

This publication contains highlights of the NESC Report *The Irish Economy in the Early 21st Century* (published June 2008). The interested reader is invited to consult the full text.

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The Irish Economy in the Early 21st Century

The Economy is in Transition

Ireland's economy in the early twenty-first century is in transition to a new phase in its development.

This transition is *from* a period of exceptionally rapid growth that was turbo-charged by exports from the mid-1990s to 2001 and by high levels of house-building between 2001 and 2007. It is *towards* a period of robust but slower growth that will be driven, largely, by services exports but with a steadily widening set of indigenous enterprises and organisations as well as multinationals contributing. Strong domestic demand will also retain a significant role.

It is *from* a period when poor economic performance set limits to what could be achieved in social and environmental protection and by way of regional balance. It is *towards* a period in which standards and accomplishments in social and environmental areas and dynamism at the regional level will be factors strengthening Ireland's economy.

It is *from* a period when competitiveness was based primarily on low costs facilitating the profitable export of standardised goods and services for wide markets. It is *towards* a period in which competitiveness will be based largely on the ability to source and creatively apply knowledge, skilled and flexible workers, and the high quality of the infrastructures, regulatory framework and public services supporting businesses.

‘Current difficulties create temptations that, if followed, would yield a deeply inconsistent policy approach and repeat policy mistakes made in past decades.’

2008 is a Difficult Time

A combination of factors in 2008 has created an exceptionally difficult policy context in which to manage the economy's transition to the next phase in its development.

The sharp contraction of the domestic construction sector, the global credit market squeeze, greatly increased energy and commodity prices, a strong euro and a major weakening of current tax revenue combine to make it difficult—and even risky or ill-advised in the opinion of some—to look far ahead. The fall in construction activity looms particularly large over the short-term outlook for the economy; largely because of it there will be little if any net employment growth in 2008 and a rise in unemployment.

These difficulties create a number of temptations that, if followed, would yield a deeply inconsistent policy approach and repeat policy mistakes made in past decades. The temptations include:

- ◆ Abandoning fiscal discipline and having recourse to excessive borrowing to fund current consumption;
- ◆ Cutting back on strategic investments in ways that would ease immediate budgetary pressures but damage long-term prosperity;
- ◆ Maintaining only investments in physical infrastructure and overlooking the critical importance of investment in skills, capabilities and services;
- ◆ Rejecting budgetary options that can support a consistent policy approach in current circumstances;
- ◆ Managing the public finances in a way that magnifies the economic cycle. Any emergence of a ‘political business cycle’ is bad for long-term planning and cyclical balance;
- ◆ Losing sight of the need to respond to the changing requirements of international competitiveness (the necessary condition of continuing economic success);
- ◆ Adopting an approach to distributional issues, including wages, that seems to address immediate pressures but ignores underlying cause-effect relationships and, consequently, will fail to achieve distributional goals and weaken long-term performance;
- ◆ Ignoring underlying distributional issues—concerning poverty, healthcare, pensions, eldercare and other public services—in ways that reinforce tensions between them and the macroeconomic and structural elements of an overall consistent policy approach; and
- ◆ Adopting a combination of budgetary and distributional policy that deepens the economic downturn, ignoring the degree to which non-traded employment is related to the performance of the traded sector.

What is a NESC Report?

A report from the National Economic and Social Council contains the shared analysis and joint recommendations to government of the 30 Council members on a theme considered to be of strategic importance for national policy. 20 of the 30 members are nominated (five each) by the principal organisations representing employers, trade unionists, farmers & agricultural interests, and the community & voluntary sector; 10 others are nominated directly by

government of whom 5 are senior public servants and 5 individuals with specific expertise and experience that are important to the Council's deliberations. A NESC report, therefore, has the particular characteristic of being shaped and discussed by a people who, collectively, have a wide understanding of Ireland's economy and society and of the need and potential for specific policy changes to have an impact.

