving it should be transferring to a health-related benefit and under four per cent to a pre-retirement allowance does not appear unreasonable given what is known about the age and socio-economic background of the long-term unemployed. The two tables suggest that the 'gateway' aspect of the LR applies to other types of welfare as much as to labour market programmes where the very long-term unemployed are concerned. Fitz Gerald *et al.,* (1999) consider that profiling the older people a long time on the LR should be motivated as much by a concern to redirect individuals to more appropriate forms of support as to police entitlement, and commend submissions made by two Government Departments to the National Development Plan in this regard.

9.4.5 Ending Entitlement

Table 9.15 shows that 13 per cent of all claim closures were because, for one reason or another, entitlement to 'sign on' simply ended; the figure is 12 per cent for those with the longest durations. Of these, Table 9.16 shows that almost one-half were due to the means test (not transferring to Unemployment Assistance after the exhaustion of entitlement to Unemployment Benefit is interpreted in this light). These can, therefore, be regarded as exits that were, at least, not into financial hardship. One-fifth were because people had emigrated and only one-quarter are due to the administrative application of the criteria that people should be available for work and actively seeking work (thus, three per cent of all claim closures). This provides some solid indication of the relative contribution that tighter controls may have been making to the reduction in the LR. Given the total absence of information on what might lie behind the 16 per cent of claim closures for which no reason is stated, it is not possible to attribute – on the basis of this evidence – any substantial part of the reduction in unemployment to the tightening of controls. The OECD cite different data, however, and claim a substantial role for the systematic interviewing of all unemployed people under 25 years who are approaching the six-month duration threshold.“Very preliminary indications are that a surprisingly high share of these cases can be dealt with in this fashion: nearly half either failed to attend the interview or refused the intervention, and 28 per cent were struck off the rolls either because of a voluntary departure or because they had accepted a job or training place” (OECD, 1999b:127). In the current context of exceptionally strong aggregate labour demand, claims that tighter controls are contributing significantly to the reduction in unemployment need to be more carefully made; it is crucial to establish a clear picture of what is likely to have happened in the absence of the tighter controls.

9.4.6 Early-School-Leavers

Early-school-leaving has been a growing policy concern in recent years. While their numbers have been declining, the prospects facing those who still do – and that of the stock left over from previous outflows which they join – have steadily deteriorated. Ireland, in fact, has a unusually high incidence of LTU among those under 25. Table 9.18 shows the substantial rise between 1991 and

1997 in the likelihood of an unqualified school leaver being unemployed one year after leaving school; it rose from 42 to 59 per cent. The already extensive 1991 gap between their prospects and those of holders of a Leaving Certificate widened further: 86 per cent of the latter progressed to a job or further education a year after leaving school in 1996 compared with 34 per cent of early-school-leavers. However, there is also a growing percentage of early-school-leavers now participating in a scheme (25 per cent of those unemployed in 1997 were on a scheme). The table further shows the virtual disappearance of emigration among them, which is welcome, and the dwindling prospect that they return to education, which is not.

TABLE 9.18

Economic Status of School Leavers by Level of Education, 1991-1997

	No Qualifications		**Junior Certificate**		**Leaving Certificate**		**Total**	
Year left school	89/90	95/96	89/90	95/96	89/90	95/96	89/90	95/96
Year of survey	1991	1997	1991	1997	1991	1997	1991	1997
	%	%	%	%	%	%	%	%
Employed	45.0	33.1	60.9	61.1	33.4	37.5	39.4	41.3
Unemployed	42.4	59.1	23.6	23.4	8.5	7.5	13.7	11.5
(on schemes)	(12.6)	(24.8)	(5.1)	(3.7)	(1.6)	(0.7)	(3.1)	(1.9)
Student	1.5	0.8	3.6	10.4	46.4	48.8	35.2	41.2
Unavailable for work	6.4	6.5	1.9	3.9	1.4	2.6	1.8	2.9
Emigrated	4.6	0.4	9.9	1.2	10.4	3.5	9.9	3.4
	100	100	100	100	100	100	100	100
Total Number	4,600	2,200	12,800	10,800	49,900	55,800	67,300	68,900

Source: Collins and Williams (1998) *1997 School Leavers' Survey*, Dublin: ESRI.

The Department of Education and Science is currently seeking to stem not just the outflow of early-school-leavers, in the sense of those leaving without a Junior Certificate (it estimates 1,000 do not transfer from primary school while a further 3,000 leave before their Junior Certificate) but also the 6,000 to 7,000 who leave after their Junior but without the Leaving Certificate. It estimates the current retention rate to the Leaving Certificate at 83 per cent overall and acknowledges that pushing that to 90 per cent is going to require increasingly intensive and tailored resources. Ironically, the very strength of aggregate labour demand may already be making this objective of retaining Junior Certificate holders until their Leaving Certificate more difficult. “The increase in the returns to Junior Cert education between 1987 and 1994 indicate a growth in demand for such workers. Preliminary data for 1994-96 suggest that the average growth in hourly earnings for workers with Junior Cert qualifications was substantially higher than for any other education category” (Collins and Williams, 1998: 38). Sexton, Frost and Hughes (1998) estimate that net new jobs for young people with Junior Certificate qualifications will increase by 14 to 19 per cent between 1995 and 2003. In short, the current demand in the economy today for young workers with good literacy and social skills is acting in some instances as a type of perverse incentive, one that is leading to under-investment in education and sowing the seeds of the long-term unemployment of the future. In this context, the introduction of the minimum wage is considered by some to constitute a further incentive to young people to curtail their education (OECD, 1999).

The 1998 Irish Employment Action Plan committed the Government to prioritising early education and offering an attractive range of choices that will motivate young people to stay in school to completion of senior cycle. Several actions are outlined in the 1999 Action Plan, including the Early School Leaving Prevention Initiative (8-15 years old) and several reforms within the education system such as the Junior Certificate School Programme, the Leaving Certificate Applied Programme, the Leaving Certificate Vocational Programme and a new Education Welfare Bill. The last will facilitate raising the school-leaving age to 16 or completion of 3 years of second level education, and proposes an Educational Welfare Service (EWS). It also proposes that where young people over 16 leave school early for employment, their employers register them with the EWS. Further responses to the challenge of the economic demand for young workers may need to be considered: for example, pioneering “novel forms of intervention”, which allow young people with only a Junior Cert to combine their job with training and mainstream education, may be necessary (FitzGerald *et al.*, 1999: 202).

9.4.7 Long-Term Unemployment in the Context of Skill Shortages

There is growing evidence that even with unemployment still close to six per cent, and long-term unemployment close to three per cent, employers are having difficulties in recruiting to relatively low skilled positions. Several complementary lines of explanation for this paradox can be advanced.

The nature itself of much 'unskilled work' may be changing; while not requiring formal qualifications it may yet need high standards of personal presentation and a good ability to deal with a wide public (e.g. customer service) in addition to good literacy and quick mental retention – these 'skills' cannot be presumed among a significant section of the older, male LTU. In addition, the hours and levels of pay entailed in some services jobs may make it much easier for a young, single person living at home or with friends to reconcile them with their personal life than for an older, family person who is LTU. Taken together, these two factors may mean that employers are simply drawing from a different pool of low skilled workers today, to that which older workers with basic literacy problems and established homes and families constitute. A third line of explanation is based on the residualisation process and anticipates that the proportion of the remaining LTU with serious personal and family problems (for example, substance abuse) has grown. A fourth line suggests that the relative generosity and laxity of the social welfare system and/or special employment schemes is making it preferable for the LTU to eschew jobs in the private sector that they could do because their current income and conditions attached to it are preferable.

Expressed in another way, these lines of explanation force the question: how far into the current stock of unemployed people should active labour market policy (ALMP) be expected to reach? Fitz Gerald *et al.*, (1999) interpret the empirical research as saying, first, that ALMPs with 'strong linkages' to the labour market work and, secondly, that those with weak linkages (which provide 'general' training or 'work experience in activities sheltered from market forces') have a place but within 'reintegration paths' that then culminate in programmes with strong labour market links. Otherwise they conclude "the research suggests that [the programmes] are unlikely to be of benefit to their participants" (O'Connell and McGinnity, 1997:202). In a similar vein, the ESF Evaluation Unit observes that current ALMPs for the LTU reflect a time of high unemployment with poor prospects for long-term unemployed people to gain employment, "with little serious attempt to encourage them to take up training or education programmes which would significantly improve their chances of gaining employment. … While the current balance of programmes is impressive in terms of quantity, it does not serve the long-term unemployed well in terms of quality" (ESF, 1998: 146).

It is clear that study of the apparent mismatch between the LTU and the relatively low-skilled jobs being thrown up by the booming Irish economy is urgently needed, and should properly be conducted before special employment programmes are assumed to be capable of major scaling back, or before activation measures are based on the assumption that there are jobs out there which older LTU can fairly be asked to hold. The obvious challenge is, where possible, to tailor training to suit the capacity of those individuals who are the LTU until they are able to meet the demands of the jobs to their own and their employers' mutual satisfaction.

9.4.8 Recommendations on Unemployment

A key theme of our analysis of unemployment is the changing context within which policy is now being formulated. Most of the policies and programmes now in place were developed in the context of high unemployment and weak labour market conditions of the 1970s and 1980s. The context is now considerably changed to one of skill and labour shortages co-existing with continued unemployment, albeit unemployment that is low by historical and comparative standards. Some programmes have been adapted, but is this sufficient to meet current needs? In this context the Council makes recommendations relating to:

- evaluation programmes;
- the transition from unemployment;
- failure to make the transition from unemployment; and
- the prevention of unemployment, including unemployment traps.

9.4.8.1 Evaluation of Programmes

Given the importance of evaluating the effectiveness of policy initiatives and their outcomes for participants, the Council strongly urges closer monitoring of all programmes in terms of meeting the needs of the current cohort of long-term unemployed people and labour market opportunities and demands. There is already considerable commitment to evaluation in EU funded programmes – such an approach should characterise all programmes as should a commitment to act on recommendations. This is particularly important in regard to the mainstreaming of successful pilot initiatives.

9.4.8.2 Transition from Unemployment

There is little information on the destination of those who move out of long-term unemployment. This is particularly the case for those who move into employment either directly or through employment schemes such as CE. Allied to the former recommendation, the Council recommends a longitudinal analysis to assess people's eventual destination and whether existing active labour market policies contribute as much as possible to social inclusion. This information is important for the development of the most appropriate measures to ensure successful labour market transition.

9.4.8.3 Failure to Make Transition from Unemployment

In view of the paradox of high unemployment co-existing with labour shortages, what can policy do to help those long-term unemployed people who are not making the transition to the positions that currently exist? The Council supports measures to develop clear progression pathways for the long-term unemployed. In this regard, existing programmes may not be appropriate for particular sub-groups of the long-term unemployed. There may need to be greater attention to core skills including literacy and numeracy training, as well as general skills such as good presentation, oral skills and confidence-building. Training programmes should be developed that include a combination of formal training activity and work experience to ease the transition into work. FÁS or the Local Employment Service (LES) should continue contact with those people they have placed who have been long-term unemployed for a set period even after they have secured employment.[14] The Council recognises that for reasons of age, educational background and distance from the formal jobs market, it will still be necessary to provide supported employment opportunities either through Social Economy or other options for some long-term unemployed people and others with special needs.

9.4.8.4 Reducing the Risk of Unemployment

Since the most effective policy on unemployment is its prevention, the Council strongly supports the initiatives in this area taken by the Department of Education and Science and recommends innovative approaches to tackling the educational and training needs of early-school-leavers in the workforce. This will necessitate a joint approach by the social partners, the Department of Education and Science and the Department of Enterprise, Trade and Employment. These programmes must also address the needs of those young people who are drawn out of the education system prematurely into short-term employment and who become unemployed after a short period out of the educational system.

14 The Employment Services of FÁS and the LES are now integrated – the LES operates in 25 areas and its expansion is being considered.

9.4.8.5 Unemployment Traps

Despite the increasing demand for labour and the actions that have been taken to eliminate unemployment traps the Council is concerned that there may still be traps that militate against participation in training and employment for certain categories of the population – for example particular groups within the category of adults in households with children, such as those on rent supplements, or those where the spouse of an unemployed person takes up part-time work. In view of this the Council recommends that the evidence for poverty and unemployment traps be sought and action taken to eliminate them. In this regard greater attention needs to be given to the incentive effects of housing subsidies such as rent/mortgage supplements. This may need to be given greater priority in the context of the increased housing crisis.

9.5 CONCLUSIONS

This review of poverty, unemployment and social exclusion has concentrated on national data, and on the programmes and policies where the assumptions and/or outcomes need particularly close scrutiny in the light of the current unprecedented employment expansion. We draw three final conclusions here.

First, Ireland has moved from a long period during which social policy was essentially about managing the fall-out of high unemployment to an era where social policy can be based on an assumption of near full-employment, and be geared to helping maintain it. The full extent of how thinking, behaviour and institutions were shaped by an apparently intractable situation of chronic labour surplus may only now be coming to the fore; for example, the view that a significant proportion of unemployed people had no real future in the mainstream economy is no longer valid. Active labour market programmes enjoy particular advantages in a context of rapid employment growth and low levels of unemployment. For example, the availability of jobs makes it easier to secure progression out of programmes and enhances their credibility with participants; diminishing case loads and a lower level of demand on the statutory services enable a more client-centred approach, better monitoring and supervision, and a general improvement in the quality of services; morale improves among service providers and service users; a reduction can take place in the complexity of special programmes; employers facing labour shortages are more open to being involved in tailoring training and work experience to people who have been long-term unemployed; lower demand makes it easier to fund programmes at a level which enhances their effectiveness; and so on.

It is important to be aware of the extent to which the same actors and institutions are coping with two wholly dissimilar contexts. Attitudinal and institutional adaptations to the era of chronic labour surplus that took place over a long time may be among the obstacles to seizing the opportunities presented by rapid economic and employment growth today.

Second, several pieces of the evidence reviewed (not to mention international experience) suggest that further reductions in, for example, unemployment, poor educational attainment and income poverty will be more difficult to achieve than the reductions recorded to date. A basic residualisation seems to take place in several areas of social policy as those most accessible and responsive in a client pool are the first to benefit and an underlying heterogeneity in the population is only slowly revealed. The personal, family and locational characteristics of those continuing to experience social disadvantage make them less amenable to benefiting from the measures which served the better placed among them relatively well.

In conclusion, action to combating poverty and enhancing employment are central to the Council's commitment to pursuing social inclusion as a strategic objective in its own right. The Council believes that this action must be paralleled by full implementation and monitoring of all interventions in these areas and the establishment of a strategic framework for action on equality as outlined in Chapter 2. The considerable range of initiatives that have already been taken must be fully implemented and new initiatives implemented where necessary and appropriate.

APPENDIX

TABLE A9.1

Indicators of Style of Living and Deprivation in 1994 and 1997, Living in Ireland Surveys

1	New Not Second-hand Clothes
2	A Meal with Meat, Fish or Chicken Every Second Day
3	A Warm Waterproof Overcoat
4	Two Pairs of Strong Shoes
5	A Roast or its Equivalent Once a Week
S	A Week's Annual Holiday Away from Home
S	To be able to Save Some Income Regularly
S	A Daily Newspaper
S	Telephone
S	A Hobby or Leisure Activity
S	Central Heating
S	Presents for Family and Friends Once a Year
S	Car
H/D	Bath or Shower
H/D	Indoor Toilet
H/D	Washing Machine
H/D	Refrigerator
H/D	Colour Television
H/D	A Dry – Damp Free Dwelling
6	Had day in the last 2 weeks without a substantial meal*
7	Had to go without heating during the last year through lack of money*
S	Was not able to afford an afternoon or evening out in the previous 2 weeks*
8	Experienced debt problems arising from ordinary living expenses or availed of charity*

*Presence rather than absence of these items denotes deprivation.
1 – 8 = Basic dimension
H/D = Housing Durables Dimension
S = Secondary
Source: Callan *et al.*, (1999): 36.

TABLE A 9.2

Average Weekly Household Equivalent Income, Living in Ireland Surveys, 1994 and 1997

Equivalence Scale	Income per adult equivalent averaged over households Estimate	
	1994	**1997**
	£ per week	
A (1/0.66/0.33)	128.94	156.96
B (1/0.6/0.4)	130.90	159.68
C (1/0.7/0.5)	121.36	148.49
	1994	**1997**
	Range Depending on Equivalence Scale	
40% Relative Income Poverty Line	£49 – 52	£60 – 64
50% Relative Income Poverty Line	£61 – 65	£74 – 80
60% Relative Income Poverty Line	£73 – 79	£89 – 96

The Department of Social, Community and Family Affairs accepts equivalence scale A, that is, 1.0 for first adult in household, 0.66 for other adults and 0.33 for children under 14. Using this scale 50% of the income per adult equivalent averaged over households in 1997 was £78.48. Using the increase in average industrial earnings for 1997-98 (4.7%) and for the first quarter 1998 to first quarter 1999 (4.1%) yields a 50% Relative Income Poverty Line of £85.52 in 1999. This is a conservative uprating since it does not include the impact of tax changes on take-home pay. Most long-term Social Assistance personal rates are £73.50 in 1999/2000 [Table 9.4(i)] that is £12.02 or 16.4% less than the estimated 50% Relative Income Poverty Line. The corresponding figure for 1997 is 16.3%.

CHAPTER 10

A STRATEGY FOR IMPROVED INFRASTRUCTURAL DEVELOPMENT

10.1 INTRODUCTION

This Strategy report is based on an appreciation of the achievements and successes of Ireland over the last decade but also a recognition that there are a number of areas that have not kept pace with the overall rate of development. Of these, infrastructural development is probably of most concern because of its pervasive impact. Deficient infrastructural development impacts on the economy through its effects on competitiveness, labour shortages and attraction for foreign investment. It impacts society by restricting choices such as residential, commuting, work, education and other lifestyle decisions. It is a source of social exclusion, reinforcing the effects of other social problems. It also determines the natural balance of a country's development on many levels, for example, urban-rural development, international-national-regional-local development and integration. In recognition of these, the Council identifies infrastructural development as a priority issue that requires urgent attention over this Strategy period.

This chapter adopts a strategic focus in examining the infrastructure challenges facing the economy. We do not dwell on the identification of specific areas where infrastructural development is required. A number of reports have been published in recent months (including the National Development Plan) that examine infrastructure deficits on a sector by sector basis and we take their analysis as a given.[1] This allows us to step back and examine the bigger question of how to actually proceed with the infrastructural development that is necessary.

This also means that we define infrastructure very broadly. It includes what are generally termed economic infrastructure (e.g.

1 We summarise the main points of the National Development Plan and identify *broad* areas for infrastructure investment in Section 10.3.

transport, roads, telecommunications, utilities), social infrastructure (e.g. schools, hospitals, childcare) and community infrastructure (libraries, community halls, civic amenities). However, this typology can be limiting. It presupposes a divisibility of development objectives that does not hold in practice. Thus, while the construction of new roads clearly has economic objectives in terms of linking businesses to their markets, it also has important social objectives in terms of integrating communities and regions. Equally, community infrastructure not only contributes to a dynamic and vibrant local life, it also fosters economic development and growth by making villages, towns and local areas more attractive places in which to live and work. This will in turn relieve congestion and its attendant economic and social problems (for example traffic congestion, inadequate housing) in more well-developed areas.

By definition, therefore, we consider infrastructure to be all physical construction that underpins the economic and social life of a community. We argue that while different infrastructure types exist, they are mutually interdependent and should be planned and provided for in a cohesive and co-ordinated manner. And, importantly, what links the physical construct to the community is the service that it provides. Indeed, as experience with Public Private Partnerships has tended to show, an emphasis on the delivery of services can lead to the most effective infrastructure provision.

The chapter proceeds as follows. Section 10.2 analyses the range of concerns currently being expressed about infrastructure. Drawing on the National Development Plan, Section 10.3 provides a brief summary of the infrastructural deficits both in terms of necessary expenditure and recommended priorities. The section concludes by summarising Council priorities for infrastructural development. Section 10.4 defines the principles that should underpin future infrastructural development in Ireland. In Section 10.5, we make the case for a National Spatial Development Strategy, which we argue is the most effective way to ensure co-ordination of infrastructural development. However, improved infrastructure requires more than additional expenditure and better planning. It is also about managing our existing infrastructure more efficiently. Section 10.6

briefly explores some options for boosting efficiency in infrastructure service and provision. Section 10.7 examines the role of Public Private Partnerships in future infrastructural development in Ireland. Conclusions and recommendations are presented in Section 10.8.

10.2 THE RANGE OF CONCERNS

10.2.1 Infrastructural Deficits Constrain Growth

Infrastructure presents a key challenge to the Irish economy. This is not only recognised among different disciplines and the social partners, but is debated increasingly by citizens in the light of their experience. After five years of unprecedented expansion, the economy has outgrown its infrastructural base. Estimates of the infrastructure deficit range from £14 billion (Fitzpatrick Associates, 1998) to £18 billion (Fitz Gerald *et al.*, 1999) to £22.5 billion (Government of Ireland, 1999a).[2]

Empirical research in other countries has consistently demonstrated the link between infrastructure and the economic growth rate (see for example, Barro, 1990; Aschauer, 1989; Sturm, 1997). There is also evidence that investment in infrastructure aids spatial development by allowing a more efficient production structure (in terms of the separation of economic activities) to develop (Bougheas and Demetriades, 1996). Studies have also highlighted the importance of a high quality infrastructural base for attracting foreign investment (Coughlan *et al.*, 1991; Taylor, 1992).

These research findings are confirmed by more anecdotal evidence. For example, the importance of infrastructure to productive capacity was demonstrated in a recent survey commissioned by Forfás for the National Competitiveness Council. More than half of the firms surveyed stated that the poor quality of road infrastructure in Ireland was having a negative effect on their operations (Irish Marketing Surveys, 1998). Indeed, the National Competitiveness Council has identified transport infrastructure and telecommunications as the

2 See Section 10.3 of this chapter.

most important infrastructure influences on competitiveness. While significant improvements have been made in Ireland's road infrastructure, further investment is required. The lack of an adequate public transport system is also a significant deficiency, contributing to traffic congestion and restricting employers and employees choice of work locations. Many of the international service industries that Ireland has developed over recent years are heavily dependent on the quality and cost of our telecommunications infrastructure. Rapid progress and development in this area means that continued investment is required just to maintain our present position.

In other respects the relatively poor position of Ireland's infrastructure – in the form of the quality of cities and shared amenities – is a reflection of underdevelopment over many years. Moreover, the approach to new infrastructural projects has sometimes led to the careless destruction of irreplaceable parts of the national heritage. Ireland now faces choices that were not available in the past to the extent that growing income provides the platform for creating 'public' wealth and public goods as distinct from the purely private forms of wealth that can accrue from the growth of solely private incomes.

10.2.2 Social Concerns

The social dimension of infrastructure encompasses both the provision of social and community infrastructure (such as education, health, childcare, social and recreational services), and the planning of all physical infrastructure and utilities. In the past, insufficient attention has been paid to the social impact of physical planning. This is reflected in the way Irish cities and suburban growth patterns have evolved. Inadequate planning is a culprit in the genesis of inner city and suburban 'blackspots' as much as the income poverty of those who inhabit these areas.

Very often the spatial polarisation in cities directly reflects the segregated provision of social housing in inherently less favoured locations (Power, 1997). A further compounding factor is that social housing has often been provided without the required service input of estate management. This has contributed to localised, but major, problems in several local authority housing areas (Fahey, 1998).

Apart from these polarisation effects, there are more pervasive problems of marginalisation for social groups, such as people with disabilities, women and parents with toddlers, because it is more difficult and sometimes considered less cost effective to adapt transport and the built environment to these users in poorly integrated, low density cities and towns. Some of the consequences are described in detail in the report of the Commission on the Status of People with Disabilities (1996).

Just as economic infrastructure has a significant and indirect influence on social inclusion, there are – apart from direct social benefits – significant indirect economic effects and benefits arising specifically from social and community infrastructure. Such infrastructure fosters the potential that exists for community, voluntary and private/informal contributions to social well-being. But beyond that, social and community infrastructure can contribute to economic growth through the development of human and social capital and, as in the case of childcare infrastructure, by releasing untapped supplies of labour and enterprise. Indeed such factors are critical in a new definition of societal change and adjustment.

A further social concern is that new technology infrastructure could accentuate existing divides between the poor and the majority. Access to information technology is currently unequal.[3] It is important, both for equity and for the indirect efficiency gains referred to above, that public policy interventions ensure that such concerns are addressed. This is touched on in the Statement of the National Competitiveness Council on Telecommunications which recommends targeting of EU structural funds to rural areas and poorer regions where market failure might result in new forms of social marginalisation.[4] In addition to such targeting of EU funds,

3 Access to basic telephone communications may still be a problem for poorer social groups.

4 Some of these issues are currently being debated in Europe where discussion is taking place about the establishment of new rights of access to new services that are in the public interest.

appropriate provision, incentives or regulatory measures need to be considered based on national resources (National Competitiveness Council, 1998b).

10.2.3 Environmental Concerns

Infrastructural investment may make economic growth more sustainable, but that is not necessarily the same as environmentally sustainable development. Making growth sustainable may mean many things, such as removing labour supply or infrastructure bottlenecks, avoiding fiscal imbalances and improving industrial policy. Environmentally sustainable development, on the other hand, entails taking full account of the external costs of natural resource depletion and destruction of the environment that sustains not just economic growth but health, well-being and ultimately life itself (Scott, 1996).

Merely adapting infrastructure to accommodate growth of GDP is not sufficient. Infrastructural development may either contribute to the goal of environmental sustainability or take from it. There is increasing awareness of the environmental consequences of many economic activities, including certain types of infrastructural provision (such as transport and energy). Importantly, in relation to greenhouse gases, the Kyoto Protocol requires that countries no longer pollute the atmosphere without restriction. This will pose very exacting standards on Ireland where the emissions target must be met in the context of continuing hopes for high levels of economic growth.[5]

Apart from the greenhouse effect, there is much evidence that although Ireland lacks the level of infrastructure of its more developed neighbours (and has therefore not ‘interfered’ as much with the environment), it often falls behind them in relation to the goals of environmental sustainability, as, for example, in relation to

5 Under the Kyoto Protocol, Ireland has a legally binding target to limit growth in the emissions of a basket of greenhouse gases to 13 per cent above 1990 levels, during the commitment period 2008-2012. Growth in these emissions would be approximately 28 per cent above 1990 levels under a ‘business as usual’ scenario.

waste recycling or water usage. It is critical that infrastructural investments be undertaken in line with national policy on sustainable development and that established cost/benefit analytical procedures be used. This is the basis for good policy and good practice in a period of infrastructural development.

10.3 INFRASTRUCTURAL DEFICITS

The Government published the National Development Plan (NDP) for the 2000 to 2006 period in November 1999 (Government of Ireland, 1999a). Publication of the NDP follows consultation with the social partners and other interested groups and inputs from a number of recent reports including the ESRI report *National Investment Priorities for the Period 2000-2006* (Fitz Gerald *et al*., 1999) and the Fitzpatrick Associates reports on the investment needs of the Southern and Eastern region and the Border, Midland and Western region (Fitzpatrick Associates 1999a; 1999b). This section summarises Ireland's infrastructural deficits and the priorities identified in the NDP. The section concludes with a brief summary of Council priorities for infrastructural investment.

Table 10.1 gives a broad estimate of the cost of the infrastructural investment priorities identified in the NDP. In total an estimated £22.5 billion will be invested in physical infrastructure over the 2000 to 2006 period, covering a range of infrastructure types from economic to social infrastructure, with special provision for regional needs.

