NESC Strategy 2006: 
People, Productivity and Purpose

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Table of Contents

Abbreviations vii
Preface ix
Acknowledgements x
Executive Summary xiii

Chapter 1
The Economic, Social and Environmental Context
1.1 Introduction 1
1.2 Demographic Trends 1
1.3 Macro Economy, Incomes and Participation 12
1.4 Income Inequality and Poverty 27
1.5 Quality of Life and Social Wellbeing 40
1.6 Spatial Development 50
1.7 The Environment 57
1.8 Conclusions 63

Chapter 2
Vision and Analysis
2.1 Introduction 81
2.2 The NESC Approach to Vision and Visioning 81
2.3 Updating and Enriching Our Account of the Economy 85
2.4 Deepening our Account of Social Policy and Irish Society 92
2.5 Factoring the Environment more fully into our Understanding of Ireland’s Experience and Challenge 105
2.6 A Better Account of Relation between Ireland’s Economic, Social and Environmental Goals 110
Chapter 3

Key Challenges, Goals and Strategies

3.1 Introduction 115
3.2 Enterprise and Innovation 118
3.3 Training 125
3.4 Migration 133
3.5 Participation and Fairness 143
3.6 Pensions 162
3.7 Infrastructures of Care 165
3.8 Housing and Sustainable Neighbourhoods 174
3.9 Health 177
3.10 Education 185
3.11 Regional and Rural Development 193
3.12 Agriculture 199
3.13 Infrastructure and a New National Development Plan 203
3.14 The Environment 209
3.15 Enabling Voluntary and Community Activity 220

Chapter 4

A Consistent Policy Framework for 2006-2008

4.1 Introduction 235
4.2 A Consistent Policy Framework 235
4.3 The Public Finances 238
4.4 Wage Bargaining 254

Chapter 5

Policy Making, Implementation and Partnership

5.1 Introduction 281
5.2 The Problem: ‘Implementation’ 281
5.3 The Context 282
5.4 Analytical Insights on Policy Making:
   Negotiated Approaches and Government Authority 287
5.5 Implications for Irish Policy Making, Implementation and Partnership 294

Bibliography 305
Publications 314
List of Tables

Table 1.1  Net Migration Flows by Age Group, 1981 – 2002 (’000)  8
Table 1.2  Population by Place of Birth, 1996 and 2002  9
Table 1.3  Private Households at Census Time, Selected Characteristics  11
Table 1.4  Trend in Average Industrial Earnings and the Minimum Wage  17
Table 1.5  Percentage of Persons below 60 Per Cent of Median Income  27
Table 1.6  Percentage of Persons in Consistent Poverty  29
Table 1.7  Percentage of Persons (Aged 16 and Over) in Consistent Poverty and Below 60 per cent of Median Income by their Principal Economic Status, 2003  29
Table 1.8  Percentage of Persons below 60 per cent of Median Income by Labour Force Status of Household Reference Person  30
Table 1.9  Breakdown of Persons below 60 per cent of Median Income by Labour Force Status of Household Reference Person  31
Table 1.10 Indices of Growth in the CPI, GAIE, After-Tax Earnings and Selected Social Transfers, 1994-2003  32
Table 1.11 Annual Rate of Growth (%) in Equivalised Disposable Income in Real Terms, Ireland and Sweden, Mid-1980s to 2000  33
Table 1.12 Selected Social Welfare Payments relative to 60 per cent of Median Equivalised Disposable Income, 1994 –2003  37
Table 1.13 Redistributive Impact of Budgets 2000-2005  38
Table A1.1 Average Annual Births, Deaths, Natural Increase and Estimated Net Migration for Each Intercensal Period, 1926-2002  65
Table A1.2 Share of Net Migration in Population Change 1996-2002  66
Table A1.3 Annual Percentage Change in GNP, Employment, Productivity and Living Standards  67
Table A1.4 Components of GNP: Annual Percentage Change  67
Table A1.5 Trend in Average Industrial Earnings  68
Table A1.6 The Sectoral Composition of Employment, 2000 and 2005  69
Table A1.7 Nominal Compensation per Employee ((Annual % Change)  70
Table A1.8 Average Weekly Earnings by Sector  71
Table A1.9 Economic Forecasts for 2005 and 2006  72
Table A1.10 Age Distribution of the Population, 1991 – 2002  72
Table A1.11 Level and Percentage Change in Gross Weekly Earnings (nominal), 2000-2004  73
Table A1.12 Minimum Wage as a Percentage of Average Manufacturing Earnings (Gross and Net)  74
Table A1.13 Employment and Unemployment by Region  75
Table A1.14 Percentage of Total Employment by Sector in Each Region  75
Table A1.15 Estimates of 2002 population and changes 1996-2002 for Gateways and Hubs, inclusive of catchment areas  76
<table>
<thead>
<tr>
<th>Table/Projection</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 4.1</td>
<td>Age Related Expenditure as a Percentage of GDP</td>
<td>244</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Reasons for increase in the Exchequer Pay and Pensions Bill</td>
<td>256</td>
</tr>
<tr>
<td>Table A 4.1</td>
<td>Projection 1 A Balanced Budget</td>
<td>268</td>
</tr>
<tr>
<td>Table A 4.2</td>
<td>Projection 2 The Golden Rule</td>
<td>270</td>
</tr>
<tr>
<td>Table A 4.3</td>
<td>Projection 3 Intermediate Option, Deficit close to 1 per cent of GDP</td>
<td>272</td>
</tr>
<tr>
<td>Table A 4.4</td>
<td>Projection 4 Tax Increase of One Percentage Point of GNP Over 10 Years</td>
<td>274</td>
</tr>
</tbody>
</table>

**List of Figures**

- **Figure 1.1** Age-specific fertility rates, 1960-2003 | 3
- **Figure 1.2** Estimated Annual Out-Migration and In-Migration ('000), 1992-2004 | 5
- **Figure 1.3** Natural Increase and Net Migration, Older EEA Countries, 2002-03 | 6
- **Figure 1.4** Manufacturing Output: Annual Percentage Change | 14
- **Figure 1.5** Average Annual Days Lost in Industrial Disputes | 23
- **Figure 2.1** Relationship Between Social Capital and Social Institutions and Interactions | 113
- **Figure 3.1** Core Structure of the Developmental Welfare State | 144
- **Figure 3.2** The Life Cycle Approach: A Unifying Perspective | 147
- **Figure 3.3** The Partnership Framework | 228
- **Figure 3.4** Three-way Learning Between Agency-Level, Sectoral-Level and National-Level | 231
Abbreviations

ACR
Annual Competitiveness Report

AEGI
Adult Education Guidance Initiative

AHP
Affordable Homes Partnership

A&E
Accident and Emergency

APOCC
All-Party Oireachtas Committee on the Constitution

BMW
Border, Midland and Western

CAP
Common Agricultural Policy

C&AG
Comptroller and Auditor General

CB
Child Benefit

CCCC
City and County Childcare Committees

CDA
Child Dependant Allowance

CECDE
Centre for Early Childhood Development and Care

CIE
Coras Iompar Éireann

CPI
Consumer Price Index

CSO
Central Statistics Office

CSPVG
Civil Service Performance Verification Group

DBOF
Design, Build, Operate, Finance

DES
Department of Education and Science

DHC
Department of Health and Children

DJELR
Department of Justice, Equality and Law Reform

DoEHLG
Department of Environment, Heritage and Local Government

DP
Drugs Payment

DWS
Developmental Welfare State

ECCE
Early Childhood Education and Care

ED
Electoral District

EDR
Environmental Dispute Resolution

EEA
European Economic Area

EIA
Environmental Impact Assessment

EOCP
Equal Opportunities Childcare Programme

EPA
Environmental Protection Agency

ESF
European Social Fund

ESG
Enterprise Strategy Group

ESRI
Economic and Social Research Institute

ET
Emissions Trading

EU
European Union

EU SILC
EU Survey of Income and Living Conditions

FDI
Foreign Direct Investment

FIS
Family Income Supplement

GAIE
Gross Average Industrial Earnings

GDA
Greater Dublin Area

GDP
Gross Domestic Product

GGB
General Government Balance

GHG
Greenhouse Gas

GNP
Gross National Product

GNI
Gross National Income

GP
General Practitioner

GVA
Gross Value Added

HALE
Healthy Life Expectancy

HEI
Higher Educational Institution

HICP
Harmonised Index of Consumer Prices

HSE
Health Service Executive

IBEC
Irish Business and Employers Confederation

ICT
Information and Communications Technology
Preface

This is the Council’s seventh ‘Strategy’ report. Since 1986, the NESC Strategy reports, prepared every three years, have outlined the Council’s shared understanding of Ireland’s economic and social situation and its shared analysis of the challenges that need to be addressed. These reports have served a number of purposes. Their preparation has involved the social partners and others in a fairly intense and sustained discussion of facts, trends and explanations. The published reports have expressed to Irish government and to Irish society the reasons why the social partners and others in the Council advocate particular strategic policy approaches. Finally, the reports have been a key input to the negotiation of the three year partnership programmes that have been a conspicuous feature of Irish public governance since 1987.

This report differs in two main ways from the last Strategy report, published in 2003. First, in its 2003 report the Council provided a detailed interpretation of the economic boom and social change in the Celtic Tiger years, placing them within the context of Ireland’s long-term economic and social development. This report contains less reflection on past development. Second, the 2003 report addressed economic and social issues somewhat separately. In this report, the Council makes a systematic attempt to analyse economic, social and environmental issues in an integrated way. This reflects an increasing awareness, within the Council and elsewhere, of how deeply connected the economy, society and the environment are.

Indeed, a key theme of report is the need to up-date and enrich our account of the Irish economy, deepen our account of Irish social development and situation, and factor the environment more fully into our understanding of Ireland’s experience and challenge. The report combines these to offer an account of the relation between our economy, our society and our environment.

It suggests that economic and social progress in Ireland is now more broadly based and has deeper roots than in the past, or than is sometimes recognised. At the same time, it confirms that economic progress continues to be uneven and is vulnerable in a number of ways, some of which are new. In the past, there was a real sense that the economic reality set limits to our social and environmental possibilities. Now, the medium and long term strength of the economy depends not only on increased investment in physical infrastructure and scientific research, but also on a deepening of capabilities, even greater participation, more effective systems of social protection and care, internal as well as external connectivity, a high quality environment, more social mobility and successful handling of diversity, including immigration.
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The staff of several government departments, the Economic and Social Research Institute, the Central Statistics Office, the National Centre for Partnership and Performance and the National Economic and Social Forum were all of real help to the Secretariat throughout the preparation of the report. Mr. Bill Thompson worked as an Economist at the Council until summer 2005 and was very much involved in analysis and drafting. Ms. Aoife Halligan and Mr. Diarmuid Torney worked as Research Assistants at NESC during the preparation of the study.

The administrative staff of the Council’s Secretariat provided sustained support in the production and distribution of the various drafts of the report.
The Economic, Social and Environmental Context

The Council has reviewed key economic, social and environmental developments in order to identify the major and novel trends which must inform policy in the coming years.

Demography
Strong population growth, the result of rising births and in-migration, was recorded in the 2002 Census and has been continuing since. The CSO projects that the population will grow by at least 25 per cent over the period 2006-2036. Because of uncertainty about future migration, the CSO makes a range of projections, and these vary by almost half a million. Population growth on this scale, and its potential volatility, are a major challenge to policy formation in practically every area of Irish life. The composition of Ireland’s population is also changing. Growth is currently strongest among the working-age groups but, after 2016, Ireland’s population will become one of the most rapidly ageing in Europe. The proportion of the population born outside Ireland is growing rapidly, particularly people from Central and Eastern Europe, Asia and Africa.

Economic Development
The economic outlook is positive. There are, however, a number of risks to a favourable outlook. There is a risk of a continuing loss of competitiveness, weakening export growth and sustainable prosperity. Second, there is a risk of a large fall in housing output or house prices. A final risk is a large correction of the imbalances in the global economy leading to a global recession. Notwithstanding these risks, the Council considers that the most likely outcome is a continuation of strong economic growth over the next few years.

Income Inequality and Poverty
Ireland has recorded a steady increase in the proportion of the population ‘at risk of poverty’ (with incomes less than 60 per cent of the median). This is despite social welfare incomes growing significantly in real terms and faster than gross earnings. It is partly because after-tax earnings increased by more than social welfare incomes. Changes in household composition, particularly a higher number of dual-earning households and size (smaller households) may also have pulled up the median household income threshold used in calculating the poverty line and the percentage ‘at risk of poverty’.
Quality of Life and Social Wellbeing

There is an increasing interest in assessing quality of life and well-being, as reflected in health, education, housing, the family, work life and community involvement. There continue to be major improvements in the overall health status and levels of educational attainment of the population. These improvements throw into sharp relief the continuing inequality in both health and education. Significant changes are taking place in family life, how people experience work, the quality of housing and neighbourhoods, and the level and nature of involvement in community and civic activities.

Spatial Development

The growth of population has been widely distributed across regions. The East’s share of population has continued to increase, but within the East there has been a dispersal of population to Meath, Kildare and Wicklow and other Leinster counties. There has been growth of employment in many rural districts. However, the future outlook for rural employment raises concerns. Employment in construction will not continue to expand at its current rate, while rural areas have a high dependence on employment in both manufacturing and agriculture, both of which are vulnerable.

Environment

Population and economic growth have created pressure on air quality, inland waterways, estuarine and coastal waters, the terrestrial environment and Ireland's natural heritage and biodiversity. Problems in these areas pose challenges for agriculture, energy use in industry, our reliance on private motoring, physical planning, the management of marine resources, waste management and waste generation.

Vision and Analysis

In this, its seventh triennial Strategy report since 1986, the Council suggests that Irish policy makers and social partners develop their vision of a successful society by:

1. Updating and enriching our account of the economy;
2. Deepening our account of Irish social development, the social situation and the social challenge;
3. Factoring the environment more fully into our understanding of Ireland’s experience and challenge; and
4. Combining these to reach an understanding of the relation between Ireland’s economy, society and environment.

A new shared understanding of the Irish economy must incorporate the increasing role of services, knowledge and skills in a successful regional economy, the enhanced role of domestic demand, the importance of participation by those with low levels of educational attainment and with disabilities, and the impact of migration on the economy—distinguishing between its effects on total GNP, GNP per head, and income distribution. This implies a significant adaptation of earlier
thinking about national economic development. For several decades, Ireland’s ultimate economic, social and cultural goals were reflected in the proximate goal of employment. Anything that promoted employment—especially employment in the traded sector—was also likely to contribute to export growth, business strength, domestic prosperity and wider social progress. Now, our ultimate and proximate goals do not coincide so neatly. This has implications in a range of economic and social policy areas.

A deeper account of Irish social policy is outlined in the Council’s report *The Developmental Welfare State* (NESC, 2005). Social and economic goals must be jointly addressed; social progress depends on economic prosperity and social policy has a critical role in facilitating a high-participation, dynamic economy. While significant learning from other European countries is possible, the hybrid character of the Irish system is now a potential strength. A most important and troubling fact is the continuing high level of benefit dependency among working-age adults and the long duration for which many remain on social welfare.

The analysis shows that the radical development of services is the single most important route to improving social protection in Ireland over the coming years. It has a triple logic: supporting people in employment, redressing the marginal position of socially disadvantaged groups, and according autonomy and respect to people with disabilities and in institutional care. Movement towards a Developmental Welfare State poses very significant governance challenges. Ireland should move, where possible, from targeted programmes to what the Council calls ‘tailored universalism’—responsive publicly-subsidised and/or publicly-provided services. Finally, there is a risk of deepening dualism in Ireland’s welfare state, which should be avoided.

**The Relation between Ireland’s Economic, Social and Environmental Goals**

Good economic performance and improved social protection are not intrinsically opposed, but neither do they inevitably occur together. Rather, they can be made to support each other where there is sufficient shared understanding and commitment. This depends critically on recognizing that social policy is not simply an exercise in redistributing a surplus, there to be creamed off after successful economic performance. The composition and manner of social spending are as significant as its level.

Through much of the past decade and a half, there was a real sense that the economic reality set limits to the social possibilities. Now, the medium and long term strength of the economy seems to depend critically not only on increased investment in physical infrastructure and scientific research, but also on a deepening of capabilities, still higher participation rates, internal as well as external connectivity, more social mobility and the successful handling of diversity, including immigration.

The Council is convinced that the development of a dynamic, knowledge-based economy has inherent social implications that can serve social justice and a more egalitarian society, but also that the development of Ireland’s welfare state is integral to sustaining the dynamism and flexibility of its economy. In a globalised world, the strength of Ireland’s economy and the attractiveness of its society will rest on the same foundation—the human qualities of those who participate in them.
Two of the core ways in which Ireland now earns its living—advanced manufacturing and services—are not areas of poor environmental governance and need not be environmentally damaging. Many of the areas in which Irish environmental policy is less effective are ‘upstream’ or ‘downstream’ from these core business activities: energy generation, food production, transport, municipal services, settlement and urban development. In some of these areas, the methods or goals of environmental policy are highly contested. Our structures of governance, decision making and conflict resolution are not working as well as they could.

Key Challenges, Goals and Strategies

The Council’s analysis suggests that economic and social progress in Ireland is now more broadly based and has deeper roots than in the past, or than is sometimes recognised. At the same time, it confirms that this progress continues to be uneven in certain respects and is vulnerable in a number of ways, some of which are new. This modified picture of Ireland’s situation demands that we state our goals in new ways. It suggests that our goals should be modified:

- To focus more on GNP per head than the growth of total GNP;
- To focus more on the overall employment rate and the employability of individuals than the absolute level of job creation;
- To encompass not only export growth but also the competitive advantage in a networked world economy;
- To build on successful adoption and operation of advanced technologies to achieve much wider innovation in products, processes and organisation;
- To aim less for targeted programmes for disadvantaged groups and more for the responsiveness and flexibility of publicly-funded services, securing adequate income and improving participation;
- To build on successful control of a small number of large scale polluters and an improving waste management infrastructure, to achieve widespread adoption of environmental quality through more effective conflict resolution and governance.

This report identifies strategies to achieve these goals in a range of policy areas: enterprise and innovation, training, migration, participation and fairness, pensions, infrastructures of care, housing and sustainable settlements, health, education, regional and rural development, agriculture, infrastructure and a new national development plan, the environment, and policy to enable voluntary activity.
Rather than devote a separate section to North-South cooperation and the island-of-Ireland economy, the Council considers that it is integral to many of the policy areas discussed in this report. It sees the issue as one of mutual gains—arising from economies of scale, spillovers, collaboration, networking and joint institutions.

**Enterprise and Innovation**

There are three strategic directions of enterprise policy that the Council wishes to highlight. First, having made a substantial investment in basic research there is now a need to deepen and widen Ireland's innovation policy. Second, the Council believes that it is desirable that networks play a more significant role in the implementation of enterprise policy. Third, the Council emphasises the importance of regulation and competition. Progress has been made following the White Paper, *Regulating Better*, but much remains to be done. Stronger competition is possible in several areas of the Irish economy and could reduce prices. But regulation and competition policy should be undertaken with reference to the overall goals of national economic and social policy, including social cohesion, sustainable urban development and environmental quality.

**Training**

The Council believes that an effective national training system is now an urgent economic and social requirement. An effective system would be one which (a) supports the upgrading of skills needed by the private, public and voluntary sectors; (b) enhances the employability of individuals; and (c) contains a significant degree of external benchmarking to ensure that it meets the highest standards and is forward looking.

In providing greater support for training, there should be a particular focus on those with low levels of qualifications and those most at risk of redundancy. For the wider population, long-term funding instruments need to be settled promptly. An integrated guidance service should be put in place, based on existing providers. The Government should produce a statement on the overall strategy for the Irish training system.

**Migration**

Ireland must now identify its long-term approach to migration and define a comprehensive policy approach. Policy needs to be informed by economic and social analysis of migration. Pending a more detailed report on migration, the Council draws attention to some international findings on the economic and social implications of migration, including the following. Ireland is experiencing relatively large scale in-migration, sufficient to shape our demographic trajectory. Immigration tends to have a positive effect on total GNP, but its effect on GNP per head is uncertain. There is likely to be a complex relationship between migration and inequality/marginalisation in Ireland, which requires a close focus on both labour market effects and new approaches to social protection and participation. There is a strong link between the integration of migrants and the overall success or failure of immigration. Much migration tends to be long-term. Civil society organisations have a key role in determining whether a society achieves, or fails to achieve, integration of migrants. Uncertain status can weaken the benefits of
labour migration, while not greatly limiting total in-migration. It is necessary to treat refugees and asylum seekers in a manner that is supportive of the overall migration policy and national economic and social goals. There is a need to assess the possible long-term balance between EU and non-EEA migration to Ireland.

Most importantly, the Council makes some initial comments on the fear that migration will undermine standards within the Irish economy and society. It is useful to distinguish between the risk that individual migrants will be treated in a way that violates existing standards and the possibility of a dynamic process that undermines standards across the Irish economy and society. The risk of violations is very real. If it became widespread and persistent, it would create a dynamic process that undermines standards generally. International experience suggests that the maintenance and enhancement of standards within the economy and society is a more effective way of preventing such a negative dynamic than seeking to prevent the arrival of migrants themselves. It does this, in part, by reducing the demand for labour at unacceptably low levels of wages and conditions; and reduced demand will tend to reduce supply.

Participation and Fairness

The Council is strongly of the view that greater progress in the coming years in reducing poverty, promoting equality and ensuring a decent standard of living for every member of Irish society is integral both to making Irish society more attractive and to supporting Ireland’s economic development model. Its recommendations are based on its in-depth analysis in The Developmental Welfare State, published in April 2005. That study outlined three overarching objectives for social policy and Ireland’s welfare state:

- To revise systems that reflect low expectations and achieve low outcomes for a minority;
- To support the employed population more adequately in changed times;
- To institutionalise wholly new standards of participation and care for society’s most dependent and vulnerable members.

To achieve these objectives, the study focused on three overlapping areas of welfare state activity: income supports, services, and innovative or activist measures.

Modernising Payment of Social Welfare

People of Working Age: There are significant weaknesses in the income supports provided to people of working age. High benefit withdrawal rates create significant disincentive effects in certain instances. The value of earnings disregards and income eligibility thresholds have been eroded, allowing the emergence of new benefit traps. The contingency basis of payments can encourage a person to cling to the status that guarantees a secure income (e.g., being a lone parent, having a disability). The low level of the payments leaves many recipients vulnerable to debt and low self-esteem. There are, effectively, no expectations of, or aspirations for, recipients of social assistance, other than that they continue to meet the qualifying conditions. Increased rates of payment alone are unable to empower recipients to surmount the real obstacles that prevent them from becoming more self-reliant—
such as inability to find or afford childcare, poor skills, functional illiteracy or work places that are not wheel-chair friendly.

The Council has proposed the long-term goal of merging the current contingency-based social assistance payments to people of working age into a ‘participation income’. At present, people on the Live Register receive systematic attention from service providers. Over the coming years, persons with disabilities, lone parents, people in receipt of invalidity and sickness benefits, on Farm Assist and in early retirement should also be offered opportunities to reassess their options and access services from which they could benefit. In particular, lone parents should experience progressively stronger encouragement and be offered more intensive services and supports to enable more labour market participation as their children get older. Policy should aim to reduce the average duration of receipt of the one parent family payment and of disability payment.

The Council emphasises that the existing commitments to increase social welfare rates should continue to be a key policy. Thereafter, the lowest social welfare payment should be maintained as a proportion of Gross Average Industrial Earnings.¹

**Child Income Support:** A large proportion of Ireland’s children are being reared in households with very low incomes, despite very big increases in Child Benefit (CB).

This has troubled successive governments and the social partners, and prompted an ongoing search for policy measures that might address the issue. In *Sustaining Progress*, government and the social partners chose ‘Ending Child Poverty’ as one of ten Special Initiatives and asked NESC to explore the merits of merging two existing payments—Child Dependant Allowances (CDAs) and Family Income Supplement (FIS)—into a single programme that would provide a seamless source of child income support to low income families. The Council has undertaken that analysis and will shortly make it available on its website.

The analysis shows that the current instruments—Child Benefit, CDAs and FIS—have major drawbacks as anti-poverty measures. Consequently, the Council is agreed that the continuation of existing policies is not desirable in the medium-term.

The Council’s analysis explores what would be entailed if low family income, regardless of the employment or social welfare status of parents, were to be the basis of entitlement to a per-child income support (distinct from Child Benefit which would not be affected). The payment would be made in full when family income is below a set threshold and withdrawn at a low rate at higher levels of family income, such that better-off families would not receive it at all. Such an instrument would reflect a new approach to targeting and raises significant technical and policy challenges in the Irish context, and would take time to develop.

The objectives, however, are clear: (i) to give priority in allocating additional resources for child income support to children in low-income households, and (ii) to treat such families equitably (whether their parents are in work or on social welfare, in self-employment or employees). This is an area that, in the Council’s view, continues to merit further analysis and where innovation in the public system has a major part to play.

¹ In making this suggestion, the Council recognises that the Government must determine the level of welfare increases from year to year, having regard to the range of demands on the Exchequer: the sustainability of the public finances and the compatibility with the social, economic and employment needs of the economy.
Pensioners: The Council believes that there is a compelling case for increasing the relative incomes of Ireland’s pensioners. It strongly endorses further progress towards a pension rate of 34 per cent of GAIE in the medium-term. In determining the long-term shape of Ireland’s overall pension system, a key question is whether to continue with the voluntary, but tax-supported, approach to earnings replacement or to adopt an alternative approach, such as a state earnings-related pension or the adoption of a mandatory savings approach.

Poverty Indicators
The design and use of poverty indicators can be improved. The effectiveness of anti-poverty strategies needs to be guided by both diagnostic and performance indicators. The Council recommends wider but more careful use of the measure of ‘relative income poverty’ as a systemic, high-level indicator. Appropriate high-level goals would be to move from having among the highest persistent and ‘at risk of poverty’ rates in the EU 15, to being below the EU 15 average on both measures over the coming years.

The Challenge to Government and Governance
Building a Developmental Welfare State poses some urgent institutional challenges. Effective social policy depends on complementary action by a wide range of interdependent bodies (government departments, statutory agencies, voluntary bodies, private providers and socially disadvantaged groups themselves). While the challenge of transforming Ireland’s welfare state is now as important as the transformation of its economy, the networks of actors in the social sphere have not received anything like the same attention or sophistication of development as have the networks of public entities and private actors that conduct the analysis and execution of Ireland’s economic development strategy. For example, there is no body tracking the personnel requirements of Ireland’s welfare state in the medium-term, corresponding to the Expert Group on Future Skill Needs for the economy. The Council believes that the institutional arrangements for setting and implementing social policy now require development, in order to build truly effective networks.

Infrastructures of Care
Deep structural changes are reducing the viability of Ireland’s traditional caring arrangements. Consequently, we must accelerate the development of more formal care and supports for informal caring. The traditional reliance on informal caring was never as low-cost as it appeared; women paid a particularly high price. Society and the economy have changed, removing the option of relying on informal care on the same basis as in the past.

Persons with Disabilities: All relevant actors should cooperate in fully implementing the National Disability Strategy (NDS) and ensuring its success. Institutional arrangements to deliver the strategy are not fully established. It is necessary to clarify the division of labour for setting and monitoring standards and coordinating the network of organisations that must deliver the NDS.
Eldercare: There should be wide participation in developing a new strategy for older people and a coherent framework for implementing it. Clearer leadership in this area would make it easier for the many NGOs representing older people to contribute to policy formation and implementation and, for authoritative audits of resource allocation, service provision, service standards and outcomes affecting older people to be carried out. It should be made clear what level of public support people can rely in their old age.

Early Childhood Education and Care: Ireland is attempting in less than a decade to create an infrastructure for early childhood education and care that took several decades in other countries. An extreme dispersal of resources should be avoided and clear landmarks should be set for attainment over the coming years. Major new steps should be framed as instalments in a phased, though revisable, strategy for ensuring the infrastructure that Ireland needs in this area. A stronger champion is needed in the public system for driving the development of childcare, and further institutional innovation could play an important role in achieving greater interdepartmental and interagency working on behalf of children.

Housing and Sustainable Development

In late 2004, the Council published a detailed study of housing and land markets (NESC, 2004). That study identified three substantive policy challenges: (1) achievement of high-quality, sustainable, development in both urban and rural areas; (2) provision of an effective range of supports to households that fall below an affordability threshold; and (3) assistance to the market in continuing to provide a high level of supply.

The Council’s report challenges the view that there is an inherent conflict between the quantity and quality of housing. Quantity and quality can both be achieved if we construct higher density neighbourhoods that are ‘centred, diverse and walkable’, with sufficient population to support social and commercial services. While recognising the policy commitment to sustainable settlement, there remains a fear that the new principles—sustainable urban densities, consolidated urban areas, compact urban satellites and rapid communications—may not be adequately reflected in actual developments.

The Council believes a high level of ambition is now appropriate in the provision of social housing. It has recommended a net increase in the number of local authority, voluntary and co-operative housing units in the order of 73,000 between 2005 and 2012, bringing the total stock to approximately 200,000 units. Supports for ‘intermediate households’ should continue and consideration should be given to policy instruments that could support affordable rental accommodation.

The analysis emphasises the variability and uncertainty of land supply. This has major implications for the housing market, the house building industry and public policy. Consequently, Ireland requires a long-term land use strategy for the zoning and servicing of land, sufficient active land management to ensure delivery of housing, with a particular focus on land for social and affordable housing, and betterment-sharing measures designed in a way which does not damage supply.
Health

Despite improvements in life expectancy and major increases in expenditure, the Health Strategy (2001) identified several ways in which the health of the Irish population falls below that of other advanced countries and numerous ways in which our policies and services need to be improved. The creation of the Health Services Executive (HSE) is the largest single reform of public services yet undertaken in this country. It is vital that HSE has enough autonomy from sectional lobbying to implement long-term strategies to deliver the improvements in services that, ultimately, are the only adequate response to regional, sectional and other concerns.

The Council strongly endorses the view that primary, community and continuing care services at the local level are the most appropriate setting for delivering 90-95 per cent of all health and personal social services needs. This requires an increase in the number of general practitioners, and their improved access to diagnostic facilities and the services of paramedical staff. The affordability of primary care services also needs to be addressed. Given the internationally observed trend in medical costs and the underlying distribution of income, the Council believes that policy should aim, in the medium-term, to ensure that medical cards cover an appropriate proportion of the population.

The shortages of doctors and consultants are symptomatic of wider weaknesses in manpower planning. The increased emphasis on primary care, the objective of enabling more older people and persons with disabilities to remain at home, the implementation of the National Disability Strategy and other developments, are increasing the demand for a wide range of paramedical, social care and administrative skills. The Council concludes that there is an overwhelming case for developing and implementing a comprehensive workforce policy for the health services.

Equity must be a central focus of health service reforms. There are unacceptable inequities in the treatment available to public and private patients and to residents in different locations. The Council’s report, *The Developmental Welfare State*, cautions against a scenario in which publicly subsidised private providers deliver high quality services exclusive to the better-off in society, while wholly funded public providers deliver lower quality services used only by the least well-off. This requires fundamental reform of medical contracts and hospital budgeting in order to create incentives for public funds to follow patients more closely and for services to respond to need, regardless of the patient’s income.

Education

Despite the importance attached to education, Ireland is far from having a highly educated population by the standards of other advanced countries. Too little progress is being made in addressing the needs of infants in the pre-primary school years, of young people from largely working class backgrounds who do not complete secondary school, and of adults whose schooling ended around the age of 14 and have not returned to education since.

To address problems of educational disadvantage, it is necessary to set standards for pupils to reach, monitor their performance, evaluate their achievements against appropriate benchmarks, assist schools in setting plans for continuous improve-
ment, reward high-performing schools, help under-performing schools to improve and, where necessary, support parents in fostering the cognitive capacities of their children.

The provision of ‘second chance education’ to adults whose formal education did not extend beyond primary school is a major challenge to Ireland’s education system.

Higher educational institutions continue to have a core role in Ireland’s development. While supporting the strong increase in public spending on research in biotechnology, IT and related areas, the Council draws attention to the wider contribution which higher education makes to economic, social and cultural development. It is important that the overall higher education system is resourced to continue making this contribution. This includes other fields of scientific inquiry, the social sciences, management and business studies and the humanities. Quality teaching and quality research are mutually supportive. Consequently, it is vital that the enhancement of postgraduate education does not imply a reduction in the quality of Ireland’s degree programmes.

Regional and Rural Development

The Council sees two over-arching challenges in the decade ahead. The first is to ensure that the National Spatial Strategy (NSS) is reflected in public investment decisions and policy, including in a new National Development Plan (NDP). The second is to strengthen commitment to the NSS by deepening understanding of the economic potential of the gateways and their hinterlands.

Consequently, the new NDP must identify and fund key investments that will support the gateways to become engines of economic and social development. New institutional structures may be necessary to ensure that integrated plans for each gateway can be made and implemented. These approaches require specification of meaningful regional indicators and targets that can be achieved within agreed time frames.

There are very significant pressures on rural areas, including declining agricultural employment and the restructuring of manufacturing. In the context of renewed consideration of regional issues, there is a need for an in-depth, realistic yet imaginative, discussion of the possible future roles of agriculture and other land uses, industry, tourism and other services in sustaining economic prosperity, social cohesion and quality of life in rural areas.

Agriculture and Food

The agricultural and food sector is facing very considerable adjustment pressures, arising from the changes in the EU support system and a new round of World Trade Organisation (WTO) negotiations. From an Irish and, indeed, a European perspective, it is important that the ‘European Model of Agriculture’ is not undermined in the WTO negotiations. The European Union has a key role in ensuring that the process of globalisation is accompanied by sufficient international governance to achieve both stability and respect for social and environmental goals. In this context, the Irish agricultural and food industries need a renewed focus on competitiveness and responsiveness to consumer demand.
The National Development Plan

A new National Development Plan (NDP) will be prepared to underpin economic, social and regional development. The Council makes a number of procedural recommendations. First, project-management mechanisms need to be enhanced to ensure projects are delivered in a timely fashion and on budget. Second, the planning process needs to be more supportive of national development priorities. The Council supports the Government’s proposal to establish a Strategic Infrastructure Division within Bord Pleanála, and urges that this be speedily advanced. Third, the system of land acquisition needs be reformed to reduce delays arising from the cumbersome system of compulsory purchase. Fourth, sufficient management and professional resources should be allocated to the preparation and implementation of the NDP.

The Environment

The substantive environmental challenges facing Ireland are clear. They include controlling air emissions from transport and energy production, reducing pollution of water from municipal and agricultural sources, achieving a comprehensive system of waste management, implementing sustainable, high-quality, settlements in both urban and rural areas, improving the protection of natural habitats and enhancing access to the natural environment. But to meet these goals it is necessary to address two over-arching procedural challenges: integration of environmental considerations into mainstream policy and improved enforcement of environmental legislation. The Council believes that it is critical that Ireland achieve more effective conflict resolution and decision making in a number of areas of environmental policy, and will return to this in its future work.

Enabling Voluntary And Community Activity

Healthy community and voluntary organisations are important for overall economic and social development. The variety of voluntary and community organisations suggests that there can be no single template for relationships with government and statutory agencies. In the case of voluntary and community organisations involved in welfare, in the widest sense, the relationships are unclear and unsatisfactory, with little structured engagement on funding decisions and limited procedures and standards of accountability. The Council believes that it is now necessary to move towards a more formal definition of the relationships. Without becoming overly absorbed in these issues, it seems necessary that some attention is given to foundations, processes and outcomes. In doing this, there is a need for a three-way process between agency-level, sectoral-level and national-level arrangements. The forthcoming Task Force on Active Citizenship might sponsor the work necessary to support this learning.
A Consistent Policy Framework for 2006-2008

Since its 1990 Strategy report, the Council has emphasised the importance of a consistent policy framework, combining macroeconomic, distributional and structural or supply-side policies. Many supply-side policies and a number of distributional issues have been addressed above. Here the Council outlines its view on macroeconomic policy and wage bargaining.

Macroeconomic Policy: The Public Finances

With monetary policy set by the European Central Bank, macroeconomic policy is essentially concerned with the public finances. Two key principles should guide the management of the public finances: sustainability and counter-cyclicality. The latter means that fiscal policy should not magnify the economic cycle. Excessive spending or tax reductions during economic growth can force expenditure cuts during a downturn. A sharp increase in spending makes it more difficult to secure a planned improvement in public services and infrastructure.

Revisions to the EU Stability and Growth Pact now allow somewhat greater flexibility in the public finances, and this is reflected in the Council’s recommendations. The deficit in the public finances should be kept within 1 per cent of GDP. Capital investment should be maintained at at least 5 per cent of GNP. The tax level should be maintained at around its existing level. A substantial current account surplus should be maintained. These recommendations allow scope for higher current expenditure to invest in the services required in critical areas, including making progress towards the services envisioned in the Developmental Welfare State and the delivery of the National Disability Strategy.

A significant concern in increasing the level of current expenditure is the capacity of the public services to deliver enhanced services. The Council recommends increased current expenditure, subject to real progress in enhancing the effectiveness of the public service.

Wage Bargaining

The Council’s view, developed and modified over seven triennial Strategy reports since 1986, is that Ireland can continue to benefit from co-ordinated wage bargaining, in which there is an element of co-operation and a focus on long-term interests.

A critical issue is how public sector wage determination should be undertaken. The Council makes four important points. First, the competitive sector of the economy should lead, and public service pay should follow. Second, in a modern public service, ongoing change must be the default position. Third, the normal rate of pay advancement in the public service should be the general round pay negotiated at national level. In line with its view on change, general pay increases should be conditional on verifiable standards of performance in the public service (as is the case under Sustaining Progress). Fourth, it is appropriate that there are periodic reviews of pay developments in the public and private sectors, which can be achieved through a benchmarking process.
The Council has long been critical of the traditional system of pay determination in the Irish public service, particularly because of its combination of special claims and relativities. Consequently, it considers the new approach initiated under *Sustaining Progress* to be an improvement. It has created a set of conditions in which wider issues of service quality and continuous improvement can, potentially, be addressed. It is now necessary to build public confidence in the new system by demonstrating that it provides a robust means to enhance productivity and the quality of services provided to customers/citizens.

Policy Making, Implementation and Partnership

There is a perception that Irish public governance confronts a problem of action or ‘implementation’. Four somewhat distinct problems seem to be implied: lack of decision, weak execution by departments and agencies, lack of knowledge about how policy is impacting and resistance or unresolved conflict which can paralyse implementation. These problems are reflected in the experiences reported by citizens and other policy actors. Among these are the feeling that over-arching national strategies have not mobilised actors, the balance between legislation and agreed national strategies has not been right, joined-up government has been achieved in some areas, but only with a huge one-off effort, experimental initiatives have faltered for lack of policy adaptation, there is a cycle of consultation with stakeholders, followed by re-assertion, partnership has sometimes been invoked as a veto on change, and that information is insufficient to allow policy move from general prescriptions to nuanced implementation.

In thinking about how these problems can be understood and solved, it is important to be aware of what we can expect from negotiated agreements and hierarchical government coordination. The effectiveness of negotiated agreements depends on whether negotiation is dominated by distributive bargaining, problem solving, or a positive combination of both. Since negotiated policy is likely to continue in many spheres, the quality of policy depends critically on the nature and outcomes of various negotiations: will they produce deadlock?; will the outcome be the lowest common denominator agreeable to insiders, with limited care for the public good?; or will negotiation involve an open-minded search for better solutions with a sharing of gains and costs?

The answer depends, to a very large degree, on government’s use of its legitimate authority to shape the engagement of interest groups in ways that support problem-solving negotiation and agreement on policy solutions that serve the public good. The chance of effective outcomes can be greatly enhanced when negotiations take place in the ‘shadow of hierarchy’, that is, in the shadow of well-directed government authority.
Clarification of the conditions that support effective problem solving explains many of the problems and experiences listed above and points to solutions. Effective negotiated agreements require that government use its authority to structure engagement and confront stakeholders with the need to go beyond partial and adversarial approaches and to take responsibility for jointly identifying and implementing agreed policy initiatives.

Considerable progress towards joined-up government has been achieved in aspects of the NDP, the conduct of social partnership, the formulation of the National Disability Strategy and a number of other areas. It may be a good time to reflect on this progress in order to clarify the role of the centre and, if necessary, enhance its capacity to undertake the demanding task of coordination.

The core challenge to public sector providers is to replace a vicious circle—characterised by slow change, unsatisfactory service standards, declining public support and inadequate new investment—with a virtuous circle, in which high standards, continuous improvement, and openness to scrutiny underpin strong public support and high investment.

The challenge for social partnership—indeed, its duty—is to be truly supportive of the achievement of such a system. Partnership is only worthwhile and legitimate if it helps in the solution of economic and social problems. Indeed, if partnership is not part of the solution, it will very quickly become part the problem.
1.1 Introduction

This Chapter reviews key developments in Ireland’s economy, society and environment over recent years. It reviews changes in Ireland’s population in the first place, to draw attention to their exceptional significance, and then, in turn, the economy, the distribution of income, the quality of life and social wellbeing, spatial development and the environment. Several tables and a map are presented in an Appendix to facilitate the reader more interested in the detailed picture.

1.2 Demographic Trends

This Section summarises recent demographic trends and some key projections for the future. It examines what is driving changes in the level and composition of Ireland’s population and concludes that a fundamentally new context for policy making is being created by population changes in practically every single field. The forthcoming Census in 2006 will be exceptionally significant for the further light it sheds on the trends reviewed below.

1.2.1 Population Growth

The 2002 Census recorded the population level as 3.9 million. It has since been estimated at over 4 million two years later (CSO, 2005), the highest figure since 1871. The lowest population level ever recorded for the State was in 1961 at 2.8 million. This means that, over four decades (1961-2002), the State has recovered the 1.1 million in population that it took nine decades to lose (1871-1961). This 39 per cent increase in population has not been accomplished smoothly. The State’s population grew by 6 per cent in the 1960s, 16 per cent in the 1970s, 2 per cent in the 1980s and 11 per cent in the 1990s.1

Changes in the level of population are the result of two factors, natural increase (difference between births and deaths) and net migration (difference between emigration and immigration). In making projections about the level of the population in the future, most uncertainty attaches to two variables—the number of births and trends in net migration. The CSO has recently engaged in an exercise to project total population from 2006 to 2036, and its study is drawn on throughout the following sections.2 While births and, particularly, net migration

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2 While births and, particularly, net migration.
introduce a significant range of variation in their projections, regardless of the assumptions chosen, the CSO are predicting at least a 25 per cent increase in total population over the next three decades. The population of the State is projected to reach between 4,983,000 and 5,518,000 by 2036 under low and high assumptions about fertility and migration respectively. Within the context of strong growth, these projections also underline the volatility of Ireland’s demographics; the difference is of over half a million people.

1.2.2 Determinants of Population Growth

Births and the Total Fertility Rate

The annual number of births has increased progressively from a low of 48,000 in 1994 to 61,700 in 2004, a large increase though still below the peak of 74,000 reached in 1980. This rise has been driven by the increased number of women of childbearing age in the population rather than by increased fertility. The growing number of women of childbearing age is associated with a previous bulge in the birth rate in the 1970s/early 1980s and with immigration. The birth rate (number of births per 1,000 population) has increased from 13.5 in 1994 to 15.3 in 2004.

The medium-term effects of these dips in the number of births (trough in 1994) and subsequent recovery are that the likely sizes of the primary school population (ages 5-12) and secondary school population (ages 13-18) can be predicted with some accuracy to 2016. While migration introduces an element of uncertainty into projections of the size of the secondary school population, it does not alter the general trend—it will be down some 12 per cent on its 2001 level by 2011, and recover to almost the 2001 level by 2016. By contrast, the primary school population will be 14 to 16 per cent higher in 2011 than in 2001, and between 20 and 30 per cent higher by 2016.

In the long-term, the most important determinant of the population level is the Total Fertility Rate (TFR) and not the birth rate. While the latter is significantly influenced by the age structure of the population, the TFR rate measures the number of births a woman currently aged 15-19 is expected to have in her child-bearing years (15-49). A rate of 2.1 is known as the ‘replacement rate’, at which the current population level would exactly maintain itself (in the absence of migration). From a high of 4.03 in 1965, Ireland’s TFR first fell below the replacement level in 1991 and further declined to 1.85 in 1995. It recovered subsequently to 2.00 in 2005 but the most likely scenario for the future is that Ireland’s TFR will approach that of other Northern European countries. The middle of the range forecast is that it will fall to about 1.85 by 2011 and remain constant thereafter.

The more recent rise in the TFR is primarily attributable to increased fertility among women in their 30s (Figure 1.1). Rising births per 1,000 women aged 30-34 and 35-39 since 1990 have more than compensated for reduced births per 1,000 women aged 20-24 and 25-29. As a result, the mean age of mothers at childbirth passed 30 for the first time in 1999 and is currently one of the highest in the

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3. It is calculated by summing the existing birth rate per 1,000 women in every age cohort.
European Union. Further increases in fertility among women in their 30s is considered unlikely and, as a result, should fertility among women in their 20s continue to fall, they will contribute directly to the TFR resuming a downward course.

Even though just short of the replacement rate of 2.1, Ireland’s TFR is high by European standards. Many other EU member states, including most of the 10 new members who joined in May 2004, have TFRs that are much lower, and for longer, with the result that either their population levels are already falling or what population growth is occurring is almost wholly due to immigration (see below). The reasons why women in their 20s have increasingly postponed child birth are much discussed (e.g. Fahey and Spéder, 2004; DSFA, 2004; van de Kaa, 2002). Until the mid-1980s, it was associated with rising employment rates but, thereafter, the relationship has become the inverse—Southern European countries with low female employment rates have the lowest TFRs, while Nordic countries with high female employment rates have relatively high TFRs. The factors discussed include the availability of direct supports and services for mothers (childcare, child benefit, etc.), the ‘framework’ effects of employment and housing, and changing values.
Improvements in Life Expectancy

Life expectancy at birth in Ireland in 2002 was 75.1 years for a male and 80.3 years for a female; at age 65, life expectancy was 15.4 years for a male and 18.7 years for a female. Increases in life expectancy each decade have been a salient feature of living in Ireland during the 20th century, as throughout the industrialised world. For example, a girl born in 2002 could expect to live more than 22 years longer than a girl born in 1926. This increase in longevity has not slowed down; particularly significant improvements came between 1996 and 2002.

Despite these major changes historically, life expectancy at birth in Ireland is still low compared with the standards set by the best performing European countries. For example, Icelandic men had a life expectancy of 79.0 in 2002 and Spanish women of 83.6. The CSO's operating assumption is that improvements in life expectancy will continue in Ireland for the next 30 years at approximately the rate of the past 15 years, and that this will result in a life expectancy at birth reaching 81.5 for men by 2030 and 86.0 for women. This means Ireland will narrow but not eliminate the gap between it and the best performing European countries (Punch, 2005). The extent to which improved life styles, caring services and medical treatment can continue to advance longevity in the best performing countries is a major scientific uncertainty (Lutz, 2004), introducing considerable uncertainty into projections of the scale of ageing that will characterise populations in the industrialised world.

Migration

Migration has consistently been the factor causing most changes in the level of Ireland's population (Appendix Table A1.1). The number of people now entering the state is a significant component of population growth. Over the period, 1996-2002, net migration added approximately as much again to population growth as the population's natural increase (excess of births over deaths).

This is a new phenomenon for Ireland. From the foundation of the State until the 1990s, with the 1970s as the only exception, more people regularly left the State than entered it. Various, negative net migration was at a level that neutralised the effect of natural increase and kept the population size stationary (1926-1951), overwhelmed natural increase and eroded the population's size (1951-1961 and 1986-1991), or approximately halved the impact that natural increase would otherwise have had in increasing the population size (1961-1971, 1981-1986).

Positive net migration (a greater number of people entering the state than leaving it) is now the major variable creating a range of projections of the size of the state's population in the medium-term. The assumptions about migration incorporated into the most recent CSO projections for the period 2006-2016 allow for a variation of the order of 165,000 in the State's total population by 2016. By contrast, its assumptions about births (where trends are also difficult to predict) allow for a difference of about one-half that, viz. 88,000 (CSO, 2004: 26). Looking further ahead to 2036, projections are considerably more tentative but net migration continues to be more significant than births in determining volatility in the size of the state's population. The alternative scenarios used for how the birth rate might
develop introduce a variation of between 276,000 and 302,000 extra people by 2036, while scenarios for what might happen migration introduce a variation of between 535,000 and 561,000 extra people (ibid. 32).

Net migration is the result of two flows (Figure 1.2). The principal reason it is running at high levels and a major cause of population growth is that the number of people entering the state has become very much larger since 1995. It reached a peak of 67,000 in 2002 and fell back to 50,000 in 2003 and 2004. A minor but also significant reason for rising net migration is that much fewer people are leaving the State. In absolute terms, emigration was 18,500 in 2004, down from an annual average that had been as high as 35,000 in the early 1990s. A large proportion of this continuing emigration is of young people (54 per cent aged 15-24 in 2004) and more of it is going to the EU and Rest of the World than the UK than previously (Hughes and Quinn, 2004).

In a comparative European context, Ireland’s current pattern of demographic change is unique (Salt, 2005). The rate of natural increase in its population was the highest in Europe in 2002-03⁴, while its rate of net migration was among the highest also. Only Spain had a higher overall population growth rate but it was accounted for almost entirely by net migration, whereas that of Ireland was near balanced between natural increase and net migration.

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4. With the exception of Albania.
1.2.3 Changes in Population Composition

Age Structure and the Dependency Ratio

The age structure of the population is hugely significant, as well as its level. The proportions of the population aged under 15 years and 65 years or over were 21 per cent and 11 per cent respectively in 2002 (2002 Census). Twenty-five years previously in 1980, the young had constituted 30 per cent of the population and older people 10.7 per cent, indicating that the population became increasingly concentrated in the working age group (15-64) over the period. The CSO project that, to 2016, the young will continue to account for roughly the same proportion of the population as in 2002 (20 per cent to 21.5 per cent) but that older people will see their share of the population rise by between two and three percentage points (reaching 13 per cent to 13.6 per cent). Their projections from 2016 to 2036 are hedged by more uncertainties but confirm that the ageing of the population will accelerate after 2016. Under the assumptions most favourable to retaining a young population (high fertility and high migration), the young will account for 17.7
per cent of the population in 2036 and older people for 19.7 per cent; under the
alternative assumptions of low fertility and low migration, the respective propor-
tions will be 15.2 per cent and 24 per cent.\(^5\)

When the young (under 15) and the old (aged 65 or over) are expressed as a
percentage of the population of working age (15 to 64), the resulting ratio is
termed the age dependency of the population. This fell from 70 per cent in 1980 to
47 per cent in 2005, but is projected to rise to between 58 per cent and 62 per cent
by 2036 as a consequence of ageing. The old age dependency ratio alone is
projected to be between 31 per cent and 36 per cent by 2036, up from 17 per cent in
2001. In absolute terms, the number of those aged 65 years and over is projected
to more than double from 430,000 (2001) to over 1,100,000 by 2036. Initially, the
growth will concentrate on the 'younger old', i.e., those in the 65-74 age group, but
eventually the numbers of very elderly (85 plus) will also rise rapidly (Connell and
Pringle, 2004).

**Migration and Population Composition**

When the age distribution of net migration is examined, it is clear that net
outflows during the 1980s were largely composed of young people, few of whom
had started families, whereas the net inflows after 1991 have been largely of
slightly older people (aged 25+), more of whom have had children accompanying
them (Table 1.1). There was net immigration in every age cohort during the two
24, the age group—as already mentioned—that accounts for most of what
emigration still takes place.

In the only previous period of significant net in-migration (the 1970s), most of
those entering the state were returning Irish who had emigrated in previous
decades. Returning Irish nationals were also a significant part of the large rise in
immigration after 1995 but non-nationals have become a steadily larger
proportion of the total. Analysis by nationality of those entering the country over
the 14-year period, 1991-2004, shows the proportion accounted for by returning
Irish falling from around two thirds of the gross inflow to one quarter (Hughes and
Quinn, 2004). The proportion of the inflow accounted for by non-EU 15 nationals,
by contrast, rose from 10 per cent (3,200 people) to 42 per cent (21,300 people) over
the same period.

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The level of net migration has begun to have a demonstrable effect on the composition of the Irish population, principally by increasing the diversity and size of non-national groupings and ethnic minorities. Comprehensive data has been collected on place of birth in national Censuses. While place of birth is only a proximate indicator of nationality and, traditionally, significant numbers of the ‘foreign born’ captured on Census nights are Irish nationals (those born of Irish parents overseas who returned), changes in the population’s composition by place of birth still illustrate the cumulative impact that high in-migration is beginning to have on the significance of non-national groupings in the population.

The proportion of the population not born on the island of Ireland increased from 6 per cent in 1996 to 9 per cent in 2002, and the proportion born neither in Ireland nor Britain from 1.7 per cent to 3.9 per cent (Table 1.2). There was particularly strong growth over the 7-year period in the numbers born in European countries outside the EU 15 and in Africa. The arrival of accession state nationals after EU enlargement can be expected to have increased enormously the former group (‘Other Europe’). One study estimates that, by end 2003, the stock of the foreign population as a proportion of the total proportion was greater in Ireland than in many other European countries, including the UK and the Netherlands (Salt, 2005). This is remarkable given that Ireland has had neither colonial possessions nor a long history of immigration.

Table 1.1 Net Migration Flows by Age Group, 1981 –2002 (‘000)

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<td>-133.6</td>
<td>8.3</td>
<td>152.1</td>
</tr>
<tr>
<td>Average Annual</td>
<td>-14.4</td>
<td>-26.8</td>
<td>1.7</td>
<td>25.6</td>
</tr>
</tbody>
</table>

Source: CSO—Census 2002—Principal Demographic Results
1.2.4 The Regional Dimension

Prior to 1996, migration movements tended to be towards Dublin and the Mid-East from all other regions in the State. After 1996, this pattern changed radically with a net movement outwards from Dublin taking place to the Border, Mid-East, Midland and South-East regions. This is frequently dubbed the ‘over spill’ effect arising from the shortage of affordable housing in the Dublin area (Punch, 2005).

In fact, all counties benefited from net inflows of population between 1996 and 2002. In the only two counties where the natural increase was negative (deaths exceeded births in Leitrim and Roscommon), rises in their populations were still recorded thanks to net inflows (from the rest of the state and outside of the state combined). Large proportionate contributions of net inflows to population growth were recorded in several counties far removed from Dublin, viz., Leitrim, Roscommon, Mayo, Kerry and Galway (CSO, 2002), and not only in counties acquiring large commuting populations (Meath, Westmeath and Laois) (Appendix Table A1.2).

All counties are projected by the CSO to continue experiencing population growth, regardless of the fertility and migration assumptions that are chosen. The rate of population growth in the Dublin region has the most uncertainty attached to it, depending on whether the ‘over spill’ pattern continues or the traditional pattern of people moving to Dublin from other parts of the State reasserts itself (Punch, 2005).

---

Table 1.2 Population by Place of Birth, 1996 and 2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per cent</td>
<td>Number</td>
</tr>
<tr>
<td>Within State</td>
<td>3,344,919</td>
<td>93.0%</td>
<td>3,458,479</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>39,567</td>
<td>1.1%</td>
<td>49,928</td>
</tr>
<tr>
<td>Britain</td>
<td>151,081</td>
<td>4.2%</td>
<td>198,587</td>
</tr>
<tr>
<td>Other EU15</td>
<td>19,232</td>
<td>0.5%</td>
<td>32,801</td>
</tr>
<tr>
<td>Other Europe</td>
<td>3,605</td>
<td>0.1%</td>
<td>26,235</td>
</tr>
<tr>
<td>USA</td>
<td>15,619</td>
<td>0.4%</td>
<td>21,541</td>
</tr>
<tr>
<td>Africa</td>
<td>4,867</td>
<td>0.1%</td>
<td>26,515</td>
</tr>
<tr>
<td>Asia</td>
<td>8,150</td>
<td>0.2%</td>
<td>28,132</td>
</tr>
<tr>
<td>Other countries</td>
<td>9,503</td>
<td>0.3%</td>
<td>16,277</td>
</tr>
<tr>
<td>Total</td>
<td>3,596,543</td>
<td>100%</td>
<td>3,858,495</td>
</tr>
</tbody>
</table>

Source: Census of Population, 1996, 2002
1.2.5 Living Arrangements

Household Formation

The population trends reviewed above have had major implications for the number and types of households being formed in the State. The concentration of population growth in the age groups at which households are formed and the level of gross’ inward migration to the State have contributed in a significant way to making Ireland’s population growth increasingly intensive in household formation.

For example, between the Census of 1981 and that of 2002, the population of the state increased by 14 per cent but, the number of private households increased by 41 per cent (Table 1.3). The types of households driving this growth were those formed by childless couples (up 108%), older people living alone (up 87 per cent), lone parents (up 83 per cent) and people of working age living alone (up 67 per cent). Not surprisingly, given this pattern in household growth, there has been a steady downward trend in average household size. By 2002, it had fallen below 3 persons to 2.94 (it had been almost 4.00 in 1961).

This pattern reflects profound changes to the family and in values as Irish society has become more affluent and diverse and individuals acquire greater autonomy. It is the combined effect of such factors as higher incomes, a preference for smaller families, growing numbers of elderly people of whom a higher proportion are living alone, more one parent families, more family break-ups, and a growing preference for single households. If projections are guided by the current patterns in the EU 15, it can be expected that the proportions of all households made up of childless couples, older people living alone, single people of working age living alone and lone parents will increase further and average household size move nearer to 2.00 (European Commission 2002).

---

7. The gross rather than net inflow into the State is a more reliable indicator of its housing implications – the proportion of immigrants leading to the formation of independent households can be assumed to be bigger than the proportion of emigrants relinquishing households.
1.2.6 Summary

It is clear from this review of demographic trends that changes in the level and composition of Ireland’s population constitute an essential – even dramatic – backdrop to policy formation in a wide range of fields over the coming years. Barring extraordinarily adverse developments, the population level will rise substantially. At the same time, migration in particular means that significant volatility has to be reckoned with. The implications are particularly formidable for:

- the workforce and the economy as the number, average age and caring responsibilities of people at work continue to increase;
- spatial development and Ireland’s infrastructural requirements as the size, location and density of the population continues to change;
- migration policy and the manner in which migrants are supported and integrated into Irish life;
- the levels and flexibility of public service provision, particularly in health, housing and education (e.g., school provision has to reckon with the school going population first waxing and then waning);
- how pensions are funded, housing is adapted to the needs of older people and caring services are put in place;
- family supports and the ease with which young women in particular (in their 20s) can combine study or employment with becoming a mother.

Table 1.3 Private Households at Census Time, Selected Characteristics

<table>
<thead>
<tr>
<th>Census</th>
<th>Total</th>
<th>Single under 65</th>
<th>Single over 65</th>
<th>Lone parent</th>
<th>Childless couple</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>910,700</td>
<td>68,034</td>
<td>87,692</td>
<td>71,823</td>
<td>101,460</td>
</tr>
<tr>
<td>1991</td>
<td>1,029,084</td>
<td>96,492</td>
<td>111,072</td>
<td>90,906</td>
<td>125,450</td>
</tr>
<tr>
<td>1996</td>
<td>1,114,974</td>
<td>106,943</td>
<td>131,527</td>
<td>105,391</td>
<td>152,477</td>
</tr>
<tr>
<td>2002</td>
<td>1,287,958</td>
<td>113,826</td>
<td>163,747</td>
<td>131,191</td>
<td>211,419</td>
</tr>
<tr>
<td>Growth ’81-’02</td>
<td>41%</td>
<td>67%</td>
<td>87%</td>
<td>83%</td>
<td>108%</td>
</tr>
</tbody>
</table>

Source: CSO Census—various years
1.3 Macro-Economy, Incomes and Participation

This section reviews economic developments over the last few years. It examines trends in economic growth, living standards, employment, inflation and cost competitiveness, industrial disputes and the public finances. Finally the section considers the outlook for the economy over the next few years.

1.3.1 Economic Growth

Following some slowing of growth in 2001 and 2002, the economy returned to strong growth in 2003, with GNP growth in that year of 5.1 per cent followed by growth of 4 per cent in 2004 (see Appendix Table A1.3). The recovery has been investment-led, with particularly large increases in housing output while in 2004 there was also a recovery in other forms of investment. The growth of private consumption, although much stronger than other European countries, has been more modest than might have been expected, given the rise in employment and earnings that have occurred. This reflects an increase in personal savings. CSO data show that the personal saving ratio has increased from 8.9 per cent in 2000 to 11.9 per cent in 2003 and analysis by Davy’s Stockbrokers estimates a further substantial increase in the personal savings ratio to a high level of over 15 per cent in 2005.

The major driver of demand in the economy in recent years has been domestic demand with net exports making a modest contribution. However, the contribution of exports to net demand is not the only measure of relevance in relation to exports. A large contribution to domestic demand from net exports requires growth of exports substantially in excess of growth of imports. However, the growth of gross exports is also relevant. Expansion of economic activity in a small economy will require among other things expansion of gross exports if it is not to eventually encounter balance of payment difficulties.

While export growth fell significantly from the exceptional growth of the 1990s gross exports have continued to grow in recent years until 2004 (see Appendix Table A1.4). Between 2000 and 2004, exports grew at annual average rate of 5.2 per cent, compared to an annual growth rate of 17.4 per cent between 1993 and 2000. Exports of goods have been static in value terms (in part because of the strength of the euro) and have grown modestly in volume terms (2.7 per cent annual growth between 2000 and 2004). Export growth has in recent years has mostly been driven by the growth of services exports with a big increase in the value of these exports, from €21.7 billion to €42.2 billion in 2004. The annual growth rate of services export was around 18 per cent in nominal terms between these years. Services exports are now approximately one third of total gross exports.

Exports have grown up to 2004 but there has been almost no export growth to date during 2005. In contrast to earlier years, services as well as goods exports were static in the first half of 2005. With exports static and strong growth in domestic demand, the balance of payments moved into a deficit of 1.9 per cent of GNP for the first six months of 2005. This is three times higher than the deficit for the same period in 2004. This balance of payments deficit does not pose any particular problems at present. However, if exports were to continue to be flat then
the balance of payment deficit would become a concern. Recent figures indicate a recovery in industrial production which is not yet evident in exports. It is an expectation that export growth will soon resume.

It is also wrong to overly emphasise the differences between goods and services exports. There are strong similarities in the activities of many high-tech enterprises, regardless of whether they export goods or services as a final product. It is clear, though, from these figures that services exports are becoming an increasing source of export earnings. The major contributors to services export revenue are computer services (35.6 per cent of services exports), insurance and other financial services (23.4 per cent), business services (22.8 per cent) and tourism and travel (19 per cent).

**Manufacturing**

Output growth in manufacturing has fallen sharply in recent years. Between 1993 and 2000, the average annual growth rate of manufacturing output was 16 per cent while it fell to an average growth rate of less than 6 per cent between 2000 and 2004. The trend in manufacturing has been dominated, by what is referred to as the ‘modern’ sectors. These high-tech sectors were responsible for the exceptional output growth in the 1990s with output growth of close to 23 per cent between 1995 and 2000. The rate of output growth has fallen since 2000 and last year (2004) output was static. Over the period 2000 to 2004 it averaged around 8 per cent. For the current year (2005), there will be very limited output growth, but recent figures suggest that a recovery is underway.

For the other sectors in manufacturing, annual growth fell from around 4 per cent during the late 1990s to around 2 per cent on average between 2000 and 2004. Cola concentrate is included in the other sectors of manufacturing. This sector has grown by an annual average rate of almost 12 per cent since 2000. Without this exceptional element, the growth of other manufacturing would be weaker. In fact, on average over the period since 2000 most sectors have had falling output. The decline in output in recent years has not been confined to sectors that have long been subject to decline, such as textiles and clothing. Many of the sectors that had shown increases in output growth during the 1990s have experienced a fall in output in the years since 2000. While a decline in output in parts of manufacturing is an inevitable long run structural trend, the widespread declines are also indicative of strong competitiveness pressures on manufacturing.

The fall in employment of the manufacturing sector should not obscure the fact that manufacturing continues to be an important part of the Irish economy. Falling employment in manufacturing is in part a reflection of rising productivity. The manufacturing sector is a key driver of productivity growth in the economy: in the years since 2000, the annual rate of productivity growth in manufacturing at 8.5 per cent has continued to outpace the rest of the economy, even allowing for measurement issues associated with manufacturing productivity. Productivity growth in manufacturing increases average productivity growth across the economy and thus helps underpin wage growth in other sectors. In contrast to manufacturing, much services activity is characterised by more limited scope for
increasing productivity. Services are typically characterised by slower productivity growth but faster employment growth. The manufacturing sector (including food) is also a key source of export earnings, generating around two thirds of gross export earnings in 2004.

Tourism

The Irish tourism sector experienced rapid growth from the mid-1990s, both in terms of overseas visitor numbers and revenue. After peaking in 2000, however, the performance of this sector deteriorated. Since 2001, total revenue from overseas visitors has increased in nominal terms by a total of just 3.5 per cent to €4.1 billion in 2004, implying a decline in real terms. The number of visitors has continued to increase and total visits in 2004 were up 10 per cent from 2001 (6.6 million). The cost of access and accommodation remain competitive but surveys by Fáilte Ireland show that visitors are concerned about general living costs in Ireland.

There has been a significant change in the spatial pattern of visits to Ireland with Irish tourism becoming increasingly concentrated in Dublin. Analysis by the Irish Tourist Industry Confederation (ITIC) shows that over the period 1999 to 2004, the number of visits to Dublin increased by 11 per cent but the number of visits (spending at least one night) to all other regions declined, with the exception of the South East. Regional urban centres outside Dublin have performed better than rural areas. The challenge of rural tourism is discussed in Chapter 3 (Section 3.12 of this report).
Agriculture

In 2004 aggregate farm income (operating surplus) increased by 3.5 per cent in nominal terms to €2,229 million and it also increased by 2.9 per cent in 2003. This followed a decline in nominal terms in 2002 of 7 per cent. The increase in 2004 was mainly due to improvements in the output value of the cattle, sheep and pig sectors. In 2005 farm incomes will be boosted by a once-off increase in direct payments, as balancing payments on 2004 premia schemes will be paid in conjunction with the Single Payment Scheme.

The agricultural sector is facing significant policy changes and developments at present. These are examined in Chapter 3 below.

1.3.2 Living Standards

Real income per person is an important measure of overall living standards. As discussed in Chapter 2, it merits increasing focus as a key policy objective. Its growth can be understood as being derived from two key factors:

1. The real income generated per worker; i.e., productivity or GNP per worker; and
2. The share of the population in employment, i.e. the employment ratio.

This is based on the following identity:

\[
\frac{\text{GNP}}{\text{Population}} = \frac{\text{Employment}}{\text{Population}} \times \frac{\text{GNP}}{\text{Employment}}
\]

\[
\begin{align*}
\text{(GNP per person)} & = & \text{(the share of the population in employment)} \\
\text{(GNP per worker)} & = & \text{(GNP per person)}
\end{align*}
\]

During the years of very high growth between 1993 and 2000 there was a large increase in living standards as shown by an annual increase of GNP per head of 7.5 per cent. Over half of this increase was due to an increase in the share of the population in employment. An increase in the share of population in employment boosts living standards since each person in employment has fewer people to support, whether through families or indirectly through the tax system. The large increase in the share of the population in employment was combined with continuing annual productivity growth of over 3 per cent, resulting in the very large increase in living standards over the 1993 to 2000 period.
In the years since 2000, average living standards as measured by the growth of GNP per head has still been quite substantial with average annual growth of 2 per cent per annum but much lower than the previous years. This slowdown in growth of GNP per capita derives both from the fact that the rate at which the employment share is increasing is no longer so dramatic and from the fact that productivity growth has slowed. Productivity growth as measured by GNP per worker grew by an annual average of 1.4 per cent between 2000 and 2004.

A slightly more accurate measure of living standards than GNP per head is gross national income (GNI), adjusted for terms of trade. GNI also takes account of changes in subsidies received from and taxes paid to the EU. GNI per head has grown by an annual average of 2.3 per cent over the period of 2000 to 2004. Hence, notwithstanding the large increase in population, living standards in per capita terms are still growing substantially.

**Real Earnings after Tax**

A more tangible measure of living standards is real growth in earnings after tax. Table 1.4 below shows the growth in take-home pay for a worker on average industrial earnings and on the minimum wage. The cumulative growth in real take-home pay (i.e., after tax and inflation) for a single person on average manufacturing earnings over the *Sustaining Progress* years (between 2002 and 2005) is estimated to be 8.3 per cent. This is equivalent to real annual average growth of 2.7 per cent. The growth in real take-home pay for a single person on the minimum wage over this period was higher, with a cumulative increase of 14.9 per cent or real annual growth of 4.7 per cent.

In some earlier years, growth of the minimum had lagged growth of average industrial earnings. Looking at the period from 2000 (when the minimum wage was introduced) to 2005, the increase in gross minimum wage earnings was 30.9 per cent, somewhat less than the increase in gross average industrial earnings over this period of 32.5 per cent (Table 1.4). The increase in real earnings after tax over this 2000 to 2005 period was essentially the same for a single person on the minimum wage (18.9 per cent) and on average industrial earnings (18.8 per cent), equivalent to annual growth of 3.5 per cent in each case. When measured in euro terms the increase was higher for the person on average industrial earnings: the nominal increase in take-home pay on average industrial earnings between 2000 and 2005 was just over €7200 while the increase for the person on the minimum wage was just over €4400.

Over the longer period since 1994, real take home pay for a single person on average industrial earnings has grown by an annual average of 3.8 per cent which is a cumulative increase of just over 50 per cent (see Appendix Table A1.5).

The comparisons of the minimum wage in the paragraphs above and in Table 1.4 are based on annual averages. The minimum wage has been increased at infrequent intervals while most earnings such as industrial earnings increase each quarter. A more refined analysis using quarterly data shows a more pronounced tendency for the minimum wage to fall behind for particular periods. When introduced, in April 2000 at IR£4.40 (€5.58) the minimum wage was equivalent to 55.7 per cent of average hourly industrial earnings (March 2000). Between March
2000 and the end of 2004, average industrial earnings increased by 37.1 per cent while over the same period the increase in the minimum wage was 25.4 per cent. Over the entire period from April 2000 up to May 2005 (when the minimum wage was increased to €7.65), the increase in the minimum wage (37.1 per cent) has been very close to the increase in average industrial earnings (38.2 per cent). The level of the minimum wage in May 2005 was equivalent to 55.3 per cent of average industrial earnings.

It is clear from these data that there has been substantial growth of living standards over the past decade and that living standards have continued to increase in the most recent years. The calculations presented here for real take-home pay are based on average industrial earnings. There has been comparable or higher earnings growth in gross earnings in other sectors and hence substantial real growth in take-home pay across the economy. The fact that over the period 2000 to 2005, the percentage increase in real take-home pay for a person on the minimum wage has been the same as the percentage increase for a person on average industrial earnings is a strong indication that low-wage earners have participated in the increase in living standards.

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Table 1.4 Trend in Average Industrial Earnings and the Minimum Wage

<table>
<thead>
<tr>
<th></th>
<th>Gross Average Industrial Earnings in nominal terms</th>
<th>Net (after tax) Average Industrial Earnings in real terms (single person)</th>
<th>Gross Minimum Wage in nominal terms</th>
<th>Net (after tax) Minimum Wage Earnings in real terms (single person)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>2001</td>
<td>108.0</td>
<td>107.7</td>
<td>102.8</td>
<td>102.8</td>
</tr>
<tr>
<td>2002</td>
<td>114.2</td>
<td>109.7</td>
<td>106.4</td>
<td>103.5</td>
</tr>
<tr>
<td>2003</td>
<td>121.0</td>
<td>112.3</td>
<td>112.4</td>
<td>105.8</td>
</tr>
<tr>
<td>2004</td>
<td>126.3</td>
<td>115.3</td>
<td>122.6</td>
<td>113.2</td>
</tr>
<tr>
<td>2005</td>
<td>132.5</td>
<td>118.8</td>
<td>130.9</td>
<td>118.9</td>
</tr>
</tbody>
</table>

Source: NESC calculations. The figures for average industrial earnings are based on weekly earnings of industrial workers in manufacturing. An increase of 4.9 per cent is assumed for 2005, based on the increase in the first two quarters. The earnings for a person on the minimum wage are based on a person working the same hours as the person on average industrial earnings. In the years in which the minimum wage changed, the minimum wage is based on a monthly average of the rates that exist over the year.

8. The April 2000 minimum wage is compared to average earnings for all industrial workers in manufacturing industries in March 2000 (€10.01 per hour). This measure of average industrial earnings increased to €13.72 in December 2004 and to €13.83 in June 2005.
1.3.3 Employment and Unemployment

The growth of employment has been very strong in recent years, with total employment increasing by over a quarter of a million or 15 per cent between 2000 and 2005. The composition of the increase in employment has been distinctive (see Appendix Table A1.6). There has been a huge increase in construction employment of almost 46 per cent while its share in employment has increased from 9.9 per cent in 2000 to 12.6 per cent in 2005. Other productive industry, which is mostly manufacturing has seen a decline in employment of around 5 per cent and its share of employment has fallen from 18.5 per cent in 2000 to 15.2 per cent in 2005.

Employment growth has not been confined to construction. Other areas of strong employment growth have been finance and business services (an increase of 46,300 or 22 per cent between 2000 and 2005), transport and communication (an increase of 16,900 or 16.7 per cent) and wholesale and retail (an increase of 31,700 or 13.5 per cent). There has also been strong growth in public administration and defence (an increase of 19,800 or 25.3 per cent), education (an increase of 20,300 or 19.7 per cent) and health (an increase of 55,000 or 41.3 per cent).

With strong expansion of employment, the level of unemployment in the economy has remained low. Eurostat figures for unemployment show that Ireland has the lowest unemployment rate in the EU (25). The unemployment rate for Ireland in the second quarter of 2005 was 4.2 per cent. Long term unemployment also continues to be very low by historical and international standards at 1.4 per cent of the labour force.

Employment Rates: Lisbon Targets

The Lisbon agenda sets targets for employment rates defined as the share of the population aged 15 to 64 in employment. The target is an employment rate of 70 per cent by 2010 with an interim target of 67 per cent by 2005. Ireland’s employment rate rose rapidly from the mid-1990s, rising from 52.2 per cent in 1994 to 64.5 per cent in 2004. It was fairly stable in the years following 2000 until increasing by over two percentage points to 67.1 per cent in 2005 (second quarter). Hence it is now at the interim Lisbon target. Using 2003 data, the Irish employment rate was just one percentage point above the average level for the EU (15).

There is also a Lisbon target for the female employment rate of 60 per cent by 2010 with an interim target of 57 per cent by 2005. The female employment rate in Ireland also showed a large increase in the past year to 58 per cent in 2005 (second quarter). Hence it is now somewhat above the interim Lisbon target.

1.3.4 Labour Force Participation

Labour force participation has continued to grow in recent years although at a slower rate than during the years of exceptional growth in the 1990s. Total labour force participation has increased from 58.6 per cent in 2000 (second quarter) to 61.5 per cent in 2005 (second quarter). Associated with an acceleration in employment growth, the past year saw an unusually large increase in labour force
participation of 1.5 percentage points. This contributed to an increase in the labour force of 40,000 people. The labour force increased by a further 54,000 arising from an increase in the working age population. It is estimated by the CSO that around two thirds of the increase in the working age population was due to migration.

Turning to the breakdown of participation for individual groups, a contrasting picture emerges between younger and older people. Participation rates for young people, especially those aged 15-19, have fallen over the 2000-2004 period, reflecting rising participation rates in education. The participation rate amongst those aged 15-19 dropped by 5.5 per cent between the second quarters of 2000 and 2004, the largest negative percentage point change recorded by any age group over the period. In the past year (to the second quarter of 2005), however, there was a large increase in participation by this group of 2.5 percentage points. Participation rates for older persons (aged 45+) have been increasing, especially for older women. Participation rates for the women aged 45-54 and 55-59 recorded increases of 11.9 and 11.8 percentage points respectively over the period 2000 to 2005. Participation in the 60-64 age group is also rising for both men and women. There was a particularly large increase in participation among this group over the past year of 4.4 percentage points to a rate of 44.2 per cent in 2005 (second quarter). Rising participation in this age group implies that the average effective age of withdrawal from the labour force is rising.

Among the core working age group of 25-44, the overall participation rate is stable. It is declining slowly for men, from 94.1 per cent in 2000 (second quarter) to 92.8 per cent in 2005. It is rising slowly for women, from 75.9 per cent in 2000 (second quarter) to 77.1 per cent in 2005 (second quarter).

1.3.5 Inflation

There was a sharp fall of inflation over the course of *Sustaining Progress*. The annual increase in Consumer Price Index (CPI) fell from 4.6 per cent in 2002 to 2.2 per cent in 2004. There has been some upward pressure on inflation in 2005; in the year ending October 2005, the annual increase was 3 per cent in the CPI. Inflation in 2005 over the year as a whole is likely to average around 2.5 per cent.

Two items in particular have put upward pressure on this year’s inflation: the rise in oil prices and mortgage payments. If energy prices are excluded, the increase in the CPI in the year ended October, 2005 was just 1.7 per cent. The CSO methodology is to include mortgage payments as part of housing costs. The influence of mortgage payments is not obvious as mortgage rates have been falling. However, mortgage payments have been increasing as a result of people taking out higher mortgages. This factor added half a percentage point to inflation in the twelve months to October 2005. The EU measure of inflation, the Harmonised Index of Consumer Prices (HICP) does not include mortgage payments and has a number of other differences. This measure increased by 2.7 per cent in the twelve months to October 2005. The Central Bank estimates that the HICP inflation rate for 2005 will be around 2.25 per cent.

11. Data on labour force participation are taken from the Quarterly National Household Survey (QNHS) in which the rate of labour force participation is defined as the labour force as a share of the population aged 15 and over.
There are very substantial differences in price trends across the different product categories that constitute the CPI. The inflation rate for services (4.1 per cent to October 2005) is significantly higher than for goods (1.7 per cent). In some areas prices are actually falling: this applies to food, clothing and footwear and household furnishing and equipment, communications, and recreation and culture. The biggest increase in the last year has been energy products, with an increase of almost 20 per cent in the year to October 2005. Apart from this, the largest increase was in utilities and local charges (12.8 per cent). This includes electricity and gas as well as a number of local authority services.

Inflation projections and estimates for 2005 and 2006 are presented in the Appendix Table A1.9. The Central Bank expects that the HICP excluding energy will grow by 2 per cent next year. The overall increase in the CPI could be around 2.5 per cent in 2006.

1.3.6 Competitiveness

Competitiveness is a multi-dimensional concept. Factors that influence competitiveness include investment in science and technology and the use of this knowledge in new and existing industries, the quality of infrastructure and the public service, the education system and skills of the workforce, competition policy, the incentives and support services provided to the enterprise sector, the adoption of advanced work practices and the quality of management. The focus in this section is on cost competitiveness; some of the wider dimensions of competitiveness, including policies on enterprise, innovation and training are examined in Chapter 3.

Relative Prices and Exchange Rates

The growth of wages and prices in Ireland in recent years has been stronger than in Ireland’s trading partners. One indication of the rise in relative Irish prices is that in 1999 the level of consumer prices in Ireland was close to the euro-zone average while by 2004 Irish consumer prices were more than 10 per cent higher than the euro-zone average and the level of Irish consumer prices was the highest in the euro-zone with the exception of Denmark (see figures 45 and 46 of the National Competitiveness Council, 2005). The relatively high level of price inflation over the period 2000 to 2003 in Ireland has resulted in substantial increases across a range of business costs in Ireland. Price inflation in Ireland is now close to the euro-zone average but the high relative price level persists.

The competitiveness effects of the rise in relative Irish wage and price levels have been augmented by the strengthening of the euro. The euro appreciated against the dollar by 34.7 per cent and against sterling by 11.4 per cent between 2000 and 2004. The appreciation against the dollar was very large; however, the impact of dollar exchange rate movement is moderated by the fact that most of Ireland’s exports to the US are from US-based companies. Such companies price in dollars and to some extent this insulates them from movements in the value of the dollar. A weakening of the euro during 2005 contributed to a modest easing of competitiveness pressures.
Cost Competitiveness in Irish Manufacturing

It is possible for the increase in relative Irish wage levels to be offset by faster productivity growth in Ireland. The Irish manufacturing sector is characterised by strong productivity growth. By 2003 unit wage costs in common currency terms had fallen to 57 per cent of their 1995 level by 2003 while they increased modestly in 2004. However, the measurement of productivity and hence of unit wage costs in Irish manufacturing requires careful consideration. Productivity growth is dominated by the growth of a limited number of high-tech sectors. Just one sector, chemicals, which employs around 10 per cent (23,000) of the manufacturing workforce, has a dominant effect on this index. For this reason, the Central Bank also produces an index of unit labour costs, excluding chemicals. The fall in unit labour costs excluding chemicals was more modest in the second half of the 1990s. Unit labour costs increased between 2000 and 2002 before falling by 7 per cent in 2003 with a more modest fall in 2004. The level of unit labour costs excluding chemicals in 2004 was around 90 per cent of the 1995 level. Central Bank data indicate the growth of wage levels in the Irish manufacturing sector is now close to the rate among Ireland’s trading partners.

Another way of viewing this index is to weight the shares according to their share of the wage bill rather than output as in the conventional index. This reduces the disproportionate impact of a limited number of sectors, but at the same time includes all sectors and gives a somewhat higher but not disproportionate weighting to the high productivity sectors. A wage share weighted index was published in a paper by Cassidy and O’Brien (2005). This index shows a similar pattern to that obtained when the chemical sector is excluded. However, the wage share weighed index shows a stabilisation rather than a fall in unit wage costs in 2003 and a slight fall in 2004.