‘Some Irish manufacturing companies are prospering because they have specialised in high value tasks and offshored lower value ones.’

Each temptation neglects aspects of the interdependence NESC has underlined over recent decades—for example, between the public and the private sectors, the indigenous economy and the international economy, the economy and society, and the economic and the political.

The Importance of Shared Understanding

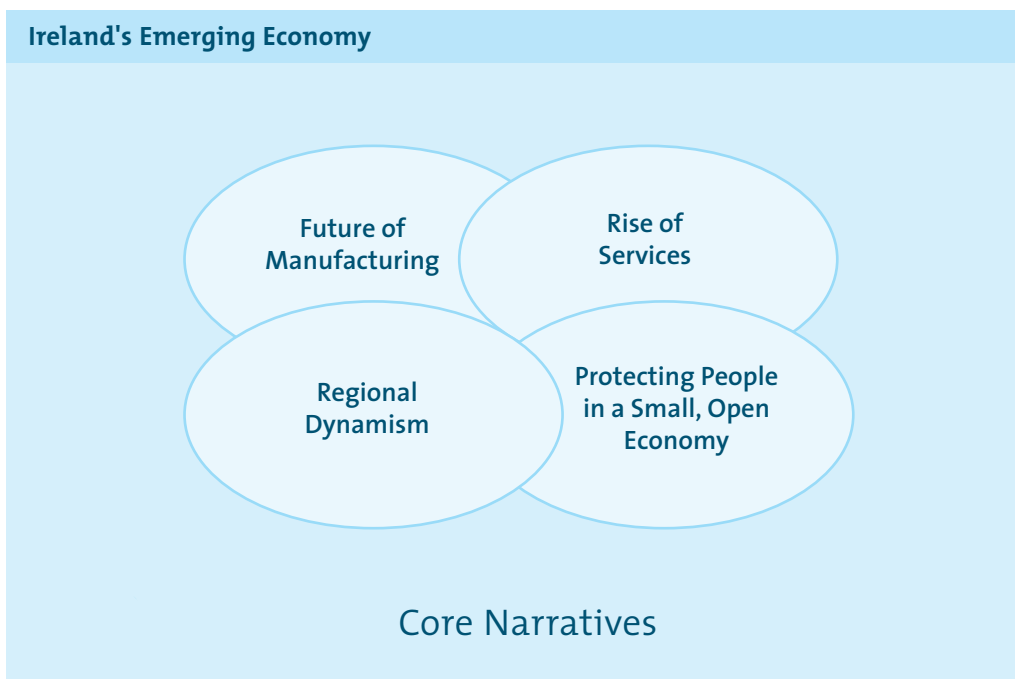
In addressing the current difficult context and wage bargaining issues, government and the social partners need to be able to rely on, and take into account, a set of inter-related developments and understandings. These should include:

- ◆ Clarity that a wide set of investments are in train—in physical infrastructure, education, research, training, health and social services—that are essential to underpin Ireland’s long-term prosperity and maintain a high level of employment;
- ◆ Clarity that recent increases in welfare rates are part of a wider, medium-term project of building a developmental welfare state that will improve social protection, enhance the social wage and address the historical legacy of social exclusion and poverty;
- ◆ Clarity on the critical role of the labour market in both economic and social success and that the dramatic changes brought about by migration—and ongoing revision of labour market institutions and labour law—must be informed by a shared commitment to high-quality workplaces and opportunities;
- ◆ Clarity on the importance of competitiveness in an economy as open as Ireland’s and on the close interdependence between the traded and non-traded sectors;

- ◆ Clarity on the willingness of policy makers, public managers, trade unions and professional bodies to deliver on modernisation of the public sector and agreement that this needs new, tailor-made systems of monitoring and evaluation in areas of social and human capital investment as rigorous as those now in place for public investments in physical capital; and
- ◆ Clarity on the commitment of government and all social partners to keep working within the ten-year social partnership framework of *Towards 2016*.