TABLE 10.1

National Development Plan Proposed Investment in Physical Infrastructure, 2000-2006

Category	**Total Investment 2000-2006 (£million)**
National Roads	4,700
Public Transport	2,234
Water and Waste Water	2,495
Coastal Protection	35
Energy	146
Social and Affordable Housing	6,000
Health Capital	2,000
Education and Training	1,663
Regional Infrastructure:	3,252
Waste Management	650
Telecommunications	120
Non-National Roads	1,600
Rural Water	420
Ports & Airports	60
Cultural & Recreational	402
Total	**22,525**

Source: Government of Ireland (1999a), *Ireland National Development Plan 2000-2006.*

10.3.1 Housing[6]

Investment in social and affordable housing represents the single largest infrastructure component of the NDP. It is also the first time that housing has been included in the NDP, reflecting the current housing shortage and affordability difficulties in Ireland. The NDP proposes to increase the local authority housing programme by about 35,500 over the 2000 to 2006 period, to substantially expand voluntary housing activity from the current level of 500 to 4,000 units per year and to provide up to 2,000 units per year under the

6 Chapter 11 analyses the housing sector in more detail.

local authority affordable housing scheme and shared ownership schemes. The NDP also recognises the importance of underpinning future housing development by integrated infrastructural investment in water, roads, public transport and social and community infrastructure.

10.3.2 Transport

Roads and public transport are identified as a top priority for future investment. The NDP commits approximately £4.7 billion to developing the national primary road network, focusing in particular on key national routes and the improvement of national secondary routes that are of critical importance to economic and regional development. A further £1.6 billion will be invested in non-national roads as part of the regional programmes.

The NDP provides £2.2 billion for investment in public transport, with nearly £1.6 billion of this set aside for the Greater Dublin Area. This investment will include expanding the capacity of the bus network, developing the LUAS light rail network and continued development of Dublin suburban rail. The NDP also commits to the development of greater public transport integration, improved traffic management measures and the completion of demand management measures as part of the update of the overall Dublin Transportation Initiative (DTI) strategy. The remaining £650 million will be devoted to regional public transport, mainly investment in the Railway Safety Programme and in a general mainline rail upgrading programme. There will also be funds for improvements in the regional bus network and provision for the development of pilot public transport initiatives in rural areas. Finally, the NDP commits to improving the accessibility of public transport for people with disabilities.

10.3.3 Environmental Infrastructure

Total proposed expenditure on environmental infrastructure (e.g. water and waste management) amounts to nearly £2.5 billion, with a further £1 billion for waste management and rural water measures as part of the regional programme and £35 million investment in coastal protection. These public investments will be supplemented by private investments as many of the waste management, water and waste water infrastructure projects are expected to be developed as Public Private Partnerships (PPPs). Much of the proposed investment is necessary to meet the requirements of EU Directives including the EU Urban Waste Water Treatment Directive (UWWTD) and the Drinking Water Directive.

10.3.4 Health Capital

The NDP allocates £2 billion to address the infrastructure needs of the health sector. Priorities identified include the provision of facilities for persons with an intellectual disability. Provision is also made for facilities for the elderly, accommodation for people with physical and mental disabilities and the upgrading of acute hospital infrastructure. Capital investment is also proposed to address specific child care needs such as the provision of high support units for ‘out-of-control non-offending children’ and accommodation for homeless children.

10.3.5 Education and Training Infrastructure

The NDP sets aside just over £1.6 billion to meet the physical infrastructure needs of the education and training sector. This will cover investment in primary and secondary level schools, further education centres and third level institutions, as well as FÁS capital stock. The NDP does not give much detail on specific infrastructure priorities but does highlight investment in information technology as an important component of the proposed expenditure.

10.3.6 Cultural and Recreational Infrastructure

The NDP provides £402 million for cultural and recreational infrastructure as part of the regional programmes. The inclusion of cultural and recreational infrastructure in the NDP follows recommendations by the ESRI investment report (Fitz Gerald *et al.*, 1999:178) on the need for investment in “shops, theatres, parks, public and historic buildings, and gardens etc. which turn isolated housing estates into working villages, towns or cities". Investments proposed under the NDP include the development of multi-purpose sport and recreational facilities either in association with the commercial private sector or with local community and voluntary groups.

10.3.7 Energy and Telecommunications Infrastructure

In the energy and telecommunications sector, much of the proposed investment will be made by the commercial private sector. The NDP allocates £146 million to the energy sector over the 2000 to 2006 period, primarily aimed at promoting energy efficiency and alternative fuels. Approximately £120 million is provided for investment in telecommunications infrastructure. Most of this is set aside for the development of advanced telecommunications in those areas such as the Border, Midlands and Western region where the market is unlikely to deliver sufficient investment. The NDP views this as essential for balanced regional development.

10.3.8 Conclusion

This section of the chapter has briefly summarised the main infrastructure investment priorities that are reflected in the NDP for the period 2000 to 2006. While it is clear that there are many areas of infrastructure that require investment, the Council views five areas of crucial importance: housing; public transport; roads; cultural and recreational infrastructure; and telecommunications infrastructure.

The priority that the Council attaches to developments in the housing sector is already reflected in the devotion of a chapter of this Strategy report to that sector. Council recommendations on housing are discussed in Chapter 11. As discussed in Section 10.2, economic, social and environmental concerns highlight the pressing need for investment in public transport. A top priority is further development of the suburban rail network in large urban centres and investment in demand and traffic management measures. Continued investment in the national road network is also essential to remove bottlenecks and reduce journey times that are frustrating both commercial and private road users and are undermining our competitiveness. The Council fully supports the identification by the ESRI (and subsequently adopted in the NDP) of cultural and recreational infrastructure as essential elements in the development of 'living' villages, towns and cities. This is also reflected in the Council proposal in Chapter 9 for a targeted special investment package designed to develop the infrastructure that will enable disadvantaged communities to harness the social capital necessary for economic, social and community development. Finally, if Ireland is to seize the opportunities of the information revolution, telecommunications infrastructure must be maintained and further developed. While much of this infrastructure will be privately financed, there remains an important public role in ensuring wider distribution of broadband access that will promote balanced regional development; continued support for the development of international connectivity links that are essential for the development of e-commerce; and improved provision of public services electronically (e.g. education services, virtual libraries, one-stop-shops) in order to ensure full and active participation by all citizens in the Information Age.

10.4 PRINCIPLES OF INFRASTRUCTURAL DEVELOPMENT

Increased investment in the public capital programme is necessary, but not sufficient, to address infrastructural deficiency. It may indeed be ineffective without the adoption of a principled new approach to the planning of infrastructure. The achievement through infrastructural development of economic, social and environmental objectives entails principles of comprehensiveness, co-ordination and a long-term approach. These principles are outlined below.

10.4.1 Comprehensive Objectives

The objectives of infrastructural investment and planning should be defined comprehensively. In brief, these objectives are to optimise economic performance, social inclusion and environmental sustainability. Obviously these objectives have a wider application in guiding public policy, and find expression in conventional policies that are aimed at stimulating economic development or growth, achieving a fairer distribution of the benefits of growth and protecting the environment for future generations. However, in the context of infrastructural investment policy, these objectives must find more specific expression.

10.4.1.1 Economic Performance

The objective of maximising economic performance requires that infrastructure contributes in an optimal way to the efficient movement of people, goods, services and information, particularly within and between urban centres, but also within rural areas. The efficiency of our transport system is a crucial variable here, as Ireland is competing against countries that have relatively better transport systems. Such countries provide more attractive locations for many key types of private investment and skilled labour. Competitive advantage depends increasingly on such factors.

10.4.1.2 Social Inclusion

While the importance of infrastructure to economic objectives is commonly recognised, the primary goal of social inclusion is often overlooked in relation to physical infrastructure. There is a tendency to identify more obvious types of social or community infrastructure in the context of social inclusion objectives, particularly in deprived urban or rural areas. However, the Council argues that good practice in physical planning contributes to social inclusion and cohesion. It is inevitable that once deprived areas have emerged, the primary focus is put on remedial inputs such as social services and community facilities. But in the first instance, it is through good town planning and the consequent development of physical infrastructure that policy makers should seek to avoid the emergence of pockets of deprivation. Promoting social inclusion through good town planning implies encouraging a social mix in housing, providing for appropriate estate management, ensuring co-ordination with other built capacity so that particular social groups, such as women, the elderly and people with disabilities, are not marginalised by lack of access to transport, shops, employment and so on.

10.4.1.3 Environmental Sustainability

Infrastructure has direct implications for physical aspects of natural resource use and hence directly alters the environment in many ways, positively or negatively. For example, changes in land use have a variety of serious environmental consequences ranging from the depletion of green belts surrounding urban settlements to potentially harmful effects of pollution locally, regionally and at the global level. Environmental sustainability is therefore an imperative for infrastructural planning and investment, in both urban and rural contexts.

10.4.2 Co-ordination and Integration

Undesirable short- and long-term consequences of component investment decisions should be avoided through greater co-ordination between the transport, housing, communications, water and other sectors. Infrastructural development entails something more than the volume growth of physical infrastructural components over the long-term. Successful infrastructural development involves achieving balanced and co-ordinated outcomes. Failure to co-ordinate the components of infrastructural development results in wasted capacity and bottlenecks, hampers the economic efficiency of firms in the movement of goods, and restricts public access to work and services. Consequential losses include environmental damage or wasteful depletion of natural resources, health damage, or access problems affecting vulnerable socio-economic groups in particular areas. Conversely, successful combination and integration of several infrastructural components at various geographic scales – whether national, regional, urban or local – will make a great difference to overall carrying capacity. Therefore, it is not simply a question of more capacity, but how intelligently the components are co-ordinated.

10.4.3 Long-Term Approach

Comprehensive infrastructural development entails cumulatively large scale changes to the built environment that are scheduled over a long time span. A long-term approach to infrastructural development requires a commitment to subordinate certain short-term or sectoral measures that might otherwise be undertaken, whether due to cyclical pressures in the economy or bottlenecks of a temporary nature, sectional interests or short-term political pressures. This requires a strong long-term commitment to land-use planning. In turn, this entails institutional capacity of a kind that has often been lacking.

For example, the current housing supply shortage creates pressures to provide housing on rezoned greenfield sites. This could lead to short-term decision-making that overlooks the potential benefits of higher density and mixed development in more strategic brownfield locations.[7] It is clear, however, that housing supply is inelastic and will take time to improve regardless of where it is located. All the more reason, therefore, to consider carefully the long-term logistical implications of low or high density development.

It is clear that in the current environment of severe infrastructural bottlenecks, it may be more difficult to adopt this third principle – 'long-termism' – of infrastructural development. However, adopting a long-term approach does not mean, and should not mean, taking a long time to make decisions and implement policy. All that it requires is proper consideration of the long-term impact of current and planned investment decisions to ensure that development matches expected needs and contributes to the achievement of stated objectives.

The principles of comprehensiveness, co-ordination and 'long-termism' are essential in the coming period. A simplistic emphasis on infrastructural investment merely to 'catch up' with the economic growth of recent years could lead to bad decisions and poorly co-ordinated infrastructural development not dissimilar to

7 Although the competition to secure appropriate brownfield sites for development is currently very intense.

some decisions taken in the past. There are lessons to be learned from past experience, such as the incremental expansion of housing and land rezoning in the 1960s and 1970s to provide additional accommodation for a growing population. While there were undoubted successes in the provision of quantities of new housing, there is now some acknowledgement of the downside of policies which, for example, often pitched families from inner city areas or rural communities into dispersed greenfield suburbs around Dublin, often in local authority estates, without adequate services or employment opportunities in the vicinity or adequate access to other parts of the city, and often without any sense of place or town identity (Bartley, 1996; Power, 1997; Fahey, 1998).

Past land zoning policies resulted in an expanding urban radius (most notably in Dublin) and declining population densities (Horner, 1998; 1990). Low density policies have consistently overridden policies based on compact urban planning. While they may offer some short-term attractions, this type of extensive development requires disproportionately greater investment in the suburban road system, in water supply services, drainage and other utilities than a more compact approach. The low density approach entails higher investment and maintenance costs of more dispersed networks. The dispersed road system also results in sub-optimal conditions for effective public transport. In these conditions, heavy reliance on the private car is inevitable, in turn laying the basis – as such car use increases – for congestion, pollution and related problems. There are signs that the Government is recognising the benefits of higher density policies. The Department of the Environment and Local Government published draft planning guidelines in March 1999 with a view to increasing residential densities. These are discussed in more detail in Chapter 11.

10.5 NATIONAL SPATIAL DEVELOPMENT STRATEGY

The Council argues that the most effective way of improving infrastructural development is through the adoption of a more strategic focus to the planning and management of infrastructure. In this regard, the Council welcomes the recent announcement by the

Minister for the Environment and Local Government that a national spatial strategy is to be prepared as part of the National Development Plan. However, the exact terms of reference for this proposed strategy have yet to be developed and it is not clear how comprehensive the proposed strategy will be. Below, the Council outlines the case for what it calls a National Spatial Development Strategy (NSDS) and recommends that the Department of the Environment and Local Government use the NSDS as the basis for the proposed national spatial strategy.

A NSDS would provide a framework for the operation of the three principles of infrastructural development outlined above – comprehensiveness, co-ordination and 'long-termism'. It is through this principled approach that the objectives of infrastructural development are most likely to be achieved. A NSDS would provide a framework for analysing relationships between changes in land-use, economic activity, population and infrastructure. It would also provide a basis for correcting past mistakes that have resulted in patterns of uneven development between the East (especially Dublin) and the rest of the country that has led to damaging economic and social problems in both areas due to congestion and marginalisation. By having a national orientation, it would recognise that the country is composed of many different spatial units (national, regional, local, urban, rural, suburban etc.), where no unit is subsidiary to any other, but the workings of the whole are enhanced by the co-ordination and integration of its constituent parts. And, while a NSDS would provide an appropriate framework for considering infrastructural issues, this would not be the only role of the NSDS. Fundamentally, it would seek to provide a means for devising a co-ordinated and integrated response from a spatial perspective to broader goals such as maximising economic performance, social inclusion and environmental sustainability.[8]

There is considerable support for the concept of a National

8 These goals correspond to the goals outlined in the European Spatial Development Perspective (ESDP) and adopted as part of the Draft Regional Strategic Framework for Northern Ireland: economic and social cohesion; sustainable development; and balanced competitiveness (see Box 10.1).

Spatial Development Strategy. Recent reports (see Fitz Gerald *et al.*, 1999; Peter Bacon & Associates *et al.*, 1999; Brady Shipman Martin *et al.*, 1999; Fitzpatrick Associates, 1999a and 1999b, Department of the Environment and Local Government, 1997a) have all advocated some type of spatial development plan. The need for spatial planning has also gained acceptance in Europe with the launch of the European Spatial Development Perspective (ESDP) as a reference document on the broad ranging spatial aspects of European development (European Commission, 1999b). Closer to home, the Department of the Environment for Northern Ireland has just completed the consultation phase for its Draft Regional Strategic Framework for Northern Ireland, *Shaping Our Future*, published in December 1998 (see Box 10.1). IDA Ireland and Forfás also broadly support the concept and many of the ideas underlying a NSDS find expression in the recent White Paper on Rural Development (Department of Agriculture and Food, 1999a).

Ultimately, the NSDS involves specifying levels of service organisation or degrees of concentration at different spatial levels. This may be outlined with reference to a hierarchy of settlements, that is urban centres, ranging from the national capital through small cities, large regional towns to smaller centres. This approach was adopted in the report of the Rural Development Policy Advisory Group. The Group argued that broad rural development policies "require to be framed in the context of national, regional and sub-regional development". In this context, the Group pointed to the need for a "hierarchy and a network of centres within the regions, coupled with a strategy to plan for the integrated development of county and 'sub-county' districts based on their towns and their hinterlands" (Rural Development Policy Advisory Group, 1997: 45). These principles are drawn upon by the group in its proposals for infrastructure in rural areas and as part of a strategy for stabilising population and achieving a balanced settlement pattern. The same principles are to be found in the Council's treatment of population distribution and economic development (NESC, 1997b).

A key focus of a NSDS would be the role of urban centres and their

BOX 10.1

Draft Regional Strategic Framework for Northern Ireland December 1998

Background

Over the past four years Northern Ireland has experienced somewhat of a renaissance in regional planning. An important characteristic of this has been 'planning as dialogue'.

In November 1997, the Department of the Environment for Northern Ireland published a discussion paper, *Shaping our Future*, which in its introductory comments stated: "That a more cohesive and integrated approach to the future development of Northern Ireland can be achieved by merging the discussion on the Belfast City Region into the broader Regional Strategic Framework" (1997:1).

Within the Discussion Paper the regional vision was advanced as "a better quality of life" to be achieved by "valuing people, building prosperity, caring for the environment and improving communications". The essential departure point for this was that social and economic factors should dictate spatial planning requirements rather than vice-versa.

A strategic framework, supported by representatives from District Councils, was presented to Government in April 1998. This contained three overarching development themes: strengthening communities, developing business and investing in people. In short, a primary aim of this strategy was to strengthen a consensus about the desired shape of a shared future and to contest the rather minimalist consideration of this territory by the Department of the Environment in its Discussion Paper. This scale of criticism was without precedence in Northern Ireland and put pressure on the regional planning team to rework its preliminary proposals.

This resulted in the publication of a further Draft Regional Strategic Framework for Northern Ireland, *Shaping our Future*, published in December 1998 (Department of the Environment for Northern Ireland, 1998). This framework offers "a strategic and long-term perspective" on the future development of Northern Ireland up to the year 2025. It provides a spatial framework for action and addresses a range of social, economic, environmental and community issues that are relevant to achieving the objectives of sustainable development and social cohesion in Northern Ireland. This framework defines a vision for the region and presents an agenda that will lead to its achievement.

The central concerns of this Strategic Framework are:

- to strengthen the regional economy and tackle social disadvantage;
- to protect and enhance the physical, natural and man-made assets of the region;

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- to plan for transport, air and water quality, energy and waste strategies in conjunction with infrastructure providers and public service promoters; and
- to provide an overarching strategic framework for Development Plans, and to guide public and private investment decisions relating to land use (1998:3).

The Policy Context

The approach to regional development in Northern Ireland reflects the integrated approach adopted in the European Spatial Development Perspective in relation to the three goals of economic and social cohesion, sustainable development and balanced competitiveness. The framework is not limited to land-use. It recognises that policies for physical development have an important bearing on other matters. It understands that the drive to tackle disadvantage requires a spatial framework for job creation that is sufficiently flexible to accommodate emerging and new economic opportunities, taking account of changing work practices and increased female participation in the workforce.

The Spatial Development Strategy

The proposed Spatial Development Strategy for Northern Ireland is a 'hub, corridor and gateway approach' based on five fundamental elements for the future physical development of the region. The aim is to give "a strategic focus to future development and achieve balanced growth" within the region by developing:

- the key transport corridors;
- a compact and thriving metropolitan core centred on Belfast;
- a strong North-West regional centre based on Derry/Londonderry;
- a polycentric network of strong regional towns with a reinforced role as the main services centres for urban and rural communities; and
- a vibrant rural community.

Learning from Others

"Because of its concern with the future allocation of resources strategic planning is invariably accompanied by tensions which pitch people and the places to which they belong against each other".

The principles and values considered important by the people of Northern Ireland that laid the foundations for *Shaping our Future* (1998) include: "a people and community focused approach; a sustainable approach to development; achieving a more cohesive society in the region; achieving competitiveness; achieving an integrated approach; and the need to develop a shared vision" (1998:22-24). A preferred planning principle that emerges from these values is 'valuing people' which is linked with social and spatial equity.

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Adopting such principles for the development of our national spatial development strategy could be viewed as contributing to a fresh planning approach. In this vein a further consideration arises – the degree to which a cross-border/island-of-Ireland perspective can be embraced in future strategic planning initiatives.

The processes of strategic planning in Northern Ireland have highlighted questions not just about where the 'vision' should go, but also about why it should go there. Dialogue about the values and principles that should underpin planning goals have been an important part of this activity.

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relationship to their rural hinterlands. Population size is set to grow in all major centres: it is critical that a balance is achieved between several urban centres and between urban centres and their rural hinterlands. Urban sprawl and uncoordinated expansion into the countryside have resulted in part from the absence of a NSDS, with a potential to undermine social, environmental and ultimately, economic goals. Instead, the focus would be on compact cities and towns (or the consolidation of existing cities and towns) that make better use of space and infrastructure, and respect the natural heritage of their rural hinterlands. Thus, a NSDS could yield positive environmental impacts through the development of planned and co-ordinated infrastructure that has accounted for natural resource depletion both now and in the future. Strategic development of national infrastructure networks is possible only on this basis.

In relation to regional development, selected larger towns and medium-sized cities must play a crucial role in the concentration of regional services, public services, transport systems, telecommunications, community infrastructure and as distribution centres and markets for agriculture, tourism and other hinterland activities. These towns and cities could act as centres of dynamic regional systems of urban settlements of all sizes, fully integrated with rural areas. Such centres in the medium-size range could become regional gateways for new activities that require a highly skilled and educated labour supply and state-of-the-art information and communications technology, as well as offering a safe and attractive ambience for residential communities. They can provide a basis for regional competitiveness through innovation, small and medium enterprises and population stabilisation in the most vulnerable regions.[9]

The success of a NSDS is also dependent on the involvement and commitment of local communities and affected groups and individuals. For example, discussion and consultation has been a key component of the Northern Ireland Draft Regional Strategic Framework, which has as its principal aim, an ambition to strengthen consensus around the desired shape of a shared future. An effective approach to consultation can facilitate the development and implementation process.

Finally, it is imperative that linkages with other countries and regions are taken into account. Foremost of these is the potential for closer co-operation with Northern Ireland. There are clear advantages in recognising cross-border spatial development links such as the Letterkenny-Derry nexus and the Dublin-Belfast economic corridor and in providing the necessary infrastructure to underpin those links. The NSDS should also seek to complement any European initiatives such as the European Spatial Development Perspective (ESDP) and the Trans European Networks (TENs).

While it is impossible, at this stage, for the Council to lay out very detailed terms of reference for the development and implementation of a NSDS, we can suggest what its broad focus should be. The NSDS should seek to answer a number of questions:

- Where will people choose to live over the next 10 to 20 years? This issue can be examined by reference to recent demographic and socio-demographic changes, population forecasts and how these affect settlement patterns.
- Where are people going to be working and in what types of activities? The answer to this question lies in some examination of the shifting sectoral composition of the economy, the influence of technological change (especially information-communications technology), changing land-use,

9 The National Development Plan 2000 – 2006 supports the development of regional gateways (Government of Ireland, 1999a: 42-45).

the functioning of existing towns and cities and other influences. It also requires some consideration of any identified future growth sectors that policy-makers may be hoping to develop.

- Are these spatial patterns of settlement, economic activity and land use appropriately reflected in existing local, regional and other development plans and studies? This involves a thorough analysis of relevant documents from a national spatial development perspective. The aim would be to ensure some level of consistency, co-ordination and integration of development proposals. It should also include some analysis of where development should actually take place. In this regard, the next question is important.
- Where is there potential for balanced and sustainable growth, having regard to the availability of land for development and existing physical infrastructure and the cost and feasibility of providing such infrastructure? This highlights that the aim is not to re-draw the settlement map but to take account of how spatial patterns have naturally evolved and how well their infrastructure needs are currently being provided for. This may involve improvements in the efficient management and use of existing infrastructure, as well as additional investment.
- What type of infrastructural and other investment is required to underpin the expected development? It is only at this stage that effective decisions regarding infrastructural development can be made. Effectiveness will be enhanced by the overlapping analysis of needs, wants and plans that a national spatial development strategy implies. The aim once again would be to ensure that infrastructure investment decisions are made in a co-ordinated manner so as to fulfil the objectives of optimising economic performance, social inclusion and environmental sustainability.
- What type of institutional changes are required to ensure implementation of the NSDS? It is clear that the formulation and implementation of a NSDS will require commitment and co-ordination across many different institutional and spatial

levels. Any institutional changes necessary to achieve this may be explored by reference to how other countries plan and organise their spatial development.

The Council recognises that the development and implementation of a NSDS is an ambitious project that will take a number of years to finalise. Important decisions regarding infrastructural development are already being made in the context of the National Development Plan. However, while the National Development Plan will set the framework for many investment decisions over the next six years, the NSDS would build the groundwork for spatial development over the long-term. The Council firmly believes that the absence of such a spatial perspective in the past contributed to our current infrastructural deficiencies. Therefore, notwithstanding the investment goals and expected achievements of the National Development Plan, failure to address this issue now could lead to continued problems in the future.

The preparation of a NSDS should not be a once-off exercise. The likely pace of demographic, social and economic change in future years demands that for a NSDS to remain relevant, it must be updated regularly. In this regard, the Council supports the decision to establish a dedicated unit within the Department of the Environment and Local Government to oversee the preparation and implementation of the proposed national spatial strategy.

10.6 BOOSTING EFFICIENCY IN INFRASTRUCTURE MANAGEMENT AND OPERATION

It is clear that the development of a NSDS is a long-term project that will yield substantial benefits to the economy and society as a whole. However, it cannot provide any short-term solutions to the *current* infrastructural challenges that concern most people on a daily basis such as traffic congestion, deficient public transport, inadequate housing supply, except in providing hope that these challenges will dissipate with time as the NSDS is pursued.

In this regard, the Council argues that improved infrastructure is not just about increased expenditure and better planning but that there is considerable scope for improving the efficient use of existing and planned infrastructure and service provision. Possible ways of boosting efficiency include: introducing improvements in the planning process; increasing competition in service provision; wider use of pricing techniques; and the creation of a 'can-do' attitude in improved service and provision.

10.6.1 Planning Process Improvements

The above recommendation for improved strategic physical planning in the context of the development of a NSDS will help to increase the efficiency of future investment decisions. As well as these strategic improvements, there are also more practical problems in the planning system such as general procedural delays and the public's role in the planning process that need to be addressed.

Delays in the planning system reflect the growing complexity of infrastructure projects that has not been matched by appropriate development in the administrative and decision-making process. Equally, increasing environmental and safety concerns among individuals and community groups have turned the planning process, by default, into a confrontational procedure. These problems are well-documented and steps are already underway to try to streamline the system to make it a more effective tool for infrastructural development. The Department of the Environment and Local Government has recently published new planning legislation (the Planning and Development Bill, 1999) that consolidates existing legislation and attempts to streamline the planning system to overcome the problems caused by excessive third party interventions and objections. The Bill introduces a number of changes that should help to speed up the planning system including reduced time limits for the planning approval process and stricter procedures for third party interventions. New procedures are also proposed for the confirmation of compulsory purchase orders which should help to accelerate major public infrastructure projects. The Council welcomes these attempts to streamline the planning system. It is important, however, that the system be subject to regular review in order to ensure its continued effectiveness as a tool for sustainable development. This should include an assessment of the resources, including staff, needed to implement the provisions of the Bill once enacted.

Given the extent of the current infrastructural challenges, there may also be some merit in fast-tracking particular high priority projects. While crisis situations do call for immediate action, they should not imply the abandonment of rational decision-making rules and important safeguards. The Council supports the development of a fast-track planning system for high priority projects but argues that such a system will only instil confidence if decisions are made through a straightforward and transparent process that is still subject to an adequate number of controls and checks.

The new Planning Bill proposes the introduction of a limited fast-tracking procedure in the creation of Strategic Development Zones (SDZs). The Bill allows the Government to designate sites as SDZs for specified development that is of strategic importance to the national economy. Third parties can make objections to the designation of the SDZs but may not object to individual projects for development in a SDZ, once the SDZ has itself been adopted. Thus, the proposal provides a means of disposing of the major planning issues before an individual project is identified. Recommendation for designation of a SDZ can be initiated by a small group of named development agencies (IDA Ireland, Enterprise Ireland, SFADCo and Údarás na Gaeltachta), implying that SDZs are primarily envisaged as a mechanism for providing a greater degree of certainty with regard to planning approval for internationally mobile companies. These development agencies will have a primary role in identifying likely locations and the type of development envisaged for each site, and in justifying proposals to Government. Transparency of this process would be improved if guidelines on what exactly constitutes ‘development of strategic importance to the national economy’ were drawn up. For example, should such development be expected to provide a certain number of jobs or be located in less-developed regions of the economy or be in certain high-growth sectors? It is clear that there should only be a limited number of SDZs but this implies that there should be some

BOX 10.2

Flexibility vs. Certainty in European Planning Systems

Individual countries' planning systems are a reflection of a wide range of national factors including historical circumstance, constitutional law, government structure, the legal framework and cultural forces. In addition, European planning systems are increasingly being influenced by the cohesion and integration process through, for example, the role of the Structural Funds and EU Directives and pilot initiatives. This makes comparative analysis of planning systems difficult because each system has to be placed in the proper context, for example, the role and responsibilities of national versus local government, the influence of private sector interests and so on. Nevertheless, it is possible to *broadly* classify groups of European countries according to various features of their planning systems. This Box focuses on a general classification of the degree of flexibility and certainty in decision-making in European planning systems.