It can be concluded from these data that productivity growth in manufacturing has helped to offset the rise in relative costs in Ireland but that the conventional measure of unit wage costs substantially overstates the extent to which this has occurred. Much of Irish manufacturing does not have very high productivity growth and the rise in costs has put significant competitiveness pressures on these sectors.

Wage Growth Outside Manufacturing

Unit wage costs are not just of concern for the manufacturing sector. Services account for a rising share of exports and the growth of wage costs across the economy affects competitiveness through the effects on the costs of the exposed sectors. Productivity growth outside manufacturing is lower and the economy-wide rate of productivity growth has slowed considerably in recent years. The growth of pay levels in Ireland, as measured by nominal compensation per employee in the period since 2000 has been the fastest in the EU (15) with the exception of Greece (see Appendix Table A1.7). Wage growth in some of the new Member States was higher.

Trends in wage costs by sector are presented in Appendix Table A1.8. On average over the Sustaining Progress period (i.e., since 2003) the fastest growth in pay has been in the public sector. This reflected the payment of benchmarking increases from 2003 to 2005, with the increases concentrated in 2004. In 2004 public sector
pay increased by 8.6 per cent while in the second quarter of 2005 the annual increase was 6.3 per cent. Over the longer run period from 1988, the most rapid pay growth has been in construction. Over the period 1988 to 2004, pay in the construction sector grew by an average annual rate of 8.6 per cent. Annual pay growth in the public sector over this period was 5.4 per cent while annual growth in both industry (using a broadly defined series that includes managerial employees) and financial services was 5 per cent.

Conclusion

Measures of cost competitiveness show gains in cost competitiveness over the 1990s and a loss in competitiveness from 2000. There has been some stabilisation of the situation. Price inflation is now around the euro-zone average and the increase in wage costs in manufacturing is now close to (but ahead of) the increase among Ireland’s trading partners, although economy-wide wage inflation remains higher in Ireland than other euro-zone countries. The slower output growth and falling employment of the manufacturing sector and the decline in revenue of the tourist industry are indicative of competitiveness pressures. There is a continuing relatively high level of prices and costs in Ireland and this is a cause of concern. The National Competitiveness Council has also expressed concern in relation to the continuing relatively high level of costs in the Irish economy.

1.3.7 Industrial Disputes

There is a long term decline evident in the number and effects of industrial disputes. During the 1980s there was an annual average of over 112 disputes while this had fallen to around one third of this level over the 1990s (annual average of 37 disputes). In 2004 there were just 11 industrial disputes. A key indicator of the costs of industrial unrest is the number of days lost through industrial disputes. Over the 1980s an annual average of over 300,000 days were lost to industrial disputes while the number of days lost during the 1990s was less than half this level (annual average of 115,825 days). In 2004 the number of days lost dropped to 20,784. The ‘transport, storage and communication’ area accounted for 59 per cent of the total days lost in that year, with manufacturing recording the second highest share of total days lost (over 11.5 per cent).

1.3.8 The Public Finances

After several years of strong growth, the growth of public expenditure fell sharply in 2003 and 2004. The growth of expenditure on services and transfers (i.e., gross voted current supply services expenditure) in real terms fell from 15.4 per cent in 2001 to 4.1 per cent and 6.9 per cent in 2003 and 2004 respectively. As has been the case in the past when public finance adjustments were required, public capital expenditure has been curtailed more severely than current expenditure. Capital expenditure fell quite substantially in both real and nominal terms in both 2003 and 2004. In real terms the reductions were in excess of 7 per cent in each year.
In 2005 the planned increase in expenditure on current services and transfers is around 6 per cent in real terms (9.8 per cent nominal) while the planned increase of capital expenditure (excluding public private partnerships, PPPs) is almost 11 per cent in real terms (17.8 per cent in nominal terms).

The public expenditure share of GNP has increased significantly in recent years. Current public expenditure on services and transfers in 2005 at 29.1 per cent of GNP is 4.4 percentage points higher than its level in 2000. This follows the period during the 1990s when the public expenditure share fell substantially, from 33.4 per cent in 1993 to 24.7 per cent in 2000.

In the 2005 Budget, there was provision for Exchequer borrowing of 2.3 per cent of GNP. The General Government Balance (GGB), the EU defined measure, is a better measure of balance in the public finances. The GGB abstracts from certain transactions that affect government borrowing but do not affect the financial liability of the overall government sector. The GGB was planned to be in modest deficit (0.8 per cent of GDP). However, with tax revenue running well ahead of projections and expenditure below projections, the outturn for 2005 could well be in surplus. Capital expenditure in particular is well behind its projected level so that the outturn for the year will be below its budgeted level.

In the first ten months of 2005 tax revenue was up by 8.6 per cent and €1.24 billion ahead of the Government’s projections for this period. Income tax receipts have grown by less than most other areas, with receipts up by 6.1 per cent. This appears
low in view of the large increase in employment and has led to speculation that much of the increase in employment is low paid. However, an analysis by White (2005) shows that, taking account of revenue from special investigations in both 2004 and 2005, revenue for 2005 is probably consistent with strong employment growth. When account is taken of the revenue from special investigations, the underlying increase in revenue for the first 10 months of 2005 is 9 per cent. If employment increases by 5 per cent and pay levels by 5 per cent in 2005, then total nominal income could expand by 10 per cent, which is close to the increase in income tax revenue of 9 per cent. Allowing for the fact that there were tax reductions in the 2005 Budget, the increase in income tax revenue would appear consistent with a large increase in employment.

The public finances are in a healthy position. The slowdown in the growth of current public expenditure that occurred was consistent with the recommendations of the Council. However, the reductions in public capital expenditure in 2003 and 2004 differed from what was recommended by the Council. These cuts will be partially reversed with the large budgeted increase in expenditure in 2005. However, this uneven pattern of growth is unlikely to be the best option from a planning perspective.

1.3.9 Outlook

In the current year there are conflicting messages in the published economic data as regards the strength of the economy. The CSO Quarterly National Accounts signal a slowdown in growth in the first half of the year. On the other hand, employment data from the Quarterly National Household Survey (QNHS) show very strong employment growth, up by about 5 per cent in the first half of the year. This includes both full- and part-time employment, but the bulk of the increase in employment was full-time. Another clear indication of the strength of the economy is tax revenue. Tax revenue is well ahead of target even after allowing for the one-off gains from revenue investigations. Taken together, the employment and tax revenue data point to 2005 as being a year of strong economic growth. A range of estimates for 2005 and forecasts for 2006 of the Irish economy are presented in Appendix Table A1.9. Forecasts of GNP growth for 2006 are in the region of 5 per cent.

International Outlook

The international environment is reasonably favourable. The rise in oil prices has led to some slowdown in growth of the global economy but to date the impact has been moderate. Global GDP is estimated to increase by 4.4 per cent in 2005 compared to an exceptionally high increase of 5.5 per cent in 2004. The UK’s National Institute of Economic and Social Research (2005) expects the global economy to grow by 4.4 per cent next year (2006) and thereafter by 4.3 per cent in the medium-term up to 2012. World trade is expected to grow by 6.6 per cent in the years to 2012.
There has been some slowing of US growth in 2005 but the US economy is still expected to expand by a robust 3.5 per cent in 2005. The National Institute expects US GDP growth of 3.4 per cent in 2006 and 3.2 per cent in 2007. The euro-area economy is considerably weaker. In 2005 the euro-area is expected to grow by just 1.3 per cent. Weak growth of domestic demand stemming from low consumer confidence is holding back growth in the euro-area. Exports from the euro-area are showing strong growth. Forecasters expect the euro-area to recover next year, assisted by the very low level of long term interest rates. The National Institute expects the euro-area to grow by 1.9 per cent next year, with growth continuing to 2012 at an average rate of 2.1 per cent. There has been a marked slowing of UK economic growth, with the UK economy expected to grow by just 1.7 per cent this year. The economy is expected to recover next year and growth of 3.2 per cent is expected. The National Institute’s medium term expectation is of a growth rate of 2.4 per cent in the years to 2012.

Irish Economic Outlook

With a reasonably favourable international environment, Irish exports should recover from the static performance in 2005. The recent industrial production figures point to a recovery in industrial production which could signal a subsequent export recovery. The prospects for private consumption are positive. A positive influence on growth will be the maturation of the SSIA accounts which will come into effect in 2006 and 2007. As discussed above, the savings rate in Ireland has increased in recent years. The high level of savings underpins the ability of consumers to sustain increases in spending. The public finances are in a healthy situation so there is scope for public consumption to expand over the next few years. Housing output is now at an exceptionally high level so that some reduction in output is likely. However, other investment will expand so that total investment is likely to show positive growth.

Employment and the labour force have grown substantially in recent years. In the three years since 2002, employment and the labour force have both grown by an annual average of around 3 per cent. In 2005 employment could expand by around 4 per cent. It is likely that there will continue to be strong growth of employment over the next few years. Productivity growth has slowed in recent years, with an average annual growth rate of 1.4 per cent between 2000 and 2004 in GNP per person in employment, compared to annual growth of 3.4 per cent between 1993 and 2000. One factor that has depressed the average growth of productivity has been the exceptional expansion of labour-intensive house building. The coming few years will not see the same type of expansion of employment in construction so this type of expansion will cease to be a factor reducing the overall growth of productivity.

Interest rates are at historically low levels in both nominal and real terms. An increase in interest rates will have a moderating influence on Irish economic growth but are not a significant threat to a continuation of strong growth.
Risks

While the economic environment is positive, there are a number of risks both domestic and international, that need to be considered. The first domestic risk is of a continuing loss of competitiveness. Even if the main stimulus to demand comes from domestic demand, growth of exports is a necessary condition if growth in a small economy is to be sustainable. The Irish economy has experienced a loss of cost competitiveness in recent years and the general level of prices in Ireland is higher than among Ireland’s trading partners. Continuing with a strong performance will require progress in addressing Ireland’s competitiveness. This is a multi-dimensional issue. Structural policies of relevance to competitiveness are discussed in Chapter 3 while the macroeconomic requirements to address competitiveness are discussed in Chapter 4.

A second domestic risk arises from the housing market. There are two distinct risks from the housing sector which have the potential to impact upon overall economic growth. The first is a significant reduction in housing output with an associated reduction in employment within the sector. A gradual fall in housing output from its current level is expected and would not be problematic. A large fall, such as a 50 per cent fall in output, would have a significant effect on the economy. The second potential housing risk comes not from a simple reduction in quantity but from a reduction in the overall level of house prices and the possible consequences not only on housing output as demand dries up but also on consumer confidence, consumer spending and the potential pitfalls of negative equity for those who have recently purchased at high prices. The Central Bank has considered this risk in its Financial Stability Reports. In its latest Financial Stability Report (2005), the Central Bank’s view is that the risk of a sudden fall in house prices cannot be dismissed but that this risk may have diminished with the reduction in house price inflation.

Finally, as a small open economy, the Irish economy is vulnerable to adverse conditions in the global economy. There are large financial imbalances in the global economy at present, in particular the very large US current account deficit, which is likely to be around 6 per cent of GDP in 2005. A sudden correction of this deficit could lead to a sharp depreciation of the dollar and a large rise in US interest rates, leading in turn to a US and global recession.

On balance, the Council expects a continuation of strong growth in the Irish economy in the coming years. The risks that exist, however, should not be ignored and the possibility of more adverse economic circumstances needs to be taken into account.
1.4 Income Inequality and Poverty

Comprehensive data on income distribution are available with a significant lag, so trends since 2003 cannot be reviewed for this Strategy. This section begins by presenting a summary of the situation in 2003. It then explores the different factors that shape the income distribution in Ireland and their respective importance, in so far as that can be identified, in explaining the large increase that has taken place in the proportion of the population living on low relative incomes in Ireland over the period 1994-2003.

1.4.1 Size and Composition of the Population on Low Incomes

A notable feature of Ireland’s recent social development is that the proportion of the population living below relative income poverty lines has steadily increased. Table 1.5 illustrates this type of evidence.

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>All</strong></td>
<td>15.6</td>
<td>18.0</td>
<td>20.9</td>
<td>22.7</td>
</tr>
<tr>
<td><strong>of which</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Children (under 18)</strong></td>
<td>24.5</td>
<td>23.5</td>
<td>23.7</td>
<td>23.9</td>
</tr>
<tr>
<td><strong>18-64</strong></td>
<td>12.1</td>
<td>14.7</td>
<td>16.4</td>
<td>20.1</td>
</tr>
<tr>
<td><strong>65+</strong></td>
<td>5.9</td>
<td>24.2</td>
<td>38.4</td>
<td>36.4</td>
</tr>
</tbody>
</table>

Source: LIS, EU-SILC
1. The 2003 figures use a different age breakdown of 0-14 years, 15-64 and 65+

The Table also shows that the relative risk of living on less than 60 per cent of median income has altered dramatically across the life cycle. It has consistently been high for children. In 2003, as a decade earlier, almost one quarter of all children lived in households whose income circumstances placed them below the 60 per cent of median income line. The risk was not reduced for children over the period 1994-2003. For people of working age, the risk rose significantly, from 12 per cent in 1994 to 20 per cent by 2003. For people aged 65 or over, there was a particularly dramatic rise; 6 per cent were below the 60 per cent line in 1994—this rose to 44 per cent by the year 2001 (not shown) before falling back to 36.4 per cent in 2003, a level still six times higher than the risk older people had faced ten years previously.
The significance of being below the 60 per cent of median income line (or any other ‘at risk of poverty’ line) at a point in time depends on several factors. It varies, principally, on whether the household in question is experiencing a short or a long period below the line (duration of time below it), on how far below the line it is (the poverty gap), and on whether significant services boost its standard of living, for which it does not have to pay. For example, some comfort can be sought in the observation that ‘free’ services make a significant and growing contribution to the living standards of the elderly. They are likely to have neither mortgages nor rent to pay, can travel free at off-peak hours on public transport and, if living alone, qualify for several household benefits (free television licences, free electricity or gas allowance and free telephone line rental). Finally, if over 70, they have a medical card regardless of their income level. Balancing the observation that money may play a lesser role in the standards of living of retired households than of other households, however, is the fact that people in retirement have extremely limited options to increase their money incomes, even though the improved health and life expectancy of pensioners is widening what could be done with additional income.

Since the adoption of the National Anti-Poverty Strategy, the measure of ‘consistent poverty’ has been used to help in identifying households that are below relative income poverty lines and in evidently straitened circumstances.12 The shift from the Living in Ireland Surveys (LIIS), carried out by the ESRI up to 2001, to the EU Survey of Income and Living Conditions (EU SILC), carried out by the CSO and first reported on in 2003, has introduced a fundamental shift in the series (Table 1.6), and the trend between 2001 (year of the last LIIS) and 2003 in the numbers living in consistent poverty is considered to have thrown more light on the measure itself than on real developments.13

However, the data on consistent poverty in 2003 on its own continue to provide some indication of where low relative incomes may be occasioning serious deprivation. Table 1.7 shows the different risks that adults faced of consistent poverty and relative income poverty respectively in 2003, according to what is termed a person’s Principal Economic Status (PES).

The Table shows that, overall, the rate of ‘consistent poverty’ in 2003 was equivalent to 41 per cent of the level of the ‘at risk of poverty’ rate (at the 60 per cent of median line). For adults whose PES was unemployed, the association between the two measures was the strongest – consistent poverty among them was almost two thirds of their ‘at-risk-of-poverty rate’ – whereas the association was weakest for adults who were retired. This latter finding appears to confirm that people in retirement, for the variety of reasons already mentioned, are more

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12. Established if the household head reports that at least one of a list of eight essential items is lacking because, though desired, it could not be afforded. NESC’s last Strategy discussed this measure; see ‘Revisiting the Measure of Consistent Poverty’, NESC 2003: 422.

13. The jump from 4.1 per cent in 2001 to 9.4 per cent in 2003 is largely attributed to two methodological changes: shifting to computer-assisted interviewing techniques and the fact that all interviewees in 2003 were new whereas significant proportions of those interviewed in the LIIS each time had been interviewed in earlier waves. The Office of Social Inclusion comment: ‘There have been no policy changes that would have brought about such a reversal of the previous downward trend. In fact, the contrary was the case...’ It has been acknowledged by the organisations responsible for the two surveys that the outcome was primarily due to methodological differences in the approaches adopted in measuring what is essentially peoples’ subjective perception of their degree of deprivation’ (OSI, 2005: 3) This is discussed again in 3.4.4 below.
insulated than others from the effects of low money incomes. It may also reflect that many of the current elderly population in Ireland are less likely to acknowledge subjectively given levels of deprivation than younger cohorts.

The 2003 data, on just who in the population is living on incomes below 60 per cent of median, can be made comparable with the earlier LIIS survey data and the following two tables are selected from the Office of Social Inclusion’s comprehensive presentation of the trends since 1994 (OSI, 2005).¹⁴

Table 1.6 Percentage of Persons in Consistent Poverty

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 60 per cent of median income and experiencing basic deprivation</td>
<td>8.3</td>
<td>7.8</td>
<td>4.1</td>
<td>(9.4)</td>
</tr>
</tbody>
</table>

Source: LIIS, EU-SILC

Table 1.7 Percentage of Persons (Aged 16 and Over) in Consistent Poverty and Below 60 Per Cent of Median Income by Their Principal Economic Status, 2003

<table>
<thead>
<tr>
<th>PES</th>
<th>Percentage in ‘consistent poverty’</th>
<th>Percentage below 60 per cent Median</th>
<th>Consistent poverty rate as per cent of ‘at risk of poverty’ rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>At Work</td>
<td>3.5</td>
<td>9.2</td>
<td>38%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>26.4</td>
<td>42.1</td>
<td>63%</td>
</tr>
<tr>
<td>Student</td>
<td>12.6</td>
<td>30.3</td>
<td>42%</td>
</tr>
<tr>
<td>Home Duties</td>
<td>11.2</td>
<td>37.0</td>
<td>30%</td>
</tr>
<tr>
<td>Retired</td>
<td>6.6</td>
<td>31.0</td>
<td>21%</td>
</tr>
<tr>
<td>Ill/Disabled</td>
<td>20.9</td>
<td>54.0</td>
<td>39%</td>
</tr>
<tr>
<td>All</td>
<td>9.4</td>
<td>22.7</td>
<td>41%</td>
</tr>
</tbody>
</table>


¹⁴ Office for Social Inclusion (2005), National Action Plan against Poverty and Social Inclusion, 2003-2005. Implementation and Update Report. The EU SILC, in fact, does not permit a direct comparison with the earlier Living in Ireland Surveys (LIIS) as it classifies all people (aged 16 and over) by their individual Principal Economic Status, whereas the LIIS had classified people with reference to the labour market status of the head of their household. Thus, for example, the published EU SILC data has no separate category for farmers or self-employed but includes them along with employees in the category ‘at work’; it also introduces the categories ‘student’ and ‘other inactive persons’. The OSI has obtained these harmonised data.
Table 1.8 shows that the ‘at risk of poverty’ rate (at the 60 per cent line) rose markedly after the year 2000 for people in households where the reference person was an employee or ill/disabled. It reached an exceptionally high level for ill or disabled persons—two out of every three households where they were the reference person were below 60 per cent of median income—and was well above the norm also for households where the reference person was unemployed (47 per cent), engaged in home duties (39 per cent) or retired (32.5 per cent). When the composition of the population below the 60 per cent line is examined (Table 1.9), a continuing rise since the year 2000 is recorded in the proportion living in households where the reference person was ‘at work’. Such households, along with those where the reference person was in home duties or retired, accounted for 70 per cent of all the people below the 60 per cent line in 2003.

1.4.2 The Growth of Median Household Income

While the data reviewed make it clear that relative income inequality grew steadily in Ireland up to 2003, the implications of this for poverty and social policy are complex. It would be one thing, for instance, if rising income inequality were driven by a decline in the real wage for entry level jobs and/or greater inequality in hourly earnings. It would be another thing, however, if it were driven by a growing proportion of households having two or more earners and a shift in the incidence of taxation from earnings and income to consumption taxes and user charges.
Table 1.10 illustrates the complexity of addressing the rising ‘at risk of poverty’ rate in Ireland. The monetary variables selected are ranked from left to right by ascending order of growth over the ten years in question. The cost of living as measured by the Consumer Price Index (CPI) rose by 32 per cent over the period, and this was comfortably surpassed by cumulative growth in Gross Average Industrial Earnings (GAIE) of 54 per cent. The cumulative increase in weekly adult social welfare payments was greater still, of the order of 70 per cent. These welfare payments did not, however, keep pace with the growth in after tax earnings, as exemplified by net average industrial earnings for a single person, which grew by 87 per cent. Though net earnings and adult social welfare payments are key components of disposable household income, median equivalised disposable income—which provides the yardstick for identifying those ‘at risk of poverty’—significantly outstripped rises in these individual components and rose by 141 per cent. Some of the causes of this particularly large rise are explored below. The only series which grew faster than median equivalised income was Child Benefit but, as will be made clear below, it is too small a part of total household income for even major increases in it to have the power to lift the poorest households to 60 per cent of median income. (It may even have played a role in raising the median itself, if households just below the median are disproportionately likely to have qualifying children).

Table 1.9 Breakdown of Persons Below 60 Per Cent of Median Income by Labour Force Status of Household Reference Person

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Employee</td>
<td>8.3</td>
<td>11.5</td>
<td>15.4</td>
<td>38.6</td>
</tr>
<tr>
<td>Self-employed</td>
<td>10.1</td>
<td>7.8</td>
<td>8.2</td>
<td></td>
</tr>
<tr>
<td>Farmer</td>
<td>10.6</td>
<td>8.0</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td>Unemployed</td>
<td>41.1</td>
<td>29.6</td>
<td>12.2</td>
<td>9.7</td>
</tr>
<tr>
<td>Ill/disabled</td>
<td>6.2</td>
<td>10.4</td>
<td>10.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Retired</td>
<td>6.0</td>
<td>9.1</td>
<td>16.3</td>
<td>14.6</td>
</tr>
<tr>
<td>Home duties</td>
<td>17.8</td>
<td>23.6</td>
<td>28.4</td>
<td>24.7</td>
</tr>
<tr>
<td>Student</td>
<td></td>
<td></td>
<td></td>
<td>1.8</td>
</tr>
<tr>
<td>Other inactive person</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: LIS, EU-SILC
1. The 2003 EU-SILC survey was based on six months data collection (in due time, waves of the survey will be based on 12 months data collection). Citing difficulties with the smaller sample that resulted (3,112 households and 8,129 individuals), the CSO prefer not to distinguish between employees and self-employed in the data for this table.
Key to understanding the steady increase in the proportion of the population below 60 per cent of median income in Ireland, therefore, is the rapid growth of the median disposable household income threshold against which incomes below it are benchmarked. In an earlier study, the Council drew attention to the evidence that Ireland, particularly during the second half of the 1990s, increased real equivalised disposable income in the bottom two deciles of its income distribution at a significantly faster rate than elsewhere in the EU, and yet retained one of the highest ‘at risk of poverty’ rates in the region (NESC, 2005: 126, 128). This was because equivalised incomes in the middle six deciles of the income distribution—i.e., for the large majority of the population—increased even more rapidly than for either the lowest or highest income deciles. This is shown in Table 1.11, which includes the EU country currently with the most egalitarian distribution of income (Sweden) for comparison. The somewhat unusual trend in Ireland’s distribution of income has been more egalitarian than the trend in Sweden.

In seeking to understand how growth in median equivalised household income in Ireland has comprehensively outpaced growth in each of its key components, a comprehensive analysis might analyse each step in how the aggregate is constructed and assemble the required data to show the significance of each step (see Appendix A.2). A more modest framework is adopted here which explores, respectively,

- how some demographic and structural factors may have influenced changes in the composition of Irish households and in median equivalised household income,
- the interface between households and the labour market and how employment, hours of work and earnings are distributed across households, and
- tax and welfare policies and how they have affected households differently.

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI</th>
<th>GAIE</th>
<th>Lowest Social Assistance Payment</th>
<th>Contributory Old Age Pension</th>
<th>Net average industrial earnings (single person)</th>
<th>Median Equivalised Disposable Income</th>
<th>Child Benefit (1st and 2nd child)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1997</td>
<td>106</td>
<td>108</td>
<td>111</td>
<td>110</td>
<td>115</td>
<td>133</td>
<td>150</td>
</tr>
<tr>
<td>2000</td>
<td>116</td>
<td>127</td>
<td>129</td>
<td>135</td>
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<td>2003</td>
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<td>167</td>
<td>174</td>
<td>187</td>
<td>241</td>
<td>494</td>
</tr>
</tbody>
</table>

Source: NESC Secretariat
1.4.3 Demographic and Structural Influences on Median Household Income

Equivalence Scales and the Poverty Threshold

Equivalence scales are used to compare the real income of households of different sizes. This is necessary for two related reasons. First, the same household income has different welfare implications depending on the number of people to be sustained. Second, additional household members require less additional income as a result of the division of fixed costs, such as accommodation and heating. Equivalences scales are used to adjust recorded household income to take account of these factors. For longitudinal comparison, it is important that the same equivalence scale is used over time. The most commonly used equivalence scale in Ireland is one developed by the ESRI. It gives a weight of 1.00 to the first adult, 0.66 to any additional adult and 0.33 to a child. This scale is applied to the recorded income of each household to yield their ‘equivalised household income’. It is the median of these equivalised incomes that is used in analysis of income distribution and poverty.

Changes in Household Composition

Changes in household composition have arisen for at least two reasons. In the first place, the age structure of the population has shifted. Between the Census of 1991 and that of 2002, the proportion of Ireland’s population aged between 25 and 64 increased by six percentage points (from 44.8 per cent to 51.3 per cent) (Appendix Table A1.10). The proportion aged under 25 dropped while the proportion aged 65 and over was largely unchanged. This growing concentration of the population

| Table 1.11 Annual Rate of Growth (%) in Equivalised Disposable Income in Real Terms, Ireland and Sweden, Mid-1980s to 2000 |
| --- | --- | --- |
| **Bottom 2 deciles only** | **Middle 6 deciles** | **Top 2 deciles only** |
| **Ireland** | | |
| Mid-1980s to mid-1990s | 3.1 | 2.5 | 2.4 |
| Mid-1990s to 2000 | 5.2 | 7.7 | 5.4 |
| **Sweden** | | |
| Mid-1980s to mid-1990s | 0.4 | 0.7 | 0.9 |
| Mid-1990s to 2000 | 1.3 | 2.7 | 4.5 |

Source Förster and d’Ercole (2005: Table 3)
among age cohorts where labour market participation is most likely and earnings are at a maximum was due to two factors. The cohort comprising the baby boom of the 1970s (the largest single population cohort) have been passing their 25th birthday in larger numbers, and rising net in-migration has largely been of people of working age.

Secondly, patterns of family and household formation have changed. Section 1.1 has already drawn attention to the particularly rapid growth in households made up of childless couples and single people under the age of 65. This has been a further consequence of the shift in the population’s age structure. As more people advance into their 20s, more have transferred from residence in the parental home to form independent households either singly or as couples. In addition, the major decline in birth rates among women in their 20s (also highlighted in 1.1) as more women have postponed having children has contributed further to a reduction in average family size.

All these effects have reduced the average equivalised household size, which suggests that a given increase in household income could yield a greater rise in median household incomes.

1.4.4 Labour Market Influences on Median Household Income

The Distribution of Earners Across Households

The distribution of household market incomes hinges crucially on the distribution of earners across households. Also important is the extent to which low earners cluster in the same households or are more evenly interspersed with higher earners. It is clear that, particularly with rising female employment rates, a growing proportion of Irish households now have more than one earner. At the same time, the proportion in which no one is earning has fallen, particularly as people who were formerly unemployed or had a status outside the labour force have moved into work. Russell et al (2004), for example, found that 22 per cent of adults of working age lived in households in which no one was earning in 1994, and that this had declined to 13.6 per cent of working age adults by the year 2000. This was still significantly higher than the overall unemployment rate that year (4.3 per cent), reflecting that many households headed by lone parents and people with an illness or disability remained outside the labour force.

As the distribution of earners across households affects the distribution of income, so does the distribution of hours worked across earners. There is evidence (Russell et al, 2004) that lone parents undertake relatively low numbers of hours of work per week where they have employment. High ‘marginal effective tax rates’ on higher earnings are almost certainly contributing to this. This is commented on further when tax and welfare policy is discussed below.
The Dispersion of Earnings

Earnings from employment are the most important source of income in Ireland and consequently differences in earnings are the most important source of income inequality, particularly across individuals and also across households. Section 1.2 showed that there were significant improvements in real post tax earnings since the year 2000 across the economy, including for the low paid. When the main statistical series on earnings produced by the CSO are examined (Appendix Table A1.11), the picture that emerges is one of considerable uniformity in gross earnings increases across the economy over the five-year period 2000-2004, and of some compression of earnings differences within sectors.17

The Floor to Earnings: the Minimum Wage

The level of the minimum wage is of key concern for several reasons. As it rises, it influences more people to take entry level jobs and improves the living standards of those who do. However, raising it may also reduce the number of entry level jobs on offer and increase the number of lower skilled people unable to access employment. In attempting to balance these opposing concerns, policy frequently attempts to reduce the incidence of tax on earnings at the minimum wage and/or to supplement them with in-work benefits. Both approaches increase the incentive effect of the minimum wage in attracting people into work without adding to its deterrent effect on the creation of lower productivity jobs.

While Family Income Supplement is a significant in-work benefit for a small subset of workers on low earnings, the principal approach taken in Ireland in recent years has been to reduce taxation on earnings at the minimum wage to the greatest extent possible. The result of this policy is that weekly net earnings at the minimum wage were about 60 per cent of the net earnings of a single person on the average manufacturing wage and almost 77 per cent of what a single person on the average wage in the relatively low paid Accommodation and Catering sector would take home (Appendix Table A1.12).

Some tentative conclusions can be drawn about trends in the inequality of earnings on foot of this evidence. The evidence does not point to widening inequality in earnings, between 2000 and 2004 at least, as fuelling income inequality across households. However, the data do not encompass the tails in Ireland’s distribution of earnings (either high paid managers and self-employed at one extreme, or exploited workers and black economy earnings at the other). Neither do the data cover what may have happened in the Irish labour market in the wake of unrestricted entry for nationals from the new EU member states after May 1st 2004. However, the data do point to some reasons why Ireland’s labour market has been attractive to non-nationals, including those willing to undertake relatively low paid work. It taxes low earnings lightly and has a floor to (legal) earnings that kept net earnings at the minimum wage to between 60 and 75 per cent of net earnings.

17 The data series reviewed (see notes to the Table) can provide only a partial view of developments – they do not include earnings of top management, earnings from self-employment or earnings in the underground economy (people employed at below the minimum wage) and the black economy (earnings not declared). Also, the aggregation is still at a high level and does not identify earnings in specific jobs. Finally, different trends in the number of weekly hours worked by sector would impact strongly on these earnings differences, but there is not evidence of markedly different trends in weekly hours worked by sector.
earnings in the bottom half of the earnings distribution (in 2004/05). Other studies independently confirm that Ireland’s floor to earnings bears comparison favourably in an international context. Ireland was one of only four OECD countries to have a gross minimum wage in mid-2004 at levels in excess of 50 per cent of average industrial earnings (UK Department of Trade and Industry, 2005: 237). After adjusting for differences in the cost of living, Ireland’s gross minimum wage was the sixth highest of 22 countries examined in 2005 (and, for example, 150 per cent higher than in Poland) (Eurostat, 2005). The OECD estimated that, in 2001, Ireland was a country where a relatively small proportion of in-work earnings was sufficient to bring people above the income poverty line (OECD, 2004a: 87). The thrust of these studies is that there is a narrower dispersion in earnings in the bottom half of the earnings distribution in Ireland than in other comparator countries.

1.4.5 The Influence of Tax and Welfare Policies on Median Income

The Role of Social Transfers

Table 1.10 established that social welfare payments grew by significantly more than inflation and gross earnings but by less than net earnings over the period 1994-2003. Table 1.12 shows the level of the same representative social welfare payments relative to the 60 per cent of median ‘at risk of poverty’ threshold in each year for which the data is available. The Contributory Old Age Pension, which increased by 74 per cent over the ten-year period, was 17 per cent above the ‘at risk of poverty’ income threshold in 1994, but 15 per cent below it by 2003. The lowest adult social assistance payment was 97 per cent of the same threshold in 1994, but had fallen to 67 per cent of it by 2003. Child Benefit grew from being equivalent on a weekly basis to 8 per cent of the threshold in 1994 to 16 per cent of it in 2005.

It needs to be appreciated also that social transfers will only have an effect on median equivalised disposable household income to the extent that changes in them affect households which are close to, or at, median income levels (see Appendix A.3 on understanding median income). In the majority of cases social transfers are targeted at those on lower incomes. However, changes in insurance-based payments and Child Benefit are likely to have had some impact.

The Redistributive Impact of Budgets 2000-2005

The ESRI analyse the net impact of Budgetary changes and compare the actual impacts on households at different levels of the income distribution produced by actual Budgets with a hypothetical Budget which would have indexed all tax bands, tax credits and social welfare rates to the overall rise in earnings (termed a ‘distributionally neutral’ budget because it would ensure the net income of all individuals grew at the same pace).

Table 1.13, reproduced from Callan, Walsh and Coleman (2004), shows that Budgets 2002, 2004 and 2005 were redistributive in nature providing the largest increases in net household income to the bottom two quintiles of households. Budget 2000 and Budget 2001, in fact, were the last two budgets of a succession that cut tax rates and were seen to have, overall, a somewhat regressive effect. Budget 2003 was the closest to a Budget that ‘marked time’.

The ability of further changes to the taxation system, however, to reduce income inequality by giving greater proportionate reductions in taxes to the less well-off (achieving it by increasing taxes on the rich is another matter) has declined steadily in recent years. This is despite the introduction of tax credits that are a focused instrument suited to improving the position of those paying the least tax. The reason is the now low level of tax-take out of income for all low and average earners. For example, in 2005, a married individual earning average industrial earnings and in receipt of child benefit for 2 children was a net overall recipient from the state in monetary income terms. Ireland, in fact, was the only country where transfers exceeded tax liability for an income and family structure of this type (OECD, 2005d: Table III(5b)).
Integrating Tax and Welfare

An additional and important aspect of taxes and transfers is how they affect the marginal effective taxation rates faced by people entering the labour market from unemployment or a status outside the labour force. Marginal effective taxation rates arise from how benefit withdrawal rates as well as taxes affect additional income. High marginal effective tax rates can act as ‘poverty traps’ making it difficult for a person to have a rise in disposable income as a consequence of a rise in earnings. They can also be ‘negative’, as when in-work benefits are larger than any increases in taxation with the result that disposable income rises by more than the rise in earnings. These interactions between the welfare and taxation codes affect the dynamics of income distribution rather than the distribution of income at a point in time but they are important to include in a review of the factors underlying trends in income distribution in Ireland.

1.4.6 Summary of the Evidence on Income Inequality and Poverty

The following points are worth repeating:

- Ireland provides an unusual case, by international standards, of a country that has simultaneously grown its lowest incomes at a significant pace and recorded a rising ‘at risk of poverty’ rate;
- The ‘at risk of poverty’ rate has grown dramatically for groups outside the labour force (particularly for retired people and people who are ill or disabled);
- Social welfare payments have increased by considerably more than the cost of living and gross earnings, but by less than the rise in earnings net of tax and by much less than the rise in the ‘at risk of poverty’ income threshold;
- Social welfare payments expressed as a percentage of the ‘at risk of poverty’ threshold have fallen. Their effect in raising recipients with no other sources of income above the income poverty line is, accordingly, much reduced;

### Table 1.13 Redistributive Impact of Budgets 2000-2005

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<td>0.6</td>
<td>-0.7</td>
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Source: Callan, Walsh and Coleman (2004)
The percentage of jobless households has fallen significantly since the mid-1990s while the percentage of households with more than one adult in work has risen significantly. However, work-poor households still comprise over 13 per cent of the household population;

Further research is needed to determine whether the occurrence of ‘work-rich’ households has taken place disproportionately in households whose equivalised income is close to the median;

There is not evidence, at least in the period 2000 to 2004, of an increase in earnings dispersion in wide sections of the economy. If anything, there has been some compression in the earnings distribution;

The net earnings of a worker on the minimum wage have broadly kept pace with a worker on the average industrial or average accommodation and catering wage. This is the case in terms of both gross and net earnings. The level of the minimum wage in Ireland is good by international standards;

Recent budgetary policy has favoured households in the lowest income quintiles with significant increases in social assistance transfers and personal tax credits. Budgetary policy during the 1990s was more favourable to those on higher incomes as the top tax rate was being reduced;

Given the low rates of personal income tax, and tax credits which lift the majority of earnings for a worker on the minimum wage outside the tax net, there is relatively limited scope for further reductions in taxation, as practiced in the past, to improve the relative incomes of these households.

It is a major feature of Ireland’s recent social development that the percentage of persons classified as being ‘at risk of poverty’ has risen significantly since the mid-1990s, despite improved employment conditions, higher social welfare payments in real terms and significant increases in the real level of disposable incomes available to each person at the lower income deciles. The analysis in this section has discussed several of the more salient factors which account for this unusual pattern of development. The purpose is not to minimise the extent and depth of inequality and social disadvantage in Irish society but to increase the likelihood that the performance targets for policy are appropriately articulated and the policy instruments for addressing income inequality appropriately designed and chosen. These themes are returned to in Chapter 3 below.

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19 There are however, significant lags in being able to factor this into the measurement of the impact on the total relative household income distribution.
1.5 Quality of Life and Social Wellbeing

An assessment of what is happening to the quality of life and social wellbeing in Ireland must necessarily be tentative. Though the subject of widespread interest and concern, the concepts themselves are complex, good data are not available to throw light on many areas of Irish life, and Irish society is currently in the throes of a particularly deep and extensive transformation. On the quality of life, in particular, there is a large body of social research with a strong degree of consensus that it is a multi-dimensional concept, refers to individuals’ life situations, and is affected by subjective as well as objective factors (Fahey, Nolan and Whelan, 2003). The Council is to take a lead role in preparing a periodic Social Report, which will be the occasion to develop a framework suited to Ireland for assessing trends in the quality of life and social wellbeing of its society. In what follows and for the purposes of this Strategy, some key developments in—respectively—health, education, family life, housing, work and community life are presented.

1.5.1 Health

Some Key Outcomes

Life expectancy at birth reached 80.3 years for females and 75.1 for males in 2002. Between 1996 and 2002, it increased by 2.1 years for males and 1.8 years for females, the highest rate of improvement in several decades. Life expectancy at age 65 was 18.7 years for females in 2002, a 9.4 per cent increase in a decade and greater than the EU 15 improvement in this period (8.2 per cent). For men aged 65, life expectancy was 15.4 years, a 14.9 percent improvement in the same period and also above the EU 15 improvement (11.6 per cent). The infant mortality rate fell to 5.1 per 1,000 live births from 8.5 per 1,000 in 1990, an improvement of 37 percent.

It is clear that, benchmarked against our own recent past, much has been achieved with regard to key indicators of the overall health status of the population. However, Ireland still lags the best performing European countries, including in infant mortality where Ireland is at the bottom of the EU 15. There is room also to continue reducing adult death rates. For example, death rates for circulatory diseases—the leading cause of death in Ireland—have been steadily declining but remain considerably above the EU 15 average (HSE, 2005).

In addition to overall improvements, it is important to monitor the extent to which sections of the population have, in some cases, significantly worse health outcomes than the general population. The class, gender and ethnic background of people appear to impact significantly on the quality of health that they enjoy. For example, unskilled male workers in Ireland have twice the mortality rate and a chronic illness rate 50 percent higher than that of their male higher professional counterparts; low birth weight—a significant pointer to life expectancy and lifetime health—is strongly associated with mothers’ low socio-economic status; the life expectancy of members of the Traveller Community is substantially lower than that for the settled population at 9.9 years for men and 11.9 years for women. A clear social gradient to mortality, morbidity and lifestyles that are damaging to health exists in all industrialised countries and Ireland, too, is deeply challenged by it.
Several trends have emerged in recent years of critical importance for health in Ireland. During the past decade, alcohol consumption rose by 41 per cent and illicit drug use became amongst the highest in the OECD. The levels of obesity and overweight have grown, particularly in children, and Type 2 diabetes, a preventable form of the disease linked to obesity, has become a major concern. Ireland also has a poor record in the area of road safety, and while the absolute numbers of deaths and injuries on the roads have declined, Ireland has failed to make the type of substantial gains in safety now being enjoyed by several other European countries. The recorded levels of suicide have grown fourfold for those under 25 and Ireland’s overall rate currently ranks 17th in the EU 25 (HSE, 2005; DHC, 2004; OECD, 2004e).

**Relating Health Outcomes to Health Services**

A significant unifying factor with many of the emerging issues for health is their connection with growing affluence and changing lifestyles. It is clear that, in this as in many other issues, personal choices and lifestyle decisions are fundamental to the achievement of good health outcomes. In short, while the health services can ameliorate the consequences of poor choices by individuals, they cannot deliver ‘best’ outcomes on their own without the active involvement of the population itself. Frequently Sweden is sighted as an example of ‘best’ outcomes in the area of health. However, it may be important to acknowledge that these good outcomes are not the sole achievement of the Swedish health system, but are fundamentally dependent on the lifestyle decisions which Swedes themselves make (Rae, 2005). A significant development in this respect in Ireland was the introduction and acceptance of the smoking ban in workplaces.

**Health Services**

With the major growth in health spending of recent years—an overall increase of 220 per cent in from 1997 to 2004—there has been a major increase in health service activity. This has proceeded extremely unevenly with, for example, an increase of 23,000 full time employees (33 per cent) in the health services over the four years, 1998-2001, followed by a cap on recruitment at the end of 2002. Access to services and their quality, for medical card holders and public patients in particular, remain unsatisfactory in several key areas, but many in the population have been receiving a higher level and wider range of service. The areas of primary care, acute hospitals and services to persons with disabilities can serve as examples of the somewhat chequered progress.
At the Primary Level

Three major schemes operate through which people are subsidised by the state to have access to doctors and prescribed medicines. They are the medical card scheme, the drug payment scheme and the long-term illness scheme.\textsuperscript{20}

By end 2004, medical cards covered 28.4 per cent of the total population, a drop from 30 per cent in the year 2000. Over the five year period 2000-2004, spending on the Scheme increased by 110 per cent; doctor’s payments per person covered rose by 89 per cent\textsuperscript{22} while the overall cost of medicines dispensed to medical card holders increased by 125 per cent.\textsuperscript{21} By 2004, some 72 per cent of public spending on the medical card scheme was on pharmacy costs and the remainder on doctor costs; the corresponding ratio had been 67:33 in the year 2000. Major developments have taken place in 2005. It is estimated that the 20 per cent rise in the income guideline for medical card eligibility and the introduction of a ‘Doctor Visit’ only card will result in 30,000 additional full cards and 200,000 of the new restricted ones being issued between mid 2005 and 2006.

An additional 36.33 per cent of the total population were registered for the Drugs Payment (DP) Scheme by 2004, a proportion that increased steadily from 25 per cent in 2000. The DP Scheme reimburses individuals or family units for spending above a monthly threshold on prescribed medicines.\textsuperscript{23} The net cost of this Scheme increased by 59 per cent over the period 2000-2004 and was equivalent to 21 per cent of total (doctor plus pharmacy costs) spending on the medical card scheme in 2004. It had been equivalent to 28 per cent in the year 2000. Finally, a consistent 2.3 per cent of the population has been eligible, regardless of income and on foot of their medical condition, for free drugs, medicine and appliances (the Long Term Illness Scheme, LTI). Spending on the LTI more than doubled over the period 2000-2004 and was equivalent to 8 per cent of total spending on the medical card scheme in 2004. It had been equivalent to 8.3 per cent in the year 2000.

Acute Hospitals

The Council has observed how busy Irish hospitals have become since 1980 (NESC, 2005: 63). This has continued over the period from 2000-2004, with a 2.3 per cent increase in the Accident and Emergency Department attendance rate, a 4.5 per cent increase in the in-patient discharge rate and a 52 per cent increase in the number of day cases (procedures undertaken on a same day basis and not involving an inpatient stay). In 2000, there were well over twice as many in-patient discharges as day cases but, by 2004, day cases had climbed to be much nearer the number of in-patient discharges (85 per cent of their level). A shift of this nature is considered in line with international best practice (DHC, 2005: 27-28). The average length of hospital stay, which had declined markedly from 1980 to 2000, has since stabilised and the bed occupancy rate is, if anything, considered too high and limiting needed flexibility within the system. Of the 3,000 additional hospital beds

\textsuperscript{20} The following paragraphs draw on the General Medical Services (Payments) Board. Financial and Statistical Analysis of Claims and Payments, 2004.

\textsuperscript{21} From €38.43 in 2000 to €261.53 in 2004.

\textsuperscript{22} Spending on pharmacy costs per person was €692.73 per person in 2004, a rise of 16 per cent on the previous year (2003), the first year when spending figures2002 were provided per person who availed of the service.

\textsuperscript{23} €78 in 2004.
considered necessary in 2002 (National Acute Hospital Bed Capacity Report), 806
(24 per cent) had been brought on stream by mid 2005. Waiting lists and waiting
times have been reduced, partly due to the work of the National Treatment
Purchase Fund which was established on a statutory basis in 2004.

While crowding in A&E departments and the spread of the MRSA virus have
been regrettable deteriorations in service, the quality of medical care provided in
public wards is high and appreciated as such by most of those who experience it
(Fallon, 2002).

Services to Persons with Disabilities

Demographic factors—the strong growth in the adult population (reviewed in 1.2
above) and the fact that people with disabilities are living longer—are driving a
significant growth in demand for services to people with disabilities (sensory,
physical and intellectual). This is in addition to the need for major enhancements
and adjustments in how many existing services are currently being provided. The
2002 Census established that 8 per cent of the total population are living with a
disability, and the National Disability Strategy and the Disability Act (2005) are
major landmarks in the attempt to respond in a comprehensive and systematic
manner to their needs. Some idea of the progress being made is provided by
studies of the persons registered on the two major national disability databases.

The National Intellectual Disability Database (NIDD) Annual Report for 2005 (Barron
and Mulvany, 2005) found that practically all those registered were receiving some
service in 2005 (97 per cent), and that the provision of day services, in particular,
had improved. However, 9.5 per cent of the total registered (2,270 people) were still
without any major element of service (either day or residential) (Barron and
Mulvany, 2005). There was a particular shortfall in meeting the need for residential
services—one in five assessed as needing a residential service was not receiving it
in 2004. This need is set to grow particularly strongly as more people in receipt of
day services come to require respite and regular part-time care at least. In addition,
many existing services will need to be enhanced or changed to meet specific
needs.

The National Physical and Sensory Disability Database reveals that some 3 out of 4
people registered with it live in private accommodation (77.5 per cent), a further 19
per cent in rented accommodation and 2.5 per cent in full-time residential services
(Galligan and Mulvany, 2004). The living accommodation of 23 per cent had been
adapted to their needs. The majority (86 per cent) lived with family members and
just over 9 per cent on their own. Almost 6 out of 10 of those registered reported
that they had a primary carer, though only 1 in 10 were availing of planned respite
services. In total, 90 per cent are accessing at least one of the following service
groupings: therapeutic intervention and rehabilitation services, personal assis-
tance and support services, respite, day or residential services.

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24 In June 2004 there were 20,825 active records on the National Physical and Sensory Disability Database of whom 19,677 were under
65. The most frequently reported type of disability was ‘physical disability only’ (82.6%), second to this was ‘hearing loss/deafness
only’ at 6.8% and the third most frequently reported type of disability was ‘visual disability only’ at 6.1%. The remaining 4.6%
reported a combination of these disability types.
1.5.2 Education

As a crucial determinant of future access to opportunities, education is a vital consideration in any discussion of wellbeing. Despite devoting a modest proportion of GNP to educational spending by EU standards (NESC, 2005: 121), strong economic growth has allowed spending on education to increase substantially in recent years.25

Primary Education

The number of primary school children, which had been over 500,000 in 1994, declined steadily to just under 440,000 in 2001. It recovered marginally over the next three years and 446,000 children were enrolled in primary schools for the 2003/04 academic year (a reduction of 12 per cent on 1994). Public current expenditure (in 2004 prices) on each of these children was estimated to be €5,000 per child in 2003/04, an increase of 120 per cent on the 1994 level. Over the same 11-year period, the pupil-teacher ratio in primary schools fell from 24.3 to 17.1, though average class size is still (2005) at 24:1 as many of the additional staff were resource teachers.

Secondary Education

The number of secondary school students declined by 8 per cent on its 1994 level to 338,000 in 2003/04, the result of a steady decline from 1998 onwards. It is estimated that €6,788 was being spent on each student in 2003/04, a rise of 90 per cent in real terms on the level in 1994. The pupil-teacher ratio declined from 16.7 to 13.6 over the same period. The number of Junior Certificate candidates was down 16 per cent on its 1994 level in 2003/04 and the number of Leaving Certificate candidates down 8 per cent. The percentages of all 16-year, 17-year and 18-year olds in full-time education (beyond the age below which schooling is compulsory) increased marginally (by an additional 1 to 2 points) but the pattern of an accelerating fall-off in participation remained; in 2003/04 as in 1994, there were ten per cent less of 17 year olds in full-time education than 16 year olds (85 per cent versus 95 per cent), and 20 per cent less of 18 year olds than 17 year olds (65 per cent versus 85 per cent).

Third Level Education

In contrast to the falling numbers of primary and secondary students, the numbers of full-time and part-time students at third level increased by 54 per cent on the 1994 level to reach 168,000 in 2003/04. Public expenditure per student was €8,914 (full-time equivalent), a rise in real terms of 32 per cent on per student spending in 1994. The much faster growth in primary school spending per child means that per student spending at third level fell from a multiple of 3 times the per child expenditure at primary level to 1.8 times over the period 1994-2004. There has been strong growth in participation rates by young people in full time education beyond secondary level—52 per cent of all 19-year olds were in full-time education

25 The following paragraphs summarise the Department of Education and Science’s Key Education Statistics, released August 2005.
in 2004 (up 6 percentage points on 1994), 47 per cent of all 20-year olds (up 13 percentage points) and 36 per cent of all 21-year olds (up fifteen percentage points).

Behind these broad aggregates are significant changes in qualitative issues, some positive and some negative. For example: the major investment in special needs education with an additional 13,000 staff being provided in primary and secondary schools for this purpose; the accentuation of a pattern whereby female students achieve at higher levels than males across a widening set of subjects; the persistence of underachievement and early school leaving for a significant minority of pupils; the evidence that parents are practising school selection to a growing extent with the result that some schools have disproportionately high enrolments of pupils who are socially disadvantaged, have special needs or are from ethnic minorities; the continuing under-representation of young people from working class backgrounds in third level education despite the abolition of full-time tuition fees. The most pressing challenges facing the Irish education system will be addressed in Chapter 3 below.

1.5.3 Family

Charting the scope and nature of change affecting family life is a particularly difficult challenge. In its 1996 Strategy Report, the Council (NESC, 1996: 43-49) was of the view that, on balance, the quality of family life had improved and that a model of family was emerging which increasingly sought the participation of all members on a basis of broad equality and greater respect for the rights of each individual. Many of the long run trends, identified by the Council then as driving this transformation, have continued even more strongly in the intervening years.

In the period from 1997 to 2004, women’s participation in the labour force has increased consistently in all age groups, with the exception of the 20-24 age group (see 1.3.3). There is strong evidence that higher employment rates for women have increased stress and pressure on many women with children (Daly, 2004; Department of Social and Family Affairs, 2004). As women in the child-bearing years increase their participation in the paid workforce, dealing with caring responsibilities has clearly become an acute issue of personal wellbeing for all concerned. This is not solely a concern for those who have, or wish to have, children, but extends to people caring for persons with disabilities and older people.

Traditional models of family care in Ireland were built on the assumption that most families had available to them one member free from participation in the paid labour force—in almost all cases, a woman. The growth in women’s employment, particularly by mothers with young children, is placing substantial strain on this family based model of care.

Section 1.1 drew attention to the changing composition of Irish households and the rise in the mean age of child bearing. In conformity with the general European pattern, Irish women are now postponing their child bearing (van de Kaa, 2002). Given both the medical risks of later pregnancy, as well as the rapid decline in fertility after 35, the implications for completed family size in Ireland are substantial.
1.5.4 Housing and the Local Environment

Ireland has experienced a major house building boom since the late 1990s and this is reflected in the age of the housing stock. The 2003 ESRI survey of housing quality (Watson and Williams, 2003:14-15) found that 17 percent of the dwellings in the country had been built since 1996, and the proportion of new housing continues to grow (DoEHLG, 2005:35). By European standards, Ireland’s housing stock is remarkably new.

In addition to the quality of the housing unit, the quality of its immediate surroundings also impacts strongly on the quality of life. The Council’s recent study of housing underlined the challenges which are entailed in making successful human settlements of many of the new housing developments constructed in recent years. These challenges have been long standing ones on many local authority estates. While these estates have witnessed substantial repair and maintenance work over the past five years, Watson and Williams found that neighbourhood problems, such as graffiti, rubbish and litter, houses and gardens in bad condition, vandalism and property damage and public drunkenness, were considerably higher in local authority rented accommodation than in any other housing (Watson and Williams, 2003: 120-121).

1.5.5 Work

Fundamental to the development model adopted by Ireland is that people should be able to access employment and that their experience of it should be a positive one. Minimally, work should not be damaging to people’s health or family life; maximally, it should be a means through which they develop their own skills further and experience that they are making a valued contribution to the wider society.

Irish workers now work fewer hours than they did a decade ago. This is in line with trends internationally, though the Irish figure is ahead of the trend, with workers now working 14 percent less than they did (OECD, 2005b). On the other hand, Irish commuting times, in a recent sample of four EU countries, were found to be longer, at 39 minutes, on average, as compared to 30 in the other countries (Fine-Davis et al., 2004). Stress appears to be a significant factor in many workplaces. In a recent survey on employees experience of work, 82 percent considered that their work required them to work hard, 51 percent considered that they worked under a great deal of pressure, while 47 percent agree or strongly agree that they often have to work extra time to get their work done (O’Connell et al., 2004: 8-9).

Women and men’s experience of the workplace are significantly different. Women tend to be in more junior positions and have fewer opportunities to control and manage their work. The gender pay gap, at 14 percent in 2003, was down from a peak of 22 percent in 1999. Thus despite out performing men in education women do not appear to be gaining the senior positions commensurate with their education and qualifications. A significant modification in the general picture of gender difference relates to the position of workers with lower educational attainments. While traditional employments for men with low skills and education are contracting, opportunities for women are growing with the new forms of service employment.
Women appear to experience a higher degree of stress regarding work, much of it related to balancing work and caring commitments regarding children (Fahey et al, 2000). Dealing with the demands of work and caring appears to be a growing issue and not just in relation to children. Those with other caring responsibilities are now much more likely to be in employment than in the recent past, when much caring work was undertaken by women not in the paid workforce. It is now the case that carers, both female and male, are as likely to be in employment as those in the general population (Cullen et al, 2004).

Issues of equality regarding both access to the workplace and treatment in work are important indicators of quality of life for many people who may experience difficulties accessing paid employment. Those who have a disability experience substantial difficulties in accessing or returning to the paid workforce, with a major gap in their participation rates as compared to the general population. This gap ranges from 27.4 percent in one survey to 40.1 percent in another (National Disability Authority, 2005).

1.5.6 Community and Social Participation

Another important dimension of quality of life is the quality of community life and participation and how people perceive their wellbeing. Given the existing availability of data, we report here on trends in voter turnout, volunteering, sport and personal perceptions of wellbeing, including fear of crime.

Voter Turnout

Voter turnout is frequently considered a barometer of people’s sense of involvement in their society and an indicator of a democracy’s health. Voter turnout in Ireland has declined over the past 25 years, from an average of 73 per cent in the 1981-1984 period to 68 per cent in the 1990-1994 period and 63 per cent in the 1998-2002 period. This compares with EU 15 figures for the same periods of 82 percent, 79 percent and 72 percent respectively. These figures place Ireland third from the bottom, tied with Portugal and just above France with 60 percent and Britain with 59 percent (CSO, 2005c: 43).

The data also show that older people vote in significantly higher numbers than younger people. A special module of the Quarterly National Household Survey found that 41.5 per cent of 18-19 year olds and 53.4 per cent of 20-24 year olds had voted in the 2002 general election, while 88.2 per cent of those aged 55-64 and 89.8 of 65-74 year olds had voted (CSO, 2003). Voting was also low amongst those who were unemployed at 58.8 percent, compared to 75.8 per cent among those who were working. The figure for students at 51 percent was broadly in line with the trend amongst young people generally.

Volunteering

As employment rates have climbed, and professionalism and formal employment contracts become more typical of a growing number of community and voluntary organisations, the context for volunteering has profoundly changed. One review of separate surveys conducted during the period 1993 -2002, details what appears to be a sharp decline in voluntary activity in Ireland (DKM, 2005). Other studies...
confirm that the level of volunteering has dropped, but that the extent of the decline depends significantly on how broadly voluntary activity is defined. The Tipping the Balance study (2002), using data from the first study in 1992 as well as later survey data from 1994 and 1998, shows a decline in volunteering of some 6 per cent. According to this research, male volunteering declined by 9 per cent to 28 percent while female volunteering fell marginally from 41 per cent to 40 per cent (NCVI, 2002:16).

Sport
A series of recent research reports have established that 20 per cent of the adult population participate in sport and a further 15 per cent engage in voluntary activity associated with sport. The voluntary activity can be major, as trainers and coaches, or in support roles such as driving and fund-raising (Delaney and Fahy, 2005; Fahey et al, 2004). This makes sport by far the largest voluntary activity in Ireland. There are significant gender differences regarding sporting participation and sporting preferences, with men significantly more likely to be involved (24 per cent) than women (16 per cent). The research also highlights the significant correlation between sport and physical health and mental wellbeing, particularly in later life. However, they caution that correlation proves no causal link (Delaney and Fahy, 2005: 54-56).

In the area of sport and children, the research finds that there are major blocks to sporting activity in the school context, with many schools lacking both personnel and facilities in order to meet their objectives for PE and other school sporting activity (Fahey et al, 2005:60-62). The research cautions against exaggerating the role of sport in countering weight gain and obesity in young people, pointing to the inconclusive findings of international research in this area and the need to acknowledge the strength of strong countervailing environmental factors, in particular poor diet, for which sporting involvement cannot compensate (Fahey et al, 2005: 80-81).

Personal Perceptions of Wellbeing
Data on how people in Ireland perceive their wellbeing—how they relate cognitively to their lives (usually captured in satisfaction ratings) and affectively (frequently captured by general mental health type questions)—are particularly underdeveloped in Ireland. Irish responses in Euro barometer surveys, therefore, though small in number and designed to monitor European-wide trends, tend to be relied upon to sketch a broad picture of how Irish people appear relative to other European populations (e.g., the first ever pan-European quality of life survey carried out in 2003, European Foundation, 2004). A prominent exception are public perceptions of personal safety and the safety of neighbourhoods.

The Garda Research Unit conducts an annual survey that, among other things, addresses public perceptions of crime and public safety. The data in this survey is based on a sample of 10,000 respondents, 400 from each of the 25 Garda Divisions across the country (Garda Research Unit, 2002, 2005). This research provides clear trends in people’s perception of the safety of their neighbourhoods and the safety

26. For example, the researchers express concern that older members of sports clubs seem to consume larger amounts of alcohol than those of the same age group, in the general population, particularly in sports where club membership is strong (ibid: 22-32).

27. Downloaded from Garda web site, on 10th October 2005.
they feel in their homes, as well as dealing with other issues of crime and policing.

The key findings from this research in 2002 show that in answer to the question, ‘Do you feel safe at home alone at night?’, some 89 per cent of all respondents considered they were either safe or very safe. The figures for the 2005 survey recorded a marginal decline to 85 per cent. In response to the question, ‘How safe do you feel walking in your neighbourhood after dark?’, 69 per cent of 2002 respondents said they felt safe or very safe while the data for 2005 show no overall change. Figures for the Dublin region were consistent with the national figures, though they varied substantially across the city. Cork city, at 55 per cent, emerges with the lowest figure for feelings of safety. The survey also asks questions regarding which crimes respondents considered, both nationally and in their local area, to be ‘major, minor or no problem’. Some 89 per cent of respondents, in the 2005 survey, considered drug abuse to be a major national problem, a rise from 86 per cent in 2002, with 38 percent considering it a major problem in their own area (up from 33 per cent in 2002).

In recent years there has been concern expressed regarding public order, particularly with regard to levels of public drunkenness. Statistics on public order offences seem to support these concerns, with an increase in proceedings commenced under the Public Order Act (1994), rising from 10,209 in 1995 to 30,993 in 1999 to 53,488 in 2003. The latter figure was a slight decrease on the 2002 figure of 55,872 (An Garda Síochána Annual Reports).

As for more general life satisfaction, Euro barometer data currently provide some indication of what may be happening. Asked in 2004 whether their quality of life had improved or disimproved, 53 per cent of Irish respondents stated that it had improved during the previous five years (European Commission, 2004). This figure was higher than for any other country of the EU fifteen. In addition, the figure for those noting a deterioration, at 33 per cent, was the second lowest of the respondent countries. Specific aspects of living in Ireland could be identified where people most felt there had been deterioration, many of which can be related to the pressures of a growing population, infrastructural deficits and the inability of key public services to respond to increasing demands on their services. However, it is clear that the overriding sense of those surveyed was one of increased satisfaction and a sense that, while many deficits remain to be addressed, in the main, people have experienced improvements their quality of life.

1.5.8 Conclusion

While it is important to inquire into what is happening to the quality of Irish life and to social well being as more people work and have higher disposable incomes, and society becomes more diverse, caution should be exercised—in the face of limited data, sometimes contradictory data, and the difficulty of adopting an interpretative framework that appropriately weights and orders what is known—in adopting a definite view. Significant changes are underway in the social relations that constitute Irish society and their cumulative impact is difficult to predict. These themes shall be further discussed in Chapter 2.
1.6 Spatial Development

The spatial pattern of development—in particular, where people live and work—has significant implications for the quality of life, the environment and the provision of public services and infrastructure. This section first examines regional trends including recent findings from analysis of travel to work areas. This is followed by examination of rural trends. Recent research on the spatial pattern of disadvantage is then presented. Finally regional population projections are considered. This section draws on recent regional research: Commins, Walsh and Meredith (2005); Walsh, Foley, Kavanagh and McElwain (2005). The discussion of spatial disadvantage is drawn from Haase and Pratschke (2005).

1.6.1 Regional Trends

Overview

Over the decade to 2002 there was growth in population across all regions. The largest increases were in the Mid-East (Meath, Kildare and Wicklow) (an increase of 26.8 per cent) while the lowest increases were in the Border (Cavan, Donegal, Leitrim, Louth, Monaghan and Sligo) (an increase of 7.3 per cent) and the South-West (Cork and Kerry) (9 per cent). In the East region, encompassing the Mid-East and Dublin, population increased by 13.7 per cent.

The most recent Census reveals a significant change in inter-regional migration movements, as noted in Section 1.2 above. Prior to 1996, migration movements tended to be towards Dublin and the Mid-East from all other regions in the State. This pattern changed after 1996 with a net movement outwards from Dublin taking place to the Mid-East, Border, Midland (Laois, Longford, Offaly and Westmeath) and South-East (Carlow, Kilkenny, South Tipperary, Waterford and Wexford) regions. This is frequently dubbed the ‘over spill’ effect arising from the shortage of affordable housing in the Dublin area (Punch, 2005). In fact, all counties benefited from net inflows of population between 1996 and 2002.

Notwithstanding this change in migration flows, the population share of the East region has continued to increase, from 38.8 per cent in 1996 to 39.2 per cent in 2002. The East’s population share has been increasing over several decades. In 1961 32.2 per cent of the State’s population was resident in the East. The largest increase was in the 1960s when the East’s share rose by 3.5 percentage points.

While the population share of the East region is continuing to increase, within this region there is a pronounced dispersal of population. The population share of Dublin City (i.e. the Dublin City Council area) has been falling for decades. In 1981 its share was 15.8 per cent while by 2002 this had fallen to 12.7 per cent. There was a recovery of population over the 1990s but the share of the Dublin City’s population continues to fall. Population is growing in Dublin’s inner city but many mature suburbs are losing population. Within the East, the fastest population growth has been in the hinterland counties of Meath, Kildare and Wicklow whose combined population increased by 27 per cent between 1991 and 2002. Dublin’s population growth has spread further to the counties of the rest of Leinster.
Regional Employment and Unemployment

The trend in employment by region is shown in Table A1.13. An interesting feature of regional employment trends is the large increase in employment in a number of regions outside the East. Over the period 2000 (q2) to 2005 (q2), there were large increases in employment in the Border (20.5 per cent), the West (21.3 per cent) and the Midland (24.1 per cent) regions. These increases were all more than the increase in employment for the State over the same period (15.4 per cent). The lowest increase in employment was in Dublin (8.7 per cent). Looking at the wider East region, the increase for this region (12.1 per cent) was still somewhat below the increase for the State. The increase in employment in the Mid-West (12.7 per cent) was also below in the increase for the State. The past two years have seen faster employment growth in the Mid-West (7.2 per cent) and the increase was close to the increase for the State (7.6 per cent).

These data on regional employment are based on the location of the residence of the people in employment as against the location of the place of work. With the rise in commuting, this is a factor in depressing employment growth in the East and increasing it in other regions. This is of particular relevance to the large increase in employment in the Midland region.

A more concentrated pattern is evident for employment growth over the past decade in manufacturing and internationally traded services (i.e., employment promoted by Enterprise Ireland and the IDA). These data are based on the location of the place of work rather than the residence of the people in employment. The growth of employment in the agency promoted sectors was concentrated in Dublin and the East region; over the period 1995 to 2004, 47.7 per cent of the increase in this employment was in Dublin and a further 15.3 per cent was in the Mid-East region so that close to two thirds of the increase in this employment was in the East region. This type of employment also grew strongly in the South-West (an increase of 34 per cent) and in the West (33 per cent). There was a decline of 9 per cent in the Border region while both the Border and Midland regions showed losses in foreign-owned companies.

Employment in the sectors promoted by Enterprise Ireland and the IDA peaked in 2000 and has fallen in the years since then, with a fall of 6.4 per cent between 2000 and 2004. The Dublin region accounted for a disproportionate share (57 per cent) of this decline. In percentage terms, the largest declines were in the Mid-West (-16.0 per cent), followed by Dublin (-11.2 per cent), the Border (-10.2 per cent) and West (-4.6 per cent). Employment increased by 5.4 per cent in the Midland region and there was a marginal increases in the Mid-East (1.8 per cent) and the South-East (0.8 per cent). Employment was essentially stable in the South-East and South-West regions.

The rate of unemployment is generally fairly low across regions. Unemployment is above the national average (4.2 per cent) in the South-East (5.6 per cent), the Border (4.9 per cent) and the Mid-West (4.7 per cent). Unemployment is lowest in the Mid-East region (2.7 per cent).
The regional distribution of employment by sector is shown in Table A1.14. Employment in services is more important in the East than in other regions. Three quarters of all employment in the East is in services while across the State, two thirds of employment is in services. In other regions employment in services is clustered around 60 per cent of total employment. Employment in agriculture, manufacturing and construction are corresponding all more important in the regions outside the East.

**Regional Output and Incomes**

Data on regional value-added per capita (similar in concept to GDP per capita) show a large and growing divergence between regions. This can be illustrated with reference to the situation of the two large regions used in the NDP. In 2002, Gross value added (GVA) per capita in the Southern and Eastern (S & E) region was 11.1 per cent above the State average while the corresponding figure for the Border, Midland and Western (BMW) region was 30.9 per cent below the State average. Hence there was a gap of 42 percentage points in GVA per capita between these two regions while in 1995 the corresponding gap was 34.2 percentage points.

GVA per capita is not a measure of personal income. It includes profits that are not part of the income of Irish residents. Furthermore, the value-added produced in a particular region does not necessarily generate personal income in the same region due to factors such as commuting and state transfers. The data on disposable income per capita show a much smaller gap and a more stable trend. In 2002, disposable income per capita in the S & E region was 3 per cent above the State average while in the BMW region it was 8.2 per cent below this average. This was essentially unchanged (in relative terms) since 1995. The highest disposable income per capita is in the Dublin region, where this measure is 13.4 per cent higher than the State average.

**Travel to Work Areas: Gateways and Hubs**

Administrative regions do not necessarily represent natural economic regions. Analysis of sample data by Walsh *et al.* (2005) collected in conjunction with the 2002 Census has for the first time in Ireland identified travel-to-work areas. These data allow identification of the work destination of people in each electoral district. Electoral districts (EDs) are assigned to urban catchment areas on a graduated basis. Where over 50 per cent from an ED work at a given urban work destination, the ED is identified as part of the core urban catchment area. Intermediate and peripheral catchment areas are also identified. This approach is used to identify the catchment areas of the gateways and hubs that have been identified in the Government’s National Spatial Strategy (NSS) 2002 (see Chapter 3, Section 3.11 for a discussion of the NSS).

There are a number of points worth noting in relation to the mapping of catchment areas (see Appendix Table A1.15). First, gateways and their catchment areas cover a high share of the country; in 2002, they covered 73 per cent of total population and 83 per cent of the increase between 1996 and 2002. The comparable figures for hubs are 10 per cent of the total population and 8 per cent of the population increase. Second, there are notable differences between the gateways and hubs in the rate of population change. The increase in population in Cork between 1996 and 2002, at 7.2 per cent, was below the increase in the State’s
population (8 per cent) and below the increase for all gateways (9.2 per cent). The increase for Limerick/Ennis was 8 per cent. These increases are less than might have been expected for what are potentially leading gateway regions. The increases for Sligo and Dundalk were also low in the light of their gateway status. All of the hubs had increases below the national average, with the exception of Wexford.

Third, while most of the national population falls within the catchment area of a hub or gateway, there is a considerable share of the population that is outside these catchment areas; i.e., areas in which people do not travel in any significant number to either a gateway or hub. The total size of the population in this situation is almost 666,000. The fact that a substantial share of the population is outside the travel to work areas of hubs and gateways is regarded by Walsh et al. (2005) as a cause of concern.

Fourth, this analysis shows the extent of Dublin’s catchment area; the core population includes all of County Dublin, plus much of north Wicklow, northeast Kildare, plus east and south Meath.

Commuting

A distinct feature of Ireland’s spatial patterns is the rise in commuting. Over the decade from 1991 to 2002, the average distance travelled to work doubled to 13.3 miles. The average distance for urban areas in 2002 was 7.8 miles and for rural areas 13.3 miles. For the first time, the 2002 Census collected information on commuting times. These show that the average commuting time was 27 minutes. In both urban and rural areas, the average commute time was under 30 minutes for more than half the population (excluding 10 per cent not stated). In urban areas, 10 per cent had commuting time of over one hour while the corresponding figure for rural areas was 8.3 per cent. These figures imply that long times spent on commuting are experienced by a minority of the population.

1.6.2 Rural Trends

In an analysis of settlement patterns, Commins et al. (2005) emphasise the diversity of experience across rural areas. The rise in commuting is associated with large increases in the population of some rural areas. Commins et al. (2005) identify a typology of six rural areas. A number of interesting facts can be seen from this analysis.

First, urban areas (defined as having at least 1500 people and a density of more than 150 per square kilometre) have 61 per cent of the national population and account for 73 per cent of the growth of national population during the 1990s. Second, the highest growth of population across all areas was in ‘peri urban’ areas, adjacent to urban centres (type 1 in the typology). Second, there was also high population growth in line with the national average in strong agricultural areas that are also in transition to becoming non-agricultural areas (type 2 in this typology). These areas accounted for 10.4 per cent of the population and 19.3 per cent of the state’s territory in 2002. Third, there are other rural areas (types 3, 4 and 5) that had negligible population growth over the nineties; population declined in these areas between 1991 and 1996 and then recovered in the 1996 to 2002 period. These areas cover just over half of the State’s area and 14.4 per cent of the
population (type 3). Within these areas, there are strong agricultural areas, located in the south and east of the country. There are also structurally weak and marginal rural areas (types 4 and 5) concentrated in the west and north west, with narrow extensions into other regions. Finally, there are high-amenity rural areas of west Galway, south-west Kerry, west Cork, north west Clare and Wicklow. These areas had above average population growth over the nineties.

There has been widespread growth of rural employment between 1991 and 2002. Employment increased in the great majority of rural censal districts. The building and construction boom was important in securing this widespread increase in rural employment. While the rural employment trends are positive, Commins et al. (2005) are cautious in regard to future prospects. Construction will not continue to expand at its current rate while rural areas have a high dependence on employment in both manufacturing and agriculture both of which have limited prospects for an expansion of employment.

1.6.3 Spatial Patterns of Advantage and Disadvantage

A study by Haase and Pratschke (2005) for Area Development Management (ADM) have systematically examined the spatial pattern of disadvantage in Ireland. They distinguish three dimensions of disadvantage: demographic, labour market and social. Demographic disadvantage is measured by the age dependency rate (picking up the effect of emigration over time which depletes the active age cohorts in certain areas), population change, and educational attainment (again picking up the effects of emigration over time). Social class disadvantage is measured as the percentage of professionals and low-skilled workers in a given area and housing quality. Educational attainment is also used as an indication of social class disadvantage. Labour market deprivation is based on unemployment and the prevalence of households headed by single parents and also the share of low skilled workers in the population.

Haase and Pratschke use detailed Census data at Electoral District (ED) level to map the incidence of each of these types of deprivation. This analysis shows that demographic decline is essentially a rural phenomenon that mainly affects areas within the Border, Midland and Western Region. Social class disadvantage arises in both urban and rural areas. This indicator reveals the well known areas of disadvantage within Dublin. It also shows very disadvantaged areas in west Mayo and parts of Donegal. Outside these areas, social class disadvantage is quite dispersed across rural areas. The areas around the major urban centres are shown as areas of social class advantage. Turning to labour market deprivation, this is predominantly urban in nature. However, the analysis also reveals marked labour market deprivation in parts of Donegal, west Mayo and west Galway.

29 The spatial pattern of poverty across counties has also been analysed in a recent study (Watson, Whelan, Williams and Blackwell, 2005) for the Combat Poverty Agency.
Haase and Pratschke use factor analysis to combine these indicators into a single measure of spatial disadvantage. Successive analyses using this approach have identified the most affluent areas as being distributed in concentric rings around the major urban areas. Over the 1990s up to the 2002 Census, their analysis shows a strong spreading of these zones of affluence across the country, indicating that the benefits of growth have been widely spatially dispersed.

They used the same approach to examine the trend in relative spatial deprivation. This involves using the same data expressed as deviations from the mean at each point in time; in other words, the situation of each area is examined relative to other areas at that particular time without reference to changes in the trend in overall disadvantage. This shows a stable hierarchy of areas, in that, for the most part, the areas that were relatively disadvantaged in 1991 continued in the same relative position in 2002. The most significant exception to this was Dublin’s inner city which experienced a dramatic change in its relative position, reflecting inner city renewal and the inner city becoming a popular choice of residence for people in well paid employment.

1.6.4 Regional Population Projections

The CSO has recently published regional population projections derived from its projections of population growth for the State as a whole which were discussed in Section 1.2 above (CSO 2004b). In presenting its regional population projections, the CSO uses its ‘M1 F2 medium scenario’ (CSO 2005b) which involves assuming a continuation of high migration along with a medium rate of fertility. This scenario projects a large increase in population for the State, from 3.917 million in 2002 to 5.070 million in 2021, an increase of 29.4 per cent. This is substantially in excess of the increase in population envisaged in the NSS, which was based on a projection of national population of 4.4 million in 2021 and the 4.7 million used when preparing the Regional Planning Guidelines. In view of recent population growth and new projections, it is argued by Walsh (2005) that there is a need to revisit the targets for some of the designated gateways.

The CSO projects a large increase in population of over a half a million (554,000) in the East region and a modest continuing increase in the East’s share of the State’s population, from 39.2 per cent in 2002 to 40.6 per cent in 2021. This increase is due to an increase in the population share of the Mid-East region from 10.5 per cent to 12.2 per cent. The increase in the Mid-East population is 210,000 people or 51 per cent. A modest fall is projected for County Dublin’s population share. The combined population of all regions outside the East is projected to increase from 2.382 million in 2002 to 3.070 million in 2021, an increase of almost 700,000 or close to 29 per cent. Outside the East region, the largest increase in population is in the West whose population increases by 35 per cent, ahead of the national average. Population growth of the Midland region is also expected to be above the national average with an increase of 31.6 per cent or 71,000. Population growth for all other regions is expected to be somewhat lower than the national average but substantial increases are projected in all regions.
In developing these projections the CSO did not take into account the National Spatial Strategy. It is argued by Walsh (2005) that public policy should seek to stabilise the population share of the East region, rather than have a continuation of its increase in population share. A stabilisation of the East’s share would still imply a large increase in its population to 1,987 million in 2021, an increase of 478,000 or 29.4 per cent. He argues that this would increase the opportunity to boost population in what is described as an ‘Atlantic city region’ linking Galway, Cork and Limerick, with further links to Waterford. It is argued by Walsh (2005) that this is the major alternative required to counterbalance the effects of the emerging Dublin-Belfast corridor on the east coast.

1.6.5 Conclusions

The growth of population and employment over the past decade has been widely distributed across all regions. Analysis of the travel to work areas of gateways and hubs show that these cover 83 per cent of the population. Multi-variate analysis shows a spreading of areas of affluence across most of the country. There has been widespread growth of employment across rural areas. Notwithstanding the current situation, the future outlook for rural employment raises concerns. The construction boom has been important in maintaining and increasing rural employment and cannot continue to increase in the way that it has in recent years. The agricultural sector is heavily subsidised and employment has long been subject to decline. Manufacturing employment is important to rural areas and has been declining in recent years.

There is a large and growing disparity in regional value-added per capita. However, of more significance is the situation with regard to regional disparity in disposable income per capita. This shows a much smaller gap and a stable situation with regard to regional disparities over time.

While development has benefited all regions, there has been a continuation over the last decade of the increase in the share of the population in the East region. Within the East region, there has been a dispersed pattern of development and a continuing fall in the share of Dublin City’s population and a spreading of growth beyond the East region to the other counties of Leinster. This dispersed pattern of development in the East raises issues of sustainability. Often, it is not well co-ordinated with services such as schools or public transport. It has occurred despite Regional Planning Guidelines that advocate a more concentrated pattern of development.

A continuation of current population trends implies a large increase in population in the coming years. This presents significant spatial opportunities and challenges. It provides opportunities to accelerate regional development and implies that regional population decline is unlikely to arise. Population growth also presents significant challenges. Population growth puts pressure on services, infrastructure and the environment. In view of current high and rising income levels, a population increase of close to a million in the years to 2021 will mean substantial further increases in car numbers. If increased population is to be consistent with a high quality of life, it requires a co-ordinated approach to housing, planning, infrastructure and services.
1.7 The Environment

1.7.1 Environmental Policy Context and Developments

The idea of sustainable development emerged in the late 1980s and has become an important factor in international, European and national policy development. The most widely accepted definition of sustainable development is as follows: ‘Sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs’.

In 1992 a UN Conference on Environment and Development took place in Rio de Janeiro. That Earth Summit produced a blueprint known as Agenda 21—a major plan for global action to achieve sustainable development. The Kyoto Protocol to the UN Convention on Climate Change was signed in 1997. In this Protocol, developed countries agreed to set absolute caps on their annual greenhouse gas (GHG) emissions, using 1990 as a base and a target date of 2008-2012. This protocol came into effect in 2005.

Irish environmental policy has been shaped to a great extent by EU policy and EU law. Although the Treaty of Rome made no reference to the environment, the building of the European common market saw adoption of environmental directives and treaty competences were added over time. The EU now has more than 140 environmental directives and these provide the framework for Irish law and policy. The Environmental Protection Agency (EPA) was established under the 1992 Environmental Protection Act. The Waste Management Act was passed in 1996. In 1997, the government published Sustainable Development: A Strategy for Ireland. Comhar, the National Sustainable Development Partnership, was established in 1999. Other important documents include the National Climate Change Strategy (2000), the National Biodiversity Plan and National Heritage Plan, both adopted in 2002. Local Agenda 21’s, designed to implement the principles of sustainable development at local level, have been adopted by Irish local authorities. They seek to build a partnership between local authorities and other sectors to identify and implement local policies for sustainable development.

Two important sources on the Irish environment and environmental policy are the EPA’s periodic reports, Ireland’s Environment, and the OECD’s report Environmental Performance Reviews—Ireland (OECD, 2000). In reporting the state of Ireland’s environment and identifying the main policy challenges, the EPA adopts a two-step approach. It first reports environmental quality in key areas of the Irish environment: air quality, inland waters, coastal waters etc. It then analyses the role of key economic sectors in shaping environmental quality.

In the remainder of this section, we draw on the EPA’s latest report, the OECD review of Irish performance and policy and the Paper by Convery (2005) for NESC to identify the quality of Ireland’s environment.
1.7.2 Environmental Quality

Air Quality

Although serious outdoor air quality problems do not exist in Ireland, the country faces a real challenge in meeting its obligations on the emissions of greenhouse gases (GHG) and in limiting emissions of acidifying gases (see EPA, 2004 and Convery, 2005).

Ireland’s contribution to curbing greenhouse gas emissions is a commitment to our EU partners to limit the increase in emissions to 13 per cent over the 1990 baseline by 2008 to 2012. The overall national estimate for 2003 shows that greenhouse gas emission levels are 25 per cent over 1990 levels. Indeed, Ireland is rated as one of the EU countries that is furthest from its national Kyoto Protocol target. As discussed below, the transport and energy sectors are major contributors to this problem.