Structure of the Report

The central part of the NESC Report weaves much of the important work already carried out on the functional requirements of raising Ireland’s economy to the next level—high productivity, innovation, research and development, carbon efficiency, marketing and management skills, workforce development, life-long learning, strategies for SMEs, public sector modernisation, social protection, etc.—around four central narratives. These are the future of manufacturing (Chapter 3), the rise of services (Chapter 4), the changing spatial distribution of economic activity (Chapter 5) and what is entailed in supporting a workforce and population in a small, open economy (Chapter 6). These four narratives intertwine to provide a deep account of the transition Ireland’s economy has to make during the rest of this decade and over the course of the succeeding one.



The Future of Manufacturing

'Low demand for Ireland's exports will result in more jobs being lost in the labour-intensive, non-traded sectors than in the traded sectors themselves.'

Manufacturing has a key role to play in Ireland's future economic development but globalisation is profoundly changing what constitutes it. Increasingly, *tasks* within global manufacturing supply chains are being traded internationally rather than completed *products*. The tasks offshored from a high cost country like Ireland can even include production itself, when it is based on routinised work. The tasks retained—and capable of being expanded—include R&D, design, logistics, marketing, after sales service and corporate financial functions.

The continuing development of Ireland's high-tech manufacturing sector requires the multinational companies who make up much of it to continue upgrading their Irish operations. Some indigenous manufacturing companies are also prospering because they have specialised in high-value tasks (design, logistics and marketing) and offshored lower value ones (production, assembly). In fact, research to date suggests that the net effects of overseas direct investment for the companies practising it and the Irish economy are positive. For higher-skilled, higher-wage economies like Ireland, there are not so much 'sunset industries' in manufacturing as 'sunset activities'.

Yet there are real dangers. Rising costs—particularly for energy, waste-management, local authority and professional services—seriously threaten the competitiveness of Irish manufacturing. Escalating costs could shrink the sector faster than increased innovation and higher productivity create the space for it to thrive in a higher cost environment. The turnover of employment in manufacturing will continue with higher quality jobs being created for some workers but more low-skilled jobs being lost, a disproportionate share of them in the weaker regions.

Irish-Owned Industry

While productivity in Irish-owned industry is good by EU standards, its propensity to export is low. Growing more Irish-owned companies to a scale where they can invest adequately in R&D and marketing remains a major objective of policy.

This is particularly the case for Ireland's largest indigenous manufacturing sector, the food industry. Rising food prices, the continuing reform of the Common Agricultural Policy and changes under discussion at the World Trade Organisation present opportunities and threats for Ireland's food industry and agricultural sector. Their exposure to global market pressures and volatility could be significantly increased. It is important that the 'European Model of Agriculture' is not undermined and

'A widening set of service providers are capable of operating in other countries because of what they have learned in and through serving the Irish domestic market.'

that the EU plays a full 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.

Innovation and Research

Innovation is distinct from research but, in key instances, much more likely in the wake of research. Ireland's success in attracting inward investment in the past two decades offset the need for a well-developed research infrastructure. The Strategy for Science, Technology and Innovation now aims to build this infrastructure in Ireland. It needs to be monitored and adapted over time to ensure that spending on research yields benefits, particularly in the form of increased innovation and new product development on the part of enterprises. Innovation is important in lower-tech sectors and not just in high-tech manufacturing.

The future of the manufacturing sector depends on the skills and attributes of those engaged in, and attracted to, the sector and a supply of people pursuing careers in engineering and science is crucial. Improving skills at all levels is essential to enabling the ongoing innovation needed for success in rapidly changing markets.