In this regard, it is possible to distinguish between two broad types of planning systems: indicative and discretionary. In an indicative planning system, detailed local land use plans are developed and undergo a typical round of consultation and appeal until approval is reached. Once the overall plan has been approved, it becomes binding and the planning permission process becomes largely an administrative task of checking conformity with the plan. The advantage of an indicative system is that it provides greater certainty for developers and local communities on permissible land uses. Its main disadvantage is its inflexibility to changing circumstances. Germany's planning system could be described as indicative. In a discretionary system, each planning decision is subject to administrative and political discretion with the plan only providing a general framework for guidance. Thus, an application for development in accordance with the approved plan does not automatically imply the right to proceed. Each decision is also open to objection and appeal. The principal advantage of a discretionary system is the flexibility that it provides in enabling planning decisions to respond rapidly to changing circumstances. Its main disadvantage is the uncertainty surrounding planning decisions. The UK's and Ireland's planning systems could best be described as discretionary.

The trend in most European countries is to try to combine the best features of both types of planning systems. For example, in Germany speedier procedures are allowed for the preparation and revision of local plans in order to deal with the urgent problem of supplying new housing in areas of housing need. In the UK, greater emphasis has been placed on certainty with central government producing more comprehensive policy guidance documents that should provide a clearer framework for planning decisions. In Ireland also, the trend towards trying to achieve this balance between flexibility and certainty is

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evident in the proposed new planning legislation with increasing opportunity for local communities to participate in the drawing up of local development plans and statutory recognition to be given to local area plans and regional planning guidelines. The designation of SDZs will also provide greater certainty to the business community.

Material for this Box draws significantly from *The EU compendium of spatial planning systems and policies* (European Commission, 1997d).

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clear way of distinguishing between *very* high priority projects and *just* priority projects.

10.6.2 Increasing Competition in Service Provision

Efficiency could be strengthened in the operation and management of infrastructure by opening up public sector provision to more competition or tendering out specific tasks to private sector companies. In the past, public ownership of infrastructure companies was due to considerations such as the existence of a natural monopoly, externalities, information asymmetries and the fulfilment of social objectives. Concerns were based on the concept of public service obligations. However, technical advances, globalisation, external pressures (particularly from the European Union) and improved capital markets suggest that many public companies previously considered to be natural monopolies or having 'public good' characteristics actually consist of bundles of activities, some of which (if not all) could be pursued competitively, for example, the separation of local networks and long-distance operations in telecommunications, the deregulation of supply inputs in the energy sector.

This has led to an increasing world-wide trend towards privatisation of state companies and deregulation of previously controlled-markets. This trend has been most rigorously pursued in the areas of telecommunications, airline transportation, public transportation and energy markets. However, Ireland has traditionally been reluctant to follow this trend, although recent measures to introduce competition in the telecommunications market show that this is now changing. Similarly, the Department of Public Enterprise has taken the necessary steps to comply with EU Directives on the liberalisation of the gas and electricity markets. In the interests of improving efficiency in infrastructure service and provision, the Council recommends that the competitive potential of state companies be regularly reviewed.[10] This assessment should include all options from continued public ownership to increased commercialisation of state companies to complete privatisation.

Where transition to more liberalised markets is deemed feasible and desirable, this will require regulation to ensure fair and open competition. The regulatory regime also has to take into account any equity issues that liberalisation may generate. For example, rural customers do not bear the full cost of utilities services because they are cross-subsidised by other customers. New entrants to more liberalised markets may be able to undercut the incumbent firm if they do not have to cross-subsidise operations elsewhere (Massey and O'Hare, 1996). Similarly, research has shown that poor households are heavy energy users (in terms of percentage of total household budgets) and therefore changes in pricing structure and levels will have a distributional impact (Burns *et al.*, 1995). Nevertheless, these are not reasons to reject liberalisation. But they do highlight that the regulatory authorities have to take into account both equity and efficiency considerations.

Where competitive provision of infrastructure services is not feasible, there may still be scope for contracting out certain activities such as construction, maintenance and operation jobs. The government has been reviewing the potential for more Public Private Partnerships in infrastructure service and provision and have recently announced a number of pilot projects (see next section). Of course, such arrangements would have to be competitively tendered and be shown to represent value for money against traditional public sector provision. And where activities have public service

10 In its last Strategy document, the Council recommended that an audit of state utilities should be carried out that would identify the nature of the product market and the scope for enhancing competition; the regulatory regime in place or being put in place; and the need for an outline of policy choices appropriate to specific bodies (NESC, 1996a: 301).

obligations, these would have to be explicitly factored into the terms of the contract.

10.6.3 Wider Use of Pricing Techniques

Economic theory suggests that efficiency will be boosted through the wider use of pricing techniques that will internalise the full costs and benefits of using the infrastructure. Zero- or under-pricing will lead to excess demand. The 1990s has seen renewed interest in introducing user charges for government services and goods as part of the general trend towards public sector reform. For example, the European Commission has conducted a number of studies assessing the pros and cons of user charges for transport infrastructure and has argued that the introduction of a common transport infrastructure-charging framework would greatly enhance the efficient use of transport infrastructure and promote sustainability. In its most recent economic survey of Ireland, the OECD recommends increased use of market mechanisms such as tolls and user charges to ration infrastructure usage in Ireland (OECD, 1999b). In Ireland, advocates of user charges include the ESRI (see, for example, Honohan (1997) and Fitz Gerald *et al.* (1999)). User charges for infrastructure services are also being more widely considered because of the growing interest in Public Private Partnerships and because of their positive social effects in terms of modifying user behaviour and promoting sustainability. In its 1997 report, *Sustainable Development: A Strategy for Ireland*, the Government states its support for the greater use of market-based instruments, including user charges (Department of the Environment and Local Government, 1997a).

The main public infrastructure services that have been shown to be suitable for user charges are roads, water, waste-water and other waste collection and disposal services. In Ireland, proposals to introduce water and waste charges have not been welcomed in the past. This mistrust, however, may in part be based on mis-information. If the general public clearly understands the link between improved infrastructure provision and the introduction of user charges, acceptance may increase. It should also be borne in mind that there are numerous local areas where waste charges have already been introduced. On equity grounds, this selective pricing policy is difficult to justify.

The introduction of tolls and other user charges raises concerns about the effects on low-income users. Some of these effects could be ameliorated by providing reduced charges to certain disadvantaged groups (for example, low-income users or users located in remote areas) or by using the proceeds from the charges to ensure that alternatives, particularly in the area of transport, are accessible. Alternatively, negative effects of user charges may be tackled more directly through direct payments to affected users. Also, consumption of some infrastructure, such as road services, generally tends to be progressive, in other words, wealthier households spend more of their income on private transport. Therefore the introduction of user charges such as tolls may have a progressive rather than regressive distributional effect (European Commission, 1998d). Of course, the final distributive effect will ultimately depend on how the revenues derived from user charges are used. For example, a different effect is generated if the monies derived from tolls are used to invest in improved public transport systems rather than if they are used to reduce vehicle licence fees.

The Council re-affirms the recommendations made in Chapter 5 in relation to user charges. The greater use of pricing mechanisms in the management of infrastructure services would lead to improved efficiency of provision and would also promote sustainable development.

10.6.4 Creation of a ‘Can-Do’ Attitude in Improved Service and Provision

Given the extent of current infrastructural challenges, there is now a timely need to create a ‘can-do’ attitude in improved service and provision. What is required is an ability to accept change, accommodate flexibility, and review systems and procedures where appropriate. The emphasis should be on finding solutions to problems and on breaking down traditional barriers to their implementation.

The introduction of an incentive structure for public infrastructure service management may be an effective mechanism for promoting this type of flexibility. It could be introduced as part of the general thrust towards public sector reform which in the case of Ireland is embodied in the Strategic Management Initiative. This obviously involves greater emphasis on objectives and outcomes and in some cases the linking of pay and promotion to their realisation. It requires the development of clear performance indicators (for example, increase in public transport usage) and the adoption of a comprehensive financial management system (for example, use of accruals-based accounting rather than cash-accounting systems).

Sustaining a ‘can-do’ attitude in infrastructure management also requires a shift in emphasis from a focus on short-term costs to long-term outcomes and benefits. It also requires a shift from maintaining a public-private sector divide to mutual collaboration between sectors. This includes partnership between public and private sectors in the build, operation and management of infrastructure projects and the participation of the general public and local community groups in their effective realisation.

10.7 PUBLIC PRIVATE PARTNERSHIPS

This section explores the potential role of Public Private Partnerships (PPPs) in infrastructure provision in Ireland. Recognising that PPPs are a relatively novel approach to infrastructure provision in Ireland, the focus of the section is on a clear exposition of what the approach involves and recommendations on how the Council believes its effectiveness can be improved. Effectiveness is gauged according to how PPPs can further the goals of infrastructural development outlined earlier: namely, optimising economic performance; social inclusion; and environmental sustainability.

10.7.1 Background

Public Private Partnership, or PPP, is a general concept that can embody many forms. Broadly, a PPP arrangement is a partnership between public sector agencies and private sector investors in infrastructure projects or services. It typically involves investment by a private sector consortium in the design, build and operation of a project for public use for a specified concessionary period during which the private sector consortium is able to collect revenue from the users of the facility (government or direct users). In most cases, ownership of the facility is transferred to government at the end of the concessionary period at no extra cost.[11] By this time, the private sector consortium should have collected enough revenue to cover its initial investment and make a profit.

While PPP is not a new concept, it has become an increasingly popular method of providing for infrastructure in many parts of the world. As the pace of economic growth in both developed and developing countries over the last 20 to 30 years has proceeded, infrastructure needs have become more acute. Budgetary pressures have forced governments and other public sector agencies to look for alternative solutions to finance infrastructure. In Europe, these pressures have been heightened due to the constraints imposed by the Maastricht criteria and now the Stability and Growth Pact. At the same time, there has been a general thrust towards increased privatisation, with growing recognition that private sector provision of services and functions previously provided directly by the state, can be more efficient and cost-effective. PPP has been extensively used by a wide number of countries including the UK, France, the U.S., Spain, Portugal, Greece, the Netherlands, China, Hong Kong, Mexico, Turkey and many others.

In line with these world trends, there is growing interest in PPPs in Ireland. Exceptional growth over the last number of years has led to significant capacity constraints in the economy, particularly in infrastructure. Ireland already has some experience of PPP projects. In Dublin, both the East- and West-Link toll bridges were built with private sector involvement. More recently, the Department of Justice, Equality and Law Reform adopted the PPP approach in the

11 This need not always be the case. For example, in PPP projects in the UK, ownership is often retained by the private sector indefinitely. In other cases, the concession contract for operation of the facility might be renewed for another concessionary period.

building of the new Midlands prison in Port Laoise. Similarly, the Department of Public Enterprise has adopted a PPP approach for the building of the new peat-fired electricity station in the Midlands. Other examples exist. What distinguishes current proposals for PPP, however, is that they imply a formalisation and extension of the approach. Thus, PPP units have been established in relevant Government Departments with the role of overseeing the development of PPP in Ireland and a number of pilot projects across a range of sectors have recently been announced.

10.7.2 Benefits

Perhaps the major benefit of PPP is the attainment of private sector efficiency gains in the design, build and operation of infrastructure projects. Although the public sector can always borrow for capital projects at cheaper rates than the private sector, financing costs are only one part of the equation. The concept of ‘value for money’ is important in PPP arrangements. When examining a PPP package, it is in the areas of efficiency and productivity gains in design, build and operation that the private sector is assumed to compensate for higher financing costs. Where these efficiency gains are significant, PPP *can* offer increased value for money over traditional procurement methods. In this way, PPP should be seen much more as a way of procuring private sector efficiency and expertise rather than as a pure financing mechanism for funding infrastructure.

The procurement of private sector efficiency gains can yield substantial benefits. They can result in more rapid pre-construction and construction phases with the result that the project is likely to be completed and operational faster than otherwise. These time costs can be saved because the private sector is assumed to have access to new and more innovative building and operative techniques, as well as more specialist management and technical expertise. In addition, because the private sector consortium is generally responsible for operating and maintaining the facility over a long period, it is assumed that construction will be of the highest quality.

Finally, these efficiency gains will reverberate throughout the economy and society by relieving infrastructure bottlenecks and providing the basis for continued future growth and development. They will also help to provide an overall better service to the public.

10.7.3 Principles

There is no one model of best practice PPP that can have universal application. It is a solutions-based approach to infrastructure provision, incorporating significant flexibility and potential. Nevertheless, certain principles have emerged as important to the achievement of a successful PPP project: a focus on services more than assets; value for money; and best risk allocation.

10.7.3.1 Focus on Services more than Assets

PPP arrangements are based more upon service procurement than construction of new assets. This is a departure from traditional procurement methods that have tended to stress the asset associated with a particular project rather than the service outcome of the project. With PPP, the asset is simply the mechanism by which the service is delivered.[12]

The emphasis on services should enable the private sector consortium to design, build and operate the most innovative and cost-effective mechanism for delivering the desired services. Payment based on effective service-provision also means that the private sector consortium has a strong incentive to maintain and operate the asset over the entire duration of the project.

10.7.3.2 Value for Money

The previous section has already highlighted that PPP can present increased value for money over traditional procurement methods where private sector efficiency and productivity gains in design, build and operation can compensate for higher private sector financing costs.

However, experience from other countries shows that private sector efficiency cannot always be assumed. Therefore, PPP should only

12 Indeed, it could be argued that all infrastructure projects, public or private, should be developed on the basis of service outcomes.

be pursued where the method can be shown to represent value for money, a concept that embraces more than just least cost. Value for money is normally assessed by the use of a public sector comparator.[13] In very simple terms, this involves comparing the net present cost of the discounted cash flow of payments to the private sector organisation involved with the proposed PPP project with the net present cost of providing the service through traditional public sector procurement methods. If the PPP costs are less than traditional methods, then PPP represents value for money to society at large (Farrell Grant Sparks *et al.*, 1998).

10.7.3.3 Best Risk Allocation

The key to a successful PPP is the allocation of project risks between the public sector and the private sector, with this allocation based on each party's ability to manage and bear risks. For example, according to the 'best risk allocation' principle that is accepted in the UK, risk in any project should be given to those best able to control and minimise it (IBEC/CIF, 1998). Similar principles are adopted in other countries.

Correct risk management lies at the heart of assessing whether a PPP project is value for money. The allocation of risk to those who are best able to manage it should create the most cost-effective solution, as the entity that is able to manage the risk at the lowest cost takes responsibility for it (Masons, various issues, 1996-1998).

There are many types of risks that must be considered in negotiations for PPP projects. They include design and construction risks, commissioning and operating risks, demand risk and legislation risk. Each PPP project needs to be considered on an individual basis. Host-governments need to accept that there are some risks that the private sector just cannot be forced to bear, while private sector companies need to accept that in order to earn the high returns that can be associated with an infrastructure project, they must be willing to assume more risk where practicable.

13 In some cases, for example where a project is fully funded from user charges, a public sector comparator may not be appropriate.

10.7.4 An Effective Role for PPP

Many projects are suitable for PPP, though not all. In this regard, a clear framework needs to be developed that would help to assess the appropriateness of PPP for infrastructure projects and guide its implementation. Ideally, this framework should take into account the suitability of PPP for developing certain types of infrastructure projects as well as the wider economic, social and environmental objectives that should guide infrastructural development, whether it be procured through traditional public methods or through involvement of the private sector.

The recent report by Farrell Grant Sparks *et al.* (1998) for the Inter-Departmental Group on PPPs in Ireland suggested a number of criteria for assessing the suitability of projects for PPP. The criteria try to capture a sense of national priority and need, as well as the simple practicalities of implementing the PPP approach. Of course, assessment can only be made on a *project specific* basis taking into account these criteria. PPP projects should (Farrell Grant Sparks *et al.*, 1998: 44-46):

- have a high **priority** at national level. This should ensure that infrastructure projects with a low priority value are not developed simply because of their suitability to PPP;
- provide **value for money**, which includes an assessment of the distribution of risks, as well as costs and revenues;
- be **affordable**. Affordability is an important criterion whether a project is developed through PPP or more traditional procurement methods. In relation to PPP, affordability has to take into account that forward commitments on PPP projects are still a call on public expenditure in the future;
- be **bankable** or attractive to private sector financiers. As well as an adequate rate of return, bankability is also dependent on the PPP process, including the bidding and risk negotiation stages;
- provide for **optimal risk allocation** between the public and private sectors so that risks are managed by those best able to control and minimise them; and

- emphasise **service outcomes** rather than the provision of assets. This should allow the most efficient and cost-effective solutions to be devised.

In addition, there are a number of other considerations that should guide the implementation of a PPP programme in Ireland.

First, PPP should increase available options for the building and operation of infrastructure projects. The ESRI has argued that given the expected healthy status of public finance over the next six years, there are no grounds for using PPP as a financing mechanism to substitute for public capital expenditure. Very simply, if a project is deemed worthwhile for the economy and is expected to earn an acceptable rate of return, it should be financed irrespective of source (Fitz Gerald *et al.*, 1999). However, even under such conditions, a decision still has to be made as to which projects use PPP and which should use traditional public methods or EU funds. These decisions should be taken so as to maximise the gains from overall infrastructural investment. Choice should be made on the basis of a thorough assessment of value for money.

Second, any PPP programme established in Ireland should be open and transparent. This would help to reduce bidding and other legal costs and would also diminish fears about the potential loss of policy control. Transparency would also encourage the 'partnership' element of PPP to flourish. While the term PPP suggests that only two principal actors – public and private sectors – are involved, it is important that other stakeholders such as the public at large and local communities are taken into account. Experience from other countries has shown that there is a greater guarantee of success if the wider community feels part of the process through active consultation and information programmes.

Third, while the vast majority of PPP projects undertaken world-wide have been economic infrastructure projects (particularly transport projects because of the potential for tolling) their role in providing for social and community infrastructure should also be actively explored. This chapter has clearly identified that deficiencies exist in all types of infrastructure and moreover, that provision and service outcomes could be improved through integrated planning and development. This type of approach suggests that the benefits of PPP in terms of innovation and efficiency should not be limited to any one type of infrastructure. Equally, where social objectives (for example, impact on low-income groups, environmental concerns etc.) are particularly important to the realisation of an infrastructure project, they should be explicitly factored into the desired service outcomes, so that the private sector can incorporate them into the design of the project. In this regard, as Sub-section 10.6.3 has argued, where tolling is introduced as part of any PPP project, the distributional impact has to be carefully considered. The objective is to try to achieve the correct balance between generating revenue, modifying user behaviour and promoting sustainability, and trying not to adversely affect vulnerable groups. Where the impact of tolling falls disproportionately on certain disadvantaged groups, steps should be taken to reduce its effect either through reduced charges, direct subsidies or some other means.

Fourth, despite the generally favourable attitude to PPPs in policy circles, there are a number of outstanding issues that could curtail their successful development. IBEC has made a submission to Government on the current barriers to PPPs (legal and regulatory; financing; risk allocation and taxation; and managing the PPP process) and has made recommendations on how they can be overcome (IBEC/CIF, 1999). Although PPP projects can proceed while some of these issues are outstanding, the Council argues that the creation of a more certain business environment for private sector investors and contractors would greatly facilitate PPP development. The emphasis should be on how to create the necessary conditions for a smooth-functioning competitive market in infrastructure provision. In addition, there are a number of issues relating to accounting procedures and fair competition that can only be decided at European level. However, as a relative newcomer to the PPP approach, Ireland would benefit significantly by the early resolution of these issues. In this regard, we should be pro-active in ensuring that clarification is not delayed further.

Finally, a voluntary, supportive approach to PPP projects would be advisable, particularly in the initial stages of PPP development in Ireland. There should be no mandatory testing of infrastructure projects for PPP which could lead to unnecessary delays and confusion. This approach is predicated on the assumption that the public sector has the necessary skills and experience to implement such an ambitious plan, which in the initial stages of PPP development, may not be the case.

To conclude, the Council supports the introduction of a more widespread PPP programme in Ireland. Wider use of PPPs will make a positive contribution to the public capital programme, both in terms of additional finance options *and* expertise. It will also help to boost the competitive potential of infrastructure provision, which should lead to more efficient and cost-effective outcomes and lead to more rapid construction. However, it is also important to be aware that PPP is a complex procurement method and, as such, there can be pitfalls. Nevertheless, these need not be insurmountable. In this section, the Council has highlighted a number of issues that should be addressed to improve the effectiveness of PPPs in Ireland. These include issues from a policy, community, business and institutional perspective. Importantly, co-operation and commitment of both private and public sectors are essential ingredients for success.

10.8 CONCLUSIONS AND RECOMMENDATIONS

The Council views infrastructural development as a priority area for action over the coming years. Just as inadequate infrastructure can constrain growth, reinforce social exclusion and undermine environmental sustainability, increased building capacity that is efficiently managed and planned can propel growth, contribute to social inclusion and protect our natural resources. These are the aims that should underpin Ireland's growth and development over the next decade. While it is clear that there are many areas that require infrastructural investment, the Council identifies five priorities: housing; public transport; roads; cultural and recreational infrastructure; and telecommunications infrastructure.

Many of our existing infrastructure problems are due to the uncoordinated way in which infrastructural development has taken place in Ireland in the past. This resulted in a number of problems including a pattern of uneven regional development, the creation of isolated residential areas due to inadequate public transport and community infrastructure, and the under-development of roads and other access links. Significant under-investment in the past also contributed to these problems. Over the next few years, Ireland will embark on an ambitious period of infrastructural development. Many billions of pounds will be spent on numerous projects in all parts of the country. To avoid the mistakes of the past, it is critical, that these projects form a coherent whole.

The Council argues that the most effective way of improving infrastructural development is through the adoption of a more strategic focus to the planning and management of infrastructure. In this regard, a National Spatial Development Strategy (NSDS) would provide an appropriate framework for the adoption of three core principles that should underpin all infrastructural development: (a) a comprehensive definition of objectives; (b) greater co-ordination and integration of investment decisions across all infrastructure sectors; and (c) a long-term approach to planning and development. The Council recommends the preparation of a NSDS that would support land-use policy, regulate the growth of urban centres, assist with balanced regional development and co-ordinate the work of local, regional and national authorities. The NSDS could also form the basis for developing cross-border infrastructure links with Northern Ireland and would complement European initiatives in this area. The Council recommends that the Department of the Environment and Local Government use the NSDS as a model for the proposed national spatial strategy.

The Council recognises that a NSDS will take a number of years to develop and implement. The NSDS should not take away from the urgent infrastructure investment decisions that are currently being made in the context of the National Development Plan. While the National Development Plan will set the framework for investment decisions over the next six years, the NSDS would set the groundwork for spatial development over the long term.

In addition to more integrated spatial planning, there is considerable scope for improving the efficient use of existing and planned infrastructure. Delays in the planning system have contributed to the bottlenecks in infrastructural development in Ireland. The Government has recently introduced new planning legislation that aims to speed up the planning process by setting time limits and introducing stricter procedures for third party interventions. While the Council supports these changes, it recommends that the planning process be subject to regular review to ensure that it remains an effective tool for sustainable infrastructural development. Legislative changes also need to be backed up by the necessary resources, including staff, to implement them.

For projects of particular strategic importance, the Council favours the development of fast-track planning procedures but stresses that these procedures should still be open and transparent and be subject to an adequate number of controls and checks. The new planning legislation proposes the introduction of a limited fast-tracking procedure in the creation of Strategic Development Zones. However, there are no formal procedures for deciding *ex ante* how a site/zone may be judged to be of strategic importance. The Council recommends that some clearer guidelines be drawn up on how to identify high priority projects whose faster implementation is of strategic importance to the national economy.

Efficiency could also be improved by opening up public sector provision of infrastructure to more competition or tendering out specific tasks to private sector companies. The competitive potential of infrastructure provision should be regularly reviewed so as to ensure efficient and cost-effective service outcomes. Efficient management of scarce infrastructure resources also requires that users be charged a price that more fully reflects the costs and benefits of using infrastructure. User charges are also justified on grounds of promoting sustainable development and on equity grounds, where certain groups are already charged for certain services while others are not. The Council recommends that market mechanisms for rationing infrastructure use should be explored, including concessions that may be necessary to reduce the impact of charges on disadvantaged groups such as low-income users and people with disabilities.

Finally, an important source of efficiency is flexible management that focuses on finding solutions to problems and breaking down traditional barriers to their implementation. The Council believes that this type of ‘can-do’ attitude in improved service and provision can play a significant role in overcoming the infrastructural challenges that the country now faces. Indeed, as Chapter 12 highlights, this type of intangible quality is essential for policy-making in all sectors. It involves continued commitment to public sector reform, including the development of a culture supportive of joint working both within the public sector and between the public and private sectors.

In this regard, the Council supports the introduction of a more widespread PPP programme in Ireland. The Council views the potential attainment of private sector efficiency gains as the principal benefit of PPPs. The success of PPPs would be enhanced by establishing a clear framework to assess the appropriateness of PPP for infrastructure projects and to guide its implementation. This framework should take into account the wider economic, social and environmental objectives that should be embedded in the assessment of any procurement method. PPP projects should be conducted in an open and transparent manner. This would help to create a more certain environment for everyone involved, including the local communities that PPP projects are expected to serve. The benefits of PPP, in terms of innovation and efficiency, should not be limited to any one type of infrastructure. All of the recently announced PPP pilot projects can be classified as economic infrastructure projects, although some pilot projects in the education sector have been promised for the future. The Council recommends that the role of PPP in providing for social and community infrastructure should be more actively explored. For example, Chapter 11 identifies social housing as a potential PPP pilot project. While the Council favours the wider use of PPPs, they cannot be seen as a panacea for infrastructural development in Ireland. Not all projects are suitable for PPP development and it will take some time for both the public and private sectors in Ireland to develop the necessary skills and experience to maximise fully the benefits of PPP. Therefore, there should be no mandatory testing of infrastructure projects for PPP development. Finally, the Council emphasises that PPPs must respect overall sustainable budgetary parameters having regard, *inter alia*, to any budgetary costs that they may generate over the longer term.

CHAPTER 11

HOUSING IN A CHANGING SOCIETY

11.1 INTRODUCTION

In recent years, there has been evidence of serious housing problems in Ireland. A major overall shortage of accommodation has led to difficulties of many kinds. House prices have escalated dramatically, putting home ownership beyond the reach of many people with reasonable incomes. Rents have been driven to very high levels. There are lengthy waiting lists for public housing and increased numbers of people sleeping rough on the streets. Quality of accommodation is also a problem for some rented accommodation in the private sector and in some large public housing estates. In this chapter, the problems in housing are analysed with a view to proposing a consistent set of policies to tackle them.

Ultimately, these problems stem from an exceptional and mostly unforeseen surge in the demand for housing in Ireland – driven by a rapidly rising population in the household-formation age ranges together with rising employment and incomes – which was not initially matched by a sufficient increase in the supply of housing. Part of the reason for the initial sluggishness of response lies with delays in zoning and servicing sufficient land for housing and delays in the planning system. Because the increase in supply lagged behind the escalation in demand, prices rose very rapidly. However, following a significant number of Government initiatives on housing, annual house building has accelerated and the rate of increase of house prices has slowed. The worst problems facing those seeking to purchase houses may therefore now be past. However, even for this sector, a significant remaining concern is the possibility of a 'bubble' in house prices that could be disturbed by a severe external shock to the Irish economy, were one to occur.[1] Moreover, problems remain serious in the social housing and the

1 The question of a possible bubble in house prices and policies related to this are discussed in Chapter 4.

rental sectors, and in regard to homelessness. This highlights the necessity to tackle housing as an integrated system that is also linked to wider policy issues including spatial planning, transport provision and infrastructural investment at regional and national levels.

The remainder of the chapter is organised as follows. Section 11.2 briefly reviews some of the main considerations that arise in housing policy. Section 11.3 describes developments in the 1990s in the privately-owned housing sector in Ireland. Section 11.4 turns to the renting and social housing sectors. Strategic issues in housing, such as spatial planning, land zoning and residential densities are considered in Section 11.5. Section 11.6 summarises recent policy responses. Section 11.7 concludes and presents the Council's policy recommendations.