The EPA and OECD agree that emissions from road traffic are now the primary threat to the quality of air in Ireland. The pollutants of most concern in this regard are nitrogen dioxide (NO2) and fine particulate matter, expressed as PM10. Results of monitoring indicate that compliance with the stringent new PM10 and NO2 standards may present problems in some urban areas subject to heavy traffic. The introduction of air quality management plans or short-term traffic restrictions, represents a major new challenge for local authorities.

Inland Waters

Ireland is fortunate in having a relatively abundant supply of fresh water, which constitutes a key resource in economic, amenity and aesthetic terms. Overall, the pollution of Ireland’s freshwater remains relatively moderate and compares well with the situation in most EU countries.

The EPA estimates that, in the 1998-2000 period, 70 per cent of the total river channel surveyed (13,200 kilometres) was in a satisfactory condition, 17 per cent was slightly polluted, 12 per cent was moderately polluted and 1 per cent seriously polluted. The position regarding lakes is better; with 85 per cent of those surveyed showing a satisfactory condition, but eutrophication is reported in many of the larger lakes. In addition, deficiencies in the management of livestock wastes and the poor siting of wastewater treatment have also led to contamination of some groundwaters. In 2001-2002, 25 per cent of groundwater samples tested showed faecal contamination; 23 per cent had nitrate levels in excess of the EU guideline value.

The EPA considers that eutrophication in certain rivers and lakes is a matter of concern. It concludes that the initiatives introduced in the Government’s counter-eutrophication strategy of 1997 have yet to become fully effective or operational. Such measures will become more urgent in the coming years as the target date for the attainment of good quality in all waters, set by the Water Framework Directive, approaches. Greater control of the losses of nutrients from agricultural land will be critical, now that municipal and industrial discharges to waters are being reduced.

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30. Eutrophication is the enrichment of water by nutrients which causes a disturbance to the balance of organisms present and to the quality of the water.
Estuarine and Coastal Waters

The EPA explains that the quality of Ireland’s tidal waters is determined by the quality of the water of the North-East Atlantic and the degree to which this is altered by inputs of organic matter, nutrients and other materials from the land, from rivers and from the atmosphere (EPA, 2004). Local impacts may also arise from marine-based activities associated with port, and harbour dredging, aggregates extraction and aquaculture, as well as from growing tourism, leisure and coastal development pressures.

It reports that while water quality in most estuaries and bays is high, some areas experience serious deoxygenation and a number of areas, mainly in the east and south, have been classified as eutrophic. Irish fish continue to be free of contamination by polluting substances. Levels of PCBs and dioxins in wild and farmed salmon, and in food preparations, are well within EU limits. Stricter monitoring controls on shellfish production areas are now in place.

The quality of Irish bathing waters and shellfish waters is generally very good, although naturally occurring harmful algal blooms are a significant threat to the Irish shellfish industry. Coastal litter remains a problem, but there is evidence that the 2002 levy on plastic bags has diminished their occurrence on beaches.

The Terrestrial Environment

The EPA emphasises the extent to which Ireland’s recent economic boom has brought about changes to the terrestrial environment. Land has been subjected to increasing pressures from infrastructure development and residential and commercial building. Afforestation, intensification of agriculture and development of sport and leisure facilities, such as golf courses, create a range of pressures. Urban expansion have removed much of the semi-natural areas around towns and cities. Hedgerows are a defining cultural feature of the Irish landscape, important for both farming and wildlife. Little is known of the quantity of hedgerows in Ireland, but it is feared that they are being lost due to development. It is estimated that more than 300 kilometres are lost each year due to sightline requirements for entrances to dwellings. Ireland’s coast is also at risk from increasing storm frequency and erosion and from pressures of increased development of the coastal zone for tourism, recreation, removal of sand and gravel, land reclamation and protection.

The EPA confirms that litter continues to be one of the most visible environmental problems in Ireland. This is despite many education programmes and active clean-ups. But a major success has been the levy on plastic bags introduced in 2002, which is expected to remove over one billion plastic bags from circulation each year.

Urban sprawl and the dispersion of housing in rural areas have brought people into what were previously more remote areas. The EPA emphasises that sustainable development and innovative spatial planning are required to achieve sustainable development of both urban and rural environments and the built heritage.
Natural Heritage and Biodiversity

Ireland’s natural heritage of species and habitats, while not as diverse as in other European countries, is deemed to be of such importance that 25 species and 60 habitats are recognised by EU to be in need of special protection. Some other native flora and fauna, and their habitats, are also under threat from a variety of sources including agricultural practices, forestry, peat extraction, eutrophication of waters, climate change, invasive alien species, land clearance and development.

Accurate assessment of Ireland’s biodiversity is inhibited by the lack of a biological records centre. In the meantime, the challenge for the conservation authorities is to prepare action plans for the Irish species and habitats of European importance. A National Biodiversity Plan and a National Heritage Plan were published in 2002, designed to ensure that Ireland fulfils its obligations under the UN Convention on Biological Diversity (2002).

The EPA reports growing international concern regarding the effects of roads and traffic on ecosystems. There has been little research on the effects of roads on adjacent ecosystems in Ireland. Minor rural roads are important subsystems of the landscape; their adjoining verges are an important influence on ecological patterns and processes. Many of the negative impacts of road construction can be avoided, mitigated or compensated for by adopting best practice in the planning and design of roads. This can be achieved through the Environmental Impact Assessment (EIA) process. Mitigation or compensation for negative impacts requires detailed knowledge of the ecological functions and requirements of sensitive habitats and species.

1.7.3 The Role of Economic Sectors in Shaping the Environment

The environmental problems and pressures summarised above are created by a range of economic sectors. Below we summarise the analysis of these effects provided by the EPA (2004), the OECD (2000) and Convery (2005).

Agriculture and Forestry

Agriculture plays a key role in generating a number of Ireland’s environmental problems and pressures. The EPA reports that almost half of all river pollution is due to agriculture. Diffuse phosphorus losses from land have been shown to exceed those from farmyard discharges in a number of catchments where soil phosphorus levels are high. Irish farms still apply a significant phosphorus surplus each year, in spite of the reductions achieved over the past decade. Further reductions are required in order to bring about a sustainable balance.

Contamination of surface and groundwater used as drinking water sources is also a major issue. Overgrazing on hillsides remains a problem in western counties. A wide range of measures aimed at controlling farm pollution already exist, ranging from statutory to voluntary codes to financial incentives. The EPA suggests that a combination of approaches is required, and ongoing farm pollution surveys are essential elements of a successful farm pollution control strategy within the new Water Framework Directive (WFD).
Although forest cover has increased to approximately 10 per cent of the land area, Ireland is still one of the least afforested Member States of the EU. Increased afforestation has many potential benefits for the environment, including combating climate change and providing a valuable habitat for wildlife. However, there are adverse effects of some kinds of afforestation, including visual intrusion and impacts on watercourses. The implementation of sustainable forest management is being supported by a range of environmental and forestry practice guidelines.

**Industry, Services and Energy Generation Sectors**

Irish economic development has featured very significant large-scale, high-technology, high value-added projects. These can have significant environmental impacts through emissions to air and water, use of dangerous substances, the generation of waste and, in common with many other activities, consumption of energy. The increasing role of services in the overall economy implies a trend to ‘dematerialisation’, with less intensive energy and materials use.

With increasingly sophisticated control and management of large industrial point-sources of pollution (see EPA, 2004, Chapter 8), environmental policy for industry and services has focused more and more on overall energy use, energy efficiency and waste management. On energy, Ireland presents a mixed picture. Energy conversion efficiency has been improving as high-efficiency units replace older generating plants and existing facilities are optimised. But the residential sector still shows the least eco-efficiency. Most importantly, Ireland is critically and increasingly dependent on imported non-renewable fossil fuels, especially oil. While production of renewable energy in Ireland is increasing, it remains low by EU standards. Given the urgency of the climate change and other transboundary impacts of energy production and usage, the EPA concludes that ‘it is necessary to encourage a widespread profound change in attitudes and behaviours in Ireland in relation to energy use, particularly in relation to carbon-based, non-renewable fuels’ (EPA, 2004: 141).

There has been significant progress made in recycling of waste since the introduction of the Waste Management Act in 1996. Nevertheless, the absolute volume of waste generated has been increasing. The EPA reports that manufacturing accounted for 6 per cent of waste generated in 2001, followed by construction and demolition at 5 per cent and mining and quarrying at 5 per cent.

**Transport**

Ireland’s economic prosperity during the 1990s resulted in a huge increase in the number of vehicles on the roads. As noted above, road traffic is one of the most important sources of both greenhouse gas emissions and acidifying gases. Consequently, the need to curb the massive growth in energy consumption and associated emissions of CO₂ and NOx from road traffic is a daunting challenge at the present time. ‘The State cannot expect to comply with its emission ceilings for NOx and GHGs if their contributions from road traffic are not soon brought under control’ (EPA, 2004: 171). It requires a decoupling of further growth in such emissions from growth in transport.
In its analysis of the contribution of transport to Ireland’s environmental problems, the EPA highlights the fact that the pattern of settlement is incompatible with public transport. ‘A policy of urban containment, involving high-density residential development, mixed land uses and good public transport, is crucial to curbing the trend of increasing hinterland-to-city travel’ (EPA, 2004: 159). In addition, the successful implementation of the National Spatial Strategy will largely depend on the provision of transport links to a standard that will enable gateways and regional hubs to compete with Dublin for industrial, commercial and social development.

**Fisheries and Aquaculture**

Ireland’s maritime area of over 9,000,000 km² and extensive inland freshwater system of rivers and lakes provide a wealth of natural resources that are exploited by the fisheries and aquaculture sectors. The EPA reports a number of threats to these resources. First, 25 out of 56 commercially targeted marine fish stocks in Irish waters are overexploited and in decline. Second, the suggested link between sea lice on salmon farms and the decline in wild sea trout populations in the west of Ireland is a serious issue. Third, a number of native inland fish stocks (e.g. salmon, trout and Artic char) are affected by habitat degradation caused by eutrophication, drainage and acidification of headwaters.

These threats pose a number of policy challenges. The EPA suggests that reform of the Common Fisheries Policy should provide a more effective management system to aid the recovery of the most vulnerable fish stocks. If the reforms fail to halt the decline, other options, such as the establishment of long-term or permanently closed areas to protect spawning and nursery grounds, may have to be considered. River rehabilitation and protection programmes have succeeded in increasing stocks of salmon and trout, and should be encouraged.

**The Household and Tourism Sectors**

The household sector is a major contributor to the environmental pressures and problems summarised above. To some degree, this is an inevitable result of strong growth of population, employment and incomes. This expansion of the household sector has created heavy demand for land, energy and water. Household waste production is also on the increase, with every household of three persons in Ireland producing, on average, one tonne of waste per annum.

In other respects, the contribution of the household sector to Ireland’s environmental problems reflects the pattern of development, consumption and commuting. The EPA emphasises that the challenge facing Ireland is to ensure that future development of the household sector happens in a manner consistent with the principles of balanced and sustainable development. Breaking the link between economic growth and environmental degradation remains a priority. Government policy must continue to play an active role in directing household action by reinforcing existing policies and implementing additional ones, ensuring the provision of infrastructure, applying the use of fiscal instruments where necessary, and promoting environmental education and awareness.
Tourism is an important source of investment and employment in Ireland, particularly in rural regions. The natural environment is a core asset of the tourism industry. Although the intensity of tourism activity in Ireland is low by some international standards, the impact of tourism needs to be closely monitored. The sector interacts closely with other policy areas—transport, energy, environment, regional planning, business and trade—and there is a need to better coordinate and integrate policies. The EPA argues that all stakeholders in the tourism sector—at national, regional and local levels—have a part to play in preserving environmental quality. Indeed, it emphasises that the tourism sector ‘needs to take a more proactive role in preserving environmental quality, as its business depends on it’ (EPA, 2004: 206).

1.7.4 Factoring the Environment into Thinking on the Economy and Society

In Chapter 2 we argue that it is now necessary to factor the environment more fully into our understanding of the Irish economy and Irish society and we outline how this might be done. This requires, as far as possible, the development of a shared understanding of Ireland’s environment and a better account of the relation between Ireland’s economic, social and environmental goals. In Chapter 3, the Council identifies the key environmental challenges facing Ireland and suggests that they require more integration with Ireland’s strategies for economic and social development.

1.8 Conclusions

This review of key economic, social and environmental developments in Ireland over recent years has sought to clarify some of the more major and novel trends which policy must take into account over the coming years.

Strong population growth, the result of rising births and in-migration, was recorded in the 2002 Census and has been continuing since. The CSO projects that, minimally, the population of the state will grow by 25 per cent over the period 2006-2036. A variation of up to half a million people attends its range of projections, largely because of uncertainty surrounding what may happen the level of net in-migration. Population growth on this scale, and its potential volatility, are a major challenge to policy formation in practically every area of Irish life. Major changes are also underway in the composition of Ireland’s population. Growth is currently strongest among the working age groups but, after 2016, Ireland’s population will become one of the most rapidly ageing in Europe. The proportion of foreign-born is growing particularly rapidly, with a particularly rapid growth in the presence of people from Central and Eastern Europe, Asia and Africa.

These demographic developments owe much to how well the economy has performed in recent years. The economic outlook is positive. There are, however, a number of risks to a favourable outlook. There is the risk of a continuing loss of competitiveness undermining the growth of exports and the wider economy. Second, there is the risk of a large fall in housing output or a large fall in house prices. A final risk is a sudden correction of the imbalances in the global economy.
leading to a global recession. Notwithstanding these risks, the Council considers that the most likely outcome is a continuation of strong economic growth over the next few years.

The distribution of income has become steadily more unequal and a growing proportion of the population are ‘at risk of poverty’. This is despite social welfare incomes growing significantly in real terms and faster than gross earnings. It is partly because net earnings increased by more than social welfare incomes, because of the scale of tax reductions on earnings. Another influence in pulling up the income threshold below which individuals are considered to be ‘at risk of poverty’, however, have been changes in the distribution of earnings across households.

There continue to be major improvements in the overall health status and levels of educational attainment of the population. Public spending in real terms and per capita has risen on nearly all fronts but, given the strength of growth in the economy, remains modest as a proportion of GNP in international comparisons. Issues of equitable access have become more prominent as they are seen to contribute to the fact that the health and educational attainments of some social groups lag further behind what the majority are attaining. Significant changes are taking place in family life, how people experience work, the quality of housing and of neighbourhoods, and how people relate to their community and society. The evidence does not point to an overall deterioration in the quality of life in Ireland, if anything the reverse, but highlights significant issues that need to be monitored to help ensure that it does not.

The growth of population has been widely distributed across regions. The East’s share of population has continued to increase but population has followed a dispersed pattern within the East region and has spread across the counties of Leinster. There has been widespread growth of employment across rural districts. However, the future outlook for rural employment raises concerns. Employment in construction will not continue to expand at its current rate, while rural areas have a high dependence on employment in both manufacturing and agriculture; agricultural employment has long been subject to decline and manufacturing employment has been declining in recent years (Commins et al, 2005).

Ireland has become more aware of the value of its physical and natural environment and more expert at monitoring key aspects of it. Pressures have been created, principally by population growth and affluence but also by identifiable economic actors, on air quality, inland waterways, estuarine and coastal waters, the terrestrial environment and Ireland’s natural heritage and biodiversity. There are particular challenges to Irish farming practices, the more efficient use of energy by industry, the degree of reliance on private motoring, the management of marine resources and the general habits of Irish households which will have to be addressed to maintain and enhance what is still, by international standards, an extremely attractive physical and natural environment.
Table A1.1  Average Annual Births, Deaths, Natural Increase and Estimated Net Migration for Each Intercensal Period, 1926-2002

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Births '000</th>
<th>Total Deaths '000</th>
<th>Change Natural Increase '000</th>
<th>Estimated Net in Population '000</th>
<th>Migration '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926-1936</td>
<td>58</td>
<td>42</td>
<td>16</td>
<td>0</td>
<td>-17</td>
</tr>
<tr>
<td>1936-1946</td>
<td>60</td>
<td>43</td>
<td>17</td>
<td>-1</td>
<td>-19</td>
</tr>
<tr>
<td>1946-1951</td>
<td>66</td>
<td>40</td>
<td>26</td>
<td>1</td>
<td>-24</td>
</tr>
<tr>
<td>1951-1956</td>
<td>63</td>
<td>36</td>
<td>27</td>
<td>-12</td>
<td>-39</td>
</tr>
<tr>
<td>1956-1961</td>
<td>61</td>
<td>34</td>
<td>26</td>
<td>-16</td>
<td>-42</td>
</tr>
<tr>
<td>1961-1966</td>
<td>63</td>
<td>33</td>
<td>29</td>
<td>13</td>
<td>-16</td>
</tr>
<tr>
<td>1966-1971</td>
<td>63</td>
<td>33</td>
<td>30</td>
<td>19</td>
<td>-11</td>
</tr>
<tr>
<td>1971-1979</td>
<td>69</td>
<td>33</td>
<td>35</td>
<td>49</td>
<td>14</td>
</tr>
<tr>
<td>1979-1981</td>
<td>73</td>
<td>33</td>
<td>40</td>
<td>38</td>
<td>-3</td>
</tr>
<tr>
<td>1981-1986</td>
<td>67</td>
<td>33</td>
<td>34</td>
<td>19</td>
<td>-14</td>
</tr>
<tr>
<td>1986-1991</td>
<td>56</td>
<td>32</td>
<td>24</td>
<td>-3</td>
<td>-27</td>
</tr>
<tr>
<td>1991-1996</td>
<td>50</td>
<td>31</td>
<td>18</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>1996-2002</td>
<td>54</td>
<td>31</td>
<td>23</td>
<td>49</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: CSO, 2004: 7 Table A
Table A1.2 Share of Net Migration in Population Change 1996-2002

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Change</th>
<th>Net Migration</th>
<th>Net Migration as % of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlow</td>
<td>4,229</td>
<td>2,612</td>
<td>61.8</td>
</tr>
<tr>
<td>Dublin</td>
<td>64,336</td>
<td>13,257</td>
<td>20.6</td>
</tr>
<tr>
<td>Kildare</td>
<td>29,003</td>
<td>17,932</td>
<td>61.8</td>
</tr>
<tr>
<td>Kilkenny</td>
<td>5,085</td>
<td>2,726</td>
<td>53.6</td>
</tr>
<tr>
<td>Laois</td>
<td>5,787</td>
<td>3,882</td>
<td>67.1</td>
</tr>
<tr>
<td>Longford</td>
<td>961</td>
<td>342</td>
<td>35.6</td>
</tr>
<tr>
<td>Louth</td>
<td>9,636</td>
<td>5,589</td>
<td>58.0</td>
</tr>
<tr>
<td>Meath</td>
<td>24,204</td>
<td>17,802</td>
<td>73.5</td>
</tr>
<tr>
<td>Offaly</td>
<td>4,585</td>
<td>2,447</td>
<td>53.4</td>
</tr>
<tr>
<td>Westmeath</td>
<td>8,713</td>
<td>6,058</td>
<td>69.5</td>
</tr>
<tr>
<td>Wexford</td>
<td>12,172</td>
<td>8,031</td>
<td>66.0</td>
</tr>
<tr>
<td>Wicklow</td>
<td>12,036</td>
<td>6,728</td>
<td>55.9</td>
</tr>
<tr>
<td>Clare</td>
<td>9,327</td>
<td>6,169</td>
<td>66.0</td>
</tr>
<tr>
<td>Cork</td>
<td>27,671</td>
<td>13,674</td>
<td>49.4</td>
</tr>
<tr>
<td>Kerry</td>
<td>6,294</td>
<td>4,761</td>
<td>75.6</td>
</tr>
<tr>
<td>Limerick</td>
<td>10,487</td>
<td>4,256</td>
<td>40.6</td>
</tr>
<tr>
<td>Tipperary North</td>
<td>3,047</td>
<td>1,501</td>
<td>49.3</td>
</tr>
<tr>
<td>Tipperary South</td>
<td>3,699</td>
<td>1,942</td>
<td>52.5</td>
</tr>
<tr>
<td>Waterford</td>
<td>6,838</td>
<td>2,992</td>
<td>43.8</td>
</tr>
<tr>
<td>Galway</td>
<td>19,972</td>
<td>13,714</td>
<td>68.7</td>
</tr>
<tr>
<td>Leitrim</td>
<td>758</td>
<td>1,073</td>
<td>141.6</td>
</tr>
<tr>
<td>Mayo</td>
<td>5,904</td>
<td>5,406</td>
<td>91.6</td>
</tr>
<tr>
<td>Roscommon</td>
<td>1,828</td>
<td>2,137</td>
<td>116.9</td>
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<tr>
<td>Sligo</td>
<td>2,357</td>
<td>1,412</td>
<td>59.9</td>
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<tr>
<td>Cavan</td>
<td>3,472</td>
<td>2,217</td>
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<td>Donegal</td>
<td>7,389</td>
<td>4,034</td>
<td>54.6</td>
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<tr>
<td>Monaghan</td>
<td>1,459</td>
<td>373</td>
<td>25.6</td>
</tr>
<tr>
<td>State</td>
<td>291,249</td>
<td>153,067</td>
<td>52.6</td>
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Source: Census 2002—Preliminary Table 4
### Table A1.3  Annual Percentage Change in GNP, Employment, Productivity and Living Standards

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2000-2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>6.2</td>
<td>6.1</td>
<td>4.4</td>
<td>4.5</td>
<td>5.3</td>
</tr>
<tr>
<td>GNP</td>
<td>3.9</td>
<td>2.7</td>
<td>5.1</td>
<td>4.0</td>
<td>3.9</td>
</tr>
<tr>
<td>GNI adj tot</td>
<td>4.3</td>
<td>4.4</td>
<td>3.6</td>
<td>3.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Employment (ILO)</td>
<td>3.1</td>
<td>1.8</td>
<td>1.9</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Population</td>
<td>1.5</td>
<td>1.8</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>GNP per worker</td>
<td>0.8</td>
<td>0.9</td>
<td>3.2</td>
<td>1.0</td>
<td>1.4</td>
</tr>
<tr>
<td>GDP per worker</td>
<td>2.9</td>
<td>4.2</td>
<td>2.5</td>
<td>1.4</td>
<td>2.8</td>
</tr>
<tr>
<td>GNP per person</td>
<td>2.4</td>
<td>0.9</td>
<td>3.5</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>GNI adj tot per person</td>
<td>2.7</td>
<td>2.6</td>
<td>2.0</td>
<td>2.0</td>
<td>2.3</td>
</tr>
</tbody>
</table>

**Source**: CSO, National Income and Expenditure 2004; Central Bank Quarterly Bulletin, No. 4, 2005 (for employment data) and Department of Finance (2005), Economic Review and Outlook (population data).

**Notes**: GNI adj. tot = Gross national income, at constant prices, adjusted for changes in the terms of trade.

### Table A1.4  Components of GNP: Annual Percentage Change

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<td>5.6</td>
<td>3.5</td>
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<td>Public Consumption</td>
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<td>5.9</td>
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<td>14.5</td>
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<td>3.7</td>
<td>5.6</td>
<td>8.0</td>
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<tr>
<td>Exports</td>
<td>17.4</td>
<td>9.3</td>
<td>4.0</td>
<td>0.8</td>
<td>7.0</td>
<td>5.2</td>
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<tr>
<td>Imports</td>
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<td>7.3</td>
<td>1.8</td>
<td>-1.4</td>
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<td>3.8</td>
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<td>GNP</td>
<td>8.4</td>
<td>3.9</td>
<td>2.7</td>
<td>5.1</td>
<td>4.0</td>
<td>3.9</td>
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<tr>
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<td>6.2</td>
<td>6.1</td>
<td>4.4</td>
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<td>5.3</td>
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**Source**: CSO, Quarterly National Accounts, September 2005.

**Notes**: Growth rates that cover more than one year refer to the rate of change between the years shown.
### Table A1.5 Trend in Average Industrial Earnings

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Average Industrial Earnings in nominal terms (single person)</th>
<th>Net (after-tax) Average Industrial Earnings in real terms (single person)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1995</td>
<td>102.2</td>
<td>102.0</td>
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<tr>
<td>1996</td>
<td>104.8</td>
<td>103.9</td>
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<tr>
<td>1997</td>
<td>108.3</td>
<td>108.9</td>
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<tr>
<td>1998</td>
<td>112.8</td>
<td>113.1</td>
</tr>
<tr>
<td>1999</td>
<td>119.3</td>
<td>118.8</td>
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<tr>
<td>2000</td>
<td>127.4</td>
<td>126.5</td>
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<tr>
<td>2001</td>
<td>137.5</td>
<td>136.2</td>
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<tr>
<td>2002</td>
<td>145.4</td>
<td>138.8</td>
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<td>2003</td>
<td>154.0</td>
<td>142.1</td>
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<td>2004</td>
<td>160.8</td>
<td>145.9</td>
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<tr>
<td>2005</td>
<td>168.7</td>
<td>150.2</td>
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</table>

Source: NESC calculations.
### Table A.6 The Sectoral Composition of Employment, 2000 and 2005

<table>
<thead>
<tr>
<th>Sector</th>
<th>2000</th>
<th>%</th>
<th>2005</th>
<th>%</th>
<th>Change in 000s</th>
<th>Change as % of Total Net Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ag, Forestry and Fishing</td>
<td>132.9</td>
<td>8.0</td>
<td>113.7</td>
<td>5.9</td>
<td>-19.2</td>
<td>-7.5</td>
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<tr>
<td>Other productive industry</td>
<td>309.5</td>
<td>18.5</td>
<td>294.2</td>
<td>15.2</td>
<td>-15.3</td>
<td>-5.9</td>
</tr>
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<td>Construction</td>
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<td>242.4</td>
<td>12.6</td>
<td>76.2</td>
<td>29.6</td>
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<tr>
<td>Wholesale and Retail</td>
<td>235.2</td>
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<td>266.9</td>
<td>13.8</td>
<td>31.7</td>
<td>12.3</td>
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<tr>
<td>Hotels and restaurant</td>
<td>108.1</td>
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<td>111</td>
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<td>2.9</td>
<td>1.1</td>
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<tr>
<td>Transport, storage and communications</td>
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<td>6.1</td>
<td>118.2</td>
<td>6.1</td>
<td>16.9</td>
<td>6.6</td>
</tr>
<tr>
<td>Finance and other business</td>
<td>210.8</td>
<td>12.6</td>
<td>257.1</td>
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<td>46.3</td>
<td>18.0</td>
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<tr>
<td>Pub admin and defence</td>
<td>78.4</td>
<td>4.7</td>
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<td>19.8</td>
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<td>Education</td>
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<td>Other Services</td>
<td>93.3</td>
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<td>116.4</td>
<td>6.0</td>
<td>23.1</td>
<td>9.0</td>
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<tr>
<td>Total</td>
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<td>1929.2</td>
<td>100.0</td>
<td>257.7</td>
<td>100.0</td>
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Table A1.7  Nominal Compensation per Employee  
(Annual % Change)

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<th>Year</th>
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<th>Industry (all employees)</th>
<th>Financial Services</th>
<th>Distribution/ Business</th>
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<td>5.5</td>
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<td>2001</td>
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<td>9.7</td>
<td>8.1</td>
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<td>2002</td>
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<td>5.3</td>
<td>8.7</td>
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<td>2004</td>
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<td>5.7</td>
<td>5.0</td>
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<td>2005 Q1</td>
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<td>2005 Q2</td>
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<td>1988-2004</td>
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<td>5.0</td>
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</table>

**Source:** CSO earnings series.

**Notes:** Index of all employee earnings (industrial, clerical and managerial) in industry is a revised series provided by the CSO up to 2000 and then updated with data from the CSO industrial earnings series. Where available, earnings indices have been used (public sector, manufacturing, financial service) that give an indication of underlying earnings, but for construction and distribution/business services, average earnings are used.
### Table A1.9 Economic Forecasts for 2005 and 2006

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<td>4.5</td>
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<td>4.75</td>
<td>3.9</td>
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<td><strong>Central Bank (HICP)</strong></td>
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<td>4.6</td>
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</table>


**Note**: CPI = Consumer Price Index; HICP = Harmonised Index of Consumer Prices, a measure of inflation generally used for comparing inflation across the EU.

### Table A1.10 Age Distribution of the Population, 1991-2002

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1996</th>
<th>2002</th>
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<tbody>
<tr>
<td>0-14</td>
<td>26.7%</td>
<td>23.7%</td>
<td>21.1%</td>
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<tr>
<td>15-24</td>
<td>17.1%</td>
<td>17.5%</td>
<td>16.4%</td>
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<tr>
<td>25-44</td>
<td>27.2%</td>
<td>28.0%</td>
<td>30.1%</td>
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<td>45-64</td>
<td>17.6%</td>
<td>19.4%</td>
<td>21.2%</td>
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<tr>
<td>65+</td>
<td>11.4%</td>
<td>11.4%</td>
<td>11.1%</td>
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</table>

**Source**: Census of Population (various)
Table A1.11  Level and Percentage Change in Gross Weekly Earnings (nominal), 2000-2004

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
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<td><strong>Industrial Earnings</strong></td>
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<td></td>
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<td></td>
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<tr>
<td>High (Managerial)</td>
<td>€790.52</td>
<td>€877.75</td>
<td>€905.72</td>
<td>€96172</td>
<td>€1,007.14</td>
<td>27.4%</td>
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<tr>
<td>Low (Females, adult rates)</td>
<td>€324.86</td>
<td>€347.39</td>
<td>€365.24</td>
<td>€393.87</td>
<td>€407.16</td>
<td>25.3%</td>
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<td><strong>Public Sector</strong></td>
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<tr>
<td>High (Education)</td>
<td>€655.47</td>
<td>€698.44</td>
<td>€718.93</td>
<td>€743.41</td>
<td>€808.94</td>
<td>23.4%</td>
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<tr>
<td>Low (Regional Bodies)</td>
<td>€499.56</td>
<td>€558.90</td>
<td>€572.09</td>
<td>€582.52</td>
<td>€666.34</td>
<td>33.4%</td>
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<tr>
<td><strong>Construction</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High (Skilled Operatives)</td>
<td>€647.90</td>
<td>€681.08</td>
<td>€759.16</td>
<td>€786.95</td>
<td>€820.62</td>
<td>26.7%</td>
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<tr>
<td>Low (Unskilled and Semi-Skilled Operatives)</td>
<td>€521.62</td>
<td>€580.62</td>
<td>€632.53</td>
<td>€649.15</td>
<td>€676.46</td>
<td>29.7%</td>
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<td><strong>Banking and Financial Services</strong></td>
<td>€593.31</td>
<td>€658.10</td>
<td>€686.91</td>
<td>€698.16</td>
<td>€737.52</td>
<td>24.3%</td>
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<td><strong>Distribution and Business Services</strong></td>
<td>€505.01</td>
<td>€545.41</td>
<td>€563.58</td>
<td>€589.45</td>
<td>€619.44</td>
<td>22.6%</td>
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<td>High (Post and Telecommunications)</td>
<td>€672.06</td>
<td>€722.33</td>
<td>€736.16</td>
<td>€744.12</td>
<td>€781.54</td>
<td>16.3%</td>
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<tr>
<td>Low (Accommodation and Catering)</td>
<td>€322.02</td>
<td>€339.26</td>
<td>€347.06</td>
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<td>€395.73</td>
<td>22.9%</td>
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<tr>
<td></td>
<td>€225.01</td>
<td>€231.27</td>
<td>€239.24</td>
<td>€252.73</td>
<td>€275.72</td>
<td>22.5%</td>
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</table>

**Source**: CSO, relevant earnings series.

1. Gross Earnings for All Industrial Workers (Adult and Non-Adult Rates of Pay). CSO Industrial Earnings and Hours Worked. Tables 1 and 6.
2. Total Public Sector excluding health. CSO Public Sector Earnings and Employment. Table 3. Annual number for 2004 based on a simple average of the quarterly numbers reported. In comparing series to select the highest and lowest paid sectors in 2000, overtime for prison officers and garda was excluded.
3. CSO Earnings and Hours Worked in Construction. Table 1. Earnings of Unskilled and Semi-Skilled are of Operatives on adult rates only.
4. CSO Banking, Insurance and Building Societies: Employment and Earnings. Table 1.
5. CSO Earnings in Distribution and Business Services. Table 1.
6. Minimum Wage based on the following assumptions. That the average weekly hours worked for the minimum wage earner equate to the average hours worked by an industrial worker in manufacturing, and that the minimum wage of €5.58 introduced in April 2000 applied throughout that year.

Commentary on Table A1.10: In five broad sectors—industry, the public sector, construction, banking and financial services, and distribution and business services—the average increases in gross weekly earnings between 2000 and 2004 were in the region of 22 to 30 per cent. Growth in public sector earnings led the way, rising by 30.3 per cent. The gross minimum wage broadly kept pace with earnings growth in these broad sectors of the economy but at the lower end of the range, rising by 22.5 per cent between 2000 and 2004. Where it is possible to distinguish a high and low paying sub-sector within each group, we see that there is most evidence of a compression in earnings taking place within the public sector—earnings in its lowest paid sub-sector in the year 2000 (local authorities and other regional bodies) grew by 33.4 per cent while in its highest paid sub-sector at that time (education) they grew by significantly less, by 23.4 per cent. By the same indicator, there is evidence of some compression of earnings in distribution and business services, and construction, while there was a slight increase in earnings inequality by this indicator in industry.

31. The minimum wage was introduced at an hourly rate of €5.58 in April 2000 and subsequently increased to €6.00 from 1 July 2001, to €6.35 from 1 October 2002, to €7.00 from 1 February 2004 and to €7.65 from 1 May 2005.
<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005$^4$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Minimum Wage (actual annual)$^1$</td>
<td>€5.58</td>
<td>€5.79</td>
<td>€6.09</td>
<td>€6.35</td>
<td>€6.95</td>
</tr>
<tr>
<td>2</td>
<td>Hourly Earnings (Manufacturing)$^2$</td>
<td>€10.40</td>
<td>€11.47</td>
<td>€12.29</td>
<td>€12.86</td>
<td>€13.45</td>
</tr>
<tr>
<td>3</td>
<td>1 as per cent of 2</td>
<td>53.7%</td>
<td>50.5%</td>
<td>49.6%</td>
<td>49.4%</td>
<td>51.7%</td>
</tr>
<tr>
<td>4</td>
<td>Net earnings on minimum as % of Net Average Manufacturing$^3$</td>
<td>61.1%</td>
<td>58.3%</td>
<td>57.7%</td>
<td>57.6%</td>
<td>59.9%</td>
</tr>
<tr>
<td>5</td>
<td>Hourly Earnings (Acc. &amp; Catering)$^4$</td>
<td>€8.26</td>
<td>€8.70</td>
<td>€8.90</td>
<td>€9.42</td>
<td>€10.14</td>
</tr>
<tr>
<td>6</td>
<td>1 as per cent of 5</td>
<td>67.6%</td>
<td>66.6%</td>
<td>68.4%</td>
<td>67.4%</td>
<td>68.5%</td>
</tr>
<tr>
<td>7</td>
<td>Net earnings on minimum as % of Net Average Acc. &amp; Catering$^5$</td>
<td>75.2%</td>
<td>74.3%</td>
<td>76.3%</td>
<td>75.5%</td>
<td>76.6%</td>
</tr>
</tbody>
</table>

Source: NESC calculations

1. The average actually received over a 12-month period is affected by the timing of increases (see footnote x). It is assumed the introductory rate (€5.58) applied throughout the year it was introduced (1 April 2000).
2. Average hourly earnings in Manufacturing Industry (Adult and Non-Adult Rates of Pay). CSO Industrial Earnings and Hours Worked. Table 1.
3. Net earnings for a single person working at the minimum wage for the average of hours worked in manufacturing are compared with net earnings of a single person on average manufacturing earnings.
4. No hourly rates are available in Accommodation and Catering. A working week of 39 hours is assumed and applied to the data for average weekly earnings.
5. Similar to 3 above with the assumption that 39 hours is the average worked.
6. It is assumed that gross hourly earnings grow by 4.2 per cent in 2005, matching the increase actually recorded in 2004.
### Table A1.13  Employment and Unemployment by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage Change in Employment 2000 to 2005</th>
<th>Percentage Share of Employment, 2005 (q2)</th>
<th>Unemployment Rate, 2005 (q2) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dublin</td>
<td>8.7</td>
<td>29.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Mid East</td>
<td>22.1</td>
<td>11.3</td>
<td>2.7</td>
</tr>
<tr>
<td>East</td>
<td>12.1</td>
<td>41.0</td>
<td>3.8</td>
</tr>
<tr>
<td>South East</td>
<td>17.6</td>
<td>10.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Midland</td>
<td>24.1</td>
<td>5.7</td>
<td>4.0</td>
</tr>
<tr>
<td>South West</td>
<td>14.9</td>
<td>14.4</td>
<td>4.2</td>
</tr>
<tr>
<td>Mid West</td>
<td>12.7</td>
<td>8.5</td>
<td>4.7</td>
</tr>
<tr>
<td>West</td>
<td>21.3</td>
<td>9.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Border</td>
<td>20.5</td>
<td>10.3</td>
<td>4.9</td>
</tr>
<tr>
<td>State</td>
<td>15.4</td>
<td>100.0</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Source: NESC calculations based on CSO data.

### Table A1.14  Percentage of Total Employment by Sector in Each Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dublin</td>
<td>0.4</td>
<td>10.7</td>
<td>9.2</td>
<td>79.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Mid East</td>
<td>5.2</td>
<td>16.7</td>
<td>14.5</td>
<td>63.7</td>
<td>100.0</td>
</tr>
<tr>
<td>East</td>
<td>1.7</td>
<td>12.3</td>
<td>10.6</td>
<td>75.4</td>
<td>100.0</td>
</tr>
<tr>
<td>South East</td>
<td>9.8</td>
<td>17.9</td>
<td>15.4</td>
<td>56.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Midland</td>
<td>7.3</td>
<td>16.8</td>
<td>15.0</td>
<td>60.9</td>
<td>100.0</td>
</tr>
<tr>
<td>South West</td>
<td>7.4</td>
<td>16.5</td>
<td>13.5</td>
<td>62.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Mid West</td>
<td>8.4</td>
<td>20.3</td>
<td>11.0</td>
<td>60.4</td>
<td>100.0</td>
</tr>
<tr>
<td>West</td>
<td>9.6</td>
<td>15.6</td>
<td>14.9</td>
<td>59.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Border</td>
<td>10.3</td>
<td>17.2</td>
<td>13.8</td>
<td>58.7</td>
<td>100.0</td>
</tr>
<tr>
<td>State</td>
<td>5.9</td>
<td>15.2</td>
<td>12.6</td>
<td>66.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: NESC calculations based on CSO data.

<table>
<thead>
<tr>
<th>Gateway/Hub</th>
<th>Population 2002</th>
<th>Change 1996-2002</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dublin</td>
<td>1,642,256</td>
<td>150,503</td>
<td>10.1</td>
</tr>
<tr>
<td>Cork</td>
<td>382,490</td>
<td>25,761</td>
<td>7.2</td>
</tr>
<tr>
<td>Galway</td>
<td>184,371</td>
<td>19,796</td>
<td>12.0</td>
</tr>
<tr>
<td>Limerick/Ennis</td>
<td>260,686</td>
<td>20,192</td>
<td>8.4</td>
</tr>
<tr>
<td>Waterford</td>
<td>110,954</td>
<td>10,329</td>
<td>10.3</td>
</tr>
<tr>
<td>Athlone</td>
<td>41,128</td>
<td>2,423</td>
<td>6.3</td>
</tr>
<tr>
<td>Tullamore</td>
<td>47,361</td>
<td>3,423</td>
<td>7.8</td>
</tr>
<tr>
<td>Mullingar</td>
<td>46,439</td>
<td>6,419</td>
<td>16.0</td>
</tr>
<tr>
<td>ATM</td>
<td>134,928</td>
<td>11,975</td>
<td>9.7</td>
</tr>
<tr>
<td>Sligo</td>
<td>68,176</td>
<td>2,785</td>
<td>4.3</td>
</tr>
<tr>
<td>Dundalk</td>
<td>62,701</td>
<td>3,781</td>
<td>6.4</td>
</tr>
<tr>
<td>Letterkenny</td>
<td>59,851</td>
<td>5,572</td>
<td>10.3</td>
</tr>
<tr>
<td>Tralee/Killarney</td>
<td>117,135</td>
<td>5,565</td>
<td>5.0</td>
</tr>
<tr>
<td>Castlebar/Ballina</td>
<td>97,848</td>
<td>5,605</td>
<td>6.1</td>
</tr>
<tr>
<td>Kilkenny</td>
<td>67,854</td>
<td>4,508</td>
<td>7.1</td>
</tr>
<tr>
<td>Wexford</td>
<td>62,123</td>
<td>6,225</td>
<td>11.1</td>
</tr>
<tr>
<td>Cavan</td>
<td>35,974</td>
<td>1,934</td>
<td>5.7</td>
</tr>
<tr>
<td>Monaghan</td>
<td>30,092</td>
<td>558</td>
<td>1.9</td>
</tr>
<tr>
<td>Mallow</td>
<td>21,139</td>
<td>1,348</td>
<td>6.8</td>
</tr>
<tr>
<td>Tuam</td>
<td>18,401</td>
<td>343</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Ireland</strong></td>
<td><strong>3,917,203</strong></td>
<td><strong>291,116</strong></td>
<td><strong>8.0</strong></td>
</tr>
</tbody>
</table>


Notes: ATM = Athlone, Tullamore, Mullingar.
Appendix A1.2

For example, the income of the individual household is made up of a number of sources:

- Individual earnings from employment;
- The number of earners in the household;
- Market income from other sources (rent, interest on financial savings, etc.);
- The tax treatment of individuals in the household; and
- Social transfers to members of the household.

The equivalised income of a particular household is further influenced by:

- The numbers of children and adults in the household; and
- The weights attached to children and second and further adults by the equivalence scale used.

Finally, the median of equivalised household income across either all persons or all households is further influenced by:

- The relative growth rates of different types of household; and
- Shifts in the age structure of the population; and

Factors in particular which impact on the incomes of households clustered around the median.

Appendix A1.3

The Implications of Using the Median

Understanding Median Household Income

Most analyses of relative income poverty are based on changes in median equivalised disposable household income and 60 per cent of median equivalised disposable household income. Median income differs from a simple arithmetical average, or mean, in that it is solely concerned with identifying the situation of the individual household which happens to find itself at the 50th percentile of the overall equivalised distribution. In order to find the median each household is classified according to its income per equivalised person and the household in the middle of the distribution is identified. In this sense median is only concerned with the rank ordering or distribution of households. Median household income can shift as a result of three factors—(1) Increases/decreases in the income of all households where the rank ordering is preserved, (2) increases/decreases in the household income of those households which currently find themselves to be at the median income level and (3) increases/decreases in specific categories of households which causes their household incomes to cross the median thus altering the rank ordering of households and both the median household and the
median household income itself. It is important to be clear that certain changes in household income which would affect mean incomes will have no effect whatsoever on the median household income. A significant bonus paid to a senior executive whose household income is already well above the median or increases to those households with the lowest levels of household income which fail to lift them to median income levels are two examples from opposite ends of the income distribution. Changes in the average household size in terms of equivalised—persons will affect median equivalised household income.

**Why Use the Median?**

Median income is used at least partially to abstract from changes which may occur at the tails of the income distribution and which may affect only a small number of households but cause mean incomes to rise or fall. In that sense it is thought to represent a more ‘typical’ household income and to be a better reflection of the ‘norms’ in society.

**What are the Implications of Using the Median?**

There are a number of implications of using median equivalised household income as opposed to a simple average. The first, which we have already alluded to, relates to extraordinary events which may affect the tails of the income distribution. A second relates to a greater degree of fixity in the relative income poverty line which can be advantageous when considering tackling the income situation of those on the lowest incomes. If one were to use average household income, increases in either earnings or social transfers to the least well-off, would see not only their incomes change but also the reference target which they were being assessed against. This may not be a desirable feature. Thirdly, the use of the median as a measure brings to light the importance of the frequency of the distribution of households around the median and the relative 60 per cent of median risk of poverty threshold which moves in tandem with the median. To the extent that persons are clustered around these income lines, and policy affects net disposable income at these levels, significant increases or decreases in relative income poverty could be experienced with very little change in the overall level or pattern of income distribution in society as a whole.
Vision & Analysis
2.1. Introduction

In this chapter, the Council presents its vision for the future development of Ireland and its analysis of key economic, social and environmental mechanisms. Section 2.2 explains the Council’s approach to vision and visioning and outlines the Council’s vision of a successful society. It argues that we can use our vision to formulate shared goals only if we update and enrich our account of the Irish economy, deepen our account of Irish society and factor the environment more fully into our understanding—using these three to offer a better account of the relation between Ireland’s economic, social and environmental challenges. Section 2.3 identifies some ways in which we can update and enrich our understanding of the Irish economy and notes some trends and mechanisms that remain unclear. Section 2.4 notes some ways in which we can deepen our account of Irish society and social policy, drawing on the Council’s recent report *The Developmental Welfare State*. Section 2.5 suggests ways in which we can factor the environment more deeply into our understanding of Ireland. In Section 2.6 we argue that these revised accounts provide the basis for a better understanding of the relation between economic constraints, social possibilities and environmental quality. That analysis informs the goals and strategies advocated by the Council in Chapter 3.

2.2 The NESC Approach to Vision and Visioning

In its 1999 Strategy report, the Council outlined its vision of a successful society. This has been adopted by government and the social partners in the Programme for Prosperity and Fairness and *Sustaining Progress* and cited by government on many occasions. In its 2003 Strategy report, the Council argued that the faculty that takes us from the past to the future is vision. It elaborated and applied its vision in six steps:

1. Vision as hope;
2. Vision as sight;
3. Seeing Ireland’s enduring vulnerabilities and challenges;
4. Seeing Ireland’s current situation;
5. Seeing shared pressures and concerns; and
6. Disclosing new possibilities.
Here we briefly explain this approach to vision and visioning, outline the Council’s vision and draw attention to ways in which it needs to be informed by new knowledge on the Irish economy, society and environment.

2.2.1 Vision as Hope

The first element of vision, listed above, is a shared conviction about the foundations of a successful society. In its 1999 Strategy report, the Council proposed a new vision for Ireland. It argued that the foundations of a successful society are:

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

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

- Economic inclusion based on full employment;
- Social inclusion, reflecting full participation in those activities which constitute the norm in society;
- Successful and continuing adaptation to change;
- Commitment to the utilisation and development of the potential of the Information Society and the promotion of research and development;
- Commitment to lifelong learning;
- Environmentally sustainable and balanced development between regions and between urban and rural areas;
- Commitment to the further development of the European Union and international solidarity; and
- An entrepreneurial culture.

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

- Every child would leave primary school literate and numerate;
- Every student would complete a second cycle programme appropriate to the individual’s capacity and interests;
- Every person seeking employment would be equipped with the personal skills and supports to find satisfying employment at reasonable rates of pay;
Every person would have access to lifelong learning, a sense of personal security in a changing work environment, an opportunity to balance work and family commitments and a capacity to share the gains made by successful competitive firms and high performance public bodies;

Every family would have access to healthcare, affordable housing appropriate to their needs, good quality childcare and a well functioning public transport system;

Every firm would have the capacity to compete effectively in the relevant part of the global market place, through enhanced partnership with their employees and a supportive business environment backed up by an appropriate macro-economic policy;

Every region would have an efficient physical infrastructure to support sustainable economic activity, and promote social cohesion, based on a balance between urban and rural needs;

Disadvantaged communities would have received the benefits of an investment programme and more responsive public services to overcome the accumulated burden of unemployment and marginalisation; and

Average living standards (GNP per capita) would have exceeded the EU average, those dependent on transfer payments would share in the increased affluence and a reduced rate of poverty would ensure a more widespread participation in the lifestyle of a mature developed economy.

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

These reflect the fact that a successful society is based on a collection of shared concerns. While it is clear that these outcomes have not yet been achieved, joint action based on these shared concerns has produced great progress on many of the things the Council values—employment, increased living standards, poverty reduction, educational attainment, social provision and community development.

2.2.2 Vision as Sight

Vision as sight refers to the fact that a key aspect of vision is understanding Ireland’s experience. In each of its Strategy reports the Council has outlined a shared narrative of Ireland’s recent past and, in some cases, an interpretation of Ireland’s long-term economic and social experience. It is experience and the practices derived from it that underpin the ability to adapt to new challenges.
In its 2003 Strategy report, the Council offered an interpretation of the ‘Celtic Tiger’ period and how this should be understood in relation to Ireland’s long-run developmental challenges. It also suggested that many of the new economic and social possibilities were discovered by experimental problem-solving action involving government, the social partners and others. It emphasised that experimental problem solving and institutional adaptation can produce significant progress towards the vision of a successful society; it therefore reflects, promotes and protects the values of the groups involved. This ‘vision as sight’ or understanding is updated in this chapter.

Seeing Ireland’s Vulnerabilities and Challenges

Seeing Ireland’s enduring vulnerabilities and challenges is critical because, in the Council’s view, acceptance of the core elements of Ireland’s economic strategy demands recognition of the vulnerabilities, both social and economic, that attend that strategy. In particular, as outlined in the 2003 Strategy report, accepting our adoption of an internationalised economy and a social model based on high levels of employment, we must recognise that this approach is only socially acceptable and economically sustainable if a few key aspects of personal and social well-being—housing, education, health services, transport, enough income to live life with dignity and, nowadays, lifelong learning—are secured for everybody. Likewise, recognising the limits of centralised or bureaucratic provision of complex services, we must examine the content, delivery, monitoring and evaluation of public policy and services. It is clear, therefore, that hard-headed joint examination of Ireland’s particular path of economic and social development can also contribute to a joint recognition of vulnerabilities and a shared commitment to addressing them.

Indeed, the power of joint examination of Ireland’s economic and social experience and vulnerabilities is demonstrated in the Council’s recent report, *The Developmental Welfare State*. That report contains a new account and analysis of Ireland’s hybrid welfare state; but, more importantly, it outlines the Council’s shared commitment to a radical reform programme combining income supports, enhanced services and innovative measures. Consequently, joint deliberation can, in certain circumstances, not only reflect but promote and deepen common values and common purpose.

Seeing Ireland’s Current Situation and Shared Concerns

Seeing Ireland’s current situation is necessary to identify which of our vulnerabilities have materialised. Seeing shared pressures and concerns helps identify how those working for competitiveness, quality of life and fairness could find agreement on a programme of action.

Disclosing New Possibilities

The final aspect of vision is seeing new possibilities. Significant new possibilities are discussed in this chapter and in Chapter 3.

The argument of this chapter is that we can now further develop the vision of a successful society and identify appropriate goals:
1. By updating and enriching our account of the economy;

2. By deepening our account of Irish social development, the social situation and the social challenge;

3. By factoring the environment more fully into our understanding of Ireland’s experience and challenge;

4. Combining these, to offer a better account of the relation between Ireland’s economy, society and environment.

This will allow us to flesh out what it would mean to achieve the elements of the Council’s vision and to identify some of the steps necessary to move further towards it.

2.3 Updating and Enriching Our Account of the Economy

2.3.1 Changing Elements in the Irish Economy and Economic Discourse

A number of evolving aspects of the Irish economy are worth noting:

- Changes in the relative significance of the components of GNP per capita (productivity, the employment rate, the participation rate and the dependency ratio);

- A remarkable, and sustained, increase in employment;

- A definite shift in employment from manufacturing to services;

- An increased role for domestic demand, particularly housing, in sustaining output and employment;

- A significantly increased cost base, reflected in a relatively high price level, the vulnerability of cost-sensitive internationally traded businesses and definite limits on our ability to use low cost as the basis of future competitive advantage or the attraction of inward investment;

- Sustained net in-migration on a scale sufficient to influence Ireland’s demographic trajectory, labour market and society;

- Changes in the flows and stocks of international payments and asset ownership; and

- Changes in the spatial patterns of economic activity, employment, residence and commuting.

These changes are increasingly reflected in commentary on the Irish economy. They do imply significant qualification to some long-standing perspectives.
2.3.2 Towards a Shared Understanding of the Evolving Irish Economy

An updated understanding of the Irish economy will be one that incorporates the increased role of services, the increased significance of domestic demand and the implications of migration, without losing the focus on competitiveness and competitive advantage that characterised the shared understanding since the 1980s.

Services and the Export Base of a Regional Economy

An updated understanding requires deeper exploration of the role of services, and policies that promote competitiveness in services, in a regional economy. The ‘regional’ dimension reflects the fact that the Irish economy is open not only to trade, but also to movements of both capital and labour. In many respects, useful ideas on national competitive advantage will apply also to a ‘regional’ economy such as Ireland.

The idea of the networked developmental state was formulated by O’Riain not as a critique of Irish industrial policy, but as an improved account of how and why Ireland’s institutions and policies for economic development work (O’Riain, 2004). Likewise, drawing attention to the increasing role of services is not intended as a critique of a policy which has long had a strong focus on high-technology manufacturing. Indeed, Irish industrial policy has itself moved to focus significantly on services in two respects: first, the services, such as research and international marketing, that will underpin the long-term strength of Ireland as a location for high-tech industry; and, second, internationally traded services themselves.

In its 2003 Strategy report, the Council drew on a range of economic studies in suggesting that Ireland’s economic breakthrough since the early 1990s could be understood as a dramatic expansion of the export base of a regional economy. The trends highlighted in this Strategy (the growth of services, the higher cost base, the strength of migration and the stronger role of domestic demand) should be seen as a refinement of that broad perspective, and in no sense a return to a more closed-economy view of the Irish economy.

In an informative paper entitled ‘The Localisation of the World Economy’, Krugman argues that a particularly good way to understand the American economy is by studying American cities. He demonstrates this by comparing Chicago a century ago and Los Angeles today. Among the contrasts is the fact that the economy of Los Angeles seems to have ‘cut loose from its geographical moorings’. Most of the things the city does for a living could, he suggests, be done anywhere. By contrast, the 3 million people in Chicago in 1894 were there because Chicago was the gateway to the farms, forests and mines of the US heartland. ‘The 11 million people of modern LA are there because of each other’ (Krugman, 1996:209).

He points out that although we talk a lot these days about globalization, ‘when you look at the economies of modern cities what you see is a process of localisation’ (Krugman, 1996:211). A steadily rising share of the workforce produces services that are sold only within that same metropolitan area. This process helps explain the fact that as an economy develops the share of ‘tradeables’ can constitute a shrinking share of the economy. A shrinking share of employment in the traded sector need not imply either a loss of competitive advantage nor a declining need to be competitive.
The growing significance of non-traded services in trading economies can be understood as the result of both demand and supply side factors. On the demand side, higher incomes result in increased demand for non-traded services. On the supply side, these services are characterised by relatively slow productivity growth, so that increased output is more dependent on increased employment than in the manufacturing sector, in which output can grow without an equivalent increase in employment. This process has been described by Krugman as follows:

...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).

Without losing sight of the critical role of the export base in an open economy, Krugman’s analysis allows us to make sense of the increasing role of services and the diverse sectoral productivity growth and employment trends.

Adapting Earlier Thinking on National Economic Development

For several decades, Irish policy makers and many economic and social actors shared a particular view of the economic challenge Ireland faced. It was a view that focused on national economic development as the key to national social and cultural development. The task of national economic development was, correctly, cast as the task of achieving export-oriented businesses. Within this model of national development, a series of ultimate and proximate economic and social goals sat fairly neatly on top of one another. The proximate goal that embodied this was employment. Anything that promoted employment—especially employment in the traded sector—was also likely to contribute to export growth, business strength, domestic prosperity and wider social progress. The goal of regional development could be met by allocating a proportion of new job creation to lagging regions. At several points, policy action under this model had to be adjusted: when creation of public sector employment became disproportionate, when the IDA adjusted its goal of employment creation to take account of value added, and when it became accepted that policy could not, and probably should not, prevent inward investment locating in or near Ireland’s largest cities.

We are now moving to a situation where the ultimate and proximate goals listed above do not coincide so neatly. For example, the goal of national prosperity and well-being, based on a dynamic economy, is no longer neatly reflected in the proximate goal of employment creation, in and of itself. This has implications in a range of economic and social policy areas. It is far from clear that aiding all employment creation in private business—for example, through granting work permits to employers to employ migrants in low-skilled work in cost-based export
industries—adds to national economic and social development. If employment creation, *per se*, does not adequately reflect our ultimate goals, participation is probably valued more highly than before—though we now see the need to think about participation and caring together. The rationale for active policies to strengthen indigenous enterprise and attract inward investment is changing, as the focus switches from job creation and boosting recorded national exports to building and finding firms that enhance Ireland’s position and capabilities in key high-value sectors.

In short, we need to find a new shared understanding of the Irish economy. That account needs, first, to escape from the idea, sometimes heard, that Irish prosperity is virtually all created in the exporting, mostly foreign-owned, enterprises, with the rest of economic activity merely a recycling of that value. Second, that understanding must include the growing role of services. It should encompass the increasing role of internationally traded services, but not be confined to those services. Third, recognition of the increasing role of domestically-sold services and domestic demand must not involve slipping back towards the closed-economy view that competitiveness does not matter. Indeed, the new understanding must build on our current understanding of the critical role of the export base in a regional economy, but develop a sophisticated view of the sources and dynamics of regional competitive advantage. That understanding needs to include a clear view of the role of knowledge and skills in sustaining economic prosperity in a world with new global competitors, and an understanding of the role of public policy in strengthening innovation. Finally, we need an understanding of how inward migration, in all its forms—returning Irish, attraction of EU citizens and arrival of non-EEA nationals—influences economic welfare (see below).

**The Learning Economy as an Inclusive Project**

There is widespread agreement that Ireland should now aim to make the transition to a ‘learning economy’ and that this requires ‘moving up the value chain’. There is also widespread agreement that this entails higher R&D spending, an expanding base of high-technology firms in bio-tech, IT and other sectors, a growing emphasis on internationally traded services (financial, educational, consultancy), a growing supply of PhD students and advanced researchers and the attraction of skilled workers and researchers from overseas (see Chapter 3). It is not as widely appreciated that success on all these fronts would still be insufficient for achieving high employment rates and, consequently, would not create a successful society as understood by the Council. High employment rates hinge essentially on whether people with lower levels of education (especially, those who do not complete secondary education), people with caring responsibilities, people with disabilities and people aged 55 to 65, have jobs or not. And an attractive society hinges on how well rewarded and satisfying their jobs are. In other words, highly skilled workers tend to fare well in all types of societies; it is how these other groups of workers fare that says most about the quality of a society.
This perspective emerges strongly from an understanding of our experience in the past decade and a half. Ireland’s economic boom was noteworthy not just for the strength of its aggregate employment creation, but also for the spread of that employment growth across the productivity and earnings spectrum. In fact, Ireland recorded the second highest growth in the number of lower-paying jobs in the OECD over the 1993-2001 period (after the Netherlands), at the same time as it recorded the highest growth in the numbers of medium- and high-paying jobs (NESC, 2005: 27). This gave the Irish labour market a feature of balanced growth in jobs across the earnings spectrum that was matched by few other countries. In Germany, for example, the supply of high-earning jobs grew by over 10 per cent, but low-earning jobs contracted by approximately the same amount; in the UK, the number of low-earning jobs expanded by 20 per cent, almost double the rate of expansion of high-earning ones.

The role of jobs of lesser productivity in raising employment rates, providing a wide range of moderately priced services, widening the tax base, reducing welfare dependency and strengthening social cohesion is, frequently, not adverted to in accounts of Ireland’s economic resurgence or in statements about becoming a dynamic learning economy.

In the past decade, most of the reduction in unemployment, particularly long-term unemployment, can be attributed to the growth in relatively low productivity employments rather than in high-paying ones, and to the policy changes (lower taxes, retention of secondary benefits, higher entry level wages and supply measures) that increased the attractiveness of holding them. The switch from unemployment and welfare dependency to employment, in turn, contributed significantly to reducing the level of consistent poverty and the severity of social exclusion.

Achieving the 70 per cent Lisbon employment target hinges more on providing the in-work supports (childcare, transport, accommodation, child income support, etc.) that enable people to hold these lower productivity jobs, than on increasing the proportion of the population with third level qualifications. This is not to weaken or contradict the core strategy of moving enterprises, workers and the economy up the value chain by, among other things, raising the skills and competences of the workforce. The positions are not contradictory. High-productivity enterprises and workers benefit from the contributions of lower productivity workers in multiple ways. In fact, dynamic regional and national economies frequently resort to immigration to meet shortages of ‘low skilled’ workers, as Ireland has begun to do in recent years. This, undoubtedly, poses new challenges if inequality is to be restrained and social cohesion fostered, but that is part of what it is entailed in aligning social and economic policies to create a successful society.
Migration

The earlier heuristic model of Irish economic development attributed an important causal role to emigration. While emigration improved the prospects of many individuals, it drained human capital from the Irish economy, limited the size of the home market and stemmed the pressure for reform of domestic institutions.

We now need to factor in-migration into our understanding of the Irish economy. This requires an understanding of the causes of migration, including an accurate view of the impact of public policy on migration flows. It also requires observation and research on the impact of migration on overall national output, demography, the labour market, income distribution, the public finances, infrastructure requirements and public services. In reaching a judgement on these questions it is important to distinguish between the short term effects and the likely long-term effects. Research on immigration in other countries can throw light on the possible long-term effects.

The Council has commissioned a study of the economic and social effects of migration to Ireland, undertaken by the International Organisation of Migration, based in Geneva. Its findings will be discussed by the Council and published early in 2006. Here we sketch some elements of an understanding of migration, and in Chapter 3 the Council outlines some shared, initial, analytical and policy positions.

From an economic perspective, there is a common way of thinking about migration that is misleading. It has two manifestations. First, it is sometimes said that ‘Ireland needs x thousand immigrants in the next 10 or 20 years to keep the economy going’. This kind of statement can make sense at the level of an enterprise or a sector in the short term, but is misleading about the overall economy in the long term. The amount of migrant labour ‘needed’ is not a given; it depends on many decisions made by government, public agencies, firms and households. For example, the level of labour standards, health and safety, minimum wage and the complex arrangements of the welfare system will all have a significant bearing on the demand for migrant labour.

Second, it is sometimes said that migration must reduce job opportunities for the indigenous population. This can be referred to as the ‘lump of labour’ view—since it assumes that there is an absolute amount of work to be done, which therefore must be shared out between migrants and the indigenous population. This is mistaken because migration can, in certain circumstances, alter the total amount and type of work that gets done. One example, which is important in understanding the effects of migration into the UK in the past four decades, is the effect of migrants from the Indian sub-continent in creating an industry, Indian restaurants, that probably would not exist without them. Another example would be when migrants bring particular entrepreneurial and technical knowledge that starts a new industry or cluster, which eventually expands to employ natives and even encourages natives to start their own businesses in the same sector (Glover et al, 2001).

The mistaken idea that underpins both views is that the number of jobs in the future Irish economy is determinate—uninfluenced by domestic factors and migration itself and by the interaction between the two.
A further misconception is that migration is entirely determined by policy, operating via the legal and administrative mechanisms of work permits and immigration controls. The implicit assumption is that there is always a pent-up flood of potential migrants, with policy determining how open the tap is. Both elements of this assumption are inaccurate. This can be seen by noting the significance of returning Irish in total net migration of the past decade—people whose decisions are influenced only slightly by Ireland’s ‘migration’ policy. Research on migration focuses on individuals decisions and the incentives they face, which are seen as perhaps the primary factor determining migration; in addition, the effect of announced policy on creating or stopping migration, while considerable, should not be exaggerated.

Research suggests that another conceptual trap, again perhaps less likely in Ireland than elsewhere, is to view the migration decision as a one-off (Glover et al., 2001). Many, if not most, people migrate intending to work in another country and then return or move to a third country. It is for this reason that most research refers to migration and migrants, rather than immigration. At the same time, research strongly suggests that, in many circumstances, a significant proportion of migration becomes long term, even if the original intention and legal permit were short term.

Research on the economic effects of migration into Ireland is increasing. It suggests that immigration has allowed somewhat higher GNP growth, through a number of channels (FitzGerald, 2000; FitzGerald and Kearney 1998). The effects on total GNP need to be distinguished from effects on GNP per head. Economic analysis suggests that migration has a positive effect on overall economic output, but an ambiguous one on income per head. Application of this analysis to Ireland, suggests that, to date, the impact of in-migration on total GNP and GNP per head have been positive. Indeed, the effects of migration on GNP per head could be different in the short term and the long term. In the short term, migration driven by employers’ desire for work permits or perceived labour market opportunities could produce a strong increase in the number of people in employment, with a very limited increase in demand for social welfare spending, health costs, additional schooling or eldercare. In the long term, it seems likely that a significant proportion of migrants will seek and achieve not only the right to remain, regardless of labour market conditions, but also a degree of family reunification. Then the benefit of extra employment, earnings and tax payments would be more evenly balanced by increased social costs.

Migration can also have significant influence on the distribution of income, since it can increase the supply of high-skilled and low-skilled labour at different rates. ESRI estimates suggest that during the 1990s migration of high-skilled people to Ireland narrowed the dispersion of earnings. It did this by reducing upward pressure on high earnings, in a context in which very strong demand was pulling wages up at the lower end of the labour market. A key issue, currently under investigation, is whether the pattern of migration into Ireland in the first half of this decade has continued to have this effect, or whether it is increasing the supply of labour at the lower end of the labour market. If it did that predominantly, it is likely to widen the dispersion of earnings. Indeed, in some circumstances, it could also lead to an increase in unemployment among low-skilled members of the indigenous population. This is discussed further below.
Regional Development

The economic trends noted above suggest that we also need to modify our understanding of regional development in Ireland. For many decades, population loss at county level was the key indicator of the regional problem within Ireland. Wide dispersal of inward investment and the Common Agricultural Policy (CAP) were the main policies adopted to stabilise population and support regional incomes. Educational policy also played a key role equalising opportunities between young people from prosperous and less prosperous regions (Hannan and Commins, 1992).

The pattern and dynamic of regional development is now significantly different—in ways described in more detail in Chapter 3. For example, all counties display increasing population, but a range of other outcomes are indicative of regional imbalances and problems. In addition, earlier inward investments in cost-sensitive manufacturing are increasingly vulnerable, new investment seems more attracted to large urban areas and the CAP is undergoing reform and retrenchment. Together, these factors are creating a major restructuring in some regions, which has very significant labour market and social implications. Most important of all, perhaps, and in contrast to earlier decades, Ireland now has a fast-growing metropolitan region, and this is likely to have changed the dynamic of regional inequality and development in Ireland as a whole. This theme is further explored in Chapter 3, where the Council argues that new thinking is required on regional issues within Ireland.

2.4 Deepening Our Account of Social Policy and Irish Society

The second step in developing our vision of a successful society and identifying goals and strategies is to deepen our account of Irish social development, the social situation and the social challenge. To do this, we first identify some important trends in Irish society. We then summarise a new shared understanding of Irish social policy and outline the Council’s current understanding of Ireland’s rapidly changing social resources, quality of life, social integration and culture.

2.4.1 Changing Elements in Irish Society and Social Discourse

Elements of a shared understanding of Irish social development were outlined in the Council’s 2003 Strategy report, which drew on a wide body of social research. That interpretation combined five elements: the way in which long-run social development was shaped by emigration and a weak national system of innovation; the evolution of the Irish welfare system; the effects of industrialization on class transformation and the contrasting impact on absolute and relative social mobility; the complex labour market and policy influences on the distribution of household income and, finally, a set of changes described as liberalization, pluralisation and secularization.

It identified the vulnerabilities of Irish social development and traced these to three general sources:
(i) the legacy of the past and public policy, which yields significant residual inequalities in opportunities and outcomes;

(ii) the economic context, which requires competitiveness, high levels of employment and which can give rise to extensive growth (or decline);

(iii) the organizational challenge of providing quality public services in an age when citizens’ needs are varied, complex and changing and the limits of bureaucratic delivery are acutely felt.

Given this combination of sources, the Council suggested that there is no comprehensive doctrine—of the market, the state, society or globalization—that uniquely explains Ireland’s current social situation and unambiguously guides action (NESC, 2002: 39).

From a number of sources, including the Council’s recent *The Developmental Welfare State* report, we can now deepen our account of Irish society. We can begin this task by listing some trends that were not documented in the previous Strategy report, and some that were noted but whose significance we can now see more clearly. Among these are:

- Continued strong population growth, driven by both natural increase and in-migration;
- Rapid employment growth in occupations requiring high or medium skill levels, but substantial growth also in those requiring only modest skills;
- Continued high levels of benefit dependency among working-age adults, and a marked shift in its composition from people in receipt of unemployment benefit and assistance to those in receipt of the one parent family payment (OPFP), disability and invalidity benefits (see below);
- High levels of in-migration, with its composition changing to include fewer returning Irish and a greater proportion coming to undertake jobs needing modest skill; but
- A large fall in the annual number of new asylum seekers;
- The introduction of the minimum wage in 2000, and improvements in its rate and tax status so that, in 2005, it was equivalent to 60 per cent of net average manufacturing earnings;
- Evidence that the large increase in female labour force participation has largely by-passed women with low levels of educational attainment and may be slowing even for women with higher levels of education;
- Evidence that Irish women in employment are working some of the longest hours in Europe;

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1. For example, 30 per cent of women in employment in Ireland exceeded 48 hours a week in 2000 as against an EU 15 average of 24.3 hours. Only in Finland did a similar proportion of women work such long hours.
A large increase in the proportion of dual-earning households, is likely to have had a significant impact on median household income, and has important implications for the care of children, older people and family members with disabilities;

Divergent trends in the recorded levels of relative income poverty and consistent poverty, reflecting the complex influences of earnings, employment, participation, household formation, taxation and social welfare;

A change in the composition of those in relative income poverty, with a decrease in the proportion in households headed by someone unemployed, and an increase in the percentage of people in poverty in households headed by someone not in the labour force;

A move, since 2002, to somewhat more equalizing budgets than those in the 1990s in which reductions in tax rates benefited those on higher incomes the most;

A strong increase in both total and per capita social spending, and particularly strong increases in social spending on child income support;

A major increase in health spending, in absolute and proportionate terms, without an apparent proportionate improvement in the standards of public health services;

Increasing rates of suicide, particularly among men;

High levels of alcohol and drug abuse, and a rapid rise in the proportions of children and adults who are obese;

Continuing educational disadvantage for a significant minority of children, despite the multiplication of targeted programmes and rising investment;

A greatly increased focus on the many obstacles faced by those with an impairment or disability, reflected in the Disability Act (2005) and the National Disability Strategy;

New evidence that complex social deprivation continues to exist among some groups—local authority tenants, prisoners, travelers and residents of disadvantaged areas—despite multiple targeted initiatives to address it;

An apparent decline in the level of volunteering and significant changes in the nature and patterns of voluntary activity—although careful interpretation is necessary in this area;

A significant deterioration in the relative position of pensioners, as increases in social welfare pensions fell further behind a more rapidly rising median income. At the same time, the cost of tax reliefs in support of occupational pensions rose sharply (from 1.7 per cent of GNP in 1993 to 3.4 per cent in 2000).

In summary, Ireland’s stronger economy is supporting a much higher level of social spending and there has been a significant amount of innovation and change in the institutions and policies providing social protection. Yet a legacy of entrenched social disadvantage, the pressures of population growth and change, the intrinsic unevenness of economic development and still insufficiently responsive policies
and institutions mean that serious and unacceptable social deficits remain. Significant minorities continue to experience one or multiple forms of social disadvantage and present strategies and policies are simply not proving adequate to helping them. Significant numbers of people at work do not have access to the services they need if they are to attain and retain the lifetime employability, flexibility and adaptability required of them as members of Ireland’s workforce in an internationalised economy. Provision for people who face major constraints on their autonomy (persons with disabilities, in institutional care) is, in many instances, far from the standards that would reflect the changing values, new consciousness and higher expectations of Irish society.

2.4.2 Towards a Shared Understanding of Irish Social Policy

As noted above, in its 2003 Strategy report, the Council provided a short account of the evolution of the Irish welfare system. It suggested that the system should be seen as containing three over-lapping elements: tax and social welfare, the provision of services and innovative policy initiatives. It argued that this analytical approach provided a better understanding of the evolution of the system, and of its strengths and weaknesses, than the textbook welfare state ‘models’—universalist, insurance-based and residual. Among the new possibilities sketched in that Strategy report was ‘a new kind of welfare state, more suited to the economic, social and technological realities of the 21st century’—which the Council called a Developmental Welfare State (NESC, 2002:51).

Since then, the Council has undertaken a major study and extensive discussion to flesh out that sketch of a Developmental Welfare State, and this was published in April 2005. That study provides important insights into Irish social policy, its interaction with the economy and the social deficits in Irish society. Here we summarise this shared understanding and begin the discussion of the relationship between migration and Ireland’s social deficits. In Chapter 3, we outline in more detail the goals, challenges and strategies that should inform social policy in the years ahead.

A Developmental Welfare State for a Networked Developmental State

One of the core arguments of the Council is that we must understand the welfare system, and plan its improvement, with a close eye on the particularities of Ireland’s economic development. This is partly because Ireland’s economic development strategy and institutions are internationally acknowledged as successful. More importantly, it is critical to integrate our thinking about the economy and society. Social and economic goals must be jointly addressed; social progress depends on economic prosperity and social policy has a critical role in facilitating a high-participation, dynamic economy.

A Hybrid System

The structure of Ireland’s current welfare state has disparate elements that resemble, respectively, the citizen-based Nordic welfare model, the social-insurance Continental European model and the residual Anglo-Saxon welfare model. A case can validly be made that the needed reform of Ireland’s welfare state involves moving strongly in one of these directions. However, the Council is
impressed by the evidence that the welfare states of other countries are based not so much on pure ideologies as on characteristic cultures and institutions, that there is considerable ferment and the adoption of mixed elements within their reform programmes, and that an overly ‘pure’ embodiment of any one model on Irish soil would still leave some serious social issues un-addressed. The conclusion is reached, therefore, that while significant learning is possible and important in specific instances from each of the more sharply defined welfare models, the hybrid character of the Irish system is more than ever, in the new economic and social circumstances in which Ireland now finds itself, a potential strength. The challenge in formulating an overarching strategy for Ireland’s welfare state is then expressed as identifying where and how elements of further universalism, extended social insurance and redesigned targeting are required by Ireland’s new society and economy, with paramount respect being accorded to improved outcomes rather than greater ideological charity.

**Continued High Benefit Dependency Among Working Age Adults**

A most important trend listed above is the continuing high level of benefit dependency and the long duration for which many remain on social welfare. However, a significant number of the low skilled who remain jobless are finding that a lack of services and still unreformed aspects of the tax and welfare codes make it difficult for them to access available employment or the vocational and educational programmes that would enhance their prospects of doing so. This contributes to a situation in which employment rates have remained low for members of households reliant on social welfare, even though significant low skilled immigration has been needed to fill large proportions of the vacancies occurring in hotels and catering, factory production, childcare and other areas (FÁS, 2004).

**The Level of Resources of Ireland’s Welfare State in a Comparative Context**

By EU standards, Ireland’s welfare state uses a modest proportion of national resources in providing services and a low proportion in providing cash transfers. This is despite Ireland having a level of income—whether measured in GDP or GNP per capita—that compares favourably with other EU member states. Some of this apparently low ‘welfare effort’ is due to having a young population and a labour market operating near full employment. Some of it is because growth in the economy has been so rapid that a declining share of GNP has still been sufficient to finance large increases in social spending. And some of it is due to sections of the Irish population not enjoying the standards of social protection which their counterparts in other advanced countries have (e.g, persons with mental disabilities, the infirm, aged).

More resources will inevitably be devoted to social protection in Ireland over the coming years, both in absolute terms and relative to GNP. A significant part of this increase will not result from discretionary policy changes but from a rising demand for many existing services as the population ages and from the implementation of significant policy commitments already made. It is vitally important, therefore, that new policy decisions entailing higher public social spending are made in the

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2. Public spending on social welfare as a proportion of GNP is conventionally termed a country’s ‘welfare effort’.
context of a long-term strategy which allows the merits of competing priorities to be fully and fairly evaluated and follows a carefully thought out sequence as to where and how higher standards of social protection should be phased in to Irish society.

The Services Deficit and the Services Dividend

One of the main advantages of viewing the welfare system as a combination of income supports, services and social innovations, is that it balances a focus on tax and income maintenance with attention to the services which both secure well-being and assist participation in the economy and society.

The Council believes that the radical development of services is the single most important route to improving social protection in Ireland over the coming years. Publicly-subsidised and/or publicly-provided services are essential to support people in employment, particularly those on lower earnings where the occupational welfare provided by their employers is limited and workers’ own means are insufficient to enable them purchase private alternatives (childcare, eldercare, training, satisfactory accommodation, etc.). Equitable and affordable access to quality services is also key to redressing the marginal position of socially disadvantaged groups. Finally, the improvement of services is the principal means by which maximum autonomy and respect are accorded persons with disabilities and people in institutional care of whatever sort.

Avoiding Deepening Dualism

There is a risk of deepening dualism in Ireland’s welfare state: between, on the one hand, a growing majority who are able to supplement very basic levels of public service provision with additional protection they purchase for themselves, with varying degrees of tax relief, and, on the other hand, a significant minority who rely nearly entirely on public provision, and in doing so are further removed from the mainstream of Irish society and less likely to experience mobility into it.

The Council has urged the adoption of an alternative template whereby services that are publicly-funded retain a genuinely ‘public’ nature, i.e., serve wide cross sections of the population and emphasise people’s ‘sameness’ rather than a strong difference. Different abilities to pay should be reflected in sliding scales of charges, and different needs should be met by tailoring of the service provided, but the model of separate services for distinct groups should be resisted.

Income as Necessary

People of working age on means-tested social assistance may be receiving higher transfer payments in real terms and attaining a higher standard of living than before (improved quality of local authority housing, ability to take a holiday, etc.) but they live in a profoundly changed society, one characterised by higher overall education, a greater employment focus and more individual mobility. In short, more purchasing power is unable to disguise the fact—to them or to others—that they are in the ‘slow lane’. Indeed, after major achievements in reduction of unemployment there is clear evidence of the re-emergence of benefit traps, especially for that significant proportion of working-age adults who remain dependent of welfare. Hence, the challenge is to reform payment arrangements that embody low expectations and articulate more fully the outcomes sought.
Governance Challenges

There are few instances where improved standards of social protection can be expected as the automatic result of higher public spending. It is more usually the case that institutional, policy and operational changes (better programme design, increased inter-departmental and cross-agency working, more effective partnership between public and non-public actors, better monitoring and evaluation) have to accompany an increase in resources, if standards are to improve in line with the higher spending. In some cases, institutional, policy and operational changes alone can improve social protection using the same resources (see Chapter 5).

Indeed, *The Developmental Welfare State* report also finds that there are significant institutional weaknesses and poor design in many of Ireland’s arrangements for providing social protection. These are responsible for poorer outcomes than it is possible to achieve even with the same level of resources. Realising this potential requires faster progress in public sector modernisation, the more deliberate development of arrangements which simultaneously enhance the autonomy of service providers and their accountability, new forms of public-voluntary as well as public-private partnerships, and, greater public sector expertise in network governance (see chapters 3 and 5 below).

Rights and Standards

The Council recognises that rights are an integral part of a successful society and has analysed how these rights should be understood in policy making and implementation. It emphasises that there are complex philosophical, political, legal and practical issues involved in the identification, creation, legislation and vindication of rights, especially social and economic rights (NESC, 2003).

Its work in this area was motivated by the need to find a conception of rights, and an approach to rights, that can both recognise these complexities and still acknowledge the widespread conviction that rights ought to be respected and the belief that their extension and evolution is closely associated with enlargement of our understanding of humanity and citizenship.

Experience worldwide shows that the reality of rights depends on the creation of effective institutions and policies. The Council sees the challenge of social and economic rights as involving the challenge of creating effective institutions and policies for social and economic services. This implies that we focus on the connection between rights and standards.
From Social Categories and Targeted Measures to Tailored Universalism

A key idea in the Council’s new understanding of social policy is the need to move, where possible, from targeted programmes to what the Council calls ‘tailored universalism’. This reflects the belief that Irish social policy in the coming years must focus on the needs of wide sections of the population, including many of those at work, and, within that, address the plight of particularly disadvantaged people. Ireland’s welfare state, therefore, should be characterised less and less by targeting and more by the responsiveness and flexibility with which publicly-funded mainstream services are provided.

During the decades of high unemployment, the growing challenge of social exclusion understandably led to multi-dimensional strategies focused on excluded groups. Within that approach, socially excluded groups tend to be identified by how they are different from the rest of the population—differences often presented as binary (either/or) and not a question of degree. For example, a person is non-employed or employed, rather than on a spectrum of attachment to the workforce; a person is a lone parent or not, rather than on a spectrum of difficulty in balancing parenting and employment; a person is resident in a disadvantaged area or not, rather than on a spectrum of neighbourhood conditions; a person is a Traveller or not, rather than on a spectrum of educational/health attainment; a person has a disability or not, rather than being on a spectrum of capacity for autonomy.

This concentration on social categories to identify ‘at risk’ groups and ground their entitlement to targeted services, in fact, endangers the social inclusion agenda in two ways. It provides a perverse incentive to individuals to attach themselves strongly to the qualifying condition through which they receive social protection and it risks making social inclusion a minority concern, sometimes described as ‘the paradox of redistribution’. This describes how targeted public social spending—even when efficient and effective in serving its client groups—tends to receive lower funding in the long run because it serves narrowly defined target groups highlighted as different from the general population and for whom political and popular support is not easily sustained.