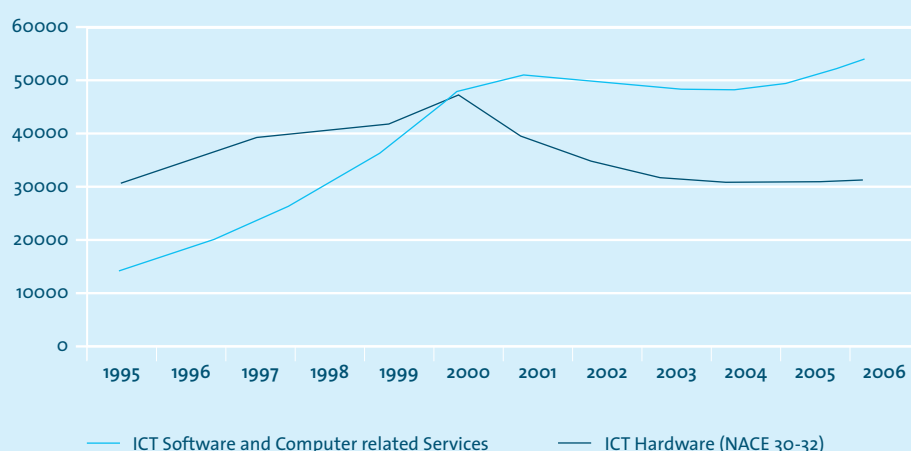
The Rise of Services

The rise of services is a hallmark of contemporary economic development in every high income country, with profound implications for economic and social policy-making. As real incomes rise, the proportion spent on services increases. Indeed, there is no discernible limit to the growth in demand for services as real incomes rise or to the ingenuity with which new needs can be met.

Services Employment

By 2006, services accounted for 71 per cent of total employment in the Irish economy. There is a close relationship between the employment level in services and the strength of the traded sector. Low international demand for Ireland's exports results in *more* jobs being lost in the labour-intensive, non-traded sectors—including public services—than in the traded sectors themselves. Low-growth impacts particularly negatively on lower skilled occupations. A competitive economy exporting on a large scale, therefore, is particularly good news for lower skilled workers in services. Conversely, a slump in Ireland's export trade hits them particularly hard.

Employment¹ up in Computer Services, but down in Computer Manufacturing



1. Agency Assisted Employment only

‘There is a need for a step-change in Ireland’s ambition to have an economy and a society in a position to reap the innovative and productivity-enhancing capabilities of ICT’

Services Exports

Services account for a huge proportion of the growth in exports in recent years. In 2005, Ireland was the *world’s* 9th largest exporter of services and the largest in two areas—‘Computer and Information Services’ and ‘Insurance Services’. In a relatively short space of time, Ireland has become an attractive location from which multinationals serve their subsidiaries and customers across Europe and wider afield.

Some significant benefits follow as the composition of exports shifts towards services: their prices hold up better than those of exported goods; their low import content means services exports provide a bigger injection into the domestic economy than exports of goods; service exports are, in general, more supportive of a low carbon economy.

Services in Domestic Demand and Well Being

Driven principally by levels of house-building that could not be sustained, domestic demand powered the economy in the first half of this decade. A re-invigoration of net exports is now required to make up for the decline in construction activity. Nevertheless, domestic demand retains a crucial role in maintaining a high level of employment and the role of domestically-provided and consumed services in enhancing well-being needs to be acknowledged. So long as the balance of payments is not a binding constraint, circular flows in which people sell services to each other, and which are largely domestic, can be as generative of value, higher living standards and well-being as the circular flow in which manufactured goods are exported in exchange for imported goods.

Policy Implications

There is potential for significantly higher services exports on the basis of organisational and institutional innovations in parts of the economy not conventionally considered high-tech or knowledge-intensive. Tourism has now been joined by indigenous sectors, such as insurance, air travel and education, in exporting services. In fact, a widening set

of service providers are realising that they are capable of operating in other countries because of what they have learned in and through serving the Irish domestic market.

Productivity in Services

Productivity in services is central to maintaining economic competitiveness and improving living standards. Understanding, measuring and raising productivity in services poses challenges that can be specific to those that are internationally-traded, domestically provided or in the public sector. In the public sector, the quality and speed of strategic decision-making and the quality and effectiveness of service delivery vitally affect national economic performance. It is critical that tax revenue is used efficiently to produce outcomes that improve the wider environment for business in order to ensure that the net impact of the public sector on international competitiveness is positive.