11.2 HOUSING POLICY

Although housing is built mostly by private firms and purchased mostly by private households, there are reasons why it has been a central concern of the public authorities in Ireland and elsewhere.

Some of the considerations are social. Adequate housing is generally considered essential to an acceptable standard of living. Although this does not mean that the State need provide housing directly (assistance towards other basic needs such as food and clothing is provided in the form of cash), in practice much assistance has traditionally been in the form of the direct provision of public housing. A second social consideration is that housing policy often serves wider aims such as improving social integration by providing housing to people of all incomes. A related, though more contemporary, concern would be the objective of urban and rural regeneration, in which housing policy would also play an important part.

The durability of housing also provides a reason for public intervention or at least surveillance of the sector. The long life of a house means that the stock of dwellings is very large relative to the rate at which new additions to that stock can be built. The overall supply of housing is often slow to adjust to changes in demand and this can cause house prices, in times of shortage, to rise to very high levels dragging rents up with them. This feature of housing strongly suggests that one of the most effective steps open to the public authorities is to ensure that the capacity of the building industry to meet the demand for new housing is not hindered by unnecessary obstacles.

Further grounds for public intervention are linked to the taxation and social welfare systems. Housing interacts in an important way with the income-support role of the welfare system. A problem can arise because, in contrast to other durable goods, the cost of purchasing similar housing services in different parts of a single country can vary widely. Therefore, if a fixed amount of money is offered in respect of housing costs, either the payment will be inadequate to the needs of some recipients or else the overall cost of the scheme will be very expensive. Consequently, in contrast to the fixed cash payment generally offered by income-support policies, housing-related welfare payments often take the form of a variable subsidy linked to housing expenditure.

The existence of concessions to certain housing tenures, for example, mortgage interest tax relief, can also lead to an argument that if these concessions are to continue then comparable levels of concessions should also be given to other tenures.

There are thus many possible grounds for public intervention in the housing sector. However, public programmes are not costless nor do good intentions guarantee that the stated aims will be advanced by the measures taken. In particular, housing subsidies can create substantial distortions in behaviour that can cause a worsening of underlying problems. For example, if the capital gains on one kind of investment (say, private home ownership) are exempted from taxation but the gains from other investments (say, equities and bonds) are taxed, households may over-invest in housing and under-invest in other forms of saving. Over time, the demand for home ownership as an investment may be artificially inflated while that for other forms of saving is depressed. This would tend to raise house prices and rents and, by shifting funds from other investment, raise the cost of borrowing to businesses and dampen overall investment. This is not just a theoretical possibility. In the mid-1990s, the surge of interest in rental property as an investment was driven in part by the very favourable tax treatment of housing.[2] This tax-shelter aspect of house purchase put further upward pressure on house prices and squeezed some first-time and lower-income buyers out of the house-purchase market.

A second danger of an intervention is that the benefit of a policy may not accrue to the intended target. For example, house-purchase grants boost the spending-power of buyers. At a time of housing shortages, when these buyers are competing against one another for the limited supply of houses, prices are driven up thereby passing much of the benefit to the vendor rather than the purchaser. Moreover, once grants have been capitalised into house prices in this way, it becomes harder than otherwise to contemplate withdrawing the grant at a later date. All other things equal, abolition would cause some house owners – who were encouraged by the grant to pay higher house prices in the first place – to suffer a fall in the value of their property.

Means-tested rental subsidies require careful design if they are not to contribute to poverty and unemployment traps. An income-related rental subsidy falls in value as earnings rise. In addition, tax will normally be payable on the extra earnings. The combination of these two deductions can mean that income increases give only negligible improvements in living standards. In extreme cases, a higher gross income can produce a lower net income. Similarly, a person with a low earnings capacity in the market economy who compares their potential living standards from work with their living standards when in receipt of social welfare payments could find – for reasons entirely beyond their own control – that the reward from work is small or even negative. The Expert Group on Integrating the Tax and Welfare Systems (1996: v) reported that two large contributors to Irish unemployment and poverty traps are the rent and mortgage supplements payable under the Supplementary

2 Bacon *et al.* (1998) report that some 25-30 per cent of mortgage lending was to investors in early 1998. See also Kelly (1998).

Welfare Allowance scheme. More recent research (Goodbody Economic Consultants, 1998c) found that only 16 per cent of social welfare recipients were paid such supplements. However, because a person cannot be in receipt of such supplements while in full-time work, they “have a large impact on the monetary incentives to work” (1998c:26).

The same report referred to arrangements for retention of supplements under schemes such as the Back-to-Work-Allowance Scheme and Revenue Job Assist, in order to lessen the disincentive effects for long-term unemployed people making the transition to full-time employment. It recommended certain improvements in these arrangements. A Consultative Group under the aegis of the Department of Social, Community and Family Affairs, involving representatives of the social partners and relevant Government Departments, is examining the matter with a view to developing cost-effective solutions to the unemployment trap arising from withdrawal of supplements. The Group is expected to report shortly.

Finally, interest groups may distort the policy-making process in housing as in other areas. For instance, the aims of the building industry or the purely institutional interests in the public sector do not necessarily always coincide with the public-interest objectives for housing-market intervention discussed above.

Housing is an important factor in the quality of life of the population and must therefore be considered a central issue for public policy. Moreover, housing problems raise questions for many other policy areas including land-use, investment, infrastructure, transport, the labour market, income maintenance, social inclusion and the continuation of social partnership. For these reasons, national housing policy must be framed against a broad public policy background. Equally, decisions in other policy areas should take account of housing policy objectives.

A general, long-term objective for Irish housing policy might be expressed as follows: the provision of sufficient affordable housing, so that as far as possible every household enjoys real choice between housing tenures each of which offers good physical standards, an attractive neighbourhood, a suitable location and at a price or rent that the household can afford.

The Department of the Environment and Local Government's *Statement of Strategy 1998-2001* contains the following definition of the objective of Irish housing policy: "To enable every household to have available an affordable dwelling of good quality, suited to its needs, in a good environment and, as far as possible, at the tenure of its choice." (The Department of the Environment and Local Government, 1997b:30).

The document proposes five strategies to advance this overall objective:

(i) maintenance of a national housing programme and an efficient housing market;

(ii) facilitation of home ownership through fiscal and other measures;

(iii) development of a social housing sector;

(iv) development of an efficient private rented sector; and

(v) conservation and improvement of the housing stock.

In the circumstances that exist in Ireland in the late-1990s, the priorities of housing policy may be made more concrete by proposing three intermediate policy objectives of broadly equal importance within an overarching objective of increased housing supply. These are: an adequate increase in the provision of social housing; measures to substantially expand the rental sector; and a sustainable level of private home ownership. The achievement of these objectives requires a substantial increase in the supply of housing across all tenures, which in turn depends on improvements in the planning and administrative systems as they relate to housing, amendments to the legal framework and expanded infrastructure.

11.3 RECENT DEVELOPMENTS IN THE OWNED HOUSING SECTOR IN IRELAND

11.3.1 Population, Income and Housing

Ten years ago, housing market conditions were very different to today. Developments were moving in a generally favourable direction. The Council, in the context of a housing market study prepared in 1988 by John Blackwell, commented that, at least in overall terms, "[i]n recent years there is evidence that the historical problem of overall shortages and poor housing conditions have been largely resolved" (NESC, 1988: 4).

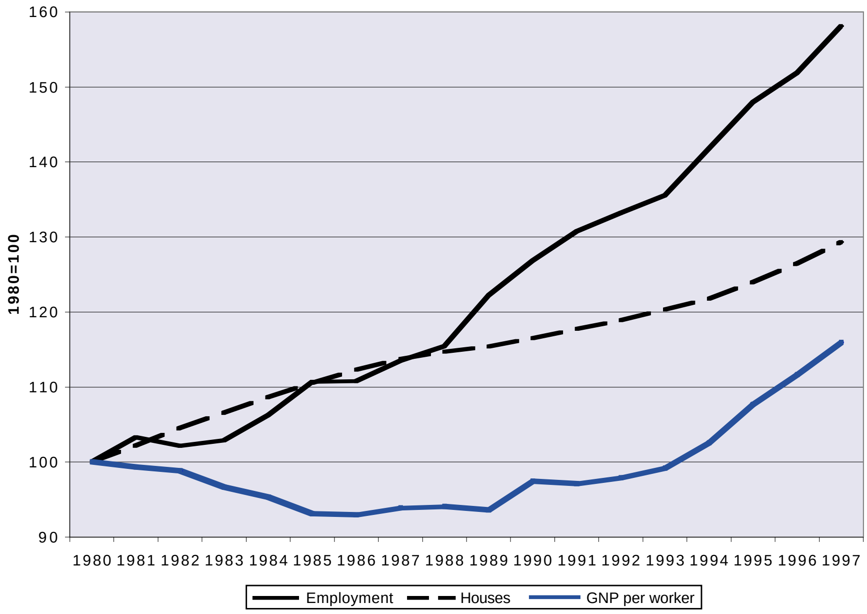
Similar sentiments were expressed in a housing report by economic consultants (DKM, 1989). They reported falling house prices, no serious housing shortages, and evidence of an improvement in the quality of the housing stock. Every year from 1980 to 1987 (except 1982) Dublin house price increases were less than the general inflation rate, so that in real terms house prices fell. Prices fell even in nominal terms in 1985 and 1987.

Thus the Blackwell report focused on (what may today appear to be) second-order problems and on fine-tuning existing schemes.[3] However, the DKM study did warn that there was "significant scope for house price inflation in Dublin given the extent to which existing house prices have declined on their 1979 levels" (DKM, 1989:2).

3 The Blackwell report made an exceptionally large number of often very detailed recommendations that could be grouped as follows: (1) public financial aids should be targeted at overcoming specific instances where housing markets do not work properly; (2) a disproportionate amount of financial aid is offered to higher-income groups whereas additional subsidised public housing is needed by the worst-off groups; (3) policy should be much more neutral as between house construction and renewal and ownership versus rental; (4) housing problems are closely related to unemployment, poverty and deprivation and therefore concentrated in certain areas but public services have been organised on functional lines; area-based solutions were needed and urban revitalisation programmes should contain a housing element; and (5) a coherent policy on housing tenure should develop the potential of the private rental sector and reverse its long-term decline.

FIGURE 11.1

Population, GNP and Housing Indices, 1980-1997



Source: ESRI/Department of Finance databank for GNP and employment, Roche (1999) for housing stock.

Two key influences on the housing market are population size and household income. Figure 11.1 shows a set of indices that tracks these variables for Ireland since 1980. A contrast between the 1980s and 1990s is apparent.

The depressed economic conditions of the 1980s, which dampened housing demand and house prices, explain a good deal of the state of the housing market at the time. As may be seen from Figure 11.1, for much of the 1980s, employment declined or stagnated while until the mid-1980s GNP per worker expanded only very slowly. Nonetheless, the housing stock increased relatively rapidly, especially in the first half of the decade, so that housing was broadly adequate to need.

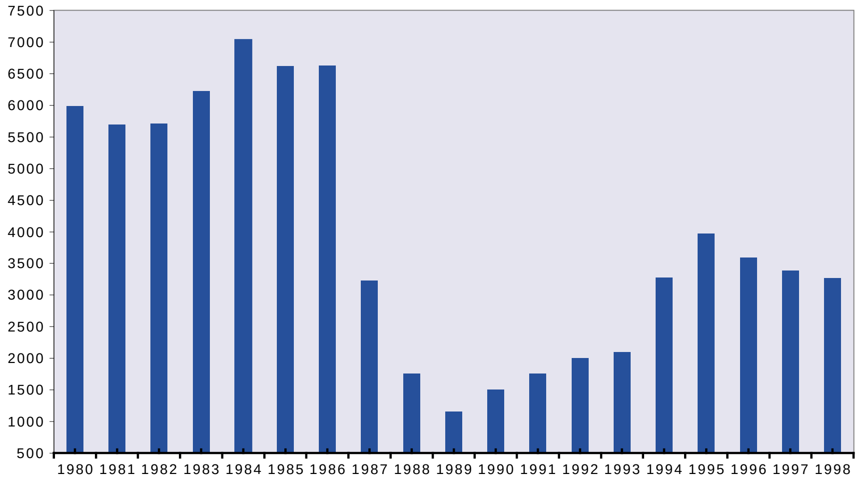
However, in the first half of the 1990s, when population and incomes climbed rapidly, the response in house-building was initially sluggish, although it has since accelerated markedly. Part of the reason for the initial inadequacy of response lies with delays in zoning and servicing sufficient land for housing and delays in the planning system. In addition, the substantial change required in housing policy from that which had been appropriate in the 1980s took time to materialise. All of these delays contributed their part to the current housing problems.

11.3.2 House Building and the Stock of Housing

As may be seen from Figure 11.2, some 6,000 units of social housing per year were built in the first half of the 1980s. However, after the mid-1980s, annual production fell annually by about two thirds at a time of declining local-authority housing waiting lists and an extremely difficult budgetary position.

FIGURE 11.2

Social Housing Completions, 1980-1998



Source: *Annual Housing Statistics Bulletins*, Department of the Environment and Local Government, various years.

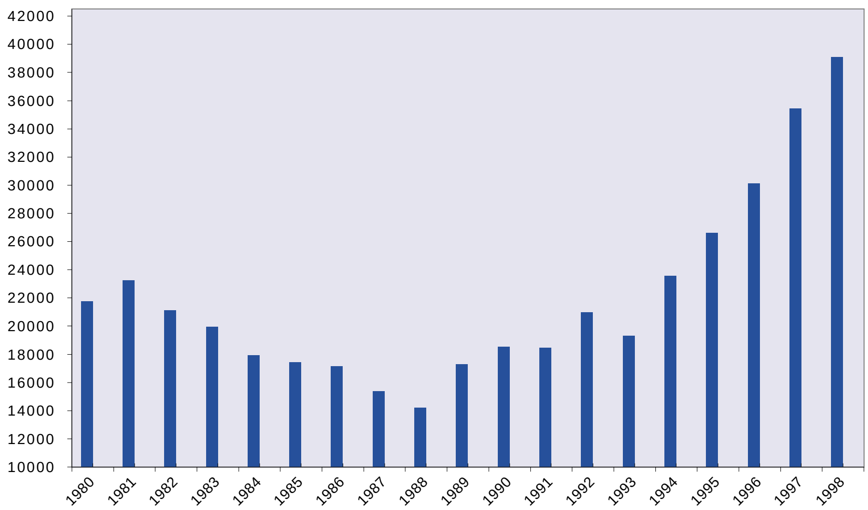
Construction recovered during the 1990s to about half the building rate of the early 1980s. During the 1990s, the voluntary sector has taken a larger role in the social housing sector. This reflects a recognition that the voluntary sector has a significant contribution to make to meeting housing needs and may be better positioned than local authorities to respond to certain kinds of housing needs. For their part, local authorities have worked to improve the management of existing housing estates and flat complexes, especially in view of the contribution that improved estate management can make to tackling the problems of the most deprived areas.

The National Development Plan 2000-2006 included funding provision for a local authority housing programme to deliver an average annual output of 7,200 units of local authority and voluntary housing over the seven-year period 2000-2006. In conjunction with complementary measures, it is anticipated that the needs of over 90,000 households could be met with Government assistance over this coming period.

In the private sector, Figure 11.3 shows that house-building also slowed significantly over the 1980s against a very difficult economic background. However, building accelerated greatly during the 1990s. Annual house-building – public and private combined – doubled from 21,000 units in 1993 to over 42,000 units in 1998.

FIGURE 11.3

Private House Completions, 1980-1998

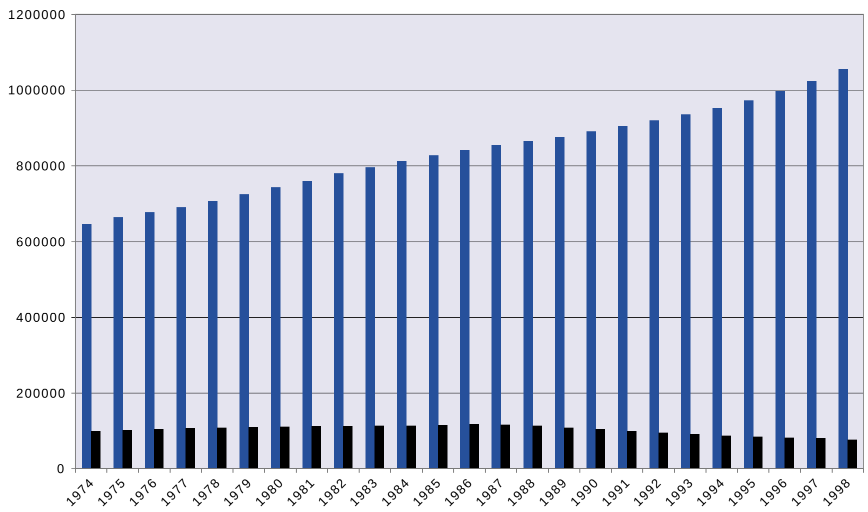


Source: *Annual Housing Statistics Bulletins*, Department of the Environment and Local Government, various years.

Figure 11.4 shows the size of the social, private and total housing stock in Ireland since the mid-1970s as estimated by Roche (1999). The total housing stock increased rapidly from the mid-1970s to the late 1980s, before levelling off in the early 1990s. This was followed by an acceleration in house-building after 1993. The number of dwellings in the local authority and social housing sectors peaked at about 116,000 units in 1986 but had fallen to 110,000 dwellings by 1998.

FIGURE 11.4

Estimated Housing Stock 1974-1998
Private and Social



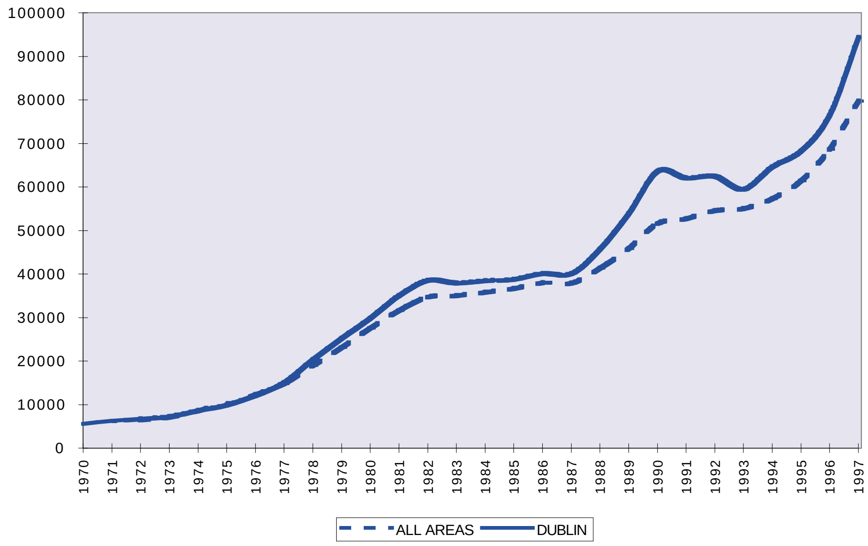
Source: Roche, M. (1999), "Irish House Prices: Will the Roof Cave In?", Working Paper N89/06/99, Department of Economics, NUI Maynooth, Co. Kildare.

11.3.3 House Prices

Figure 11.5 shows the cost of a new house in Dublin and nationally since 1970. The house price 'boom' of the late 1970s is apparent, as is the flat trend of the 1980-1988 period. This is followed by the jump in prices in the late 1980s, some of which could reasonably be seen as a recovery in prices from the depressed levels of the 1980s to a more normal pattern. Following a brief pause, prices escalate again after 1994. Figures for the prices of second-hand houses show a broadly similar pattern.

FIGURE 11.5

New House Prices, 1970-1997

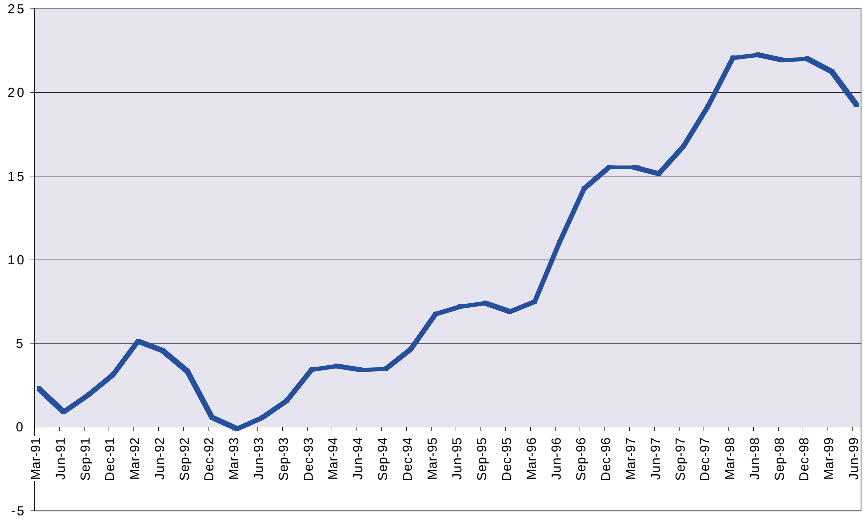


Source: Department of the Environment and Local Government, *Annual Housing Statistics Bulletins*, various issues.

However, although house prices in general have risen to very high levels, the rate at which prices are now increasing has slowed appreciably. Figure 11.6 shows the nationwide increase over twelve months in new house prices in the 1990s. This rate stays below five per cent until 1994, then accelerates very quickly, to reach a peak of 22 per cent in 1998. However, reflecting the major expansion in the national housing supply in the latest period, price increases have begun to decelerate during 1999.

FIGURE 11.6

Percentage Increase in New House Prices, 1991-1999



Source: Department of the Environment and Local Goverment, *Housing Statistics Bulletins*, various issues.

Note: In order to smooth the otherwise sharp quarter-to-quarter changes, the Figure is based on a three-period moving average of the quarterly statistics.

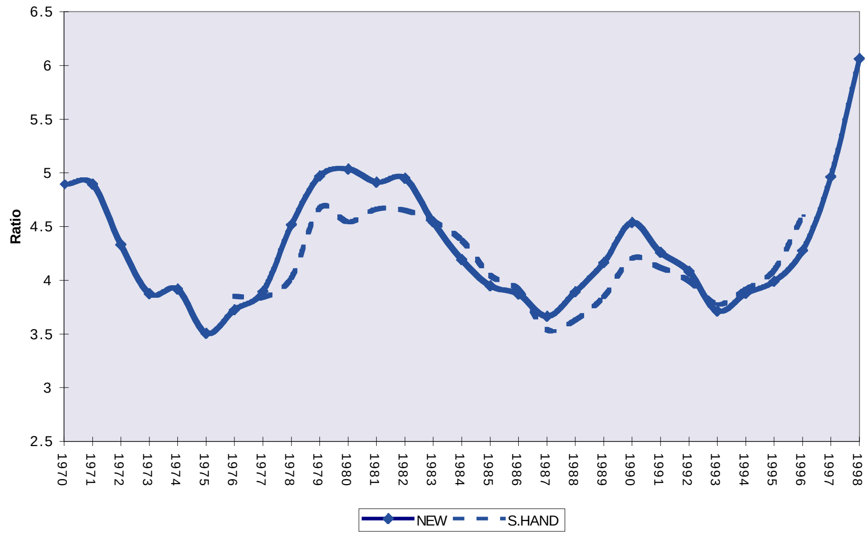
11.3.4 Affordability

The ratio of house prices to average disposable incomes is a reasonable indication of housing affordability although it does not incorporate the impact of all relevant variables such as changing interest rates and tax bills.

As Figure 11.7 shows, the affordability of private housing has followed a strongly cyclical pattern. At the time of the 1970s housing boom, affordability deteriorated markedly, with the multiple of incomes constituted by average new house prices rising from about 3.5 in the mid-1970s to 5.0 by around 1980. Through most of the 1980s, affordability improved substantially and the multiple fell back to 3.5. In the 1990s, affordability has worsened again and at the end of 1998, at a multiple approaching six times average disposable incomes, housing was less affordable than at the peak of the last housing boom around 1980.

FIGURE 11.7

Ratio of House Prices Nationally to Average Disposable Incomes, 1970-1998



Source: House price data from the Department of the Environment and Local Government, *Housing Bulletin Statistics*, various issues, and disposable income calculated from CSO (1999b), *National Income and Expenditure*.

Given how far house prices are out of line with the historical norm of affordability in Ireland, a restoration of affordability is likely to occur in the future. In principle, such an adjustment could take two possible forms. Either house prices stabilise while incomes continue to rise, or prices fall in nominal or even real terms. Measures that add to housing supply, for instance by securing increased availability of serviced building land, would help to stabilise house prices.

11.4 RENTING AND SOCIAL HOUSING

A rounded analysis of housing policy is dependent on examination of all tenure types and the linkages amongst them. These include not only the dominant home ownership tenure category but the private rented sector including the operation of the Supplementary Welfare Rent Allowance in that sector, local authority housing and its provision and management, voluntary housing and its financing, sheltered housing, hostel accommodation and homelessness.

11.4.1 The Irish Housing Model

Comparison of housing tenure in Ireland and several EU countries demonstrates that the pattern in Ireland is skewed towards owner occupation and that this has consistently increased over the past several decades as is demonstrated in Table 11.1. Over the same period the percentage of households in both private and local authority rental accommodation decreased consistently. This has resulted in the effective residualisation of the rental housing tenures both in terms of the percentage of the population in them and to some extent in the policy process.

The EU average tenure figures in Table 11.1 reflect a range of housing patterns and models but Ireland has the most skewed pattern towards home ownership. In a recent review, Balchin (1996) identifies three housing policy models within the European Union:

(i) the primacy of private rented housing as in Germany (and also in Switzerland);

(ii) the dominance of owner occupation as in Ireland, Spain, Italy and the United Kingdom; and

(iii) the promotion of social housing as in the Netherlands, Sweden, Austria and France. Social housing accounts for 36 per cent of all housing in the Netherlands, where it includes a large non-profit sector, 25 per cent in Sweden, 20 per cent in Austria and 17 per cent in France. Social housing is higher in urban areas in all these countries – for example it accounts for 39 per cent of housing in Vienna. In addition to its 25 per cent social housing, 15 per cent of Swedish households live in tenant co-operatives.

While the three models reflect policy patterns established over decades, all countries have a range of housing tenures and the mix of tenures is not unchanging as is indicated by the Irish situation. The particular mix is the outcome of policy choices. For example, the increase in the owner occupied tenure in Ireland is partly the result of an explicit policy favouring home ownership by successive Governments. This has been reflected in the consistent, although recently decreased, subsidisation of mortgage holders and the low, and now absent, taxation of home ownership. It is also indicated by the very favourable tenant purchase schemes – of the estimated 300,000 homes built by local authorities since the foundation of the State over 200,000 have been sold to tenants. This resulted in a quarter of all owner-occupied housing in 1991 being former local authority houses. This prompted Fahey and Watson to state that "[the] large proportion of local authority housing which has been sold to tenants suggests that, in purely quantitative terms, social housing has been used primarily as a *route to home ownership* for low-income households and only in a secondary way as an *alternative* to home ownership for that sector" (1995: 21).

TABLE 11.1

Housing Occupancy by Tenure in Ireland, 1961- 1991 and EU Averages, 1995

(Percentage of Housing)

	Ireland				EU Average
	1961	**1971**	**1981**	**1991**	**1995**
Local Authority	18.4	15.5	12.5	9.7	18.0 (Social)
Private Rental	17.2	13.3	10.1	8.0	21.0
Owner Occupied	59.8	68.8	74.4	79.3	56.0
Other	4.6	2.4	3.0	3.0	5.0

Sources: Department of Environment and Local Government, *Housing Statistics Bulletin* (various); Commission of the European Communities, *Housing Statistics in the European Union* (various).