In its report, The Developmental Welfare State, the Council, has emphasised the sameness of people in what they seek; it argues that the differences on which social policy must focus are not social categories but the degree of access to supports that are needed by the entire population (education, training, childcare, etc.). Following through on this perspective, the Council concluded that the successful implementation of strategies for a wide set of service infrastructures, the gradual replacement of the contingency basis to welfare payments for people of working age with a participation income, and the adoption of a life-cycle framework for monitoring progress, constitute surer routes to overcoming the disadvantaged position of groups that today are the focus of social inclusion strategies. The shortcomings which social policy must address lie primarily in our national service systems and income support arrangements and only secondarily, if at all, in the characteristics of social groups themselves. For example, being a lone parent should not be focused on as a ‘problem’; the inability to provide affordable childcare to any parent wishing to access employment or education is the truer problem.
This approach can be unsettling both for service professionals and individuals with the most extreme social needs by bringing them into a more direct interface. The former are not allowed to concentrate purely on the most compliant and least demanding clients; the latter are not shielded from the challenge of entering larger social arenas by having their needs supplied in specially constructed ones. Nor is the approach cheap. Tailoring mainstream services to accommodate particularly disadvantaged individuals is intensive in staff time, staff training and data requirements. This is reflected in the ‘budget-stakes principle’ which describes why welfare states which provide services to large sections of a population, and need a correspondingly large tax base to fund them, tend to take care to ‘growth-proof’ the design of their tax and transfer systems (Lindert, 2004).

The historic shift that has taken place in Ireland from coping with a chronic labour surplus to near full employment provides strong support for shifting the focus of social policy from the special needs of specific groups to a focus on the responsiveness and flexibility of publicly-funded services. Today, the potential work contributions of people with less than a completed secondary education, lone parents, persons with disabilities, older workers made redundant and others is being recognised.

In summary, the new thinking on Ireland’s social policy has implications for how national strategies and policy for combating poverty and increasing social inclusion should be conceived and continued beyond 2007.

The Relationship Between Migration and Ireland’s Social Deficits

The relationship between migration and Ireland’s social deficits needs to be carefully thought about.

One view is that there is a strong and simple relationship between the two. On this view, the availability of migrant workers to perform relatively ‘low-skilled’ jobs lessens the urgency of addressing high non-employment rates among groups in the Irish population. Consequently, it is possible, even likely, that significant low-skilled migration will exist alongside relatively high levels of social marginalisation among the indigenous population. Among those who hold this view, some would see it as a bonanza for business and consumers and others as socially unjust, but inevitable.

But is this view of cause and effect correct and adequate? It seems a possibility, especially in the short term. But if we think through the mechanisms implicit in this view, it seems to be incomplete. This is because low-skilled migration and marginalisation are likely to interact with one another.

First, strong migration at the lower end of the labour market could push the market wage below the reservation wage of low-skilled indigenous workers. This would increase unemployment, with all its social, human and public finance costs. This would undermine the regime of low-skilled migration alongside marginalisation, by prompting policy change or conflict, or both.
Second, in time, the low-skilled migrants seem unlikely to be available on the terms described above; they are likely to acquire the right to family reunification and other rights that significantly alter the effect on the Irish economy, public finances and public services.

Third, since much migration is not short term, there is a need to consider the longer term scenario under the regime posited above. International evidence suggests that migration, especially at the lower end of the labour market, without active integration policies is likely to give rise to separated, disadvantaged, ethnically-defined social groups. Consequently, in the long run, the regime described seems unlikely to yield a vibrant low-skilled labour market of migrants alongside a marginalised indigenous group; instead, it could yield two or more marginalised groups, ethnically-defined and highly conflicted.

In summary, if Ireland were to experience extensive low-skilled migration alongside existing marginalisation, this would probably not continue to be as beneficial for business and merely preserve the status quo for those currently marginalised. It could be much worse than that, socially, economically and politically. Low-skilled migration with continued marginalisation looks likely to be an unstable and certainly undesirable combination.

2.4.3 Towards a Shared Understanding of Irish Society

The Council’s Earlier Interpretation of Social Resources and Capabilities

In its 1996 Strategy report, the Council documented the growth of tangible social resources, population recovery and human capital, but also considered those resources which reside in social relations between people. It focused on three clusters of such relationships, those centred in the family, gender and community. While it is possible, to some extent, to rely on hard evidence, the Council pointed out that much depends on judgements as to what counts as resources in these areas and on the interpretation of trends over time (NESC, 1996:42). The Council’s overall conclusion was that there had been a net strengthening of social resources in the family, in gender and gender equality and in community. It emphasised that ‘at the same time, the context in which these developments have occurred and the manner in which they were brought about has led to fundamental problems of distribution of the benefits and capacities they entail’ (NESC, 1996:51).

In its 2003 Strategy report, the Council identified a wide set of changes which it described under the heading of ‘liberalisation, pluralisation and individualisation’. Many trends were cited. They included a weakening of traditional forms of authority, a revival of Irish culture, a stronger culture of compliance and accountability, the spread of information technology, an internationalisation of the labour market, health problems from harmful consumption of alcohol, cigarettes and drugs, decreased participation in elections and, on initial evidence, in voluntary activity and, finally, greater emphasis on involvement of those affected by poverty, social exclusion and inequality in policy development and delivery (NESC, 2002:26-27).
It is clear that the processes of liberalisation, secularisation, pluralisation and individualisation contain a complex mixture of positive and negative elements. The Council's conclusion was that, while all these changes are related, it is probably incorrect to view them in a deterministic way. Thus while a more liberal and plural society can be a more violent and materialistic one, this is not necessarily so. The Council stated its belief that 'working with what we have been given by nature and history, the quality of collective and individual life remains open to the influence of reason, engagement and solidarity' (2002:27).

In like manner, the Council argued that these trends should not be seen as 'modernisation' of a linear, deterministic or predictable type. 'Most of the cultural and social elements of earlier decades—spirituality, family, music, sport and local loyalty—are still present. But they are adopted and used in varying combinations, to form a range of identities. Consequently, there are now many different ways of being Irish, religious, a woman, a man, a mother, a father, a farmer, a teacher, a manager, a worker, a volunteer or a social or political activist' (NESC, 2002:27).

The Council's conclusion was that, on balance, Ireland's economic and social development has been enhanced by the emergence of a more autonomous, varied and open civil society. 'But', it was argued, 'this presents in a new form the underlying challenges of achieving a society that enables the full flourishing of all its people' (NESC, 2002c:27).

Are there reasons to reverse or revise these interpretations of Ireland's social resources and capabilities? Certainly, many of the trends identified in 1996 and 2003 have continued apace. In addition, a number of new trends and patterns have come into view.

Continued Change and New Social Patterns

Among the continuing trends, some are positive, some are negative and some do not lend themselves to evaluation. Population growth has continued, driven by both natural increase and in-migration. People are remaining single for longer, postponing becoming parents until later, leaving the parental home later, having fewer children and living longer. They are making major changes during their lives more frequently (of job, partner, residence). The pattern of household formation is shifting towards smaller households and a greater proportion are without children. The trend to increased foreign travel has continued strongly.

A number of social trends are new, or certainly more noteworthy, since the Council’s assessment in 2003. Perhaps the most noteworthy is the increased flow of migrants from a wide range of countries. Other changes include the shift of a significant amount of caring from the family to formal settings, a greatly increased awareness of the right of people with disabilities to participate in society, increased ownership of property in Ireland and abroad, further spread of electronic media and increased rates of recorded suicide.
Interpreting Contemporary Irish Society

Given the continued pace of change, there is, not surprisingly, some discussion of whether as Irish society becomes more affluent, more employed and more diverse, some aspects of the quality of life might actually be diminishing, the bonds between people are becoming weaker and the society is losing a shared understanding of itself. This discussion is inevitable and is, indeed, a long-standing theme in Ireland and elsewhere.

In discussing these social and cultural changes it is important that we avoid simplified accounts of both the past and the present, and of Ireland and other countries. Simplified accounts allow strong comparisons to be made, but can lead us to seriously misunderstand our current situation. They gloss over ways in which current economic and social progress rely on the values and capabilities created in earlier decades and ways in which modern individuals and societies still seek a balance between autonomy and belonging. They can exaggerate the distinctiveness of Irish society, or can assume that trends seen in other countries will necessarily appear in Ireland. In considering quality of life, it is important to distinguish between pressures arising from inadequate public infrastructure and services, on the one hand, and a possible deterioration in the quality of social relations, social capital and values, on the other.

Irish society is undoubtedly now challenged by certain ‘diseases of affluence’. These certainly need to be understood more deeply. At the same time, there is evidence that the ‘project of Ireland’—socially, culturally and economically—still commands allegiance. Ireland’s experience since Independence suggests that economic dynamism and cultural vitality are positively related. There is evidence that Irish people continue to embrace collective projects that are neither narrow nor focussed on material self-interest. Indeed, research suggests that personal and social relations still have a central place in people’s levels of satisfaction and well-being, in Ireland and other advanced industrial societies (Layard, 2005).

The Council sees no overwhelming reason to revise its earlier judgement on Ireland’s human and social resources and more autonomous civil society. It recognises that these are complex questions on which a plurality of views is inevitable. The Council’s future work in preparing periodic Social Reports may provide an opportunity to consider these dimensions of social change more fully.

The Council does, however, believe that the acceleration of in-migration and the accumulation of pressures arising from the growth in population make it more important than before to discuss and identify where and how public policy can strengthen civil society.
Migration, Culture and Identity

As noted above, migration will have significant consequences for the economy and probably, in time, for the system of social protection and social services. It also has implications for social cohesion, social capital, culture and identity. Indeed, its effects on the economy, social policy and culture are probably related in complex but important ways. Making a success of migration in any one of these spheres will make it easier to make a success of it in the others. Failure in any one sphere will tend to create problems in the other two.

As noted above, it seems that certain positive feedback mechanisms between immigration and economic and social development have existed since the mid-1990s. Migration has raised the economic growth rate, contained cost pressures, lowered the old age dependency rate, fuelled population growth and increased the size of the domestic market. In many ways, it is a very positive development that significant numbers of people are currently seeking to work and live in the country.

Turning to the implications of migration for social cohesion, social capital, culture and identity in Ireland, it is too early to say much. Observation of other societies gives us some pointers which help in finding ways to make the impact of migration positive rather than negative. These include:

- Recognition that culture has always been interactive rather than indigenous and categorical;
- Shared practices—in work, caring, sport, music, politics and other areas—tend to create a cultural accommodation;
- It is vital to have social institutions and processes through which social interaction, social learning and conflict resolution regularly take place; and
- These interactions require a conscious policy focus, from the start, on integration of migrants.

Migration therefore poses major policy challenges to Ireland. It adds a new dimension and urgency to discussion of Ireland’s cultural policy in the widest sense of the term. But it also reinforces the case the Council makes for accelerating developments in key social policies and institutions (see Chapter 3).

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3. For example, economies that are buoyant are more likely to ensure the quality of employment and job mobility that enable migrants to acquire similar living standards to the indigenous population; economies in recession provide a much more difficult context.
2.5 Factoring the Environment More Fully into Our Understanding of Ireland’s Experience and Challenge

It is now necessary to factor the environment more fully into our understanding of the Irish economy and Irish society and into our medium-term goals and strategies. In doing this, it is sensible to take a broad view of the environment. This means taking account not only of the physical quality of air, water and land, but also of the man-made environment and the quality of access to nature. This reflects the fact that the environment is now integral to economic activity, social relations and the quality of family and individual life.

2.5.1 Key Aspects of Ireland’s Environment

In factoring the environment into our thinking and policy, a number of aspects of Ireland’s environment need to be noted:

- Overall, Ireland has good environmental quality;
- Ireland has a modern and coherent body of environmental law and a regulatory agency charged with implementing environmental policy and monitoring the environment;
- Environmental law and policy, largely shaped at EU level, have adopted state-of-the-art approaches to some key environmental risks and achieved significant progress, particularly in reducing emissions and effluents from industry; and
- Although the Irish economy has become less energy and material intensive in recent decades, absolute pressures on the environment have increased significantly because of sustained economic and population growth.

Despite this combination of a good environmental starting point, a coherent body of law and developing regulatory institutions, Ireland faces significant environmental challenges in:

- Meeting international obligations by controlling air emissions from transport and energy production;
- Reducing pollution of water from municipal and agricultural sources;
- Achieving a comprehensive system of waste management;
- Implementing sustainable, high-quality, settlements in both urban and rural areas;
- Improving the protection of natural habitats; and
- Enhancing access to the natural environment.

When these substantive challenges are examined they reveal several over-arching procedural and institutional challenges, which we discuss below.
2.5.2 Towards a Shared Understanding of Ireland’s Environment

Like all policy areas, action to improve environmental quality gives rise to conflicts of interest and ideas. But the way in which these conflicts are handled—and even the perception of interests—is shaped by the way in which the environment is understood. Here we identify some elements of a shared understanding of Ireland’s environment.

Sustainable Development is a Key Aspect of a Successful Society

Ireland’s environmental policy has been strongly shaped by EU environmental policy. The need to improve environmental performance in Ireland is sometimes seen as a consequence of the need to comply with EU directives and regulations. The Council emphasises that a high quality environment is an essential feature of a successful society in the Irish context. In other words, a high quality environment is worthwhile primarily because we value it ourselves, and only secondarily in order to comply with EU law or international covenants.

The Environmental Kuznets Curve

The relationship between economic development and pollution has been described as an inverted U-curve, known as the ‘Kuznets Curve’. At the early stages of economic development, people place more priority on jobs and income than on protecting the environment. As income continues to grow, the relationship between economic development and the environment eventually changes. At higher incomes, people begin to place greater priority on protection of the environment and environmental regulation becomes more effective. Researchers have estimated that the income level beyond which there is a positive relative between income and the environment is between $5,000 and $8,000. This implies that Ireland’s current income level is well into the range in which income growth should be associated with improved environmental quality.

The Environment and the Economic Efficiency of Markets

The ability of the market system to maximise welfare is a long-standing theme in economics theory and doctrine. On certain assumptions, a system of competitive markets will lead to the greatest possible satisfaction of preferences. However, where there are adverse environmental effects from economic activity, a system of markets will not maximise social welfare. This is because individual firms (or other actors) will not take adequate account of the costs of pollution where these costs do not fall directly on them. The effect of these ‘externalities’ is that there is more pollution than society’s preferences really want. Overall welfare can be increased by government policies that alter the allocation of resources in a way that reflects the value people place on the environment. This creates a complex distribution of costs and benefits for resource owners, firms and households.

Environmental Regulation and Firms’ Profitability and Competitiveness

The implication of environmental policies for firms is clearly an important consideration. The neoclassical economic theory of the firm suggests that environmental regulation will generally impose a cost on firms, which must be bourne by them or, depending on relative market power, passed to consumers or
suppliers. At the same time, cleaner technology that increases profits will be adopted by firms without any regulatory stimulus. Hence, the relationship between environmental goals and profitability has normally been thought of as involving a trade-off between social benefits and private costs.

While this is true in many cases, there are a number of reasons why this analytical approach is not adequate in thinking about the relation between environmental protection and business success in Ireland. There are situations where firms can benefit from environmental policy and where national or sectoral competitiveness can be enhanced. We briefly discuss each.

The standard analytical approach was challenged by Porter and van Der Linde in a much discussed paper. They argue that the costs that environmental regulation imposes on firms are often overstated because they neglect the way firms can innovate to reduce or eliminate these costs. Environmental regulation can prompt a search for innovative solutions that ultimately turn out to be profitable. In the absence of regulation, such opportunities could remain undiscovered. Porter and Van der Linde (1995) identify a number of principles that regulation should follow if it is to foster innovative solutions. Rather than prescribe particular technologies or techniques, it should give companies the flexibility to achieve environmental standards in the most efficient manner they can discover.

This conceptual approach to the environment has been applied in Ireland in research by Hilliard and Jacobson (2003). They found that some firms did, indeed, innovate in response the EPA’s system of Integrated Pollution Control (IPC). However, this research suggests that the Porter and van der Linde hypothesis does not apply to all firms. The tendency to innovate in response to environmental regulation depends on particular capabilities and organisational routines.

National and Sectoral Competitive Advantage

Innovative responses to environmental regulation also raise the possibility that regulation can enhance rather than reduce national competitiveness. Global demand is moving in the direction of increased demand for energy and resource efficient products. Porter and Van der Linde argue that demanding regulations can give firms a first mover advantage in developing products that reflect these trends. For example, Scandinavian paper producers have become leaders in introducing new environmentally friendly production processes. Such gains will only apply if the national standards anticipate world trends.

A positive reputation is one way in which it is possible for an environmentally friendly approach to strengthen the economic competitiveness of a sector. Such a reputation is a public good of a certain type. While companies can benefit from it, there is a risk that they would free ride and not make the environmental investments to sustain it. Creating and sustaining a reputation depends on the development of trust between the companies involved and/or institutional mechanism that address the collective good of the sector.

4 Critics of the approach of Porter and Van der Linde acknowledge that there can be opportunities to offset the costs of regulation but argue that these are rare and small. Porter and Van der Linde contend that such innovation offsets are neither rare nor small. They argue that pollution is a sign of inefficiency and forces enterprises to perform non-value creating activities such as the handling, storage and disposal of waste. Furthermore, efforts to reduce pollution and maximise profits share the same basic principles, including the efficient use of inputs, substitution of less expensive materials and the minimisation of unneeded activities (Porter and Van der Linde, 1995:106).
At the very least, these studies suggest that it is mistaken to think of the environmental issue in a simple dualist way, a zero sum game of business versus the environment. There are many areas in which win-win solutions are possible. Some businesses will be able to use environmental standards as a catalyst to innovation and others will not. There are areas in which some enterprises will gain from higher environmental standards and some will lose. Likewise, there are areas where some households and employees will gain and some will lose, at least temporarily. This means that environmental enhancement is complex, but also that it is possible.

**Beyond Conservation Versus the Economy**

A particular version of the dualist view of the environmental challenge that has some currency in Ireland is to cast it as a battle between conservation, on the one side, and economic interests, on the other. We have argued above that this polarity is based on a mistaken view of the relation of business to the environment. But the other term of the polarity, conservation, is also misconceived.

Conservation, understood as preserving things as they are, is an inadequate way to approach environmental issues, whether we are dealing with the natural or man-made environment.

The natural environment is constantly changing. What we see as timeless features of the natural landscape are the outcome of millions of years of change and are still changing. What we see as the natural landscape is, to a considerable degree, the product of past human activity. Some features of the landscape that we now value highly are the product of past human activities that radically altered the ‘natural’ landscape (and were often harmful to people and earlier social groups). Many past human activities were very damaging to the environment and many modern ones are more environmentally friendly. Hence strict ‘conservation’ of the natural environment is at best meaningless and, at worst, the cause of bad policy and practice.

The man-made environment—buildings in urban and rural areas, field patterns, even archaeological remains—are also constantly changing. Buildings and townscape that we value are often the result of adaptations to earlier buildings and towns. They would not exist if past generations had adopted the idea of strict conservation. It is impossible to develop a rich man-made environment without engaging with and altering earlier structures. Hence strict ‘conservation’ of the man-made environment is at best meaningless and, at worst, the cause of bad policy and practice.

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5. The architect, John Tuomey says ‘The tendency towards closure that typifies well-intentioned discussion on historic structures is anathema to the culture of architecture. Protected structures are so described in order to prevent needless intervention or heedless destruction, and this makes sense. But protected structures did not originate in the Garden of Eden, nor are they nowadays removed to a sanctuary beyond access. It is a curious anomaly in this regard that many architectural historians adopt a preservationist stance, in the sense of being closed to change, rather than an evolutionist one, in the sense of seeking strategies for survival. History might have informed them otherwise’ (Tuomey, 2004:29–30).
Consequently, the Council believes that it is important to move Irish environmental debates beyond the polarity that sometimes arises: ‘conservation versus the economy’. This requires a better grasp of how and why the past is valuable to us and how we want to relate to it in ways that enrichen our lives and the lives of those who come after us.

High Environmental Standards Require Engagement of States, Firms, Associations and Citizens

Above we identified, in broad terms, the main aspects of Ireland’s environment that must be improved and the economic and social policy areas where environmental goals need to be better integrated. Some of these are areas where familiar, and generally successful, methods of environmental governance need to be applied for the first time, or applied more fully. But a striking feature of many of them is that either the methods or goals, or both, are highly contested. Progress on solving a number of important environmental problems in Ireland is blocked by tensions between social groups and sectors that, in turn, frequently induces an element of policy sclerosis. This means that structures of governance, decision making and conflict resolution are not working as well as they could. Restating the technical merits of a particular environmental policy mechanism—if only it were applied—does little or nothing to solve the problem if different perceptions of the problem and perceived conflicts of interest over means are blocking the adoption of that policy mechanism, or sometimes any policy at all.

Recognising the Possible Place of Landscape in Irish Identity

Ireland’s national identity, like that of most developed societies, has become less clear and more contested. This is so because of the internationalisation of many aspects economic and social life, including significant immigration, a move away from some aspects of earlier identity and a diffidence about strong versions of national identity in the light of the violent conflict to which they can contribute. In this context, there is interest in many different quarters in shaping an Irish identity that is helpful in solving twenty-first century problems. Some argue that a particular relationship to the Irish landscape can now be a valuable element of Irish identity. The Council does not take a firm view on this, since it does not seek to reach a single view on Irish identity. But it recognises that this is a an interesting line of thought and one that can make a positive contribution to discussion of environmental issues and the strengthening of interactions with nature.

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6. The French philosopher, Luc Ferry distinguishes between ‘democratic ecology’ and ‘deep ecology’: ‘the love of nature strikes me as being essentially composed of democratic passions shared by the immense majority of individuals who wish to avoid a degradation of their quality of life, but these passions are constantly being claimed by the two extremist tendencies—neo-conservative and neo-progressive—of deep ecology’ (Ferry, 1995: 143).
2.6 A Better Account of Relations Between Ireland’s Economic, Social and Environmental Goals

From an updated account of the Irish economy, a deeper account of Irish social development, and a more holistic view of the role of the environment in the economy and society, it is possible to provide a better understanding of the relation between Ireland’s economic, social and environmental goals. Several aspects of that relation need to be better understood:

- The relationship between economic performance and social protection;
- The changing relation between economic constraints and social possibilities;
- How the key environmental challenges relate to Ireland’s development strategy;
- The role of the environment in society and social cohesion;
- The two-way relation between social capital and institutions; and
- The role of quality services in both social inclusion and the successful management of migration.

Economic Performance and Social Protection

Meeting the challenges of Ireland’s social deficits can be greatly assisted by the clearer view of the relation between social protection and economic performance which we now have. While this is a complex relationship involving several sorts of social processes, the international evidence seems to be that good economic performance and improved social protection are not intrinsically opposed but neither do they inevitably occur together. Rather, they are made to support each other where there is sufficient shared understanding and commitment on the part of those who shape and implement economic and social policies.

This depends critically on recognizing that social policy is not simply an exercise in redistributing a surplus, there to be creamed off after successful economic performance, but that the composition and manner of social spending are as significant as its level. Poorly-designed social protection can damage employment and reduce individuals’ participation in the labour market. Well-designed social protection, on the other hand, enables people to embrace change and take more risks than they would otherwise do. Social policy, therefore, must assume its appropriate share of responsibility for the economic policies that enable the widest possible number in the population to earn their livelihoods in a decent and humane way.

In The Developmental Welfare State, the Council argues that the factors that underpin economic and business success in Ireland will, increasingly, depend directly on human qualities. The success of the Irish economy has been the source of...
of very significant social progress. Continuation of that success requires a deepening of that social progress. Several of the major improvements in social protection now required to address the social deficits mentioned above will prove to be economic assets and contribute directly to sustaining and improving our economic performance. Examples include ending child poverty, stemming educational disadvantage, tackling social exclusion, supporting people in their caring responsibilities, more flexible pension arrangements, higher standards in publicly provided health care and education.

**Beyond Economic Constraints on Social Possibilities**

Through much of the past decade and a half, there was a real sense that the economic reality set limits to the social possibilities. This was true in an obvious sense when the economy was recovering from the crisis of the 1980s. It was true in a different sense, when a formula for economic recovery, fiscal correction and employment growth was found, a formula in which increasing Ireland’s share in world markets played a central role. Indeed, even after a decade of growth, in the difficult economic conditions at the start of this decade, the Council, in its 2003 Strategy report, sought to identify ‘shared’ or overlapping pressures and concerns between those concerned about competitiveness, quality of life and fairness. The perspective outlined in this report suggests that the relation between economic success and social progress is now much stronger than that. Rather than seeking merely shared or overlapping concerns, it seems that there are now joint pressures and concerns. The medium and long term strength of the economy seems to depend critically not only on the recently increased investment in physical infrastructure and scientific research, but also on a deepening of capabilities, even greater participation, internal as well as external connectivity, more social mobility and successful handling of diversity, including immigration.

Many of those debating Ireland’s social progress have, in recent years, been at cross purposes. Some believe Ireland’s economic development has sacrificed compassion, social standards and solidarity; others that an increased emphasis on social protection must necessarily erode the economy’s cost competitiveness. The Council is convinced that the development of a dynamic, knowledge-based economy has inherent social implications that can serve social justice and a more egalitarian society, and that the development of Ireland’s welfare state as outlined in its recent report, The Developmental Welfare State, is integral to sustaining the dynamism and flexibility of its economy. In a globalised world, the strength of Ireland’s economy and the attractiveness of its society will rest on the same foundation – the human qualities of those who participate in them.

**How the Key Environmental Challenges Relate to Ireland’s Development Strategy**

A first step in understanding the relation between the economy and environmental quality is a clear view of where Ireland’s environmental performance is strong and where it remains weak. A second step is to learn from those areas where integration of environmental concerns has been achieved and use this knowledge to aid integration in other policy areas.
As noted above, industrial development through attraction of high-technology firms and increasing the capacity and capability of indigenous manufacturing was the core of Irish economic policy for several decades. Although it took some time, there is little doubt that Irish environmental policy and performance are most advanced in this area. Clinch et al say, ‘while the environmental demands on business have been steadily growing, there is no evidence that these are impairing competitiveness’ (Clinch et al, 2002: 142). This is important and encouraging in a number of respects. It means that two of the core ways in which Ireland now earns its living—advanced manufacturing and services—are not areas of poor environmental governance and are not essentially environmentally damaging.

Many of the areas in which Irish environmental policy is less effective, and in which environmental goals are weakly mainstreamed, are ‘upstream’ or ‘downstream’ from these core business activities. Upstream are activities—such as energy generation and raw food production—which support competitive business activity. As noted in Chapter 1, several of our environmental challenges lie in these areas. Downstream lie activities that are essential to much competitive business, such as freight transport, and activities in which we use our incomes, such as consumption, municipal services, leisure transport, housing construction and urban development. Several more of our environmental problems lie in these areas.

The position of the key environmental challenges within Ireland’s economic and social strategy has important implications for the relationship between environmental protection and economic performance.

The Role of The Environment in Society and Social Cohesion

The Council’s definition of a successful society is one in which economic and social progress are both sustainable. The environment is increasingly recognised as an aspect in the quality of social and individual life. It is clear that environmental quality is one important influence on health. The man made environment and the condition of neighbourhoods has a huge influence on the quality of family and community life. Access to nature is a basic element of well-being for most people and for a successful society. Of course, another aspect of the relation between the environment and social cohesion is the impact of environmental policy on different social and income groups. There is no doubt that environmental protection can have financial costs, even where it yields other benefits, and that these can be a particular burden on those with low incomes. In general, the correct response to this is not to limit environmental protection, although that is a tempting route. Two considerations support this view. First, where environmental policy has regressive distributional costs there are usually other tax and transfer policies that can address these. Second, it is not sufficiently recognised that degraded environments have a disproportionate impact on poor people and people with low incomes. They have less freedom to move away from degraded environments and so must bear the effects on health, community and the quality of life.

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8. This is reflected in estimates of whether the overall Irish economy is sustainable (Clinch et al, 2002:144).
The Two-way Relation Between Social Capital and Social Institutions

An important aspect of the relation between Ireland’s economic, social and environmental challenges is the quality of social capital, community life and culture. The concept of social capital captures the many ways in which society coheres and draws attention to the importance of trust in making both the economy and society work. The Council believes that social capital depends, to a significant degree, on the density and quality of interactions between social groups and the institutions (both formal and informal) that assist people to resolve conflicts of interest. It is in these interactions and institutional arrangements that people develop the skills and capabilities that are an element of social capital. This perspective, shown in Figure 2.1, balances the focus on norms and values, that comes from the literature on social capital, with a focus on practices and institutions, that comes from experience, in Ireland and elsewhere.

Figure 2.1

Social Capital

That yields sufficient shared values to support social cohesion

Institutions & interactions

That allow identities to interact and conflicts to be resolved

The Role of Quality Services in Both Social Inclusion and the Successful Management of Migration

The Council is undertaking a study of the economic and social effects of migration, with a view to informing Irish migration policy. It plans to publish a study by the International Organisation of Migration (IOM) along with Council comments. Without pre-judging the outcome of the Council’s deliberation, it is important to indicate some aspects of the emerging shared understanding. Migration will undoubtedly give rise to tensions and already poses difficult policy dilemmas. But there is at least one important way in which the challenges facing Irish society itself and the challenges arising from migration can be addressed together. The Council’s The Developmental Welfare State report highlights the fact that quality services, provided where possible in a unitary way, are the single most important requirement to address our social deficits. The international evidence, summarized by IOM, shows that active policies for integration of migrants into society are a most important requirement in the successful management of migration. While the detailed implications of these findings need to be explored, the perspective inherent in them provides hope that the challenges of social exclusion and migration can both be addressed.
Key Challenges,
Goals and Strategies
3.1 Introduction

This chapter presents the Council’s view on the key goals, challenges and strategies that Ireland should adopt in the coming decade and some of the policy and partnership actions that need to be taken in the years 2006 to 2008.

The analysis in Chapter 1 identified important trends in the Irish economy, society and the environment. In Chapter 2, we drew on this to (i) update and enrich our account of the economy; (ii) deepen our account of Irish social development; and (iii) factor the environment more fully into our understanding of the social situation and the social challenge. We finished Chapter 2 by combining these to offer a better account of the relation between Ireland’s economic, social and environmental challenges.

This has important implications for the Council’s vision of a successful society and its understanding of what policies are necessary and feasible to achieve it in Ireland. It fleshes out our picture of a participatory society that incorporates a commitment to social justice. It suggests that economic and social progress in Ireland is now more broadly based and has deeper roots than in the past, or than is sometimes recognised. It suggests that Ireland’s core long-term means of earning its living, advanced manufacturing and services, can be made consistent with environmental quality. The increasing role of services, the strong growth in employment across the skill spectrum, the large increase in social expenditure, the adoption of Integrated Pollution Control in the most competitive segments of manufacturing, the evident entrepreneurship and the rapid recovery from the slowdown of 2000-2002 are examples of this.

At the same time, it confirms that this more broadly and deeply based economic progress continues to be uneven in certain respects and is vulnerable in a number of ways, some of which are new. In past decades, and even in the past decade and a half, there was a real sense that the economic reality set limits to the social possibilities and ambitions for environmental quality. The medium and long term strength of the economy now depends not only on investment in infrastructure and scientific research, but also on a deepening of capabilities across a wide spectrum, greater participation, an infrastructure of care that improves both the quality of life and the ability to participate, internal as well as external connectivity, less social exclusion, more social mobility, successful handling of diversity, including immigration, and high environmental standards, not only in large manufacturing enterprises but also in a range of arenas influenced by the behaviour of thousands of households, farms and businesses. In short, there is a real sense in which aspects of our social reality and environmental quality now set limits to Ireland’s economic possibilities.
This modified picture of Ireland’s economic and social situation, possibility and threats, demands that we state our goals in a new way. It suggests that our goals should be modified:

- To focus more on GNP per head than the growth of total GNP;
- To focus more on the overall employment rate and the employability of individuals than the absolute level of job creation;
- To encompass not only export growth but also the competitive advantage (of both Irish enterprises and firms located in Ireland) in a networked world economy;
- To build on successful adoption and operation of advanced technologies to achieve much wider innovation in products, processes and organisation;
- To aim less for targeted programmes for disadvantaged groups and more for the responsiveness and flexibility of publicly-funded services, securing adequate income and improving participation; and
- To build on successful control of a small number of large scale polluters and an improving waste management infrastructure, to achieve widespread adoption of environmental quality through more effective conflict resolution and governance.

Indeed, in many policy spheres the implicit goals have already been modified in these ways, without explicit acknowledgment of the degree to which this alters the view of Ireland’s economic, social and environmental challenge that informed policy for many decades.

An important feature of this modified account of the economy, society and environment is that it is more complex, in some respects, and much simpler in another. It is more complex because our ultimate goals are no longer adequately reflected in the proximate goals of export promotion, employment creation and pollution control, led by a few key agencies. Instead, economic, social and environmental progress requires action on many fronts and at many levels. Yet the task of economic, social and environmental progress is much simpler than in earlier decades. Instead of battling against deep structural weaknesses, we are building on a record of successful action which makes further economic, social and environmental progress much more feasible than ever before.

This complexity and ambition is reflected in this chapter. It outlines the ambitious goals that Ireland should set for economic performance, social cohesion and quality of life over the next ten years. It identifies the many strategies, programmes and policies that will be necessary to achieve those goals. This defines a very large set of challenges, goals and strategies, discussed under the following headings:
Key Challenges, Goals and Strategies:

Introduction

- Enterprise and innovation;
- Training;
- Migration;
- Participation and fairness;
- Pensions;
- Infrastructures of care: disability, eldercare, child development and childcare;
- Housing and sustainable settlements;
- Health;
- Education;
- Regional and rural development;
- Agriculture;
- Infrastructure and a new national development plan;
- The environment; and
- Enabling voluntary and community activity.

In discussing these policy areas, we identify the Council’s view on the broad goals and strategies that should be adopted. In some areas, on which the Council is in a position to add value, based on its analysis and the extent of its shared understanding, we make firm recommendations on the direction which policy should take.

In discussing this range of national challenges, goals and strategies, the Council seeks to achieve a balance between the two purposes of the NESC Strategy report: first, to provide a shared analysis of Ireland’s economic and social experience and medium term challenges and, second, to indicate the Council’s priorities for a three year social partnership programme.

There is one important area of policy which is not listed above, the island-of-Ireland economy and North-South cooperation. Rather than devote a separate section to this, the Council considers that it needs to be integral to many of the policy areas discussed in this Strategy report. The Council sees the issue as one of mutual gains. These can arise in three analytically distinct ways. First, mutual gains are possible where there are significant economies of scale. This arises, for example, in the generation and distribution of electricity, in the provision of some high-cost medical facilities and in several other areas. Second, mutual gains are possible where there are spill-overs and, therefore, common problems which can be best addressed by creating common resources. This arises in regional development, where coordinated action can achieve more than separate action and where a strategic asset, such as Derry airport, can assist development both North and South. Third, mutual gains are possible where there are gains from collaboration and
networking. For example, groups of firms in both North and South might each strengthen their position in international markets by collaborating on product development, training or marketing.

Together, these different kinds of mutual gains underline the fact that the economic and social success of each part of Ireland is advantageous to the other, and economic and social failure in one part is damaging to the other. Finally, the Council is clear that, even where there are potential gains from cooperation, it is usually necessary to have institutions to turn this potential into reality. Hence, it sees the continued building of institutions for practical North-South cooperation as essential to achieving the significant mutual gains that are now possible.

3.2 Enterprise and Innovation

There has been a strong performance by enterprises across the economy in recent years and the growth of the Irish economy has continued to be among the fastest in the EU. The performance of enterprise in Ireland in recent years reveals much underlying strength and flexibility in the Irish economy. At the same time, there is a very significant restructuring underway, reflecting the increased intensity of competition arising from globalisation. Recent growth has been dominated by construction and services with declining manufacturing employment. While the internationally trading sector has been under pressure, Ireland has continued to attract new high-quality, investment projects that embrace a range of business functions including research and development (R & D).

In the medium term, Ireland must modify its existing policies in order to ensure the continued competitive advantage of its export base and to create employment to replace the jobs lost in manufacturing. This requires a consistent and co-ordinated approach across a range of policies: enterprise, training, education, social protection, infrastructure, service provision, migration and regulation. Here we consider the role of enterprise policy, innovation and regulation.

A comprehensive review of enterprise policy was published in 2004 by the Enterprise Strategy Group (ESG). Subsequently, Enterprise Ireland published a new strategy for 2005 to 2007, Transforming Irish Industry. The Council attaches considerable importance to the effective implementation of Enterprise Ireland’s strategy, the continued evolution of Ireland’s approach to FDI and IDA Ireland’s work in this regard, and the upgrading of national strategy for science, technology and innovation to support medium and long-run enterprise competitiveness.

3.2.1 The Objectives of Enterprise Policy

The Council believes that Ireland’s enterprise strategy should aim to achieve:

- Balanced capabilities in product development, operations and marketing;
- An effective national system of innovation (NSI), a part of which will be a strong research input to enterprise;
Strong networks for training, research and product development;

Greater similarity in the characteristics of foreign-owned and indigenous enterprises – with both competing on the basis of knowledge and organisational capability, trading internationally and networked within Ireland and internationally;

Enhanced success in a range of internationally traded services, including financial services, education and consultancy;

A thriving tourism industry based on high quality, value-added product offering;

Higher productivity in the non-traded sector; and

More widespread adoption of high performance work practices across the economy.

The ESG showed that, to date, Ireland’s enterprise success, particularly in manufacturing, was based largely on strength in operations. It argued that Ireland must now balance this with capabilities in research, new product development, commercialisation and sales and marketing. For the FDI sector, this should derive from upgrading of existing enterprises to encompass greater R & D and sales/marketing activity and the attraction to Ireland of new projects which are more research and marketing intensive. For the indigenous sector, it will require more investment in R & D, innovation and sales and marketing, along with the upgraded management and staff capabilities required to compete globally.

A key goal is to ensure that the recent increase in investment in basic research yields knowledge resources to enterprise in Ireland. These can take the form of new proprietary knowledge or a flow of high-skilled scientific people. There is an emerging consensus that the increased investment in basic research achieved in recent years is only one step in the construction of a national system of innovation (NSI) suited to Ireland’s situation. Further steps include increased investment in applied research, better systems for linking research to enterprises, ensuring that the wider education system is resourced to continue making a major contribution to Ireland’s economic success, and engaging a wider section of the population in the project of turning Ireland into a learning economy and society.

While Irish industrial policy used to be characterised by strong agencies supporting weak enterprises, as observed in the Telesis report for NESC in 1982, the goal of policy in the years ahead should be to animate and support networks of enterprises. Increasingly, the most successful countries and regions are characterised by networks of firms, public agencies and educational institutions undertaking training and innovation.

In its 2003 Strategy report, the Council argued that the ‘dualist’ view of business in Ireland is frequently overstated (NESC, 2003). This can obscure the degree of progress in the Irish enterprise sector and the fact that some of the enterprises most threatened by competition from lower-cost countries are foreign-owned. It can obscure the fact that an important part of business development for Irish
enterprises is joint ventures, partnerships and investments outside Ireland. Consequently, an excessive focus on apparent differences between foreign-owned and Irish-owned enterprises located in Ireland can obscure the nature of the challenge facing both public policy and business. In an increasingly globalised world, a strong emphasis on the nationality of ownership is becoming less relevant. Nonetheless, the Council believes that one of the goals of enterprise policy should, indeed, be to reduce the degree of dualism in the internationally traded sector. As identified some decades ago, this would mean greater linkage of foreign-owned firms into the Irish economy. It is now seen also to involve more joint ventures between foreign-owned firms and indigenous enterprises and improved networking among firms generally in high risk activities such as pre-competitive research. Finally, less dualism will involve indigenous enterprises, in some segments, developing the kind of rent-yielding assets that characterise the leading foreign-owned enterprises, such as leading technology, innovative products, brands and reputation.

An important goal for enterprise policy, broadly defined, must be the long-term development of Ireland’s tourism sector. While Ireland can no longer be a low cost destination, this does not preclude being a value-for-money destination, based on overall quality. This requires very significant change in the product offering and the coordination of business and other activity in the sector, especially outside the major urban areas (see the discussion of the rural economy below).

Finally, enterprise policy must seek to increase the productivity levels of the Irish non-traded sector (including construction) relative to comparable sectors elsewhere. Such an increase in productivity would help to moderate the price of non-traded output relative to income. Increased productivity in the non-traded sector derives from strong competition, investment in training, adoption of advanced work practises and, where applicable, the application of new technology. The goal however, is not to maximise productivity (as conventionally measured) in every instance and consideration should also be give to other objectives, such as quality neighbourhoods.

There are three strategic directions of enterprise policy that the Council wishes to highlight:

- the need to deepen and widen Ireland’s innovation policy;
- the network approach; and
- regulation in the service of competitive advantage, competition and other goals.

Each of these is discussed briefly below.

### 3.2.2 Deepen and Widen the Approach to Innovation

A most important development of the past decade was the increased investment in basic research. There were a number of elements in this first step to address the long run historical deficits in this area: the creation of Science Foundation Ireland (SFI) to manage the allocation of research grants in information and...
communications technology (ICT) and biotechnology, increased investment in third level research infrastructure under the Programme for Research in Third Level Institutions (PRTLI) and the establishment of the Irish Research Council for the Humanities and Social Sciences (IRCHSS). It is increasingly recognised that this was only a first step towards an effective national system of innovation (NSI). The Council believes that the following is needed to deepen and widen Ireland’s approach to innovation.

First, there is a need for more strategic direction in policy on research and innovation. The OECD review of third level education noted that funding policies in this area ‘seem to have developed in isolation from one another and there is little capacity for systematically connecting them with one another or linking them to a long term tertiary education strategy or to a broader strategy relating to the economy as a whole’ (OECD, 2004c: 44). It argued that ‘it is essential that the public moneys allocated to tertiary education, research and innovation are directed strategically and with appropriate levels of national accountability so that policy and policy implementation can be evaluated’ (op. cit., 44). To address this, the OECD recommended a National Council for Tertiary Education and Innovation be established, to be chaired by the Taoiseach, with the relevant Government Departments (Education and Science; Enterprise, Trade and Employment; Health and Children; Agriculture and Food; and Finance) to determine a rolling three-year national strategy agenda for tertiary education in its relation to innovation, skilled workforce and the economy. The NESC Council supports the thrust of this recommendation to ensure that Ireland’s policy is coherent. If such a National Council were appointed, NESC recommends that its membership be somewhat more broadly based, to include in particular the higher education and research institutions.

Second, there is a need to strengthen significantly linkages between the research institutions and enterprises in order to increase the impact of basic research on the Irish economy. Third, investment in basic research should be accompanied by increased investment in applied research. Fourth, it is necessary to ensure that the wider education system is resourced to continue making a major contribution to Ireland’s economic success. Fifth, a wide-ranging knowledge-society or learning-society foresight exercise needs to be undertaken in order to create a wider buy-in to the learning-society project and to explore the social and institutional implications of a learning society.

Sixth, institutional arrangements for undertaking ‘fourth-level’ (i.e., advance postgraduate) education need to be put in place. It is important that such expansion should not compromise on the high quality of Ireland’s undergraduate education.

Finally, a critical aspect of deepening the approach to innovation is an increased emphasis on workplace innovation. Following widespread consultation, the Forum on the Workplace of the Future has issued its final report, setting out a strategy for the workplace (NCPP, 2005). The report notes that there is considerable experimentation with new work practises but that few companies are using the

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1 The development agencies are working in a number of ways to strengthen the links between third level research and enterprise. The Innovation Partnerships initiative managed by Enterprise Ireland provides financial support to encourage companies to undertake research projects with Irish Universities and Institutes of Technology. Enterprise Ireland fosters the commercialisation of research through its advisory services and on-campus specialists. It is piloting a new initiative to provide long-term research relationships between companies and colleges through the formulation of cluster-based research agendas. The Marine Institute is actively strengthening its relationships with its potential enterprise client base. In 2004, the IDA supported or initiated seven industry-academia R & D collaborations.
opportunities of new work practises in a synergistic way. It points out that there is evidence that employee involvement and participation can transform organisations and increase productivity. Workplace innovation is of relevance across the private, public and voluntary sectors. The Forum report emphasises the need for workplace innovation and a range of practises—management and leadership capacity, employee involvement, training and lifelong learning, equality and diversity and quality of working life—to be promoted and disseminated widely across the public and private sectors as a key strategic response to the economic and social challenges facing Ireland. The Council supports the recommendation of the Forum’s report that workplace innovation be incorporated into a national system of innovation.

The Council understands that a comprehensive Strategy for Science, Technology and Innovation is at present in preparation which will address the key policy issues in this area.

3.2.3 Networks

The Council believes that a networks approach should play a more significant role in the implementation of enterprise policy. This approach was advocated in NESC’s 1996 report *Networking for Competitive Advantage* and recently endorsed by the Enterprise Strategy Group. Networks may consist of groups of firms which co-operate for a specific purpose or may involve other actors such as third level research institutes, financial institutions or development agencies. Networks can reduce the costs and risks to firms of undertaking particular activities, such as entering new markets, and can support learning. A network of firms could support higher level research of common interest. The network approach in Ireland is currently used most extensively in regard to training, but could have benefits in other areas. The Council notes that Enterprise Ireland is to develop proposals on business-directed networks and has initiated a pilot programme in which firms identify shared R & D agendas. Networks of enterprises and public institutions can play an important part in regional development. International research on regional development highlights the role of ‘regional development coalitions’—of enterprises, development agencies, third level institutions, local authorities and others—in strengthening innovative capability and embedding economic activity in a world of mobile resources.

There is also scope to apply the network approach to the tourism sector. A report by the Irish Tourist Industry Confederation (ITIC) describes how this has been applied in Canada with a ‘Product Club’ programme. The programme provides partnership funding to tourism consortia comprising industry stakeholders to develop or enhance tourism products, conduct research, marketing and other activities. The programme is targeted at underdeveloped tourism areas. The provision of funding to encourage a range of interests to work together to enhance an area’s tourism potential is more likely to create value-added than simply providing grants to individual businesses or tax breaks. The network approach also has potential in the construction sector in, for example, assisting the adoption of innovations among smaller construction firms.

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2. An example of an existing network arrangement is the joint marketing of dairy products by the Irish Dairy Board. This was originally a state initiative but is now owned by its members. There are other instances of network arrangements in food processing with food co-operatives sharing production facilities.
3.2.4 Regulation for Competitive Advantage, Competition and Other Policy Goals

Regulation is a key instrument of public policy that serves a range of goals of relevance to enterprise development. Survey data on the perceived burden of regulation suggest the burden of regulation is comparatively low in Ireland. The 2005 Annual Competitiveness Report (ACR) by Forfás shows Ireland as having the fourth lowest costs of regulation out of 16 countries. Nonetheless, in Ireland and elsewhere, regulation can create a significant cost burden and this burden can increase as new regulation accumulates\(^3\). The costs of regulation tend to be disproportionately higher on small enterprises\(^4\).

Regulating Better

In 2004, following a major public consultation process, the Government set out its plan for improving regulation in the White Paper, Regulating Better. The White Paper set out six principles for better regulation: necessity, effectiveness, proportionality, transparency, accountability and consistency. A Better Regulation Group—with representatives from relevant government departments, the sectoral regulators, the Competition Authority and Director of Consumer Affairs—was established to oversee implementation of an action plan. The group meets on a regular basis and has also met with other organisations, including ICTU and IBEC.

In the 18 months since the publication of Regulating Better, substantial progress has been achieved in relation to a number of key recommendations, including:

\[\text{♦ Piloting a model of Regulatory Impact Analysis (RIA) suitable to the Irish public service as part of an overall drive to increase evidence-based policy-making;}\]

\[\text{♦ The publication of consultation guidelines to ensure more structured and consistent public consultation; and} \]

\[\text{♦ Starting a programme of legal revision to improve the internal consistency of regulation in particular areas, update pre-1922 legislation and improve accessibility and clarity of laws.}\]

RIA involves systematic consideration of the benefits and costs of a regulatory proposal. It requires analysis of the likely impacts on the citizen and on business, as well as the costs of enforcement on the State. The process includes structured consultation with stakeholders and citizens to help inform policy decisions and ascertain if there are unforeseen costs or impacts in relation to the proposals.

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\(^3\) The Council is cognisant that notwithstanding the generally relatively low burden in Ireland, policies such as ‘conditional competitiveness’ within the European food sector (see Section 3.12.5)—where regulatory standards imposed on European food producers and processors in areas such as the environment, food traceability and animal welfare—are not imposed to the same extent on global competitors—have specific cost and strategic implications for European and Irish food processors.

\(^4\) A study for another EU Member State, cited in the Government paper, Regulating Better, estimated that the cost of ‘red tape’ to small business works out at €3,600 per person employed while for larger firms the comparable figure was €153.
Other initiatives under the *Regulating Better* agenda include:

- An audit of the regulatory framework in Ireland, setting out all bodies that have regulatory functions, their areas of responsibility, reporting arrangements etc;

- Improving citizens’ access to regulation by introducing a streamlined system for the electronic publication of statutory instruments.

The Council believes that improving the quality of regulation can have a significant influence on Ireland’s economic and social well-being. It welcomes the initial progress made in the implementation of the action plan formulated in *Regulating Better*, but notes that much remains to be done. Regulatory impact analysis requires enhanced skills and improved data. Sustained progress will require a substantial development of skills by government departments. The recent development of a full-time Master’s programme in policy analysis for civil servants is a useful initiative in this regard.

**Competition, Prices and Other Policy Goals**

Strong domestic competition can stimulate productivity and innovation among enterprises. It can also ensure that prices to consumers and business are not higher than necessary. The Forfás ACR shows that the intensity of competition in Ireland is relatively low. On a scale of 1 to 7, the intensity of competition in Ireland was ranked at 5.1, which was the fourth lowest among 16 countries.

The level of prices in Ireland is now comparatively high. Eurostat data show that the level of consumer prices in Ireland is the second highest in the EU, with just Denmark having a higher price level. The other Scandinavian countries have similar price levels to Ireland.

The problem of high consumer prices is a complex one that does not lend itself to immediate solutions. More vigorous domestic competition is part of the solution and this can be promoted by the enforcement work of the Competition Authority. The Competition Authority has undertaken studies of competition in a number of sectors. Its study of the banking sector showed that competition is not working well for consumers. The Competition Authority has recently issued its final recommendations to make competition more effective in this sector. The Council supports implementation of these recommendations. A study is ongoing on the professions. An initial consultancy study identified obstacles to competition in many professions. In some cases these require changes in government policy, for example, increasing the number of places in medical schools. The completion of this important set of studies and implementation of recommendations would have significant beneficial effects for consumers.

The Council considers that stronger competition is possible and desirable in several areas of the Irish economy, and could reduce the prices of goods and services. It recommends that government restrictions on competition should be relaxed, except where there is a worthwhile policy objective served by the restrictions. The

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5. This project will clarify the range and scope of regulatory activity across the public sector. It will also act as a reference guide to regulatory bodies and enable comparison and benchmarking of Ireland’s regulatory regime and regulatory reform process internationally.
Council emphasises that regulatory policy and the operation of competition policy should be undertaken with reference to the overall goals of national economic and social policy. Thus, considerations of the long-term competitive advantage of key sectors, environmental quality, social inclusion and sustainable urban settlements must be taken into account in competition policy. These important goals would not be served by any policy change which increased car dependence or threatened the fabric of Ireland’s cities and towns. Competitive advantage is an important consideration in the food industry, where restructuring of Ireland’s processing capacity, small in the context of the EU internal market, seems necessary to secure the long-term viability of the industry.

3.3. Training

3.3.1 Beyond Deadlock on ‘What Training?’ And ‘Who Pays?’

In some recent work on Irish policy learning in the European context, the Council identified the nature of the policy challenge in training and a number of other policy areas, particularly childcare. Drawing on an analytical distinction between problem-solving and bargaining, it showed how training is an issue that is prone to deadlock. This analytical framework is discussed further in Chapter 5 below. Deadlock can easily arise because of the need simultaneously to identify what form training should take and to determine how training should be funded. The former requires joint problem-solving to find the most effective training, while the latter creates an incentive to strategic bargaining. Anxiety about the distribution of gains and losses can prevent parties participating in good faith in the search for better outcomes. In the absence of this cooperative problem solving, there will be limited new value to bargain over.

The Council believes that progress towards an effective national system of training has been delayed by disagreements on how training is to be resourced. At the same time, there have been significant policy initiatives on a pilot or experimental basis. These experiments and initiatives now provide the basis for resolving the wider issues. As a result of these initiatives, some of the key elements required for an effective system seem to be coming into place:

- A national framework of qualifications has been published and is in the process of being implemented;
- The Skillnets programme has shown the value of a network approach that is significantly enterprise-led;
- Skill needs are monitored by the Expert Group on Future Skills Needs;
- The Back to Education initiative has sought to provide a major expansion of part-time education places for those who left school without completing second level education;
- The ‘One Step Up’ proposal of the ESG and subsequent initiative by FÁS has galvanised support for a new emphasis on upgrading the skills and qualifications of the working population, particularly at lower levels;
Employers are supporting training through the National Training Fund. Employers contribute 0.7 per cent of payroll to this Fund to support training by FÁS, Enterprise Ireland, Skillnets and others; and

There was a substantial increase of €27 million from a low base in the budgeted level of public expenditure on training of people at work in 2005.

Hence, the Council believes that it is now possible, and of critical national importance, for the parties involved to build on recent initiatives in training and lifelong learning to devise a systemic solution in the years ahead. It believes that three principles should inform the new system:

A market orientation, to ensure that training enhances the competitive advantage of firms and sectors and the skills required for high-quality public services;

Employability, to ensure that training enhances the career development of people of working age; and

Benchmarking, to ensure an external reference point and a catalyst for change.

A national system of lifelong learning with these characteristics is critical in securing Ireland’s economic future in an increasingly competitive world and in ensuring that economic progress is inclusive and regionally balanced.

3.3.2 Building a Strategic National Training System

The Council believes that an effective national training system is now an urgent economic and social requirement. An effective national system would be one which (a) supports the upgrading of skills needed by the private, public and voluntary sectors; (b) enhances the employability of individuals; and (c) contains a significant degree of external benchmarking to ensure that it meets the highest standards and is forward looking. Such a system would contain:

A system for identifying future skill needs in both the traded sectors of the economy and in key services;

Widespread linkages between training/education providers and enterprise;

Widespread, enterprise-led training on a network basis, providing programmes tailored to the strategic needs of industries and industry clusters;

A choice of high-quality, affordable, learning opportunities available to all adults and accessible while continuing in work or other responsibilities;

A fully-implemented national framework of qualifications that makes access, transfer and progression a reality;

Transfer refers to the ability to transfer to different programmes or fields of learning while progression is the ability to progress to higher award levels, for example, the ability of a person with craft qualifications to enter a degree programme.
A fully modularised and credit-based education system, in which part-time learners are facilitated in acquiring credits at varying rates of progress and not necessarily on a continuous basis, prior learning is accredited and the hours of educational institutions are adapted to facilitate those with other responsibilities;

Additional targeted support for those with low initial qualifications or low incomes. Paid training leave and free tuition are available to all such adults who also have access to a high-quality, independent, advice and information service available to all adults;

Distance learning as a widespread, standard practise, facilitated by general availability of broadband; and

Innovative training providers, the quality of whose training is assured by an effective system of quality control.

3.3.3 The Need for More Investment

The Council is of the view that the total level of investment by government, employers and individuals in the training and education of the adult population is not sufficient, having regard to the current economic and social pressures. There is widespread agreement across OECD countries on the need for increased investment in training and education of the adult population (OECD, 2004b). This need arises for the following reasons. First, global competition places competitive pressure on many enterprises and sectors of the Irish economy and it is essential to develop further the capabilities of employees to meet this pressure. Second, demographic change implies a slowdown in new entrants to the workforce. The availability of new skills in the workforce will become increasingly dependent upon existing workers developing these skills. Third, individuals who lose, or are at risk of losing, their current occupations as a result of structural change in the economy need access to better quality training or education than is normally available, in order to ensure their employability. Fourth, the more widespread provision of quality training and education opportunities to those not at present in the labour force, such as lone parents and people with disabilities, is one of the key elements of the Council’s strategy for a Developmental Welfare State (see below).

A recently established initiative of Dublin Port provides a good example of a progressive approach to addressing over-staffing through training and education. This initiative was developed in partnership with the relevant unions. A development unit provides re-training, upskilling and individual development programmes to employees over an eighteen-month period. Employees attend full-time at the Development Unit and retain their full pay. At the end of the period, they qualify for an agreed severance package. The Dublin Port Company intends to offer the services of this unit to other companies operating in the port (Industrial Relations News, 27 May 2005).
### 3.3.4 Distribution of the Benefits and Costs of Training

The issue of paying for increased investment in training and education of the working population was examined in a 2001 OECD conference. The report of this conference concluded:

> The question of who should finance the net increase in resources for learning among adults was surprisingly non-controversial. There was broad agreement on the principle that employers and employees should share the bulk of the burden, that government has responsibility for much of the cost for poorly qualified and indigent individuals. What was not so clear was by what means the financial responsibilities might be shared (OECD, 2001b: 155).

The Council is in agreement with this conclusion. The recent report of the Forum on the Workplace of the Future (NCPP, 2005) suggested a three-way sharing of costs among employers, employees and government.

### 3.3.5 Public Investment in Training and Education for Those with Low Qualifications or Low Incomes

The Council is in agreement with the OECD analysis that the state has a particular responsibility for investing in training and education of those with low educational qualification or low incomes. This is based on the following considerations:

- Experience shows that those with low initial qualifications are least likely to benefit from employer-provided training and are most vulnerable to economic change;

- Those on low incomes have the least scope to invest in training and education from their own resources;

- From an equity perspective, there is a case for assisting investment in education and training for those who derived limited benefit from the initial education and training system;

- Researchers at the University of Ottawa found evidence that reducing the number of people with very low skills in the labour force shows up the most clearly as an influence on economic growth (Coulombe et al, 2004); and

- A focus on those with limited educational qualifications is of particular relevance in Ireland in view of the relatively high share of the adult population that has not completed second level education (38 per cent in 2003, OECD, 2005f).

Following the ‘One Step Up’ proposal of the ESG, FÁS (2005) has proposed paid training leave for low qualified workers, funded by the state. This would be paid at the minimum wage rate and could be topped up by employers.
3.3.6 Guidance and Information

One of the obstacles to adult learning can be the availability of information on opportunities available. The Report of the Taskforce on Lifelong Learning (2002) identified three types of information needs: (i) information on education and training opportunities; (ii) information on costs and subsidies available to support learning; and (iii) job-related, labour market information on requirements and qualifications routes for different careers, areas of job growth and development. To these could be added a fourth need: assistance in developing an insight into an individual’s aptitudes and motivations that can provide a basis for career choices and the pursuit of learning opportunities.

In Ireland there are a number of sources of information and advice, including FÁS, education officers in Vocational Educational Committees and local partnership committees. In selected areas, guidance is available from the Adult Education Guidance Initiative (AEGI). This is a pilot initiative funded by the Department of Education and Science. This service is targeted at participants in the Vocational Training Opportunities Scheme (VTOS), the National Adult Literacy Initiative and other community education.

The Task Force on Lifelong Learning recommended that a single source of learning information (the national learning line) should be developed that would provide information via the internet, phone and in disability friendly format. That report also recommended that an integrated guidance service be developed linked to the national learning line. The Council considers that these recommendations should now be implemented. An integrated guidance service could be based on existing public providers and also on encouraging private suppliers.

In the workplace, there is scope for ‘learning representatives’ to provide guidance and encouragement to engage in learning. The UK has recently developed a system of trade union learning representatives to support learning and skills development in the workplace. They identify skills and learning needs, work with employers to plan learning opportunities and seek to influence the learning strategy in the workplace. Learning representatives receive training to support them in this role.

3.3.7 The Network Approach to Training

A most significant development was the launch in 1999 of an enterprise-led approach to training, organised through networks. This programme, managed by Skillnets, was designed to overcome some of the problems that SMEs have encountered with training. Doyle (2000) suggests that the relationship between SMEs and training providers, both public and private, has often been strained: SMEs feel that training is too costly, inappropriate for their needs and are reluctant to allow staff sufficient time to participate and providers find it difficult to respond.

In this context, the network approach to training offers many advantages and the experience to date has been widely considered very satisfactory. The potential advantages of a network approach are:
Training programmes can be designed to meet the common needs of a group of companies;

There are economies of scale in providing training to a network;

There is an improved relationship between the providers and the enterprise as the networks operate through quality management procedures (Doyle, 2000);

Participants in the network learn from each other as well as from the formal trainers; and

This approach can, to some extent, overcome the ‘free rider’ concern that companies have about training (i.e., that staff mobility means that investment in training is easily lost). Awareness that similar companies are also investing increases the probability that the enterprises will achieve a return from training.

The mandate of the training networks programme under Skillnets has recently been renewed for the period 2005 to 2010. The budget in 2006 is €8 million and this will rise to €10 million per annum in subsequent years.

#### 3.3.8 Future Skill Needs for Public Services

The work of the Expert Group on Future Skill Needs makes an important contribution to industrial policy, training policy and education policy. There is a clear need for a similar analysis of future skill needs in the public and voluntary sectors, particularly for the provision of social services. This is evident in long-standing skill shortages in a number of areas and the heavy reliance on migrant labour. It is becoming more evident as Ireland develops more adequate systems of social protection. For example, a particularly urgent need is to provide sufficient trained staff to undertake needs assessment of people with disabilities, in order to implement the provisions of the Disability Act (2005) and the National Disability Strategy. If Ireland’s system of social protection is to develop along the lines proposed by the Council in its report on the Developmental Welfare State, this will require both much more analysis of future skill needs, effective networking among the agencies with specialised expertise in different areas of social policy, and co-operation with educational institutions in order to expand capacity in key areas.

#### 3.3.9 Training for Management Development

Most employment in the Irish private sector is in small and medium enterprises (SMEs). The issue of management skills in SMEs has been recognised worldwide as a significant concern (FÁS, 2004). A study (cited in FÁS, 2004) on management skills in the Irish SME sector prepared by Tansey/McIvor Consulting for FÁS and Enterprise Ireland argues that high policy priority be accorded to management development to strengthen management capabilities among SMEs. It is argued that the main constraint in management development is not the financial cost but the perceptions of management regarding the value of structured management development. Hence, the key issue is making available courses that are seen to be relevant and accessible to SME managers.
3.3.10 Summary of Key Actions Required on Training

This section draws together the Council’s proposed actions on training. In order to build a national system of the type described above, it is necessary to take three kinds of action in the coming years:

- Actions to strengthen the contribution of skills to enterprise performance;
- Actions to improve the employability of individuals; and
- Action to reform the policy process and the supply of training.

Actions to Strengthen the Contribution of Skills to Enterprise Performance

In order to strengthen the contribution of training to enterprise performance it is necessary to:

- Build on the success of Skillnets, by expanding enterprise-led training on a network basis;
- Encourage collaboration between enterprises and the training/education sector, by monitoring and disseminating examples of best practise, as recommended by the NCPP in its report, *The Workplace of the Future*; and
- Launch, on a pilot basis, a new initiative to strengthen management skills;

Actions to improve the employability of individuals

Improving the employability of individuals is an urgent need, in the light of increased redundancies in manufacturing and the continuing high levels of benefit dependency highlighted in the Council’s recent report, *The Developmental Welfare State*.

For some categories of low qualified workers, the costs of training or education should be met fully and paid training leave should also be provided by the state. Without this level of assistance and guidance, it is unlikely that there will be significant involvement in substantial training or education by low skilled employees.

For the wider population, the long-term funding instruments for training need to be promptly determined. The Council recommends that the level of financial assistance provided should be increased and, for both economic and social reasons, should provide most assistance to those with low skills or low incomes and to those most at risk of redundancy. Further analysis is required to identify the best instrument to be used. For those who do not progress directly from second to third level, consideration could be given to the provision of an education and training bond that could be drawn upon later in life for the purpose of education or training.

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7. The recently published FÁS Training Strategy (2005) recommends the introduction of paid training leave at the minimum wage for people who had been in the workforce for a number of years and who do not have the Leaving Certificate or its equivalent. The National Adult Literacy Agency (NALA) has proposed training leave for those without the Junior Certificate.
The Council recommends that parties involved in negotiating redundancy terms should place more weight on training and other assistance that would help with re-employment. The experience of the successful Dublin Port initiative (see above) in developing the skills of surplus employees could be drawn upon by other employers. Consideration should be given to the provision of additional tax relief for redundancy payments provided in the form of training.

Improved access to part-time education in the third level sector requires an early reduction of financial obstacles and increased flexibility, by both the institutions and employers. Part-time and continuing education students should be recognised on a pro-rata basis in the recurrent funding of third-level institutions, as recommended in the OECD (2004c) review. Part-time students on relevant skill-based programmes should be eligible for maintenance grants and this eligibility should include remission of fees. The issue of financial costs for part-time students generally should be included as part of the analysis of funding models recommended above. Increased flexibility is required from third-level institutions in terms of opening hours and tailoring of courses to the needs of part-time students. Increased flexibility by employers is required in terms of facilitating employee access to training.

It is necessary to implement the key recommendations of the Report of the Taskforce on Lifelong Learning, in particular the recommendations on basic literacy, numeracy and IT skills, as recommended by the NCPP (2005).

It is also necessary to create a single national source of information on learning opportunities accessible by internet and phone, and to develop an integrated guidance system, as recommended by the Report of the Taskforce on Lifelong Learning. An integrated guidance service could be based on existing public providers and also on encouraging private suppliers. There is a need to review the provision in this area and ensure that the provision in place meets the type of information and guidance needs of the adult population identified above.

**Actions to Reform the Policy Process and Supply of Training**

As noted above, the Council believes that many of the requirements of an effective training system are coming into place. At this stage, it would be desirable for the Government to produce a statement on the overall strategy for the Irish training system. Several of the immediate and medium-term measures to build a strategic national training system require much more effective cross-departmental and inter-agency coordination. Issues that require cross-departmental action include part-time access to education and learning, the cost of further education and learning and accreditation of work-based learning (NCPP, 2005). The Council suggests that the Adult Education Learning Council may have an important role in this regard. The general challenge of joined up government is discussed in Chapter 5 below. Finally, there is a need for a system of monitoring of future skills needs in the public and voluntary sectors, particularly for social services, comparable to the work undertaken at present for skills needs in the private sector by the Expert Working Group on Future Skills Needs.
3.4 Migration

3.4.1 The Challenge to Define Long-Term Goals and Strategies

The main trends in migration were documented in Chapter 1. In Chapter 2, the Council argued that we must update our understanding of the Irish economy and society to take account of recent and possible future migration. Here we identify and discuss policy issues concerning migration. The Council shares the view of Government and others that Ireland must now identify its long-term approach to migration and define a comprehensive policy approach.

3.4.2 Positive and Negative Aspects of Recent Immigration

To date, Ireland’s economy and society have been significant beneficiaries of the rapid development of high levels of in-migration. In specific terms:

- Skilled workers from overseas have contributed to easing significant skill shortages in public services and the private sector;
- Many workers from overseas have taken jobs that have become increasingly less attractive to Irish people;
- The migrant workforce is still at the stage where it is disproportionately made up of young employed workers without dependants and, thus, is a low user of social services and a source of net contributions to the Exchequer;
- A historic debt of justice has been partially repaid as many former Irish emigrants, economically in-active as well as workers, have returned to this country;
- The large number of accession state nationals earning at levels currently not possible for them in their own countries is an indirect Irish contribution to making a success of EU enlargement;
- Remittances home by the nationals of developing countries have become an additional mechanism by which Ireland is aiding international development;
- Students from overseas are receiving part of their education in Ireland and, in addition, this may provide a basis for later commercial and cultural links between Ireland and their home countries;
- Ireland has assumed a share of the developed world’s responsibility to provide protection to refugees.

In general terms, the high level of in-migration has combined with Ireland’s strong economy and increasingly confident society to ensure that positive feedback mechanisms between in-migration and economic and social development have predominated since the mid-1990s. In-migration has raised the economic growth rate, contained cost pressures, lowered the old age dependency rate, fuelled population growth, increased the size of the domestic market, and added to the diversity and pluralism of Irish society.
There are also a number of negative aspects to the high in-migration of recent years:

- Some migrants have been exploited (by recruitment agents, employers, landlords, retailers and others) and their vulnerability has brought the worst out of some Irish people (racism, overcharging, etc.);
- Some types of criminal have been able to take advantage of migrant flows and migrant communities (e.g., people trafficking);
- Some public health hazards have become more serious (e.g., HIV infection, TB);
- Some migrants live in tightly closed networks and experience little contact with the Irish population;
- Many migrants may be employed in jobs significantly beneath their capabilities (‘brain waste’) and the longer they are in such jobs the more they may be damaging their prospects of progressing to better ones (‘scarring’);
- The hours worked by migrants in some sectors (e.g. health and caring services, hotels and restaurants) are so much longer than the average that dual working and/or inferior working conditions can be suspected;
- The character of some neighbourhoods has been abruptly changed by the arrival of significant numbers of people from overseas with poor command of English and limited opportunities to form bridges with the local population;
- Additional demand has been generated on already overstretched public infrastructure and services (housing, transport, health care);
- In Ireland, as elsewhere, people seeking asylum exist at a remove from Irish society and only limited examples currently exist of social, cultural and sporting activities that include them.

Each of these negative aspects of recent in-migration needs to be honestly faced, monitored and actively combated.

3.4.3 Migration Issues Currently Under Discussion

Much of Ireland’s administrative and policy approach to migration was created under pressure of the international increase in the numbers seeking asylum, exceptionally strong demand for labour in Ireland, particular labour shortages in parts of the Irish public service and the enlargement of the EU. It is widely recognised that there is now a need to move from reactive approaches to a more considered migration policy and more defined administrative procedures. The Department of Justice, Equality and Law Reform (DJELR) has published a discussion paper, *Immigration and Residence in Ireland*, outlining proposals for an Immigration and Residence Bill. The Department of Enterprise, Trade and

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8. For example, Ruhs (2003) estimates that non-EU nationals in health services worked 15.7 hours more each week than the average for all workers over the period 1998-2002.

9. An example is the voluntary work undertaken by asylum seekers from a direct provision hostel in Donegal in the Rossinver, Co. Leitrim, Organic Centre.
Employment has recently published an Employments Permits Bill (2005). Together, these documents identify a range of issues that need to be decided in formulating a comprehensive, long-term, migration policy for Ireland. These include:

- Overall objectives and principles;
- Procedures for future statements of immigration policy;
- Visas and pre-entry clearance;
- Border controls;
- Admission for the purposes of work, self-employment and research, including specification of a work permit regime and a ‘permanent’ migration system;
- Admission for the purpose of study;
- Admission for the purpose of family reunification;
- Admission for non-economically active persons;
- Residence status and residence permits;
- Monitoring and compliance;
- Removals; and
- Administration and delivery of services.

A number of aspects of the proposals of the DEJLR should be noted. First, it is proposed that many of these issues should be defined in secondary legislation, rather than in the Immigration and Residence Bill itself. Second, the discussion document notes that economic migration is a matter for the Minister for Enterprise, Trade and Employment, and the immigration and residence legislation should be fully consistent with employment permit legislation.

3.4.4 Need to be Informed by Economic and Social Analysis of Migration

The issues listed do, indeed, encompass much of what has to be decided in moving towards a more comprehensive long-term migration policy. It is natural that the Department of Justice Equality and Law Reform, in the first instance, approaches these issues by considering what would constitute a good legal framework that covers the diversity of migrants and accords with Ireland’s international legal obligations. The Council believes that in choosing an approach to each of these issues, policy needs to be informed by economic and social analysis of migration. Furthermore, it is possible that reference to economic and social analysis of migration will suggest some additional issues, not listed above, that should be thought of as part of Ireland’s immigration policy.
The Council has commissioned the International Organisation for Migration, in Geneva, to undertake a study of economic and social implications of migration to Ireland. It will discuss IOM’s report in the coming months and advise government, through An Taoiseach, of NESC’s collective view on a range of policy matters.

Without prejudging its forthcoming deliberations, the Council wishes to draw attention to a number of aspects of the economic and social analysis of migration that certainly need to be taken into account in current policy discussion and a number of other issues worthy of note. These include:

- The need to clarify what Ireland wants from migration;
- The impact on our demographic trajectory of the scale of immigration;
- The impact of migration on total GNP and GNP per head;
- The relation between in-migration and inequality in Ireland;
- The link between the integration of migrants and the overall success or failure of immigration;
- The likely long-term nature of much migration;
- The role of civil society in achieving, or failing to achieve, integration;
- The greater effectiveness of control of standards than control of entry;
- How uncertain status can weaken the benefits of labour migration, while not greatly limiting total in-migration;
- The need to treat refugees and asylum seekers in a manner that is supportive of the overall migration policy and national economic and social goals; and
- The possible long-term balance between EU and non-EEA migration.

Each of these is explained briefly below.

Need to Clarify What Ireland Wants from Migration

In preparing advice on Irish immigration policy, the IOM consultants wanted some guidance on Ireland’s over-arching goals. This proved surprisingly difficult to provide. Economic growth, employment creation, business development, service provision, cultural diversity, human rights and third world development all figured in the goals cited by a range of organisations, but not in a coherent or agreed way. In the Council’s view, this reflects the need to update and enrich our account of the Irish economy and deepen our account of Irish society and social policy, in order to reach a better understanding of how the economic success and social progress are related. In Chapter 2 of this report, the Council has sketched its current understanding of these relationships. The task is to think through what role migration can play in helping Ireland achieve its economic and social goals.
The many organisations, groups and public bodies with an interest in this issue now need and deserve a clear policy on migration that takes a long-term perspective, articulates how it contributes to improving Ireland’s economy and society, and specifies how it will be managed.

The Council is anxious to contribute to the identification of a shared understanding of the place of migration in overall economic and social development. The vision of a successful society outlined in a succession of NESC Strategy reports, and the more detailed analysis in its recent report, *The Developmental Welfare State*, make it clear that it does not want migration to weaken Ireland’s progress towards a participatory society, incorporating a commitment to social justice. As noted by the Council in Chapter 2, in such a society every person would have a sense of personal security in a changing work environment, an opportunity to balance work and family commitments and a capacity to share the gains made by successful competitive firms and high performance public bodies (NESC, 2003).

**Scale of Immigration Sufficient to Alter Demographic Trajectory**

In clarifying goals and a long-term migration policy, it is necessary to take account of the sheer scale of what has occurred in the recent past. For example, after EU enlargement, there was a 4 per cent increase in the size of the labour force. Indeed, the CSO’s population projections suggest that the population could reach 5 million in 2030, compared to the present level of just over 4 million, and that the percentage of foreign-born persons could exceed 1 million, compared with 400,00 at the time of the 2002 census\(^1\). This would equate to about 18 per cent of the population in 2030, higher than the present rate in many high immigration countries\(^2\). It is clear, therefore, that future migration could be on a sufficient scale to shape Ireland’s long-term demographic trajectory. This possibility needs to be factored in to thinking on a range of policies, including policies for sustainability and, of course, migration policy itself. This requires more understanding of the factors, both in Ireland and abroad, that determine the level of in-migration. It underlines the necessity for long-term planning, if we are to avoid further shortages of infrastructure, such as housing, public transport, waste management and public health services. While the possibility of strong in-migration creates the risk of under-investment, if long-term planning is not undertaken, some investments and activities that depend on a larger total population, or high population densities, such as public transport, may become more feasible. Formulation of a strategic migration policy, and of adequate policy responses to migration, is hampered by poor data.

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\(^1\) These projections are based on the higher of the CSO’s two migration assumptions (see Chapter 1, above, for details).

\(^2\) Higher than the present rate in Sweden, United States, Germany and Austria, though lower than the present rate in Canada, New Zealand, Switzerland, Australia and Luxembourg (Punch, 2005).
Impact of Immigration on Total GNP and GNP Per Head

Analysis of other countries suggests that immigration has a positive effect on overall economic output (GNP), but an ambiguous one on GNP per head. In the Irish case, we need to see that raising annual economic growth rates by a percentage point or more through high in-migration is not as unambiguous an achievement today as it was to have raised growth through targeting inward investment in previous years. The latter brought into play unused labour resources and provided the state with additional net resources; the former is taking place largely because there is, effectively, full employment and with net implications for public resources that are far from clear. But research also suggests that there are conditions in which immigration can enhance income per head.

In reaching a shared understanding on migration, a key issue will be the likely role of high or low migration in shaping the long-term development of Ireland, as measures by a balanced scorecard, encompassing GNP per head, employment rates, the vitality of enterprise, the quality of infrastructure and the quality of life.

Relationship Between Immigration and Inequality in Ireland

In Chapter 2, we discussed the relationship between migration, on the one hand, and inequality and social marginalisation in Ireland, on the other. This is an important and complex question on which considerably more research is needed.

Part of the complexity arises from the fact that:

(a) Many of those who experience Ireland’s social deficits most acutely are not in the labour force and, therefore, migrants are not in direct competition with them for jobs; but

(b) Nevertheless, it is important to keep a labour market perspective in mind in examining migration and making policy on it; and

(c) Different migrants are themselves vulnerable to poverty and marginalisation, depending on their skill level, country of origin and the sector of the Irish economy they are employed in.

The first of these factors does not warrant policy complacency or passivity. In its recent work on the Developmental Welfare State, the Council makes it clear that it does not see the current rate of non-participation of adults as an inevitable or desirable feature of Ireland’s economy or social system. The Developmental Welfare State report identifies some key policy directions to improve the opportunity for participation of people with disabilities and others. The NESF’s forthcoming report, Creating a More Inclusive Labour, provides further insight into the possibility for more inclusion.

A labour market perspective is important in order to see both the risks and the possibilities. As noted in Chapter 2, it is critical to avoid a situation in which strong migration at the lower end of the labour market pushes the market wage below the reservation wage of lower-skilled indigenous workers. An opportunity for greater inclusion and labour supply may arise in the island-economy context, given the relatively low rates of labour market participation in Northern Ireland. In Chapter 2, we noted the importance of research on the changing skill composition of migrants
and the skill-level of the jobs they are employed in. The skill composition of migrants has a role in shaping the impact, if any, of migration on the distribution of labour market income within Ireland.

As regards the risk of poverty and marginalisation among migrants, the Council welcomes the government’s decision to review the operation of the habitual residence condition.

The Possible Long-Term Nature of Much Migration

In framing a comprehensive migration policy for Ireland it is important to be aware that international experience shows that the distinction between temporary and long-term migration is hard to maintain. Furthermore, international experience suggests that family reunification develops to be the single greatest component in new inflows.

This means that the short-term and long-term effects of migration on the economy and society can be different. In particular, as noted in chapter 2, it is unlikely that in-migration will continue to provide a strong supply of young workers with limited demand for family reunification and limited call on social welfare and public services.

This is not to suggest that most of the recent migrants to Ireland will necessarily wish to stay (see below).

The Link Between the Integration of Migrants and the Overall Success or Failure of Immigration

Perhaps the most telling finding of economic and social analysis is that integration of migrants into the host society is a key determinant of whether immigration will be a success or a failure. This suggests that measures to achieve integration should now play a prominent part in framing Ireland’s overall policy. Indeed, this is one example of the need to widen the list of issues currently under discussion, as listed above.

International experience shows that the quality of migrants’ relations with their host society can remain a problematic issue into the second and third generations, and that host society attitudes towards non-nationals of different ethnic and cultural backgrounds can change under the influence of economic recession and international or domestic events that create new feelings of vulnerability.

In Chapter 2, we emphasised the role of quality services in achieving both social inclusion and the successful management of migration. The Council’s *The Developmental Welfare State* report highlights the fact that quality services, provided where possible in a unitary way, are the single most important requirement to address our social deficits. The international evidence, noted above, is that active policies for integration of migrants into society are a most important requirement in the successful management of migration. Among these should be policies to

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12. The word ‘integration’ is used in international research and policy analysis to refer to the degree of involvement of migrants, and their families, in the social, economic, educational, cultural and political life of the host country. It does not mean assimilation. Nor does it imply that ‘integration’ requires adjustment only on the side of migrants. Despite some reservations about the word integration, the Council adopts it in this discussion because of its wide international usage.
ensure that migrants acquire sufficient English language skills to participate fully in both the workplace and society. While the detailed implications of these findings need to be explored, the perspective inherent in them provides hope that the challenges of social exclusion and migration can, and must, both be addressed.

The Role of Civil Society in Achieving, or Failing to Achieve, Integration

Another important finding is that civil society and civil society organisations play a key role in ensuring successful integration. Since most migration is initially for work, it is clear that employers and unions have a key role, in the first instance. And wider civil society, and the vibrancy of social interactions that constitute it, are critical in ensuring that the experiences and living conditions of migrants come to resemble those in Irish society generally. However, if civil society is to play this role, it needs to be enabled and supported appropriately by public policy. Civil society now includes the networks and organisations which migrant communities themselves generate and through which they 'bridge' with the mainstream of Irish society as well as 'bond' their own members. Recent research describes the emerging NGOs led by migrants and their relationship with native-led NGOs and with a range of public entities (Feldman et al, 2005). It shows that Ireland faces the important challenge of embedding immigrant-led organisations in our national system of policy consultation, delivery and social partnership. The Council will explore this further in its report on migration policy.

Control of Standards is More Effective than Control of Entry

It is sometimes feared that immigration will undermine a range of standards within the domestic economy and society. This is a most important issue that must be analysed and discussed. In thinking about it, it is useful to distinguish between the risk that individual migrants will be treated in a way that violates existing standards and the possibility of a dynamic process that undermines existing standards across the Irish economy or society.

The risk of violations of existing standards is very real. Migrants are often vulnerable in ways that the indigenous population is not (lesser command of the language, initial ignorance of Irish laws, customs and practices, using standards in their countries of origin as a reference point, and, in the case of some, vulnerability in their country of origin). In addition, there will always be some individuals (recruitment agents, employers, landlords, retailers, etc.) prepared to exploit them, violating established standards, rules and norms. Where this occurs, it is highly damaging. It is unjust to the migrants themselves. It disadvantages the good employer or landlord and could sour relations between migrants and Irish society.