Innovation in Services

Policy must recognise that innovation in services can occur in different and more diverse ways than in manufacturing. Particularly important factors include user involvement and feedback, speed in seizing opportunities, multi-party dialogue, advanced telecommunications, and access to high speed broadband on the part of SMEs and households. There is need for a step-change in Ireland’s ambition to have an economy and society in a position to reap the innovative and productivity-enhancing capabilities of ICT.

Non-Commercial Services Innovation

Innovation in public services and the not-for-profit sector can contribute directly to advancing core national objectives such as improving the quality of human settlement, containing urban sprawl, promoting healthy living, protecting the environment, developing an age-friendly society, and achieving social inclusion. Innovation in public services frequently entails deep change in organisational cultures that are risk-adverse and where accountability is based on conformity in how inputs are used rather than on the outputs produced and their effectiveness in supporting the outcomes sought.

‘The development of governance frameworks that allow key actors to take coordinated and effective action together is indispensable to the success of the National Spatial Strategy.’

Human Capital and Services

The rise of services has major implications for human capital. It makes ‘soft’ or people-handling skills increasingly important alongside ‘hard’ skills and qualifications. Widespread services innovation requires a vibrant and inclusive educational system, management and organizational cultures that value and competently guide innovation, and social policies that are seen to protect people while rewarding change.

Regional Dynamism

A traditional approach to regional policy viewed it as *distributing* the fruits of successful economic performance at the national level. It should now also be viewed as *constitutive* of a strong national economy. The principal reason is that productivity enhancements and innovation in economies that are increasingly services oriented and knowledge-intensive occur disproportionately in dynamic urban regions.

Agglomeration Effects

Knowledge-intensive service activities benefit from features that potentially arise in any high-density urban area that attains a certain scale. This is not clustering by sector so much as the ability of concentrations of high-skilled and professional workers—employed across a diversity of sectors—to attract more such people because they contribute to each other’s employment prospects and quality of life.

Regional Developments Within the State

There is little evidence of a dramatic divergence, either in growth rates or in living standards, between the Greater Dublin Area (GDA) and other regions between 1997 and 2006. In fact, the extent to which growth in economic activity and population has taken place in every region is noteworthy. However, in absolute terms, the *additional* jobs created in the GDA between 1997 and 2006 were greater than the *stock* of employment in any other region, with the exception of the South West.

Ireland’s regions differ most in their employment structures. Twenty per cent of employment in the GDA in 2006 was in financial and other business services; the South West had the next highest share but at 11 per cent. All other regions, by contrast, had significantly higher employment shares in construction, manufacturing and agriculture than the GDA.

Perspectives on the Gateways

The National Spatial Strategy’s (NSS) aim to ensure greater regional balance hinges on the development of the gateways. The gateways are key to addressing the vulnerabilities in the economic structures of the regions. The development trajectory of each gateway will be shaped by the energy, vision and effectiveness of gateway actors working in concert to identify and harness their region’s economic assets. This will include exploiting the opportunities latent in each gateway’s current connectedness with the global economy (building on its existing foreign investors, tourist profile, Irish diaspora, etc.), its proximity to the GDA, and the commitment and readiness of the development agencies and other public bodies at national level to assist each urban centre in exercising gateway functions.

The development of governance frameworks that will allow key actors in the gateways to take coordinated and effective action together is indispensable to successfully implementing the NSS. The unique development trajectory each gateway must follow requires the local authorities who share responsibility for promoting it to co-ordinate their goals, strategies and actions. Currently, county loyalties can get precedence over strategic regional issues. A stronger pooling of power and resources by local authorities in the common interest of implementing gateway development plans should go hand in hand with a creative recasting of the current regional structures.