While the high level of home ownership reflects consumer choice and the fact that home ownership represents an asset, it is also the result of the constraint of consumer options through the favouring of home ownership in public policy decisions. Taxation decisions relating to mortgage interest and owner-occupied homes influence consumer behaviour and patterns of housing supply. This leads to an interlocking spiral where consumers see owner occupation as the optimum choice and producers see this as the market to be in. The encouragement of owner occupation is often characterised as giving people what they want but no choice is made independently of the incentives that favour that choice. This steering of households towards owner occupation in turn creates a consumer ‘preference’ which in turn leads to a policy to encourage it. But this pattern does not characterise all housing markets, as the EU figures indicate and as we shall discuss below.

Despite the dominance of home ownership in Ireland, public expenditure on the rental sector has not been inconsiderable over the past decade. Prior to the Finance (No. 2) Act, 1998 very generous incentives were available in the form of Section 23 relief and income tax deductibility of interest costs for investment in property for renting. Bacon *et al.* (1988) costed these at £71 million per annum. Expenditure on the Supplementary Welfare Allowance (SWA) rent supplements reached £103 million in 1999. Incentives are still available under the current Urban Renewal Scheme, albeit on a more limited basis than over the past decade, and a new Student Accommodation incentive scheme was introduced in the 1999 Budget. As discussed in Section 11.4.6 there is a modest tenant’s tax relief scheme in operation.

The costs of the present Irish policy approach are high. These include the polarisation of the population into a relatively privileged and subsidised home-owning majority and a minority with insecure housing status. But, as access to home ownership becomes increasingly expensive the debt burden forced on lower income people, and the financial consequences for a wider number of mortgage holders if interest rates were to rise, give cause for concern. The dependence on increasingly expensive home ownership is likely to impact on wage demands which could destabilise the foundations on which recent economic progress and stability have been built. An increasingly expensive home ownership situation in the context of the absence of a vibrant, high-quality, tenure-secure and realistically priced rental sector that is supported by public policy may militate against the attraction of skilled workers who can choose to locate in less costly desirable locations abroad.

11.4.2 Social Housing

Social housing in Ireland is narrowly conceived relative to some other countries, most notably the Netherlands, where it has a large non-profit component and as a result a significant socio-economic spectrum of tenants. Social housing needs are defined by the Department of the Environment and Local Government (1995: 5) as "the housing needs of households whose resources are insufficient to provide them with access to suitable and adequate housing". Social housing in these terms is met by local authority housing, voluntary housing, other complementary local authority social housing schemes including improvements and extensions in lieu of housing but also, to an increasing extent for certain categories of need, by private rental housing.

Despite the categorisation of social housing outlined above, it should be borne in mind that much owner-occupied housing has a social component. Substantial subsidies are paid to many owner-occupiers for example, mortgage tax relief, the sale of public housing to tenants at heavy discounts, mortgage interest assistance under the SWA scheme and shared-ownership schemes.

The term social housing in Ireland refers exclusively to housing of low-income people. This is not the case in some other EU countries, for example the Netherlands, Sweden and Austria, where the social housing sector provides housing for households from both low and middle-income categories, and where the share of this type of housing is considerably higher than in Ireland. It is noteworthy that private sector landlords are involved in social housing in other jurisdictions. For example, in Canada they are involved in social housing under a number of programmes, including some offering mortgages at reduced interest rates for new construction and for renovation, in exchange for regulated rents (Fallis, 1993). In the former West Germany a social housing scheme involved private landlords as well as non-profit associations. Subsidies were made available to private landlords provided they rented to tenants below the qualifying limit for social housing for a specified number of years. The prescribed rents covered ‘normal’ profits (Ulbrich and Wulkopf, 1993). This is not to suggest that the private-rental sector could be a panacea for current Irish housing problems or could in the short-term make a significant contribution to social housing. It is recognised that housing systems that are skewed towards rental as the dominant form of housing also experience problems (Threshold, 1999a). The Council’s position is that a vibrant rental sector, including both profit and non-profit elements, is a desirable objective and would be part of the solution to the current mismatch of demand and supply in the overall housing sector. The overall objective must be an integrated housing policy that results in a system that offers good quality, affordable housing and choice across tenures.

11.4.3 Rent-Assisted Social Housing

As reflected in the receipt of SWA rent supplement, 33,000 low-income households were accommodated in private rental accommodation in 1995. The number of these households had increased to 41,000 by September 1999. This increase is accounted for partly by the number of persons who retain supplements for up to three years under employment incentive schemes (4,800 households in September, 1999). In addition, the number of asylum-seekers recently accommodated in rent-supplemented accommodation is estimated to be around 4,000 households in November, 1999. SWA rent-supplement recipients accounted for just under 34 per cent of all households in private rented accommodation in 1998. It is important to recognise that the total number of households in receipt of SWA rent supplementation in any one year does not constitute a stable group. Less than half the total are in receipt of the allowance for more than one year and the average duration for those who leave the system is 23 weeks (Department of the Environment and Local Government, 1999). Expenditure on SWA rent supplementation has increased enormously over the past decade. It was £73 million in 1996, £96 million in 1997 and is now over £103 million per annum

(Department of Environment and Local Government Communication, November, 1999). Cost increases in the past few years are due both to increased numbers of claimants and particularly to increases in market rents.

The Review Group on the Role of Supplementary Welfare Allowance in Relation to Housing reported to the Minister for Social Welfare in December, 1995. The Group concluded that rent supplementation is an appropriate and cost-effective response for many recipients, particularly single-person households (estimated to constitute two-thirds of rent supplement cases) and those in need of temporary support. The SWA rent supplementation scheme fills an important role in meeting certain categories of housing need. The provision of an income-support safety net to meet urgent or short term needs also continues to be a fundamental purpose of the SWA scheme, as evidenced by the extent to which it caters for persons needing temporary support and for exceptional needs such as have arisen in recent years with increases in the number of asylum seekers. The need to address certain shortcomings in relation to the scheme has frequently been aired, including registration and standards of rent-supplemented accommodation and poverty and unemployment traps associated with it. People in full-time work generally cannot qualify for SWA rent/mortgage supplements. However, those moving from long-term unemployment into employment under a scheme such as Community Employment (CE), Back-to-Work-Allowance, or Revenue Job Assist can retain their supplement (subject to certain conditions) for three years. In the case of part-time workers, the supplement is reduced by £1 for every £1 of net earnings.

The issue of arrangements for the administration of the scheme has also been the subject of public discussion and examination, most recently by an Inter-Departmental Committee, under the aegis of the Department of the Environment and Local Government, which reported in June, 1999. The scheme is administered by the health boards, through their community welfare service, on behalf of the Department of Social, Community and Family Affairs. This reflects the scheme's fundamental income support role which, the Inter-Departmental Committee recommended, should continue to be discharged through the welfare system. However, the Committee recommended the establishment of a new local authority rent assistance scheme. This would make available to local authorities a comprehensive range of options including direct provision of accommodation and rent assistance, where it is appropriate to meet housing need. The report also pointed out the need to address various issues relating to the scheme before the introduction of new arrangements. The Government have decided in principle to introduce such a scheme. A Planning Group is to be established shortly to draw up details of new arrangements and to address the various issues arising in their implementation. Definitive Government decisions in relation to a new scheme will be taken in the light of the Planning Group's report. A minimum two-year time frame is envisaged for introducing new arrangements.

11.4.4 Local Authority Housing

Local authorities rented out just under 99,300 houses in 1998, an increase of almost 6,000 since 1993. Local authority housing waiting lists and planned provision, which at various times over the past 30 years have been the focus of considerable debate, have received little attention over the past decade, at least up to the recent past. The results of the 1999 assessment of local authority housing needs indicate that on 31 March, 1999, a total of 39,176 households were in need of local authority housing compared to 27,427 in 1996. The assessment in March, 1993, indicated local authority housing need at 28,600 households, having grown by 45 per cent between 1989 and 1993. The present level of provision of local authority and voluntary housing, coupled with the depletion of local authority stocks through sales, does not augur well for this population. Furthermore, these waiting lists must be considered in the context of that non-quantifiable population who are ineligible for local authority waiting lists or are not seeking local authority housing but cannot afford the full market price of private rented accommodation. The scale of this problem is indicated by the 41,000 households in receipt of SWA rent supplement. While some of the latter population are also on the local authority waiting lists, about two thirds are estimated to be single people who have low priority for local authority housing.[4] Standard local authority housing may not be an appropriate or cost-effective means of accommodating this population but neither is poor quality private rental accommodation, particularly if publicly subsidised. Clearly this is an issue which must be examined by the Commission on the Private Rented Residential Sector (see Section 11.4.6). If the housing needs of this section of the population cannot be met in the private rental sector they will have to be met through direct provision by local authorities or by the voluntary social housing sector.

In 1998 local authorities acquired or completed construction of 3,290 houses. This reflects a slight increase over 1997 (3,217), but is a decrease from 1996 (3,573) which was in turn less than 1995 (3,842) (Department of the Environment and Local Government, 1999: 34). It is currently estimated that 3,700 houses will be completed or acquired in 1999. Funding has been included in the National Development Plan for 35,500 local authority housing starts, 5,500 per annum from 2000-2003 and 4,500 per annum from 2004-2006. This provision has been front-loaded to meet existing need more quickly.

Local authorities sold over 2,000 houses in 1996, 1997 and 1998 (2,284, 2,139 and 2,006 respectively). These figures are considerably lower than the 1989 peak of 18,000 but a marked increase from the 500 sold in 1994. Between 1988 and 1991 local authorities sold 31,000 houses. The 1989 peak was in response to a once-off highly discounted scheme announced in 1988 with the aim of encouraging the maximum number of tenants to become owners of the houses they occupied (NESC, 1988: 79). The issue of sales of local authority housing is somewhat controversial since it has resulted in the further residualisation of this tenure, as has been pointed out in numerous reports, including the Council's 1993 strategic analysis (NESC, 1993: 456-9; Fahey and Watson, 1995:

4 Twenty-nine per cent of all households assessed as being in need of local authority housing in March 1999 were in receipt of SWA; of these 48 per cent were lone parents with children, 23 per cent were single-person households, 22 per cent were two adult households with children and 7 per cent were adult households without children.

19-24 and O'Sullivan, 1998). On the other hand, it can be argued that the introduction of a mix of tenures into large previously tenure-homogeneous areas contributes to social stability and also reduces maintenance costs for local authorities. No such arguments can be made for the surrender grant policy promoted in the 1984-1987 period which contributed greatly to residualisation of certain local authority estates – 6.5 per cent of total local authority housing stock was surrendered under this scheme and take-up was disproportionately in a small number of estates (NESC, 1988: 188-9). This has exacerbated the management problems in some of these estates.

In its 1993 Strategy report the Council expressed reservations about privatisation of the local authority housing stock through discounted sales on the grounds that it reduced the ability of local authorities to meet need and had adverse income redistribution effects since sales favour better-off tenants. The Council called for a revision of the scheme (NESC, 1993). While there have been some modifications since the Council made its comments, it is noteworthy that the four Dublin local authorities in their strategic review, published earlier this year, also pointed to the need to review the costs and benefits of this scheme. They pointed to the need for the replacement of privatised houses at very considerably greater expense by the local authorities, while the tenant purchaser is free to sell and retain the windfall profits (Dublin Local Authorities, 1999). In contrast to this argument, it is pointed out by some analysts that many tenant purchasers of local authority housing were not, and are not, in a position to purchase alternative housing on the open market. Therefore if they did not purchase their local authority house, they would most likely remain renting it. One can find evidence to support both interpretations. As has been pointed out earlier, the practice of tenant purchase has been a significant route into home ownership in Ireland. It is noteworthy that the terms of the local authority Shared Ownership Scheme were enhanced in 1998 when the income eligibility thresholds were raised and payments under the rental element of the scheme reduced. A new Affordable Housing Scheme was launched in 1999. Its aim is to allow local authorities to build housing and to sell it at cost to private buyers whose household income is below a certain threshold.[5] The house is paid for by means of a low-interest mortgage made available by the local authority. The National Development Plan provides funding for the provision by local authorities of 7,000 affordable houses and for 7,000 households to acquire homes under the shared ownership scheme which will double the number of units of affordable housing made available to lower income purchasers from 1,000 units per annum currently to 2,000 units per annum. This does not include, of course, the number of affordable housing units that may be made available by developers in the context of the 1999 Planning and Development Bill proposals.

The issue to be considered now is whether in the current context the tenant purchase scheme as operated at present is still appropriate. Consideration of this issue cannot be divorced from the overall objectives of Irish housing policy:

> To ensure as far as the resources of the economy permit, every family can obtain for their occupation a house of good standard at a price or rent they can afford, located in an acceptable environment. A secondary aim of housing policy is the encouragement of owner occupation as the widely preferred form of tenure (Department of Environment, 1995: 4).

While supporting the objectives of community stability and tenure-mix the Council recommends a review of the operation of the tenant purchase scheme to ensure that it is equitable, efficient, consistent with the objectives of Irish housing policy and attuned to the current context of house prices and construction and maintenance costs. In this regard it must be borne in mind that one impetus to the extensive sale of local authority housing in the 1980s and early-1990s was management and maintenance costs.

11.4.5 Voluntary Housing

In its 1988 housing report the Council pointed out that Ireland

5 The threshold is £20,000 per annum or less for a single income household and in the case of a two-income household where two and a half times the income of the principal earner plus once the income of the subsidiary earner does not exceed £50,000.

stands in marked contrast to many European countries in that it does not have significant voluntary and co-operative housing sectors. This is still true despite the fact that voluntary housing has frequently been advocated as an element of social housing in Ireland. The Council has supported this (NESC, 1988; 1990; 1993).

Voluntary housing accounts for less than one per cent of the housing stock in Ireland, that is around 11,000 units and its recent yearly production tends to be falling rather than increasing. It was 1,011 in 1995 and decreased consistently to 478 in 1998, a 35 per cent decrease on the previous year. Several reasons can be identified for the low and decreasing level of voluntary housing provision in Ireland. Voluntary housing associations in Ireland tend to be small and often involved in once-off schemes. Of the 350 associations that have approved status only 200 have completed schemes and 119 were involved in only one scheme (Cogan, 1998). Fourteen of these approved bodies have been involved in Rental Subsidy Scheme projects of more than 10 units and 76 approved bodies have been involved in Capital Assistance Scheme projects of more than 10 units. Funding through the Capital Assistance Scheme has to be negotiated through local authorities subject to Department of the Environment and Local Government mortgage ceilings for social housing. Tendering is difficult in the present construction climate and lowest tenders are often lost because of delays in the planning and approval process and this may have consequences for funding already agreed. Even large associations are often frustrated by the funding and planning systems (Cogan, 1998). In 1997 the Irish Council for Social Housing was critical of the current funding limits for both the Capital Assistance and Rental Subsidy Schemes and argued that they did not reflect current costs. In particular, they argued that the Capital Assistance Scheme was virtually unusable in urban areas unless sites were donated or existing buildings converted (Irish Council for Social Housing, 1997).

The Minister for Housing and Urban Renewal announced a range of new measures to assist the voluntary housing sector in October, 1999. The principal elements of the package include:

- the establishment of a new Voluntary Housing Unit within the

Department of the Environment and Local Government which will be responsible for developing the voluntary housing sector;

- the setting up of a working group consisting of Departmental and local authority officials and representatives of the voluntary housing movement which will consider proposals for improvements to procedures and schemes which apply to the voluntary housing sector;
- significantly increased maximum levels of assistance to voluntary housing bodies under the Capital Assistance Scheme which exceed the previous levels by amounts ranging from £16,000 to £35,000 per unit of accommodation;
- wider income limits and significantly higher unit cost limits for voluntary housing under the Rental Subsidy Scheme; and
- additional assistance introduced for the first time towards site acquisition costs, subject to a maximum of £20,000 in the main urban areas and £15,000 in other areas.

The National Development Plan contains funding provision for 15,500 voluntary housing units over the lifetime of the Plan providing for increasing voluntary housing provision on a phased basis to 4,000 units of accommodation per annum.

The full implementation of these commitments would meet several of the criticisms made by voluntary housing providers and could over the medium-term lead to a significant increase in the contribution of the voluntary housing sector to overall housing provision.

11.4.6 The Private Rental Sector

The private rental sector has never received sustained public policy attention in Ireland. As the purchase price of private housing increased throughout the 1990s discussion of the private rental sector focused almost entirely on its contribution to the problem of access to the owner-occupier sector. Investors in private rented accommodation contributed to the bidding up of prices for potential owner-occupiers. They also contributed to the supply of rental accommodation and an increase in its quality, particularly at the upper and middle levels of the market. Yet, these investors, in some instances, also contributed to the instability of the market where their focus tended to be on capital gains rather than long-term commitment to the rental market.

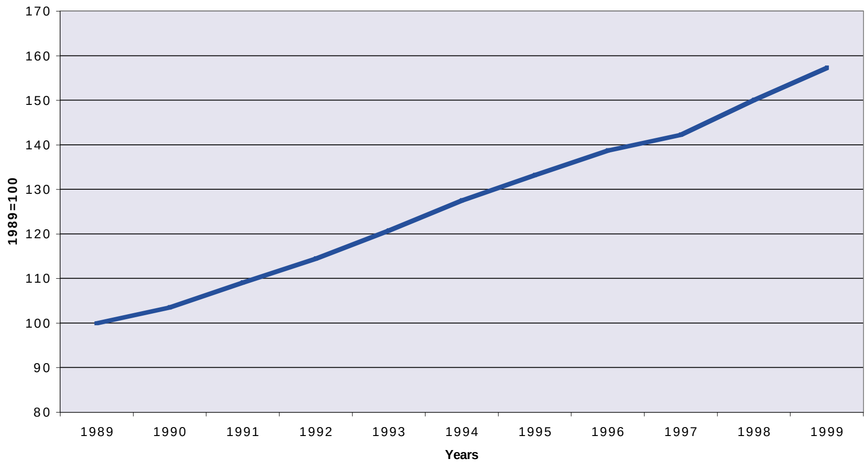
Table 11.1 indicates a steady decline in private rental occupation between 1961 and 1991. Yet since 1991 the number of households in the private rental sector has increased significantly from 81,000 in 1991 to 125,000 in 1996. This reflects an increasing population, in particular an increase in the young single working age population, and the change in household structure with an increase in the number of smaller-size households leading to an increase in total number of households. It also reflects the provision of financial incentives to make the sector more economically attractive to investors, the improved quality and choice of accommodation resulting from urban renewal schemes and in recent years the prohibitive expense of home ownership for people who would formerly have become home owners. It also reflects the increased use of this tenure in meeting certain housing needs as is reflected in the increasing SWA rent supplement figures. The increase in demand for rent supplements is not entirely a reflection of increase in persons renting. SWA provides an income support to those already in rented accommodation who become unable to afford rent due, for example, to unemployment. Moreover, the 1995 SWA Review Group report concluded that increased awareness of the availability of supplementation was the most important factor in expansion of numbers and costs under the scheme (Department of Social Welfare, 1995).

A highly differentiated private rental sector has developed in Ireland over the past decade with high-standard accommodation and relatively secure tenure, characterised by leases, at the upper end of the market, and low standards and marked insecurity of tenure, reflected in reliance on the statutory notice to quit of four weeks, at the lower end. Quality has improved at the middle level of the market, which is more likely to be characterised by leases than is the low end. But all three categories are characterised by dramatic increase in rents over the past few years. Figure 11.8 shows an increase of almost 60 per cent in average rents between November, 1989 and April, 1999. These rents can be sustained by many tenants only with great difficulty, making them a push factor towards homelessness for a significant minority of the population (Downey, 1998; Guerin, 1999). We discuss this issue below.

FIGURE 11.8

Rent Index, 1989-1999

(Sub-index of the Consumer Price Index)



Source: Central Statistics Office

The rental sector has traditionally been seen as a residual market that provides a relatively short-term solution to housing for people who will move either to ownership or local authority tenancy. The changing economics of house purchase and the long waiting lists for local authority housing mean that this tenure will become a longer-term solution for an increasing percentage of the population. Yet, it is widely acknowledged that the structure of the private rental sector in Ireland is problematic – relatively high rents, poor quality and non-secure tenure at the middle and lower ends of the market – and can no longer be accepted. Solutions need to be wide-ranging and must cover not only landlord-tenant issues but the structure of the rental market.

In contrast to several continental European countries, this sector is composed of small private, rather than institutional, investors. This is associated with instability in the sector and raises the issue of the legal and economic frameworks within which the private rental sector operates. Could it be changed to encourage institutional investors? In some continental countries, churches and trade unions have a significant involvement in the sector in addition to commercial investors. The present unsatisfactory legal framework of landlord-tenant relations is a barrier to such involvement in Ireland. But this is not an insurmountable difficulty as we illustrate below. Yet, it cannot be assumed that resolution of this legal difficulty will of itself lead to a significant increase in institutional investment in the private rented sector. Such investment decisions are likely to be made in the light of a range of factors including returns in other investments and experience.

11.4.7 Landlord-Tenant Issues

The *Charter for Rented Housing* refers to a series of measures introduced since 1992 to grant new rights to tenants. It refers to the following measures introduced under the Housing (Miscellaneous Provisions) Act, 1992:

(i) minimum notice to quit – four weeks;

(ii) rent books;

(iii) minimum standards of accommodation;

(iv) abolition of right of a landlord to enter a tenant's premises to seize goods, without a court order, to force payment of rent due;

(v) registration of landlords; and

In addition, the 1995 Finance Act introduced tax relief for tenants – £10 per week at the standard rate for single persons (which compares most unfavourably with the tax incentive to owner-

6 Higher amounts of £750 and £1,000 per annum apply to widowed and married persons. Tax relief for tenants aged over 55 has been available at marginal rates since 1982 – the current relief is £1000, £1,500 and £2.000 for single, widowed and married persons respectively.

occupiers).[6] This has generally been seen as a measure to bring landlords into the tax net. Only 37,000 tenants out of a total of 125,000 had claimed for the 1996-97 tax-year by February 1998. Taking into account the fact that 40,000 of the 125,000 total in private rental accommodation were on SWA and some other, likely small, number were on nominal rents, it is still likely that less than half of those eligible applied for the allowance.

Enforcement of rent books, standards and registration regulations is the responsibility of the local authorities. Enforcement has to some extent been hampered by legal action on behalf of landlords. Levels of enforcement are low and vary across authorities and from year to year (Department of the Environment and Local Government, *Annual Housing Statistics Bulletin*, various years). Furthermore the information on enforcement is exceedingly limited for the evaluation of routine practices. While the *Charter* is an improvement over the pre-1992 situation, several problems have been identified in day-to-day administration and in the scope of some of its elements (Ryall, 1999). In addition to the enforcement of the existing *Charter*, the issues of security of tenure, quality and affordability are the most pressing issues.

The present landlord and tenant legislation means that, in the absence of a lease, a tenant's security of tenure is effectively four weeks, that is the statutory notice to quit period. A tenant must have 20 years continuous occupation before security of tenure can be assured and then it can be assured for sequential 35-year leases (Landlord and Tenant (Amendment) Act, 1980 s. 13 (1) (b), s.16 and s.23). Despite the fact that landlords can increase rents to market levels, which creates affordability problems for many tenants, the length of security of tenure creates problems for landlords and creates an incentive to end tenancies coming up to the 20-year cut-off. The issue of security of tenure, or rather its insecurity, has been widely discussed since 1993 when it came to public notice due to what has come to be known as the Mespil Estate controversy.[7] Following this, the Minister for Justice

7 This refers to the controversy that developed around the sale of an apartment block by its owners – Irish Life Insurance Co. – when tenancies were coming up to the 20 period.

established a Working Group to consider the issue. Its July 1996 report has not been published but was made accessible this year through placement in the Oireachtas Library. The Working Group concentrated on the negative consequences of the 20-year cut-off. It proposed that landlords might be more favourable to extending tenancies if tenants could voluntarily waive their right to a 35-year tenancy and continue on a year-to-year tenancy. A decision on the recommendation has not been taken and the issue will be considered by the Commission on the Private Rented Residential Sector, established in 1999.

Bacon *et al.* (1999) recommended that a Commission be established to examine the issue of security of tenure in the private rented sector. However, the Government established a more wide-ranging Commission on the Private Rented Residential Sector whose terms of reference are to examine the working of the landlord and tenant relationship in respect of residential tenancies in the private rented sector and to make such recommendations, including changes to the law, as the Commission considers proper, equitable and feasible with a view to:

- improving the security of tenure of tenants in the occupation of their dwellings;
- maintaining a fair and reasonable balance between the respective rights and obligations of landlords and tenants; and
- increasing investment in, and the supply of, residential accommodation for renting, including the removal of any identified constraints to the development of the sector.

The membership of the Commission comprises representatives of the legal, financial and auctioneering professions, together with landlord and tenant interests and relevant Government Departments. It is to report to the Minister for Housing and Urban Renewal by 1 June, 2000.

The broad remit of the Commission is welcomed by the Council. It is important that the barriers to institutional investment in the sector, the entire range of tenant rights, and their enforcement, and the issue of affordability be examined. The issue of effective remedies for landlords should also be examined. There is evidence of very long delays in ejectment proceedings in the district courts against tenants who break their contracts. An effective and vibrant private rental sector is dependent on enforceable rights and effective remedies for both landlords and tenants.

Because of the imbalance between demand and supply and the unsatisfactory structure of the private rental market the issue of affordability has become a major problem particularly at the middle and lower ends of the market. The affordability issue, although compounded by other factors, is most acutely evident amongst homeless people. Satisfactory mechanisms that balance the need for market rents and equity have been developed in other jurisdictions and their relevance for the Irish context should be examined. Rent review tribunals open to landlords and tenants operate in several jurisdictions, for example in parts of the market in France, such as the old buildings section of the market. In France and Germany there are mechanisms, involving landlords, tenants and public authorities, to review rents for new tenants *vis-à-vis* 'the current level of rent in a neighbourhood' (Schaefer, 1993). Such mechanisms also operate in some provinces in Canada, which has a private rental sector with large scale commercial and institutional participation and which provides accommodation for 31 per cent of households (Fallis, 1994; Miron, 1994). There is a Rent Tribunal in Ireland but its activities are confined to the formerly rent controlled tenancies and it operates as required. There may be lessons from its experience that could inform developments on a wider basis. As with any type of regulation and/or review, rent tribunals would have to operate in a manner that would not create disincentives to participation in the rental housing market.

In addition to the encouragement of non-profit institutions into the housing market there may be potential for Public-Private Partnerships (PPPs) in the social housing area. Experience from the operation of PPPs in other areas and from the social housing area in other countries, such as the UK, could provide insights in this regard.

All of these, and other options, should be examined by the Commission on the Private Rented Residential Sector.

11.4.8 Rental Systems

The Irish housing system is stratified not only by tenure. It is also stratified by public-private provision within the rental sector, the former being a non-profit or cost rental system while the latter is a profit rental system. This distinction is evident in other countries but the dualistic structure of the Irish rental sector is particularly marked and is similar to the British system in this regard. Both systems are largely characterised by the absence of non-profit provision within the private rental sector.

The independence of public and private renting is not a necessary characteristic of renting. Under a social market model of renting, economic and social considerations are of equal importance. Social market theorists argue that public intervention is necessary and desirable but it must be market-conforming. They recognise that markets are embedded in wider, social, political and cultural institutions. “Markets need to be structured in such a way that welfare is provided for without introducing unduly large market distortions” (Kemeny, 1995:15). An important part of this is the encouragement of non-profit forms of social organisation to compete with profit-seeking forms. In a social market model of renting, not-for-profit renting competes with profit renting. This leads to a diverse and competitive market and also fosters stability. It avoids the problems associated with rent allowances and profit renting which may lead to rent increases by increasing demand without any impact on supply. Under not-for-profit renting in these kinds of markets, rent regulation must conform to the requirements of the market – this is the case in Germany, Sweden and Switzerland (Kemeny, 1995).

In segregated private and social rental markets, privatisation leads to the residualisation of the social rental stock. In a unitary market where the social rental market is not confined to those who cannot afford other alternatives, such residualisation would be avoided.

In the Irish rental context, diversity within the rental sector could come from development of voluntary housing association initiatives beyond low-income special needs provision and from the participation of non-profit institutions such as trade unions and churches in the provision of rental accommodation. Each of these developments is dependent on public policy initiatives. The recently announced package of measures in the voluntary housing area is a positive contribution in this regard. Legal changes relating to the landlord-tenant code are also necessary to facilitate the entry of institutions, both profit and non-profit, into the housing market.