If it became widespread and persistent, it would create a dynamic process that undermines standards across whole sections of the economy and society. This could undo the short-term and long-term benefits of international migration. Indeed, it could create conditions in which immigration is eventually seen as a significant social, cultural and political problem.
International experience suggests that the maintenance and enhancement of standards within the economy and society is a more effective way of preventing such a negative dynamic than seeking to prevent the arrival of migrants themselves. It does this, in part, by reducing the demand for labour at unacceptably low levels of wages or conditions, and reduced demand will tend to reduce supply. This means that legal, administrative and other means for setting and monitoring standards should be included in the list of issues to be decided in framing a comprehensive migration policy for Ireland. The range of policies and practices that can support standards includes, but is much wider than, inspection and prosecution. It requires active involvement of a wide range of economic and social groups and innovative organisational practices that combine internal monitoring with external benchmarking and oversight.

The emphasis on maintaining standards within the economy and society should not be understood as support for unlimited provision of work permits to non-EEA nationals. As noted elsewhere in this section, the skill composition of migration and the potential impact of migration on the labour market are valid and important policy concerns. Indeed, the Council’s overall argument is that policy approaches to these and other issues should be informed by a clear, and hopefully shared, perspective on how migration will contribute to Ireland’s social and economic development.

Insecure Status Weakens the Benefits of Labour Migration and Does Little to Limit Total Immigration

International experience seems to suggest that keeping migrant workers insecure and uncertain about their long-term status tends to undermine the benefits of labour migration for both the migrant and the host society. This is most evident in the case of high-skilled workers and high-tech firms. Their ability to apply skills to technical and commercial problems is greatly hampered if entry permission is difficult or slow, if re-entry is complicated and if employers can provide only limited prospects of long-term settlement. But the point applies to less-skilled people also. Uncertain status and prospects can limit job mobility, access to training and links with the home country, and can actually encourage people to end up in an irregular status.

Some international experts argue that the various channels of entry should be so clear, and the criteria so transparent, that a person considering applying, or a firm seeking a particular skill, should be able to predict with a high degree of accuracy whether an application will be successful. The Council believes that, to the greatest extent possible, a ‘stop-go’ dimension to admitting non-EEA nationals to work in Ireland should be avoided. Elsewhere in this report, the Council draws attention to the value of expert analysis of future skill needs and medium-term manpower planning for a wide range of professions in technology, social services and public administration. This has been recognised as a key aspect of industrial policy; it is now clear that it is also a key input to effective social policy and a good migration policy.
The Treatment of Asylum Seekers

An important and difficult issue is how the treatment of refugees and asylum seekers should be conducted in order to be supportive of an overall migration policy and national economic and social goals. In its 2003 Strategy report, the Council emphasised its concern for civil liberties within the state and argued that 'arrangements governing asylum seekers should be exceptional only in so far as they are strictly necessary, and should be kept under review' (NESC, 2003: 412). It argued that the single best way to bring asylum seekers to enjoy the same treatment and rights as others in the state is through ensuring the speedy, courteous and impartial processing of their claims. The Council considered that the arrangements in place are generally fair and reasonable, while scope remained to continue learning from best practice in other countries. It recommended that civil society in general, and voluntary and community organisations in particular, be encouraged and facilitated in every possible way to form contacts with asylum seekers in the state and foster public understanding. It supported continuing exploration of alternatives to the current ban on employment for asylum seekers, which would enable them to use their time in a manner more constructive for themselves and their host society.

The wider economic and social perspective which is now being brought to bear on the overall issue of migration, may have some implications for the treatment of asylum seekers. In the first place, the rate of application for asylum has fallen very considerably. This allows the issues to considered more calmly and to be placed in the context of wider migration. Secondly, the increasing focus on integration of migrants, regardless of the likely length of their stay, may warrant some modification of the supports and services that are provided to asylum seekers whose applications are being processed. It is clear that a proportion of asylum seekers will be granted asylum or leave to stay, and a further proportion will stay in an undocumented status. Policy must be attuned to this reality. Thirdly, the increasing emphasis on the role of civil society in making a success of migration generally, may have some implications in the area of asylum.

The Balance Between EU and Non-EEA Migration

A very important issue, which needs to be informed by economic and social analysis and considerations, is whether Ireland’s future migration needs will largely be met from the countries of the enlarged EU or whether there will be a need to attract labour from outside the EEA. Policy in recent years would seem to be based on the view that lower-skilled jobs in Ireland should be filled primarily by migrants from the EU, particularly the accession states.

A number of considerations, suggest that, in framing a long-term regime, some other possibilities should be considered. First, it is possible that the demographic profile of the accession states—and, indeed, Romania and Bulgaria—combined with the future opening of the whole EU-15 labour market, mean that there could be a limited long-term flow to Ireland from these countries. Second, regardless of
the answer to that question, it seems clear that in certain parts of both the private and public sector there will be a demand for employees from the wider world. The likely skill level of the jobs in question needs to be analysed. Third, it is possible that international developments could create increased global pressure for migration from certain regions to the countries of the North, including Ireland.

3.4.5 Framing a Long-Term National Policy Regime for Migration

A managed approach to migration should be informed by a normative vision of how in-migration contributes to a society that is attractive as well as an economy that is successful. The Council sees three interwoven elements that must be developed simultaneously for a managed approach to migration to develop:

I. Its scale and composition need to be supportive of Ireland’s long-term economic strategy with the clear objective of achieving an internationally competitive economy based primarily on learning and adaptability;

II. Policies for migrants must be consciously developed that see the whole person and not just the unit of labour and foster social interaction, social learning and trust between migrant communities and the indigenous population; and

III. The capacity, competence, efficiency and fairness of procedures for admitting people into Ireland need to retain the confidence of the population and be seen to protect their security and well-being.

This requires that a whole-of-government approach be adopted in framing Ireland’s migration policy and in ensuring that it is implemented effectively in the day-to-day work of individual departments and agencies.

3.5 Participation and Fairness

As Ireland has become more confident of sustained economic growth, a tighter labour market and greater affluence, a concern has grown that greater attention and more resources should now be devoted to the challenge of making Irish society more inclusive and fair. The Council is strongly of the view that greater progress in the coming years in reducing poverty, promoting equality and ensuring a decent standard of living for every member of Irish society is integral both to making Irish society more attractive and to supporting Ireland’s economic development model.
3.5.1 A Strong New Perspective: *The Developmental Welfare State*

The Council’s study, *The Developmental Welfare State* (May 2005), noted the solid social progress that has accompanied Ireland’s strong economic performance. It concluded, nevertheless, that significant changes in social policies and institutions are now required if we are to make further inroads into old social deficits, respond to new social needs, and meet higher expectations and standards. The study, accordingly, articulated three overarching objectives for social policy and Ireland’s welfare state:

- To revise systems that reflect low expectations and achieve low outcomes for a minority;

- To support the employed population more adequately in changed times; and

- To institutionalise wholly new standards of participation and care for society’s most dependent and vulnerable members.

To achieve these objectives, the study proposes a re-conceptualisation of the core structure of the welfare state. This posits three overlapping areas of welfare state activity: services, income supports and innovative or activist measures (Figure 3.1).
The first area is a set of core services (health, education, housing, childcare, elder-care, transport, training, employment services) which the state should ensure are available to all members of society, at accepted standards and in ways tailored to people’s circumstances (including their ability to pay). The second area comprises income support arrangements that would have surmounted specific weaknesses in current arrangements, i.e., they remove responsibility for rearing a child as a factor fuelling poverty, support meaningful participation by people of working age, and ensure pensioners share in the economy’s overall progress. The third area is made up of deliberate measures for fostering the social innovations that are essential to keeping social policy abreast of social need and in generating which the community and voluntary sector have a major role.

As that study shows, and was already evoked in Chapter 2, building this welfare state and meeting these objectives will require fundamental shifts in thinking, methods of working and in how resources are allocated. For example:

- If we do not tackle child poverty and educational disadvantage more effectively, make a greater success of adult learning, and ensure our labour market is friendly to people undertaking every form of caring, then the size and productivity of our future workforce will be constrained. In these areas, improved social policy is as much about ensuring that economic growth can continue as about redistributing its fruits.

- People who incur debt to meet essential household running costs or medical bills are unlikely to complete further education or training courses successfully. In many instances, the extra income people on social welfare need is not just for basic necessities but so that they can participate more meaningfully in society.

- The level and responsiveness of services now needed by people in employment, as well as the non-employed, will not be assured by targeting public sector services on the poor and directing the non-poor to the private sector. The challenges are more intricate. New contracts, new incentive systems and new methods of working are needed so that large public sector organisations, the community and voluntary sector and the private sector alike can be part of service systems covering the entire population.

### 3.5.2 Equality

In its 2003 Strategy report, the Council emphasised that equality is one of its central concerns, given its account of a successful society: equality of educational service and opportunity, of access to training and employment opportunities, of chances to balance work and family life, of access to the key services that assist well-being, of local and regional infrastructure—in short, equality of status in access to the services of the public system. The major challenge is to identify what would be necessary to achieve the outcomes listed above and to build a consensus to meet these requirements (NESC, 2003:141).
In earlier work, the Council has reviewed the important legal, institutional and practical developments that have occurred to pursue the goal of greater equality in Irish society (NESC, 2003). Strategies for greater equality can now be informed by two developments in policy analysis:

- the clarification of the relation between rights, standards and institutions; and
- the clarification of the nature of the main social deficits in Ireland and of the combination of income supports, services and activist measures necessary to address them.

These clarifications and the strategic directions that flow from them have both a troubling and reassuring dimension. They are troubling because they show that achieving greater equality requires change in systems of policy making, policy coordination, service delivery, data collection, monitoring and, indeed, the relationship between central policy direction and local policy delivery. They are reassuring because the evidence from Ireland and elsewhere is that, if these changes are made, then much greater equality—between men and women, married and co-habiting, dual and single guardian households, straight and gay, people of different faiths and none, old and young, ‘disabled’ and ‘able bodied’, black people and white people, and settled and Traveller—really is possible.

It remains the case that attitudes to difference play an important role in sustaining inequality and achieving equality. But the new policy analyses noted above also show that attitudes are, to a significant extent, shaped by practical activity and interaction. Consequently, rights, standards and systems that promote interaction and problem solving, as well as being the most effective ways of directly increasing equality, are also the best means of indirectly promoting and sustaining it.

### 3.5.3 Building Integrated Approaches Across the Life Cycle

The Developmental Welfare State study concluded that the systematic adoption of a life-cycle approach has major potential for guiding the changes needed in Ireland’s welfare state and social policies. These include the more effective pursuit of equality, the better integration of services, income supports and innovative measures, the development of new structures of governance to improve the implementation of agreed strategies, and the fairer allocation—over time and across competing priorities—of scarce resources. As shown in Figure 3.2, this would identify what needs to be provided for a discrete set of population subgroups: children and youths (0-17), young adults undergoing multiple transitions (18-29), ‘anchor’ adults for whom responsibilities are typically at a maximum (30-64), older people (aged 65 and over) and the large subset of people living with a significant disability or confined to an institution (‘persons challenged in their personal autonomy’). As the separate identification of this last group confirms, the life-cycle framework cannot be applied rigidly—community development and social inclusion, for example, remain valid, complementary perspectives for achieving ‘joined up’ and multidimensional strategies. However, the Council believes that
assessing people’s needs, entitlements and responsibilities primarily according to their place in the life-cycle is a particularly unifying approach socially, and one that can surmount many of the difficulties that arise when ‘special’ programmes are focussed on a diverse, and widening, range of ‘disadvantaged groups’.

Adopting a life-cycle approach in building the Developmental Welfare State will require a particular re-ordering and restructuring in how government departments, service providers and NGOs work together. The Council suggests that departments, service providers and NGOs be involved in formal and authoritative overviews conducted at regular intervals that would:

- Articulate the key social outcomes and developmental objectives for individuals of that age/condition by which Ireland’s social policies and welfare state would be judged;
- Be informed by a clear view of the principal risks, current and emerging, which confront the person in Irish society in that age group;
- Be based on an on-going analysis and evaluation of the services, income supports and activist measures which Ireland’s welfare state is currently providing to persons in each age group;
- Articulate the rights and responsibilities that attach to members of each group and the current standards giving meaning to those rights;
- Identify the current institutional weaknesses and design flaws which it is urgent to address; and
- Specify the arrangements facilitating implementation of change strategies and governance of the needed social supports.

### Figure 3.2 The Life Cycle Approach: A Unifying Perspective

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<th>Who?</th>
<th>What?</th>
<th>How?</th>
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<td>Integration of services, income support and activist measures</td>
<td>Governance and leadership, Standards and rights</td>
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<td>People challenged in their personal autonomy</td>
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The Challenge to Government and Governance

The Council believes that this approach poses some urgent institutional challenges. The complexity of the institutional framework through which Irish social policy is shaped and implemented has grown faster (NESC, 2005: 92-93) than its coherence. A wide range of bodies whose inputs are interdependent in solving social deficits are being challenged by the pace of demographic and social developments to reassess their individual methods of working and how they relate to each other (government departments, statutory agencies, the community and voluntary sector and socially disadvantaged groups themselves). While the challenge of transforming Ireland’s welfare state is now as important as the transformation of its economy, the governance arrangements for networking actors in the social sphere have not received anything like the same attention or sophistication of development as have the network of public entities and private actors that conduct the analysis and execution of Ireland’s economic development strategy (described as a ‘networked developmental state’ by Ó Riain, 2004). For example, there is no body tracking the personnel requirements of Ireland’s welfare state in the medium term corresponding to the Expert Group on Future Skill Needs for the economy. Yet timely increases in the supply of many different types of personnel are essential to the achievement of Ireland’s social goals, and significant lead times are involved in their training. There have, of course, been important innovations in governance arrangements in social policy over the past decade and a half, including the area-based strategy on long-term unemployment (proposed by NESC in its 1990 Strategy Report) and the National Drugs Strategy.

The Life Cycle framework invites a comprehensive approach to developing networks of government departments, statutory agencies, NGOs and the private sector that shape and implement social policy. In some respects, this is already happening. The National Children’s Strategy, Cabinet Committee on Children, Minister for Children and National Children’s Office are attempting to do it for the 0-17 age group. For a section of the population specified by condition rather than place in the life cycle, the National Anti-Poverty Strategy and Office for Social Inclusion have acquired experience in constructing and delivering multi-dimensional responses to social need. However, it is the National Disability Strategy (NDS) that has come closest to anticipating the framework of Figure 3.2. Though controversy still attends the capacity of the Irish public system to deliver on the NDS, it has broken new ground for Irish social policy in its conception and architecture. Key components of that architecture have potential for application across the life-cycle, viz., the personal assessments of need, individual service statements, sectoral plans from key government departments, multi-annual funding and an Agency (in this case, the National Disability Authority) with a central role in developing and monitoring standards.

Progress in building governance networks for implementing social policy remains partial and uneven. For example, major dimensions of the same children’s lives – e.g., child protection, child income supports and childcare, etc. – continue to be discussed and provided for in parallel rather than in an integrated fashion; NGOs serving the elderly, and in other fields, still experience that they are indulged as optional extras rather than treated as integral players by government departments and national agencies; NAPS is seen as focussed on the needs of groups essentially
different from the general population and, therefore, as a minority concern; the NDS is exposing major deficits in capacity and in mindsets and setting a stiff test to the still developing network that is to implement it; the wider issue of people in institutional care is provoking separate rather than interrelated discoveries of the need and scope to accord them dignity, autonomy and opportunities for personal development within their constrained circumstances. Finally, Figure 3.2 highlights how the situation of ‘young adults’ has received relatively little systematic focus in Ireland to date, though such factors as their health status, access to housing, transition from education to the labour market, and decision when—or if—to become parents are each of major public concern but are currently addressed, if at all, independently of each other.

The Council presents the framework of Figure 3.2 not as a blueprint for reform but as an invitation to Ireland’s social policy actors to undertake more systematic research and discussion on the changes needed in the institutional frameworks and governance procedures for implementing social policy. It believes that significant learning is possible from reflecting on differences in the institutional arrangements and procedures already in place for delivering on economic policy. For example, the following observations appear to be suggested by experiences (good and bad) in implementing social policy in Ireland and, thus, point to hallmarks of what constitute successfully functioning networks.

- In each network, the objectives, goals and targets set for the population group in question should carry the full authority and commitment of the key government departments involved.

- Among the departments themselves, the locus of leadership for specific deliverables, and transparent and effective procedures for interdepartmental working, should be clear from the outset.

- National agencies with central roles in setting standards and benchmarks need to retain the trust and confidence of both line departments and NGOs, and not be wholly co-opted by either.

- All service deliverers in receipt of public funding—public, non-profit and private sector—should find in the rolling plan for the age group in question adequate recognition of their expertise, autonomy and role, on the one hand, and a clear indication of the level of funding, manner of accountability and prospects for their own growth, on the other.

- The implementation and effectiveness of public spending plans should be an integral part of these overviews.

- The relevant authorities should develop multi-annual ‘programmes’ for current social spending, similar to what has been developed for public capital spending under the National Development Plans. In these, the implementation of spending plans across government departments would be linked to the outputs and outcomes being sought for the population group in question.
3.5.4 Modernising Payment of Social Welfare

Key Findings in The Council’s Recent Work

The Council’s study, The Developmental Welfare State, draws attention to

- how the incidence of welfare recipiency among people of working age in Ireland did not decline during the employment expansion of the 1990s,

- how the numbers in receipt of the One-Parent Family Payment and Disability and Illness payments increased by more than the fall in numbers in receipt of Unemployment Benefit and Assistance,

- the long duration of welfare receipt for many people of working age,

- the survival—and even recrudescence—of several ‘benefit traps’ that contribute to making it difficult to cease relying on social assistance once a person has begun, and

- the continuing strong association between being reliant on social welfare and being below the income poverty lines.

In addition, it is important to appreciate that poverty in Ireland, however measured, has become increasingly associated with a status outside the labour force (being on home duties, ill or disabled, or retired) rather than with unemployment\(^13\). In the light of all this, the Council’s analysis balanced attention to the levels of social welfare payments with attention to what eligibility for them entails and implies. It underlined the importance of meeting the commitments that have been made to increase social welfare rates\(^14\), pointing out that struggling to live on low incomes over a sustained period of time undermines living conditions, creates stress and generates coping strategies more likely to compound people’s disadvantaged situations than provoke—much less empower—people to redress them (op. cit., 55-56, 178-179). In particular, reaching the level of €150 a week in 2002 terms for the lowest social welfare rate by 2007 is integral to the reform path the Council has proposed for Ireland’s welfare state. It is also part of the Council’s analysis, however, that income alone seldom secures satisfactory participation in society, particularly for people of working age, and that further specific barriers face many of them, which increases in social welfare payments, on their own, are unable to address.

In this context, it identified several weaknesses in how income support is currently provided to people of working age in Ireland. High benefit withdrawal rates create significant disincentive effects in certain instances. There is no systematic process for monitoring and redressing the erosion over time in the value of earnings disregards and income eligibility thresholds and the emergence of new benefit traps. The very contingency basis to payments paradoxically encourages a person to concur in seeing an aspect of their current situation as an impediment confirming

\(^{13}\) For a good summary of the data, see Office for Social Inclusion (2005).

\(^{14}\) The lowest social welfare payment is to be €150 weekly in 2002 terms by 2007; the basic State pension is to be at least €200 a week by 2007; the rate of the Qualified Adult Allowance is to move to 70 per cent of the adult rate; Child Benefit and Child Dependant Allowance are to be 33-35 per cent of the minimum adult social welfare payment by 2007.
their inability to be self-reliant (e.g., being a lone parent, having a disability) and yet to cling to it as their guarantee of a secure income. The low level of the payments leaves many recipients vulnerable to debt and low self-esteem. There are, effectively, no expectations of, nor aspirations for, recipients of social assistance embedded in the social welfare system other than that they continue to meet the qualifying conditions for their contingency. Increases in the rates of payment alone are unable to empower recipients to surmount the real obstacles preventing them from becoming more self-reliant (e.g., inability to find or afford childcare, poor skills, functional illiteracy, places of work not wheelchair friendly, etc.).

It is also important to realise that the links between social welfare rates of payment and recorded poverty levels are complex. For example, a fall in the number of people below income poverty lines could be caused by a decline in median disposable household income, and/or by a shift in the composition of welfare payments from means-testing to those that are insurance-based, and/or by higher rates of welfare payments themselves. Few countries, in fact, provide social welfare at rates that are sufficient on their own to ensure incomes above their national poverty lines (OECD, 2004: 35), yet many record lower income poverty than Ireland.

Recasting Contingency Based Payments and Services

In response to these challenges, the Council’s 2005 study set the long-term goal of gradually and systematically merging the current contingency-based social assistance payments to people of working age into a ‘participation income’. This would start from the assumption that all its recipients are alike in having some capacity for self-reliance, and which it is the objective of the social welfare system to foster with the appropriate supports. Moving towards a participation income, therefore, requires revising the conditions and terms attaching to welfare receipt so as to remove assumptions of irrevocable unemployability in recipients, on the one hand, and of employment as the only form of activity which contributes to a person’s social integration, on the other. By 2015, therefore, the Council envisions a social welfare system restructured and resourced to help people develop their potential as well as to provide income support.

Participation Packages

The Developmental Welfare State study points to several implications of working towards this goal. Currently, it is largely people on the Live Register who receive systematic attention from service providers (in their case, primarily job-placement officers and training advisors to whom they are directed by the National Employment Action Plan referral process). Over the coming years, persons with disabilities, lone parents, people in receipt of invalidity and sickness benefits, people on Farm Assist and people in early retirement should also be offered opportunities to reassess their options and access services from which they could benefit. People’s ability to entertain and pursue new prospects for progression is undermined if they must struggle to make ends meet or incur debt; more generous rates of payment in the short-term, when linked to implementation of tailored progression pathways, can lead to shorter durations on welfare and reduced overall expenditure on social transfers.
The Council’s study noted several positive developments that will support the construction of a new and much more positive future for people than indefinite receipt of a means-tested assistance payment. Advances in health, improved medical treatments and health appliances, new types of workstation and job descriptions which are less physically demanding, a buoyant economy and changed public attitudes have all diminished the implications of a given disability, health condition or age for a person’s ability to participate in the economy and society. Developments in instruments of programme management (health and aptitude profiling, new pedagogies in education and training, new data storage and retrieval systems, greater awareness of international best practice, etc.) have widened what it is possible to offer people. Several important changes already undertaken by the Department of Social and Family Affairs, or being contemplated, constitute steps towards the kind of participation packages the Council advocates, which integrate income transfers, use of services and intensive tailored supports to enable a person become more self-reliant.

There are several priorities which should accelerate the development of participation packages:

- Reform of the One-Parent Family Payment and associated services;
- Reform of Disability and Invalidity Payments and associated services;
- Reform of child income supports; and
- The changing role and capacity of the Department of Social and Family Affairs.

Reform of the One Parent Family Payment

The growth in the number of recipients of the One-Parent Family Payment (OFP), its long duration for a significant number of them, the continuing high poverty risks faced by lone parents and the fact that children as well as adults are inherently affected by this programme, lead the Council to underline the urgency of fundamentally reforming the OFP. This reform must accomplish several objectives. As in many other countries, there should be a clear phasing in of engagement with advisors and facilitators as the lone parent’s youngest child passes set age thresholds\(^1\). People in receipt of Ireland’s OFP (or whatever replaces it) should experience progressively stronger encouragement and be offered more intensive services and supports to enable more labour market participation as their children get older. Reform in this direction assumes, of course, that the required services (childcare, housing, transport, education and training, etc) are available. Encouragement should be drawn from the observation that the most difficult support of all, the availability of employment, appears reasonably assured.

\(^1\) In Australia, for example, its ‘Parenting Payment’ (the equivalent of Ireland’s OFP) leaves any contact with advisors or facilitators totally at the discretion of lone parents while a child is under 6 years (or has a severe disability requiring high levels of extra care). When the youngest child is aged 6 to 12, lone parents are required to attend an annual interview where an advisor explores with them their opportunities for greater financial independence. When the youngest child is aged 13-15, the likelihood of having to draw up a ‘Participation Agreement’ is added to the requirement to attend an annual interview.
The Council further urges that the reform of the OFP proceed in a direction which steadily de-problematises the status of lone parenthood. Responsibility for rearing a child is not unique to lone parents, nor is the inability of many of them to source and afford childcare, generate reasonable earnings, source and afford decent housing, and improve their skills and competences. Giving lone parents priority access to such resources and services as are currently available (e.g., the higher CDA they receive, priority access to social housing, childcare places in a local centre, etc.) appears beneficial in the short-term. But, it also increases the penalties of changing their status in the long-term. The wider set of welfare reforms proposed by the Council in *The Developmental Welfare State*—real progress in improving child income support for all low income households, improving the supply and affordability of childcare and social housing *generally*, making it more worthwhile for *any* person with low skills to return to education or training, making workplaces *in general* more family-friendly, etc.—remain the most effective route to de-problematising lone parenting and ensuring that fewer of the growing number of people who will experience that situation temporarily are not un-necessarily parked in it for the majority of their lives.

**Payments for Disability and Illness**

The numbers of people in receipt of payments for disability or illness is growing strongly. Of all groups in the population, their risk of ‘consistent poverty’ has improved the least and their risk of relative income poverty is significantly the highest\(^{16}\). This group is extremely heterogeneous. Many of them are in no position to hold even partial employment, but a significant minority could—and would—if supports were forthcoming to them in employment and not made conditional on their remaining wholly non-employed. The ability to increase payment rates substantially for people wholly unable to work because of illness or disability is intimately linked to developing the arrangements that ensure no incentives are created to remaining jobless for people in a position to recover their health or surmount their disability, and that their standard of living does not drop if they should do so.

The evidence is that receipt of payments for disability or illness is un-necessarily long-lasting for a significant number of people, and that *how* the support is provided contributes to its long duration (DSFA, 2003c). International experience, furthermore, cautions that disability and sickness payments can grow to dwarf unemployment compensation (Rae, 2005b). Indeed, in a significant number of instances, they substitute for it unless they too are administered in a way which respects and attends to individual difference, the potential and right of social inclusion and which integrates income support with access to services facilitating greater self-reliance. The Council urges that systematic arrangements be set in place for engaging in a phased way with individuals in receipt of disability or illness payments and who are at particular risk of becoming discouraged from returning to the workforce. This appears to be particularly likely for people some months after the onset of the illness or condition which first stopped them going

\(^{16}\) In the 1994-2001 period for which data are comparable. See Appendix V in DSFA (2003b).
to work. Employers should also be challenged not to shed employees with health difficulties lightly and risk adding the experience of exclusion to already vulnerable individuals. There is also a need to engage systematically with the recipients of long-term payments in a way which allows their different capacities, needs and interest in an eventual return to work to emerge clearly and for progression pathways and support packages to be designed for those among them who would benefit.

Child Income Supports

Section 1.4 above made clear that, whichever particular measure of poverty is used, a large proportion of Ireland’s children are being reared in households on very low incomes. For example, throughout the period, 1994-2003, about one quarter of all children at any one time were in households below the 60 per cent median income line. For many of them, their household’s situation was not brief but prolonged: over the ten year period, 1994-2001, it is estimated that some 19 per cent of all children where in households that had them below the 60 per cent of median income poverty line for a consecutive period of at least three years (‘persistent poverty’).

This highlights the continuing challenge of finding policy approaches that can significantly reduce the incidence of income poverty among children. Since the mid-1990s, the policy approach has been marked by a concern to provide income support to low income families in ways that did not compound work disincentives (Expert Working Group, 1996). At that time, unemployment was high and a large number of children had parents or guardians in receipt of unemployment benefit or assistance\(^7\). Consequently, Child Dependant Allowances (CDAs) were frozen, Child Benefit (CB) was increased in a major way and the Family Income Supplement (FIS) was repeatedly improved. In many respects this approach was a success, as shown in the now relatively small number of children whose parents/guardians are unemployed and on whose behalf CDAs are added to UB or UA adult payments\(^8\). However, children whose parents/guardians were not in a position to take employment received least benefit from the approach adopted in the mid-1990s. In their case, increased CB was significantly offset by the freeze on CDAs and, over the decade 1995-2004, these children came to account for a very large proportion of children below the income poverty line. This has troubled successive governments and the social partners, and prompted an ongoing search for policy measures that might address the issue more effectively.

In *Sustaining Progress* (2003-2005), government and the social partners chose ‘Ending Child Poverty’ as one of ten Special Initiatives and asked NESC, in that context, to see how the CDAs and FIS could be merged into a single programme that would provide a seamless source of child income support to low income families. The objective was to explore whether and how the two programmes could be merged to provide a second-tier child income support that would be paid

\(^7\) Full rate child dependant allowances were paid on behalf of 145,000 children to recipients of Unemployment Assistance and Benefit alone in 1995. These two programmes accounted for 41 per cent of all children being supported via social welfare.

\(^8\) Full rate child dependant allowances were paid on behalf of 43,600 children to recipients of Unemployment Assistance and Benefit in 2003, and accounted for 16 per cent of all children being supported in this way.
only where family income is low (thus, distinct from Child Benefit) and everywhere family income is low (thus, distinct from CDAs and FIS). If this could be done, the mid-1990s reason for not raising CDAs would be addressed as the new payment would be portable across the non-employed/employed divide. The Council has undertaken that analysis and will shortly make it available on its website.

The Council’s analysis shows that, over the period 1993-2002, total spending by the State on child income supports increased by a factor of 2.66. This increase was dominated by a near quintupling of expenditure on Child Benefit, while a doubling of expenditure on Family Income Supplement was more than offset by a decline in expenditure on Child Dependant Allowances. Though the child population fell over the period, spending on these three child income supports grew to account for over 19 per cent of the total budget of the Department of Social and Family Affairs (up from 14.7 per cent in 1993.) The Council believes that the continuing high levels of child income poverty constitute a very poor return to the State and society from the major increase in spending on child income supports which has taken place (even though the rise in CB had additional objectives to the alleviation of child poverty). It is deeply concerned that the current instruments have major drawbacks if they are to be relied upon to help low-income families with the costs of rearing their children.

- Child Benefit is of greater proportionate benefit to low income families than high, and provides that support whether parents are in employment or not, but it has enormous deadweight attached to it as an instrument for reaching low income families; the majority of it is paid to households that are not on low incomes.

- Family Income Supplement, by design, reaches only a small subset of low-income families, i.e., low earning employees working over 19 hours a week who apply for it; it entails a high marginal effective tax rate (60 cents are withdrawn for each euro earned above the qualifying threshold), is strongly biased towards small families and, though numbers applying for it have risen strongly in the last two years, has a low take-up.

- Child Dependant Allowances are weekly supplements to social welfare payments on behalf of qualifying children. As such they are conditional on a parent or guardian not being in employment. They were considered to constitute such a significant work disincentive that their nominal value was frozen in 1995. CDAs undoubtedly reach most children in the poorest households in the state though an element of deadweight attaches to them as people in receipt of insurance-based benefit are entitled to them also.

Given these limitations of existing instruments, and the continuing serious problem of poverty in families raising children, the Council is agreed that the continuation of existing policies is not desirable in the medium-term.

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19. A one child family supported by a person working 19 hours at the minimum wage would receive an extra €180 a week, a two child family €396, i.e., the extra child attracts a supplement of only €15.60.
The Council’s analysis has explored what would be entailed if low family income alone, regardless of the employment or social welfare status of parents, were to be the basis of entitlement to a per child income support (distinct from Child Benefit which would not be affected). The payment would be made in full when family income was below a set threshold and withdrawn at a low rate at higher levels of family income such that better-off families would not receive it at all. The Council’s work drew on the experience of other countries that have some form of such second-tier payments.

Such an instrument would reflect a new approach to targeting and raises significant technical and policy challenges in the Irish context. For example, the complex system currently in place makes it difficult to avoid generating some losers as well as winners from the introduction of a new programme in place of two existing ones. Clarifying what is meant by ‘family income’ and enabling the public administrative system to compute it automatically are major steps that have not yet been taken on behalf of any programme in Ireland\(^{20}\). Even if Ireland’s public administrative system could make the new payment automatically, on the basis of the latest available data it had on family incomes, the lagged nature of the data would mean the payment was not reflecting the current circumstances of families, but their situations some time previously; in this sense, some over-payments and underpayments would be inevitable (the payment of FIS, however, does not attempt to track intra-annual changes in family income, but is kept constant for a 12-month period on the basis of family income at the time of the initial application). If the new payment had to be applied for (as all three of the current child-income supports have to be applied for), then the opportunity would be provided to elicit more information from applicants and reduce over- and under-payments to a minimum. However, a reduced take-up of the second-tier payment could result, as it would be a more complex scheme to communicate than Child Benefit (though simpler than FIS). Withdrawal of the payment as family incomes rise means that some labour market disincentive effect is inevitable, but the withdrawal rate should be significantly less than currently associated with FIS (60 per cent) and CDAs; it would, however, apply to a larger number of people than FIS and CDAs together and, as a gentle withdrawal rate implies payments to those further up the income ladder, increase the cost of the programme. Finally, such a major new policy approach would take time; it is, given the significant administrative and policy preparation, similar to a major infrastructural project. This may make it attractive to adopt an interim measure to support children in low-income households, but with the risk that the deeper change is postponed and policy towards child income in the present decade becomes the reverse image of that adopted in the last decade.

Difficulties and challenges attach to improving child income support on behalf of children in low-income households in any way. No instrument, existing or new, is without its drawbacks. The objectives, in the Council’s view, however, are clear. These should be (i) to give priority in allocating additional resources for child

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\(^{20}\) For example, Canada’s National Child Benefit ‘Supplement’: the level of entitlement is determined automatically through family income as reported to the tax office on a yearly basis. Every adult is required to give details of their income, and their marital status (with the tax number of their partner) and details of children. The tax return is thus individual, but includes family details, and it is the tax office that works out family income and assesses entitlement to the family payment – the process is automatic and does not require a separate claim.
income support to children in low income households and (ii) to treat such families equitably (whether their parents are in work or on social welfare, in self-employment or employees). The core outcome sought should be to remove responsibility for child dependants from the list of factors that increase the risk of poverty or slow the escape from poverty in Ireland. This is an area that, in the Council’s view, continues to merit further analysis and where innovation on the part of the public system has a major part to play.

**Changing Role of the Department of Social and Family Affairs**

The above has identified significant institutional challenges in how we should reform several social welfare programmes. It is clear that the approaches adopted by the Department of Social and Family Affairs and its capacity to deliver on them lie at the heart of implementing these changes. A clear programme should be drawn up over the medium-term and the Department should adapt to integrate progression as a dimension into all of its income support programmes for people of working age.

This requires the capacity to undertake a tailored and intensive engagement with more recipients of welfare, in which their potential and obstacles that are specific to individuals can be gauged, progression pathways traced and the precise content and nature of ‘participation packages’ tailored to individual circumstances developed. It will also require the acquisition, storage and retrieval of additional data on individual circumstances and their more frequent up-dating. There is extensive experience with processes and measures that encourage people on the Live Register to engage with training/education or take employment through the staff of the Department, of FÁS and of the community-based organisations forming the Local Employment Service. This experience can be drawn on if an appropriately modified active case management is to be introduced to the administration of payments to people with disabilities, lone parents and others of working age.

A more minor but, nevertheless, significant development should take place in the Department’s role in undertaking and using research. A greater internal research capability would enable the Department to generate new insights into the circumstances of its clients from study of its own data banks and operating experiences. It would increase the Department’s ability to identify and use the best international research on the causes and consequences of welfare receipt and claim closures. It would enable the Department to benefit to a greater extent from the specialist activities of agencies established under its remit.

**Appropriate Targets for Social Welfare**

In conclusion, the Council suggests that targets for Ireland’s social welfare payments over the coming years should embrace both rates of payment and their duration. For example:
The existing commitments to increase social welfare rates—to bring the lowest weekly social welfare payment to €150 in 2002 terms by 2007 and the basic state pension to at least €200 a week by 2007—should continue to be key policy goals;21

Thereafter, the lowest social welfare payment should be maintained as a proportion of GAIE.22 This would balance a number of countervailing concerns that recur in discussion of welfare policy: the concern that welfare recipients are particularly vulnerable when competing demands on public resources are felt or when fiscal pressures are acute; the concern that the threat of penury is seen as appropriate to incentivise employment and, lastly, the concern that increased welfare rates on their own are seen as the way to raise people above income poverty lines;

At the same time, the average duration of receipt of the one parent family payment and of the disability payment and should be reduced;

The situation whereby higher risks of poverty are associated with responsibility for child dependants should be eliminated.

Reaching targets such as these implies reforming Ireland’s welfare state in significant ways and seeking new ways of working. This was the principal theme of the Council’s 2005 report, *The Developmental Welfare State*.

Social Welfare Pensions

The area where the level of social welfare payments has the least complicated and most transparent link to the recorded incidence of poverty is pensions. The ‘at-risk-of-poverty’ rate (60 per cent line) for people 65 years of age or older in Ireland has risen from 6 per cent to 35 per cent over the period, 1994-2003. It is true that this has been because the rise in median income (up 140 per cent) outpaced an otherwise significant increase in the non-contributory pension (up 86 per cent). It is also true that ‘free’ services contribute to reducing the significance of the ‘poverty gap’ for pensioners relative to other groups and also were improved (e.g., the extension of the medical card in 2001 to persons aged 70 or over). Despite these observations, the Council believes the case for increasing the relative incomes of Ireland’s pensioners is compelling (NESC, 2005: 222-226). In creating a more adequate pensions system, a number of possible changes should be considered. The first, and most urgent, is that social welfare pensions are set at a higher proportion of GAIE. In addition, consideration could be given to a number of other reforms that would improve the position of pensioners. Among the reforms that could be analysed and considered are making the rate of the non-contributory pension the same as for the contributory pension (there is a €13.30 gap, 2005), changing the treatment of earnings in the means-test for the non-contributory pension, and instituting some form of equity-release scheme.

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21. These rates represented 30 per cent of GAIE in 2002.

22. In making this suggestion, the Council recognises that the Government must determine the level of welfare increases from year to year, having regard to the range of demands on the Exchequer, the sustainability of the public finances and compatibility with the social, economic and employment needs of the economy.
3.5.5 Conceptualising and Measuring Poverty in Ireland

The Council strongly reaffirms the view that poverty is (a) multidimensional and (b) related to the society in which people are living. It believes that these two understandings should continue to inform Ireland’s policies to reduce poverty to the greatest extent possible. The first acknowledges that there are several dimensions to poverty—inadequate income, limited education, poor employment prospects, difficult neighbourhood conditions, etc.—which frequently interact to create a vicious downward spiral in the lives of the same individuals, families and communities. It follows that single instruments exercised at the national level cannot take the place of integrated packages designed, delivered and monitored at the local level if poverty is to be alleviated. The second shared understanding, poverty as relative, accepts that protecting people from hunger, homelessness and other forms of destitution is far from eliminating poverty because the condition of being poor is relative to the society in which people are living. The quest to identify what people need to participate adequately in their society began as far back as 1776 when Adam Smith observed that a pair of leather shoes and a linen shirt were essential if a man was to ‘appear in public without shame.’ Ensuring that every person has what she or he needs to participate in Irish society today ‘without shame’ remains integral to the Council’s vision of tackling poverty.

It is clear that poverty as many people experienced it at the beginning of the 1990s has been massively reduced. For example, the share of the population experiencing ‘consistent poverty’ dropped steadily from 15 per cent in 1994 to 4.7 per cent in 2001. It is also clear that inequality in the distribution of income increased significantly. For example, the share of the population living on below 60 per cent of median income rose steadily from 15.6 per cent in 1994 to 22.7 per cent in 2003. The trend in each set of data provides a valuable window onto an aspect of how Irish society is changing.

Finding satisfactory measures that guide policy in alleviating poverty is an ongoing concern. The Council believes it is useful to distinguish between systemic indicators, diagnostic indicators and performance indicators respectively. Each type, of course, needs that consistent and timely data can be provided on them if they are to be useful.

A systemic indicator is a high level indicator that gives an overall picture of how a system is performing. Trends in it should communicate unambiguously and clearly that performance is improving or deteriorating. For this reason it is strongly motivational.

A diagnostic indicator provides information specific to a particular activity or component of the system. It is usual to employ them after the trend in a systemic indicator has indicated a need for more detailed information in order to see more clearly where and how something might be put right.

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23 ‘Consistent poverty’ is a composite measure. People are deemed to be in consistent poverty if their equivalent disposable household income is below 60 per cent of the national median and if their household’s respondent reports the presence of one or more of eight deprivation indicators.
A **performance** indicator measures the effects of a particular intervention, programme or project relative to a desired set of outcomes. It isolates the impact of a specific intervention and allows its efficiency and effectiveness to be assessed.

The Council believes considerable scope still exists for the many actors involved in tackling poverty to identify and improve on indicators of each type.

Since its adoption by the National Anti-Poverty Strategy for 1997-2007, the most widely used systemic indicator of poverty in Ireland has been the measure of ‘consistent poverty’. In several respects, the composite nature of this measure makes it a difficult choice as a clear, headline indicator that communicates clearly and resonates with people’s understanding of poverty. The Council notes the significant efforts being made to revise it but sees continuing difficulties with identifying and revising household-based measures of material deprivation. It suggests that more prominence might be accorded the measure of ‘persistent poverty’ as living on a low income over a long period of time can be identified in the same way year after year and easily resonates with the common sense understanding of poverty. This is because the latter obviates the methodological difficulties that arise from having to identify and adapt a set of indicators of basic deprivation.

The Council also recommends wider but more careful use of the measure of ‘relative income poverty’ as a systemic, high-level indicator. The share of the population living on incomes below 60 per cent of median household income should be understood, essentially, as a measure of significant income inequality. As a measure of ‘poverty’, it has risked devaluing the meaning of the word because of the circumstances through which Ireland has recently lived: the lowest money incomes grew faster in Ireland than elsewhere in the EU, but incomes of the large mainstream of Irish society grew faster still (section 1.4 above). However, the limited insight relative income lines provide into the nature of poverty in Ireland over the 1994-2003 period does not mean that an income measure of being ‘at risk’ of poverty has no role to play in monitoring developments in the future. These measures are widely used internationally because they record trends not simply in income inequality but in a degree of income inequality judged sufficiently serious as to impact negatively on people’s social and economic opportunities, social standing, well-being and health. For these reasons, the Laeken indicators term the

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24. The actual indicators of basic deprivation can date quickly. At low levels of poverty the measure is sensitive to shifts in just one indicator and/or in the circumstances of just one group. Respondents may change in their propensity to answer a given question over time – for example, changes in the question format and a higher proportion of first time interviewees are credited with having created a significant discontinuity in the 2003 data with what went before; 9.4 per cent of persons were estimated to be in consistent poverty in 2003 (EU Survey on Income and Living Conditions (EU-SILC), CSO, January 2005). The impact on particular individuals (e.g., children) of its household-based indicators is far from clear. These several methodological points, however, frequently aired by the ESRI themselves who compile the measure, are frequently overlooked as opposing interests alternatively interpret the downward trend picked up by the measure as confirmation that poverty is being reduced or argue that it is engendering complacency by distracting from the more serious message of rising income inequality.

25. Persistent poverty measures the share of the population below 60 per cent of national median income and who have been below it in at least two of the preceding three years. This duration for which people’s incomes have been low allows the measure to screen out people whose low income at the time a survey was carried out belies an otherwise decent living standard made possible, for example, by savings and/or access to goods and services in kind. Three out of four years below the 60 per cent median income line, however, are likely to erode financial savings; the ability to replace deteriorated household assets and even the help available through family and friends. Such straitened economic circumstances are precisely what the ‘consistent poverty’ measure also seeks to identify by combining, as it does, evidence of a low money income with evidence that a household has an enforced lack of one or more essential items.
share of a population below 60 per cent of national median income at a point in time as an indicator of the ‘population at risk of poverty’. This degree of income inequality can also be considered an indirect threat to social cohesion.

The Council is aware that Ireland has traditionally had a stronger policy commitment and greater public support for reducing poverty than for restraining inequality. It accepts, nevertheless, particularly as more normal circumstances begin to pertain in Ireland and median income no longer grows at an exceptionally high rate, that living on an income more than 40 per cent below the national median, if it persists, can certainly place a person at risk of participating less in society, feeling less attached to it, more vulnerable to a deterioration in health and liable to deepening social isolation.

In summary, therefore, the Council recommends that appropriate high-level goals for poverty reduction would be to move from having among the highest persistent and ‘at risk of poverty’ rates in the EU 15, as is the case at present, to being below the EU 15 average on both measures over the coming years. The primary purpose of these goals is motivational. Indeed, when they are achieved, the Council believes that other, equally challenging goals, should then be set to move Ireland well below the EU average and towards the best-performing EU member states on both indicators.

At the same time, the Council underlines how inappropriate it would be to use these systemic indicators as diagnostic instruments, much less performance indicators by which any specific policy or set of policies is measured. Multiple influences act on median disposable income and on the share of the population who, at any point in time, are 40 per cent or more below it. Factors as dissimilar as changes in patterns of household formation, in dual or single earning and in working hours can impact on the share of the population living on less than 60 per cent of median income as well as changes in the availability and generosity of social welfare. In other words, it will always be opaque as to what exactly accounts for changes in systemic measures and no clear implication for policy can be drawn without much further analysis. In this sense, high-level, systemic poverty indicators are similar to GNP in the economic sphere. All economic actors accept that GNP is a significant measure but, equally, that changes in it can be due to multiple factors of a very different nature, some amenable to policy and some not. While the growth rate of GNP is forecast, it is itself not a target of economic policy. The Council believes that an analogous use should be made of the ‘at risk of poverty’ and persistent poverty rates in social policy.

The effectiveness of anti-poverty strategies, however, needs to be guided by diagnostic and performance indicators. Their adoption, in turn, requires that all partners to the strategies first have the same understanding of what causes the target to move. The Council believes that public policies and their impact on poverty and income inequality need to be guided and monitored by measures that

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26. A variety of different studies that point to the damaging effects on people of living life on money incomes that are at an extreme distance from the levels prevalent in their societies were cited in the 2003 Strategy (NESC, 2003: 427).

27. For example, similar recorded changes in relative income poverty would be produced by two different trends which have wholly different social significance: first, median income rising faster than rising lowest incomes and, second, a combination of a stationary median and a collapse in the lowest incomes.
are sufficiently disaggregated and linked to the field of action of the policy instrument in question. This is necessary to ground reliable conclusions on a policy’s impact. This implies increasing the capability to gather and assess data at the local or group level, where poverty is, in fact, experienced as multidimensional and relative. Changes in many instruments at the national level (e.g., in the rates of social welfare payments, in pupil-teacher ratios, in the national minimum wage, etc.) are best understood as enabling rather than sufficient conditions for tackling poverty; many intermediary variables intervene that prevent firm conclusions being drawn about the impact of changes at this level on poverty.

3.6 Pensions

The Pensions Board is currently conducting a review of pensions policy and performance. There are a number of important issues which must be examined given the current system of pensions provision and coverage in Ireland.

The Irish pension system currently comprises a flat rate payment (i.e., not earnings related) based upon a record of social insurance contributions (or a means test) to provide a basic income floor for pensioners, and a second tier of earnings replacement, which is provided on a voluntary basis either by individuals or in conjunction with their employer. Public support for this second tier currently comes through the provision of tax relief for pension contributions made.

3.6.1 Issues

Two sets of issues must be addressed in the years ahead. The first set concerns the longer term financial sustainability of both state pensions and public service pensions. These concerns reflect changes in demographic structure and increasing longevity occurring across the developed world. Ireland must address these issues, and has an opportunity to do so because population ageing is less advanced here than in most other EU countries28.

The second set of issues arises from the inadequate pension provisions of the Irish population. Being a pensioner in Ireland today is associated with a higher, and increasing, risk of being in relative income poverty (see 1.4 above). For this reason, it is necessary to consider whether the current level of public pensions is adequate and appropriate. In addition, the proportion of the population with adequate earnings replacement in retirement is low, and current policies to promote private or occupational pensions have led to disappointing results. Finally, in the case of occupational pensions, the move from Defined Benefit (DB) to Defined Contribution (DC) schemes is a cause for concern to many.

28 In relation to public service pensions the Minister for Finance announced a package of reforms which included the raising of the minimum pension ages (as recommended by the Commission on Public Service Pensions) and abolishing mandatory age-based retirement for new recruits to the public service. The process of modernising and improving the public service pension system is continuing and a number of further measures have recently been put in place including the introduction of a facility to allow public servants to retire early with cost neutral actuarially reduced pension benefits and changes affecting integration between social insurance and public service pensions designed to boost the aggregate retirement income of lower-paid public servants.
3.6.2 Pensions Options

Pension provision today is more costly than in the past. This reflects increased longevity, later entry to the labour market, higher income expectations and a trend to earlier retirement. This is the case for both public and private pensions. The Pensions Commission in the UK has recently considered the options available to finance these higher costs of pensions. The Pensions Commission Report outlines succinctly the options available to the UK government, and ultimately UK employees. It argues that some combination of the following four outcomes must occur:

1. Future pensioners will on average be poorer relative to average net incomes than today; or
2. Taxes/insurance contributions will have to rise to pay for pensions or other public spending be cut to make room for pensions; or
3. Each generation will have to save more, and be reliant on the next generation also choosing to save more and therefore buying the larger accumulated stock of assets accumulated by the prior generation; or
4. Average retirement ages will have to rise.

(Pensions Commission, 2004:12)

The Pensions Commission argues that there are no alternatives to these four choices. Most likely, the outcome for the UK, and for Ireland, will be some combination of the last three; and it is important to recognise that there is no fifth, sixth or seventh alternative and no golden bullet that will resolve the shortfall in pension funding resulting from the demographic trends documented in Chapter 1.

As noted above, the Pensions Board is currently carrying out a comprehensive review of policy on pensions and is due to report in the autumn. It is important that the social partners make a positive contribution to this review process and engage constructively with the output from it. It offers an opportunity to develop a pensions system which is both adequate and sustainable, not only for the current generation but also future generations. It is likely that the review will identify a variety of possible approaches to help deliver more adequate earnings replacement in retirement. These may include the introduction of an earnings-related state pension or mandatory personal pre-funded provision, whether through a public or private mechanism. The adequacy of current arrangements, the sharing of risks and the merits of pre-funding versus Pay-As-You-Go (PAYG) models should be considered in arriving at a preferred model.

An improved Irish pension system will need to aim at a number of different objectives. These include better income adequacy for the poorest pensioners, financial sustainability, more widespread pensions coverage and more income replacement. It is necessary to encompass each of these objectives. A partial focus on any one of them can polarise debate and make it more difficult get the partners to work together in devising a better overall system.
If we reject the option of lower retirement incomes in general, then each of the three remaining options identified in the UK Pensions Commission report – higher taxes, further saving and later retirement\textsuperscript{29}—will probably need to be included in a better national pensions system. The Council recognises that later retirement is a less appropriate option for some occupational groups than for others, given the heavy physical demands of certain kinds of work. It is easy to place too much emphasis on the ‘pensions problem’, ignoring the fact that longer life expectancy and better health in old age constitute progress. Nevertheless, hard choices must be made if such higher living standards are to be financed on a sustainable basis. Ireland is fortunate to have an opportunity to consider its choices before they become overwhelming. We have already made some progress towards the prefunding of future liabilities through the National Pensions Reserve Fund (NPRF). Given this favourable position, Ireland should embrace new ideas in the area of pensions provision which seek to address the current problems of pensioner poverty, inadequate coverage and insufficient earnings replacement.

In the medium term, Ireland should aim to have in place a pensions system which delivers the following:

- Adequacy of the basic pension, the single most important income source for older people;
- A significant degree of earnings replacement;
- Sustainability; and
- In line with The Developmental Welfare State report, limited duality in the public support for pensions.

In designing a system to serve these principles, all options must be considered including the long-term increase in the retirement age.

### 3.6.3 Key Actions on Pensions in the Coming Years

In addition to active consideration of new long-term options, the Council continues to endorse previously agreed targets for raising the basic state pension to provide greater income adequacy. In particular, the Council strongly re-endorses the commitment in the Programme for Government and Sustaining Progress to lift the level of social welfare pensions to €200 by 2007 and supports making further progress to increasing social welfare pension rates to 34 per cent of gross average industrial earnings (GAIE) in the medium-term. This will require significant additional resources, not only to keep pace with earnings growth, but to raise the relative payment from the current level of approximately 28.5 per cent\textsuperscript{30} in the case of the non-contributory old age pension\textsuperscript{31}.

\textsuperscript{29} There are a number of ways of increasing the retirement age. As regards, the public finances, the key issue is the age of eligibility for the state pension. A higher general age of retirement would help in the longer run to sustain the value of the state pension. This could be phased in by announcing a later age of eligibility for new entrants to the labour force. A more limited change would be to offer individuals the option of claiming a pension later in exchange for a higher pension. This could be done in a cost neutral way and would enhance individual choice.

\textsuperscript{30} Based on assumed 4 per cent wage inflation in 2005.

\textsuperscript{31} Correspondingly a lower level of annual increase will be required once the 34 per cent of GAIE is reached if this is deemed to be an acceptable level.
In addition, consideration could be given to a number of other reforms, a single rate of payment for contributory and non-contributory pensions, restructuring means tests to allow pensioners to increase in their disposable income through some work and altering the treatment of savings to better reflect the low interest rates that now prevail.

The Council suggests that within the next social partnership programme, and following completion of the Pensions Board review, the Government, in consultation with the social partners, should determine the long-term shape of the overall pension system. In devising a more effective overall system, a key question is whether to continue with the voluntary, but tax-supported, approach to earnings replacement or to adopt an alternative approach, such as a state earnings-related pension or the adoption of a mandatory savings approach.

3.7 Infrastructure of Care

The profound demographic, economic and social changes Ireland is experiencing are demanding a major reappraisal of how care is provided to vulnerable members of the population—young children, children with special needs, persons with disabilities and older people. In each case, a rise in the absolute numbers needing care has to be viewed largely as evidence of social success rather than a problem. They confirm—respectively—that more young families are being started, that the quality of treatment and care is extending the life expectancy of children and adults with major disabilities, and that life expectancy at age 65 is continuing to rise.

Everywhere, it is proving difficult to sustain the high levels of informal care provided by family members, neighbours and friends on which Irish society traditionally relied to care for its vulnerable members. The traditional arrangements are coming under pressure from higher employment rates, greater residential mobility and changing patterns of family formation. The Council emphasises that it is these deep structural changes that are reducing the viability of traditional caring arrangements and not a declining commitment on the part of Irish people to care personally for their children, disabled or older relatives (for which there is no evidence). This is important as it implies that Ireland’s welfare state must accelerate the development of formal supports for informal caring as well as of formal alternatives to informal care. A third type of support are formal supports for self-care. It is increasingly recognised that many persons with a disability and many older people have an underappreciated potential for autonomy and to reduce the level of their dependency on both paid and unpaid carers.

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32. Since pensions are ultimately taxable, to some degree the current tax relief for pensions is a system for postponing rather than forgoing tax. However, the taxation treatment of pensions is considerably more favourable than other forms of savings. First, the ability to postpone payment of tax, free of interest, is itself a considerable benefit. Second, it is possible on retirement to avail of a tax-free lump sum from one’s pension fund. Third, the average tax paid on pensions will generally be less than the average value of the tax relief granted. This arises because the tax system is progressive and one’s income in retirement is typically lower than at the time of paying the pension contribution. If tax relief were not available on pensions and the investment income of pension funds were taxable then it would be double taxation if pensions were also subject to tax, since one would essentially be drawing upon one’s private savings. In New Zealand, the taxation of pensions is organised to achieve comparability in the taxation of pensions and other forms of savings: there is no deduction for pension contributions; the investment income is taxable but when a pension is drawn down from the fund, this is tax free.

33. These options are not all necessarily mutually exclusive but the current system of tax relief is a form of support for earnings replacement so that one would be unlikely to combine the current system of tax relief with a state earnings-related pension.

34. Most other EU Member States would add ‘and more children per family’ but Ireland’s total fertility rate and average family size are currently the highest in the EU. This may not always be the case and improved childcare can also be justified as helping to forestall a European-style collapse in Ireland’s population of children.
Ireland is not faced, therefore, with a choice between high-cost models based on formal caring and low-cost ones based on informal care. For a start, the traditional reliance on informal caring was never as low-cost as it appeared; women paid a particularly high price in terms of restricted opportunities and higher poverty risks. More importantly, society and the economy have changed to remove the option of providing informal care on the same basis as in the past. The costs of informal care are simply much higher in the present. It keeps people from the workforce whose potential earnings and contribution to output are much higher than in the past. It has cared for and carer in a relationship that neither is likely to experience in as satisfactory a way as formerly, when individual opportunities were more restricted and individual autonomy was less emphasised. It is less likely on its own to provide the expertise of care that is potentially available now from formal sources. In short, Ireland has no alternative to developing new infrastructures of care that combine the three elements mentioned—supports that maximise people’s own autonomy (‘self-care’), supports for informal carers and the greater provision of formal care.

3.7.1 General Characteristics of Caring Infrastructures

There has been considerable thought given to what building the required infrastructures of care will entail in contemporary Ireland. Some characteristics have emerged of how individuals needing care (or their guardians) should experience it in a smoothly functioning system.

- There should be a personal assessment of the nature of an individual’s needs carried out with objectivity, impartiality and transparency. This requires both uniform assessment tools and scales, and a process of appeal in which people have confidence.

- There should be expert identification of the levels and types of services that would make the maximum improvement to the individual’s quality of life (including her capacity for autonomy), and which it is practicable to source.

- There should be clarity on the level and types of support the individual can rely on from the state. This clarity has a value in itself as it allows an individual and/or her family to plan around it. It should include whether an individual has a statutory entitlement to a particular support (in which case funding of the service has to follow need) or is simply eligible to receive it (in which case various forms of queuing can occur if scarce public resources have to be rationed). It should also include reasonable security that the level of care will continue and not be abruptly or unilaterally ended.

- Some financial contribution by the person being cared for (or her family) towards the cost of state care should be normal, but tailored to the person/family’s ability to pay.
There should be provision for periodically reviewing with the person being cared for her experience of the care being provided and her developing needs.

If this pattern is to become the experience of more and more of Ireland’s children with special needs, persons with disabilities and frail elderly, imaginative and deep developments are urgent now in building infrastructures of care that link the national, regional and local levels. The requisite strategies should build on expert knowledge of the likely numbers who will need care, the forms of care and standards that reflect best practice internationally as well as nationally, and the respective capacity of statutory bodies, NGOs and private sector providers to deliver this care. The state has the responsibility of ensuring that suitable contracts and incentives enlist the contributions of diverse service providers to improve the coverage, diversity and flexibility of care provided. The overall procedures for setting and monitoring standards must promote continuing improvement, rather than compliance with fixed minimum standards or rules. Effective skills planning is essential to ensure adequate personnel are forthcoming over the medium term to deliver the levels of practical help, personal care, paramedical services and medical attention required by a growing and changing population.

The Council emphasises that care of children, persons with disabilities and older people has always required the use of resources by society, in one form or another. At the same time, new knowledge opens new possibilities that enhance the quality of life that it is possible for people in need of care to attain. The use of resources is at different levels. Many people spend significant resources on care in a personal and private capacity. In addition, people at work and their employers use the Social Insurance Fund to cover several significant caring contingencies. Finally, the State has the capacity to use general tax revenue, special levies/charges and tax expenditures to support caring and the responsibility to do so in a way that is sustainable for the economy and equitable in sharing costs among potential or actual beneficiaries. Much of this use of resources to provide care can have a significant investment aspect as more people are helped to realise their potential, including to the point of requiring less care and participating in the economy, while informal carers are freed to make greater contributions elsewhere.

At a deeper level, the full extension of the desired pattern of caring for dependent persons requires important accommodating cultural changes in Irish society also. Otherwise, women are likely to bear a disproportionate share of caring responsibilities within the new infrastructures of care, just as their sacrifice of employment status underpinned the former, family-based systems of care. Evidence of more balanced gender responsibilities for caring will be when men take leave for parental and family reasons, apply for Carer’s Benefit and qualify as health and personal care professionals in larger numbers. The interruption, potentially, of any worker’s employment, for periods of caring should become a much more normal part of the operation of Ireland’s labour market, interruptions which are handled without prejudice to the person’s career or standard of living. Finally, it is also imperative that Irish society in general comes to see that greatly enhanced public investment in caring services is part of the ‘social wage’ which it is eminently right that government should make increasing provision to fund and for which there should be, accordingly, a greater ‘willingness to pay’.
3.7.2 Following Through on the National Disability Strategy

The passing into law of the Disability Act 2005 marked a major watershed in Irish social policy and for Ireland’s welfare state. It constitutes recognition, as never before, of the place of persons with disabilities in Irish society and of the State’s responsibilities to ensure they participate on an equal basis to other citizens. Ireland has a major deficit in this area when comparison is made with other advanced countries. Implementation of the Act is beginning in the context of continuing data insufficiencies, institutional restructuring, and untried and untested governance structures. Nevertheless, the basic architecture of the Act (its provision for individual assessments of needs and service statements, its appeals process and whole-of-government approach embedded in the sectoral plans required of key government departments), the multi-annual funding for which the government has accepted responsibility, the highly participative process that preceded the Act, and the potential of the National Disability Authority (NDA) to play a major role in supporting and monitoring its implementation (and eventual review) confirm the Council in urging all relevant actors to engage fully with implementing the National Disability Strategy (NDS) and ensuring its success.

The Council believes, however, that the institutional arrangements to deliver on the NDS are still not fully established and that clarification is needed on the division of labour that will ensure the effective vertical and horizontal integration of the organisations and bodies who must jointly deliver it. In this context, for example, it might be envisaged that the NDA should develop as a repository of specialist expertise, vision, impartiality and problem-solving capabilities from which government departments, the HSE, other public agencies, NGOs and employers alike can draw. The finalisation of the draft sectoral plans, for example, and even more so their later versions, should be informed by the constantly advancing frontiers of knowledge as to how health, education, housing and social welfare services and workplace practices can enhance the quality of life of persons with specific disabilities.

The income supports provided to persons with disabilities are outside the remit of the NDS but improvements are possible that would integrate them better with access to services. In this context, the Council recommends that government strongly consider the case for a separate ‘cost of disability payment’ that, in line with its analysis in *The Developmental Welfare State* study, would be personally tailored and portable across the employment/non-employment divide. This payment would support the mobility of a person with disabilities between welfare programmes and employment status and not just physically.

The success of the NDS will hinge on the quality of the working relationships between government, line departments, public agencies, the NGOs, the social partners, the NDA and—most of all—persons with disabilities and line officers (assessment, liaison and complaints officers). Should adversarial relationships develop, it has the potential to consume significant resources in administration. The objective must be to create as efficient and effective a translation as possible of extra resources so they are genuinely made available as additional services that enhance the quality of life of individuals with disabilities.
Advancing longevity, and people's natural hope that their parents, others close to them, and they themselves will benefit from longevity, make the provision of care for older people a characteristic concern and achievement of advanced societies. As succeeding cohorts become pensioners, growing proportions tend to be healthy and to have more disability-free years ahead of them. However, even though a declining proportion of those over 65 will need care, the growth in their total numbers will be so large, including of those aged over 75 and over 85, and of the proportions living alone, that the need for community-based and residential care for older people is set to rise steadily over the coming decades (Connell & Pringle, 2004; Mercer Limited, 2002). Ensuring that this eldercare is forthcoming will be essential both to the quality of life of older people themselves and to maintaining the productivity and flexibility of the younger age groups in the workforce.

The Council believes that the very circumstances that lead some to think of eldercare as a low priority—that population growth is currently concentrated among those of working age and employment growth at an all-time high—make it a highly opportune time to build an infrastructure of care for older people. Until now, 'our services (for older people) have developed in a patchy fashion; they lack unity in terms of coverage and access, grounding in need-assessment and systematic data gathering and analysis' (NESF, 2005b). The Council welcomes the growing body of expert opinion pointing to what needs to be done and how (NCOAP, 2005; NESF, 2005b; Delaney et al, 2001; Garavan et al, 2001; Mercer Limited, 2002; O'Shea, 2003a, 2003b; etc). It strongly endorses the consensus that public support should be forthcoming when older people choose to remain in their own homes and not be activated primarily when they pass into residential care or are discharged from acute hospitals. It recommends that a spectrum of care services be designed that stretches from support for self-care through support to informal carers to formal care, and from home-based care through day care centres to residential care (temporary and long-term). It endorses the view that the state should seek to harness and regulate appropriately non-profit and for-profit providers of nursing and other services to the elderly in addition to investing in direct public sector provision.

The Council emphasises the particular value that should be attached to providing clarity to people about the level of public support on which they can rely in their old age. If people should need residential care when old, they expect that they should contribute to the cost of that accommodation but it is valuable for them to know to what degree or level. A strong argument can also be made that there should be parity of public subvention to older people receiving care at home and those in residential care. The Mercer Report (2002) recommended that the entitlement to a given level of care when old should be based solely on need and regardless of means, and that the Social Insurance Fund should be developed to pay for eldercare in the majority of instances with the state taking responsibility to provide the same level of care out of general taxation to people unable to build up the necessary contribution records. It is important to proceed systematically and resolutely. The development of uniform assessment procedures, the provision of universal homecare supports and the availability of the trained personnel to
deliver them must be among the first priorities, as they are likely of themselves to influence the level and nature of demand for residential care.

There should be wide participation in developing a new strategy for older people (as advocated by NESF, 2005b) and a coherent framework for implementing it. The framework should ensure all government Departments (including, crucially, Environment and Local Government, Transport, Social and Family Affairs, Health and Children, and Enterprise, Trade and Employment) and public agencies develop coherent sectoral policies for enabling Ireland’s older citizens enjoy a high quality of life and ‘age actively’. Clearer leadership in this area would make it easier for the many NGOs representing older people to contribute to policy formation and implementation, for authoritative audits of resource allocation, service provision, service standards and outcomes affecting older people to be carried out, and for the country generally to think differently and act differently in all that concerns ageing. The roles of the Inter-Departmental Group on the Needs of Older People and of the National Council on Ageing and Older People could be developed in this context to provide the necessary leadership.

3.7.4 Child Development and Childcare

The Council is aware of the range of advice being provided to government on where and how to proceed with improved provision of early childhood education and care (NESF, 2005a; DJELR, 2005; DES, 2004; OECD, 2003b). It wholeheartedly endorses the judgement that ‘significant energies and funding will need to be invested … to create a system in tune with the needs of a full employment economy and with new understandings of how young children develop and learn’ (OECD, 2004e: 6). It is also aware that progress of equal strength and reach cannot be made on all fronts simultaneously. This means that, when major new steps are announced, they should be framed within the context of clear long-term objectives in which the steps appear as instalments in a phased—though revisable—strategy for ensuring the infrastructure of childcare which Ireland requires. The Council believes that this strategy should be informed by the following core considerations.

First, Early Childhood Education and Care (ECEC) is of potential benefit to all children and families. Its positive influences on early childhood development, socialisation, child-parent relationships, maternal health and gender equality are not confined to children whose parents are in employment or socially disadvantaged. The Council has emphasised the extent to which the best contemporary analyses of the factors that support—respectively—children’s development, gender equality, social inclusion, the family, the elimination of child poverty and the attainment of high employment rates all accord access to quality ECEC an important role (NESC, 2005).
Second, ECEC can be of particular benefit to children and families who are socially disadvantaged and/or have minority status.

Third, even though parents are typically strongly committed to securing what is in the best interests of their children, the optimum levels and types of ECEC are not reached without public intervention. ECEC generates externalities, i.e., benefits to society that are additional to the private benefits it brings to children and their parents. Experience in other countries suggests that growth in the female employment rate can initially rely on care by relatives, neighbours and friends but that more public intervention becomes essential if rates are to increase beyond 60 per cent (OECD, 2005a).

Fourth, public intervention which influences the level and types of ECEC takes several different forms: regulation to ensure quality and standards across the full range of providers; employment legislation which empowers and protects working parents to discharge their parenting roles; public provision of early childhood education and care services; supply subsidies to private and NGO providers; demand subsidies to parents who use public, private or NGO provision.

Fifth, measures which boost supply, other things being equal, contribute more surely to improving the availability and affordability of childcare than measures which subsidise demand.

There have been notable developments since the mid 1990s from what was almost a starting point. These include the increased supply of childcare places leveraged by the Equal Opportunities Childcare Programme (EOCP) (largely provided by community-based, non-profit groups and serving socially disadvantaged families), the creation of a national network of 33 City and County Childcare Committees (CCCCs), the growing extent to which health, housing and training authorities are working through the CCCCs to improve their services to families, the emergence of several elements in a new national infrastructure for monitoring quality and promoting best practice, and the burgeoning of a private childcare sector. Ireland is attempting in less than a decade to create an infrastructure that took several decades in other countries. This is not to minimise the seriousness of current deficits in childcare. Many parents are having to pay unacceptably high proportions of their earnings for childcare, other parents are unable to take employment because no acceptable and affordable childcare is available, and the co-ordination of state responsibilities for accelerating the supply of childcare is weak.
In line with these considerations, the Council makes the following recommendations:

- The duration for which Maternity Benefit is paid should be extended in a phased manner to 26 weeks (NESF, 2005a), a situation already pertaining in best-practice EU countries in 2001 (DES, 2004: 102). The level of support currently provided parents in employment is unacceptably low, and the gap between Ireland and best practice in other countries in this area is particularly wide. Tangible steps need to be taken to move closer to a situation where no child should be without a parent at home during the first year of its life because a parent has to return to work.

- Serious consideration should be given to the introduction of an incentive for childminders to participate in networks administered by the CCCCs. Childminding is a particularly widespread and flexible form of childcare. However, many childminders are loosely attached to the formal economy and have few employment alternatives. Networks fostered by the CCCCs would enable advice, training and other supports to circulate and the status and skills of childminders to be raised. Over the longer term, however, it should be acknowledged that childminding does not bring as substantial benefits to children as their participation in formal ECEC settings.

- The development of a network of Child and Family Centres covering disadvantaged areas should be considered as a priority in the programme that will succeed the current EOCP. Such centres would provide childcare along with other ‘wrap around’ services that strengthen disadvantaged families’ abilities to surmount obstacles to their children’s development (NESF, 2005a; DES, 2004). The Department of Social and Family Affairs, the Health Service Executive and the CCCCs could be particularly prominently involved.

- Consideration should be given to means which encourage community-based non-profit childcare providers and wholly commercial operations, respectively, to widen their social intakes. Extreme social segregation across childcare centres—an inevitable development if some are characterised by high charges and others take children from specified catchment areas only—weakens their important socialising role and, in particular, the benefits of childcare to socially disadvantaged children.

- The HSE, local government, FÁS and other public bodies should be encouraged to strengthen the ability of CCCCs to improve significantly the supply and quality of childcare in their areas. It is important that the CCCCs work effectively with a wide range of actors. On the one hand, the quality of support for, and participation in, them by public bodies and the social partners is key to their success. On the other hand, the quality of their leadership and management are integral to securing wide support and participation.

40 Nominees of Business and Employers Organisations on the Council dissent on this.
The Council endorses the proposal in the NCCC Working Group on Developing School Age Childcare that school management boards be encouraged to facilitate the development of ‘stand alone’ childcare facilities within or near their school buildings where this is possible. The NCCC report envisages these services being independent of the school year and provided, variously, by specialist voluntary organisations, community based/ non-profit groups or private companies. In all cases, the quality of the service should be vouched for by the local CCCC.

In summary, the Council is clear that Ireland has substantial ground to make up in improving the supply and affordability of ECEC (in its several forms) and the family-friendliness of its workplaces. The several fronts on which significant progress is needed and being called for may make it attractive to spread resources widely and achieve only incremental improvements but a large number of them. The Council considers that an extreme dispersal of resources should be avoided and that the attainment of clear landmarks should be concentrated on over the coming years. It also believes that a stronger champion is needed in the public system for driving the development of childcare. Further institutional innovation could play an important role in achieving greater interdepartmental and interagency working on behalf of children. On the one hand, it is clear that improvements in the supply and affordability of childcare will significantly benefit several government departments in discharging their statutory responsibilities towards families and children (most notably Health and Children, Social and Family Affairs, Education and Science, and Environment and Local Government). On the other hand, several bodies have developed specialist expertise in how childcare should be provided (the National Coordinating Committee on Childcare, ADM Ltd., CECDE, the CCCCs and the National Associations of Voluntary Childminding Organisations). Fresh thinking and new approaches are needed which will strengthen the resources and skills of these specialist bodies and encourage the relevant Government departments to become, as it were, significant shareholders in the developing national infrastructure for delivering childcare. In this context, a greater role for the Minister for Children and the National Children’s Office should be actively explored.
3.8 Housing and Sustainable Neighbourhoods

3.8.1 Background

As part of the special initiative on housing agreed under Sustaining Progress the Council undertook a detailed study of housing and land markets (Housing in Ireland: Performance and Policy, 2004). This study considered many different aspects of the housing market in Ireland from land development and the planning process to public supports for housing and the treatment of housing and property in the taxation system.

Overall, the Council interpreted the Irish system as dynamic, but unbalanced. The building industry has responded in a dynamic way to increased demand and the policy system has displayed significant dynamism. A range of imbalances are documented in the Council’s housing report. Its analysis led the Council to identify four key policy challenges:

1. The achievement of high-quality, sustainable, development in both urban and rural areas;
2. The provision of an effective range of supports to households that fall below the affordability threshold;
3. Assistance to the market in continuing to provide a high level of supply; and
4. A tax and subsidy regime that supports these goals.

To address these key challenges the Council made recommendations in three areas: achieving sustainable neighbourhoods and integrated development; meeting the challenges of social and affordable housing; and land, land management and taxation.

3.8.2 Sustainable Neighbourhoods and Integrated Development

On the achievement of sustainable neighbourhoods, the Council recognises significant policy developments. These create a framework which has the potential to deliver the type of integrated and sustainable neighbourhood the Council envisages. With increasing population and increasing housing demands, a neighbourhood which is sustainable, in both social and environmental terms, must embrace significantly higher densities, have a consolidated footprint rather than being allowed to develop as urban sprawl and with rapid communication links between distinct settlements. The Council challenged the view that there is an inherent conflict between the quantity and quality of housing delivered. Instead, it argues that we should embrace compact ‘centred, diverse and walkable’ neighbourhoods that have sufficient population to support the development of high quality local services and that have a diverse mix of housing suitable for all stages within the family lifecycle. The Council recognises the policy commitment to sustainable settlement. However, it is concerned that a number of risks remain. These imply that the new principles—sustainable urban densities, consolidated urban areas, compact urban satellites and rapid communications—may not be adequately reflected in actual developments.
3.8.3 The Challenge of Social and Affordable Housing

In its report the Council reviewed recent developments in:

- The supply of social housing by local authorities and the voluntary and co-operative sector;
- The range of ‘affordable housing’ schemes in place; and
- The greatly increased reliance on the Supplementary Welfare Allowance Rental Scheme and its partial replacement by the Rental Accommodation Scheme (RAS).

The Council believes a high level of ambition is now appropriate in the provision of social housing. It has recommended a net increase in the stock of local authority, voluntary and co-operative housing of 73,000 between 2005 and 2012 bringing the total stock to approximately 200,000 units. This increased emphasis on social housing should be combined with increased supports for ‘intermediate households’ and the consideration of supports for the development of affordable rental accommodation. Further details can be found in Chapter 6 of the Council’s housing report (NESC, 2004).

In advocating a high level of ambition for the provision of social housing, the Council is underlining its belief in the significance of the major improvements in the quality of social housing developments achieved in recent years and its belief in the potential for major improvements in the life chances and living conditions of Ireland’s poorest families. The improvements in the quality of social housing derive from better neighbourhood design, incorporating a mixture of dwelling types and income groups, more attention to social, recreational and retail infrastructure, better public transport and improved estate management. The Council’s belief in the potential for improvement in the life chances and living conditions of Ireland’s poorest families is outlined in its recent report, the Developmental Welfare State.

In its housing report, the Council argued that there is a need to enhance existing elements of ‘active land management’, in order to attain the goals of housing provision and sustainable neighbourhoods. Consequently, the Council welcomes the establishment of the Affordable Homes Partnership (AHP). In establishing AHP, the Government states that its role is ‘to drive and co-ordinate the delivery of affordable housing’. The agency will co-ordinate the delivery of affordable housing under the various programmes. It will also seek to increase the supply of land for affordable housing in the Greater Dublin Area (GDA). By making a call for proposals from holders of land, including land that is currently not zoned for housing but would meet proper planning and development criteria for development of affordable housing. The AHP will also address current blockages/obstacles for the delivery of affordable housing, including planning, Part V (Planning and Development Act, 2000) and infrastructural deficits.
The AHP will also undertake an audit with local authorities of their lands with a view to the most active use of these for further affordable housing development. The Council considers that the AHP has great potential both to improve coordination and to secure real improvements in the delivery of affordable housing in the GDA.

3.8.4 Land, Land Management and Taxation

In its deliberation on housing in Ireland, the Council devoted considerable attention to the question of the appropriate treatment of development land. The question of property rights and development land has also been considered by the All-Party Oireachtas Committee on the Constitution (APOCC). The Council’s analysis emphasised the variability and uncertainty of land supply. The Council suggests that the management of development land requires a combination of four policy approaches:

1. A long-term land use strategy for the zoning and servicing of land;
2. More land for enhanced social and affordable housing programmes;
3. Sufficient active land management to ensure delivery of housing; and
4. Betterment sharing measures designed in a way which does not damage supply.

3.8.5 Key Actions

The Council proposes the following key actions on housing in the next few years:

- Significant progress towards the Council’s target of an additional 73,000 net social housing units by 2012 should be made. It was estimated in the Council’s report on housing that it would cost in the order of €51.4 billion per year in 2004 terms or an additional €500 to €600 million per year above the 2003 level of capital expenditure. Meeting this target would represent a major social investment that would yield benefits over several generations, provided the housing is well maintained. As stated in the NESC housing report, the increased investment in social housing and infrastructural amenities ‘must be undertaken in a way that is consistent with other public finance needs and sound public finances’ (NESC, 2004: 212).

- Progress in providing tailored housing and supports for people with specific housing needs (people with disabilities, older people, homeless people and those living in emergency accommodation, and travellers). In particular, there is a need to develop a strategic framework in relation to the housing needs for people with disabilities, consistent with the National Disability Strategy.

- Greater integration of housing and transport should be achieved, supported by enhanced capacity to undertake spatial analysis;

- To facilitate integrated spatial development, local authorities should be encouraged to purchase land in advance of zoning;
Building on the success of the Luas, a decision should be made on the next steps necessary to ensure that the Greater Dublin Area has a complete urban public transport system.

The policy of higher density settlement, set out in a range of planning documents, should be realised in the granting of planning permissions.

Brownfield development should be prioritised—derelict sites, infill development and re-development of existing areas where appropriate. To the extent these existing metropolitan areas are already well served with transport links, this will further the integration of housing and transport.

Active consideration should be given to the development of an affordable rental scheme that is targeted at providing accommodation at affordable rents to intermediate households. The AHP could explore possibilities in this area.

3.9 Health

3.9.1 ‘Your Health is Your Wealth’

The Council views the attainment of improved health outcomes for the general population and of more equal outcomes—across income levels, social classes, gender and ethnic groups—as particularly strong indicators of the extent and quality of social progress. Longer life expectancies and lower morbidity rates are, probably, the least ambiguous of all types of evidence that social and economic life and environmental quality are developing to be more supportive of people’s lives. Smaller differentials in life expectancy and morbidity rates across income levels, social classes and other socio-economic dimensions are evidence that a society is becoming more cohesive and that the basic questions of how long a person lives, and with what freedom from illness, are increasingly independent of the level of their income and their social class.

Health services alone are unable to attain improved and more equal health outcomes for a population. Social, economic, environmental and cultural factors play a major ‘up-stream’ role in shaping health outcomes which, as it were, then flow ‘downstream’ to where the level, range and quality of health services are called upon to reshape the outcomes. An exception are ‘mid-stream’ services which promote a greater awareness of the extent to which responsibility for health outcomes is shared by individuals themselves, their families and communities, encourage changes in lifestyles and carry out health impact assessments of broader social and economic policies (Stegeman and Costongs, 2003). Health in contemporary society becomes, simultaneously, a more important value and a more complex achievement; it relates to many aspects of life in society and requires extensive and effective intersectoral collaboration if people are to achieve their full health potential41. However, once a person has a need for medical and/or

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41 Social exclusion, abuse of alcohol, bad driving and unsafe roads, insufficient exercise and poor working conditions are just some examples of how society unnecessarily adds to the demand for health services.
social care, it is a major test of a country’s health services as to how promptly and effectively they receive the required care, regardless of their income.

The Challenge of Outcomes

Chapter One reflected on the agenda for improving the health status of the population which the Health Strategy (DHC, 2001) embraced and on the pace of progress since. Some strong challenges were identified.

- In several areas of social care, Ireland has to ‘catch up’ with the standards that countries prosperous for longer have been able to establish and which Irish society now wants and expects (e.g., supports for persons with disabilities, vulnerable children and the elderly, and the quality of institutional care everywhere).

- Ireland has a particularly young population by European standards, yet the health status of its children does not compare favourably with other advanced countries. The proportion of low birthweights, immunisation rates, the under 5 mortality rate and burden of disease for 0-14 year olds suggest children are significantly more vulnerable in Ireland than in the best performing EU-15 Member States (WHO European Health Report 2005).