Housing associations in Ireland are involved exclusively in low-income and special needs housing provision. This contrasts with the situation in countries where there is a unitary rental market, that is, profit and non-profit renting compete in one market. At least one housing association – Respond! – has indicated to the Department of the Environment and Local Government that it has the capacity to develop a non-profit private rental option (Cogan, 1998) and the Department has encouraged this proposal (Department of the Environment and Local Government communication, September, 1999). Such a development would create greater diversity and choice for tenants in the Irish rental market and could also stabilise production cycles since profit and non-profit agencies have different sources of finance.

In addition to voluntary housing association initiatives, there are innovative housing initiatives by some other groups, for example those involved in community development. Rural Resettlement is a community-based response to housing need and rural regeneration. It has settled 350 households from urban areas to rural areas since 1990. In co-operation with community groups it locates houses vacant through de-population and makes them available on a rental basis to low-income urban families. The Council strongly supports such initiatives.

11.4.9 Homelessness

While *Partnership 2000* and the National Anti-Poverty Strategy provide a framework for action on several elements of social exclusion, it is important to recognise that some extreme manifestations of social exclusion, notably homelessness, have received relatively little attention in recent policy discussion on poverty. This is to some extent a reflection of the absence of quality data on the magnitude of the problem until recently. The 1999 assessment of housing needs, which took place in March, included a comprehensive assessment of the level of homelessness using a broader definition than in previous assessments. The assessment revealed that there were 5,234 persons categorised as homeless, compared with 2,501 persons in 1996 and 2,667 in 1993. Of these 5,234 persons, 2,593 were adult men, 1,399 were adult women and 1,242 were children. There were 2,947 single persons homeless and the remaining 2,287 persons were in 796 households consisting of more than one person. Comprehensive information on the Eastern Health Board area has recently become available. This study was undertaken by the ESRI for the Homeless Initiative and indicates that there were 2,900 adults and 990 children homeless in Dublin, Kildare and Wicklow in March 1999 (Williams and O'Connor, 1999). These figures do not include asylum seekers. The figures are based on a survey of homeless individuals and families who made contact with a homeless service or who were accepted as homeless by a local authority.

The Homeless Initiative is a voluntary/statutory partnership under the direction of Dublin Corporation and the Eastern Health Board. The Initiative was established in 1996 for a three-year period by the Minister for Housing following a review of services by these bodies. This review pointed to the fragmentation of services and the absence of services for some categories of need. The Initiative was proposed as an administrative structure to plan and co-ordinate services to achieve an equitable and effective framework for their development. Similar initiatives have not been taken in other areas but the research and practice of this one should provide insights into service provision in other areas.

The recently-available figures on homelessness indicate that the problem is increasing. However, it is also clear that adequate service provision to meet existing homelessness and to prevent its increase is possible particularly in the present economic climate.

Housing need does not occur in a vacuum and this is particularly true of the housing needs of homeless people. Various sources of information indicate that there are two broad categories of homeless people – those for whom poverty, combined with a crisis such as eviction or a relationship breakdown, precipitates homelessness and those who have chronic disabilities such as alcoholism or mental illness (Homeless Initiative, 1999). In the latter case housing is only one of several service needs. This obviously adds to the complexity of service provision. People with drug addiction problems are an increasing category of homeless people with special needs – clearly their needs are multiple. A new category of homeless people, also with a very different set of needs and service requirements, are asylum seekers and refugees (O'Sullivan, 1998). They were not included in the recent Homeless Initiative enumeration.

Just as the reasons for homelessness are not homogeneous, neither is homelessness. Homelessness ranges from sleeping rough, through night shelter, hostel accommodation, bed and breakfast and other temporary arrangements such as sleeping on friends' floors. The housing needs of each of these categories of homeless people are different.

The range of services for homeless people and the providers of services are also diverse. These services range from emergency accommodation, including women's refuges, transitional housing, food and meal services, drop-in, advice, and outreach services, medical and psychiatric services and statutory housing and income maintenance services.

The Homeless Initiative has proposed a 'continuum of care' approach with services being delivered through a regional structure under the leadership of the local authority: "Services should be based on the principle of 'continuum of care' approach with the aim of addressing the needs of homeless people humanely and working with them to move them into appropriate permanent housing and long term social and economic stability" (Homeless Initiative, 1999). It is proposed that a Homeless Services Support Centre would be at the heart of the structure. While this proposal relates to the Eastern Health Board, it provides a model, which with suitable adaptation to local conditions and needs, has much to recommend it for other areas.

The ‘continuum of care’ concept of service provision points to the need for a continuum of housing provision and the fact that homelessness is part of the continuum of housing need.

The Council has several times in the past made strong recommendations on homelessness. The context within which it is now making recommendations is the most favourable ever. Given this context and the opportunity to make a policy choice to eliminate homelessness it makes several recommendations relating to planning, co-ordination and funding of services, including specific service provision in Section 11.7.

11.4.10 Housing for Travellers

The fundamental importance of accommodation for the current and future well-being of Travellers was recognised by the Task Force on the Travelling Community in 1995, as it was by its predecessors in 1963 and 1983 (1995: 95). Despite the earlier reports, Traveller accommodation is highly unsatisfactory at the end of the 1990s. In 1998, 121 extra families were accommodated by local authorities, making a total of 3,515 families in such accommodation. This left 1,148 on the roadside, which represents an increase of 1.8 per cent over 1997 (Department of the Environment and Local Government, November, 1999). The response of housing authorities to the accommodation needs of Travellers has been uneven and some have been criticised for failure to acknowledge the growth in the population. Yet, progress in some areas has been very good and there are excellent examples of local authority housing and halting sites which can be used as examples of best practice and provide models for development that meets the needs of Travellers and the settled community.

Consistent with its recognition of the relative lack of progress in the accommodation area, the 1995 Task Force on the Travelling Community (1995) called for legislation to ensure more concerted efforts on the part of housing authorities. In response, the

Government adopted a national strategy for Traveller accommodation in 1996 and in 1998 the Housing (Traveller Accommodation), Act was passed which gives effect to commitments contained in *Partnership 2000*. Under the Act, local authorities, in consultation with Travellers, are required to draw up, adopt and implement a five-year programme to meet the existing and projected accommodation needs of Travellers in their areas. This includes an assessment of the specific needs of Travellers, including the need for halting sites. The deadline for the adoption of the programme by each local authority is March 31, 2000. If the elected members of a local authority do not adopt a programme by then, the County Manager will be required to do so. The Act also amends planning legislation to require planning authorities to include objectives regarding Traveller accommodation in their county/city development plans. It also put on a statutory basis the National Traveller Accommodation Consultative Group that advises the Minister. The Group has been in existence since 1996 on a non-statutory basis. New mechanisms were also provided in the Act to facilitate consultation at local level between local authorities and Travellers. Each county council and county borough corporation is obliged to establish a local Traveller accommodation consultative committee representative of Travellers, elected members and officials of the authority.

Funding for Traveller-specific accommodation was increased from £9.5 million in 1997 to £11 million in 1998. This was supplemented by £1.025 million to assist local authorities with the cost of managing and maintaining sites. However, money is not the main problem in this area. The costs of change are modest. The slow provision of accommodation is partly the result of negative attitudes and local opposition to individual developments. The settled community and Travellers must consider how they can work in co-operation with local authorities to ensure that proposed developments are brought to fruition as soon as possible.

Proper management and maintenance of Traveller accommodation is essential for the quality of life of the residents on site and in the immediate area. The Department of the Environment and Local Government provides financial assistance to local authorities for the management and maintenance of accommodation. Furthermore, the Department approved funding in 1998 and 1999 for a number of pilot initiatives which would bring about improved relations between Travellers and local authorities in the management and maintenance of accommodation.

TABLE 11.2

Traveller Families in Local Authority or Local Authority Assisted Accommodation, on the Roadside, or other private Accommodation, 1996-1998

Type of Local Authority Accommodation	1996	1997	1998
Standard Local Authority Housing	1,814	1,817	1,900
Local Authority Group Housing	321	324	339
Private Houses assisted by Local Authority		102	110
Accommodation provided by Voluntary Bodies with Local Authority assistance		17	18
Local Authority Halting Sites	1,143	1,134	1,148
TOTAL LOCAL AUTHORITY OR LOCAL AUTHORITY ASSISTED	3,278	3,394	3,515
On the Roadside			
Indigenous	815	926	990
Transient	225	201	158
TOTAL LOCAL AUTHORITY ASSISTED AND ON THE ROADSIDE	4,318	4,521	4,663
Estimated number of families in other private accommodation		266	315

Source: Department of the Environment and Local Government communication, November, 1998.

The 1998 Act is the most comprehensive legislation on Travellers accommodation enacted to date. Given the persistence of serious problems in Traveller accommodation as outlined in Table 11.2, it is essential that its implementation be monitored effectively and action taken to ensure the full implementation of the Act. This monitoring is very important in view of the fact that the provision of Traveller accommodation has been impeded by discrimination and objections by the settled community and a failure to recognise members of the Traveller community as citizens entitled to the same rights and obligations as other citizens. The soon-to-be-enacted Equal Status legislation may help in broadening this appreciation.

The Council is strongly supportive of the 1998 Housing (Traveller Accommodation), Act, and recommends that its full implementation be adopted as a priority by local authorities and that monitoring and evaluation of progress be undertaken on an annual basis by the Department of Environment and Local Government.

11.4.11 Housing for People with Disabilities

> Housing provides much more than shelter in modern society: It is the base from which people participate in society and can reflect as well as dictate their level of participation…. Equal status for people with disabilities requires that they have the means to exercise their right to equality in housing (Report of the Commission on the Status of People with Disabilities, 1997:187).

Although there is inadequate information available on the numbers of people with disabilities in Ireland, the Commission on the Status of People with Disabilities concluded that there are about 360,000 Irish people, or roughly 10 per cent of the population, with a disability. Disability is more prevalent among the over 60s. It is estimated that about half of this age-group have disabilities. Not all of this population require modified housing, yet a significant percentage do. Grants were made to 2,455 disabled persons for modification of their houses in 1998. The total cost was £10.3 million.

The housing options provided by the Department of the Environment and Local Government to address the special needs of people with disabilities target three areas:

- grant assistance for improvement or adaptation of existing housing;
- grant assistance for provision of purpose-built new private housing; and
- social housing provision by local authorities or voluntary bodies.

Under the Disabled Persons Grant Scheme, local authorities may pay a grant for the provision of additional accommodation or necessary works or adaptation to a house to meet the needs of a member who is disabled. The maximum grant is the full cost of modifying a local authority house and three-quarters of the approved cost of modifying a private house up to a maximum of £12,000 (1999 Budget).

The New House Grant Scheme may waive the normal floor area requirements and the first time purchase requirement in the case if a specially modified house for a disabled person.

Some local authority and voluntary housing is designed or adapted for people with disabilities but annual or total provision figures are not available. Voluntary housing bodies generally avail of the Capital Assistance Scheme to provide purpose-built accommodation. Under this scheme rents are determined having regard to the tenants means, the cost of maintenance and management and the level of state assistance provided.

A significant move towards the concept of 'lifetime adaptable housing' and the enhancement of the housing rights of citizens with disabilities is reflected in the proposals announced in July 1999 by the Minister for the Environment and Local Government to make new houses, commencing on or after 1 July, 2000, 'visitable by people with disabilities.'[8] This will involve an amendment to the Building Regulations following a public consultation process.

The Council strongly supports the amendment of the Building Regulations to make new houses accessible to people with disabilities. The changes involved will have cost implications that are likely to vary by density at the construction stage. But these costs are small relative to the costs of modifying houses that are not constructed to be visitable by people with disabilities. These changes will greatly facilitate people with disabilities in the exercise

8 The main features are: a sloped or ramped access to the dwelling, level access at entry door, front door and living room door wide enough for a wheelchair, circulation space for a wheelchair at entry level and a ground floor wheelchair accessible toilet.

of their rights to free movement and will facilitate further modification where necessary.

11.4.12 Housing Advice Centres

The fulfilment of rights is dependent on access to information on these rights and on the services necessary for their exercise. The need for information on various social and economic services has been articulated in numerous official reports. For example, the report of the Commission on the Status of People with Disabilities (1998) makes this argument in relation to housing among other services. The need for such comprehensive and dedicated information services is acknowledged in the economic area. This was one of the arguments made in relation to the formation of Enterprise Ireland.

Threshold, the housing advice agency, has argued the case for a network of independent housing information and advice centres (Threshold, 1999b). The rationale for such a system is that information is crucial to decision-making and this is particularly true in the housing area where decisions may have long term-consequences. It is acknowledged that there are discrete sources of information available on particular housing options such as local authority housing. While there are numerous sources of information available on options within the private purchase sector, this cannot be described as independent information.[9] In the new housing climate many citizens will have to make choices between different housing options. There is no independent source of information to help inform decisions across options.

> A wrong decision by a person with a housing difficulty can have disastrous financial and legal consequences e.g. a tenant may leave their tenancy unaware of their rights to remain or an inappropriate house purchase may result in unsustainable debt. In

9 Apart from voluntary advice and information centres run by Threshold in Dublin, Cork and Galway and the non-specialist advice provided by Community Information Centres, there are no independent sources of information on the private rental sector. The majority of queries to the Dublin Threshold have been in relation to this sector and a similar pattern is evident in Galway and Cork (Threshold, 1999b).

> the case of people on low incomes a poor housing decision can result in homelessness (Threshold, 1999b: 2).

The advantages of an independent service is that it would be neutral across the range of housing options. In addition to information provision to citizens with housing needs it could inform planning and decision-making on housing through identification of housing needs across the country.[10]

The Council acknowledges the need for independent information on the entire range of housing options and the need for constantly updated information relevant to decision-making on housing. In view of this, it supports the development of a network of independent housing information and advice centres. Ideally such a service should be based on a partnership ethos and should recognise housing as more than shelter. It should acknowledge housing as a basic human right and as crucial in influencing ability to participate socially, economically and politically in society. The Council recognises that the location of a specialist service has to be limited to a small number of urban areas and recommends that these be supplemented by maximum use of information technology facilities including computer networks and call service facilities. The latter would provide information to locally-based non-specialist advice centres and directly to individuals concerning housing options. An important element of the mandate of this service should be data gathering which would help the making of informed decisions across housing options, which are in their nature very long-term.

10 The Threshold proposal envisages a central co-ordinating unit with a number of regional centres that would offer an outreach service to other locations in their region. They propose regional centres in Dublin, Cork, Galway, Waterford and Sligo. The central office would have a dual role, both as a service provider and as a resource to the regional centres. They model their proposal on the Scottish Homes model (Scottish Homes, 1998 cited in Threshold, 1999b) and estimate an overall annual expenditure of £700,000. While public funding would be required, they also point out that other funding sources could be targeted. Given the nature of housing it would appear reasonable to target financial institutions. Because of the importance they accord to expertise on the entire range of housing options and the specifics of housing problems they argue for an independent service rather than a service as an element of Citizens Information Centres.

11.5 STRATEGIC ISSUES IN HOUSING: PLANNING, ZONING AND DENSITY

Because significant changes to the size of the housing stock normally take a decade or more to achieve, the number of residential dwellings in a country is largely the legacy of investment decisions (and therefore economic and demographic circumstances) in earlier periods of its history. Irish history is unique in that such factors as emigration, infectious diseases like TB, and large average family size combined to produce little or no demand for *additional* housing units. However, since 1961 the Irish population has grown by almost one million people to some 3.75 million in 1998 and it is forecast to reach 4.4 million by 2026. It is also composed of ever smaller households. In 1986, the average Irish household was made up of 3.5 persons. This had fallen to 3.1 in 1996 and was expected to decline to 2.6 by 2011. Today there are proportionately twice as many 18 year-olds in Ireland as in the average EU country, but for the reasons just given Ireland's per-capita housing stock is only two-thirds of the EU average. This legacy now presents a great challenge to the housing market as the sudden increase in demand of the 1990s confronts the restricted historical stock to drive prices to very high levels.

Fitz Gerald (Fitz Gerald, M., 1999) notes that at present there are 890,000 people aged over 50 in Ireland but 960,000 aged 10-24. Since the younger age cohorts will establish much smaller households than the former, there is a need for a very substantial increase in the housing stock to meet this generational mismatch. A sign of the shift in household size is given by census figures that show the number of *persons* living in Dublin rose by 4.0 per cent in the decade to 1996, while the number of *households* rose in the same period by 18 per cent. Fitz Gerald suggests that an increase of the order of 400,000 to 500,000 dwelling units will be required over the next decade, which corresponds to an increase of some 35 to 40 per cent. This will require a building programme over the next 10 years greater than all the housing built during the last 30 years.

The key question is: where should these houses be located? In principle, a country with one of the lowest population densities in the EU should easily be able to absorb a housing programme even on this very large scale. But this will not be true if house-building remains centred on Dublin which is restricted by the sea to the east, mountains to the south and by the Phoenix Park to the west. Moreover, for some 30 years building land in the Dublin area has been utilised inefficiently in the sense that housing estates have been built in a low-rise low-density pattern.

Fitz Gerald argues that Dublin cannot continue to accommodate almost 30 per cent of the Republic's population. To do so would require an additional 150,000 houses and apartments in the next decade which would substantially reduce the quality of life in the capital due to lengthening commuting times and overloaded infrastructure. In addition, physical delays would damage economic competitiveness.

The answer to this knot of problems, as discussed more fully elsewhere in this report, is the preparation of a National Spatial Development Strategy that would incorporate a regional development plan. This would select a number of towns and cities outside Dublin towards which economic activity would be directed and in which adequate arrangements for infrastructure, transport and housing could be made.[11] Because the contribution of a National Spatial Development Strategy would, inevitably, be felt more in the medium than in the short-term, there is an urgent need to press ahead with implementing the Strategic Planning Guidelines for the Greater Dublin area, particularly in view of the severity of housing pressures in that area.

11.5.1 Land Zoning

Land zoning practices have contributed in an important way to present housing problems. At least up until the preparation of the current set of draft Development Plans, many local authorities re-zoned land for housing developments in small pockets (Hughes 1998). Administratively, this led to a complex series of requests by

11 The issues to be addressed by the National Spatial Development Strategy are discussed in Chapter 10, Section 10.5.

elected representatives for variations in the Development Plan, all of which had to be voted on separately adding to an already slow and cumbersome planning process. A further and more important consequence was a sustained – and somewhat artificial – shortage of zoned and serviced land, putting landowners in a strong negotiating position with builders and developers seeking to buy land for house construction. This situation has been aptly summed up by O'Reilly (1998:7) as: "Instead of builders competing with each other to build and sell houses to customers we have customers frantically competing to buy scarce houses from builders."

A recent housing study (Dublin Local Authorities, 1999) underlines the considerable public consultation that precedes the publication of five-yearly Development Plans by local authorities. Nonetheless, it argues that "relatively minor infrastructural works are subject to delays by the requirement to further consult with the public and in turn by the possibility of interminable legal challenges and appeals. Some of these requirements have been introduced as a result of EU directives and yet such requirements do not appear to be operated in other member states." (1999:30) Because of the volume of appeals, the Planning Board is under increasing pressure to meet its target of considering an appeal within four months.

However, following a comprehensive review of legislation and the planning system, new planning legislation – the 1999 Planning and Development Bill – has recently been published. A more rational, responsive, and better resourced planning system should be the result.

11.5.2 Housing Density Rules

Originally motivated by public health concerns, and later by issues related to town planning, population density has been falling in Dublin for many decades. This has been associated with considerable urban sprawl. Since the 1980s, higher density inner-city regeneration aided by tax concessions has slowed but not offset this long-run trend (Dublin city centre has gained more than 10,000 new residential units over this period).

With a view to promoting higher densities, a new set of consultative draft planning guidelines was issued by the Department of the Environment and Local Government in March, 1999, based on a prior study by consultants (MacCabe, O'Rourke and Fleming, 1999). Following a period of consultation, final Guidelines on Residential Density were published by the Minister in September, 1999.

The new planning guidelines were prepared partly with a view to the Kyoto Protocol on greenhouse gas emissions. A second consideration was to have planning norms that would be compatible with the present structure of the population. Clearly, small households require houses of a different size and design than do larger households. Third, the planning guidelines sought, by means of higher average densities and more innovative design, to lower the cost of construction of dwellings.

The consultants argued that modest redesigning of a traditional housing estate – such as mixing dwelling types, grouping car parking and occasionally providing a third storey – could increase the number of dwellings from the current norm of 25 per hectare (10 per acre) to 33-62 units per hectare (13 to 25 per acre). Case studies of existing residential developments were used to demonstrate the possibility for "dramatic increases in density without significant increases in height" (MacCabe *et al.,* 1999:4). A further step would be greater reliance on apartments or duplexes. This would allow densities of 72-222 dwellings per hectare (from 30 to 90 per acre) while still complying with good standards of development. The consultants also argued that a shift in emphasis from the quantity to the quality of open spaces incorporated into housing developments could permit higher housing densities yet an improved overall quality of the environment.

Increased residential density has many potential attractions. It could make better use of land and infrastructure, reduce travel times, support improved public transport services, reflect changing demographic patterns, reduce energy use, slow urban sprawl, encourage better urban design and facilitate the provision of more affordable housing. However, the report stressed that a policy of increased density would need to be flanked by other changes (especially to housing design, urban transport and infrastructure) to guard against a worsening in the quality of urban life.

The new guidelines envisage that in brownfield sites (redundant industrial or commercial land) in areas proximate to town centres and to public transport corridors there should, in principle, be no upper limit on residential density provided that the development is of a good standard, avoids undue adverse impact on adjoining neighbourhoods and complies with other planning safeguards in regard to open spaces, urban form and listed buildings.

In greenfield sites (open lands on the periphery of cities or towns), the average housing density over the past 20 years has been 15-20 dwellings per hectare (6-8 per acre) but the new guidelines suggest that the norm in future should be 35-50 per hectare (14-20 per acre).[12]

Local planning authorities have a duty under the Local Government Act of 1991 to have regard to the policies of the Government insofar as these affect the planning body's functions. The 1999 Planning and Development Bill also contains a specific provision requiring planning authorities and An Bord Pleanála to have regard to Ministerial guidelines in the performance of their functions. This will, of course, leave local bodies with discretion in regard to housing densities.

11.5.3 Housing Problems in Dublin: The View of the Local Authorities

Concerned by the housing situation in Dublin – especially unaffordable private housing, insufficient social housing and an

12 The consultants note the diminishing returns in land saved by increased density using an example of the land required for 400 dwellings plus local facilities. By raising the density from 10 to 20 dwellings per hectare, 20 hectares (49 acres) are saved. Increasing the density from 20 to 50 dwellings, produces a further but smaller saving of 11 hectares (27 acres). At this point, development must be upward rather than outward, so a further doubling of the density to 100 dwellings only reduces the land required by four hectares (10 acres).

unregulated private rented sector dominated by tenants heavily subsidised by the State – the four Dublin local authorities published a joint study with a view to addressing these challenges (Dublin Local Authorities, 1999). The report focuses on the elements of the market of most concern to the local authorities: the social rented sector, first-time purchasers, and users of the shared-ownership scheme. Its authors see four challenges for the Dublin local authorities:

- to provide water, drainage, road and social infrastructural services to zoned (and expected-to-be-zoned) land;
- to ensure that affordable accommodation is build on these lands;
- to achieve the level of social housing envisaged in the Development Plans of the local authorities; and
- to make available lands for further public housing.

The Managers of the four local authorities argue, in their preface to the report, that "sufficient zoned and serviced or serviceable land is not being released quickly enough to meet the demands for housing" (1999:2) and that the remedying of this problem would require co-ordinated action by the local authorities. They maintain that, because of their statutory responsibilities in the areas of development, roads and sanitation, the Dublin local authorities can reduce housing problems by improving infrastructure, fast-tracking housing development plans and by directly providing public housing.

The report makes 40 detailed recommendations as part of a four-year action programme. A key proposal, for the creation of a Dublin inter-authority strategic response team, has since been acted upon. This team will co-ordinate the local authorities' work in regard to accommodation problems and will co-operate with other public and private bodies to improve planning, transport, social infrastructure, and the effectiveness of public expenditure in the Dublin area.

Other recommendations include the preparation of a comprehensive study of public and social housing including a review of the housing subsidies under the Supplementary Welfare Allowance scheme. Also, a revamp of the authorities' land purchasing methods to allow more rapid decisions, a mixture of housing tenures to be the norm, and the creation of incentives to reduce under-occupancy of public and private housing. The authors call for a radical review of the benefits and costs of schemes to allow tenants to buy their local authority dwellings at highly subsidised prices. These dwellings must then be replaced at very considerably greater expense by the local authority while the tenant is free to sell the property and keep the windfall proceeds.

Finally, the report argues for strengthened powers to regulate the market in land. One form this could take would be a levy on undeveloped serviced land in order to place a degree of pressure on landowners to bring land into development. Another form would be reconsideration of the land price controls (recommended by the Kenny report[13] of 1973) under the auspices of *Partnership 2000*.

11.6 RECENT POLICY RESPONSES

The exceptional acceleration in Irish economic growth during the 1990s has taken most people by surprise. There was a considerable lag before the implications for housing were appreciated. However, since the mid-1990s a large number of significant initiatives have been taken by the Government. We summarise here significant recent policy initiatives including several already outlined throughout this chapter.

In terms of spatial planning, the Minister for the Environment and Local Government announced in 1999 that a National Spatial Strategy is to be prepared. For the greater Dublin area, Strategic Planning Guidelines (Brady Shipman Martin *et al.*, 1999) have been published and the relevant local authorities are reviewing their county Development Plans accordingly. Regarding housing densities, new guidelines have been issued to local planning

13 This report suggested that local authorities be allowed to buy potential development land designated by a special division of the High Court at prices related to the existing (non-developmental) use of the land rather than the much higher developmental value.

authorities to encourage higher housing densities where appropriate. A new Planning and Development Bill which addresses short-comings in the planning system was published in August, 1999. It is being progressed through both Houses of the Oireachtas at present.

The National Development Plan 2000-2006 includes proposals to improve infrastructure in a substantial way. This will, amongst other aims, contribute to lessening the housing shortage, directly and indirectly.

Some £40 million has been provided under the Serviced Land Initiative (launched in 1998) to service land for housing and arrangements have been made to bring forward housing development by the use of temporary sewerage treatment facilities with environmental safeguards. In addition, the Department of the Environment and Local Government is in discussion with other Government Departments and State bodies regarding the purchase of surplus public lands for housing development.

A Commission on the Private Rented Residential Sector was established in 1999 and will report in June 2000.[14]

To make housing more affordable to households on lower incomes, the terms of the local authority Shared Ownership Scheme were enhanced in 1998 when the income eligibility thresholds were raised and payments under the rental element of the scheme reduced. A new Affordable Housing Scheme was launched in 1999. Its aim is to allow local authorities to build housing and to sell such housing units at cost to private buyers whose household income is below a certain threshold.[15] The intention is to provide some 2,000 housing units per annum under the Shared and Affordable Housing Schemes. Private developers, in consultation with third-level institutions, will be providing purpose-built student accommodation with favourable tax treatment.

In the Dublin Docklands Development, there is a requirement that builders allocate 20 per cent of accommodation to affordable housing.

14 Its terms of reference and membership are outlined in Section 11.4.7.

15 These are outlined in Section 11.4.4.

The Planning and Development Bill published in August, 1999, has provision whereby developers will be obliged to sell up to 20 per cent of building land to local authorities at current use values for the construction of social and affordable housing[16]. This requirement will apply to land purchases subsequent to the publication of the Bill in August 1999.

The Minister for Housing and Urban Renewal has announced a package of measures for the Voluntary Housing Sector, including the establishment of a Voluntary Housing Unit in the Department of the Environment and Local Government directed to the development of the sector. The National Development Plan has provision for 15,500 units over its lifetime, with provision increasing on a phased basis to 4,000 units per annum.

The tax treatment of housing has been changed in a number of ways. 'Section 23' tax relief for investor-landlords was restricted in 1998, and interest payments on borrowings to finance investment in rental properties may no longer be offset against rental income from the property when calculating personal income tax. Capital gains tax was halved for a four-year period in 1998 to 20 per cent on disposals of land for residential development. Also, stamp duty has been considerably restructured: rates were reduced in 1998 and the duty was extended to new houses where the owner is not the occupant. Furthermore, under the terms of the 1999 Urban Renewal Scheme, there are new allowances for the provision of rented and owner-occupied housing.

This very substantial body of measures can be expected to have an increasingly significant effect in curbing housing market overheating especially in the medium and long term but relatively modest effect in the short-term. Housing is not a commodity like cars where supply can be increased over a relatively short period (see Box 11.1). The response in the Irish situation over the past few years has also been impeded by infrastructural problems and planning delays.

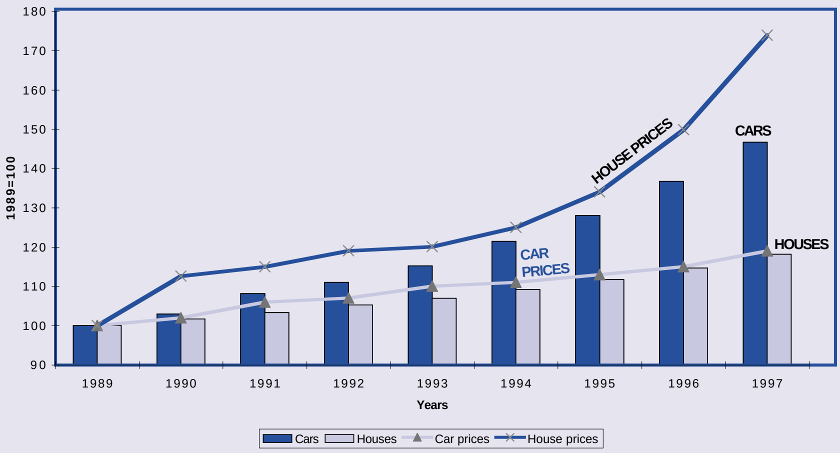
16 Alternatively, in certain circumstances, developers may sell housing units to the local authority on certain terms.

BOX 11.1

Houses and Cars – A Contrast

The market for private cars in Ireland may be used to illustrate the crucial impact on prices of an industry's ability (or lack of it) to adjust to changing levels of demand. Many of the factors that have stimulated housing demand in Ireland have also boosted the demand for private motor cars. Examples include a rising population, an increasing proportion of the population in early adulthood, smaller household sizes, rising incomes and the falling cost of credit. However, as the chart below reveals, the impact on prices of rapidly increasing demand has been very different in these two cases. The international car manufacturing industry was able to meet the extra demand for motor cars on the part of Irish consumers without any great difficulty, so higher demand mainly led to increased supply. The number of private cars registered to Irish owners rose by some 360,000 units (or almost 50 per cent) from 0.75 million in 1989 to almost 1.15 million cars at the end of 1997. The consequence of this ability of suppliers to meet the higher level of demand was that there was no undue pressure on car prices. According to a sub-index of the consumer price index (CPI), the price of a private motor car in Ireland rose by 20 per cent between 1989 and 1997, which was exactly in line with the general trend in consumer prices.

Number of Cars and Houses and their Prices, 1989 to 1997



However, in the case of housing, as the chart shows, the pattern was almost a reverse image of the trends in the car market. Housing supply responded only sluggishly to rising demand and the unavoidable consequence was sharply higher prices. According to estimates presented in Roche (1999), the stock of private houses in Ireland increased by some 160,000 units (or just 18 per cent), from 0.9 million to almost 1.05 million units in the eight years to 1997.

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In the same period, the index of new house prices calculated by the Department of the Environment and Local Government rose by 74 per cent.

For technical and other reasons, it would not be reasonable to expect the house-building industry to be able to satisfy substantially increased demand for only moderately higher prices. A car can be made much more quickly than a house can be built. The raw materials for car production are in plentiful supply and, because automobile manufacturing is a global industry, a 50 per cent increase in Irish demand has only a negligible effect on worldwide demand. In contrast, land suitable for house-building is scarce in heavily populated urban areas, even if there were no delays associated with planning regulations. Also, demand for houses in Ireland must be met by the domestic construction industry so capacity limits are reached much sooner than in the case of cars.

For these and other reasons, meeting higher demand would likely have had a greater upward impact on house prices than on car prices in Ireland. In this sense, some of the recent increase in house prices was warranted. However, it is not clear that all of the recent increase was warranted by the cost of providing additional housing. A sufficient supply response in the years ahead should cause house prices to moderate in the future.

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11.7 CONCLUSIONS AND RECOMMENDATIONS

Housing is an important factor in the quality of life of the population and must therefore be considered a central issue for overall public policy. Moreover, housing problems raise questions for many other policy areas including land-use, investment, infrastructure, transport, the labour market, income maintenance, social inclusion and the continuation of social partnership. For these reasons, national housing policy must be framed against a broad public policy background. Equally, decisions in other policy areas should take account of housing policy objectives.

11.7.1 Integrated Policy Measures

Although annual national house building has doubled since 1992, there is still a backlog of unsatisfied demand that remains to be met. The Council believes that an integrated package of policy measures that recognises the linkages between supply and demand for housing of various types of tenure is essential to address the legacy of this supply shortfall. Such an approach is also essential to alleviate the fears that purchase prices and rents will continue to rise and that waiting periods for local authority housing will not diminish in the foreseeable future.

11.7.2 Recent Initiatives and Immediate Priorities

A significant number of initiatives to increase the overall supply of housing have been taken over the past year. The Council believes that, if consistently pursued, these will contribute to an adequate overall supply of housing over the next several years. This should have a calming effect on purchase prices and rents. The achievement of these objectives requires maintenance of the present high rate of house-building to expand the supply of housing across all tenures, which in turn depends on improvements in the planning system and expanded infrastructure. Under current conditions, priorities for housing policy are a further increase in the provision of social housing, a substantial reduction in the time any person has to remain on a local authority waiting list, measures undertaken jointly by health boards and local authorities to address homelessness, action to bring about a well-functioning rental sector that can address not only short-term but also long-term housing needs of families and individuals and a sustainable level of private home ownership.

11.7.3 Council's Recommendations

A rising population, skewed towards the household formation age cohorts, and inward migration will require the rate of private house-building to be sustained at current high levels to meet the high level of demand and to stop the upward spiral in private house prices. A National Spatial Development Strategy incorporating a co-ordinated approach to all infrastructure including housing would help to achieve a regionally balanced and more sustainable pattern of residential development.

The Council supports the construction of housing in line with the Development Plan, Housing Strategy and Area Action Plans of each local authority, matched by contemporaneous investment in social, physical and transport infrastructure, and without the segregation of people of different social backgrounds characteristic of past approaches to the provision of social housing.

The Council supports a substantial increase in the rate of provision of social housing. One mechanism through which this could be achieved would be a greatly expanded voluntary and co-operative housing output. This would require a more streamlined planning system and also a more generous and flexible system of funding. A pilot project in the area of Public-Private Partnerships in social housing should be undertaken. This would draw on lessons from the UK and possibly other countries.

The Council believes that a much larger and better-functioning rental sector in Ireland, achieved in part through greater institutional involvement (voluntary as well as commercial) in this market, would make an important contribution to housing the population well, affordably and flexibly. This will require a modernised legal framework. In this regard, the Council welcomes the establishment of the Commission on the Private Rented Residential Sector.

On grounds of equity, the Council reiterates its previous recommendation for tenure-neutrality of public subsidies to different housing sectors (subsidies include mortgage interest relief, tenant purchase discounts and Supplementary Welfare Allowance rent supplement).[17] The Council recommends a review of the operation of the tenant purchase scheme in the context of the objectives of overall housing policy and the context of rising house prices and construction and maintenance costs.

The Council recognises that homelessness is not exclusively a housing issue – often it involves health and social support elements which means the health boards and local authorities must work together and with voluntary organisations in its solution. The Council recommends that:

- local authorities be given ultimate responsibility for the local response while the Department of the Environment and Local

17 See Section 9.4.8.5 where we point to the importance of employment neutrality in housing subsidies such as rent/mortgage supplements.

Government retain national responsibility, but action must be in co-operation with health boards;

- a homeless initiative, involving voluntary and statutory services must be undertaken in each health board area;
- recognising that about half of the existing hostel accommodation spaces are effectively long-term accommodation, the provision of emergency hostel accommodation must be expanded; and
- the necessary resources to fund a 'continuum of care' approach to homelessness be identified and ring-fenced for that purpose – a separate costing of the housing and the support services elements should be made and the resources targeted accordingly.

The Council welcomes the implementation of the 1998 Housing (Traveller Accommodation) Act and recommends effective monitoring of progress towards the implementation of the Local Authority five-year plans.

The Council supports the proposed amendment to the Building Regulations to make new houses accessible to disabled people. It calls for the implementation of this change with effect from January, 2000.

The Council supports the development of a network of independent housing information and advice centres. It recognises that the location of a specialist service has to be limited to a small number of urban areas and recommends that these be supplemented by maximum use of information technology facilities including computer networks and call-service facilities. The latter would provide information to locally-based non-specialist advice centres and directly to individuals concerning housing options. An important element of the mandate of this service should be data gathering which would help the making of informed decisions, across housing options which are in their nature very long-term.

PART III

Adaptating Institutional Structures

CHAPTER 12

ADAPTING INSTITUTIONAL STRUCTURES TO ENSURE A MORE EFFECTIVE POLICY PROCESS[1]

12.1 INTRODUCTION

Ensuring that key institutional structures are capable of meeting the challenges and opportunities that Ireland will face over the coming years is central to developing an effective policy process. Concerns have been expressed about the ability of the policy process both to anticipate needs and to implement policy decisions effectively. In particular, the integration and co-ordination of planning and service provision is seen as a major challenge.

This chapter reviews some of the institutional capability challenges facing the Irish public service. The review is conducted with reference to insights from attempts at modernisation and adaptation of institutional structures, both here in Ireland and in other OECD countries. The paper is informed by the programme of research undertaken by the Research Division of the Institute of Public Administration under the aegis of the Committee for Public Management Research.[2] The intention is to highlight issues that need to be addressed if institutional structures are to contribute to a more effective policy process.

Section 12.2 of the chapter sets the context by outlining some of the main challenges facing the Irish public service and the changing

1 This chapter is based on a paper prepared for the Council by Richard Boyle of the IPA.

2 The Committee for Public Management Research (CPMR) undertakes research on issues of relevance to the development and management of the public service. The Committee is chaired by the Department of Finance and is comprised of representatives of the Departments of Environment and Local Government, Health and Children, Public Enterprise and Taoiseach, Trinity College Dublin, University College Dublin and the Institute of Public Administration (IPA) which undertakes research and studies on behalf of the Committee. Further information and details of recent and current research are available from the Committee's web site http://www.irlgov.ie/cpmr

nature of the public service, both here and internationally. In Section 12.3, the issue of making quality long-term policy decisions is explored. The effective implementation of policy decisions is addressed in Section 12.4. Section 12.5 examines some resource implications associated with building institutional capability. Section 12.6 summarises the implications of the analysis for developing a more effective policy process. The chapter concludes with the Council's considerations related to enhancing the institutional capabilities necessary to implement the strategy to achieve its vision.

12.2. THE CHANGING NATURE OF THE IRISH PUBLIC SERVICE

The demand for public services is changing and increasing. Our analysis has indicated that net population growth and changes in the population structure and distribution in recent years have resulted in significant increased demands for services such as housing and other forms of infrastructure provision. There are also rising public expectations of standards of public service provision. These developments are placing considerable additional demands upon public service institutional capabilities.

Faced by such imperatives for change, the public service has begun a process of reform in recent years. The Strategic Management Initiative (SMI), introduced in 1994, sets the scene for reform in the civil service. *Delivering Better Government* (DBG, 1996) and the Public Service Management Act, 1997, have arisen from this strategic management process. In local government, *Better Local Government* (BLG, 1996) promotes a similar need to reform and adapt structures and processes in local authorities. In the health services, the Health (Amendment) (No.3) Act, 1996, outlines a new framework of accountability in health service provision. Also, the establishment of the Eastern Regional Health Authority (ERHA) represents a major change in the management of health services. In the state-sponsored sector, increased competition and privatisation are changing the scope and nature of the sector.[3]

3 See Boyle *et al*., 1997, 1998 and 1999 for further details of public service changes.

In all, these changes place great emphasis on the development of strategic capacity in Government Departments and agencies. That capacity is seen as the key to help government facilitate economic and social development. The intention is to move from a traditional model of hierarchical and tight central control towards strategic goal-setting, effective management systems, and greater devolution and decentralisation of responsibility and accountability.

However, the changing environment affecting public services, in particular, the changes outlined in this report, raise questions about the pace of change and direction of current management reforms. The main focus to date has been on improving the management of public services. While this is clearly vital, ultimately, it is at the policy level that decisions on the future shape of public services such as health, education and infrastructure provision are made. It could be argued that up to recently too little effort has gone into the policy-making process, particularly with regard to those policies that cut across institutional boundaries and levels of government. There is an increasing need for cross-cutting policies to be developed and delivered in a coherent manner.

To give further force to this argument, the OECD (1998f) comments that the initial focus of public management reform in many countries was on improving the efficiency and effectiveness of the public sector itself. More recent efforts are focusing on broader governance issues, including the effectiveness of the policy-making machinery, relations between levels of government, and the consequent implications for the interaction between government and the rest of the community. It is to such issues that the Council's concerns about institutional capabilities and the policy process relate, and to which the remainder of this chapter gives particular attention.

12.3 MAKING QUALITY LONG-TERM POLICY DECISIONS

Our analysis in earlier chapters recognises that policy failures often reflect failure to co-ordinate across areas to meet particular needs or failure to anticipate needs associated with changing demographic and/or economic conditions. In other words, the capacity of the policy process to think long-term and cross-sector, and develop appropriate high-quality responses is open to question. Similar issues have been raised in New Zealand in a review of policy advice which concluded that:

> … problems with the quality of policy advice … boil down to questions of demand and supply. The demand end of the system does not press anywhere near hard enough for evaluation that scrutinises the impacts of policies already in place, analysis that is searching and disciplined, co-ordination that ensures productive dialogue among agencies and advisors, or consultation that keeps advice in touch with reality and practicality … The supply end of the system tends to respond to the things that are most in demand: that is, advice delivered in timeframes set to meet the needs of a policy machine that is always running at speed (State Services Commission, 1999:15).

In order to develop capabilities that begin to address the need for quality long-term policy decisions, action is needed in a number of areas. In particular, five issues are identified that need attention with regard to policy development: strategic management; scenario planning and policy research; cross-cutting issues; partnership and consensus building; and the political/administrative interface.

12.3.1 Strategic Management

The main focus of the Strategic Management Initiative (SMI) is to enhance the strategic capacity of Government Departments to facilitate social and economic development. The broadening of the SMI to local government and other sectors is intended to enhance local strategic capacity. As such, the continued emphasis on SMI principles and practice is an important aspect of promoting high-quality policy decisions. Thus the SMI itself is clearly still relevant, perhaps increasingly so, in the current circumstances.

However, it could be argued that the pace of change arising from the SMI to date is in need of being progressed with greater urgency. Important initiatives such as performance management and regulatory reform, identified as key issues from the start, are only now reaching the implementation stage. The launch of the latest phase of the SMI by the Taoiseach in July, 1999, is to be welcomed in this context. Continued political support, and periodic review of progress, both internal and independent, will be needed to broaden and deepen the SMI process.

A key feature of the SMI is a requirement on Government Departments and agencies to produce strategy statements to set out where they are going strategically and address how best resources can be concentrated on priority needs. A current study of strategy statements (Boyle and Fleming, forthcoming) indicates that they are playing a useful role in promoting longer-term thinking on issues and contributing to more effective strategic management of Departments. However, a number of limitations with many strategy statements need to be addressed. In particular, with regard to policy development:

- The environmental analysis in strategy statements can at times seem to be an end in itself rather than informing the rest of the statement. Environmental assessment is particularly important in helping identify strategies for dealing with issues involving interaction with other Departments and agencies.
- There is not enough discussion in the statements of the resources needed or the resource implications regarding the achievement of goals and objectives. If strategy is to influence the more effective prioritisation of resources, the resource implications need to be more clearly addressed.
- While many statements identify and list cross-departmental issues, few take the further step of highlighting what needs to be done, and how, in order to secure and improve co-operation and co-ordination.

Improvement in these areas would accentuate the positive impact to date of strategy statements and enhance their role in promoting high-quality longer-term policy decisions. Looking abroad, there is much that can be learned that is of relevance here (see Box 12.1).

BOX 12.1

US Experience of Strategic Planning at National and Local Levels

Under the US Government Performance and Results Act of 1993, agencies must develop strategic plans and annual performance plans. While practice varies, there is evidence that some plans are linking well with budgets (GAO, 1999a). There is also some evidence of performance plans being used to enhance Congressional oversight of cross-cutting issues (GAO, 1999b).

At the local level too, the experience of the US with strategic management practices has much to offer. In particular, community-status reports and targeted community interventions have been identified as useful tools in promoting longer-term thinking and action at the community level (United Way of America, 1999). Community-status reports provide information about key social, health, economic or environmental conditions in a community. Two widely recognised community-status report projects are Oregon Benchmarks and Minnesota Milestones. Targeted community interventions aim at improving conditions in local areas, guided by an action plan and community-level outcome measurement. Such initiatives can help prioritise key actions at the local level. They can also provide a forum whereby the political, administrative and social partnership processes can be more effectively linked at the local level.

12.3.2 Scenario Planning and Policy Research

Current problems in infrastructure provision in areas such as housing and transport illustrate the fact that the SMI alone will not automatically lead to the resolution of major policy problems. As noted above, as well as management initiatives, there is also a need for new thinking on how policy is developed and delivered. Scenario planning and policy research can have an important role to play here.

The various NESC strategies, including this one, in part aim at developing scenarios for planning purposes. Such scenario planning serves a useful role in promoting longer-term thinking on policy issues and developing a policy research agenda. The Council is also promoting the further development of scenario planning, for example by recommending improved contingency planning for a possible economic slowdown or more serious economic shock. The institutional capability of the public service to engage in such scenario-planning exercises and promote relevant policy research is crucial if such initiatives are to succeed. Increasingly, designing long-term scenarios and analysing the implications are seen as important in providing a foundation for the development of policy options and actions.

There have been some innovative approaches to policy scenario-building and research in Ireland in recent years. One particular example is the use of fora, as exemplified by the National Education Convention and the more recent National Crime Forum. The National Education Convention brought together representatives from a wide range of organisations to engage in structured and sustained discussion on key issues of educational policy. The National Crime Forum provided a means of structured debate and dialogue on issues associated with crime, and highlighted the need for inter-agency co-operation. The National Crime Forum has been followed by the recent creation of a National Crime Council. There is much that can be learned from these initiatives that is relevant to the development of longer-term thinking on policy issues.

At a local level, the Homeless Initiative, operating under the joint direction of Dublin Corporation and the Eastern Health Board, which is discussed in Chapter 11, has promoted much-needed policy research on homelessness issues. This research, which is contributing to evidence-based policy development, is unlikely to have happened otherwise, as it would not have been the responsibility of any one body involved with homelessness.

12.3.3 Cross-Cutting Issues

Developing long-term policies for issues that cut across Government Departments and levels of government is an issue of growing concern, and poses particular challenges. Issues such as social inclusion and infrastructure development require responses that go beyond traditional thinking. Too often, the work of Departments, local government and government agencies is fragmented, with scrutiny focused on the achievement of individual units. Efforts at co-ordination are made, but what is needed in the current climate is a move from co-ordination to collaboration. Research (Boyle, 1999a; Benton *et al.*, 1996) indicates actions that can be

BOX 12.2

Scenario Planning – International Experience

International experience has lessons to offer here. Examples are the Europe 2010 and Norway 2030 projects. Reporting to the President of the European Commission, the European Forward Studies Unit (FSU) focuses on issues related to European integration. The Europe 2010 scenario exercise is one of the FSU's projects. Five working groups were formed that prepared a set of partial scenarios with five possible futures for a range of topics: institutional governance; social-economic cohesion; economic adaptability; enlargement of the union; and external environment. The results form the basis for a series of papers setting out the policy implications around which the debate will be organised.

In June, 1998, the Norwegian Government initiated its Norway 2030 project. Under the leadership of the Minister of Labour and Government Administration, four inter-departmental teams, with representation from the private sector, labour and research institutions, have been established to develop scenarios around four themes: global development – external environment; economic adaptability; values, culture and social behaviour; and governance. The resulting scenarios will be pulled together to form five integrated visions of Norway's future. The project is intended to guide substantive policy directions and also to drive public sector reform. It is being carried out in co-operation with the OECD, the European Commission and the Canadian Policy Research secretariat.

The Canadian Policy Research secretariat is part of the Canadian Policy Research Initiative (PRI). The PRI represents an interesting example of an approach to developing policy research capabilities to prepare for future policy challenges. Supported by the secretariat, the PRI advances a forward-looking policy agenda and fosters a multi-disciplinary approach to cross-cutting issues. It has created research networks based around particular themes, promoted pilot research projects and encouraged communication and training across the policy research domain (Policy Research Initiative, 1999).

taken to develop capabilities to promote collaboration and better manage such cross-cutting issues:

- The creation of a meta-strategy to guide progress at both national and local levels. The development of Strategic Result Areas (recently re-structured and re-named Strategic Priorities) in New Zealand offers an example of the approach needed here (see Section 12.3.5).

- The use of co-ordinating instruments to facilitate joint working. In particular, regulatory instruments (facilitating entry or setting up barriers to entry), financial instruments (such as capital investments, tax relief, pilot funding) and communicative instruments (such as consultative fora) are available to steer initiatives.
- The use of appropriate co-ordinating structures at both political and administrative levels. At the political level, Cabinet Committees are increasingly important in developing a coherent political input to collaborative efforts. Administratively, cross-cutting teams, such as the National Drugs Strategy Team, offer a way of improving collaboration for particularly challenging issues. Drawn from, but independent of, constituent organisations and reporting to a Minister or Cabinet Committee, such teams can facilitate a counter balance to Departmental thinking.
- A strong role for the centre of government when dealing with particularly complex issues or key government priorities. The centre must establish the policy framework, engage in information gathering and analysis, and monitor implementation and impact. In the UK, the Social Exclusion Unit and the Performance and Innovation Unit recently set up in the Cabinet Office take officials from relevant Departments and involve experts from outside the civil service, with each project being sponsored by a Minister. These units initiate policies rather than trying to arbitrate between specialist Departments.
- The development of a culture supportive of joint-working. Attention to understanding the mind sets and value systems of those involved in cross-cutting issues is as important as efforts to improve structural and process mechanisms. Taking a user perspective on issues is particularly important here, with the active evaluation and audit of services from a user perspective.

12.3.4 Partnership and Consensus Building

The role of social partnership in promoting social and economic development has been highlighted many times in recent years. The development of a partnership approach at the level of the individual organisation is intended to further develop the partnership approach to working. Yet if partnership is to promote better institutional capability with regard to policy-making, it is important that it does not exist simply as an end in itself. Partnership should be a means to an end, which in the public service context focuses on the achievement of the objectives arising from the SMI process (Boyle, 1998). Crucially, involvement of front-line staff is needed to ensure that effective policies are arrived at. It is front-line staff who deal with issues on a day-to-day basis. They know where the weaknesses and strengths of policies lie in practice.

A further issue for social partnership is how it links with the political and administrative process to promote effective policy-making. At national level, the NESC and the NESF clearly have a role to play in promoting linkages, through the promotion of activities such as scenario planning and policy research as outlined above, and through the development and evaluation of project teams focused on cross-cutting issues. At local level, the *Report of the Task Force on Integration of Local Government and Local Development Systems* (Department of the Environment and Local Government, 1998b) recognises the need for a more closely-integrated local government/local development system. To date, local partnerships have been primarily the concern of central government. There is a need to strengthen the role of local government in the process and to better develop linkages at the local level between local government and social partnership initiatives. A strengthened role for local government could significantly improve the policy process at local level.

Another key theme of partnership is the development of consensus, both in terms of the issues and the associated actions. But to develop such consensus takes active consultation and can be time consuming. While consultation and consensus building are clearly desirable attributes to be pursued, the potential for such processes to create new rigidities should be constantly scrutinised. Dutch experience is of relevance here. The Dutch corporatist model has been praised for its capacity to adjust to changing external conditions. In recent times, however, the Dutch Government has recognised rigidities in arrangements, which can lead to uncompetitive behaviour and harm consumer interests. Policy responsiveness is seen to be poor and special interests seen as having too much influence. Current reforms aim at a major overhaul of consultation practices. By giving the administration greater flexibility on whom to consult and when, reforms seek to enhance the value of consultation in producing data and expert opinion, to streamline the process, and to reduce delays. The intention is that consultation will be seen as an input to quality decisions rather than a search for consensus: a major cultural change (OECD, 1999d).

12.3.5 The Political/Administrative Interface

No review of public service institutional capabilities and policy-making can ignore the political context within which policy decisions are made. Ultimately, the Government and Ministers set Departmental and agency priorities and policies, and in turn are responsible for them. Due to political pressures, Ministers may have particular short-term priorities. The emphasis is on policy-makers reacting to major problems, identifying quick solutions, and then moving on to the next problem. In such a situation, the capability to promote and produce long-term policy processes can be limited.

However, there is something of a danger of caricature in such a situation, particularly if it leads to the conclusion that public servants will be pushed by the system to provide only what a Minister wants. As one former prominent senior Australian public servant has said:

> In my experience most ministers know that they can always find someone who will tell them what they think the minister wants to hear. What ministers who survive most value is a capacity to respond creatively to the minister's concerns, combined with critical and expert appraisal so that they can be warned in advance of any potential problems. In other words, what is needed is a balance between independence and responsiveness (Keating, 1999:44).

The aim is to ensure that long-term policy issues receive regular and well-informed attention as part of the common agenda of Ministers, Departments and agencies. In New Zealand, the system of Strategic Priorities and Key Result Areas is in part aimed at creating such a common agenda, in what they define as the purple zone:

> Essentially, the purple zone is the arena of conversation between ministers and their senior officials which ensures that appropriate attention is being paid to the government's priorities and that the consequent interdependencies, risks and departmental initiatives are being managed in a way that serves the interests of government as a whole … The red (administration) and blue (policy) zones, and the purple zone in which they blend, encapsulate the total performance management system (Matheson, Scanlan and Tanner, 1997:85).

12.4 IMPLEMENTING DECISIONS EFFECTIVELY

Good policy needs to be deliverable. As one senior British public servant notes (Bichard, 1998: 328): "Too often have we developed policy which is enormously difficult to deliver, either efficiently or effectively, or which in the case of the benefits system is vulnerable to fraud and abuse." The challenges associated with developing institutional capabilities to implement policy decisions are as diverse as those associated with developing good policy in the first place.

12.4.1 Governmental Organisation

A key issue to be addressed in the implementation of policy is determining the appropriate organisational structures to facilitate change. Traditional forms of control through hierarchy are giving way to post-bureaucratic forms emphasising various forms of contracts and new relationships. The OECD addresses this issue:

> Can management be reformed within conventional or pre-existing organisations? The answer depends on the objectives of reorganisation. If, as often was the case in the past, organisational responsibilities are shifted among departments to shake things up by disturbing existing arrangements, then reorganisation is not likely to have much impact on performance. This type of reorganisation no longer is in vogue; it is generally recognised

> that the unintended effects may outweigh the intended ones. If, however, administrative responsibilities are rearranged to make agents (service providers) accountable to principals (ministers or top managers), then the reorganisation can fundamentally alter organisational performance (OECD, 1997d).

There are signs of such organisational restructuring in the Irish public service. The creation of the Prisons Agency and the establishment of the Eastern Regional Health Authority with three area health boards are examples of attempts to produce structures that will result in better implementation of policy. What is important is that a contingent approach is taken. Working out what is most appropriate for each organisation may result in different arrangements.

One challenge associated with the move to emphasise delivery through executive bodies is the reorientation of the 'core' staff of Government Departments such as Justice, Equality and Law Reform and organisations such as the ERHA. One of the main drivers for change is to enable these staff to focus more on policy, strategy and the monitoring of executive performance. Developing appropriate skills and competencies to take on these tasks will be central to their success. Lessons from places such as the UK and their Next Steps programme of establishing executive agencies may be helpful here in determining how to reorient central staff to develop the policy and strategic monitoring functions.