- The number of years a person can expect to live in good health (and not just years before dying which life expectancy measures) is a core health outcome. Both Irish men and women have the second shortest healthy life expectancies (HALE) in the EU-15 and have almost 4 years less of healthy life before them than if they lived in the best performing counties (Sweden for men and Spain for women) (WHO, ibid.). This is a summary indicator of the room for improvement that still exists in Ireland both to adopt more healthy lifestyles and improve health services.

- Socio-economic status impacts in a major way on the number of years an Irish person can expect to live in good health. For example, unskilled male workers in Ireland have twice the mortality rate and a chronic illness rate 50 per cent higher than higher professional men; they are also four times more likely to be admitted to hospital first time for schizophrenia (Barry et al, 2001). Low socio-economic status increases the likelihood of a woman having a low birthweight baby.

- Some major new threats to health have grown in line with rising affluence and changing lifestyles. The principal ones are:

  - *rising levels of obesity*: 39 percent of Irish adults are overweight and 18 percent obese. Some 2000 premature deaths will be attributed to obesity in Ireland in 2005, a number expected to grow (DHC, 2005b).
• excessive alcohol consumption. The increase in disposable, discretionary income during the 1990s saw alcohol consumption per capita increase by 41 per cent, by far the highest increase in an EU 15 where 10 member states recorded decreases (DHC, 2004). It is conservatively estimated that alcohol is the primary cause of 25 per cent of all road collisions and 33 per cent of collisions resulting in fatalities.

• a high rate of motor vehicle traffic injury. While the number of deaths per 100,000 of the population gives Ireland a midway ranking by EU-15 standards, it is almost double that attained by the UK and Sweden.

• significant drug abuse. The prevalence of drug abuse in Ireland (use of cannabis, amphetamines and ecstasy) is among the highest recorded in the OECD (OECD, 2005h: Chart C06.2).

• a dramatic rise in the suicide rate. While an element of the recorded increase is due to a greater willingness to record it, the rate (per 100,000 persons) has almost doubled for the general population since 1980 and risen almost fourfold among those aged under 25. These rates of increase are among the highest recorded in the OECD and the level reached among young people in the year 2000 was the third highest of countries for which data was returned (OECD, 2005h: Table C05.1).41

These new health challenges associated with affluence require strategies that strongly integrate prevention and cure. A greater awareness of the health risks associated with individual behavioural choices, increased social pressures to avoid behaviour damaging to one’s own health, improved access to a wide range of health services and new procedures for attaining maximum coherence across all types of concerned organisations—each has an important part in effective strategies for reducing these new threats to health. The Council emphasises that, in so far as children and young people are being impacted disproportionately by the onset of these new health hazards, the level of public support for sports infrastructure and sporting organisations, particularly those attracting young people, has assumed an added significance. Promoting participation in sport is a particularly valuable cross-cutting strategy for lowering their exposure to health hazards in all instances.

3.9.2 The Challenge of Health Services Reform and Development

It is to be expected that, as real incomes in Ireland continue to rise, a growing proportion of national income will be spent—in one way or another—on health. The Council has drawn attention in its study, The Developmental Welfare State (2005: 66-67), to the factors that drive health spending in industrialised societies. These include the opportunity and ability to exploit new technologies and treatments, higher expectations and standards, the needs of a larger elderly

41 After Iceland and Finland. New Zealand was a joint third
population, and the tendency for labour costs to outstrip productivity growth in services generally (‘Baumol’s disease’). Ireland’s spending on health has been rising rapidly in absolute terms and as a percentage of GNP since the year 2000. Public current spending on health touched a low of 5.9 per cent of GNP in 1996, but recovered to 7.4 per cent by 2002. Total health spending that year (capital and current, private and public) was 9.1 per cent of GNP, giving Ireland a middle ranking in the EU 15. This constitutes a relatively high ‘health effort’ by international standards when account is taken of the young age structure of Ireland’s population. For example, Ireland’s spending on sickness and health care per person aged 15 or over in 2001 was higher than in Finland, Belgium, Denmark, the UK and the Southern European EU 15 member states (NESC, 2005: 109). The annual average growth rate in health spending over the period 1997–2002 was more than twice that for the EU-15 as a whole.

It is this type of evidence which led the Council, in its study The Developmental Welfare State, to conclude that the area of health spending is a particular testing ground for the ability of Ireland’s welfare state (i) to achieve and demonstrate value for money through reform and rely more on the improved use of resources to make the case for additional resources, rather than the other way around, (ii) to prevent dualism deepening to the extent where health treatment at high standards is purchasable for some but denied to others (in probably no other area is it as true as in health that ‘fair distribution creates value’, i.e., people value the service others receive as well as the service they themselves benefit from) (NESC 2005: 162), and (iii) to acknowledge its own limits by recognising—in this case—the pivotal contributions of wider social, economic and cultural developments in ‘co-producing’ a healthy population.

The creation of the Health Service Executive (HSE) is the largest single reform of public services yet undertaken in this country. It is a bid to simplify the organisation of the health services, deploy resources more efficiently, increase the morale and effectiveness of health service personnel, and provide a higher level, quality and responsiveness of medical and social care to everyone who needs them in Ireland. One promise of the new reform is that the Minister will ensure the HSE has the requisite autonomy to implement long-term strategies in freedom from short-term political interventions prompted by sectional lobbying. Another promise is that the HSE will deliver within an acceptable timeframe the improvements in services that, ultimately, are the only adequate response to regional, sectional and other concerns. Both promises must be delivered on. The improvements in services hinge crucially on stronger and more effective management. This

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43 The ratio of national spending on a particular item expressed as percentage of GNP/GDP is frequently – if loosely – termed that country’s ‘effort’ in the field.

44 Based on ESSPROSS data. The WHO’s European Health Report for 2005 compares health spending per head of the population (making no adjustment for age structure) in 2002 and puts Ireland ahead of Finland, the UK and Austria. Finland, the UK, Denmark and Belgium each have a full 5 percentage points or more of their populations aged 60 or over, but Ireland was devoting as large or larger a share of GNP to health spending than they were.


46 It can be regarded as the area to the forefront in bringing Ireland to demonstrate the ‘budget stakes principle’. See section ‘From Targeted Measures to Tailored Universalism’ in Chapter 2.

47 The usual example of extreme dualism in health services is the United States; it devotes almost 15 per cent of its GDP to health spending but, because fully one-half of this takes the form of private spending, a large number of Americans have extremely poor health care by international standards.
management, in turn, should feature a movement away from ‘command and control’ by administrators towards making professional and para-medical staff more responsible for outcomes and having greater autonomy in using budgets to that end, new types of contracts that reward improved productivity and performance, the more vigorous dissemination of new work practices that improve service quality, and the firm tackling of entrenched work practices that provide insufficient public service in return for publicly subsidised training and good public salaries.

3.9.3 Primary Care

The National Health Strategy considers that primary, community and continuing care services at the local level are the most appropriate setting for delivering 90-95 per cent of all health and personal social services needs (DHC, 2001: 95). The corresponding core objective of the HSE is that people should be able to experience a continuum of care in a location reasonably convenient to them and to avoid multiple journeys to appointments at different locations. Achieving this, particularly for people on low incomes, will contribute significantly to the effectiveness and efficiency of meeting national health goals. International research, for example, suggests that ease of access to competent and well-resourced General Practitioners reduces under-diagnosed and under-treated illness and contributes notably to lower mortality rates, higher life expectancy and greater satisfaction with health care systems (ICGP, 2004). A stronger, redesigned primary care system will also be of major advantage to the acute hospital system. The chief contributing factor to overcrowding in A&E departments is that people are having recourse to them for services which should be available through primary care. Improved primary care will free hospital resources to address more complex and serious medical needs.

Building a better primary care system requires, in the first place, a greater number of General Practitioners (GPs) and a more effective harnessing of their skills. Ireland has one of the EU-15’s lowest ratios of doctors to population. Partly as a result, access—especially out-of-hours—to a GP is particularly difficult for people in disadvantaged urban areas and in rural settings. There is also evidence that working conditions for GPs have deteriorated and that the speciality is increasingly unattractive to female doctors in particular.48 The Council accepts that it is urgent to increase the number of training places for GPs, ensure their better geographical distribution, and develop new out-of-hours arrangements—particularly in disadvantaged urban and rural settings—so that a more sustainable life-work balance for doctors and greater continuity of services to patients are forthcoming. At the same time, GPs need greater access to palliative care facilities, diagnostic facilities and the support services of paramedical and administrative staff. In an increasing number of instances, the model of the solitary GP or practice is no longer able to deliver the quality of primary care the patient needs or working conditions that are sustainable. The objective should be to have a primary, continuing and community care system characterised by multidisciplinary teams with the capacity to bring clinical, paramedical and administrative expertise to bear simultaneously on

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48 It is disturbing that a survey should find 36 per cent of women doctors stating they would not choose medicine if given a second chance (29 per cent of male doctors stated the same). Irish Medical Organisation’s National Benchmarking Survey, 2001.
the needs of the same individual. Complementary capital investment is needed so that state-of-the-art primary care facilities can house these teams and enable, for example, some outpatient services of hospital-based consultants to be available locally.

At the same time as the supply of GPs and the range of services available at the primary care level are improved, the affordability of these services for a large number of people, particularly workers on low pay, needs to be addressed. The proportion of the population covered by a medical card has declined substantially, from a peak of 39 per cent in 1979 to 28.4 per cent by the end of 2004 and is now largely associated with a status outside the workforce or unemployment (CSO, 2001). These developments are because the income eligibility thresholds have been up-rated largely for cost-of-living increases and not linked to a relative position in the distribution of income. The Council has already expressed concern that low paid workers with children can be significantly deterred from consulting a GP by the level of financial costs involved (NESC, 2005:65). It needs to be appreciated more widely that where people are deterred from accessing primary care, higher public spending on acute hospital care is likely to result. The Council welcomes the introduction of the new ‘doctor visit medical card’ as a complement to the existing card and notes the estimate that some 35 per cent of the population may be covered when both types of medical card are fully applied for. Given the internationally observed trend in medical costs and the underlying distribution of income, the Council believes that policy should aim, in the medium term, to ensure that medical cards cover an appropriate proportion of the population.

3.9.4 Hospital Care

Further measures are needed to ensure that the country’s acute hospitals cope efficiently and effectively with the acute medical needs of a larger and more demanding population. A 2002 study considered that a 24 per cent increase in acute hospital bed capacity, on what was in place in the year 2000, was needed for four reasons – to reduce waiting lists and times by public patients for elective inpatient treatment (justifying 11 per cent of the proposed increase), to reduce average bed occupancy to international norms (20 per cent), to respond to increased demand for services (31 per cent) and to respond to a larger population (38 per cent). The analysis also concluded that improved use of existing capacity was capable of generating an effect equivalent to adding 13 per cent to the 2000 bed capacity. International comparisons, in fact, suggest that, when account is taken of the age structure of the country’s population, Ireland’s acute hospital bed capacity is not particularly low and that the one-third reduction in capacity over

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49. A 20 per cent increase in income guidelines for the medical card in October 2005 resulted in the income guideline for a single person without dependants reaching €184 a week, equivalent to approximately 62 per cent of gross earnings for a 39 hour week at the minimum wage (€7.95 since 1st May 2005). The guideline is based on income net of tax and PRSI, and can be raised to take account of reasonable rent and mortgage payments, childcare expenses and travel to work expenses.

50. Very high occupancy has been a contributing factor to deteriorating hygiene and the spread of the MRSA bug in hospitals.

51. Acute Hospital Bed Capacity – A National Review (DHC, 2002) identified the need for 3,000 additional beds in the acute hospital sector. By the end of 2005, some 800 of these were open. Further initiatives are in hand to continue increasing the acute hospital bed stock.

52. Strategies such as further substitution of elective in-patient surgery with day surgery, improved management of public and private beds for elective patients, and investing in more long-term care facilities so as to reduce the number of ‘bed-blockers’. Sweden (taking advantage of its strong local government system) achieved a dramatic freeing up of acute hospital beds in 1992 by shifting responsibility for elderly care to municipalities and requiring them to reimburse hospitals for patients who are medically ready to be discharged but stay in hospital. See Rae (2005).
the 1980-2000 period was not unusually large. Medical practices in advanced countries generally have resorted to more day treatment and shorter hospital stays, taking advantage of such developments as more non-invasive procedures and gentler anaesthetics.\textsuperscript{53}

The hospital networks being established by the National Hospitals Office are a major opportunity to improve the management of the overall hospital bed stock. The task will become easier as the availability of more long-term care for elderly patients releases beds and new acute bed capacity comes on stream. The objective should be to have the maximum possible sharing of resources and medical personnel across networked hospitals and to keep the need for patient transfer to a minimum, so that patients receive a wide range of appropriate services in their region. A higher ratio of consultants to junior doctors will also contribute to keeping hospital stays to a minimum, improve the training of junior doctors and reduce their working hours. The up-skilling of nurses, furthermore, has the potential to enable more of them perform higher-level functions and free doctor’s time, while themselves being supported by care assistants who free nursing time.\textsuperscript{54}

3.9.5 Supply of Health and Social Care Personnel

Achieving the improved health outcomes and reformed health system Ireland wants hinges crucially on ensuring adequate numbers of trained personnel are forthcoming.

The Council views with grave concern the persistence of shortcomings in the supply of doctors to Ireland’s health system. Inadequate numbers of Irish people are qualifying as doctors while a large number of Irish applicants are being refused places in the country’s medical schools each year. The threshold of Leaving Certificate points required for admission is beyond anything required by the nature of the training, and there is an imbalance between the numbers of Irish students and students from outside the EU. A low proportion of Irish medical graduates are male.\textsuperscript{55} The number of consultants is far below what is needed, and too few doctors are qualifying as consultants. The ratio of approved consultant posts to non-consultant hospital doctors (NCHDs) is changing very slowly,\textsuperscript{56} making the Hanly Report’s recommendation of a consultant-delivered, as distinct from a consultant-led, acute hospital medical service still a distant prospect. This imbalance is a contributing factor to the poor working conditions of many NCHDs (long hours, insufficient supervision, poor opportunities to progress).\textsuperscript{57} The Council agrees that the training of more Irish people as doctors ‘is a highly significant societal issue for Ireland.’\textsuperscript{58}

\begin{itemize}
\item \textsuperscript{53} The reduction in acute hospital bed capacity over the same period was more pronounced in other European countries which maintained and even improved their health services—Sweden, for example.
\item \textsuperscript{54} One area in which Ireland’s health system appears well equipped by international standards is in having the EU-15’s highest number of practising nurses per 1000 population (OECD, 2005e).
\item \textsuperscript{55} The higher the ratio of female to male doctors, the higher the absolute number of doctors that will be needed. Irish Medical Organisation Position Paper on Manpower (2005).
\item \textsuperscript{56} It deteriorated steadily between 1990 and 2003 (from 1/1.95 to 1/2.27) and improved slightly, thereafter, to 1/2.14 by 2005.
\item \textsuperscript{57} Several of these issues have been discussed by the Report of the National Task Force on Medical Staffing (2003), chaired by David Hanly, and the Working Group on Undergraduate Medical Education (2004) chaired by Prof Fottrell.
\item \textsuperscript{58} Prof. John Crowe, \textit{The Irish Times}, 08/09/05.
\end{itemize}
The shortages of doctors and consultants are symptomatic of much wider weaknesses in ensuring there are adequate personnel to underpin Ireland’s ambitions for its health services. The increased emphasis on primary care, the objective of enabling more older people and persons with disabilities to maintain a good quality of life in their own homes for as long as possible, the implementation of the National Disability Strategy, and other developments, are increasing the demand for a wide range of paramedical, social care and administrative skills.\(^{59}\) Since 1997, major increases in training places have taken place in several fields and the number of practising professionals in some areas has risen markedly. Adequate training times, however, can take from under a year for personal care workers to 10-12 years for specialised doctors. In addition, other factors affect the availability of personnel when they are trained—for example, a shift towards part-time working,\(^{60}\) the shifting composition between nationals and non-nationals,\(^{61}\) EU legislation on working time, the gender composition of the student body in medical schools, and the high international mobility of health workers. The retention of skilled staff must be a priority challenge, and the reasons for high attrition deserve detailed scrutiny and a coordinated response from health sector employers and training bodies. The Council concludes that there is an overwhelming case for a stronger approach and practice in developing and implementing a comprehensive workforce policy for the health services. This should address the specialities and skills needed to provide services to steadily evolving standards, the numbers to be trained, the cost of that training, career structures, the retention of skilled staff and the contributions of migrant workers. To the greatest extent possible, the funding of programmes for training health and social care personnel must be placed on a medium to long-term basis.

3.9.6 Equity

Every person in the state is entitled, regardless of income, to public hospital and public consultant services subject only to modest statutory charges (from which some persons are exempt). Providing this service to high standards out of general taxation is, the Council believes, an exceptionally powerful expression of solidarity and reinforces social cohesion in Irish society. It is the primary testing ground of the principle that there should be equal access to medical services for equal medical need. Acute pressures have come on public hospitals and there are unacceptable inequities in the treatment available to public and private patients and to residents in different geographic locations. The Council’s report, The Developmental Welfare State, cautions against a scenario in which publicly subsidised private providers deliver high quality services exclusive to the better-off in society, while wholly funded public providers deliver lower quality services used only by the least well-off. Currently, perverse incentives operate that bring more income to

\(^{59}\) While the GP, public health nurse, practice nurse and community pharmacist may be considered the core front line staff of the primary care team, other essential members include audiologists, community mental health nurses, home helps, dieticians, dentists, chiropodists, community welfare officers, environmental health officers, occupational therapists, physiotherapists, psychologists, social workers, speech and language therapists, receptionists, and other administrative staff. In addition, members of non-statutory, voluntary and community groups may play significant roles depending on the area.

\(^{60}\) In 3 years (1999-2001), the proportion of health service employment that was part-time rose from 5.9 to 10.8 per cent. The proportion that was temporary rose from 17.1 to 19.8 per cent over the same period. Department of Health Statistics 2002.

\(^{61}\) E.g., in working hours. Their working hours, for example, differ substantially. See Ruhs (2003).
doctors and hospitals the more private patients they treat, while the number of public patients treated has no impact on their incomes or budgets. Fundamental changes are needed to doctors’ contracts and the allocation of hospital budgets to ensure that public funding follows the patient more closely and which restore, to the greatest extent possible, freedom for health professionals to prioritise people for attention purely on the basis of need and regardless of their patients’ incomes, while also rewarding doctors and hospitals for good performance. Measurement and performance-based funding that give successful medical teams the recognition they deserve—at primary and hospital level—are essential both to making the best use of public funding and retaining the best talent in serving public patients.

3.10 Education

Ireland’s educational system has served—and continues to serve—the large majority of its young people well. Their participation rates and overall learning achievements, and the efficiency with which these outputs are attained, compare well with other countries. Major challenges, however, face Ireland’s educational system and the Council is conscious that Ireland is far from having a highly educated population by the standards of other advanced countries. The overarching challenge can be expressed as how to bring the educational system to serve neglected constituencies without relinquishing its current strengths. On the one hand, significant but still insufficient progress is being made in helping working class students with Leaving Certificates, and adults who completed secondary schooling in years past but did not transfer to third level, to do so. On the other hand, all too little progress is being made in addressing the needs of infants in the pre-primary school years, young people from largely working class backgrounds who do not complete secondary school, and adults whose schooling ended around the age of 14 and have not returned to education since.

Education begins in the home and in pre-school settings. In 3.7.4 above, the Council discussed the challenge of improving pre-school childcare as primarily the challenge of responding to children’s potential for development and supplementing the care and education parents are able to provide for their children in the early years. The State becomes a more major partner in children’s development when formal schooling begins. The Council considers the provision of high quality primary and secondary education on a universal basis as an essential foundation to achieving Ireland’s core social and economic objectives. It supports the view that not completing the Leaving Certificate or its equivalent—even though 15 remains the ending age of compulsory schooling—is fairly termed ‘early school leaving’. It accepts that adults whose formal education did not extend beyond primary school are to be included among the ‘learning poor’ and that the provision of ‘second chance education’ for them is now a major challenge to Ireland’s educational

62. For example, Ireland’s adult population (25-64 year olds) is strongly polarised by educational attainment, a consequence of both the late (by European standards) expansion of secondary education and rapid development of the third level sector. Thus, in 2003, 38 per cent of 25-64 year olds in Ireland had a qualification higher than the Leaving Certificate (third level or post-secondary non-tertiary) and another 38 per cent had not completed secondary education (OECD Education at a Glance 2005:35).

system. While it supports raising the participation rate in third level education further, it does not believe that participation in third level education is—or should become—a pre-requisite for full participation in Irish life.

In more detail, the Council recommends the following as core goals and strategies for primary and secondary education over the coming years:

### 3.10.1 Primary Education

- It should be a priority of the next NDP to bring the physical infrastructure of primary education throughout the state to satisfy the high standards of modern design. Every child’s first experience of schooling in Ireland should take place within high quality, attractive school buildings.

- Further progress needs to be made in ensuring that teaching methods in the first two years of primary education (junior and senior infants) are characterised by more interactive, exploratory learning and self-initiated, hands-on (as opposed to table-top) activities.\(^6\) This will require early implementation of the 2002 commitment to bring the average class size for children under 9 to the international best practice guideline.\(^6\) The Council believes that what will be needed in terms of additional classrooms and teachers to meet this commitment should be made explicit and feature in the next NDP.

- Currently, there is evidence that the relative literacy and numeracy attainments of children in primary schools in disadvantaged areas do not improve over the course of their primary education (Eivers \textit{et al}, 2004). Successful catch-up with national standards should be adopted as a criterion of success of the School Support Programme (DES, 2005) and used to guide continuing changes to it.

- Strong parental involvement and links between primary schools and the local community should be particularly evident in areas of disadvantage. It needs to be recognised that parents in some instances are simply not acting as co-educators of their children. This suggests that schools should be resourced and encouraged to be more pro-active in local partnerships addressing parental disadvantage and disinterest. This will require higher levels of resourcing for home-school links and, as importantly, new forms of team-work across disciplines, agencies and in statutory-voluntary partnerships. The National Educational Welfare Board has an important role in encouraging schools and local groups to be innovative in this regard, and implementation of its first strategy should receive the highest priority (NEWB, 2004).

\(^6\) The OECD review team described this as a cause of ‘real concern’ (DES, 2004: 84).

\(^6\) An Agreed Programme for Government, June 2002. 24 per cent of children in infant classes were in classes of 30 pupils or more in 2000/01 (Corrigan, 2004: 62); the international best-practice guideline was then of 20:1.
Processes need to be put in place which set standards for pupils to reach, monitor their performance, evaluate their achievements against appropriate benchmarks, assist schools in setting plans for continuous improvement, reward high-performing schools, help under-performing schools to improve and, where necessary, support parents in fostering the cognitive capacities of their children.

School boards and management need to become more significant players in improving standards and overcoming educational disadvantage. They should enjoy a significant degree of autonomy, ensure transparency in what is achieved in their school, be responsible for developing strong and effective school-parent and school-community links, and—where advantageous—create tailored links with other educational institutions. School boards might also be encouraged to make greater use of the management skills, insight into the changing world of work and commitment to human resource development of the private sector, but in ways that do not expose pupils to corporate branding or marketing within schools. For these developments to happen, systematic measures will need to be taken to strengthen the capacity of many school boards to play a more vigorous role.

Specific strategies need now to be developed—made urgent by the scale of in-migration—for ensuring the integration of ethnic and other minorities integrated across all primary schools. Policy should be geared, to the greatest extent possible, to avoid having schools with wholly disproportionate intakes of children of minorities.

The commitment of all schools to provide special needs education should continue to be strengthened so that, in so far as possible, interaction with children who have special needs is a common feature of the educational experience of all primary school pupils.

Expertise in teaching science and languages (other than Irish and English) to young children should be fostered and additionally rewarded so that the relatively poor attainments of Ireland’s young people in these fields and the poor take-up of these subjects later on in the educational system are overcome.

3.10.2 Secondary Education

It should remain a firm goal that every student at second level complete the Leaving Certificate or its equivalent.

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66. This has been a remarkable development in recent years. As of 2005, there were 6,600 special needs teachers (full time equivalents) and 6,300 special needs assistants in the primary and secondary school system. Yet while some schools have 30 per cent of their enrolment in receipt of special needs provision while other schools have less than 2 per cent.
The options available at the senior cycle level should develop more rapidly to include further systematic, high quality programmes for students not intending to transfer immediately to higher education. All students should have access to the Transition Year Programme and care should be taken that the Leaving Certificate Applied and Leaving Certificate Vocational Programme each attain a status as high as the more academic Leaving Certificate.

Educational and training authorities should co-operate maximally in developing and extending 'work-study programmes that integrate and accredit both experiential learning in a supervised work placement and formal study’—(Enterprise Strategy Group, 2004) and reflect Irish society’s evolving occupational and vocational composition. In this context, Post Leaving Certificate Programmes (PLCs) have opened a most valuable space between secondary and third level education and the high level of collaboration which underpins them ensures a successful transition from school to employment or further education for 9 out of 10 of their participants.

The secondary school system must become more adept at identifying and addressing at an early stage the situation of students who transfer from primary school but with insufficient basic literacy and numeracy skills to benefit fully. Currently, these students are more likely to drift from deteriorating class attention through rising absenteeism to finally abandoning school altogether.

The teaching methods employed within the senior cycle curriculum should feature extensive project work and the development of problem-solving skills and teamwork much more strongly. These skills can enhance students’ interpersonal, emotional, psychological and physical development, as well as support their academic achievement. Appropriate participation by pupils on student councils and processes for channelling their contribution to school boards should be seen as an important enrichment of the educational experience capable of deepening young peoples’ appreciation of the processes of participative democracy.

Measures should be put in place to address the decline in the numbers of students taking Physics, Chemistry and Higher Level Maths and to stimulate the interest of students in the sciences generally.

It should be an objective to reduce segregation by social class across secondary schools in particular, but primary schools also.

School buildings or school grounds should frequently host stand-alone childcare facilities that are available throughout the year and independently of the school cycle (DJELR, 2003). Generally, initiatives that make school facilities available for other purposes that promote learning in the local community during school holiday periods should be welcomed. Some government-arranged insurance cover, however, will be a prerequisite to the greater use of school facilities in these ways.
3.10.3 Non-Formal Education

There have always been significant numbers of young people helped by a wide variety of organisations to engage voluntarily in activities with a profound educative impact. Such youth work is non-formal education complementary with learning undertaken in schools and capable of significantly widening a young person’s understanding of participation, team-work and active learning. Through the community and voluntary organisations that provide the opportunity for youth work, an important additional set of ‘teachers’ of young people is effectively engaged. The Council welcomes the formulation and adoption of the National Youth Work Development Plan, 2003-2007, by the Department of Education and Science and the recognition and framework which the Youth Work Act, 2001, has given to this dimension of education in young people’s lives. It is important that the opportunities presented by the Plan and the Act are grasped through their full implementation.

3.10.4 Adult Education

Some 19 per cent of the population aged 25-64 in Ireland completed only primary schooling, while a further 19 per cent attained only their Junior Certificate (2003 data in OECD, 2005f). Some of these will have gone on to gain significant skills and experience through their workplaces but a large number remain poorly positioned to change their employments, where they have one, or to seek employment, where they do not. In addition, a significant number have serious literacy and numeracy problems that make many of the practical tasks of social and civic life problematic. Nearly all of them will have low confidence in their ability to benefit from formal classroom settings and, accordingly, are the least likely to participate in further education or training even though their need is greatest.

The Council is aware that this can appear the least glamorous part of building a learning society and economy in Ireland. These people are at one or several removes from being candidates as mature students at third level or for access programmes in Higher Education Institutions. In general, the culture and ethos of educational institutions that have been shaped around largely young and middle class student bodies are poorly equipped to attract and retain them. The Council commends the many initiatives that educational institutions and the Department of Education and Science are taking to move from a front-loading model of educational provision to one in which education provision is tailored to suit the student at any stage of the life cycle, for this is what is required if life long learning is to become a reality. The discussion of training (3.3 above) covered many of the routes which are most suited to enhancing the learning and skills of adults poorly served by the educational system when they were young. To the recommendations of that section, the Council stresses here the importance of implementing in full the White Paper on Adult Education (2000) in particular by:

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67. The Youth Work Act, 2001, defines ‘youth work’ as a planned programme of education designed for the purpose of aiding and enhancing the personal and social development of young persons through their voluntary participation, and which is— (a) complementary to their formal, academic or vocational education and training, and (b) provided primarily by voluntary youth work organisations.

68. The headline finding from the International Adult Literacy Survey carried out in 1995 was that almost 25 per cent of the Irish population, or at least 500,000 adults, scored at the lowest level of literacy (Level 1).
strengthening further the developing infrastructure for promoting and delivering on adult learning (the work of the National Adult Literacy Agency, the Adult Education Guidance Initiative, National Adult Learning Council, etc.);

increasing support for community education and the creation of organic links between community groups and the resources of the statutory sector. The appointment of Community Education Facilitators to the VECs is particularly welcome in this regard; and

designing appropriate incentives for education providers to develop pedagogies and courses which attract back to learning adults who did not complete secondary schooling.

3.10.5 Higher-Level Education

The Council shares in the gathering consensus that Ireland’s needs and aspirations for its society and economy accord its Higher Educational Institutions (HEIs) an increasingly prominent role in achieving core economic, social and cultural objectives.

This consensus is at its most developed in the context of the need to support the transformation of Ireland’s economy into one that is more based on learning and innovation. Dynamic and responsive HEIs make possible a greater supply of capable graduates to industry in technical and scientific disciplines, management and business studies, languages and the social sciences. They provide businesses with opportunities for high-level problem solving. They help to interpret and apply to the needs of the Irish economy and Irish business advances made elsewhere in global knowledge. They stimulate the prospects of new economic activity with the findings of basic and applied research carried out on campus, and can spin off viable companies based on the successful commercialisation of new knowledge. These economic outputs of the higher educational system support the major importance attached to increasing the level of research carried out by Ireland’s HEIs, creating stronger linkages between them and the private sector, and being more systematic in exploiting commercial opportunities arising from research in HEIs.

The Council is also conscious of the growing contribution which HEIs must make to social and cultural goals. A socially cohesive society requires that the opportunity to benefit from higher education be widely and equitably shared across the whole population. It requires that knowledge in the humanities and social sciences be valued, developed and applied in parallel with knowledge in science, engineering and technology. It requires stronger links between HEIs and every branch of the public system so that public services and public administration benefit from advancing global knowledge in fields as distinct as statistics and information technology, health sciences and educational research, social sciences and management. HEIs also have a vital role to play—through historical research, literary and cultural studies—in enabling Irish society to retain and develop its cultural fabric in a global age; these disciplines contribute to deepening Ireland’s dialogue with its own history and heritage and with those of other societies, a dialogue made more important by the growing scale of immigration. Finally, to

69. The importance of a greater supply of fourth level skills is addressed in 3.2 above.
the extent that HEI’s achieve a greater internationalisation of their student bodies and staff, they contribute in this way also to making Irish society more able to thrive and change through increased interaction with other countries in a way that is in keeping with its own social and cultural traditions.

The Council appreciates the significance of the 2004 OECD Review of Higher Education in Ireland (OECD, 2004c), the range and depth of the submissions that were made and of the subsequent responses to its contents. It is committed to participating in a new knowledge foresight exercise that will address the depth and reach of the innovation challenge across all aspects of Ireland’s economy and society. A further evolution in national expectations of, and policies for, higher level education can be expected to feature prominently when conclusions are drawn from this exercise.

While supporting higher levels of public spending on developing the research infrastructure and carrying out research programmes in HEIs, the Council is conscious of the difficult balance that must be maintained if this spending is to produce proportionate benefits. The recognition of a major deficit in undertaking research in Ireland and the organisation of major initiatives to address it have been hugely important. Like many important developments in policy and the economy, this inevitably created a degree of what Hirshman called ‘unbalanced growth’. The Council believes that it is now important to assess the complementary measures that are needed to secure full value from the new investments being made. This assessment can begin by sketching what an effective overall system of innovation and higher education would look like. An initial outline is made below.

In thinking about an effective and complete national system of innovation it is useful to clarify how research and other knowledge creation support economic and social progress. The path from research through patents to commercial success, from which the HEIs themselves might then benefit in varying degrees, is—in the Council’s view probably—a subsidiary route through which benefits to society are likely. The contribution that the improved research capabilities of Irish HEIs and their more advanced research programmes can make to attracting inward investment is a more significant consideration but still not, in the Council’s view, the principal reason for high public support for HEI research. A more important consideration is that higher levels of advanced research activity in HEIs contributes directly to creating a pool of researchers whose careers, as they unfold in Ireland, have the potential to increase the ability of organisations throughout the private and public sectors to understand and utilise the latest global advances in knowledge. For this to happen, the pool of advanced ‘fourth-level’ researchers should ideally be the end product of a continuum that begins with quality early education, where the roots of scientific enquiry are nurtured, continue through the demonstration of science as an exciting and valuable discipline at secondary level, feature a high quality to undergraduate teaching and lead to a large number of successful PhDs.

The Council considers, therefore, that quality teaching and quality research are mutually beneficial attainments. Past experience suggests that the quality of Ireland’s undergraduates has been a major contributing factor in the country’s strong economic performance. Consequently, it is vital that the enhancement of
postgraduate education does not signal a reduction in the quality of degree programmes. High standards in undergraduate teaching contribute to significant numbers of Irish students gaining their PhDs and post-doctoral research experience in leading overseas universities who return later to make major contributions in Irish life. Excellent research conditions in Irish HEIs also attract post-doctoral researchers from overseas whose work in Ireland can contribute to strengthening the indigenous research culture, pool of qualified personnel and industry-higher education linkages.

Although an ideal national system of innovation would have the kind of organic unity described above, it may be necessary—to support specific research programme and maintain the integrity of the higher education system—to create specific institutional mechanisms for certain areas of research.

All third level institutions, but the Universities in particular, have the potential to benefit from the Bologna process and become accustomed to extensive mobility of staff and students within a European Higher Education Area. This can bring significant benefits in the form of a higher quality of undergraduate education, greater participation in international research networks and improved language skills. These intra-European links and tailored arrangements with leading US universities will mean that participation in an Irish university effectively guarantees access to developments at the global frontier in a person’s chosen field.

The Council supports the early enactment of legislation granting Institutes of Technology similar autonomy to the Universities. A more marked specialisation may need to occur across them—and between them and the Universities—that, among other things, would contribute to strengthening further their regional development roles.  

The entry rate to higher education reached 54 per cent in 2003 and there is an expectation that it will reach 65 per cent by 2015. The Council believes, however, that the era of rapid growth in this ratio is nearing a close and that emphasis will have to shift to ensuring high quality and systematic occupational and vocational training programmes for the approximately one-third of younger people not transferring immediately to higher education and to providing feasible access routes for adults of different ages who wish to begin—or return to—higher education. In 2002, Ireland had the youngest student population in Universities in the OECD; 80 per cent of new entrants were under 20 years of age, whereas, in Finland for example, 80 per cent were under 27. The average age of Ireland’s third level student body should be expected to rise, therefore, with considerable implications for the ethos of its HEIs.

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70. While welcoming the distinct identity of the Institutes of Technology, the Council, nevertheless, accepts that demographic and regional economic developments suggest that the door should not be closed on a possible change in status for Waterford IT if a university for the South East should be deemed desirable.

71. OECD (2004), Education at A Glance. p.288. The figures are for what the OECD terms ‘tertiary-type A’ education, i.e., programmes that are theoretically-based and designed to prepare students for advanced research or professions with high-skill requirements.
Improvements have occurred in bringing the Irish student body in higher education institutions to reflect more broadly the social composition of the population. Several new measures could still be taken, and existing ones strengthened—for example, increasing incentive funding to recruit less-advantaged students, restructuring the means-test for maintenance grants, treating part-time students on equal terms to their full-time counterparts and other internal reforms to HEIs (e.g. bridging courses, flexible assessment practices and welcoming entry arrangements)—with a view to at least doubling the number of mature, part-time and second-time students and of students with disabilities over the medium term and ensuring that retention rates are similar by social background. A growing presence of overseas students and staff in Ireland’s HEIs is also to be welcomed, primarily because it will reflect Ireland’s commitment to deeper intellectual and cultural exchanges within disciplines and across global frontiers of every sort but also for its contribution to the institutions’ resources and the supply of graduates and researchers to the economy.

3.11 Regional and Rural Development

3.11.1 The National Spatial Strategy and the Challenge of Regional Development

As noted in Chapter 1, Ireland’s population is growing strongly at present and the CSO has projected that the level of population could exceed 5 million by 2021. The spatial and regional distribution of this projected growth is a significant policy issue for economic, social and environmental reasons. The National Spatial Strategy (NSS), published by the Government in 2002, provides a strategic guide to the spatial implications of this growth.

The NSS affirms the critical role that the Dublin area has played and will continue to play in Ireland’s development. It is argued in the NSS that reducing or stabilising Dublin’s share of the population from its existing level would be neither feasible nor desirable. However, the concern is expressed that the Dublin area’s share of population could become excessive. The NSS envisages Dublin continuing to grow strongly in employment and population terms, but with greater physical consolidation of this growth within Dublin. The development of regions outside Dublin is to be strengthened so that a larger share of population and employment growth takes place in these regions than would otherwise be the case. The NSS proposes that we build on critical mass in a number of gateway cities. The gateways are to support and be supported by a number of development hubs. There is a subtle shift in emphasis in the NSS from reducing regional disparities to realising regional potential (Fitz Gerald et al, 2003).

All regions have benefited from the strong economic growth since the mid 1990s (see chapter 1 for a discussion of trends). Employment, population and disposable income have expanded substantially in all regions. There are, however, recent developments that are a cause of serious concern. The decline in traditional manufacturing is creating significant economic and social pressure in some regions. To date, this has been partly offset by the boom in construction
employment. A recent report, *Rural Ireland 2025: Foresight Perspectives*72, points to the limited employment growth prospects in agriculture, traditional manufacturing and construction, all of which are significant to rural areas.

The Council believes that the NSS provides a template for regional and spatial development in Ireland. As emphasised in *Housing in Ireland: Performance and Policy* (NESC, 2004), the Council sees significant strengths in the fact that the NSS is one of a hierarchy of plans, developed in a consensual way at national, regional and local level. The Council sees two over-arching challenges in the decade ahead:

1. Ensuring that the NSS is reflected in public investment decisions and policy action across a wide range of sectors, departments and agencies, including in a new National Development Plan (NDP);

2. Strengthening commitment to the NSS by deepening understanding of the economic potential of the gateways and their hinterlands and painting a convincing picture of more balanced economic development in Ireland’s particular circumstances.

The Council sees these two challenges as related to one another.

Ensuring that the NSS is reflected in policy requires, first and foremost, that the new NDP identify and provide for the key investment that will support the gateways to become engines of economic and social development. It may also require that new institutional structures be devised to ensure that integrated plans for each gateway can be made and implemented. In seeking to promote development in accordance with the vision of the NSS, it is important to create meaningful regional indicators that are measurable and can be used for setting targets that can be achieved within agreed time frames.

The second challenge noted above arises because conviction about the possibility of more balanced regional development is critical in sustaining and guiding action at both national and regional level. The NSS identifies a template for the urban hierarchy and the spatial scale and scope of different kinds of services in cities, towns, villages and rural areas. Quite appropriately, it does not outline a complete regional development strategy or policy for each type of gateway and hub. To some extent, the content of such development strategies was identified in the Regional Planning Guidelines. The Council notes that Forfás and the Department of the Environment, Heritage and Local Government are at present undertaking a study of the economic potential of the NSS gateways.

Thinking about regional economic development in Ireland now needs to take account of several important factors:

1. The emergence of Dublin as a dynamic metropolitan region on a European scale;

2. The underlying transition from manufacturing to services as the dominant form of employment, but not yet of export earnings;

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72. This report was prepared by a working group of researchers drawn from NUI Maynooth, UCD and Teagasc.
3. A changing pattern of economic problems and strengths, including the serious increase in redundancies from manufacturing;

4. The evidence, from European experience, that cohesion policies can be successful in promoting faster growth in lagging regions and, consequently, in creating some convergence—Ireland being the most striking example;

5. The role of regional development coalitions and networks—involving local and regional government, public agencies, enterprise, higher education, labour organisation and a range of associations in civil society—in achieving regional economic success;

6. The availability of land as a resource, much of which is likely to have a radically different role in the economy, and hence in society, than it had for the past two centuries;

7. The development of regional indicators that provide a robust basis for setting targets and measuring progress and the need to adopt an appropriate set of planning regions; and

8. The island-of-Ireland economy dimension.

The first of these factors, the emergence of Dublin as a metropolitan region, was incorporated in the NSS spatial template, but remains to be fully factored into thinking about regional policy and economic development. The transition from manufacturing to services is important because of the high dependence of certain regions, including rural areas, on old manufacturing. This means that industrial redundancies have a marked regional dimension and, consequently, skill development and enterprise regeneration become key issues in regional policy. The changing pattern of regional strengths and weaknesses, combined with the reduction of EU cohesion funding to Ireland, raises questions about the existing regional structure (i.e., the division of the country into two macro regions for the NDP). The Council believes that, in making strategy and policy, it would be preferable to define a set of regions that better reflects real development patterns.

The need for wider regional development coalitions reflects the increased complexity of economic development. To a significant degree, the idea of a regional development coalition is familiar in Ireland; in past decades, the IDA, local authorities and others acted as a regional development coalition, working to attract and facilitate inward investment. Now, the number of factors that have to be put in place to encourage business development is much greater; hence, the number of actors and agencies that must contribute in a coordinated way is greater. Rethinking the role of land as a resource is absolutely central in securing regional development, and is discussed further below. Finally, the island-of-Ireland dimension is important because of the role which cross-border cooperation can play in regional development. This is most evident in cases where a strategic asset, such as the airport in Derry, is best seen as serving a region that spans the border. But it would also be relevant in a range of other areas, including other infrastructure, training, networks of enterprises and health services.
Together, these factors call for a significant rethink of the nature of the regional problem, or problems, in Ireland. They also demand careful articulation of the kind of economic engine that can drive and support more balanced regional development. Articulation of a desirable and feasible process of regional economic development is necessary in building stronger conviction—at both regional and national level—about the NSS. Such conviction is vital if regional issues are to receive the attention they deserve and not to be seen as a distraction from, or risk to, national economic progress. The recent report on the foresight exercise for the BMW region provides an example of the kind of analysis that can contribute to a vision and strategy for more balanced regional development. An improved understanding of the regional development process would help in choosing indicators that can be used to set targets and measure progress in a meaningful way.

3.11.2 Rural Economy and Society

The issue of land as a resource highlights the need for a wider discussion of the future of rural economy and society. As noted in Chapter 1, the strengths and vulnerabilities of economic life in Ireland’s rural areas are both varied and changing. For example, it is now the case that employment in some rural areas displays a relatively high dependence on traditional manufacturing, as well as construction. Likewise, the strengths and vulnerabilities of social life in rural areas are changing. One example is the switch, in many rural areas, from a long history of population loss, to population gain, but often through the spread of commuting. These trends not only change the economic and social profile of rural areas, but also alter the relationships between rural areas and towns.

Projections for the Rural Economy

The recent report on rural prospects cited above, *Rural Ireland 2025*, contains projections of possible outcomes by 2025. Among the projected outcome is 2025 are:

- Lack of an acceptable regional balance, with population and enterprise even more concentrated in the east and south;
- Rural areas, especially in the northwest and west, will lag in communications and other infrastructure;
- Dramatically lower farmer numbers and lower volumes of farm output that threaten the viability of agri-food processing enterprises;
- Twice as much forested land, but a smaller increase in the value of forestry and wood products;
- The marine sector will not have achieved its inherent potential;
- The possibility that provision of public goods from natural resources, including carbon sequestration by forests, will not be achieved, unless there is greater attention to the valuation of these public goods and arrangements to pay their potential suppliers;
A rural landscape that will be under continued threat.

Developments in the rural economy that will not offset the losses in the natural resource sectors. Growth in exports from indigenous enterprises that will remain low and there will be a loss of employment from the movement of FDI enterprise to lower-cost economies.

New types of employment will not benefit the rural communities outside commuting catchment zones.

These projections are pessimistic and it can be argued that, in recent years, the economy of rural areas has shown greater adaptability than is implied by them. There has been quite widespread population and employment growth across regional and rural areas, as described in Chapter 1. The report of the Agri Vision 2015 Committee examined a shorter period, but did not forecast a dramatic fall in the number in agriculture (see Section 3.12 on agriculture below). Of course, the authors of the *Rural Ireland 2025* report do not regard these as inevitable outcomes. Nonetheless, the Council accepts that there are very considerable pressures acting on rural areas that need to be addressed. There is a need to explore opportunities across a range of activities, including non-traditional crops such as energy crops, tourism and information and knowledge-based enterprises.

The *Rural Ireland 2025* report makes several recommendations to secure an improved outcome. First, the report emphasises the need for improved institutional arrangements to achieve a cross-cutting approach to reposition rural Ireland in the knowledge economy. Specifically, it proposes a Rural Policy Implementation Group, comprising senior officials from government departments and agencies, together with senior managers of rural businesses and relevant voluntary organisations. Second, the report proposes the development of regional innovation and research systems to support the development of a knowledge-based economy. Although the report does not fully describe what is envisaged here, it seems the idea is to have extension mechanisms that would more effectively transfer new knowledge to rural enterprises and foster new knowledge-based enterprises in rural areas. Third, the report proposes the provision of education and training programmes to raise the human resource capabilities of rural businesses and of rural populations. The Council views this as a key priority (see Section 3.3 above).

In the context of renewed consideration of regional issues, there is a need for an in-depth, realistic yet imaginative, discussion of the possible future role of agriculture, industry, tourism and other services in sustaining economic prosperity, social cohesion and quality of life in rural areas. Public services are integral to this. While discussion of public services in rural areas tends to quickly focus on the level of funding provided by central government, it is of interest that some of the most innovative developments in the whole of the Irish public service are occurring in largely rural areas. This is evident, for example, in the reconfiguration of local government services in County Donegal and the formulation of integrated approaches to eldercare in the North West region of the HSE. Improving the delivery of public services, as one of the key elements in strengthening rural...
society, is, of course, connected to another aspect of public policy: the planning and the location of settlement. What might look like pro-rural decisions on settlement today could well turn out to further weaken the rural economy, society and quality of life in the longer term.

Tourism Outside the Major Urban Areas

Tourism outside major urban areas must succeed if each region is to grow to its potential. While Ireland can no longer be a low-cost destination, this does not preclude being a value-for-money destination, based on overall quality. As noted in our discussion of enterprise policy, this requires very significant change in the product offering and the co-ordination of business and other activity in the sector.

In particular, outdoor and creative pursuits (such as angling, walking, climbing, cycling, surfing, music and art) need to become a much more significant component of rural tourism. Based on international experience, there are many business opportunities in these areas. Some of them require that ‘common pool resource’ issues be more effectively handled. For example, issues of access to the countryside and foreshore will have to be satisfactorily resolved and effective implementation of environmental legislation will have to ensure that Ireland’s outdoors remain attractive. Indeed, preservation of existing water quality will not be sufficient. Angling tourism will need to be facilitated by more effective regulation of fish stocks, since the yield to Ireland from angling can be much greater than from drift net fishing. Village and small town renewal can be a more significant attraction for tourists. A critical common resource than can support or damage rural tourism is the quality, and in some areas, the quantity of rural housing. As emphasised in the Council’s report *Housing in Ireland*, given that a significant level of rural housing is constructed in Ireland, ‘the quality of its design seems vital in both minimising any negative effects and ameliorating conflict over its location’ (NESC, 2004: 132). Well designed housing, which blends with the landscape and vernacular, is critical if rural Ireland is to become a high-quality, high value added, tourism destination.

A co-ordinated approach is required to achieve the more effective development of rural tourism. This has been a problem in many past efforts to address rural tourism. There is scope to incentivise a co-ordinated approach by directing funding to groups willing to work together to develop an area’s tourism potential, as discussed in the section on networks.

The Tourism Policy Review Group has set a target of increasing overseas revenue from €3 billion in 2002 to €6 billion in 2012, and an associated increase in visitor numbers from 6 million in 2002 to 10 million 2012. Visitor numbers in 2004 (6.6 million) were consistent with these targets. But the outturn for overseas revenue (€3.2 billion) was considered to be disappointing by Tourism Action Plan Implementation Group in its Second Progress Report. Nonetheless, the Group considered the targets to be achievable.
3.12 Agriculture

The agricultural and food sector is facing very considerable adjustment pressures at present, arising in particular from the changes in the EU support system and the likely outcome of the World Trade Organisation (WTO) negotiations. The changes in agriculture have significant implications for the rural economy and society. This section summarises the changes taking place and discusses key issues relating to the sector.

3.12.1 Role in National and Rural Economy

Economic growth has reduced the significance of agriculture in the economy but it continues to have a substantial role. On the basis of the CSO’s Quarterly National Household Survey (QNHS), employment in agriculture in 2004 was 112,100 or 6.1 per cent of total employment. This, however, excludes most of those who work part-time in agriculture as these would be assigned to other sectors of the economy. The CSO’s 2003 survey of labour input estimates that there were 245,000 working on farms on either a full or part time basis, including family members. The combined agriculture and food industry is significant accounting for 9 per cent of employment, over 10 per cent of GNP and 8 per cent of gross exports (€7.3 billion) in 2004. Given the relatively high domestic content and low profit repatriation, the contribution to net export earnings would be considerably higher than the contribution to gross exports. Total sales of the food industry were €16.7 billion in 2002. The food industry is the largest Irish-owned manufacturing sector, accounting for 55 per cent of the exports of Irish owned manufacturing in 2002. The sector is relatively more important to Ireland than to most other EU countries.

3.12.2 The European and Global Policy Environment

This year (2005) is a significant milestone in the evolution of agricultural policy. A new system of decoupled payments is being introduced. Under this new system, the level of payments is independent of the level of current production. These payments satisfy the OECD’s definition of ‘Green Box’ payments; i.e., they are considered to be minimally or non-trade distorting. While the payments are not based on production, they are subject to compliance with EU regulations and directives. Land must be maintained in good agricultural and environmental condition. Market management and price support are becoming progressively less important but still continue.

In addition, negotiations are proceeding on a new World Trade Organisation (WTO) agreement. This new agreement is expected to be phased in over the period 2008 to 2013. Arising from the WTO Framework Agreement on agriculture, the EU is committed to negotiating:

✦ A significant improvement in market access for all products;
✦ Phasing out of export subsidies by an end date to be decided;
✦ Conversion of most internal supports to a non trade-distorting (decoupled) form; and
✦ Favourable treatment for developing countries.
The EU has reformed the CAP in the Agenda 2000 and 2003 Luxembourg agreements in anticipation of the WTO round. The Council of Ministers has mandated the Commission to negotiate within the parameters of the CAP reform decisions.

From an Irish and indeed a European perspective, it is important that the ‘European Model of Agriculture’ is not undermined in the WTO negotiations. This has implications for three key elements of agricultural policy: EU domestic support measures, market access and export subsidies. The Council believes that in negotiating on each of these the European model of agriculture should be secured. Indeed, the European Union has a key role in ensuring that the process of globalisation is accompanied by sufficient international governance to achieve both stability and respect for social and environmental goals.

Agreement has been reached on a new rural development framework for 2007 to 2013 that incorporates the rural development measures in the CAP and the Structural Fund for agriculture into a single fund, the European Agricultural Fund for Rural Development. The fund has three objectives: supporting competitiveness, environment/countryside and non-farm rural development. In the case of the EU funding, minimum expenditure levels are set for these objectives—10 per cent, 25 per cent and 10 per cent respectively.

3.12.3 Incomes and Economic Viability

Average family farm income in 2004 was estimated by Teagasc at €15,557, an increase of 5.4 per cent on 2003. Since 2000, the average annual increase in family farm income has been 3.6 per cent in nominal terms. This is an average across full- and part-time farmers and refers specifically to income generated by farming. Most farmers (64 per cent in 2004) are full-time in the sense that they do not have any other employment and their average farm income was €19,600. As regards farm size, Teagasc classifies most farms (62 per cent) as being part-time farms in that they require less than 0.75 labour units to operate. This points to considerable under-employment in agriculture. It reinforces the importance of access to alternative sources of employment in rural areas. It also points to the need for increased scale and consolidation at farm level, in order to ensure that farming continues as a commercial activity and provides a secure supply of raw material to the food industry. The average income on full-time farms according to the definition of Teagasc in 2004 was €30,650 while on part-time farms it was €6407.

On average farm households derive greater income from off-farm sources than farming itself. The most recent data available on this are from the 1999/2000 Household Budget Survey but these data may be dated. This showed that farm households derived 60 per cent of their income from non-farming sources. According to the Living in Ireland Survey, in 2001, the relative risk of poverty (defined as having an income below 60 per cent of the median) in farm households at 23 per cent was close to but somewhat above the national average of 21.9 per cent. It was, however, substantially higher than the corresponding risk for employees (8.1 per cent) and the self-employed (14.3 per cent) (Whelan et al., 2003). The highest risk of poverty is for those who are outside the labour force.

74 The Living in Ireland Survey also showed that in 2001 the risk of consistent poverty at the 60 per cent threshold was 3.1 per cent for farm households, 6.5 per cent for non-farm rural households and 4.2 per cent for urban households. Consistent poverty is defined as being below a relative income poverty line and the household head reports that at least one of a list of eight essential items is lacking because, though desired, it could not be afforded. For a discussion of this concept see NESC (2003), Chapter 8.
Low-income farm households are eligible for a means-tested social welfare payment. In 2003, a new Rural Social Scheme was launched that offers an alternative option to Farm Assist. This provides income support to farmers and fishermen in receipt of long-term social welfare payments. Participants engage in work of benefit to the local community.

Teagasc defines economic viability as having the following characteristics: (a) the capacity to remunerate family labour at the average agricultural wage; and (b) the capacity to provide an additional 5 per cent return on non-land assets. In 2002, only one third of farms were economically viable in this sense, including those that were viable on a part-time basis. Only 14 per cent were both economically viable and required more than 0.75 labour units. Around another one third were non-viable and either the holder or spouse had alternative employment. Just over one third were non-viable and neither holder nor spouse had alternative employment. Some of this last group would have a social welfare income.75

3.12.4 Projections for Irish Agriculture

Projections for the Irish agricultural sector up to 2015 are presented in the report of the Agri-Vision 2015 Committee, based on Teagasc research. These projections incorporate the move to decoupled payments but are subject to change pending the outcome of the WTO agreement. Agricultural output, inputs and real income are all projected to fall. The size of the farming population is projected to continue its rate of decline of 2 per cent annually but there is expected to be an acceleration of restructuring of the sector.

The move to decoupled payments means that competitiveness will become a more significant influence on the sector than has been the case to date. Should Irish output prove uncompetitive relative to European producers, Ireland’s share of European output will fall, with implications for the rural economy and food processing. The decoupling of payments should help in encouraging farmers to focus more on consumers’ demands and emerging markets.

3.12.5 European Model of Agriculture76

The role of agriculture in Europe differs significantly from that in Europe’s major trading partners. A formal statement of the ‘Model’ appeared in the text of the Commission’s policy statement, Agenda 2000. The model comprises three interrelated pillars:

- Competitive production and sale of quality and safe products in the international marketplace;

- An agricultural system which is environmentally sustainable; and

- A menu of policies that ensure the diversity of agriculture, rich in tradition and underpinning vibrant and active rural communities—the ‘rural fabric’.

75. Based on data from Hennessy (2004). Note that micro farms, i.e., farms with minimal output that are not covered by the Teagasc National Farm Survey, are excluded from these calculations.

76. This section draws on Boyle (2002).
It is clear, therefore, that while the primary role of agriculture in the EU is the production of high-quality food, it fulfils other important roles also and encompasses rural and environmental custodianship. Europe's high population density implies the need for Europeans to be more vigilant about farming practices which could damage the environment. This vigilance provides a rationale on public good grounds for strictures on agricultural activity that inevitably impinge on international competitiveness. It also provides a rationale for the subsidisation of environmentally-friendly farming practices. Small family-farm structures confer a patina on the European landscape that is valued by the non-farming population of Europe.

There is a tension in this model. The model can be understood as being based on the principle of 'conditional competitiveness'. This principle implies that European agriculture and food production must be globally competitive but this must be achieved within the constraints of animal welfare standards, production practices (such as the non-use of artificial growth promoters), environmental standards and food traceability that are broadly acceptable to European taxpayers and consumers. The reformed CAP is seeking to resolve this tension through the use of decoupled payments to producers. In seeking to support the public goods objectives in the European model, account should also be taken of the implications of European support for agriculture on developing countries.

3.12.6 Agriculture and Renewable Energy.

International and EU commitments together with the rising cost of oil, requires greater use of renewable energy. The renewable energy sources include in particular, energy crops for the production of fuel, biomass, and wind energy. The use of land for the growth of energy crops offers real opportunities for farming and rural areas. While the Council welcomes the establishment of a committee within the Department of Agriculture and Food that is addressing some of these issues, the view of the Council is that policies on farm renewable energy generation should be an integral part of a national strategic energy policy.

3.12.7 Competitiveness of Agriculture

With the move to decoupled payments in Europe and the ongoing global movement towards more open markets, there is a need for a renewed focus on the competitiveness and responsiveness to consumer demands of the Irish agricultural and food industries. The Agri-Vision report and Pitts (2005) identified a range of measures required to underpin competitiveness and the Council's recommendations are informed by these.

Perhaps the most important requirement is to improve the knowledge base of the agricultural sector. The Council considers that it is important to ensure that funding for agricultural and food industry research is sufficient in view of the major competitiveness challenge facing these industries. The Council advocates the development of stronger links between Teagasc and the agricultural sector to foster more widespread adoption of new techniques. Likewise it advocates the development of structures to promote increased collaboration between the research institutes and food companies to foster market-led R & D. Agricultural education should be reviewed and developed to ensure its continuing relevance.
Existing measures to foster structural change should be continued but progress on structural change needs to be accelerated. For this reason, the dairy quota allocation system should be reviewed in the lead up to the planned review of the CAP in 2008.

In the context of the move toward a more market-based agriculture, there is a need for closer links between agriculture and the processing industry; the agricultural sector and the food industry should investigate the possibility of institutional mechanisms that reward quality on-farm production. In this context the issue of seasonal milk production should also be re-examined by farmers and processors with a view to supporting a move to higher value-added products. Public support for the food industry should be rebalanced from investment in fixed assets to enhance investment in R & D and marketing. This reflects the Council’s general approach to indigenous industry. Rationalisation, consolidation and sharing of production facilities are necessary in the light of the intense pressures of global competition. This process will require increased capital investment by the industry which is also required to meet more rigorous EU and national environmental and other regulatory standards. In relation to rationalisation of this industry, the Competition Authority should take due account of the export orientation of the Irish food industry and the requirements of international competitiveness (see Section 3.2 above).

3.13 Infrastructure and a New National Development Plan

3.13.1 Overview

The National Development Plan (NDP) is a wide-ranging investment plan that covers investment in infrastructure, housing and health facilities, a considerable share of expenditure on education, training, research and support for enterprise, rural development, childcare and a range of other social inclusion measures. It has four key objectives:

- Continuing sustainable national economic and employment growth;
- Consolidating and improving Ireland’s international competitiveness;
- Fostering balanced regional development; and
- Promoting social inclusion.

The Mid-Term Evaluation of the NDP by the ESRI (Fitz Gerald et al., 2003) assessed progress on each of these objectives. It found that there had been significant progress towards the first two objectives, sustaining economic and employment growth and competitiveness. With regard to regional development, the evaluation found a mild positive impact.
In relation to promoting social inclusion, the evaluation pointed to several positive effects on social inclusion, including the ‘very substantial’ investment in social housing, some of the education and training measures, childcare and dedicated social inclusion measures. However, the ESRI evaluation also raised a number of substantive and procedural criticisms of the treatment of social inclusion in the NDP. The evaluation noted that there was little evidence that the targeting of the most disadvantaged areas—proposed in RAPID (Revitalising Areas by Planning, Investment and Development) and CLÁR (a targeted investment programme for rural areas) programmes—was occurring in practise.

The ESRI evaluation emphasised that there was a significant problem in assessing the impact of the NDP on social inclusion:

> The lack of data and indicators on social inclusion, particularly on the longer term impact, prevents any rigorous assessment of the impact of the NDP on this Horizontal Principle (i.e. social inclusion). Given that social inclusion is a key objective of the overall plan, it is a very serious shortcoming that progress on this issue cannot be tracked in most cases (Fitz Gerald et al, 2003: 201)

The Council supports greater priority for the development of indicators to track progress on social inclusion in the next NDP and other areas of policy.

### 3.13.2 The Infrastructure Challenge

Ireland is at present engaged in a major programme of public investment, with close to 5 per cent of GNP being used for this purpose. This programme has greatly improved infrastructure and further significant improvements are in prospect. In the broadest sense, the experience of the past decade and a half confirms the possibility of systematically addressing the infrastructural deficit.

Nevertheless, a significant infrastructural deficit still remains and Ireland is consistently ranked close to the bottom of the OECD league when it comes to infrastructural provision. Despite levels of current income which compare favourably with many of our EU counterparts, Ireland’s total accumulated wealth, of which infrastructure is a part, still lags many other developed countries. For this reason, the Council supports the continuation of a major infrastructural investment programme.

In addition, Ireland has traditionally suffered from both low density and a highly dispersed settlement pattern which has made the provision of high quality infrastructure across the entire country more expensive than would otherwise have been the case. While we continue to suffer from this problem, the concentration of population in major urban areas, particularly the Greater Dublin Area (GDA), presents the possibility of serving a large proportion of the population with high quality infrastructure, particularly public transport, even though the speed of urban expansion presents new problems.

The current NDP is now nearing completion. Several difficulties confronted the delivery of the original NDP infrastructure plan. There have been continued objections in specific cases to the delivery of key elements of infrastructure on environmental or heritage grounds. The ability of the planning system and political process to fast-track the resolution of such objections, and to proceed with the project where appropriate, or an alternative scheme where this is deemed more
acceptable, still poses challenges, despite the introduction of a number of proposals
and support by the Council for such a fast track mechanism in its last Strategy Report.

The cost of delivering projects has proved to be substantially higher than initial
estimates. There are several reasons why this has occurred:

- Under-estimation of project costs originally;
- Delays in project commencement (for reasons such as planning appeals);
- Changes in the scale and scope of projects, requested by the client;
- Increased costs of land acquisition;
- Claims arising from the implementation of the project; and
- Construction inflation.

The programme of road building in the NDP was estimated to cost €5.6 billion in 1999 prices. There were additional roads projects which were to be completed in a period beyond the NDP and, including these, total costs were estimated at €7 billion. Costs were re-estimated in 2002 and the estimated costs had risen to €15.8 billion in 2002 prices. The Comptroller and Auditor General (C&AG) conducted a detailed examination of the reasons for this increase in estimated costs.

The most comprehensive examination was in relation to a core subset of the road building plans and we focus on this core programme. The estimated cost of this core programme increased from the NDP estimate of €5.1 billion (in 1999 prices) to €11.6 billion (in 2002 prices). Since the initial estimates were in 1999 prices, costs would obviously be a larger number when measured in 2002 prices. Costs of road building, including land prices, rose faster than general inflation and this was a significant factor in the increased estimates. The C&AG estimated that the increase in the cost of constructing roads (including land costs) accounted for 40 per cent of the increase in the estimated cost of the road building programme. Certain elements had been regarded as difficult to cost in the preparatory work for the NDP and the cost of these items was omitted in the NDP. This accounted for 21.5 per cent of the increased costs. Changes in scope and new work added subsequent to the commencement of the NDP were responsible for another 27.7 per cent of the increased costs. Thus construction inflation (including land acquisition) accounted for 40 per cent of the increase in costs, and uncosted and new work, for another 49 per cent. The remaining 11 per cent was due to project—specific cost increases (Comptroller and Auditor General, 2004a).

The NRA has since strengthened its cost estimation capabilities. Changes in the scope of plans inevitably adds to costs, but it would be desirable in the preparation of the next NDP to devote more effort to the initial preparation of plans so that there is less need for changes after the commencement of projects. The cost of land acquisition is a substantial part of the cost of road building. This was initially estimated at 9 to 10 per cent, but was re-estimated in 2005 to be 14 per cent of costs (Committee on Public Accounts, 2005). This is an average figure, and in some projects land costs are a lot higher. The high cost of land is of concern to the
Council. A recommendation is presented below that would expedite the land acquisition process.

The Mid Term Evaluation of the current NDP by the ESRI concluded that:

Given their limited resources, the Managing Authorities (i.e., government departments responsible for managing the various operational programmes) have performed very satisfactorily. However, if many of the shortcomings identified by the evaluations of the Operational Programmes are to be addressed there will have to be significantly greater resourcing of central management. This should include professional expertise across a range of disciplines such as accounting, economics, engineering and project management (Fitz Gerald et al, 2003: 243).

The Council considers that this is a significant conclusion and it is reflected in the recommendations below.

One of the reasons for delays in infrastructure projects arises from problems with the acquisition of land for compulsory purchase. The report of All Party Oireachtas Committee on the Constitution (APOCC, 2004) drew attention to the problem of ‘property referencing’; i.e., the need to identify all the legal interests in land to be acquired. The APOCC (2004) report noted that this burden was especially severe in relation to major projects in urban areas such as the Luas. The Committee recommended that this should be replaced by a system in which the onus was on landowners to come forward and demonstrate how they would be or might be affected by infrastructure projects. The Committee suggested that there should be a thorough-going revision and reform of what it described as ‘complex and byzantine’ legislation in this area.

The Council acknowledges that there has been an improvement in project delivery in recent years. The most recent road projects have been coming in accordance with, and in a number of cases ahead of schedule.

The Council proposes that investment in infrastructure should seek to achieve the following objectives:

♦ In ten years, to link the larger urban settlements through major arterial routes capable of rapid transit;

♦ To have in place an infrastructure in waste management and water treatment which represents best practice internationally and recognises that our natural environment is one of our greatest assets;

♦ To achieve rapid transit in major urban areas, through a combination of investment and improved management;

♦ To have completed a programme of social housing expansion which will meet the housing needs of the population, including meeting the interim target set by the Council for 73,000 net new social housing units by 2012 (see Section 3.8);

♦ To ensure that new and existing housing developments are equipped with high-quality social and recreational amenities; and
To have adequate school accommodation for every child and to have reached a situation where we no longer tolerate sub-standard physical infrastructure in school buildings or equipment;

### 3.13.3 A New National Development Plan

In the period beyond the current NDP, EU funding for infrastructure will not be significant. Consequently, there is no EU requirement to prepare a new NDP. Nonetheless, the Council supports the Government’s view that a new NDP should be prepared. If a new NDP is to be prepared, the issue arises as to what its scope should be. The Council believes that it is desirable to prepare a plan that covers all public capital investment.

With regard to current spending programmes, particularly for social purposes, it is desirable that these are also the focus of clear, whole-of-government medium-term planning. For example, these is a strong case for more widespread use of multi-annual budgeting in current spending, to facilitate the planned evolution of services, as discussed in the Council’s report on public expenditure (NESC, 2002b). In addition, as noted in our discussion of training, it is essential to ensure that there are adequate numbers of skilled personnel available to meet public service requirements.

Given the desirability of medium-term planning of current expenditure, there are benefits from continuing to include a range of current spending programmes in a new NDP. In deciding what should be included, this should not simply be based on historical precedent. Some thought should be given to which programmes can benefit from being included in a new NDP. There should be a medium-term plan for expenditure on social inclusion, either in the NDP or as a separate programme. Some expenditure on education and training is a major item of current expenditure in the current NDP. The Council notes the findings of Fitz Gerald et al that the inclusion of only some elements of human capital expenditure in the NDP is not satisfactory:

> For the future all the investment in human resources should be managed together, whether or not it is included in future NDPs. This would facilitate a common evaluation and management process, to the benefit of areas not currently covered (Fitz Gerald et al, 2003: xi).

The Council believes that in formulating the new NDP, the following considerations should be taken into account:

- Programmes and projects should be selected on the basis of thorough, broad, cost-benefit analysis. As noted in the Council’s recent housing report, ‘a narrow cost-benefit approach to public transport investment decisions, which measured current demand and usage, would miss a fundamental aspect of urban development: transport not only connects existing places, it makes new places’ (NESC, 2004: 134).

- Internal, as well as external, connectivity is vital to support a vibrant economy in which both business and consumer services play a dominant role in employment and an increasing role in competitive advantage.
Infrastructure to strengthen the gateways and hubs identified in the NSS should figure strongly in the new NDP.

The infrastructural plans for regional development need to be accompanied by, and related to, more articulation of the kind of economic engine that can drive and support more balanced regional development in Ireland, including a prosperous rural economy and society.

The all-island dimension should be integral to the new NDP.

The NDP should include provision for the social infrastructure—for community health services, childcare, housing and eldercare —necessary to build the Developmental Welfare State.

New social infrastructure—schools, childcare centres and other facilities—should be increasingly adaptable, in order to remain useful in the face of demographic and other changes (see Chapter 1 for a summary of demographic trends).

Public private partnerships should be considered where this approach can be shown to be more effective than normal public tendering.

The changing global energy market and the close link between energy policy and environmental policy should be reflected in a new NDP.

In addition to the substantive content of the new NDP, it is widely agreed that there are a number of procedural changes necessary. First, project management mechanisms need to be enhanced to ensure projects are delivered in a timely fashion and on budget. Second, the planning process needs to be more supportive of national development priorities that will be identified by government in the new NDP. The Council strongly supports the Government’s proposal to establish a Strategic Infrastructure Division within Bord Pleanála, to deal with large scale projects, and urges that this be speedily advanced (see discussion below on the need for more effective conflict resolution in Section 3.14 on the environment). Third, there is a need to reform the system of land acquisition to reduce delays arising from the cumbersome system of compulsory purchase. Fourth, the Council recommends that sufficient management and professional resources are allocated to the preparation and implementation of the next NDP. This was identified in the Mid-Term Evaluation of the current NDP as a significant concern (Fitzgerald et al, 2003), as noted above. Some increase in resources allocated to the preparation and planning stage could reduce the need for later changes in the scope of projects which would facilitate improved project management. Fifth, the new system of multi-annual envelopes should be used to achieve greater certainty in the funding of investment. Sixth, considerable public information is available on the current NDP. However, to increase transparency, it would be desirable to publish an annual report of progress, showing what has been achieved and expenditure incurred. In addition the report should show, if necessary, any areas where investment was behind schedule and the reasons for the delay.
3.14 The Environment

3.14.1 Emerging, but Incomplete, Shared Understanding

In chapter 1 and a Background Paper by Convery, we reported the main environmental trends and the EPA’s most recent assessment of the state of Ireland’s environment. In Chapter 2, the Council suggested that we need to factor the environment more fully into our understanding of Ireland’s experience and challenge. It outlined some elements of a shared understanding of Ireland’s environment—including how the key environmental challenges relate to Ireland’s development strategy—and noted that there remain a number of important areas where methods and goals of environmental policy remain highly contested. In its most recent overview of Ireland’s environment, the EPA says:

The means to combat environmental damage are now readily available to us due to our recent economic prosperity. Progress has been made in some areas, and there are recently adopted strategies and plans, e.g. National Biodiversity Plan, National Climate Change Strategy and the National Spatial Strategy. However, implementation of these, enforcement of environmental legislation and a proactive approach to the environment as a component of decision-making in all sectors are required (EPA, 2004: 302).

The Council believes that these problems of implementation, enforcement and proactivity underline its argument, advanced in Chapter 2 above, that high environmental standards require engagement of public agencies, firms, associations and citizens.

3.14.2 Key Substantive and Procedural Challenges in the Medium Term

Drawing on the work of the EPA, the OECD’s environment performance review (2000) and the Council’s own work, we can identify the key challenges and priorities for Irish environmental policy over the next ten years. The main substantive challenges identified by the EPA and the OECD are:

♦ Meeting international obligations by controlling air emissions from transport and energy production;
♦ Reducing pollution of water from municipal and agricultural sources;
♦ Achieving a comprehensive system of waste management;
♦ Implementing sustainable, high-quality, settlements in both urban and rural areas; and
♦ Improving the protection of natural habitats.

To these the Council adds a further, related, challenge:

♦ enhancing access to the natural environment.

In order to meet these substantive goals, both the EPA and the OECD argue that it will be necessary to meet two over-arching procedural goals:
Better integration of environmental and natural resource considerations into the policies, plans and actions of economic sectors;

Improving the enforcement of environmental legislation.

The Council believes that better integration, implementation and enforcement pose some difficult challenges to the Irish policy system and Irish society. As noted below, the difficulty of adopting, implementing and enforcing effective environmental policies sometimes reflects unresolved conflicts of perception and interest. Unresolved conflicts make themselves felt in national strategies that describe problems well but do not mobilise actors, in delayed decisions, in protracted adversarial disputes on proposals and decisions and, in some instances, in non-compliance with rules and regimes that have been put in place. In addition, the difficulties of integration and implementation sometimes reflect problems of coordination, where action by diverse economic and social players is necessary to achieve environmental quality.

3.14.3 Principles and Evolution of Environmental Policy

National and international adoption of the principle of sustainable development is of great significance. The Council recognises that this principle does not, in itself, determine the appropriate national or international policy response to environmental threats. First, the principle is consistent with a number of different ways of thinking about the trade-off between environmental, economic and social goals. Second, the principle of sustainable development does not specify what methods should be adopted to protect the environment.

The core principle of sustainability has been further elaborated in the analysis and practice of environmental policy. In May 2005, the European Commission issued an important ‘Communication to the Council and the European Parliament’ containing a ‘declaration on guiding principles for sustainable development’ (European Commission, 2005b). The key concepts set out in this communication are as follows:

- **Sustainable Development**: the Commission defined sustainable development as incorporating the three objectives of environmental protection, social equity and cohesion and economic prosperity.

- **The Use of Best Science**: developing, assessing and implementing policies on the basis of the best available knowledge.

- **The Precautionary Principle**: taking a precautionary approach where there is objective scientific uncertainty, in order to avoid potential damage to people’s health or to the environment, and taking preventative action.

- **The Polluter Pays Principle**: ensuring that prices reflect the real costs to society of production and consumption activities and that polluters pay for the damage they cause to human health and the environment.

In applying these principles, and in making and implementing environmental policy generally, there is a strong case for working in an island-of-Ireland context, wherever possible.
Greenhouse Gases

Ireland’s contribution to curbing greenhouse gas emissions is a commitment to our EU partners to limit the increase in emissions to 13 per cent over the 1990 baseline by 2008 to 2012. As reported in Chapter 1, the overall national estimate for 2003 shows that greenhouse gas emission levels are 25 per cent over 1990 levels. Ireland is rated as one of the EU countries that is furthest from its national Kyoto Protocol target. Analysis shows that the largest increase in emissions occurred in the transport sector, due mainly to increased vehicle ownership and usage. The other sector that makes a major contribution to total emissions is energy.

The National Climate Change Strategy, adopted in 2000, identified a number of approaches—fiscal instruments, emissions trading (ET), renewable energy, switching and efficiency—that can contribute. While some have been introduced, others have proven difficult. A progress report on the strategy, published in May 2002, suggested that measures in place or in progress can achieve around 20 per cent of the reductions required to meet Ireland’s Kyoto obligations. In addition, future international emissions reductions targets are likely to be significantly more challenging.

In its 2004 report, the EPA concluded that ‘significant actions are urgently required to curb the growth in emissions’ (EPA, 2004:300). Clearly, the Irish government, Irish firms and Irish consumers collectively face a problem of greenhouse gas emissions that will have to be addressed. There is a shared national responsibility to meet our emissions target.

While emissions trading is an important step, it will not be sufficient. First, it covers only a limited segment of the economy, some 100 major industrial sites. As Fitz Gerald (2004) points out, in the absence of action to control emissions in the rest of the economy, either the targets will not be met or there will be an excessively high burden on the sectors covered by ET. One particular omission is aviation. The European Commission has recently issued a communication on reducing the climate change impact of the aviation sector. Although aviation’s share of overall greenhouse emissions is still modest (about 3 per cent), its impact on the environment is rising strongly and, therefore, undermining some of the progress made in other sectors. It is hard to see that aviation can remain outside international climate change strategies. Indeed, the Commission proposes that it be included in the EU emissions trading system. Second, it is argued by some analysts that features of the ET regime will add to the costs of achieving the environmental objectives and also have adverse distributional consequences (Fitz Gerald, 2004; Reinaud, 2003).

Analytically, there is undoubtedly a case for more use of fiscal instruments, such as a carbon tax. The recent big increase in oil prices means that, to some degree at least, the externalities mentioned above are reflected in the price. It creates an incentive for fuel efficiency, fuel switching and improves the relative profitability of renewable energy sources. It is important that policy, across a range of areas, is supportive of these responses. The Council recommends that Ireland develop a
strategic energy policy, within which would be a renewable energy policy. Indeed, this is of critical national importance for economic and social, as well as environmental, reasons.

Acidifying Gases

In addition to greenhouse gas emissions, Ireland also has entered into legally binding commitments with regard to a range of other emissions: sulphur dioxide, nitrogen oxides, ammonia and volatile organic compounds (covered by the EU National Emissions Ceiling Directive). To meet these targets, ‘fundamental changes, entailing substantial costs in some cases, are needed in key sectors of the economy’ (EPA, 2004:301).

Road transport is a major source of growth of both greenhouse gases and nitrogen oxides. A number of approaches seem necessary to address this. First, environmental considerations strongly reinforce the case for spatial and settlement planning to create sustainable urban settlements which are significantly less car dependent. Second, a key route to reducing both greenhouse gas and acidifying gas emissions is to achieve a switch to public transport. For economic, social and environmental reasons, devising and delivering an effective system of public transport must be a key strategy for Ireland in the coming decade. Third, as noted by Convery in his Background Paper, existing taxes on road transport could be recalibrated to bear particularly on emissions of nitrogen oxides and carbon dioxide. Over time, this would encourage a fleet that is less intensive in these emissions. Fourth, where they are appropriate for transport reasons, congestion charges or road pricing could reduce emissions.

3.14.5 Reducing Pollution of Water from Municipal and Agricultural Sources

The second substantial challenge identified by the EPA and reported in Chapter 1 is the eutrophication of waters. EPA research suggest that agricultural sources are the cause of around 46 per cent of affected sites and municipal sewage of around 35 per cent. This aspect of the environment is covered by a comprehensive legal instrument, the EU Water Framework Directive (WFD). This directive requires that all rivers, lakes, estuaries and groundwater be in an unpolluted condition by 2015.

As noted in Chapter 1, there has been significant progress. Substantial investment under the NDP in upgrading municipal waste water treatment is beginning to pay off, sales of fertilizers are falling, Ireland’s Action Plan to implement the EU Nitrates Directive was submitted to the EU Commission in July, 2005. In the long term, CAP reform will reduce the number of livestock.

Nevertheless, in its 2004 review, the EPA reported that almost 30 per cent of our rivers were affected by this form of pollution. This is important, because surface and ground water are a major national resource. With improved levels of sewage treatment and point sources subjected to tight controls, the EPA argued that ‘it is likely that the relative proportion of eutrophication caused by agriculture will

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77 Slow traffic and stop-start driving increase emissions. Consequently, reduced traffic congestion is particularly beneficial in reducing emissions. Road pricing would also allow for more efficient use of roads by buses and taxis and would increase cycling.
increase if measure are not implemented to achieve further improvements in this sector’ (EPA, 2004:299). The Nitrates Action Programme to implement the Nitrates Directive addresses water quality in the context of the EU Water Framework Directive. The Action Programme and the National Regulations set out in detail the legal requirements in regard to storage and spreading of animal manure and fertiliser, record keeping, and nutrient management. In addition, the Code of Good Farming Practice will be incorporated into Irish law for the first time. Taken together these measures have the potential to meet the requirements set down in the EU Water Framework Directive as far as agriculture is concerned.

3.14.6 Achieving a Comprehensive System of Waste Management

As noted in Chapter 1, there has been significant progress made in recycling of waste since the introduction of the Waste Management Act in 1996. Nevertheless, the absolute volume of waste generated has been increasing strongly, indeed, significantly in excess of the projections. The Council supports the following key actions on waste management:

- The implementation of the key waste plans: the national waste prevention programme, regional waste management plans and the national hazardous waste management plan;

- Effective enforcement action to eliminate illegal dumping, through the EPA's enforcement network;

- Even with further progress on recycling, the EPA has identified the need for more landfill and thermal treatment capacity;

- Waste charges are now widely used and have increased in recent years. Their environmental effectiveness will improve as some of them are now volume-related charges. This provides an incentive to avoid generating unnecessary waste and to recycle where feasible, provided it is accompanied by effective enforcement of legislation on illegal dumping.

These tasks highlight the degree to which successful environmental policy requires that the work of Ireland's environmental authorities—in setting and enforcing standards, monitoring, devising environmental plans, building inter-agency cooperation and cross-compliance arrangements—needs to be supported by both broad societal attitudes and effective systems of policy making and conflict resolution. Supportive attitudes are important in achieving high levels of recycling, waste prevention and prosecution of illegal dumping and, ultimately, in creating societal norms that preclude dumping and littering. An effective system of policy making and conflict resolution is important in achieving strong national policy and prompt decisions on important issues, such as the creation of sufficient landfill and thermal treatment capacity (see the discussion of policy integration and enforcement below).
3.14.7 Implementing Sustainable, High-Quality, Settlements in Both Urban and Rural Areas

In its recent housing report, the Council expresses the view that a strong case can be made that the patterns of settlement, neighbourhood design and density in Irish housing in the past decade are storing up significant social, environmental, budgetary and economic problems in the years to come (NESC, 2004). The Council’s housing report pointed out that there is a clear alternative to unsustainable suburban sprawl that characterises much recent development: sustainable urban densities, consolidated urban areas, compact urban satellites, rapid communications networks and sustainable rural settlement (NESC, 2004, Chapter 5). The Council welcomed the new principles that now underpin Irish housing policy and the new hierarchy of plans and guidelines that seek to promote and implement these principles. However, the Council also drew attention to a range of risks that can prevent the realisation of development based on these principles.