The capacity of core Department staff is crucial to effective implementation of policy. For example, a study of road and rail infrastructure planning in Norway revealed how varying organisational capacity created policy outputs that were not intended by the Cabinet:

> To solve the unemployment problem in 1991-92, additional grants were transferred to the Ministry of Transport from other ministries. However, because of much larger planning capacity in the road sector than in the rail sector, most of the extra funds ended up in the road agency. The road directorate was able to realise the potential political gains stemming from increased government efforts to fight joblessness in a shorter period of time, but in this case it was not, from the outset, the intention of the

Cabinet to give priority to road infrastructure investments (Egeberg, 1999:162).

12.4.2 Implementation of Cross-Cutting Issues

At implementation level, what is often referred to as the need for a 'seamless service' from the user's perspective is important. Humphreys (1997: 64) refers to the role of 'government gateways' in integrating services provided by a range of service providers, not necessarily exclusively from the public sector. Information technology has a key support role here. Meath County Council's Intranet system offers a good example with potential for further development (Humphreys, Fleming and O'Donnell, 1999).

More radically, programme integration focuses on improving the design and co-ordination of a range of related programmes to better meet user needs. One agency may take on responsibility for a variety of programmes previously delivered by several sources. Also, combining individual programmes into one programme and pooling budgets so as to facilitate more flexibility in service delivery may be desirable in some cases.

12.4.3 Performance Management[4]

Performance management is important in clarifying what is to be achieved, how and by whom. A first step in performance management is the setting of clear targets. In the UK for example, Public Service Agreements (PSAs) set out specific performance targets for Government Departments. From these, the public can judge whether targeted investment, for example on health and transport, has led to improved services.

Business planning is a key element of the performance management process. Many Government Departments and agencies are now beginning to produce divisional business plans that aim to step down and implement strategy as set out in the strategy statements. Many of the concerns expressed about the development of strategy statements outlined above also apply in the case of business plans.

4 Performance- related pay is discussed in Chapter 6

In particular, if business plans are to succeed it is important that they focus on the results to be achieved. It is also crucial that they illustrate the resource implications of pursuing particular courses of action.

One danger to be avoided if possible is that performance management becomes synonymous with performance-related pay. International experience would indicate that if performance management systems are seen as simply about performance-related pay, they may be discredited or focus simply on that which is readily measurable (OECD, 1997e). Performance management is about broader issues of results and competencies, and encouraging active learning (Buckley *et al.*, 1999). The main role for performance management is to enhance the system's capacity for evidence-based management.

12.4.4 Regulatory Reform[5]

Regulation is one of the main policy instruments of government. As such, regulation plays a vital role in securing effective implementation practices. Both central and local government are actively involved in the regulatory process. The Government has recently adopted a programme of regulatory reform measures. Regulatory reform is concerned with assessing the costs and benefits of regulations, and their impact on different sectors and interest groups. Reform is also about ensuring that, arising from this review, unnecessary regulations are removed and needed regulations improved.

Reducing Red Tape: An Action Programme of Regulatory Reform in Ireland (Department of the Taoiseach, 1999) notes that regulatory reform will require the re-allocation of resources in Departments to give more emphasis to reform. Drawing from a range of OECD countries with several years of experience of regulatory reform, some of the main issues that will need to be addressed if regulatory reform is to succeed are identified in a recent study (Boyle, 1999b).

5 Issues related to Regulation and Competition are discussed in Chapter 8, Section 6.

These include: the need for an annual regulatory plan for Departments; the use of a standardised checklist to guide regulatory development; the development of a system of regulatory analysis; the development of consultation and participation mechanisms; the development of compliance and complaint resolution strategies; and the tracking of whether or not regulatory reform systems are working well.

A further point to note with regard to regulation generally is the trend towards the establishment of independent regulatory bodies in certain sectors, and the removal of some regulatory functions from Departments, thus separating policy from regulation. Examples here are the Office of the Director of Telecommunications Regulation and the Commission for Electricity Regulation. The scope and impact of these bodies will need to be assessed over time, raising the question of who regulates the regulators.

12.4.5 Evaluation

Throughout this Strategy we have stressed the need to improve identification and measurement of those public programmes offering the greatest value for money. Associated with this we have advocated that in certain cases it is appropriate that higher priority objectives be financed by shifting resources from programmes of lesser priority without necessarily adding to the total of public expenditure. For such actions to take place, institutional structures need to be adapted so as to give more emphasis to the evaluation of public programmes.

Some steps have already been taken in this direction. In 1997 the Government initiated a programme of comprehensive expenditure reviews. This in turn builds on previous experience, particularly the evaluation capacity developed to monitor and review EU structural funds expenditure. It will be a particular challenge to ensure that in addition to evaluation for the purpose of better delivery of programmes, evaluation of the outcomes of programmes in the context of Government priorities takes place. As well as questions about the operation of programmes being addressed (is it running as intended?), questions also must be raised about the impact of the programme (are the programme objectives being met?) and the continued relevance of the programme (should the Government continue to fund the programme?). Further, given the increasing need for collaborative activities across agencies and levels of government, there will be a corresponding need for evaluations that focus on the impacts of collaboration. Rather than simply evaluating individual programmes, groups of programmes aimed at the same purpose will need to be assessed to judge their cumulative impact.

Again, there is international experience that can be drawn on to guide efforts at building and institutionalising evaluation capacity (Boyle, 1997; Boyle and Lemaire, 1999). Many of the lessons to be learned centre around building strong demand for evaluation, and ensuring an effective supply of high-quality evaluations. The experience of Australia, the Netherlands, and the evaluation of EU structural funds in Ireland, in particular, illustrate how Governments can develop and use evaluation capacity to improve decision-making and influence budgetary allocations. Ensuring links between evaluation, budgeting and strategic management is a difficult but crucial task.

12.5 THE RESOURCE IMPLICATIONS OF INSTITUTIONAL CAPABILITY BUILDING

In order to enhance institutional capability in the public service, attention must be focused on how the resources available to the public service are used. Human resource management, financial management and information technology management are key capacity levers for enhancing institutional capability.

12.5.1 Human Resource Management

People are the public service's most valuable resource. Human resources account for around 65 to 70 per cent of the annual running costs of Government Departments and agencies. The importance of having people with the necessary competencies in areas such as evaluation, strategic management and policy analysis are highlighted throughout this chapter.

A review of human resource management (HRM) issues

(Humphreys and Worth-Butler, 1999) identifies a number of challenges facing the Irish public service in adopting an effective strategic approach to the management of its human resources. The study draws from the strategic objectives set out in *Delivering Better Government* (1996) and *Better Local Government* (1996), as well as best practice from other administrations (notably Australia, Canada, Finland, New Zealand and the United Kingdom). A three-strand conceptual framework for strategic HRM practice is identified: strategic planning; pro-active HR management of the skills and talents of the individuals available through identifying and realising their full potential; and active enabling, that is, preparing the ground for change and supporting reform through widespread ownership of the process (Humphreys and Worth-Butler, 1999:50-52).

12.5.2 Financial Resource Management

Financial Management in a Reformed Public Service (SMI Working Group on Financial Management, 1999) sets out proposed changes in financial management practices for the civil service. The changes recognise and draw from international developments such as multi-annual budgeting and accrual-accounting procedures. The proposals promote more flexibility in the use of resources within overall limits and are to be welcomed. Such increasing flexibility is an important element in enhancing institutional capability and one that is a feature of public service reform in many countries. The basic flexibility relates to shifting funds among items of expenditure and between fiscal years. Several OECD countries now allow almost complete discretion in spending within cash limits on running costs. The main restrictions relate to the number and remuneration of senior officials. Shifts between fiscal years tend to occur by allowing agencies to carry over unused funds and to pre-spend a portion of the next year’s budget, limited to a fixed percentage of appropriated funds. This devolution of decisions on resource-use to individual Departments and agencies, combined with strong central guidelines and a central control framework for budgetary decisions, is more likely to result in shifts in expenditure than is a centralised approach (Campos and Pradhan, 1995).

One particular challenge associated with such increased budgetary flexibility within a central control framework is determining the future role of the budget organisation (the Department of Finance in the Irish case). The OECD illustrates the nature of the challenge:

> In sorting out its future niche, the budget organisation will be pulled in two directions. One is for budgeting to become integrated into financial management through closer links with accounting and auditing, cost and output measurement, management information systems and other management routines. The other direction is to become the policymaking centre of government, to be at the frontier of programme development and strategic thinking. On paper, the two roles can be harmonised. In fact, Australia has vigorously sought to integrate both roles: to build budgeting into the routines of financial management as well as into the opportunities for policy innovation. This combined role is the ideal, for the regularities of budgeting make an excellent instrument of financial management while the decision-impelling characteristics of budgeting make it an excellent instrument of strategic choice. Packaging the two roles in the same organisation will not be an easy task, however (OECD, 1997d:35).

12.5.3 Information Technology Management

The Information Society Commission and the report of the Inter-Departmental Implementation Group on the Information Society (1998) have identified the role that information and communication technologies can play in enhancing public service provision. The Government's report *Implementing the Information Society in Ireland: An Action Plan* (Government of Ireland, 1999b) sets out a strategic framework for the development of electronic government services. As such, much of the framework needed to develop information technology as a facilitator of institutional capability in the public service is in place.

A recent study of public service improvements in the Department of Social, Community and Family Affairs and Meath County Council highlights the role that effective use of information technology can play:

> … both case study organisations have used IT in a creative and innovative manner to transform radically not only the quality but also the nature of the services they deliver. They have used technologies and available resources effectively in a manner which is far more widely reproducible across the Irish public service. The effective deployment of IT solutions has been a hallmark of the approach adopted within the Department of Social, Community and Family Affairs to improving the accessibility, efficiency and effectiveness of the services it delivers. Similarly, Meath County Council has been innovative and pioneering in its informatisation of the organisation in order to transform both its effectiveness and standards of customer service, as well as to enhance local democracy. It is also worth observing that in both organisations, there was visible and active support for IT development at senior management level (Humphreys, Fleming, and O'Donnell, 1999: 77).

There is no doubt that information technology can support the development of new relationships envisaged as part of structural change in the public service. Increasing devolution and decentralisation, changing inter-governmental relationships, and changing relationships with suppliers and public service users can all be facilitated by the wise use of information technology. Information technology can also more generally enhance the capacity for better management in the public service, particularly in areas such as needs assessment, planning and evaluation. New information flows can support the development of the kind of structural changes discussed in the rest of this chapter. It will be important in this context, however, that technological capacity does not outstrip the organisational and managerial capacity of constructing and controlling new information and communications systems and procedures.

12.6 DEVELOPING A MORE EFFECTIVE POLICY PROCESS: KEY ISSUES

A number of issues are raised in this chapter relating to the institutional capability challenges facing the public service. We highlight some key implications here while acknowledging that any brief analysis such as this invariably raises as many questions as it answers. Several of the issues raised should be investigated further in order to help promote stronger institutional capabilities in the public service.

As stated in Section 12.3.1, the Taoiseach announced a further set of milestones in the SMI process for the public service in July 1999. Many of the initiatives emphasised, such as regulatory reform, human resource management and financial management, are also stressed in this chapter as needing attention in developing institutional structures to develop a more effective policy process. This continuing and renewed commitment to the SMI process is to be welcomed as an important contributor to the quest for a more effective policy process. However, as with any initiative, there is always a danger that new rigidities are created that replace old problems. The tendency towards a slow pace of change with regard to some issues is also a point of concern. There is, therefore, a need for constant scrutiny and periodic review of the SMI and its constituent elements, to ensure that the new rules do not become as restrictive as those they replace. In this way, new priorities such as collaborative responses can be highlighted and given greater emphasis.

Also, there is a need to develop new ways of looking at policy. The current policy environment is quite different from that of five or ten years ago. The development of enhanced capacity to devise and deliver policies that are evidence-based and which are forward-looking is critical to Ireland's future success. Many policies now need to cut across organisational boundaries to get to the roots of a problem and devise responses that go beyond inherited ways of doing things.

A number of general principles should be borne in mind when considering the development of policies for complex systems such as are found in the public service environment: "Such systems must be monitored diligently; the actors within them must remain versatile and flexible; and the services must be highly decentralised. Persons must command options instead of eternal truths" (Glass, 1979:14). It is worth considering the elements of this statement in the light of some of the topics raised in this and earlier chapters. In this way, some of the main issues in adapting institutional structures to ensure a more effective policy process can be emphasised.

First is the need to monitor systems diligently. The most effective policy is that based on sound evidence. Initiatives such as performance management and evaluation are critical in securing sound evidence on which to base new developments. Determining the effectiveness and continuing relevance of programmes requires improved information on outcomes. For this to happen, evaluation criteria need to be built into policy from the outset. In this context, it will be particularly important that evaluation mechanisms are put in place to assess the impact and continued relevance of spending under the National Development Plan. Demand incentives to promote monitoring and review also need to be developed. The programme review and performance management initiatives represent useful starting points in this process, but further work is needed to ensure that cross-sector initiatives are monitored effectively.

Second, actors must remain versatile and flexible. The pivotal role of human resource capacity is emphasised in this chapter. The development of skills and competencies relevant to the policy process is an important feature here. Areas such as issue identification, long-term research-based policy analysis and evaluation need particular attention. The important place of front-line staff as key deliverers and as knowledge experts on implementation of the policy process must be recognised. Devolution of accountability and responsibility for human resource management and the professionalisation of the human resource function can facilitate a versatile response from the actors involved. Continuing to emphasise financial flexibility, within tight central control frameworks, will facilitate a flexible response.

Third is the need for highly-decentralised services. This does not mean only physical decentralisation, though this clearly has a role in bringing services closer to people. It also means more emphasis on decentralisation and devolution of decision-making so as to facilitate more effective delivery of the policy process. This can release energy within Departments to focus more on policy development and management.

Finally people must command options rather than eternal truths. At its heart, strategic management in the public service is about exploring options and taking a longer-term view of possible developments. The renewed emphasis on the SMI by the Taoiseach is significant in supporting the search for effective options. So too is the issue of scenario building and the need to further develop policy-research capacity. Often, policy is developed with only one scenario in mind. This outcome may be driven by the political process or because of time pressures. Yet Governments are beginning to look to ways to develop the capacity to create alternative scenarios for critical issues. The development of policy research capabilities requires particular attention. Policy research that offers advice to decision-makers for increasing understanding of critical problems is an important foundation for the development of policy options.

On this last point of policy research, the social partnership process has a particularly useful role to play. At both the national and local levels, the partnership process can be used to promote focused policy research on major collaborative issues. In this way, local government, the voluntary and private sectors, and outside experts can be involved in developing and evaluating policies. This can provide a useful challenge function to existing ways of viewing things. But opening out the policy process in this way is not without its tensions. While some ways of promoting linkages have been identified here, further work will be needed to identify the most appropriate ways of ensuring effective linkages between the partnership, political and administrative processes.

12. 7 ENHANCING INSTITUTIONAL CAPABILITIES

The Council has set out an ambitious vision for the period to 2010. The attainment of the vision, and the implementation of the strategy for its realisation, are dependent on successful development and implementation of policy. In turn, these require that key institutional structures of the public sector are capable of meeting the challenges and opportunities that Ireland will face over the next decade.

Concerns about the ability of the policy process to anticipate needs and to implement decisions effectively in a changing context were among the key reasons for the Strategic Management Initiative (SMI). While the SMI has led to the development of useful blueprints and has improved long-term strategic planning, a shift from development to implementation of the new structures and approaches is now essential. In particular, new institutional capabilities are required which enable the State to deliver services in an environment characterised by:

- anticipation of needs and adaptation to change;
- monitoring and evaluation of policy; and
- effective evaluation and rewarding of performance.

These processes should characterise all areas of the public service. Our analysis points to the following requirements of the policy process if its ability to anticipate needs, adapt to change and monitor and evaluate policy is to be enhanced:

(i) The availability of appropriate and timely information for policy analysis and planning, and for monitoring and evaluation of policies and outcomes: a key theme emerging throughout this report and an essential prerequisite for the full implementation of many of the recommendations is the availability of appropriate and timely data that can be dis-aggregated by appropriate categories. Such data are essential for the formulation of policy based on analysis of evidence, including scenario identification and planning. They are also essential for the monitoring of progress and evaluation. They would facilitate the development of a mind-set oriented to analysis and planning within the public policy system .

(ii) Scenario identification and planning: that is, the development of policy relevant scenarios based on anticipated demographic and social changes in order that the implications for policy be available in time to plan for emerging needs. At some point, the present growth rate of the Irish economy will slow. Over the coming decades, ageing, and the associated pension and health care demands, will have implications for the economy and society. Other shocks and unexpected events will undoubtedly disturb the economy. Demographic and social changes will have implications for labour market participation and for residential and other choices. It is desirable that it be possible to undertake some general consideration of possible future scenarios in order that the implications for policy be available in time to plan for emerging needs. The importance of such scenario planning is identified by the current bottlenecks in housing and infrastructure.

(iii) Adapting to changing relationships with EU institutions: given Ireland's changing relationship with the EU, Irish policy-makers will in future need to be concerned more with the indirect but still substantial benefits to Ireland arising from the overall development of the EU than the direct cash transfers that will be of diminishing importance. This will require a greater focus on policy elaboration and analysis with implications for the kind of work undertaken in Departments and the kind of staff required to carry out this work.

(iv) An ability to develop frameworks to implement policy and move the policy process forward in cross-cutting areas: that is, with regard to those policies that cut across institutional boundaries and levels of government. Numerous examples of such policy areas were identified in our analysis, for example the equality area, childcare, infrastructure and regulation (see Box 12.3). One crucial element for success here, is the need to integrate planning and delivery, at both central and local levels, around common agreed objectives and targets.

(v) Implementation of policy-proofing and mainstreaming throughout the policy process: policy proofing refers to assessment of policies at the design and review stage for their likely impact on particular areas of concern such as equality, poverty or gender. Mainstreaming entails applying the lessons of successful pilot projects for socially excluded groups to general policy and practice and recognising the needs of socially excluded groups in the policy process. We argued in Chapter 2 that policy-proofing and mainstreaming should be taken-for-granted dimensions of the policy process but should not be seen as substitutes for fundamental change in access to the opportunities and resources necessary for social inclusion. In other words policy-proofing and mainstreaming should be the means to full inclusion of all groups not an end in themselves. The application of policy-proofing and mainstreaming on a consistent basis allows for follow-through on policy commitments in a way that has not been routine in the policy process to date but which is inherent to the full application of a strategic management approach.

All of these requirements raise intra-institutional and inter-institutional issues. Each must be addressed if the challenge now facing the public service, to develop appropriate structures and capabilities to meet Ireland's needs into the twenty-first century, is to be met. One of the strengths of the SMI is that, while learning from the experience of others, the solutions being put forward are based on our own needs rather than replicating models from elsewhere. This approach should be encouraged. In developing institutional structures for a more effective policy process, it is important that any new structures are rooted in a framework of values and practice relevant to the Irish experience.

The Council believes that enhancing institutional capabilities is essential to the achievement of its vision and that the success of both are dependent on commitment to the social partnership ethos and process.

BOX 12.3

Cross-cutting Policy Issues

The equality area provides a very good example of the cross-cutting issues arising in relation to policy implementation and pro-active agenda-setting, once initiatives have been taken and a range of institutions established as we outline in Chapter 2. In view of this we have recommended a Framework for Action on Equality.

Childcare is a policy area that clearly highlights the difficulties that are created when an effective response to a cross-cutting issue does not take place. As Chapter 7 has highlighted, there are 10 Government Departments involved in childcare initiatives in Ireland. The fragmentation of responsibility that this creates has been recognised by a number of recent studies as a major problem. The current difficulties with regard to childcare planning and provision are a case in point. Inconsistencies exist both within and between local authorities and between planning authorities and local health board inspection teams on basic issues such as the cost and processing of planning applications and with regard to space and numbers. The Council recommends a more structured approach to childcare policy planning and implementation. The recent establishment of a Cabinet Committee on Childcare may help in this regard.

In Chapter 10, the Council makes the case for the development and implementation of a National Spatial Development Strategy (NSDS). It recommends that the Department of the Environment and Local Government should have responsibility for the development and implementation of the NSDS. However, given the ambitious nature of the project and the urgency involved, there is a strong case for the active involvement of more Departments and relevant organisations. In this, perhaps the rapid development of PPPs from policy concept to policy initiative is a good role model. A number of new institutional arrangements were established to push the idea forward including the establishment of a Cabinet Committee on PPPs, an Inter-Departmental Committee, a PPP Advisory Group, a Working Group on Financial, Taxation and Tendering Issues, and a number of dedicated PPP units in selected Government Departments including the Department of Finance. Within a year of announcing Government approval of PPP, the Minister for Finance was able to announce a number of PPP pilot projects and more projects are expected to come on stream in the context of the National Development Plan. Similar commitment to the NSDS would go a long way in developing spatial planning in Ireland.

Development in the regulatory area raise important institutional issues concerning the relationship both amongst sectoral regulators and between the regulators, Government Departments and the Competition Authority. It is important that such regulators should not limit the effectiveness of competition policy. This is inevitable unless the cross-cutting nature of regulation and competition is built into the development of the regulatory framework.

CHAPTER 13

VISION AND STRATEGY

13.1 INTRODUCTION

This is the Council's fifth Strategy report since 1986. Its title, *Opportunities, Challenges and Capacities for Choice*, reflects the Council's analysis of key social and economic dimensions of our society. It offers the Council's vision of the society we can become, the strategy we must pursue and the challenges we face. Economic conditions have changed remarkably in the past 13 years. We now have opportunities that seemed unlikely, to say the least, in 1986 but we also have challenges that must be met if we are to realise our potential. Successfully meeting these challenges is dependent on appropriate choices, appropriate in the sense of simultaneously meeting current deficits and laying sound foundations for future sustainable success.

Agreement on a set of goals in previous Strategy reports helped to build consensus on the way forward. Over the last 13 years, the commitment to these goals and the strategy to achieve them has produced real benefits for the economy and society as a whole. The substantial growth in employment and reduction in unemployment on the scale seen over recent years and the transformation of public finances and the associated easing of the tax burden are significant achievements. However, the earlier goals were incomplete. New challenges and the persistence of remaining problems suggest that a new vision is now required to lead us into the next century. The aim is to build on our achievements to date and sustain the virtuous circle that has brought us thus far.

13.2 SUCCESS AND DEFICITS

Informed by the Council's analysis in previous Strategy reports, each of the four social partnership agreements since 1987 has helped to create a virtuous circle. By restoring Ireland's cost competitiveness, deepening confidence in the credibility of the policy agenda, and boosting business activity and profitability, the agreements resulted in rapid growth in investment and massive job creation. These, in turn, helped deliver a remarkable turnaround in Ireland's public finances. The sharp reduction in the burden of national debt permitted a strong expansion in public spending on essential services – health, education and social welfare. It also facilitated the undertaking of ambitious tax reform. Large reductions in the burden of personal taxation in the economy supported very strong growth in take-home pay for a greatly expanded workforce. In the language of a previous NESC report, Ireland developed, albeit belatedly, a successful national system of innovation.

Problems certainly remain and are to some extent starker because of the remarkable economic success. This is particularly true in the areas of poverty and long-term unemployment: while 'consistent poverty', as measured by a combination of income poverty and deprivation of basic necessities, declined between 1994 and 1997 and unemployment has reduced considerably since 1997, they are still at levels that are unacceptable in the context of our overall prosperity. Most of the key deficits identified in this report directly militate against both economic success and social inclusion: physical infrastructure and other competitiveness deficits; housing choice, affordability and supply deficits; educational disadvantage, reflected particularly in literacy and numeracy deficits; deficits in childcare services that inhibit labour force, training and/or educational participation. Some of these problems are the side-effects of success. For example, infrastructural deficits have been exacerbated because of our rapid development, and increasing population over the past decade. Some are the result of attitudinal and social changes that have brought new issues onto the policy agenda. These include environmental, social and economic sustainability. These are a reflection of success rather than failure.

The important difference from 1986 is that Ireland now has the capacity and opportunity to enhance its economic and social development while also addressing its deficits. The Council believes that managing economic success and maintaining its momentum are dependent on addressing a broad range of deficits both economic and social. In order to maintain economic and social developments on a positive path in the period ahead, the Council has proposed a new vision for Ireland and an accompanying strategy to help to deliver that vision.

13.3 A NEW VISION FOR IRELAND

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 to the constantly evolving requirements of international competitiveness, understood as the necessary condition of continuing economic and social success.

This vision has several dimensions, the most important of which are economic inclusion based on full employment and social inclusion, reflecting full participation in those activities which constitute the norm in society. It implies successful and continuing adaptation to change, including commitment to the utilisation and development of the potential of the Information Society, the promotion of research and development, a commitment to lifelong learning and the fostering of an entrepreneurial culture. It is based on a commitment to environmentally sustainable and balanced development between regions and between urban and rural areas and on a commitment to the further development of the European Union and international solidarity. It has implications for policy choices across a wide range of issues. But the goals which underpinned our recent success are no longer adequate. The actions necessary to secure jobs and living standards will be very different in the period ahead and must be framed with recognition that the need for fairness in economic and social affairs, has acquired a much greater significance over recent years.

13.4 STRATEGY TO DELIVER THE VISION

The challenge now is to maintain the momentum in support of consistent action to address the significant, but now often different, problems that characterise our present situation, relative to the crises of the 1980s. In a situation of increased economic integration, economic success, rapid technological development and a significantly changing demographic profile the context for which we have to plan is a rapidly evolving one. While we can identify the key demographic and educational changes over the period ahead, how these are likely to interact with other less obvious developments, domestic and external, are not predictable. This means that we must adopt a consistently open and responsive attitude to change. This will necessitate continuing evaluation of programmes and a willingness to act on the conclusions of such evaluation. This will require an increasing emphasis on high quality and timely data.

The Council believes that it is vital to build a new consensus now in support of a new set of national economic and social goals, appropriate to Ireland's changed circumstances set out in previous chapters. 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 even the strongest economic performance. Something of this kind occurred during previous periods of Irish economic strength, to everybody's eventual cost.

In pursuing its vision of a new Ireland, the Council continues to support the following essential elements that have underlain social partnership in Ireland:

- a macroeconomic policy that secures steady growth with low inflation;
- structural policies to promote change and adapt to the shifting external environment;
- policies to develop an inclusive society; and
- an evolution of incomes that pays dividends to those in employment consistent with maintaining competitiveness and dealing with distributional conflict without disrupting the economy.

However, in varying degrees, a changed focus is now required to adapt this framework to reflect Ireland's altered circumstances and to provide the underpinning required to deliver the vision in an economically, socially and environmentally sustainable way. The broad direction of the changed focus is reflected in the following commitments:

- greater priority needs to be given to the issues affecting people's well-being, including very significant infrastructural investment combined with spatial planning; a better balance between work and family responsibilities, for example through childcare and family-friendly policies;
- there is scope for improving living standards, including the reward for employment consistent with protecting economic success to date;
- further investment in people is required for an inclusive society and in order to make economic and social development self-sustaining;
- there should be decisive steps towards a fairer and inclusive society; and
- overall sustainability must be achieved.

Details of the strategy as it applies to key areas are given in the previous chapters organised under three broad headings: Part II A, Adjustment to Further Economic and Social Integration, includes analyses of macroeconomic policy, fiscal policy, wage determination, labour market adaptability and employability, and sectoral development. Part II B, Tackling Key Societal Imbalances and Enhancing Social Inclusion, includes an analysis of unemployment, poverty and social exclusion; also, policy in regard to infrastructure and housing. Part III, Adapting Institutional Structures, presents an analysis of how institutional structures should be adapted to ensure an effective policy process.

13.5 REALISATION OF THE VISION

The Council believes that the realisation of its vision would have practical beneficial consequences for individuals and for society of such significance as to justify the effort required to make the necessary strategy happen. Consistent with this the Council commends its vision, strategy and recommendations to the Government, the social partners and the wider society in the knowledge that Ireland has tremendous opportunities, that it faces significant challenges but has the capacity to make appropriate choices. Such choices would deliver an economically and socially inclusive society that has long-term sustainability.

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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 date listed here are the dates of publication.

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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: Projections 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 Projections 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
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