The Council is of the view that Ireland has the capability to successfully alter its pattern of development towards the creation of sustainable urban neighbourhoods and sustainable rural housing as the norm. It calls on all of the parties involved (government departments, builders, residents and residents associations, local and regional authorities, CIE and other state agencies) to work in a cooperative way to achieve this outcome.

3.14.8 Improving the Protection of Natural Habitats

A succession of EPA reports on the state of the environment indicate that Ireland’s natural resources are coming under increased pressure. This is because of the strength and pattern of economic development and particular technological developments that increase the capacity to exploit resources such as fisheries. In its 2004 report, the EPA shows that significant shortfalls remain: little progress has been made in coastal zone protection, many commercially targeted marine fish stocks are in decline and natural resource considerations are not sufficiently integrated into the agricultural, fisheries, forestry and tourism sectors. However, the Council notes that the protection of natural habitats is now covered by EU and Irish legislation and is a requirement under the new decoupled Single Farm Payment. But, the lack of a National Biological Records Centre militates against tracking changes in species and habitats and the identification of areas in need of conservation.

The publication of the National Biodiversity Plan in 2002 is an important development, but its implementation remains a major challenge. This reflects the fact that some of the government departments and agencies involved have little experience of managing biodiversity issues (EPA, 2004). Hedgerows and many of the country roads along which they lie are an important aspect of Ireland’s landscape. Many of these are being damaged by the approach taken to the siting and frontage of one-off rural housing. Consideration should be given to Shaffrey’s suggestion that planning authorities should identify those roads which have not been intensively developed and designate them as ‘green roads’ (Shaffrey, 2005).
3.14.9 Enhancing Access to the Natural Environment

To the substantive goals identified by the EPA and the OECD, the Council adds the need to enhance access to the natural environment. It sees this as an important dimension of quality of life and well-being, especially in the context of increasing population and increased urbanisation. But, as noted in Section 3.11 above, there can be a close synergy between access to the natural environment, on the one hand, and the economic and social development of rural areas, on the other.

The Irish coast is a collective resource of immense value (Nairn, 2005). The Council believes that everyone in Ireland should be able to enjoy its beauty and that all have a duty to do nothing that would detract from others’ experience of it, through damaging it or preventing access. Likewise, the Council believes that access should be provided to enable people to enjoy the beauty of the Irish landscape. Facilitating and promoting the enjoyment of the natural environment can help in its protection, as more widespread appreciation will foster popular support for actions to protect it. This is also a significant issue from the perspective of tourism. Revenue from overseas tourism has been falling in real terms since 2002 and tourism activity has become increasingly concentrated in Dublin. The promotion of activity holidays and improving access to the country can make a significant contribution to revitalising regional and rural tourism. An advisory council on countryside access, Comhairle na Tuatha, has been appointed to examine this issue by the Minister of Community, Rural and Gaeltacht Affairs. NESC encourages the parties involved to find solutions that achieve a balance between access for recreational users and the property rights of the landowners involved.

3.14.10 Two Over-Arching Procedural Challenges

Two of the indispensable requirements for environmental quality are now almost entirely in place: a comprehensive legal framework—combining specification of outcomes to be achieved, as set out in a series of EU directive, and national laws specifying methods for achieving them—and the technical capability to monitor environmental conditions, analyse underlying processes and set standards. Together these allow a detailed expert account of the substantive challenges that Ireland faces. As noted above, the EPA also identifies two over-arching procedural challenges for Ireland:

♦ Better integration of environmental and natural resource considerations into the policies, plans and actions of economic sectors;

♦ Improving the enforcement of environmental legislation.

The Council attaches great significance to these, since these are challenges in which the action of a wide range of economic and social actors, as reflected in the composition of NESC, is relevant, and on which a wide shared understanding can be supportive. We discuss the issue of enforcement first, since the challenge of integration raises wider issues.
3.14.11 Improving the Enforcement of Environmental Legislation

The Council strongly endorses the EPA’s emphasis on better enforcement of environmental law. Environmental law needs to be implemented both in respect of public and private entities. The 2003 Protection of the Environment Act strengthened the enforcement powers of the EPA and the Council welcomes the EPA’s establishment in 2004 of the Office of Environmental Enforcement (OEE). The approach is to build an Enforcement Network, to ensure more effective coordination among the agencies involved in enforcing environmental legislation. While this was prompted by the need to address the problem of illegal dumping, its ultimate scope is much wider. This office is also directly responsible for enforcing EPA licences and supervises the enforcement activities of local authorities.

3.14.12 Better Integration of Environmental and Natural Resource Considerations into the Policies, Plans and Actions of Economic Sectors

In the past decade, there has been increasing recognition that if environmental goals are to be achieved they will have to be integrated into mainstream economic and social policy. For example, internationally, there is a very strong move to approach energy policy and environmental policy as a single policy area. The EPA identifies integration of environmental considerations into sectoral policies, plans and programmes as one of two over-arching challenges for environmental protection in Ireland.

While all forms of integrated policy are easy to prescribe, they are less easy to achieve. This is so for two main reasons. First, once environmental concerns are taken into account in economic or social policy, additional conflicts of interest can come to light. The environmental goals or methods can be in conflict with perceived social goals, business goals, national competitiveness and existing legal rights. Second, adding the environmental dimension to an economic or social policy problem can increase the complexity of the problem and the interactions necessary to formulate and implement policy. Indeed, ‘integration’ or mainstreaming can be achieved in more or less beneficial ways, as noted below.

Strategic Environment Assessment and Environmental Impact Assessment

In Ireland and elsewhere in the EU, the integration of environmental concerns into other sectoral policies has been sought primarily through national sustainable development strategies. The EPA considers that we in Ireland ‘have a long way to go to achieve an appropriate level of integration of environmental and natural resource considerations into key policy areas’ (EPA, 2004:303).

There is a strong core logic for integration. It derives from the fact that prevention is usually better than cure and from the inter-dependence between sectors and policies\(^7\). The logic of integration has somewhat different implications in different environmental areas, depending on the lumpiness of the investments involved, the speed of technical and organisational change, the number of different economic

\(^7\) Many forms of environmental degradation can only be reversed very slowly, if at all, so there are huge advantages to avoiding them in the first place.
and social actors involved, our degree of understanding of the chemical and biological processes involved and the degree to which market mechanisms can be made to work. For example, many one-off, large-scale, long-lasting investments can have environmental implications; consequently, it is more effective and far less costly to avoid environmental damage than to retrofit them. This strongly suggests that high-level sectoral plans and project proposals must be informed by environmental considerations. This is done through Environmental Impact Assessment (EIA). In other areas, the speed of technological and organisational change means that integration and prevention cannot be fully achieved by high-level ex ante analysis informing the decision of one key policy actor (or a small number of linked public agencies), and must be incorporated in the ongoing decisions and interactions of many different actors.

The EPA points out that a key vehicle for integration will be the Strategic Environmental Assessment (SEA) Directive. The Directive aims at identifying and assessing the environmental consequences of certain plans and programmes during their preparation. The remit of the SEA does not extend to policies, as such. Strategic Environmental Assessment has much in common with project-level EIA.

While these approaches have an undoubted role, the experience of various systems of policy proofing (and of EIA itself) suggests that in using them three potential pitfalls should be kept in mind. The first derives from an underlying and ubiquitous knowledge constraint: in many spheres it is not possible to predict with great accuracy what the effect of policy, expenditure or regulation will be. This means that, in addition to ex-ante impact assessment and proofing, it is necessary to have effective systems for ex-post monitoring, of the kind the EPA has developed, and policy adjustment, which is less well developed. This poses a different set of technical and organisational challenges (see below). The second pitfall is that EIA, and presumably SEA, can become an adversarial and protracted rather than a problem-solving process. The third is that, like other systems of proofing, environmental impact assessment can be reduced to a bureaucratic process, another set of boxes to be ticked.

These comments are not intended to draw a strong distinction between high-level integrated strategies and proofed policies and projects, on the one hand, and ex-post monitoring, collaborative problem solving and local environmental action, on the other. As noted above, the core principle, prevention, applies in all cases. The best method of prevention can vary along the dimensions noted above and will probably require a combination of high-level and local approaches. For example, in explaining how sectoral integration can prevent pollution in the first place, the EPA notes that:

Voluntary agreements, cleaner technology programmes such as the Cleaner Greener Production Programme, and participation in a certification scheme such as ISO 14001 Environment Management System provide vehicles to improve environmental integration and should be further supported and developed (EPA, 2004: 303).
In many respects, the same core idea motivates EIA and SEA, on the one hand, and Environmental Management Systems and monitoring, on the other hand. That core idea is inserting environmental concerns into systems as early as possible and in the most holistic way. Consequently, in developing both EIA and SEA, there seems much to learn from those areas where environmental policy and environmental management have been most successful—Integrated Pollution Control and Environmental Management Systems.

Achieving the Best Policy Mix

In Ireland and other countries, there has been very significant evolution in the instruments of environmental policy (Long, 1997). The goals of environmental policy are now pursued in a number of different ways. These include investment and current expenditure, regulation and related enforcement, economic instruments, awareness initiatives and the involvement of various economic, social and voluntary actors and organisations. All of these mechanisms have value: some in helping the implementation of particular aspects of environmental policy and, in combination, in environmental policy in the round.

It is important to achieve the right mix of policy approaches in the various spheres of environmental policy. In its next work programme, the Council plans to undertake a study on environmental policy. One focus of that study might be on the adequacy of the existing methods used to address environmental goals and, where appropriate, suggestions on amended approaches in the future.

Consequently, the Council believes that one of the themes of its study of environmental policy might be the structures and procedures of conflict resolution and consensus building. International experience suggests that there are more effective approaches to conflict resolution than commonly adopted in Ireland. This is the case in the siting of hazardous facilities (Lesbirel and Shaw, 2005) and a number of other environmental problems (Susskind et al., 1999, Innes and Connick, 1999). Indeed, it is likely that new approaches to conflict resolution are not so much an alternative to the effective existing approaches to environmental policy (such as integrated pollution control), as an application to other policy areas of some the principles and disciplines implicit in those approaches.

In this respect, an important development in countries with a longer history of environmental action than Ireland is the emergence of ‘civic environmentalism’. In reporting this trend, Sirianni and Friedland describe how, after a protracted period of legal and political confrontation, both environmental activists and official agencies moved from a highly adversarial relationship:

Rather than drawing stark lines between the evil polluters and the good guys in green hats, Save the Bay chose to downplay conflicting interests and ideologies and to avoid purely obstructionist methods that stopped short of solutions. It began to build new public relationships with boating and fishing groups, schools, civic associations, businesses, and regulators (Sirianni and Friedland, 2001: 2).
In that case, the US Environmental Protection Agency itself began to encourage such a shift, as the Chesapeake Bay Program in 1983 and the National Estuary Program in 1987 provided a framework for local collaborative action with the aim of nurturing a ‘protective ethic’ and a ‘sense of ownership’ among the public:

EPA’s reasoning was that standardised, technology-based approaches provided very limited tools for protecting integrated ecosystems. Citizens needed to understand the consequences of their own actions, such as the use of lawn fertilizers and household chemicals, if non-point pollution was to be effectively reduced. And citizens needed to develop new sources of voluntary and collaborative action, because regulators could only do so much and could never generate sufficient legitimacy on their own to make the hard choices, such as passing major new bonds to upgrade sewage treatment systems (Sirianni and Friedland, 2001: 3).

Similar developments are reported in the growing international literature on ‘Environmental Dispute Resolution’ (EDR) (Susskind et al, 1999). Likewise, new approaches to Habitat Conservation Planning, under the US Endangered Species Act, provide evidence of new and, some claim, more effective relationships between central regulators and the range of local actors with an interest in balancing biodiversity and development (Thomas, 2003; Fung and Wright, 2003; Karkkainen, 2003). Other research suggests that public recognition is a key factor in improving the success of voluntary environmental regulation (Arora and Cason, 1996).

The urgency of achieving more effective conflict resolution and decision making in a number of areas of environmental policy is underlined by the fact that, while the legal framework and institutional expertise is in place, Ireland faces an increasing need to face the implications of environmental quality. The OECD argued that since EU Structural Fund support will be phased out, Ireland ‘should prepare for a much more significant public and private financial effort with regard to environmental investment and management’ (OECD, 2000: 21).

In some respects, the wider institutional framework for environmental conflict resolution and decision making would seem to be in place. In addition to the core expert regulatory agency, the EPA, Ireland has established a National Sustainable Development Partnership (Comhar) and Local Agenda 21’s. Under the Local Agenda 21’s, an Environmental Partnership Fund has been created, to support participatory local co-operation projects. Yet, there seems to be scope for a review of how the overall policy system, including these important institutional developments, is working to effectively engage economic and social actors as problem solvers.
3.15 Enabling Voluntary and Community Activity

3.15.1 The Value of Vibrant Voluntary and Community Organisations

The Council considers healthy community and voluntary organisations to be an important requirement for overall economic and social development. This is so for four reasons.

First, many social and economic problems are better addressed when individuals and civic organisations are involved in finding and implementing solutions. This problem-solving advantage arises because:

♦ The complexity and variety of situations means that local knowledge is vital in both identifying and solving problems;

♦ Civic organisations can engage voluntary effort in a way which brings extra energy and commitment to addressing problems;

♦ In many contexts, collective action is more effective than individual efforts on their own.

Second, vibrant voluntary and community organisations are good for society because they generate networks of support and connection, both within social groups (‘bonding’ social capital) and across groups (‘bridging’ social capital). Third, participation in voluntary activities and community organisations is, in general, good for the individual people involved. Fourth, a healthy and varied range of voluntary and community organisations is good for democracy—an observation that goes back to de Tocqueville. While these benefits of community and voluntary activity require organisation, they depend, ultimately, on the direct participation of individuals. Of course, while noting these important benefits of community and voluntary activity, we do not ignore the possibility that people can band together for bad as well as good purposes.

The focus of the Council’s comments in this Strategy report is on relationships between voluntary and community organisations, on the one hand, and government and statutory bodies, on the other.

3.15.2 The Diversity and Evolution of Voluntary and Community Organisations

The Johns Hopkins University in the US coordinates an international programme of research on the ‘non-profit’ sector. In their important study within that programme, *Uncovering the Nonprofit Sector in Ireland*, Donoghue, Anheier and Salamon define non-profit organisations as organised, private or non-govern-mental, non-profit-distributing, self-governing and voluntary. However, a range of non-profit organisations—such as hospitals and universities—would generally be perceived as differing significantly from most community and voluntary organisations. Hence, voluntary and community organisations are often taken to encompass those devoted to: culture and arts, sports and recreation, education, research, nursing homes, mental and other health, social services, emergency and relief, income support and maintenance, community development, housing,
employment and training, civic and advocacy work, legal, foundations, international activities and religion (Donoghue, Anheier and Salamon, 1999).

Faughnan’s work highlights the diversity of voluntary and community organisations found in Ireland. Consequently, the sector ‘defies precise description and lacks clear boundaries’. In her 1990 study, she identified six categories of voluntary and community organisations:

- Mutual support and self-help organisations;
- Local development associations;
- Resource and service-providing organisations—the largest category with the largest number of volunteers and people employed, but also the most diverse;
- Representative and co-ordinating organisations;
- Campaigning and advocacy organisations; and
- funding organisations, such as charitable foundations and trusts.

Similar definitions and categories have been suggested by the EU Commission. The Government’s White Paper, Supporting Voluntary Activity, argued that ‘a pragmatic approach to the issue of the definition of the sector is necessary, given the range of Departments and agencies that engage in relationships with a wide range of Community and Voluntary organisations at different levels’ (Government of Ireland, 2000:52). The Council endorses a pragmatic approach to definition; but, below, it emphasises that the diversity of voluntary and community organisations has significant implications for their relationships with the state.

While we have insufficient research on voluntary and community activity in Ireland, we can identify some key trends in a number of aspects of relationships with government. The report of the National Committee on Volunteering in Ireland (NCVFI), Tipping the Balance, summarised many of the existing studies and presented some important new research. Over the past two decades, voluntary and community organisations have experienced major restructuring as a result of deep-seated change in the economy, society, values and public policy. Among the important source of change have been demographic change, the declining resources and influence of the Catholic Church, the incidence of high unemployment in the 1980s, national social partnership programmes, new ideas of community development, government support for the creation of a range of local partnership structures, the resources and procedures coming from the European...
Social Fund, increased heterogeneity in Irish society, the revolution in information and communications technology and, since the mid-1990s, a dramatically increased level of employment. There is a trend towards increased government funding, in keeping with patterns in the US and the UK (O’Sullivan, 1999). An important recent development is the emergence of a range of voluntary and community organisations led by recent migrants to Ireland and by members of new minority ethnic groups (Feldman et al, 2005).

There is no doubt that the voluntary and community sector is significant in both the Irish economy and society. Research suggests that in 1995 expenditure in the voluntary and community sector amounted to 2.14 per cent of GDP and 2.4 per cent of GNP, and that 6 per cent of the non-agricultural labour force worked in voluntary and community organisations. In 1999, voluntary and community organisations received €1.267 billion from the Irish Government and EU sources (Boyle and Butler, 2003). This funding is channelled through a wide range of Government departments, with the Department of Health and Children/HSE and the Department of Enterprise, Trade and Employment/FÁS accounting for 75 per cent.

3.15.3 Relationships Between Government and Voluntary and Community Organisations

The great variety of voluntary and community organisations suggests that there can be no single description of their relationships with government and statutory agencies. The same is true of other types of organisations in civil society. For example, among employers, there are a range of relationships between government and, respectively, IBEC, the Chambers of Commerce, the Construction Industry Federation, the Vintners Association, Intel, and other individual enterprises. It is notable that these relationships vary in two different ways. Government relationships with each kind of association differ, and each association or firm has different relationships with different government departments, local authorities and public agencies. Likewise, voluntary and community organisations have a range of relationships with a wide range of official entities, reflecting the diverse activities that they are involved in. This diversity must be reflected in any description of, or template for, voluntary and community organisations’ relationships with the state. While there is merit in the construction of a framework for such relationships at a high level, it must be complemented by parallel developments at other levels and involving other actors. To do otherwise, would risk damaging the independence, diversity and vitality of voluntary and community organisations. It could impose inappropriate formality and conditions on some organisations or confine other organisations to excessively arms-length relationships. It could limits the emergence of new organisations identifying new problems or expressing challenging, unorthodox, ideas (Dryzek, 2000).

Consequently, the challenge is to create the most effective and appropriate relationship in each context and sector of activity. At the same time, there are a number of general considerations that should inform the approach to framing relationships in different spheres. Among these, the role of public policy in enabling and encouraging volunteering needs further development. However, for
the purpose of this report and despite the obvious connections, the Council has decided to focus particularly on the role of voluntary and community organisations in the Developmental Welfare State.

The Move Towards Accountable Autonomy

Some aspects of the relationships between community and voluntary organisations, on the one hand, and government and statutory entities, on the other, were discussed in the Council’s report, *The Development Welfare State* (NESC, 2005). That report argued that community and voluntary groups have important roles in building the Developmental Welfare State—particularly in two of the three spheres of an effective system of social protection: service provision and innovative projects and experiments. Drawing on international analysis of governance, the Council argued for a system of ‘accountable autonomy’. This would give organisations directly involved on the ground—in delivering services, building community and other activities—greater freedom to choose the best approach and respond to new information, in return for much richer information on both their activities and the outcome being produced.

A similar approach has been explored by Boyle and Butler in their IPA study, *Autonomy versus Accountability: Managing Government Funding of Voluntary and Community Organisations* (Boyle and Butler, 2003). Like the Council’s report, that study also emphasises the degree to which the changing relationship between government and community and voluntary organisations should be understood as part of wider changes in government, public governance and civic organisation. Boyle and Butler suggest that the relationship between government and voluntary and community organisations can be explored on several levels relating to: service provision, funding, regulation and the policy framework within which the relationship evolves.

Boyle and Butler summarise existing research on how these four dimensions of the relationship have been experienced, particularly by voluntary and community organisations that are funded to provide services. Faughnan and Kelleher note that ‘negotiation, transfer and accounting for funds is the most visible, and for many organisations, the primary way in which the state and the voluntary sector interact’ (1993). Funding may take the form of a discretionary grant, budget financing or per capita provision, and may derive from the Exchequer, lottery funding or the EU. There is considerable variation between organisations in the degree of their dependence on statutory funding. Donoghue, Anheier and Salamon note that in 1995 just over half of the cash income to voluntary and community organisations came from public sources. They also note that the imputed value of volunteering is worth over half the revenue from cash sources, indicating the importance of volunteering for voluntary and community organisations.

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80. Many organisations are engaged in policy and advocacy work as well as, and sometimes to the exclusion of, service provision, which has important implications for these relationships.
Most studies suggest that the relationship between statutory bodies and voluntary organisations remains both unclear and unsatisfactory (Duffy, 1993; Faughnan and Kelleher, 1993; Donoghue, Anheier and Salamon, 1999; Donoghue, 2002; Hayes, 1999 and O’Ferrall, 2000). For example, Faughnan and Kelleher found that the work of voluntary and community organisations was hampered by the frequently ad hoc and insecure nature of funding arrangements and the absence of a clear commitment from a government agency. Organisations find it additionally difficult where their terms of reference encompass the brief of several government department or agencies. Funding tends to depend on individual organisations negotiating on a one-to-one basis with Government officials. They observe that funding arrangements are often the result of ‘knowing the right person, making the right contact, being in the right place at the right time, rather than being funded because there was a clear policy to promote a particular activity or programmes’ (Faughnan and Kelleher, 1993). This also give rise to inequitable funding arrangements for organisations providing similar services.

Boyle and Butler suggest that the most comprehensive review of relationships between Government and voluntary and community organisations in Ireland is that undertaken by Donoghue (2002). It explores relationships between small voluntary organisations and the former Eastern Health Board. Donoghue notes that despite the long history of statutory-voluntary relationships in the health sector, ‘a lack of policy characterises the relationship between the former Eastern Health board and the voluntary sector’. She suggests that ‘the lack of procedures on standards of accountability and on criteria for funding contributes to an absence of clarification of roles within the relationships’. While voluntary organisations knew who the key decision makers were, little was known on the way in which decisions were made and the criteria used by the health board in choosing voluntary organisations. Communications with the health board tended to be ad hoc and intermittent. Formal reporting procedures were found to consist of submission of audited accounts and annual reports. Apart from audited accounts, there were few procedures in place for monitoring of standards and accountability. Boyle and Butler summarise as follows:

Overall, the picture that emerges is one where, with some exceptions, there is little or no structured engagement or funding decisions or the outcome of funding between the former health board and voluntary organisations. Relationships are largely down to the practice of individuals, with systematic policy and procedure being absent (Boyle and Butler, 2003: 57).

It is of interest that Donoghue’s research, other studies and the more recent review by Boyle and Butler all suggests that there is broad support, from both statutory agencies and voluntary and community organisations, for the move to a more formal relationship (see below).
3.15.4 Partnership: a Valuable but Broad Concept

It is often suggested that partnership provides the framework within which the relationships between voluntary organisations and statutory entities should be set. To a large extent, this is true. For example, in the discussing relationships between voluntary and community organisations and government, Boyle and Butler note: (a) the formal inclusion of the voluntary and community sector in the social partnership process and (b) the contribution that social partnership has made to the development of a wider ethos of partnership as a useful and effective approach to joint problem solving and decision making. Indeed, internationally, partnership is increasingly seen as an essential feature of effective public governance (Wilson and Charlton, 1997). A number of key ideas recur in discussion of partnership involving voluntary and community organisations:

- Jointly-agreed goals shared among the participants in the partnership;
- The fact that participants have obligations under a partnership arrangement; and
- Actively working together in a spirit of common interest and common ownership.

Nevertheless, ‘partnership’ is a sufficiently wide term to encompass a range of possible relationships. Gaster and Deakin (1998) have developed the concept of a ‘ladder of partnership’ to illustrate the different types of partnership arrangement that may exist between local government and the voluntary sector. This runs from basic information exchange, through action planning, co-ordination, joint implementation of projects and service plans, to collaboration, involving joint problem solving, joint action and shared values and agendas. Finally, what they describe as ‘full partnership’ would involve shared values, pooled resources, blurred boundaries, continuous development to meet changing needs and support of less powerful partners to play a full role. In addition, partnership can addresses different objectives, such as the development of policy, the development of strategy and implementation of strategy (Compact Working Group, 2001).

It is also important to see both the advantages and difficulties of partnership-type relationships. One core advantage of partnership is widely recognised and beyond dispute: partnership is appropriate when seeking to achieve objectives that no single organisation can achieve alone. In the case of a funding relationship, the positive aspects of partnership include the development of a longer-term relationship rather than one-off funding, joint decision making on the use of resources and shared agreement on the objectives which funding is aimed at achieving (Boyle and Butler, 2003: 31). Organisational analysts also identify a number of difficulties that can arise in collaboration or partnership. These include loss of control, the diverse goals of the different partners, and tensions between autonomy and accountability (Huxham, 1995, 1996, cited in Boyle and Butler, 2003: 31). In addition, there is a possibility of inequality in the partnership, with more marginalised groups in danger of being sidelined.

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81. Besides the Council’s reports, discussion of partnership in the Irish context can be found in NESF (1997), Reynolds and Healy (2002) and Taylor (2005).

82. For application of these arguments to partnership in Ireland, see Curtin and Varley (1995), Powell and Geoghegan (2004) and Meade (2005).
3.15.5 The Need For More Formal Definition of Government-Voluntary Relationships

The Council believes that it is now important to move towards a more formal definition of the relationships between Government agencies and voluntary and community organisations. This is necessary for three related reasons:

1. To accommodate the increased need for government to be accountable not only for the allocation of public resources, but also for the outputs and outcomes achieved;

2. To allow voluntary and community organisations to maximise their contribution to problem solving and social development; and

3. To enhance the ability of voluntary and community organisations to offer a vehicle for volunteering, participation and building social capital.

Before considering some possibilities for a more coherent framework of relationships, it is important to clarify two aspects of the Council’s argument.

First, the Council’s advocacy of a coherent framework for Government relationships with voluntary and community organisations reflects its assessment of the specific current context, rather than a general argument. A case for devoting time to exploring and defining partnership relationships is sometimes made by arguing that (a) the process of partnership is as important, or more important, than concrete outcomes, and (b) considerable time devoted to building trust is a indispensable prerequisite for effective collaboration. The Council does not invoke these general arguments in making the case for more clarity and formality in the relationship between Government and community and voluntary organisations. As outlined in a range of NESC reports, it believes that a large measure of partnership can be built on shared understanding of challenges and a shared focus on concrete projects (NESC 1990, 1993, 1995, 1996 and 2003; and see Healy and Reynolds, 2002).

Second, there are significant challenges to policy making, implementation and partnership at the national level, on the one hand (see Chapter 5), and to relations between statutory bodies and community and voluntary organisations, on the other. However, the Council believes that, in large measure, these challenges should be addressed separately\(^3\). This is not to deny that a national-level framework for statutory-voluntary relationships could have a role in defining sectoral-level or agency-level relationships. Nor is it to deny that a national social partnership programme might include an agreement on a process to develop more coherent and formal statutory-voluntary relationships. Indeed, it is also possible that in modifying national policy making, implementation and social partnership to make them more effective, one of the steps taken might be to devolve policy functions to different levels of government and delegate certain functions (policy, delivery or monitoring) to civil associations, including voluntary and community organisations.

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\(^3\) There are a number of reasons for this suggestion. One is that while negotiation of a national social partnership programme can benefit from an element of issue linkage and package deals, this is less applicable in framing sectoral or organisational relationships between statutory bodies and community and voluntary organisations. Another is that challenges to national policy making and social partnership—and any recasting of relationships or structures to make them more effective—by definition involve all four pillars: employers, trade unions, agricultural organisations and the community and voluntary pillar.
Increased Desire for Accountability

One reason to move to more formal relationships is the increased emphasis on accountability for the use of public funds. In the past, the accountability of voluntary organisations was not a major issue. Voluntary and community organisations were trusted to pursue their mission and not to operate for the benefit of the individuals who exercise control over them. Boyle and Butler argue that ‘the increasing focus by government on how public funds are being used and the general reduction in trust in public institutions, including voluntary and community organisations, have led to demands from more formal accountability for the sector’ (Boyle and Butler, 2003:24). While the demand for increased accountability is an undoubted trend, this leaves open many important questions such as: accountability to whom? accountability for what? and accountability by what means? Indeed, it seems likely that somewhat different accountability arrangements will be appropriate in different contexts, depending on the size of the organisations involved, their different mandates and means of operation. As Boyle and Butler say ‘applying a single, standard accountability approach is unlikely to work in such circumstances’ (Boyle and Butler, 2003:26).

A Framework Model: Foundation, Process and Outcomes

Boyle and Butler draw attention to a framework model for statutory-voluntary partnerships, developed by the Institute of Public Health in Ireland, suggesting that it highlights key issues to be addressed when negotiating funding (Boyle and Butler, 2003:70). Indeed, the Council believes that this framework model also helps explain why it is now necessary to move towards a more coherent set of relationships between statutory bodies and voluntary and community organisations.

The model is illustrated in Figure 3.3. The main elements of the model are:

1. **Context**: includes factors such as previous history of working together, the political climate and policies/laws/regulations;

2. **Grounding**: understanding the different perspectives of participants and managing differences of opinion constructively;

3. **Foundation**: involves building a shared purpose and strategy. The main tasks involved here are the development of:
   - Vision: image of a desired future;
   - Mission: the purpose of working together;
   - Principles: guidelines for style of working and decision making;
   - Values: the beliefs individuals and the group hold;
   - Measuring impact: how impact will be evaluated;
   - Infrastructure: how the day-to-day business will be carried out; and
   - Contribution: making explicit what is expected from members, why they are there, how they will be held accountable and the incentives they need to stay involved.
4. **Process**: includes leadership, communication, team building, sustainability, research and evaluation.

5. **Intermediate and final outcomes**: refer to the tangible improvements to the different constituencies served by, and who make up, the partnership. However, final outcomes (such as increased employment rates, lower alcohol and drug rates) are virtually impossible to attribute directly to the efforts of partnership alone. Consequently, the framework proposes the use of intermediate outcome measures.

The Council believes that the anxieties of both officials and voluntary organisations, reported in the research cited above, can be understood using the model outlined here. The anxieties reflect weaknesses in the context, grounding, foundations, processes and ability to specify and monitor intermediate and final outcomes. Without becoming absorbed in process, it seems that some attention now needs to be given to each of these elements. Indeed, Boyle and Butler cite examples, in Ireland and elsewhere, where attention to these elements has given rise to both a better policy partnership and an improved funding regime. For example, in the case of the Homeless Initiative ‘a situation evolved through the establishment of improved working relationships where, while there were still disagreements, they did not prevent the work agenda moving forward’ (Boyle and Butler, 2003:34). To build the foundation, much effort was put into the finding a shared purpose and strategy. This yielded the key principles that underpin new funding arrangements. As regards process, the key to progressing the work of the Homeless Initiative was the establishment of working groups.
3.15.6 Some Models For Improved Statutory-Voluntary Relationships

Irish and International research suggests a number of possible ways in which more coherent and productive relationships between government and voluntary and community organisations might be framed. Some of these are briefly summarised.

Compacts and Accords

In a number of countries, government has entered into formal statements on the relationship with community and voluntary organisations. In England, Scotland, Wales and Northern Ireland, ‘compacts’ between the government and the voluntary and community organisations were developed in the late 1990s. In Canada, a Federal Government/Voluntary Sector accord was introduced at the end of 2001. In the case of the compacts in the UK, Good says:

Their stated intent is to provide a framework to guide the relationship and mutual understanding between the two parties including recognition by the government of the importance of the sector to society. Such compacts are not backed by the force of legislation. Their force is moral, not legal. Their authority comes from the involvement and endorsement of members of both government and the voluntary sector through broad-based consultation and involvement (Good, 2001, quoted in Boyle and Butler, 2003: 38).

Three distinct phases in the development and implementation of the UK ‘compact’ have been identified. The first phase involved engagement of government, voluntary and community organisations in drafting the overall compact at national level. In the case of Northern Ireland, the main elements of the compact cover roles, shared values, shared principles and commitments. The next phase was development of codes of good practice. The final phase concerned monitoring and compliance. In England, progress has also been made with the development of ‘local compacts’ between local authorities and the voluntary and community sector. Research suggests that, although it is too early to draw firm conclusions, there is definite evidence of positive overall effects to date.

The Role of Contracting

A further possibility for explicit formal relationships is the use of contracting. The use of service contracts may or may not be associated ‘contracting-out’ of services previously provided by statutory bodies and does not necessarily imply competitive tendering. The studies reviewed by Boyle and Butler conclude that contracting in the UK has secured real gains in the quality and range of services being provided by non-government organisations. But it also identifies significant limitations. These include problems in developing appropriate performance indicators and in quantifying outcomes, a lack of consistency in standards and in quality assurance mechanisms, accreditation problems, high costs and limited expertise in contracting.

It is clear that contracting between government and voluntary and community organisations is at an early stage of development in Ireland. As Boyle and Butler say: ‘The historical base for the relationship is informal, unsupported by policy and procedures and reliant to a large extent on the practice and work style of individuals. Service agreements are a new feature on the scene’, (Boyle and Butler,
The organisations interviewed by Donoghue (2002) and Boyle and Butler (2003) suggests that, in general terms, respondents from both voluntary organisations and the health board were very much in favour of having service agreements. The main benefits were seen as providing a structure for the future operation of the relationship, providing clarity and setting out the aims and objectives of the collaboration. Agreements were also seen as reducing the dependence on personalities.

Contracting may have real advantages where voluntary and community organisations are funded by the state to deliver services. It may be less suitable in other areas of voluntary and community activity.

3.15.7 A Council Proposal

The Council believes that to maximise the contribution of voluntary and community organisations—to solving problems, engaging voluntary effort, social development, offering opportunities for personal growth and strengthening democratic involvement—it is now necessary to pay attention to the quality of relationships with government and statutory agencies.

While ‘partnership’ is, in a general sense, a good term for the kind of relationship that is needed, the exact meaning of partnership needs to be teased out in particular circumstances. Productive relationships would be characterised by effective and accountable service provision, where appropriate, transparent and efficient funding arrangements, clear but not burdensome regulation and a coherent policy framework for the development of voluntary and community organisations.

In clarifying the relationships, it is necessary to reach a more explicit, shared, view on how voluntary and community organisations can contribute to policy dialogue and policy development. This requires that the relevant government departments, public agencies, voluntary organisations and community groups define an agreed view on both (a) the independence and advocacy role of voluntary and community organisations, as discussed by Boyle and Butler (2003), and (b) the responsibility of government to make decisions on social and economic policy and to determine priorities in the allocation of resources, as stated in the 2000 White Paper.

A case can be made for the approach adopted in the UK, in which the national-level relationship is defined first, leading to more detailed agreement on the relationship in various sectors (such as health, education, justice) and local authority areas, which together set the parameters for agency-level relationships. The Council believes that there is a need for a three-way process between agency-level, sectoral-level and national-level. It shares the view that ‘it is at the level of individual organisations that the ultimate success or failure of the funding relationship is determined’ (Boyle and Butler, 2003:74). This means that there is much that can be learned by looking at specific agency-level and sectoral-level arrangements that work well and, indeed, those that do not work so well. This three-way flow of information and ideas is described in Figure 3.4.
Accordingly, the Council proposes that a process be created to deepen partnership between statutory bodies and voluntary and community organisations. There is a parallel with the evolution of enterprise-level partnership and the approach adopted by government and the social partners to enhance it. A review of progress on enterprise-level partnership observed that:

Partnership involves a combination of incremental change and over-arching agreement. A striking feature of organisations that are making progress is that partnership contains a series of projects, in which management and unions/employees work together and jointly assess their achievements and failures. Experience shows that well-functioning sub-groups are the engine room of successful partnership arrangements. Partnership is unlikely to work if it does not bring together the appropriate people and empower them to solve concrete problems.

Yet, it is clear that a common understanding of partnership greatly assists the move from adversarial to partnership approaches in specific business situations. It prevents repeated discussion of first principles. It provides a reference point when difficulties arise. Without some over-arching common understanding the risks of moving to a partnership approach can loom large relative to the advantages. Yet in volatile modern business conditions it is difficult for management, unions or employees to reach a comprehensive and meaningful agreement on how the organisation should be structured and run...In the case of enterprise partnership, an adequate shared understanding cannot be achieved by high-level analysis and deliberation alone. Many work matters can only be agreed, analysed and changed in the context of doing them.
A shared understanding requires reflection on practice at organisational, divisional, plant, office and team level. Therefore, building partnership and improving performance involves both top-down and bottom-up approaches (O’Donnell and Teague, 2000: 72-7).

While this analysis of organisational partnership applies to both enterprises and government-voluntary/community relationships, its implications are somewhat different in each sphere, given the different starting points. In the case of enterprise-level partnership, this perspective highlighted the need to particularly encourage, monitor and disseminate joint practical action that enhanced organisational performance, employment security and the quality of work life. In the case of government-voluntary/community partnership, the current needs seem somewhat different. There is a preponderance of practical projects (though often ad-hoc and insecure), but relatively little clarity on the nature of the relationships and insufficient monitoring of outputs and outcomes. They require more, rather than less, focus on process and foundations. What is common, however, is the impossibility of meeting these deficits by national-level dialogue and negotiation alone. In moving towards greater clarity of relationships, there is much to be learned from sectoral-level and agency-level successes and failures. It is acknowledged, of course, that the impetus for the process of defining and agreeing relationships needs to begin somewhere, and that the national dimension is important in framing them.

The forthcoming Task Force on Active Citizenship might sponsor the work necessary to support this learning. A range of institutions—including the Department of Community, Rural & Gaeltacht Affairs, the IPA, independent researchers, the bodies in NESDO and others—could provide the research and analysis necessary to identify the most promising relationships between statutory agencies and community and voluntary organisations. In the longer term, some institutional arrangements will be required to assist agencies and voluntary/community organisations in framing the relationship and, where appropriate, service contracts, setting standards and monitoring outcomes.
4.1 Introduction

In this Chapter the Council sets outs its evolving perspective on the consistent policy framework that has informed its Strategy reports since 1990. This consistent policy framework covers macroeconomic, distributional and structural or supply side policies. The Council’s approach to macroeconomic policy (Section 4.3) and the wage bargaining elements (Section 4.4) of the consistent policy framework are set out in this Chapter. The Council’s approach to the content of the other elements of the framework is set out in Chapter 3.

4.2 A Consistent Policy Framework

4.2.1 Identifying and Delivering a Consistent Policy Framework

In its 1990 report *A Strategy for the Nineties* and subsequent Strategy reports, the Council set out a framework that informed its contribution to social partnership and policy. It argued that there are three requirements for a consistent policy framework in a small, open, European democracy:

(i) **Macroeconomic**: the economy must have a macroeconomic policy approach that underpins low inflation and steady growth of aggregate output;

(ii) **Distributional**: there must be an evolution of incomes which ensures continued improvement in competitiveness, which handles distributional conflict in a way which does not disrupt the functioning of the economy and which is fair; and

(iii) **Structural or Supply-Side Policy**: there must be a set of complementary policies which facilitate and promote structural change in order to maintain competitiveness, eliminate barriers to participation and achieve social cohesion in an ever-changing environment.

Consideration of how various countries, with different structures and political traditions, operate economic and social policy suggest that the system must be internally consistent, and must be suitable for the economy and society to which it is applied.
The analytical framework was further developed in the 1996 Strategy report. In the context of globalisation, the Council argued that:

(i) Most of the policies which affect Ireland’s prosperity and social cohesion are supply-side policies—i.e. those that improve quality, quantity and allocation of resources and capabilities;

(ii) Given rapid economic change, national policies must produce flexibility; and

(iii) Successful national supply-side policies, directed towards innovation, competitiveness and inclusion, depend on the high level social cohesion and co-operation that the state can both call upon and develop.

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

4.2.2 Recasting Ireland’s Consistent Policy Framework

In its 2003 Strategy, the Council argued that that the consistent policy framework outlined above still provides a useful guide to the formulation of a strategic approach that can command the agreement of the social partners. However, in view of the new challenges noted in that report, it argued that it was necessary to recast the relationship between the macroeconomic policy, distribution and structural or supply-side measures and to review the content of policy within the each of the three boxes.

The Changing Relation between Macroeconomic, Distributional and Structural Issues

The 2003 Strategy report noted that the relation between the three categories of policy has changed over time. In the difficult economic period from the late 1970s to the late 1980s, the three existed in a vicious circle (NESC, 2003: 173). During much of the period from 1987 to 2000, the three existed in a virtuous circle: the macroeconomic, distributional and structural developments readily supported and reinforced one another. The long period of rapid growth from 1994 to 2000 brought the three elements into greater tension with one another, as structural and supply-side bottlenecks and problems in service delivery impacted on inflation, the public finances, wage bargaining and the value of fixed incomes. At the same time, macroeconomic developments, particularly the weakness of the euro and pro-cyclical policy, impacted on distribution, competitiveness and supply-side bottlenecks.

In its 2003 Strategy report the Council noted the temptation to achieve a minimal consistency between macroeconomic and distributional approaches. 'Maybe structural and supply-side improvements are too hard to agree, too dear or too difficult. Maybe they can wait' (NESC, 2003: 174). The Council rejected that approach. It argued that a minimal consistency between macroeconomic and distributional approaches will not work for the following reasons:
It will not work because social exclusion cannot be further reduced if the quality of services is not greatly improved;

It will not work, because competitiveness cannot be sustained for long if infrastructure, R&D, utilities and a skilled flexible workforce are not available; and

It will not work for long as a distributional settlement because wage earners will continue to face high prices, poor services, expensive housing and long commuting times.

Consequently, the Council argued that ‘a consistent policy approach must include a vigorous programme to improve structural and supply-side factors... Partnership involves not only consensus, but also recognition of necessary change’ (NESC, 2003: 175).

**Macroeconomic, Distributional and Structural Policies in the 2005 Strategy**

With monetary policy set by the European Central Bank, macroeconomic policy is essentially concerned with the public finances. The Council’s approach to the public finances is set out in Section 4.3 below.

The distributional issues addressed in this Strategy report are as follows: wage bargaining and poverty, exclusion, inequality and welfare. The Council’s views on wage bargaining are outlined in Section 4.4 below. The Council has developed its broad approach to poverty, inequality and exclusion in its report, *The Developmental Welfare State* (NESC, 2005). In that report the Council argued that Ireland’s social welfare system needs to adopt a more developmental form than hitherto. Individuals and groups need more active supports as they seek to maximise the potential and minimise the dangers that attend major changes in employment, family patterns and demographic trends. In Chapter 3 of this report the Council sets out key actions on welfare and social protection for the coming years.

The Council believes that structural/supply-side issues are now of central importance. It suggested in its 2003 Strategy that the structural, supply-side and organisational challenges fall into three broad groups:

- Major national investments—in transport, childcare, information and communications technology and networks, energy, R&D and physical planning;
- The provision of services and regulatory regimes to citizens, enterprises and to voluntary groups; and
- The creation of flexible learning organisations that achieve continuous improvement, equality of opportunity and fair outcomes.
Given the wide range of urgent structural/supply-side needs, the Council identified three common elements that arose in all of them:

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

In Chapter 3 of this report the Council set outs what it sees as the key actions to advance structural reform over the next few years.

4.3 The Public Finances

4.3.1 Introduction

Recent trends in the public finances were described in Chapter 1. This section addresses the desired development of the public finances over the next few years. At an aggregate level policy on the public finances is concerned with four key variables: the overall balance, taxation, current expenditure and capital expenditure. Principles for the management of the public finances are discussed in Section 4.3.2. Section 4.3.3 considers the possible effects of ageing on the public finances in the longer term. Options for the public finances are presented in Section 4.3.4.

4.3.2 Principles

Policy on the public finances should support the Council’s overall policy objectives of securing a dynamic economy characterised by high levels of participation and the achievement of social justice. These goals imply that taxation should be set at a level that is consistent with a dynamic economy and that the level of public expenditure is adequate to support economic and social development. They also imply having a responsible balance between expenditure and taxation. In its last Strategy report the Council formulated the following principles with regard to the overall balance in the public finances:

- Sustainability: The Council is strongly committed to the principle that public finances must be managed on a sustainable basis. Sustainability requires that the public finances are in a position to absorb the normal budgetary pressures that arise. From a longer term perspective, sustainability requires that the public finances are managed on a basis such that the longer term costs associated with the ageing of population can be met without recourse to excessive levels of taxation. Another requirement for sustainability is that borrowing should only by undertaken if required for capital purposes.
Stabilisation: The management of the public finances needs to take account of the stage of the economic cycle. At a minimum, it is desirable that the public finances should not add to cyclical fluctuations in the economy. This implies that when the economy is performing well, flexibility should be maintained in order to provide scope for some relaxation of fiscal policy in economic downturns.

The Stability and Growth Pact (SGP): This Pact has recently been revised. The 3 per cent limit on deficits remains in place. However, the medium term requirement that countries have their budgets ‘close to balance or in surplus’ has been changed. For Member States with low debt and high potential growth, the required objective is a deficit of no more than 1 per cent. This is on a cyclically adjusted basis, net of temporary and one-off factors. The relevant measure for this purpose is the general government balance (GGB), a wider measure than the Exchequer. This measure encompasses the social insurance fund and the National Pension Reserve Fund (NPRF) in addition to the Exchequer.

These principles are all still relevant. The SGP defines certain overall limits and the revisions to it are discussed further below. In the current Irish situation, the issue of what is a sustainable balance in the public finances across generations is quite a complex one. On the one hand, the public finances are at present benefiting from a relatively ‘young’ population structure. In the coming decades the ratio of older people to the working population will increase with adverse implications for the public finances. On the other hand, the current generation is financing a major infrastructure investment programme, to a considerable extent from current tax revenue. Future generations will benefit from this infrastructure without having a proportionate debt liability to service. Having regard to these two factors it is not obvious in principle whether the current generation is, in a sense, living beyond its long-term means (i.e., not making, collectively, adequate provision for retirement) or living below its means (by devoting too much of its income to pay for long-term infrastructure).

The Golden Rule

Advocates of what is known as the Golden Rule argue that current expenditure should be covered by current revenue; however they reject the principle that expenditure that yields benefits over multiple periods should be financed by current tax revenue at the time the expenditure is undertaken:

From the Golden Rule perspective, what intergenerational equity requires is, instead, that the costs associated with such expenditure (expenditure on assets such as schools, roads and bridges) should be spread over time in accordance with the distribution over time of the benefits that they generate. It defends, within limits, the use of debt for this purpose (Robinson, 1998: 448).

1. The payment of the 1 per cent contribution has the effect of increasing Exchequer spending and borrowing but it does not affect the deficit on a GGB basis, as it is considered an internal government transaction.
In arguing that current revenue should cover current costs, advocates of the Golden Rule emphasise the need to measure these in a comprehensive way. For this reason, those who favour the Golden Rule also favour the application of accruals accounting to the public finances. Traditionally public accounts in most countries have been based on cash accounting, but in recent years many countries have embraced elements of accruals accounting. Cash accounting differs from accruals accounting in the following way: cash accounting is concerned with cash flows in a given period, while accruals accounting is concerned with the expenses incurred, whether or not there is an associated cash flow. Two significant non-cash expenses that are not counted in conventional accounting are the depreciation of public assets and imputed pension liabilities. Imputed pension costs arise where pensions are not funded by explicit pension funds. For example, in return for a year’s work, a civil servant is paid a salary but also earns an entitlement towards a future pension. This is a real cost but one that is not counted in conventional public finance systems. A related issue arises in the case of social welfare pensions.

The distinction between current and capital expenditure also has some limitations. Using the standard definitions, for example, expenditure on school buildings is capital expenditure while expenditure on salaries of teachers is current expenditure. A case can be made in some instances for treating items of current expenditure as capital expenditure, where the current expenditure yields benefits in later periods. However this risks undermining the distinction between current and capital expenditure.

The Golden Rule is an attractive approach but it has however a number of disadvantages. These are outlined in Section 4.3.4 below when considering options for the public finances. The UK has adopted the Golden Rule as one of the guiding principles for its fiscal policy. There has been a loosening of fiscal policy in the UK in recent years. The recent OECD (2005c) survey noted that this has been second only to the US among OECD countries and that the government deficit is now around 3 per cent of GDP.

**Stability and Growth Pact**

Irish fiscal policy is required to conform to the SGP. The European Council recently (March, 2005) agreed on changes to this Pact. The overall limits for the public finances—of the 3 per cent deficit and 60 per cent debt to GDP ratio—remain unchanged. In addition to avoiding deficits of 3 per cent of GDP, the SGP required Member States to adhere to a medium term budgetary objective of keeping their budget balance close to balance or in surplus. The changes to the SGP allow for differentiation in this objective. The report of the European Council (2005) on the revised SGP proposes that, taking account of the characteristics of each Member State, the development of medium-term objectives should contribute to three aims: (i) to provide a safety margin with respect to the 3 per cent deficit; (ii) to ensure rapid progress towards sustainability; and (iii) to allow room for budgetary manoeuvre, in particular taking into account the needs of public investment. Member States with low debt and high potential growth are required to adhere to a medium term objective of a deficit of not more than 1 per cent of GDP. This change provides a modest degree of potential extra flexibility to the Irish public finances.
The European Council report on the SGP also advocated a ‘more symmetrical’ (i.e., counter cyclical) approach to fiscal policy. In particular, ‘Member States should commit at a European level to actively consolidate public finances in good times. The presumption is to use unexpected extra revenues for deficit and debt reduction’ (European Council, 2005:10).

The Treaty (in Article 104(2)) provided that a deficit can exceed the 3 per cent limit if it is ‘exceptional and temporary’ and if it remains close to the 3 per cent limit. One basis for judging a deficit to be exceptional and temporary is a severe economic downturn. This was defined (by regulation) as an annual fall in real GDP of at least 2 per cent. It has been agreed to revise the regulations so that a deficit will not now be considered excessive on an exceptional basis if ‘it results from a negative growth rate or from the accumulated loss of output during a protracted period of very low growth relative to potential growth’ (European Council, 2005: 14).

In preparing a report on a Member State not complying with the rules of the SGP, the Commission is required by Article 104(3) of the Treaty to ‘take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors’. The revised rules have clarified what is meant by all other relevant factors by identifying a range of factors:

The Commission’s report under Article 104(3) should appropriately reflect developments in the medium-term economic position (in particular potential growth, prevailing cyclical conditions, the implementation of policies in the context of the Lisbon agenda and policies to foster R&D and innovation) and developments in the medium-term budgetary position (in particular, fiscal consolidation efforts in ‘good times’, debt sustainability, public investment and the overall quality of public finances). Furthermore, due consideration will be given to any other factors, which in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value. In that context, special consideration will be given to budgetary efforts towards increasing or maintaining at a high level financial contributions to fostering international solidarity and to achieving European policy goals, notably the unification of Europe if it has a detrimental effect on the growth and fiscal burden of a Member State (European Council, 2005: 15).

All of the above are to be considered as mitigating factors by the Commission before reaching a conclusion on whether a Member State has an excessive deficit.

A technical ruling made by Eurostat in 2004 on the rules concerning public private partnerships (PPPs) is also of interest. The Eurostat decision is that assets involved in Design, Build, Operate, Finance (DBOF) public private partnerships are to be regarded as ‘off balance sheet’ in GGB/SGP terms, provided the following conditions are met: the private partner must bear both the construction risk (the risk of the project costing more/taking longer than planned, or structural failure) and at least one of the availability risk (the risk that the private partner is not in a position to deliver the agreed level or quality of service) and the demand risk (the risk that user demand is significantly higher or lower than expected). The capital cost of such ‘off balance sheet’ assets is not counted as government expenditure over the construction period, avoiding a large up-front worsening of the GGB. However, payments made over the life of the PPP contract (which include an element
corresponding to the capital cost of the assets) count as current government expenditure in each year they are made, worsening both the Exchequer balance and the GGB.

This new interpretation of PPPs potentially offers greater flexibility in relation to the SGP. However, it does not change the fundamentals that should be considered in relation to any investment project. Investment projects are worthwhile where the benefit to society exceeds all of the costs involved in undertaking the project. Projects should be undertaken using the method that is likely to be the most effective in delivering the project. There is a risk that the new rules provide an incentive to use PPPs as a means of financing projects solely on the basis that this is a way of funding a project that otherwise could not take place because of the SGP. The Council envisages PPPs playing some role in supplementing but not replacing mainstream public investment.

PPPs potentially offer better value for money in public investment by making greater use of private sector management expertise and innovation ability. However, it cannot be assumed that PPPs are automatically better value than the alternative, which is for the state to directly borrow the money and commission the delivery of the project by the private sector. The state can borrow money at lower cost than the private sector because government bonds represent a low risk. If so, the question arises as to what is the rationale for using private finance. A report by the Commission on Public Private Partnerships (2001) in the UK pointed out that the placing of the equity of the private partners at risk is one way of focussing the skills and energies of those partners:

This then is the justification for using private finance. The financial institutions responsible for raising the finance will exercise due diligence and bring extra scrutiny to the project, both during the procurement phase but more especially through the project’s whole life, making sure that the project really will offer significant efficiency gains (where the partnership involves design, build, operate and finance) (Commission on Public Private Partnerships, 2001: 85).

The private finance used in PPPs has to be remunerated. If the efficiency gains arising from the fact that private partners have their equity at risk in the project exceed the extra costs of this finance (compared to direct public borrowing), then PPPs can be better value for money.

The reason why private finance in a PPP costs more than direct government borrowing may be because of the risk being transferred to the private partner (for example construction risk or demand risk). Risk transfer is of potential benefit to the state if it encourages greater efficiency or innovation by the private partner than could otherwise be achieved. However, risk transfer is not invariably worthwhile; for example, any insurance contract achieves risk transfer but not all insurance contracts offer value for money.

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2. This applies only to PPPs that involve private finance, for example, design, build, operate and finance contracts. Some Irish PPPs take other forms, for example, design, build and operate.
The Comptroller and Auditor General (C & AG) has examined the experience of a pilot project for the procurement of schools through PPPs. The schools were delivered within three and a half years while the norm is four to five years. The C & AG estimated that the schools were 8 to 13 per cent more expensive than if traditional procurement had been used and there was relatively little risk transfer to the private sector. This is based on projections; the full value for money of the project will only be determined over the 25 year period, as this is a long-term project involving maintenance of the schools by the private partner. It would be desirable to have an evaluation of the project after five years of the operation of the contract, as proposed by the C & AG report (Comptroller and Auditor General, 2004b).

4.3.3 Assessing Sustainability: Long-Term Projections of the Public Finances

Long-term projections for Ireland’s public finances have recently been published by ESRI researchers covering the period 2005 to 2050 (Barrett and Bergin, 2005). These projections are based on CSO demographic projections and the authors make a number of other assumptions. Productivity growth is assumed to average 2 per cent annually, female labour force participation continues to rise and state pensions grow in line with social welfare. Expenditure in the areas of pensions, health and long-term care is projected to increase by almost 11 percentage points of GNP between 2005 and 2050. Age-related expenditure on education is projected to fall by 0.7 percentage points, so that the net change in age-related expenditure is around 10 percentage points. Estimates are also made of what increase in taxation would be required to keep the Exchequer deficit below 5 per cent of GNP in 2050 in the light of this increased expenditure. The required increase in taxation, if it were to take place now, is estimated at between 2.7 and 4.3 percentage points. This is less than the increase in expenditure, partly because the increase in taxation takes place in advance of the rise in expenditure, so that assets are accumulated which are later drawn upon to meet the rise in expenditure.

The European Commission (2004) has published long term projections of the public finances to 2050 for each Member State. They show increases in age-related expenditure across Member States. The Commission’s estimates for Ireland are substantially lower than those of Barrett and Bergin. This arises in part because the most recent demographic projections used by Barrett and Bergin differ from the earlier estimates used by Commission. The estimated net increase in age-related public expenditure by the Commission (pensions, health, long-term care, less savings on education) is 5.5 percentage points by 2050.
### Table 4.1: Age-Related Expenditure as a Percentage of GDP

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<td>8.4</td>
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<td>1.5</td>
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Notes: The GNP figures for Ireland have been calculated by applying a ratio of 1.2 to the GDP figures.
An ageing population could also have revenue implications. The ageing effects are included in the GDP/GNP projections as these capture the effects of slower growth in the labour force. A UK study (HM Treasury, 2002) estimated a slight fall in revenue relative to GDP as a result of ageing. However, that study acknowledged that these projections did not cover all of the factors that drive revenue and that there are in fact a number of reasons why revenue may increase relative to GDP. First, the progressivity of the tax system implies that revenue rises faster than GDP, even with indexation for (price) inflation. Second, private pension income, drawing on private pension funds, will become a more significant income source for pensioners. This income is tax free when paid into the pension fund and the investment income of the fund is tax free. However, when drawn upon, it becomes taxable income. A study (ter Rele, 2000) has estimated that this could be a substantial revenue source for the Netherlands, leading to a projected rise in tax revenue of five percentage points of GDP between 2001 and 2040. Ireland also has significant private pension funds and it would be worth doing a study of the likely revenue impact of pension fund income.

A projected increase in expenditure of between 5 and 11 percentage points of GNP is a very substantial increase. This raises the question as to how well positioned are the Irish public finances to address this. There are a number of factors that will come into play in meeting this possible increased burden of expenditure:

- There is the current account surplus, which is being used to invest in infrastructure. While this is not being set aside in a fund, it is financing capital investment. This means that the debt level in future will be lower than it would otherwise be, given the provision of infrastructure.

- The current infrastructure investment will not continue indefinitely at its current level. It has been estimated by Bergin et al (2003) that it could be complete within a decade and a half. At that stage, resources of around 2 per cent of GNP could become available, as public capital investment returns to a more normal level of 2 to 3 per cent of GNP. These could be used directly for higher spending or perhaps invested in the NPRF.

- The NPRF can be drawn upon to meet future costs. The fund could potentially contribute around two percentage points of GNP to meeting ageing costs, although at this rate of withdrawal the fund would eventually become fully withdrawn.

- As noted above, there is the potential revenue boost from higher private pensions.

- After allowing for a fall in infrastructure funding and the pension fund there would still be a gap in meeting estimated future costs. This would point to the need for increased revenue or reduced expenditure elsewhere. With a tax level at present among the lowest in the EU, some increase in taxes to meet future age-related costs would seem a reasonable option.
The considerations above suggest that, notwithstanding the future increases in costs, the public finances are reasonably sustainable on a long-term basis. A caveat is that this is on the basis of the current level of the social welfare pension relative to earnings which is widely seen as inadequate. The provision of more adequate pensions would have cost implications in both the short and longer term and could well require higher taxation to be sustainable. The Commission has assessed the long term sustainability of each of the Member States. It placed Ireland among the countries with limited or no risk of debt default with the pension fund seen as a factor in underpinning financial sustainability (European Commission, 2004). Indeed Ireland seems to be among the best placed EU countries to meet these future challenges, in that the level of public savings in Ireland is higher than most other EU countries.

4.3.4 Policy Options

When considering options for the public finances, there are choices to be made concerning four key variables: the surplus or deficit, taxation, capital expenditure and current expenditure. With regard to the first, the overall surplus or deficit, it is possible to identify two polar options regarding the balance:

- A balanced budget in which revenue covers both current and capital expenditure;
- The ‘Golden Rule’ in which current revenue covers current expenditure over the cycle and borrowing is used to pay for capital expenditure.

These two polar options define limits for the size of the deficit. These are explored below and projections are presented of how the public finances could evolve if either option were adopted. A third option would be a deficit that lies between these two limits and this is also examined below.

Any target deficit or surplus in the public finances can be achieved with varying combinations of expenditure and taxation. In the projections below, the assumption made is that taxation, the second of the four variables, is kept at a constant share of GNP. A final option is also examined in which taxation rises modestly relative to GNP and the additional revenue is used to fund higher current expenditure.

The third variable, the level of capital expenditure, is as a baseline assumption in the projections presented below, held at the current level relative to GNP. With a target level for the deficit and assumptions made regarding taxation and capital expenditure, the final variable, the level of current expenditure, then becomes a residual.

The growth of revenue and hence scope for expenditure growth is obviously dependent on the growth of the economy. The projections made here are based on the assumption of the economy continuing to grow at an average annual rate of 5 per cent until 2010 and then by 3.5 per cent from 2011 to 2016. More detailed assumptions underpinning the projections are presented in Appendix 4.1 to this chapter.
Option 1: A Balanced Budget

The first option is to maintain the total budget close to balance. This essentially implies managing the public finances in accordance with the SGP, without taking account of the recent reforms. This option could involve some Exchequer borrowing; in particular contributions to the NPRF are a claim on the Exchequer but are not counted as expenditure for the purposes of calculating the general government balance.

The first projection of the public finances up to 2016 set out in the Appendix Table A4.1 illustrates how the public finances could evolve along these lines. Tax revenue is held constant relative to GNP. On the expenditure side, this projection includes meeting the social welfare commitments on NAPS. It is estimated that general current public expenditure outside of social welfare could grow by 7 per cent in nominal terms to 2010, falling then to 6.5 per cent. This would leave some scope for an increase in public services, the extent of which would depend on growth of pay and other costs.

This option has a number of advantages. Given the high level of public investment, maintaining the public finances at close to balance implies continuing with a high savings level. The debt ratio continues to fall and the public finances become even more resilient to adverse shocks. Elimination of the deficit at a time of strong growth is consistent with the counter-cyclical principle.

However, these are also some potential disadvantages to this option. This approach could be argued to impose a tighter budget constraint than is strictly necessary. It could imply turning down some worthwhile investment projects on the grounds that they would hinder the elimination of the deficit. There is also the question whether it would provide adequate resource for public services to address the challenges identified by the Council.

One influence on public expenditure in the years ahead will be meeting Ireland’s commitments on Official Development Assistance (ODA). If the target of 0.7 per cent of GNP were to be met by 2012, then expenditure on ODA would be around €1.5 billion in that year, which would be a tripling in nominal terms on the level of expenditure in 2005 (€473 million). Expenditure on ODA will continue to be modest in the context of total expenditure but, during the period in which it is being increased, it will have an influence on the availability of resources.

Public service pay is a major element of current expenditure, representing over 38 per cent of expenditure on services and transfers. Pay and social welfare together represent close to 70 per cent of gross current expenditure on services and transfers. If the pay bill were to grow at the same rate as expenditure generally (i.e., at a rate of 7 per cent) and pay rates were to grow by 5 per cent, then public service employment could grow by around 2 per cent annually.
Option 2: The Golden Rule

The second policy option would be to adopt the Golden Rule; recurring revenue would cover current costs while capital expenditure would be covered by borrowing. Given the current account surplus at present, the Golden Rule would allow for higher current expenditure. Alternatively, the Golden Rule would also allow higher borrowing to be used to fund increased public capital investment.

There are two main advantages to adopting the Golden Rule. First, faster growth of current expenditure would facilitate greater progress in tackling the Council’s priorities. Second, if the Golden Rule were adopted, it would mean decisions on capital investment projects could be based on whether the return exceeded the cost of borrowing. This would ensure that worthwhile projects would not be ruled out due to financing constraints. Third, the costs of infrastructure would be shared by future generations who will also derive benefits from current investment in infrastructure.

There are also a number of disadvantages. First, if the increased flexibility is used for current spending, this approach implies a reduction in government savings so that there is less provision in the public finances to absorb the expected rise in ageing costs. Second, with regard to capital investment there is the risk that the adoption of the Golden Rule would lead to excessive investment having regard to the capacity of the economy and to projects being undertaken that did not offer a worthwhile economic or social return. Third, adoption of the Golden Rule would be in conflict with Ireland’s commitments to the SGP if it were decided to fund all the present level of capital expenditure from borrowing. Finally, the increase in the debt/GNP ratio that could result from this option would be seen by some as a disadvantage.

As discussed above, when applying the Golden Rule, it seems logical to define costs to include non-cash as well as cash costs, where the former are significant. Viewing current costs in a broad way, the current surplus is much lower. Alternatively, if one focuses on the standard definition of costs, over time there is a significant increase in costs. In the projection of the Golden Rule (projection 2, Appendix Table A4.2) we have taken into account an estimate of the cost of real depreciation of public assets and the implicit liabilities associated with public service pensions. The costs of public service pensions are a subset of future ageing costs, but we include them as they represent contractual obligations that are incurred on an ongoing basis from the operation of the public service. The combined costs of real depreciation and the imputed costs associated with public service pensions are estimated at 1 per cent of GNP. For this reason, the current account surplus in this projection is maintained at a level of around 1 per cent of GNP or higher.

This projection uses the same basic assumptions of Projection 1 above. Tax revenue is held constant relative to GNP and the social welfare commitments are met as described above. The increased flexibility that arises from adopting the Golden

\[ \text{In preparing the national accounts the CSO makes an estimate of the depreciation of public sector assets. Using the CSO's estimate, and updating in line with public investment since then, depreciation for 2005 is an estimated €1200 million. However, it is argued by Robinson (1998) that if the real capital costs are charged in this way then the appropriate interest charge is the real, as opposed to the nominal interest cost. The reasoning for this is that in charging nominal costs to the budget, one is implicitly paying some of the real capital cost. For 2005, depreciation less nominal interest was an estimated €405 million or 0.3 per cent of GNP. The estimate for the imputed cost of public sector pensions, 0.7 per cent of GNP, is a somewhat dated estimate taken from a Department of Finance working group report, Report of the Budget Strategy Ageing Group (1999).} \]
Rule is used to increase general public expenditure. It is possible for this expenditure to grow considerably faster than in earlier projections and it grows by close to 10 per cent in nominal terms over the years 2006 to 2010 and then reverts to growth of 6 per cent.

Option 3: A Deficit between a Balanced Budget and the Golden Rule

The third option lies between the two options above: the deficit would be higher than with a balanced budget but less than would be implied by following the Golden Rule. The flexibility of the revised SGP, under which Member States in certain circumstances are allowed to adopt an average deficit of 1 per cent of GDP, is a way of implementing this option. As noted above, the European Council text on the revised SGP also advocates a more counter-cyclical approach to fiscal policy.

If this intermediate option were chosen, the increased flexibility could be used for either current or capital expenditure. If it were used for current expenditure there are a number of ways of looking at this. On the one hand, one would be increasing borrowing to allow for higher current expenditure. On the other hand, given the current starting point of a large current surplus, one could use the increased flexibility to pay for higher current expenditure while in effect all borrowing would still be used for capital expenditure (i.e., one would continue with a current surplus, albeit a somewhat lower one).

The implications of adopting this approach are illustrated as Projection 3 (Appendix Table A4.3). It is assumed in this projection that the increased flexibility is used for both current and capital expenditure. This additional investment is phased in a gradual way as follows: an additional 0.2 per cent of GNP is provided in 2006, a further 0.2 per cent in 2008. The growth rate of current expenditure is increased by almost one percentage point for each of the years between 2006 and 2010.

The advantages and disadvantages of this option are similar to the Golden Rule discussed above, although the impact on the public finances would obviously be less. Where there are worthwhile investment projects to be undertaken, in the sense that the projects provide a return to society over time that exceeds the cost of borrowing, it is not desirable to decline such projects on the basis of an arbitrary rule such as balancing the budget in every year. An intermediate option such as the 1 per cent deficit target of the revised SGP is still arbitrary, but there is no obvious reason not to avail of this flexibility where worthwhile projects are available. This intermediate option could also be used to fund increased current spending.

In relation to the effectiveness of public investment there are a number of recent initiatives that are worth noting:

- Five year multi-annual capital envelopes with a carryover facility have been introduced. This facilitates better planning and delivery compared to the annual approach.

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5. The European Council text on the revised SGP proposes that the increased flexibility is to be used ‘in particular taking into account the needs of public investment’ (European Council, 2005:9). However, given Ireland’s current situation in which substantial public investment is being financed by current revenue, the use of the increased flexibility to finance higher current expenditure would seem consistent with the SGP.
New guidelines have been prepared for the appraisal and management of capital expenditure.

The rules relating to public procurement and public sector contracts have been revised, including a move to fixed price contracts.

The Council welcome these initiatives aimed at improving the value for money of public investment.

It is worth recalling that in its last Strategy report the Council recommended that the level of public investment be maintained at 5.5 per cent of GNP. This has since fallen to a budgeted level of 4.8 per cent of GNP in 2005 (including PPPs) and the outturn is likely to be below this level. This is partly but not solely due to GNP growth being stronger than expected and it could be argued that there is a case for bringing the level of public investment back towards the 5.5 per cent level recommended by the Council.

Option 4: Increased Current Expenditure Funded by an Increase in the Tax/GNP Share

Whatever approach one adopts to the overall balance, it would be possible to provide additional resources for current expenditure through some increase in the tax/GNP share. The tax share of GNP has fluctuated and increased by around one percentage point since 2002. It is not necessarily the case that the current tax share is the optimal one. If there were a willingness to accept increased taxation, so that an increase in taxes did not lead to compensating wage increases, then we would not expect a modest increase in taxation to have adverse economic effects. While tax cuts were an important part of social partnership agreements, it is argued by some that the scale of past tax cuts was higher than necessary and added excessively to demand in a pro-cyclical manner. Furthermore, as the Council has argued in its report, The Developmental Welfare State, there is potential in some cases for improved services to contribute to underpinning economic growth. If any increase in taxation were to be introduced, it would have to be effected with care and consideration.

The fourth projection (Appendix Table A4.4) shows an evolution of the public finances involving a modest increase in the tax/GNP share. The combined revenue from tax, PRSI and other appropriations-in-aid would rise by one percentage point over the next decade. Some of this increase could come from the phasing out of the SSIA (the credit paid to savers in an SSIA is classified as negative tax revenue) along with the planned increase in the 10 per cent corporation tax to 12.5 per cent for some manufacturing and international services companies. Some of this extra revenue will be offset by loses stemming from the general reduction in the corporation tax rate to 12.5 per cent. The full impact of this reduction is not yet fully reflected in the tax yield as its impact was delayed by contemporaneous changes which provided a temporary cash flow benefit to the Exchequer. The full impact will materialise by 2007.

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6. If the total level of public investment including PPPs budgeted for in 2005 is expressed as a percentage of the level of GNP projected for 2005 in the 2005 Budget then the level of public investment in 2005 would be 5.1 per cent of GNP. However, the outturn on capital expenditure for 2005 is likely to be considerably lower than planned in the 2005 Budget.
It is estimated that an increase of one percentage point in the tax share of GNP over 10 years allows general current expenditure to grow by around an extra half a percentage point annually while the public finances remain close to balance. With the growth of public service pay and other costs, some increase in public expenditure is normally required to produce the same level of services. At the margin, however, an additional half a percentage point growth in current expenditure, if wisely used, could make a non-trivial addition to services. Appropriations-in-aid also rise by the same relative amount implying some increase in charges of various kinds.

Caveats to the Above Projections

The projections for the public finances presented in this Chapter point to the scope for considerable social progress in the coming decade. The possibilities shown are critically dependent on the achievement of strong economic growth. They also are illustrative of potential social benefits of sustaining growth. Furthermore the potential that now exists to expand services can also help to further develop participation in the labour market and thus underpin continued growth. As discussed in Chapter 1 there are a number of risks to the achievement of economic growth along these lines, including a sharp correction in the property market, a sustained loss of competitiveness or a contraction of the global economy stemming from a correction of the US current account deficit. High oil prices are leading to some moderation of growth in advanced economies and increase the risks of a global downturn. Nonetheless, growth in the global economy remains strong despite higher oil prices. These economic growth rates and hence the possibilities for the public finances are a realistic possibility. If it were considered desirable to have a planned increased in investment this would need to be underpinned by the continuation of growth.

The public finances are at present benefiting from the construction boom. Not all of this revenue is sustainable and the public finances are vulnerable to a fall in construction output. The projection of 5 per cent GNP growth used here is premised on some shift in the composition of growth from construction to services.

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7. In labour intensive activities, whether in the public or private sector, in which there is limited scope for productivity increases, real increases in pay lead to increases in the cost of the service. Examples of this are education and health. This phenomenon is known as Baumol’s disease. This is not to imply that there is no scope to increase productivity in the public service. For example, the use of information technology provides a basis for increasing productivity in some areas of the public service. Improved work organisation can also improve productivity in public services. There are many areas of the public service where it is possible to improve the quality of services which can sometimes be difficult to measure as improvements in productivity.
4.3.5 Conclusion

Goals for the Public Finances

The Council’s recommendations on the public finances are premised on adherence to the principles outlined above. First, the public finances should be managed on a basis that is sustainable in the long term. Second, the Council emphasises that the public finances should not be managed in a way that magnifies the economic cycle. There is a risk that the current flexibility in the public finances could result in excessive short-term variations in tax or expenditure, even within the SGP limits. There is some evidence that this has occurred in the past. The emergence of a ‘political business cycle’ would not be desirable either in terms of long term planning or cyclical balance. Excessive spending or tax reductions during economic ‘good times’ leads to a loss of flexibility during a downturn, resulting in the need for expenditure cuts or slowdown in a downturn. The Council believes that it is important to avoid this situation. Excessive spending increases also make it more difficult to secure a planned improvement in public services and infrastructure on a sustainable basis.

A strong statement of both of these principles is necessary for a useful discussion of the public finances. Otherwise, the discussion can be dominated by concerns that one of these principles is about to be violated. The stable fiscal environment in Ireland in recent years has reinforced confidence and growth and such an environment should be continued.

There are two general rules that define limits on the possibilities for the public finances:

- The balanced budget rule requires that both current and capital expenditure be covered by current revenue over the economic cycle. This is essentially the (old) SGP rules.

- The second principle, the Golden Rule, states that current expenditure should cover current revenue over the economic cycle but that borrowing is justified for capital investment projects.

Neither the balanced budget nor the Golden Rule seem to provide a wholly satisfactory basis for fiscal policy. This suggests that the desired approach will lie somewhere between these limits. This is consistent with the revised SGP which requires that the overall deficit be maintained at a level of 1 per cent of GDP across the economic cycle. This extra flexibility can be used for either current or capital expenditure.

The Council proposes the following approach to the public finances. The flexibility of the revised SGP should be availed of with the deficit kept within 1 per cent of GDP. Capital investment should be maintained at the level of at least 5 per cent of GNP. The tax level should be maintained at around its existing level. A substantial current account surplus should be maintained. This allows scope for higher current expenditure to invest in the services required in critical areas, including making progress towards the services envisioned in the Developmental Welfare State and the delivery of the National Disability Strategy.
A significant concern in increasing the level of current expenditure is the capacity of the public services to deliver enhanced services. The Council recommends increased current expenditure subject to the condition of real progress in enhancing the effectiveness of the public service. This is issue is explored in Chapter 5. Furthermore, the Council believes that there is a need for better appraisal of capital investment projects.

A Balance Sheet for the State Sector

The strategic management of the public sector and the public finances would be facilitated by the preparation of a public balance sheet; i.e., a statement of assets, liabilities and net value. All private companies and some entities within the public sector produce balance sheets but none is prepared for the state sector as a whole. One of the state liabilities that receives considerable attention is the level of the national debt. The availability of a balance sheet would help to broaden the focus to a more comprehensive discussion of assets and liabilities. On the asset side the main components would be the NPRF, the social security fund, the commercial state companies, public infrastructure and real estate. On the liabilities side the main elements would be the national debt and public pension liabilities. Over time, a balance sheet would clarify what was happening to the state's net asset position. Balance sheets for the state are prepared in a number of countries including the UK and New Zealand.

Investment in Public Enterprises

Investment from some source will be required in the commercial state companies in the years ahead and there are some issues concerning such investment that are worth clarifying. European Union legislation strictly controls state aid. However, investment in a profitable public enterprise that is comparable to an investment that would be made by a private investor does not violate state aid rules. As regards the SGP, equity investments in commercial state companies are not counted as expenditure for the purpose of calculation the level of the GGB, the reason being that such transactions are not considered to change the net level of assets and liabilities. Hence the constraints of the SGP do not pose a constraint on investment in commercial state enterprises. Decisions on meeting investment needs should be based on whether such investment would provide a worthwhile commercial return to the state and what is the best ownership structure having regard to the development of the enterprise in question.
4.4 Wage Bargaining

4.4.1 Introduction
All economies require a system of wage determination that supports international competitiveness, achieves industrial peace and an acceptable sharing of the benefits of growth. This section begins by briefly recalling some key findings concerning the analytics of wage bargaining that have guided the Council’s approach to wage determination. There have been significant developments in the area of public service wage determination and these are then reviewed. This section ends by setting out the Council’s approach to wage bargaining in the enterprise sector and the public service. Trends in wages and related variables have been discussed earlier in Chapter 1.

4.4.2 Analytical Approaches to Wage Bargaining
In its previous Strategy reports the Council has undertaken a detailed review of the analytical foundations of different wage bargaining systems (NESC, 1996a, 1999, 2003). Those reviews outlined the famous Calmfors and Driffill hypothesis: that extremely centralised and extremely decentralised wage bargaining systems were superior to intermediately centralised systems. Attention was drawn to the argument that centralisation/decentralisation may be less important than co-ordination and encompassing agreements. It was also emphasised that a highly co-ordinated approach to wage bargaining is successful only where it combines strong institutions (necessary to give discipline and achieve encompassingness) with mechanisms that require organisations to come to terms with market forces (such as an independent central bank, export competitiveness, company-level institutions, appropriate relations between companies and the state). Most important of all, the Council drew attention to economic analysis which suggests that the centralisation or decentralisation of the bargaining structure may be less important than the approach which unions and employers adopt. The Calmfors-Driffill hypothesis shows the superiority of centralised bargaining, on the assumption that parties adopt a non-co-operative approach. Research by Rowthorn suggested that if even a moderate degree of altruism is introduced—motivated by consideration of long-term, rather than immediate, self-interest and by social responsibility—then either fully centralised or moderately centralised may yield low unemployment and inflation.

This research takes some of the emphasis off the centralised/decentralised bargaining structure and places it instead on the degree to which unions pursue a wider national interest and their own long-term self interest. The Council concluded ‘the Irish experience suggests that such a co-operative mood of play is, in turn, shaped by the existence of a wide-ranging national programme which aligns economic actors to a particular policy approach and provides trade union members with guarantees on non-wage issues, such as taxation and social provision’ (NESC, 1996a: 102).
4.4.3 Wage Determination in the Public Service

Introduction

Public service pay has long been determined by a combination of general and special pay increases. In recent years the majority of public servants have received general pay increases and pay awards recommended by the Benchmarking Body on public service pay. The benchmarking report and its implementation have generated some controversy. This section considers the benchmarking approach to public service pay. It begins by reviewing the traditional principles for the determination of public service pay and the concerns of the Council and others that led to the development of the benchmarking approach. We then discuss the outcome of the first benchmarking exercise. Finally, the Council outlines its view that benchmarking is a significant improvement and provides a basis for an effective system of pay determination in the public service. The discussion finishes by emphasising the need to build confidence in the new approach, by demonstrating that it will contain a robust means to enhance productivity in the public service in ways that improve the quality of service experienced by citizens/customers.

The Level and Evolution of Expenditure on Public Service Pay

Expenditure on public service pay and pensions is significant both in the context of public expenditure and the economy. In 2005, public service pay and pensions accounted for 38.5 per cent of gross public expenditure on services and transfers and 10.4 per cent of GNP. The pay bill has increased from €8.6 billion in 2000 to almost €15 billion in 2005, an increase of over 73 per cent. A simple disaggregation of the factors responsible for the increase is shown in Table 4.2 below. General pay increases account for 41.1 per cent and local bargaining/benchmarking accounts for 22.1 per cent of this increase. The impact of increased numbers is included in the remaining 36.8 per cent; this also includes other factors, such as increments, changes in work arrangements etc.

The figures above are all in nominal terms. Some increase in the pay bill reflected increases to maintain the real value of pay. The consumer price index increased by approximately 19 per cent between 2000 and 2005. Over the same period employment in the public service funded by the Exchequer\(^8\) increased by approximately 21.9 per cent. Thus before allowing for any real (post-inflation) increase in the pay levels of individual public servants, the pay bill would have increased by 45 per cent in nominal terms. The remaining increase is due to real increases in pay scales as well as a number of other factors: progression along incremental pay scales, changes associated with employment legislation (in relation to working time and employees on fixed term contracts), and changes in pensioner numbers.

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8. Staff employed by local authorities are part of the public service but are not included in the Exchequer pay bill.
Evolution of Public Service Pay Determination

Two principles have been central to the determination of public service pay since the 1950s: (i) comparison with the pay of private sector employees doing similar work; and (ii) in the absence of such comparisons, the use of internal relativities.

The process of public service pay determination based on these principles had proved unsatisfactory for a number of reasons, as the Council noted in its 1996 and 2003 Strategy reports. First, the widespread use of relativities across different sectors of the public service created serious difficulties. Traditional relativities or analogues were originally applied to workers doing very similar work. However, the principle of making internal comparisons extended across the public service, so that pay of workers doing unrelated work became closely linked. Such relativities meant that a pay increase that might be warranted for a particular group could result in very large consequent effects in other sectors, where pay increases were not warranted. The central focus in bargaining and disputes about pay had become the issue of what other groups in the public service had been paid.

Table 4.2 Reasons for Increase in the Exchequer Pay and Pensions Bill

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Change 2000-2005</th>
<th>Percentage of total increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Exchequer Pay and Pensions Bill €m</td>
<td>8,632</td>
<td>10,186</td>
<td>11,489</td>
<td>12,773</td>
<td>13,746</td>
<td>14,953</td>
<td>6,321</td>
<td>100.0%</td>
</tr>
<tr>
<td>(b) Increase over previous year €m</td>
<td>1,554</td>
<td>1,303</td>
<td>1,284</td>
<td>973</td>
<td>1,207</td>
<td></td>
<td>(73.2%)</td>
<td></td>
</tr>
<tr>
<td>(c) Increase due to general rounds €m</td>
<td>637</td>
<td>654</td>
<td>224</td>
<td>538</td>
<td>542</td>
<td></td>
<td>2,595</td>
<td>(30.1%)</td>
</tr>
<tr>
<td>(d) Increase due to special/local bargaining increases (including benchmarking) €m</td>
<td>199</td>
<td>6</td>
<td>718</td>
<td>310</td>
<td>166</td>
<td></td>
<td>1,399</td>
<td>(16.2%)</td>
</tr>
<tr>
<td>(e) Change due to other factors (Residual) €m</td>
<td>718</td>
<td>643</td>
<td>342</td>
<td>125</td>
<td>499</td>
<td></td>
<td>2,327</td>
<td>(27%)</td>
</tr>
</tbody>
</table>

A second problem was that the process of negotiating local increases had become a very lengthy and often divisive one. Special pay increases were decided by arbitration boards or the Labour Court. A senior trade unionist recently noted that the process was characterized by disputes on the facts, the interpretation of the facts and the conclusions to be drawn (Dan Murphy, speaking at the Foundation for Fiscal Studies conference, 13 May 2005). The arbitration boards were required to make decisions on the basis of the disputed facts brought by each side, as they lacked any independent research capacity.

A third problem was the very weak link to the issue of performance (NESC, 1996a). While some attempts had been made to address this, the dominant criterion remained internal comparisons, as noted above.

In the Programme for Prosperity and Fairness (PPF) (February, 2003), the social partners accepted that ‘the traditional approach to pay reviews in the public service, based on analogues and relativities, has given rise to serious difficulties in the past’. They agreed to adopt ‘an alternative approach which will be grounded in coherent and broadly based comparisons with jobs and pay rates across the economy’ (p. 37). The Benchmarking Body was established by the Government to undertake these broadly based comparisons. The Body was chaired by a High Court judge and had six other members, one of whom resigned prior to the Body completing its work.

Report of the Benchmarking Body and its Implementation

The recommendations of the Benchmarking Body were based on detailed research into pay and jobs in the public and private sectors. Information on pay in the public service was readily available to the Body. In order to examine jobs, the Body undertook job evaluation. This involves the measurement of demands and requirements of different jobs. Following its research, the Benchmarking Body recommended substantial pay increases for the public service, representing an average pay increase of 8.9 per cent.

The Government and trade unions accepted the recommendations of the Benchmarking report. In Sustaining Progress, the partners set out an agreed modernisation programme for the public service. The payment of all of the general pay increases under Sustaining Progress and 75 per cent of the Benchmarking awards were made conditional on the following: (i) industrial peace; (ii) co-operation with ongoing change; and (iii) verifiable progress on the delivery of the modernisation programme.

A system to verify the delivery of these conditions was established under Sustaining Progress. For this purpose, the public service was divided into five sectors—the civil service, health, education, local authorities, and justice—and Performance Verification Groups (PVGs) were established for each sector. Each head of organization was required to report on progress against an action plan, via a partnership committee, to the Secretary General responsible for that sector. For example, the Secretary General of the Department of Environment, Heritage and Local Government is the Secretary General responsible for the local government sector. Based on the reports received from the relevant organizations, the Secretary General then reports to the PVG of each sector. Following consideration of the
progress reports from the relevant Secretary General, and the reports from the heads of organizations, the PVGs were required to assess whether or not there had been sufficient progress to merit the payment of the various general and benchmarking awards for each grade, sector and organization.

This process has by now been completed four times and the PVGs have, in almost all cases, verified that sufficient progress had taken place to merit payment of the various awards. The Committee for Public Management Research of the IPA is undertaking a short study on how this system has worked. The reports of the Secretary General responsible for monitoring progress in the civil service and the associated report of the Civil Service Performance Verification Group (CSPVG) provide an illustration of the progress made and concerns raised in this process.

The CSPVG considered progress under the three criteria referred to above. The reports were generally satisfied with the maintenance of stable industrial relations in the civil service.

The Group members were in agreement that there had been co-operation with flexibility and ongoing change. The reports also concluded that there had been satisfactory implementation of the agenda for modernisation as set out in Sustaining Progress.

While considering that sufficient progress had been made to warrant payment of the general and benchmarking increases, the reports of the CSPVG also raised a number of concerns, such as the following:

- Successive reports expressed the desire of the Group to receive assessments of progress achieved by reference to verifiable deliverables as measured by performance indicators. The most recent report acknowledged some progress in this respect but stated that more remained to be achieved.

- Several of the CSPVG reports expressed concern at the slow progress in relation to agreement on competitive promotion. The fourth report was pleased to note that there had been progress in this area with greater use of competitive promotion in all organizations at this stage.

- The reports of both the CSPVG and the Secretary General expressed concern at the slow progress on open recruitment. It has been agreed to have open recruitment for positions available at assistant principal, principal and higher executive officer level upwards, but only in relation to such vacancies as arise from people who resign to take up positions outside the civil service and to meet specialist needs. The fourth reports of both the PVG and the Secretary General express disappointment that it was not possible to make greater progress on this important issue.

While, with a few exceptions, all of the benchmarking increases have by now been paid, the work of the performance verification groups will continue. This arises because the payments of the remaining general pay increases under Sustaining Progress are also dependent on continuing to satisfy the conditions of that agreement.

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9. The third report (December, 2004) noted that there were two instances of industrial action in one organization. It considered that this industrial action was limited in extent and duration and agreed with the Secretary General concerned that payment of the general round increase was warranted. All of these reports are available at www.finance.gov.ie.
Achievements of the Benchmarking Approach

The Council believes that the change in public service pay determination brought about by the adoption of benchmarking has yielded significant benefits. We outline these below.

Industrial peace: Where industrial relations are unsatisfactory, both management and employees become preoccupied with their internal differences to the neglect of the development of services and the concerns of those using public services. An environment of industrial peace in the public service is a necessary precondition if management and employees are to work together to provide better services for the public. The benchmarking approach, including the system of performance verification, has contributed to sustaining industrial peace in the public service. This is an important achievement, since it creates the conditions in which critical issues of service quality can be addressed.

Cross-sectoral relativities: The Council had in earlier reports criticized the system of relativities between unrelated groups of public service workers as the main basis for setting public service pay (NESC, 1996a, 1999, 2003). This approach was protracted, divisive and its limitations have been noted above. These limitations included ‘leapfrogging’ pay claims as different groups sought to catch up with earlier pay awards to other public service groups. The approach of the Benchmarking Body—drawing coherent and broadly-based comparisons on pay and jobs in the private sector—effectively replaced this unsatisfactory system.

Certainty: In the pre-benchmarking system, pay awards were made over several years by different awarding bodies. Under the benchmarking approach the pay of most of the public service was considered simultaneously as a single exercise. The recommendations were phased in over several years. This approach has given greater certainty to the evolution of the public service pay bill for several years. This is a significant benefit in planning the development of public services and managing the overall public finances.

Performance: As discussed above, the award of the benchmarking Body were not based on change or modernisation, but 75 per cent of the awards along with the general increases in Sustaining Progress were made conditional on co-operation with change and the delivery of a modernisation programme. The move to benchmarking has been part of a process whereby there is acceptance that public service employees support ongoing change and modernisation. This had been identified in the Council’s 1996 Strategy report as a key requirement of a modern public service (NESC, 1996a). This issue is discussed further below.

The experience of industrial peace, comparison with the private sector, certainty and modernisation must be factored into any judgement on the first benchmarking exercise.
Concerns with the Benchmarking Process

A number of criticisms have been made of the benchmarking approach. This section discusses concerns that have been raised in relation to the overall benchmarking methodology, the treatment of recruitment and retention, and transparency.

**Methodology:** The Benchmarking Body conducted detailed research into pay and jobs in the public and private sectors. In order to compare jobs, the Body adopted the approach of job evaluation. This involves measuring the demands and requirements or ‘factors’ inherent in different jobs. The factors used in evaluating jobs included knowledge and skills, judgement and interpersonal/communication skills. This scheme was applied to a representative sample of employees in the benchmarked grades, using rigorous sampling procedures and a range of private sector jobs were evaluated using the same methodology.

This approach has been criticised by Ruane and Lyons (2002) and O’Leary (2002). O’Leary points out that the various factors used to evaluate jobs need to be given weights and this, in their view, introduces an arbitrary element to the process. It is argued by O’Leary that the pay levels of jobs in the private sector, which are deemed to be of similar ‘size’ according to this methodology, vary hugely. This, he contends, is because private sector employers do not use such an approach in determining pay, except in very limited circumstances. These issues are discussed in more detail in Appendix 4.2.

Ruane and Lyons argue that it would be better to adopt an economic approach by estimating a wage equation statistically. A wage equation tries to measure the extent to which differences in earnings in the public and private sectors can be explained by factors such as education, experience, occupation and so on. To the extent that there is an unexplained difference between comparable workers in the public and private sectors, this is regarded as either a premium or a penalty to being in the public sector.

This method was applied to Irish data by Boyle, McElligot and O’Leary (2004). They estimated that, controlling for a range of factors including education, experience and others, there was a premium to being employed in the public sector of 13 per cent in 2001 (prior to the payment of the benchmarking awards). The application of this method in other countries has also typically revealed a public sector premium, but the estimate of Boyle et al for Ireland is relatively high compared to the typical estimates found elsewhere.

The wage equation approach has been widely applied in the economics literature in estimating whether earnings in the public sector differ from the private sector in ways that cannot be explained by factors such as education. The Council is not aware of its application in actually setting wage rates. Different methods of comparing pay in the public and private sectors can give different results. These methods are further discussed in Appendix 4.2 of this chapter.

**Recruitment and Retention:** The terms of reference of the Benchmarking Body required it to consider, among other things, the ‘need to recruit, retain and motivate staff with the qualifications, skills and flexibility required to exercise their responsibilities’. It is argued by Ruane and Lyons (2002) that there is no evidence of widespread difficulties of recruitment and retention in the public
service. However, they are critical of the report for not making a contribution to addressing those limited areas of the public service, i.e., clerical and some specialist staff, in which there was some evidence of pressures in regard to recruitment and retention. Hence, they are critical of the fact that the report granted increases to clerical staff and specialist grades that were less than those granted to generalist administrative positions, in which there was no evidence of difficulties of recruitment or retention.

Transparency: The work of the Benchmarking Body has been criticised for lacking transparency. In the foreword to the Benchmarking report, the Chairman refers to the fact that the data made available to it were provided in strict confidence and that it would scrupulously respect that confidence. Another consideration raised by Kiernan Mulvey, Chief Executive of the Labour Relations Commission is that ‘the more data you publish and the more reasoning you give to your conclusions, the more the propensity of the parties to re-enter the argument once the report has been issued’ (as reported in *Industrial Relations News*, 4 March 2005).

The Council accepts that any future benchmarking body must be able to assure those for whom it seeks detailed data on pay and jobs that confidentiality would be respected. However, the Council believes that it is possible and desirable for a future Benchmarking Body to publish certain findings in summary form that would illustrate to external readers the basis of its recommendations, without breaching confidentiality.

**Performance Related Pay**

Performance related pay (PRP) refers to some element of pay that is based on an evaluation of an individual’s or group’s performance. It is a possible means of reforming the system of public service pay determination. This section summarises key findings on the use of PRP in OECD countries, drawing on OECD (2004d).

The use of PRP in the civil service is becoming more widespread in OECD countries. Around two thirds of OECD countries have or are in the process of introducing PRP in the civil service. However it is often limited to managerial staff or specific departments and agencies. In some cases, what is called PRP is actually based on inputs, such as staff numbers. There are just six OECD countries that have extended formalised PRP across the civil service. PRP exists in Ireland for Assistant Secretaries in the civil service and in a limited number of other senior positions.

One of the main reasons for introducing PRP is to improve employee motivation and thereby improve performance. A key issue then is the effectiveness of PRP in achieving improved motivation. Most of the OECD country reports that form the basis of the OECD study did not cite staff motivation as one of the positive achievements of PRP. Academic research on PRP in the public service has also generally found limited or negative effects on motivation (see for example, Marsden, 2003). The OECD reports some evidence of indirect gains from PRP: i.e., there are gains from management organisation changes that accompany the introduction of PRP. In particular, if pay is to be based on performance, this requires a system for defining the goals to be achieved and for monitoring the achievement of goals. There is evidence that such systems can contribute to improved performance.
A recent development has been the use of pay based on group performance. Awards based on group performance can provide an incentive while potentially reinforcing staff co-operation. The OECD (2004d) report considers that it is too early to judge the effectiveness of this approach but states that preliminary findings show positive results. Countries that report positive experience with group based performance pay include Finland and Spain. A report on the UK experience of PRP prepared for the UK Treasury (Makinson, 2000) recommended that performance payments wherever possible should aim to reward team achievement. From 2004, it is the case that in the Inland Revenue all performance awards are to be given on a team basis.

### 4.4.4 Conclusions on Wage Determination

The Council has previously identified a number of objectives that the system of pay determination system must meet (NESC, 2003). It must achieve outcomes that maintain cost competitiveness and full employment, including the ability to respond to shocks. It should support low inflation. It must provide for an acceptable sharing of the benefits of growth. It must be consistent with high-performance work practices and associated reward systems. It must be consistent with a sustainable public finance position.

**Wage Bargaining in Competitive Enterprises**

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

The fall in inflation that has occurred since 2002 provides an altered context for wage bargaining, although the recent increase in oil prices has edged up inflation across the EU. However, a number of years of high inflation in both consumer prices and business costs has resulted in higher costs in Ireland and puts pressure on competitiveness. Appropriate wage determination has an important role to play in supporting the restoration of competitiveness. This would include taking into account wage developments in other euro zone countries and Ireland’s principal trading partners, as recommended in the Council’s 2003 Strategy report. Such comparisons could include changes in total labour costs, including social insurance contributions which help fund social services.

The Council referred in its last Strategy report to a number of pressures on wages: prices, housing costs, public service levels, rents, taxation, reward systems, international competition and profit levels. Since then there has been some easing of some of these factors in terms of lower inflation and downward pressure on rents, though both have edged up in recent months. These pressures remain significant; for example, housing continues to be expensive and much of the new housing is located in areas that fall short of what is required in terms of access to work and services. The partners should continue to work with government to weaken the pressures listed above by altering some of the key parameters. This can be done by promoting more effective competition in sheltered sectors (see Chapter 3), reducing excessive prices where these continue to exist, improving those
services that are now scarce and expensive, reducing the cost of housing, improving infrastructure and settlement patterns and extending gain sharing.

The Council has previously referred to the evidence on the benefits associated with financial participation of employees in the form of profit sharing, employee share ownership and gain sharing. These forms of participation are linked to higher performance when combined with employee involvement in decision-making regarding work organization (NESC, 2000). The Enterprise Strategy Group recommended that enterprises should use employee financial participation to promote employee commitment to business goals, increased productivity and reduced costs. Forfás are at present engaged in a study of employee financial participation.

The Minimum Wage

The Council reiterates its views on the minimum wage as set out in its last Strategy:

The Council believes that in setting out the parameters of any future wage bargaining arrangements the past and ongoing impact of the national minimum wage (NMW) must be considered. The Council recommends that over time the NMW should be uprated in a manner that encourages people to enter and remain in the labour force and is consistent with Ireland’s move to long-term prosperity and a more equal and socially inclusive society (NESC, 2003).

The Council notes that those on the minimum wage were removed from the tax system but that subsequent increases in the minimum wage resulted in some full-time employees on the minimum wage having an income that again exceeded the threshold for the payment of tax. In setting the minimum wage, the Minister is required to take into account the impact on employment, the overall economic conditions in the State and competitiveness. In an increasingly open labour market this requires a focus on the goal of maintaining labour standards. The latter consideration will be addressed in the Council’s forthcoming report on migration. In reviewing the minimum wage, one issue to be considered is the impact of the differential timing of general wage round increases and adjustments of the minimum wage.

Conclusions on Public Service Pay

The considerations above on pay bargaining in competitive enterprises are also of relevance to the public service, but there are some additional factors that need to be considered. The Council’s advice on public service pay is offered in a context in which the level of pay and conditions, including pensions in the public service, are generally favourable in comparison to the private sector. The report of the Benchmarking Body pointed out that, in basing its recommendations on pay in the private sector, it expected the public service to exhibit comparable levels of change:
In the majority of companies in the private sector, change is accepted as an essential and ongoing criterion of survival, growth and prosperity. In this environment, an increasing number of managements who do not provide the innovation necessary for growth and concomitant requirement for change are held accountable for this failing. This should also be the case in the public service. It is the responsibility of management in the public service, no less than in the private sector, to lead and to manage change just as it is the responsibility of employees to co-operate with modernisation and change (Report of the Public Service Benchmarking Body: 2002: 65).

The Council is in agreement with the Benchmarking Body that the public service should embrace change and increase productivity in a comparable way to the private sector. The Council’s general conclusions on public service pay are as follows.

First, the Council believes that the competitive sector of the economy should set pay levels and that public service pay should follow that set in the competitive sector. Second, the Council considers that ongoing change in a modern public service must be the ‘default’ position. The Council first proposed this in its 1996 Strategy report, in which it stated that pay determination in the public service should be akin to the approach adopted in some parts of the private sector: ongoing change is delivered by management and employees without necessarily being reflected in pay increases.

Third, the normal rate of pay advancement in the public service should be the general pay increases negotiated at national level. In line with its view on change, the Council considers that general pay increases should be conditional on verifiable standards of performance in the public service (as is the case under Sustaining Progress). The Council acknowledges that there has been progress on change and modernisation in parts of the public service. It believes that it is now crucial to build on this across the public service with a view to securing significant improvements in the quality and effectiveness of services that make a real difference to the public.

Fourth, the Council considers that it is appropriate that there are periodic reviews of pay in the public and private sectors which can be achieved through a benchmarking process.

The Council notes that the following arrangements have now been established in relation to public service pay:

- The terms of reference for a second Benchmarking exercise have been agreed and the report will be available in mid 2007;
- The Government has now put the Review Body on Higher Remuneration within the same time-frame, i.e. final report by mid 2007; and
- For the first time, the entirety of public service pay determination is within a similar broad framework, approach and timescale.
Having considered the achievements and concerns of the first benchmarking exercise above, the Council is of the view that the new approach to public service pay determination is a definite improvement on the previous system. It has created conditions in which wider issues of service quality and continuous improvement can, potentially, be addressed.

In relation to the new benchmarking exercise, the Council makes the following proposals. With regard to transparency, the Council believes that it is possible and desirable for a future Benchmarking Body to publish certain findings in summary form that would illustrate to external readers the basis of its recommendations, without breaching confidentiality, as noted above.

In relation to pensions, the Benchmarking Body commissioned research into pension arrangements in the public service and the private sector. The Benchmarking Report states that: ‘cost differences between the sectors were considered by the Body and taken into account in the recommendations on salary and pay levels’ (p. 61). In a context in which those in the private sector are increasingly conscious of the cost and value of pensions, the Council believes that the value of pension entitlements constitutes an important consideration in a new benchmarking exercise.

The Council considers that the critical requirement is to build public confidence in the new system by demonstrating that, taken as a whole, it provides a robust means to enhance productivity and the quality of services provided to citizens/customers. This requires that all parties examine productivity, service quality and change on an ongoing basis, rather than at three yearly intervals. Furthermore, it is important that this focus on productivity and change does not only concentrate on internal issues arising from the industrial relations agenda, but is concerned mainly with change which will make a noticeable improvement in the citizen’s or customer’s experience of public services. This requires that the achievements of the first benchmarking exercise are seen as a basis upon which to use the new system more effectively next time.

10. The Final Report of the Commission on Public Service Pensions (2000) recommended that public servants should pay an additional 1 per cent of their salary towards their pensions. This recommendation was however subject to a reservation by three members of the Commission.
Appendix 4.1: Public Expenditure Projections

This appendix presents a series of projections for the public finances that are discussed in the text of this chapter along with the detailed assumptions that underpin the projections.

Assumptions Regarding Growth and Revenue

- The economy is assumed to grow in real terms by 5 per cent annually up to 2010 and by 3.5 per cent from 2011 to 2016.

- As a baseline assumption, tax, PRSI and appropriations-in-aid are all assumed to grow in line with nominal GNP. A reduction in appropriations-in-aid of €130 million is provided in 2005 against this trend to allow for the phasing out of European Social Fund (ESF) receipts. Tax revenue in 2005 is to date running well ahead of Budget projections so it looks likely that revenue will again exceed Budget projections. In the projections it is assumed that revenue in 2005 grows by close to 6.5 per cent nominally rather than the 5 per cent assumed in the Budget; i.e., revenue is projected at €38 billion for 2005. Actual revenue looks set to exceed this level in 2005 although some of the additional revenue yield in 2005 is one-off revenue from special investigations.

- Non-tax revenue is taken from Budget 2005 out to 2007 and thereafter is assumed to grow by 3 per cent in nominal terms.

- Capital resources for the years to 2007 are taken from Budget 2005; the budget projections incorporate some reduction in EU receipts. From 2008 capital resources are assumed to fall by another €100 million reflecting a further fall in EU receipts (European Regional Development Fund (ERDF) and Cohesion Fund receipts)\(^\text{11}\).

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11. These projections assume minimal further underlying capital receipts from the EU post 2007. It is assumed that capital resources include ongoing agricultural receipts (FEOGA). These arise because the Exchequer advances money to the Department of Agriculture to meet payments to farmers in advance of these payments being paid by the European Commission. These advance payments show up as non-voted capital expenditure. Subsequently the Commission reimburses the Exchequer. This shows up as a capital receipt. These receipts and payments affect the Exchequer but have no effect on the general government balance which nets out such temporary cash flow payments.
Assumptions Regarding Public Expenditure

While the level of public expenditure is one of the key variables to be considered in making policy choices, the projections below incorporate a number of existing commitments that have significant expenditure implications. The projections also make a number of other assumptions regarding expenditure.

- There are commitments in the National Anti-Poverty Strategy (NAPS) on social welfare rates (including increasing the old age pension to €200 per week by 2007) and these have been incorporated in the projections. Rates not covered by the NAPS are assumed to grow by 5 per cent. Evolution of rates after that date is obviously a major issue to be decided. For illustrative purposes, rates are assumed to grow by 5 per cent to 2010 and thereafter by 4.5 per cent; these rates reflect the ESRI’s forecasts of earnings growth (Bergin et al., 2003). Projections have been made of social welfare recipients using the CSO’s population projections (CSO, 2005a). In all cases the MIF2 projection (high migration, medium fertility) is used. The numbers receiving pensions are assumed to increase in line with the population over 65. Recipients of unemployment payments follow the trend in the number unemployed (Bergin et al., 2003). Child benefit beneficiaries are based on the population aged 0 to 19. Other social welfare claimants are assumed to follow the growth of the adult population.

- Capital expenditure (i.e., gross voted capital expenditure) is initially assumed to remain at 4.5 per cent of GNP (this year’s outturn may be less than this). However, variations from this base are also considered. It is worth noting that the Government is also planning substantial investment through PPPs. In 2006, total planned public investment including PPPs is 4.8 per cent of GNP and remains close to that level in subsequent years.

- Central fund expenditure, other than debt service, including Ireland’s contribution to the EU budget, is assumed to grow in line with GNP. The interest rate on the national debt is assumed to be 5 per cent in nominal terms while the funds in the NPRF earns a somewhat higher return of 6 per cent reflecting its investments in a range of assets. Reflecting past trends, the social insurance fund earns a return of just 2 per cent.
### Appendix Table A4.1
### Projection 1: A Balanced Budget

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### Revenue

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*continued*
### € millions

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**Projection 2: The Golden Rule**

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## A Consistent Policy Framework for 2006-2008

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### Capital Account

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#### General Govt. Balance

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#### Tax as % of GNP

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#### Tax, PRSI, Health Levy as per cent of GNP

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#### Debt/GNP ratio

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Appendix Table A4.3
Projection 3: Intermediate Option, Deficit Close to 1 Per Cent of GDP

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## Capital Account

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Appendix Table A4.4
Projection 4: Tax Increase of One Percentage Point of GNP over 10 Years

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<td>Exp. from National Training Fund</td>
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<td>414</td>
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<td>478</td>
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<td>PRSI, App-in-aid, comprising</td>
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<td><strong>Net Current expenditure</strong></td>
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<td>Non-tax revenue</td>
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<td>562</td>
<td>570</td>
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<td>605</td>
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<td><strong>Total Revenue</strong></td>
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## A Consistent Policy Framework for 2006-2008

### Current Balance

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<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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### Capital Account

#### Expenditure

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<td>Less Appropriations-in-aid</td>
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#### Revenue

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### Social Insurance Fund

#### General Govt. Balance

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<td>190643</td>
<td>271774</td>
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<td>171799</td>
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<td>48017</td>
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#### Tax as % of GNP

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#### Debt/GNP ratio

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<td>29.2</td>
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<td>27.6</td>
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Appendix 4.2:
Comparing Pay in the Public Service and the Private Sector

There has been some discussion of the approach adopted by the first Benchmarking Body in comparing pay in the public and private sectors. This appendix outlines the approach used by the Benchmarking Body and some criticisms of it by economists. This is followed by a brief discussion of US experience where there has also been some debate regarding different methods of comparing pay in the government and private sectors.

The Approach of the Benchmarking Body

The Benchmarking Body conducted detailed research into pay and jobs in the public and private sectors. In order to compare jobs, the Body adopted the approach of job evaluation. This involves measuring the demands and requirements (factors) of different jobs. The factors used in evaluating jobs were as follows: knowledge and skills, judgement, leadership and teamwork, responsibility and accountability, interpersonal/communication skills, working conditions and emotional demands. This scheme was applied to a representative sample of employees in the benchmarked grades, using rigorous sampling procedures and a range of private sector jobs were evaluated using the same methodology.

This approach has been criticised by Ruane and Lyons (2002) and O’Leary (2002). The various factors used to evaluate jobs in this approach need to be given weights and this introduces an arbitrary element to the process. It is argued by O’Leary that the pay levels of jobs in the private sector which are deemed to be of similar ‘size’ according to this methodology vary hugely. This, he contends, is because private sector employers do not use this approach, except in very limited circumstances.

If this is not a suitable approach, the question arises as to what would be a better approach to undertaking comparisons of pay and jobs. Ruane and Lyons argue that a better approach would be an economic approach involving estimating a wage equation. There are a number of different ways of estimating such equations. The simplest approach involves estimating a single equation in which earnings are related to earnings-relevant characteristics of individuals such as education, experience, etc. and characteristics of jobs (occupation, size of enterprise, etc.). The sector (public or private) is included as a dummy variable. If the equation is well specified and captures the key factors that explain earnings then this variable can reveal whether or not an individual earns more in the public sector than would be possible in the private sector. If the public and private sectors pay similar rates for individuals with similar education and experience in similar occupations, then this dummy variable will emerge as statistically not significant. If earnings differ between the public and private sectors then the coefficient on this variable gives an indication of the extent of the earnings difference that is attributable to being in either the public or private sector.
This approach has been widely applied in the economics literature in estimating whether earnings in the public sector differ from the private sector in ways that cannot be explained by factors such as education. This method was applied to Irish data by Boyle, McCelligot and O’Leary (2004). They used a single equation method with the following explanatory variables: age, gender, marital status, disability, education, experience (years in employment), unit size, occupational group (e.g., professional, clerical etc.), contract type and part-time status. They estimated that, controlling for these variables, that there was a premium to being employed in the public sector of 13 per cent in 2001 (prior to the payment of the benchmarking awards). The application of this method in other countries has also typically revealed a public sector premium but the estimate of Boyle et al for Ireland is relatively high compared to the typical estimates found elsewhere.

The research findings of the Benchmarking Body were not published so it is not possible to undertake a direct comparison between the research findings of Boyle et al and the Benchmarking Body. However, the conclusions reached by the Benchmarking Body (who recommended substantial pay increases for the public service) differ substantially from Boyle et al.

Comparisons of Pay in the Federal Government and Private Sector in the US

It is not unprecedented for different methods to reach different findings on public and private sector pay comparisons and it is worth briefly considering the US experience in this regard. In the US there are annual surveys that compare the pay of white collar federal employees to selected jobs in the private sector. These surveys generally show that the earnings in federal jobs are less than the earnings in comparable jobs in the private sector. Federal pay is adjusted upwards to reduce but not eliminate this gap. On the other hand economists have compared pay in the public and private sectors using wage equations as described above. These have generally shown that employees in the federal government are paid a premium to comparable workers in the private sector.

A paper by Musell and Masia (1998) sought to explain the differences in these findings. There are two elements to their explanation. First, they argue that earlier specifications of wage equations in the literature overstated the premium between the private and federal sectors. They first estimated a wage equation in which they controlled for education, experience, race and gender. On this basis they found evidence of a federal wage premium. However, they then estimated a broader specification that controlled for several additional variables: occupation, region, tenure, employee aptitude, union status and local unemployment. With this augmented specification, the federal wage premium became statistically insignificant. In other words, with a more comprehensive wage equation, individuals appeared to be paid at similar rates in the federal government and the private sector. This still left a difference in results between the two approaches, since surveys of comparable jobs showed lower earnings in the federal sector.
Musell and Masia suggest that this difference can be explained as follows. They argue that a worker with a given skills set (based on education, experience etc.) is placed in a higher level position in the federal government than the same worker would obtain in the private sector. Hence based on a comparisons of jobs, pay in the federal government lags the private sector, but analysis of the characteristics of individuals and job related characteristics such as occupation, shows that employees in the federal government have similar earnings to what they could achieve in the private sector.

The research of Musell and Masia illustrates that comparisons of pay of jobs in the public and private sectors can reach different results than comparisons based on the characteristics of employees and their occupational group in the public and private sectors using a wage equation and that it is possible for both comparisons to be correct in terms of the comparisons drawn.
Policy making, implementation and partnership
5.1 Introduction

This chapter discusses policy making, implementation and partnership. It identifies some of the themes that need to be addressed if the goals and strategies advocated in Chapter 3 are to be achieved. The need to focus on policy making, implementation and partnership arises because there seem to be a range of problems that are reducing the effectiveness of public governance.

While the Council sees partnership as a critical factor in Ireland’s recent progress and future challenges, it deliberately focuses this discussion on policy making and implementation that better serve society and individual citizens. The issue of partnership must be secondary to these considerations. Partnership is only worthwhile and legitimate if it helps in the solution of economic and social problems. Indeed, if partnership is not part of the solution, it will very quickly become part the problem.

Section 5.2 suggests that the widely cited problem of ‘implementation’ may consist of four distinct problems and illustrates this with the experiences of those involved in policy and partnership. Section 5.3 identifies the national and international context in which the issue of public policy and delivery should now be considered. Section 5.4 outlines some key analytical insights on policy making, distinguishing between negotiated agreements and hierarchical direction. It shows the key role of authoritative government in ensuring that negotiated agreements achieve genuine problem solving and, consequently, serve the public good. Finally, in Section 5.5, the Council identifies some of the challenges that now need to be discussed and addressed by government and the social partners if Irish public policy is to implement the demanding strategies identified in Chapter 3.

5.2 The Problem: ‘Implementation’

There is a fairly widespread perception that Irish public governance confronts a problem of action or ‘implementation’. In order to address this, it is necessary to unpack the term ‘implementation’. Four general, but somewhat distinct, problems seem to be implied:

- A problem of lack of decision;
- A problem of weak execution by departments and agencies;
- A problem of lack of knowledge about how a policy is impacting;
- A problem of resistance or unresolved conflict which paralyses implementation.
In order to identify the relative significance of each of these, it would be desirable to undertake a number of detailed case studies. In the absence of such studies, it is useful to list the more specific experiences reported by citizens and other policy actors.

- Strategic decisions have been delayed or reversed;
- Policies, once decided, have not been implemented, for reasons that need to be explored;
- Over-arching national strategies have not mobilised actors;
- The balance between legislation and national strategies/stakeholder action has not been right;
- Joined-up government has been achieved in some areas, but only with a huge one-off effort;
- Experimental initiatives have faltered for lack of policy adaptation;
- There is a cycle of consultation with stakeholders followed by re-assertion;
- Partnership working groups are at too high a level to do expert problem solving;
- Partnership working groups/special initiatives are too separate from administrative and financial allocation to really do problem solving;
- Partnership has sometimes been invoked as a veto on change;
- Information is insufficient to allow policy move from general prescriptions to nuanced implementation;
- Monitoring has become a duty for government only, rather than a responsibility of the partners also.

These experiences reveal important problems in our system of policy making, implementation and partnership. The Council wishes to contribute to thinking about how these problems can be understood and solved. Within that, a key issue is to assess which kinds of policy require a partnership approach and which require other changes in policy making and administration.

5.3 The Context

There are four aspects of the context that should be noted in addressing the challenges of policy making, implementation and partnership:

- The substantive goals and strategies for Ireland outlined in Chapter 3;
- Ireland’s existing experience of public sector reform and modernisation;
- The Council’s existing work on policy making and social partnership; and
- The lessons of international experience in public sector reform.

These contextual factors are discussed in this section.
5.3.1 Ireland’s Substantive Goals: A Dynamic Economy and a Participatory Society for Sustainable Development

In Chapters 2 and 3 the Council has restated its vision of a successful society and used it to formulate goals and strategies for economic performance, social cohesion and quality of life. Identification and clarification of these goals has important implications for policy making, policy implementation and partnership.

In very broad terms the medium-term task for Irish policy can be outlined as follows:

1. To deepen and widen the networked developmental state in order to renew Ireland’s competitive advantage in a changing world economy and ensure sustainable development;

2. To build the Developmental Welfare State in order to achieve better social outcomes; and

3. To modify systems and institutions in order to better connect economic, social and environmental policy.

The goals and strategies implied by this ambition were identified in Chapter 3.

5.3.2 Ireland’s Experience of Public Sector Reform and Modernisation

A second aspect of the context is existing experience of public sector reform and modernisation. There have been significant developments in the policy system, public administration and regulation in the past two decades:

- The adoption of a problem-solving approach to overall national policy and in many specific policy areas (Teahon, 1998);
- The creation of an evolving system of national social partnership, which has significantly influenced Irish policy making and implementation and is the subject of much interest in international discussion of public governance;
- The Strategic Management Initiative (SMI) launched in 1995;
- The move towards regulatory governance of key sectors and the creation of independent regulatory agencies, prompted in large part by the creation of the European internal market;
- Multi-annual investment programmes and capital envelopes, combined with wider systems of evaluation, prompted initially by EU regional and social cohesion policy;
- New approaches and entities at local level and, more recently, in local government, particularly the creation of County Development Boards;
- The new system of public sector pay determination created under Sustaining Progress;
- An evolving approach to supply-side issues in social partnership agreements, involving a range of methods (including different types of partnership working group and task force) and varying scope (from numerous policy themes to the ten Special Initiatives within Sustaining Progress);
Formulation of a wide range of over-arching ‘national strategies’ or policy platforms, such as the National Spatial Strategy, the NDP, the NAPS, the National Children’s Strategy and the National Climate Change Strategy;

Clarification of the likely degree of judicial activism in social and other policy areas, arising from Supreme Court decisions in the Sinnott and T.D. cases (see Whyte, 2002; NESC, 2003; Whyte, 2004);

The need to establish a series of Tribunals to investigate gross breaches of ethics in public life and some gross failures of democratic government;

The National Disability Strategy, which contains a range of significant innovations, including multi-annual current spending programmes.

These changes have altered public governance considerably. Opinions naturally differ on the degree to which each of them have improved policy and administration. In any case, they confirm the possibility of changing systems of policy making and implementation and provide a base for further progress. Building on this progress, the challenge now is to devise the next phase of modernisation in policy making and implementation. The aim should be to address the problems and experiences listed in Section 5.2 above.

5.3.3 The Council’s Work on Public Governance

Several elements of the Council’s work in recent years have addressed issues of policy making, public administration and governance.

In its 1996 Strategy report, the Council identified the role and core characteristics of social partnership, emphasising the importance of building shared understanding of key mechanisms and adoption of a problem-solving, rather than a purely bargaining, approach.

In its 1997 report, A Framework for Partnership: Enriching Strategic Consensus through Participation, the NESF explained why this problem-solving approach has become more relevant and prevalent, in Ireland and elsewhere, and explored its implications for social partnership and the idea of a social partner. These issues are discussed in more detail below.

In its 2002 report on the management of public expenditure, the Council argued that the budgetary process needs to be modified to address cross-cutting issues and to include a clearer link between financial allocations and programme goals (NESC, 2002).

In its Review of the Poverty Proofing Process, the Council identified the large gap between the aspirations for proofing systems and the reality of policy making in an uncertain and complex world (NESC, 2001).

In its 2003 interpretation of Ireland’s experience since 1990, the Council drew attention to the fact that many of the new economic and social possibilities were discovered by experimental problem-solving action involving government, the social partners and others. Based on Irish experience, it argued that ‘an effective public system is one which learns from experience and experimentation to continuously improve policy and implementation’ Indeed, it emphasised that ‘the goals of policy must themselves be revised in the light of experience. Rather than
see public policy as guided by timeless high-level goals, it understands it as a problem-solving process which is guided by action-oriented co-ordination and interaction. This reflects the fact that the life of the society—like that of individuals, the public system and the economy—is realised in history (NESC, 2002: 38).

The Council has developed a perspective on social and economic rights that recognises the complexity of the issues involved, but still acknowledges the widespread conviction that rights ought to be respected, and indeed extended. It showed that the challenge of social and economic rights involves the challenge of creating effective institutions and policies for social and economic services, a challenge that connects rights and standards (NESC, 2002).

Finally, in its most recent report, the Council outlined the key role of services and activist measures in a truly Developmental Welfare State and identified some of the organisational requirements. These include more joined-up government, accountable autonomy, systems for setting and monitoring standards and better public management of networks (NESC, 2005).

5.3.4 The Lessons of International Experience: Beyond New Public Management and Bottom-up Decentralisation

In the past two decades, all democratic countries have been undertaking reform of policy making and public administration. The dominant new idea was the New Public Management (NPM), which posited the possibility of re-asserting control over policy by separating policy making from execution and holding delivery agencies accountable for quantitative targets. The NPM is a strongly top-down approach, although it did include the break-up of large bureaucracies and elements of decentralisation. Another important trend in many countries was a bottom-up approach, based on the idea that it was citizens and local organisations that know problems in real depth and know what needs to be done to solve them. While each approach has achieved significant improvement in certain contexts, it is increasingly recognised that neither offers an adequate template for good public governance. Indeed, as is briefly discussed below, there is increasing recognition of the need to combine the top-down and bottom-up approaches.

Under the NPM agenda significant developments took place. Attempts were made to separate policy formation from its implementation, with more use of executive agencies, tighter performance management systems, more frequent and improved data flows, etc. However, over time there was considerable disappointment with the NPM. Its promise to improve effectiveness and accountability was not realised (Kelly and Muers, 2002):

- Efficiency was not the only, nor even the most important, consideration for the public who also valued the quality of a service and equity;
- What could be measured influenced the formulation of objectives, while what could not be measured tended to be overlooked;
- Despite the promise to leave delivery to executive agencies, policy makers continued interfering in management issues, which reduced discretion for frontline workers while transactions costs increased because of the detailed supervision required by the centre;
The ability to separate policy formation and policy implementation was greatly overstated. Executive agencies, through their experience of actually dealing with the situations to be addressed, developed insights into what policy should be and increased their power over the centre; Reforms which brought citizens and local groups more deeply into policy design and delivery achieved significant improvements. But here also there was disappointment overall. While some local groups used their detailed knowledge and public commitment to greatly improve on old-style bureaucratic service provision, others were captured by special interests and it proved hard to disseminate best practice and discipline poor practice. Hence the widespread discussions of mainstreaming and accountability.

After several decades of top-down and bottom-up reform, there is a definite emergence, in many countries and spheres of policy, of a new combination of both. There is a growing literature on the organisational changes in public services in many countries which have given deliverers more autonomy to decide how they use resources in the pursuit of agreed outcomes and more incentive to innovate in the search for improvements, while structuring their accountability to service users and central government in new ways. In *The Developmental Welfare State*, the Council argues that the most promising new arrangements are those described as ‘democratic experimentalism’ (Dorf and Sabel, 1998), ‘empowered deliberative democracy’ (Fung and Wright, 2001), and ‘accountable autonomy’ (Fung, 2001).

In these approaches to public administration, local actors are given freedom to set goals for improvement and the means to achieve them. In return, they must propose measures for assessing their progress and provide rich information on their own performance. The centre pools the information and ranks local actors by reference to periodically revised performance measures. This approach increases local innovation, but makes the local transparent. The centre acquires two new functions while surrendering all attempts to micro-manage what is happening at the interface between service professionals and service users. A first function is to increase the capacity of local actors to act autonomously by providing different supports; a second is to hold them accountable through monitoring and, where necessary, sanctioning and intervening. But the latter function is exercised to complement, not undermine, local autonomy (Fung, 2001; Leibman and Sabel, 1999; Sabel and O’Donnell, 2000).
5.4 Analytical Insights on Policy Making: Negotiated Approaches and Government Authority

5.4.1 Negotiated Agreement and Hierarchical Direction

In thinking about public policy, implementation and partnership, it is helpful to consider a number of possible modes of policy interaction. Two are particularly relevant in considering the challenges facing Ireland: negotiated agreements and hierarchical direction.

Analytical and empirical research throws important light on the strengths and weaknesses of these two modes of making public policy. In addition, and most importantly, research highlights some critical ways in which government authority can enhance the effectiveness of negotiated agreements. These insights are important in thinking about how to maximise the effectiveness of both government policy and social partnership.

We begin with a summary statement on negotiated agreements and hierarchical government direction, before looking in more detail at the connections between them.

**Negotiated Agreements**

Negotiated agreements can, in principle, produce effective solutions to many, but not all, economic and social problems. The efficiency and fairness of the outcomes depends to a degree on the orientation that the parties adopt. The chance of good outcomes is much better if parties are motivated by self-interest or solidarity, than if they are competitive or hostile. The effectiveness of negotiated agreements also depends on whether negotiation is dominated by distributive bargaining, problem solving, or a positive combination of both. We discuss these modes of negotiation in more detail below. The chance of effective outcomes (involving problem solving and a sharing of gains) can be greatly enhanced when negotiations take place in the ‘shadow of hierarchy’; that is, in the shadow of well-directed government authority. Finally, negotiated agreements are generally not good at solving problems that require a significant redistribution of resources (financial or otherwise). This is because voluntary negotiated agreements tend to reproduce the existing distribution of advantages and disadvantages. Again, the authority of legitimate democratic government can help to make negotiated approaches more effective—by insisting that reluctant parties negotiate, defining the decision rule or redistributing (or just threatening to reallocate) resources or power.

**Hierarchical Government Decision and Coordination**

Hierarchical coordination by government can, in principle, produce outcomes that achieve both welfare efficiency and distributive justice for all types of societal problems. But it faces severe information problems which prevent this in many instances. As a result, research suggests that policy making rarely takes the form of hierarchical direction. Instead a ‘dialogue model’ is common—between units...
within government systems and between government and the economic and social interests most affected in a policy area. As Scharpf says ‘the majority of constitutional democracies rely on variants of negotiated systems to assure the legitimacy of hierarchical governance’ (Scharpf, 1997: 188). Even where clear use of government authority is necessary and is used, policy making tends to revert to unilateral action (by different departments) or complex negotiation between departments and units. But, and this is the critical point, even where hierarchical coordination by government is impossible, because of complexity and informational problems, government authority can greatly improve outcomes. It does this by shaping the way self-organising groups behave and helping those who negotiate, whether official or non-governmental, to achieve both problem solving and a fair sharing of gains.

5.4.2 A Key Analytical Tool: Bargaining versus Problem Solving

‘Problem solving’ is now a major theme in international discussion of public governance. Here we summarise international thinking on:

- the distinction between bargaining and problem solving;
- why there is so much interest in problem solving now;
- the advantages of problem solving over a number of alternative public decision-making processes;
- the issues most and least amenable to problem solving;
- the conditions that encourage and support problem solving;
- some important characteristics of problem-solving processes and outcomes

The Distinction between Bargaining and Problem-Solving Negotiation

In adversarial bargaining, the parties seek to maximise their own gains, employing strategic talk and power resources. Where they compete for well-defined costs and benefits, and value-creation plays little role, adversarial bargaining is common. In pure problem solving, the parties jointly search for the best solution, one that creates the most new value that can then be shared. This is more likely where the best approach is not immediately apparent, but mutual gains are possible if new solutions can be found. The most typical situation facing negotiators is that issues of value-creation and the distribution of benefits/costs have to be simultaneously addressed. Negotiations that can successfully combine problem solving and distribution are referred to by Scharpf as ‘positive coordination’ (Scharpf, 1997).

Why So Much Interest in Problem Solving Now?

Clearly, problem solving of the kind described above—open-minded search for best solutions—has been a part of agriculture, trades, business, professions, government, judicial decision making, scientific inquiry and domestic life for many centuries. This prompts the question: why is there now so much talk about problem solving in international thinking on public governance?

Two related reasons can be identified. The first concerns the increased interdependence between particular professions or experts and outsiders of various kinds—other professions, government, citizens. If these relations are shaped purely by a
trial of strength via bargaining, then they can be shaped in a way that does not serve the goals of the activity: good policy, good rules, good services—in short, good public governance. Second, work within each sphere is no longer confined to members of a trade or profession who share values and disciplines that ensure that all adopt an open-minded search for best solutions. The degree of interdependence and knowledge sharing creates many opportunities for self-seeking, deception, adversarial suggestions and resistance.

For these reasons, there is now, across the democratic world, a much more conscious focus on problem solving and what is necessary to foster it.

The Advantages of Problem-Solving Negotiation

The problem solving approach differs in important ways from a number of alternatives: top-down rule making, autonomous administration and bargaining. Each has a role in public policy. Yet, there are many areas of public governance where they are insufficient, on their own or in combination.

Top down rules are insufficient to solve many economic and social problems because they frequently provide exact control over a given range of decisions or behaviour and no control over other decisions. Very often the problem to be solved lies just beyond the remit of the rule.

Autonomous administration is inadequate wherever unilateral action by one public agency is insufficient to achieve a desirable economic and social outcome. The long chain of command connecting decision to implementation creates the range of principal-agent problems that plague the public sector (Fung and Wright, 2003: 262).

Although bargaining between government/agencies and social groups is an important response to interdependence, it too is insufficient in many problem areas. This is so whenever the remit of the organisations does not coincide with the scope of the problem that needs to be solved. This is commonly the case, given the complexity of many problems in the modern economy and society. In bargaining, the quality of the agreed outcome is a secondary consideration and sometimes not a consideration at all. In addition, the outcome will often reflect the strength of the more powerful interests, rather than the public good.

In summary, all three are widely insufficient because of the increased complexity and volatility of the problems we want to solve and the increased interdependence between economy, society, and the environment, between countries, and between different actors and organisations.

Advocates of the problem-solving approach claim that it can overcome many of these weaknesses. In bargaining, the object of negotiation is assumed to be given, but ‘the joint creation of better projects...is the central purpose of problem solving. The power of problem solving is the power of joint action’ (Scharpf, 1997: 130). ‘Unanticipated or novel solutions are likely to emerge from face-to-face deliberative engagement among knowledgeable parties who would never otherwise share information or devise solutions together. A process conducive to disclosure and debate of data is more likely to make better use of available information and expose information gaps than one that promotes secrecy and indirect communication’ (Freeman, 1997: 23).
A further advantage of a problem-solving approach involving stakeholders is better implementation. The Council identified this advantage in its early account of Irish social partnership (NESC, 1990, 1996). In analysing social partnership, both the Council and the NESF have identified reason-giving as a feature of a genuine partnership: ‘the social partners and others present the society not with a deal, however good, but the reasons why a certain perspective or policy initiative has commanded their agreement’ (NESF, 1997: 36).

The problem-solving approach requires that all truly relevant actors and organisations be involved. It allows for the fact that they may begin with different perceptions of what the problem is, what the best solution is and may have different values, principles and interests. Indeed, it requires that these different understandings be put into play in a process of deliberation and interaction. But it does not nullify the authority of government, something we discuss in more detail in Section 5.5. Nor does it over-ride the deep commitments of those involved: ‘the vision and values which attract people to join the voluntary associations of social partnership are probably more important now than in the past’ (NESF, 1997: 33).

A growing body of international research reports the success of the problem-solving approach in policy making, rule making, implementation and enforcement in a range of policy areas. These include environmental protection, health and safety, education, training, policing, food safety, product standards, criminal justice, drug treatment and housing (Fung, 2001; Fung and Wright, 2003; Karkkainen, 2003).

5.4.3 Supporting Problem Solving: Negotiation in the Shadow of Hierarchy

Issues Most and Least Amenable to Problem-Solving Negotiation

Problem-solving negotiation, or a positive combination of problem solving and gain sharing, can be hard to achieve and maintain. This is so for a number of reasons. If those involved in negotiation adopt a highly competitive orientation, they will turn any situation into a zero-sum game. But, more generally, anxiety about the sharing of gains and losses can prevent actors joining in the search for better solutions. Consequently, significant potential gains can go undiscovered and, very commonly, the outcome of negotiation is the lowest common denominator. In the extreme, a policy can become deadlocked, with no agreement on how to proceed.

Some issues and problems are more amenable to the problem-solving approach than others. Problem-solving negotiation is easiest to achieve where those involved are unsure about the best way to proceed, yet aware that they cannot solve the problem on their own: ‘the parties have to have some uncertainty about how the matter should be or will be resolved, and they have to believe that mutual gain is possible (Simon, 2004: 78).

Problem solving will be hard to achieve where new approaches have distributional consequences for some of those in negotiation. The sharing of gains and losses, rather than the creation of new value, will tend to be the focus of attention. It is important to recognise that this salience of distributional concerns does not only arise where the distribution of income is involved; new policy initiatives, programmes or laws will be seen as creating costs or benefits for different interests.
If this crowds out pure problem solving, the open-minded search for better solutions, it does not necessarily prevent a positive combination of problem solving and distributive bargaining. In that case, parties in negotiation identify valuable new approaches and find a sharing of costs and benefits that makes all willing to agree. Below we consider some ways in which negotiated approaches, including a significant element of problem solving, can be facilitated even where distributional concerns initially block progress.

It is important to recognise, however, that negotiated solutions (whether distributive bargaining or problem solving or a combination of both) will tend to reproduce the existing distribution of advantages and disadvantages. As Scharpf says, negotiated agreements ‘are not a tool for realising concepts of “distributive justice” that depend on redistribution’ (Scharpf, 1997: 123). Indeed, this is where the other forms of policy making—majority rule and authoritative government decision—can be more effective than negotiated agreement: ‘The comparative advantage of majority rule, by contrast, is seen in the capacity to decide distributive conflict’ (Scharpf, 1997: 161).

There is one particular instance of distributional concerns preventing problem-solving search for new solutions, which should be noted. Simon suggest that the need for a degree of uncertainty ‘rules out situations in which some major stakeholders are doing as well as they can imagine doing’ (Simon 2004: 81). Such stakeholders will prefer to hang on to the status quo, since any open deliberation on the best approach can only reduce their gains, even if it would benefit society at large. This is a common situation in Ireland; it points to the critical role of authoritative action by government as a first step (and sometimes wider consensus-building in support of it), something we discuss further below.

But even issues that are not easily amenable to problem solving frequently require it if progress is to be made in addressing economic, social and environmental problems. Fortunately, there is a range of attitudes, procedures and institutional arrangements that can encourage problem solving negotiation, even on issues where the distribution of costs and benefits remains a significant factor. These are summarised below.

Supporting Problem Solving: Shared Understanding and Common Purpose

One powerful but fragile solution is attitudinal. As Scharpf says, ‘Problem solving is most likely to succeed if the parties to the negotiations are able to engage in truth-oriented “arguing” about the best possible solution and the best way of achieving it’. Consequently, ‘At the interpersonal level, the common search for better solutions benefits from, and in fact depends upon, maximum openness, good communications and mutual trust’ (Scharpf, 1997: p.131). Irish and international experience shows that where a common purpose can be created among diverse social and economic groups, then a focus on overall national progress, rather than sectional interests, and on long-term development, rather than short-term gain, can be created.

2. There are certain qualifications to this argument.
Supporting Problem Solving: Negotiation in the Shadow of Hierarchy

Nevertheless, experience suggests that a focus on the distribution of benefits and costs can easily recur and is, of course, legitimate. But, it undoubtedly will tend to inhibit or displace the problem-solving search for better solutions. International research and Irish experience suggests a number of measures that tend to support the joint search for better policies and arrangements. In the context of public policy problems in Ireland, the most important of these both involve government in a critical way.

Research suggests that the limits of negotiated approaches can often be overcome when negotiations take place in the ‘shadow of hierarchy’ or the ‘shadow of the state’. Government can use its legitimate authority to foster effective negotiation among various interests.

First, within the public system, government can structure relations between departments of state, and between units within departments and agencies, in ways that limit deadlock and purely lowest common denominator solutions. The actual and potential decisions of government and ministers are critical in encouraging departments and agencies to search for, and agree on, better policy solutions.

Second, government has an important role in shaping the interaction between non-government associations—business organisations, unions and voluntary and community organisations. The legal and policy framework can encourage or discourage those organisations to do joint problem solving. Government can encourage problem solving by supporting organisation of weaker groups in order to even up imbalances in power and resources. A critical way in which government, and sometimes courts, can encourage problem-solving engagement is using their legitimate authority to threaten unilateral action. This can create the degree of uncertainty necessary to induce various actors to engage in joint problem solving.

Third, where government itself is a party to negotiation, as is very common in Ireland and elsewhere, it has the greatest power to use the ‘shadow of hierarchy’ to encourage the parties to jointly seek the best solution and to share the gains fairly. It can do this by inviting organisations to participate on certain terms. It can alter the outcomes that will result if no agreement is reached, or if agreement is reached on an outcome that does not, in the government’s view, serve the common good. That will tend to encourage organisations to engage in constructive problem solving.

Supporting Problem Solving:
Experimental Initiatives with a Responsive State

There is a related important possibility for problem solving which should be mentioned, though it remains incomplete. In the face of deadlock, perhaps created by inability to agree the distribution of costs and benefits, it is possible to undertake piecemeal experiments that try out new solutions. This is commonly done by private associations—such as employers, unions and voluntary groups—often

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3. This concept figures prominently in the account of social partnership or ‘social pacts’ in a number of European member states in recent decades (Visser & Hemerijck 1997; Visser 1998; Fajertag and Pochet 1999, 2000) and is implicit in accounts of Irish social partnership (NESC, 1996; NESF, 1997; O’Donnell and Thomas, 2002).
with the support of government and the collaboration of public agencies. It can only qualify as a problem-solving approach to public policy if (a) public policy barriers revealed in these experiments are quickly removed so the learning can run its course and (b) the results of these experiments are then used to redesign the system or resolve the problem at a wider level. Consequently, the critical government support for problem solving seems to include not only structuring resources and negotiation—as described above—but also:

- the willingness to act flexibly and promptly as a partner to the experiment; and
- the willingness to use its authority to re-fashion the wider policy sector in the light of the experiment.

We will see below that these are critical requirements in Ireland’s current situation.

5.4.4 Some Characteristics of Problem-Solving Routines and Outcomes

Problem solving is a disciplined process of action and interaction. The problem-solving approach requires only the involvement of those organisations that have a genuine stake in the issue and can contribute to finding the best solution. Like other disciplines, both its routines and its outcomes have certain essential characteristics. These can be summarised as follows:

- joint deliberation and stakeholder negotiation;
- experimental or provisional action—since no-one has a solution that all parties find compelling;
- monitoring—to assess the success or failure of initial action;
- revision of the shared understanding; and, in many situations,
- devolution to actors closer to the problem; which then requires
- benchmarking the actions and outcomes of these actors.

Given this combination of high-level deliberation and action near the ‘coal face’, it seems that a problem-solving approach is now relevant at four different levels: agenda setting, underlying analysis, policy consensus, and implementation and monitoring.

5.4.5 Conclusion

These analytical and empirical points can help us to understand some of the problems listed in Section 2. Some of them explain why ‘implementation’ of policy is often difficult. They throw light on the difficulties experienced in the complex processes of social partnership. They help explain why negotiated agreements often achieve insufficient problem solving. They help us to think more clearly about where partnership, of different kinds, is appropriate. They also allow us to see what pattern of policy making and implementation is likely to prevail, in various policy spheres, in the absence of a formal national partnership programme. Most of all, the discussion highlights the critical role of government authority in shaping the engagement of interest groups in ways that support problem-solving negotiation and agreement on policy solutions that serve the public good.
5.5 Implications for Irish Policy Making, Implementation and Partnership

5.5.1 Problem Solving: Combining Government Authority and Stakeholder Involvement

Understanding the Role of Government Authority in Problem Solving

A significant degree of improved policy performance in Ireland has been attributed to adoption of a more problem-solving approach. It has been argued that this is superior to both a traditional policy-making approach, a pure planning approach and a pure bargaining approach—although it can contain elements of each (Teahan, 1998). Despite major achievement in the past decade and a half, there is a widespread sense that we now experience problems of poor policy design and deadlock, implementation and delivery. This has naturally prompted anxiety and discussion about our system of policy making, about the balance between partnership and government, and about the relative merits of elaborate consultation and government decision.

The Council believes that in this situation we need to think clearly about policy making, implementation and the role of partnership in supporting them. To assist this, we summarised above the characteristics, advantages and limits of various forms of negotiated policy making and authoritative government coordination. This suggested that negotiated policy making and implementation is likely to continue in many spheres, both within the government system and with various interest groups. Consequently, the quality of policy depends critically on the nature and outcomes of various negotiations: will they produce deadlock?; will the outcome be the lowest common denominator agreeable to insiders, with limited care for the public good?; or will negotiation involve an open-minded search for better solutions with a sharing of gains and costs? The answer depends, to a very large degree, on the use of government’s legitimate authority to embed negotiations in a way that maximises problem solving and a fair sharing of gains. Consequently, the Council warns against discussion which is based on an exaggerated polarity between negotiated approaches and unilateral government decision. Rather, we need to consider the options for policy making, implementation and partnership, informed by a fuller understanding of the nature of, and requirements for, effective problem-solving.

A Problem-Solving Approach Strengthens, Rather Than Weakens, Government

One of the difficulties evident in Irish policy and listed in Section 5.2 is a cycle of consultation and government re-assertion. Government departments and agencies find themselves embroiled in extensive consultation, often called partnership, and eventually react against it by reasserting the authority of government to govern. This is understandable, since in some cases the time-consuming consultation consists of little more than sequential lobbying by one special interest after another, each of whom adopts a purely partial and totally adversarial approach to the issue the department is struggling to address. At the extreme, the concept of partnership is invoked to defend a veto on change. But the reassertion of government authority is often short lived, as the chosen line of
legislation or action proves difficult to implement, is seen as missing a significant part of the problem or has unintended effects. This often heralds re-involvement of the stakeholders and the cycle begins again.

There are different variants of this cycle in different policy sectors, depending on the degree of centralisation, the role of quasi-independent executive or adjudicatory agencies and nature of the stakeholders. What they tend to share is serial consultation, media-oriented policy ‘debate’ and, eventually, policy decisions made with insufficient consideration of implementation.

A more conscious, widespread and systematic adoption of a problem-solving approach, as discussed above, seems likely to yield better outcomes. In many policy areas, it would replace serial consultation with collective problem solving. It would involve government using its authority to structure engagement and confront stakeholders with the need to go beyond partial and adversarial approaches and to take responsibility for jointly identifying and implementing agreed policy initiatives.

The clarification of the nature of, and conditions for, effective problem solving shows that, surprising as it may seem, this approach strengthens the authority of government. First, it allows government to use its real strength, rather than intermittently assert strength that turns out to be illusory when policy misses a key aspect of the problem or cannot be implemented. Describing the problem-solving process in the regulatory area, Freeman says ‘The state must be strong in order to engage in collaboration’ (Freeman, 1997: 32). She suggests that the public agency ‘should always have a variety of punitive mechanisms at its disposal’ (ibid: 33). In their analysis of ‘responsive regulation’, Ayres and Braithwaite say that public agencies should adopt a ‘tit-for-tat’ strategy in order to be ‘benign big guns’ (Ayers and Braithwaite, 1992: 45). ‘Without the spectre of sanctions in the background, such social responsibility concerns would not occupy the foreground of our deliberation. In contrast, where punishment is thrust into the foreground, it is difficult to sustain public-regarding modes of deliberation in the foreground’ (ibid: 47).

Second, a problem-solving approach would allow government to focus more on articulating the outcomes it (as the legitimate public authority) wishes to see achieved, holding executive agencies and stakeholders responsible for delivery. This leadership role of democratic government remains important—a fact that is often obscured by popular (and academic) discussion of the weakening of the nation state.

Third, it allows government policy to be improved and assisted by experimental initiatives undertaken by groups of stakeholders—such as the Workway project on disability undertaken by employers and unions.

Finally, and perhaps most importantly, recognition of the key role of government that is central to the approach described here, would assist in the setting of high-level strategic priorities. The strategic priorities for public policy must be set in high-level political decisions, informed by a long-term vision of Irish society and the economy. While Ireland clearly has a strong record in overall economic strategy,

4. As noted in Section 5.3 above, this effect depends on government’s willingness and ability to act flexibly and promptly as a partner to the experiment and its willingness to use its authority to re-fashion the wider policy sector in the light of the experiment.
there are policy and economic sectors where national priorities seem to have limited impact. This seems to reflect sectoral veto points and/or policy deadlock, reflected in delayed decisions or non-decision. In the past, the existence of a few ‘frozen’, unreformable, sectors might not have mattered too much, so long as the core economic sectors were responding to change. But the increasing interdependence between economic, social, technological and regulatory factors discussed in Chapter 2 now means that even a few unreformable sectors could greatly undermine overall economic and social progress.

5.5.2 Finding the Correct Combination of Legislation and National Strategies

In many areas of economic and social policy, there is a tension between two approaches: legislation, on the one hand, and broad national strategies of frameworks, on the other. Each has strengths and weaknesses. A government-led and structured problem-solving approach, which involves all the truly relevant stakeholders in a particular way, can help to determine the correct combination of the two.

Legislation has the strength of strength; it compels certain behaviours and outlaws others. But it also has the weakness of strength: laws frequently provide an exact control over a given range of decisions or behaviour and no control over other decisions. Very often the problem to be solved lies just beyond the remit of the rule; indeed, the very act of creating a law or rule may move the problem from one place to another. Because of its precision, it is possible to comply with the letter of a rule while not serving the goal the rule was created to pursue. Indeed, rules tend to create one-time limits on the behaviour of public agencies or private actors, when what is needed is continuous improvement.

Broad national strategic frameworks have the strength of describing and encompassing the many dimensions of the problem and making reference to the many actors involved. Where they are negotiated, they have the additional strength of broad agreement. But Ireland’s experience shows that they frequently fail to mobilise actors and often have limited impact on the work of the diverse agencies that influence the problem.

This combination of strengths and weaknesses mean that it is not a choice between legislation or over-arching national strategies. Indeed, it seems likely that each has to be re-framed to reflect the strengths of the other. National strategies have to compel action and mobilise actors more (see below). Legislation has to be sufficiently broad to allow the relevant actors respond to changing problems (including changes prompted by legislation itself) and their changing understanding of problems. It has to create a frame in which measurement, monitoring and the accountability of a range of more autonomous delivery agencies can occur. Indeed, this is precisely the direction in which environmental legislation has moved and it is, of course, a core feature of EU law.
5.5.3 Doing the Right Things at the Right Levels

A clearer view of the combination of government authority and stakeholder involvement can assist both government and the social partners in locating the right problems and processes at the right level. In 1990, the Council outlined an analytical framework for thinking about the substance of Irish social partnership: it argued that Ireland needs a consistent policy framework combining macro-economic, distributional and structural or supply-side policy. Since the mid-1990s, this framework has also been used to discuss the methods of partnership (see NESC, 1996; NESF, 1997; O’Donnell, 2001). One of the recurring challenges is how to use the national social partnership process to make progress on the many complex supply-side policies that are recognised as critical for both social cohesion and competitive advantage.

To address the growing list of supply-side issues there was, in one phase, an expanding array of working groups, task-forces, ‘frameworks’ and ‘forums’ and, more recently, an attempt to limit the agenda to ten ‘special initiatives’. The experience of focusing partnership on ten special initiatives suggests that the original problem might not have been entirely the breadth of the agenda, but also the level at which government and the partners were attempting to address these problems. While macroeconomic policy and broad national strategy can be agreed in high-level negotiation every three years, complex cross-cutting supply-side policies—on issues such as social exclusion, training, business development or childcare—cannot be devised and implemented in periodic high-level national deliberation or negotiation. They require that knowledgeable actors close to the problem and involved in delivery be included in problem solving deliberation and action.

Indeed, its 2003 Strategy report the Council argued that ‘structural/supply-side issues are now of central importance’ and emphasised that ‘the achievement of continuous improvement, supply-side infrastructures and services pose major organisational challenges to government, public agencies, business, trade unions and the community and voluntary sector’ (NESC, 2002, p. 66, p. 48). Clarification of the way in which government authority and stakeholder involvement must be combined and structured to achieve problem solving may help in identifying the exact nature of those organisational challenges. In particular, this may assist government and the partners to locate at the level of national partnership only those issues that national partnership can deal effectively with; and may assist them to use national partnership and other mechanisms to frame problem-solving approaches at other levels (see below).

Incentivising the Problem Solving Approach

It has been noted above that in many areas a problem-solving approach can easily be supplanted by a reversion to adversarial bargaining, top-down rule making or autonomous administration. In general, government has a key role in providing the ‘shadow of hierarchy’ that can encourage stakeholders to jointly search for better solutions and agree the sharing of gains. In addition, in some specific policy areas—such as steps to build the Developmental Welfare State outlined in Chapter 3—consideration should be given to creating a defined budget line available to departments, agencies and stakeholders willing to undertake problem solving deliberation and action.
5.5.4 Achieving Joined Up Government

Clarifying the Role of the Centre in Achieving Joined Up Government

The interventions of several government departments and public agencies are typically required to respond effectively to most social issues (such as disability, educational disadvantage, child poverty, health inequalities) and many economic challenges (such as innovation, training and regional development). Increasingly, therefore, it is necessary to achieve joined-up government when formulating and implementing policy. This is demanding of a public system in which the boundaries of jurisdiction and competence have been clearly drawn between departments and agencies and are the basis of accountability. However, the Irish public service shares this challenge with many other countries and there has been extensive international discussion and experimentation from which Ireland can benefit.

Irish experience in the past decade suggest that, in some cases, achievement of joined up government requires that the Department of the Taoiseach and the Department of Finance jointly and consciously act to achieve coordination of policy making. Considerable progress towards joined-up government has been achieved in aspects of the NDP, the conduct of social partnership, the formulation of the National Disability Strategy and a number of other areas. It may be a good time to reflect on this progress in order to clarify the role of the centre and, if necessary, enhance its capacity to undertake the demanding task of coordination.

A Budgetary Process for Programme Goals

If greater collaborative action between public bodies and across government is to be attained, significant improvements in the allocation and evaluation of public expenditure are necessary. The Council addressed some of these issues in an earlier study, *Achieving Quality Outcomes: The Management of Public Expenditure* (NESC, 2002). It concluded that a stronger strategic focus needed be given to expenditure allocations across and within government departments than is currently achieved through the Annual Estimates/Budgetary process. It argued that the formulation of strategic priorities (such as those advocated by the Council in Chapter 3) should have a more transparent impact on the allocation of public spending. It should be clearly reflected in the adequate funding of new departures and the reduction or closure of existing programmes. To this end, the Council recommended that the Department of Finance and key line departments should jointly engage in a structured and deliberate way in evaluating options for attaining new strategic objectives and adopting a clear strategy. The Council reiterates the importance of such a development. A stronger cross-departmental view, and agreement on where and how significant advances towards a focussed objective could be achieved by applying additional public resources, would significantly reduce fluctuations in policy, the duplication of initiatives and the spreading of resources too thinly for the desired impact to materialise.

The Council’s earlier work also found that the current system of financial management is highly focused on establishing that spending remains within the limits set and is incurred on the items for which it was sanctioned. The question of what the spending is intended to achieve—both in terms of levels of services output and their effectiveness in contributing to the outcomes that ultimately
motivate the spending in the first place—is rarely articulated. Without diminishing the importance of financial control, the kind of services and policies advocated by the Council and others can only be achieved if departmental reporting systems incorporate measures of the outputs produced and evidence of their contribution to reaching the outcomes desired. While the requirement to report on outputs and outcomes has major implications for the expertise and internal resources of departments, it will enable quite a new approach to be taken to allocation within departments and across them. For example, greater awareness of how inputs are translated into outputs and outputs used to support outcomes should allow line departments to have greater autonomy in reallocating resources across programmes. It would also increase the likelihood of agreement being reached between the Department of Finance, the Department of the Taoiseach and line departments as to how programmes and services competing for resources should be prioritised in pursuit of a single objective.

Incentivising Joined-Up Government

Joined-up public policy making and implementation is inherently difficult, given the size and complexity of the public service and the sheer diversity of its duties and responsibilities. In addition, in many policy areas, a cross-cutting approach can easily be undermined by adoption of a territorial approach by any one department, agency or stakeholder. Given the difficulties of achieving cross-departmental and cross-agency coordination, it seems necessary to incentivise it. In a general sense, inter-departmental working, or the lack of it, also takes place in the ‘shadow of hierarchy’. Consequently government decisions (or even the possibility of them) are the most general and important incentive to joined-up policy making. More specifically, inter-departmental working is now identified in Statements of Strategy and this is an important step forward. The Council has previously suggested that cross-departmental working should be taken into account in the performance management and promotional systems. In order to speed the movement towards joined-up government, consideration should also be given to creating a defined fund for further experimental initiatives in integrated policy making and delivery.

5.5.5 Effective Management of Delivery Networks

Why Network Management and Continuous Improvement are Critical

Government today faces an increasing challenge in activating, orchestrating and modulating the activities of a wide variety of actors to ensure that services of different types are delivered comprehensively and fairly to the Irish population. Consequently, one of the core requirements of public administration in the early 21st century, is to increase its expertise in ‘network management’.

The core challenge to public sector providers is to replace a vicious circle—characterised by slow change, unsatisfactory service standards, declining public support and inadequate new investment—with a virtuous circle, in which high standards, continuous improvement, and openness to scrutiny underpin strong public support and high investment.
The state shares public authority and public resources with a large number and wide diversity of ‘third parties’ in order to attain public objectives. The manner in which they are supported, regulated and monitored by public bodies is critical to satisfactory outcomes being produced. It is clear that, in past decades, the state paid insufficient attention to monitoring the standards and accountability governing the exercise of public authority and use of public funds by third parties. The challenge now is for government to become more expert in the management of complex networks (Kickert, Klijn and Koppenjan, 1997).

Elements of the Challenge in Social Policy

In many areas of economic policy and regulation, the management of a network of actors is relatively advanced. Much the greatest challenge is in the social area—as outlined in Chapter 3, above, and in greater depth in the Council’s report, The Developmental Welfare State. While the challenge of network management might sound abstract, we now know most of the key elements that are necessary across the range of social policy and social services:

- needs assessment;
- a system of rights and standards that supports continuous improvement;
- manpower planning and educational/training provision;
- data gathering, in order to create systemic, diagnostic and performance indicators;
- an appropriate combination of capital and current funding;
- integration at local level; and
- accountable autonomy.

The relevance of these elements can be demonstrated in health, education, training, housing, local development, childcare, eldercare, disability and other areas. The key ‘operating system’ for effectiveness in these areas is a system of ‘accountable autonomy’, in which those delivering services are given more autonomy in return for information and a willingness to embrace continuous improvement.

5.5.6 Goals, Indicators and Targets

As noted in Chapter 3, our deeper understanding of the social and economic dynamics that underlie Ireland’s economic, social and environmental challenges raises some difficult questions about how to set goals, indicators and targets. Indeed, some of the difficult experiences of policy making and partnership in recent years concern goals, targets and indicators.

Aggregate measures of the economy or society—such as GDP, GNP, fertility, the gini coefficient and relative income poverty—are necessary, but are undoubtedly ambiguous. It follows that targets expressed in these aggregates are ambiguous. Success or failure in reaching ambiguous targets shows that something has not worked as desired, but provides very little information on what. In other words, indicators of that sort are not sufficiently diagnostic to be a guide to action. These difficulties arise in identifying goals, indicators and targets for both economic and social policy. This ambiguity means that if a particular aggregate measure is,
deliberately or unwittingly, taken as a target, then achieving the target may or may not achieve the real goal. Likewise, failure to achieve the target may or may not imply a failure to achieve the goal.

Moving from aggregate measures to more specific and unitary measures, we find a different, but related, set of issues. Many unitary measures—such as the number of patents registered, the average delay in A+E, the number of people moved off the live register, the number of children in pubs after 9 pm—are not in themselves ambiguous, but can have other limitations. In particular, they often have an ambiguous relation to our underlying goals. In other words, good scores on these specific measures could be achieved without any real progress towards our goals: innovation, speedy treatment, genuine progression and less teenage drinking. In that sense, specific targets are like specific rules: it is often possible to comply with the letter of a rule, while violating its spirit, thereby contradicting the goal the rule was invented to attain. This ambiguity means that if a particular specific measure is, deliberately or unwittingly, taken as a target, then achieving the target may or may not achieve the real goal. And failure to achieve the target may or may not mean failure to achieve the goal.

Therefore, in the case of both aggregate and unitary measures, we find that what is measurable may not be meaningful, may not reflect our real goals, may not reveal causation, may not guide action (or even point to the right actor) and may be motivating or demotivating.

The Council’s approach is to ask what we want goals, indicators and targets for? Its tentative answer is as follows:

- **Goals**: should describe valued outcomes and be *motivational*;
- **Targets**: should reflect goals, given our current, explicit, *understanding of causation*;
- **Indicators** can be of three types (see Section 3.5.5):
  - Systemic indicators;
  - Diagnostic indicators;
  - Performance indicators;
- **All**: should be *provisional and revisable* in the light of experience.

It is to be expected that in approaching a policy problem there will initially be vigorous debate over targets, indicators and performance measures. Such debates are a valid part of the effort to identify the nature of the problem and agree shared goals. But, consistent with the approach outlined above, government has a special role in finding a provisional settlement of these debates, in order that a regime of policy action and monitoring can commence. In some cases, this will require that delivery agencies and stakeholders nominate performance indicators by which their work will be benchmarked. It is also to be expected that, occasionally, these debates will reopen. This is a valid part of the clarification and revision of both goals and means.

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5. This is closely related to the problems experienced in countries that implemented radical versions of the New Public Management. There was a proliferation of quantitative targets. These often had a spurious precision that covered up substantive ambiguity.
5.5.6 Implications for Partnership

If Partnership is Not Part of the Solution, It Will Become Part of the Problem

In summary, the challenges to the Irish public system, outlined above, involve:

1. Combining government authority and stakeholder involvement in a way that supports problem solving and clear priorities at national government level;
2. Finding the correct combination of legislation and national strategies;
3. Doing the right things at the right levels;
4. Achieving joined-up government;
5. Effective management of sectoral policy and delivery networks, by means of:
   — Needs assessment;
   — A system of standards defining and extending rights;
   — Manpower planning;
   — Data gathering;
   — A combination of capital and current funding;
   — Integration at local level; and
   — Accountable autonomy;
6. Setting goals that motivate action, targets that can be achieved and developing indicators that are systemic, diagnostic and performance based.

The challenge for social partnership—indeed, its duty—is to be truly supportive of the achievement of such a system. As the Council stated in its 2003 Strategy report ‘willingness to adopt the best arrangements is the central test of social partnership’ (NESC, 2002: 76).

Characteristics of Problem-Solving Partnership

We can identify some characteristics of a partnership process that embodies the strategic, problem-solving and joined-up approach:

- It is a practical approach that allows government and its agencies to make and deliver policy in a way that fulfils its responsibility to the public;
- It is value-based, since, as was said in 1997, the partners ‘action in partnership is definitely informed by, and consistent with, the deep commitments which motivate their work ’ (NESF, 1997: 33);
- It is value-creating, in that it can yield outcomes that reflect and advance the values implicit in the Council’s vision of a successful society;
- It is value-preserving, in that it does not demand that partners abandon their specific social vision or the specific philosophy and goals that they cherish and advocate;
It is a *hard-headed* approach which recognises that negotiation and bargaining have an enduring role in policy and partnership.

It is a *principled* approach, but one which recognises that all principles must be exercised in a concrete context.

In summary, the Council sees social partnership as one important reflection of its belief, stated in 2003, ‘that, working with what we have been given by nature and history, the quality of collective and individual life remains open to the influence or reason, engagement and solidarity’ (NESC, 2002: 27).
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<table>
<thead>
<tr>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Comments on Capital Taxation Proposals</td>
<td>1974</td>
</tr>
<tr>
<td>4. Regional Policy in Ireland: A Review</td>
<td>1975</td>
</tr>
<tr>
<td>7. Jobs and Living Standards: Projects and Implications</td>
<td>1975</td>
</tr>
<tr>
<td>10. Causes and Effects of Inflation in Ireland</td>
<td>1975</td>
</tr>
<tr>
<td>12. Education Expenditure in Ireland</td>
<td>1976</td>
</tr>
<tr>
<td>The Implications for Social Planning – Dwelling Needs</td>
<td></td>
</tr>
<tr>
<td>15. The Taxation of Farming Profits</td>
<td>1976</td>
</tr>
<tr>
<td>16. Some Aspects of Finance for Owner-Occupied Housing</td>
<td>1976</td>
</tr>
<tr>
<td>The Implications for Education</td>
<td></td>
</tr>
<tr>
<td>20. The Future of Public Expenditure</td>
<td>1976</td>
</tr>
<tr>
<td>22. Institutional Arrangements for Regional Economic Development</td>
<td>1976</td>
</tr>
<tr>
<td>23. Report on Housing Subsidies</td>
<td>1977</td>
</tr>
</tbody>
</table>
24. A Comparative Study of Output, Value-Added and Growth in Irish and Dutch Agriculture
25. Towards a Social Report
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43. Productivity and Management
44. Comments on Development: Full Employment
45. Urbanisation and Regional Development in Ireland
46. Irish Forestry Policy
47. Alternative Strategies for Family Income Support
48. Transport Policy
49. Enterprises in the Public Sector
50. Major Issues in Planning Services for Mentally and Physically Handicapped Persons
51. Personal Incomes by Region in 1977
<table>
<thead>
<tr>
<th>Number</th>
<th>Title</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>52.</td>
<td>Tourism Policy</td>
<td>1980</td>
</tr>
<tr>
<td></td>
<td>Aims and Recommendations</td>
<td></td>
</tr>
<tr>
<td>54.</td>
<td>The Future of the National Economic and Social Council</td>
<td>1981</td>
</tr>
<tr>
<td>55.</td>
<td>Urbanisation: Problems of Growth and Decay in Dublin</td>
<td>1981</td>
</tr>
<tr>
<td></td>
<td>from the Early 1960s to the Present</td>
<td></td>
</tr>
<tr>
<td>58.</td>
<td>The Socio-Economic Position of Ireland</td>
<td>1981</td>
</tr>
<tr>
<td></td>
<td>within the European Economic Community</td>
<td></td>
</tr>
<tr>
<td>59.</td>
<td>The Importance of Infrastructure to Industrial</td>
<td>1981</td>
</tr>
<tr>
<td></td>
<td>Development in Ireland – Roads, Telecommunications</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and Water Supply</td>
<td></td>
</tr>
<tr>
<td>60.</td>
<td>Minerals Policy</td>
<td>1981</td>
</tr>
<tr>
<td></td>
<td>Aims and Recommendations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>by County and Region, 1979-1991</td>
<td></td>
</tr>
<tr>
<td>64.</td>
<td>A Review of Industrial Policy</td>
<td>1982</td>
</tr>
<tr>
<td></td>
<td>(A summary of this report is available separately)</td>
<td></td>
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<tr>
<td>65.</td>
<td>Farm Incomes</td>
<td>1982</td>
</tr>
<tr>
<td>66.</td>
<td>Policies for Industrial Development:</td>
<td>1982</td>
</tr>
<tr>
<td></td>
<td>Conclusions and Recommendations</td>
<td></td>
</tr>
<tr>
<td>67.</td>
<td>An Analysis of Job Losses in Irish Manufacturing Industry</td>
<td>1983</td>
</tr>
<tr>
<td>68.</td>
<td>Social Planning in Ireland:</td>
<td>1983</td>
</tr>
<tr>
<td></td>
<td>Its Purposes and Organisational Requirements</td>
<td></td>
</tr>
<tr>
<td>69.</td>
<td>Housing Requirements and Population Change,</td>
<td>1983</td>
</tr>
<tr>
<td></td>
<td>1981-1991</td>
<td></td>
</tr>
<tr>
<td>70.</td>
<td>Economic and Social Policy 1982:</td>
<td>1983</td>
</tr>
<tr>
<td></td>
<td>Aims and Recommendations</td>
<td></td>
</tr>
<tr>
<td>71.</td>
<td>Education: The Implications of Demographic Change</td>
<td>1984</td>
</tr>
<tr>
<td>72.</td>
<td>Social Welfare: The Implications of Demographic Change</td>
<td>1984</td>
</tr>
<tr>
<td>73.</td>
<td>Health Services: The Implications of Demographic Change</td>
<td>1984</td>
</tr>
<tr>
<td>74.</td>
<td>Irish Energy Policy</td>
<td>1984</td>
</tr>
</tbody>
</table>
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A Review of the Implications of Recent Demographic Changes  
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