A degree of false opposition between Dublin’s development and that of the other gateways can be created when the latter are exclusively benchmarked against the former. Consolidation of the GDA as a metropolitan region in the global economy should lead to metrics that are unique by Irish standards, but a fair assessment of its performance and needs

‘There is considerable potential for Dublin to have a larger population and a higher quality of life if the benefits of higher density are brought on stream to replace the costs of urban sprawl.’

should be based on comparisons with other European metro-regions—not, for example, with Cork or Limerick. In a similar way, dynamic and balanced growth in the regions should be assessed primarily against standards they generate themselves of what is deemed attainable and compatible with their distinctive characters, and their gateways should be benchmarked against successful international cities of a scale to which they can realistically aspire. Differences between the gateways are as significant as their shared trait of being impacted by Dublin's growth.

Perspectives on the Growth of the Greater Dublin Area

The most significant finding for Ireland in a major study of the world's metropolitan regions is the inclusion of Dublin (OECD, 2006). The dynamism of Dublin emerges as impressive in a global context, despite it having no strong metropolitan governance and being beset with significant congestion and other externalities.

There is considerable potential for Dublin to have a larger population and a higher quality of life, if the benefits of higher density are brought on stream to replace the costs of urban sprawl. A larger and more compact population will, in turn, make it easier to develop knowledge-intensive services and manufacturing and a greener regional economy. This poses major interrelated challenges—to increase housing densities, produce step-changes in the quality of public transport, bring Dublin airport's new terminal and road improvements on-stream, address water infrastructure requirements, make a success of integration and social inclusion policies, and much else. Failure to surmount the challenges of urban sprawl in the GDA would not see benefits displaced to other regions within Ireland but to metro-regions elsewhere in Europe, to which the businesses, young professionals and migrant workers currently attracted to Dublin are more likely to move.

The Economy of Rural Areas

There are multiple ways in which larger and more affluent urban populations generate additional demand for rural goods and services. The challenge for rural areas is to manage the economic activity this demand generates in a way that is sustainable and in the interest of their year-long residents. In fact, the same ICT technologies that fuel agglomeration economies and urbanisation offer a new wave of opportunities in the on-going search to find sources of economic activity that compensate for declining employment in agriculture, forestry and fishing. Micro-enterprises and self-employed activities can be viable from rural locations where the quality of internet access enables rural service providers to interface as effectively with service users as any urban-based provider.

Supporting People in a Small Open 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 the people who participate in them' (NESC, 2005: xxiii). Making this happen will be the combined achievement of Ireland's educational system (extending from early childhood to lifelong learning), training system, labour market policies, social policies and welfare state. Measures that address the needs of the Ireland's large migrant population must be integral to developments within each of these areas.

A landmark report from the Expert Group on Future Skills Needs (EGFSN, 2007) sets objectives for education and training that, in being attained and when achieved, will have profound social and economic consequences. NESC wholly endorses its high level of ambition and believes it needs the widest possible ownership to be delivered on. Two perspectives in particular can aid the necessary mobilization of actors that is needed:

- (i) educational success is cumulative—for example, quality early childhood education will improve school completion rates, raise the transfer rate to third level and increase the number of fourth-level researchers;
- (ii) many of the skills and qualities which enterprises need for commercial success are skills for life as well as for the workplace.

A National Skills Strategy

The Expert Group on Future Skills Needs, a Forfás body, advises the government on aspects of education and training related to the future skill requirements of the enterprise sector of the Irish economy. In 2005, the Department of Enterprise, Trade and Employment asked it to undertake research to underpin the development of a National Skills Strategy that would support the development to 2020 of a competitive, innovation-driven, knowledge-based, participative and inclusive economy. A detailed programme of research resulted in the publication in 2007 of *Tomorrow's Skills: Towards a National Skills Strategy*, which points to the levels of upskilling, participation and migration the economy will require. An Inter-Departmental Group is charged with responding to the report.

Education

There is justifiable pride in the contribution Ireland's education system has made to economic development. However, our educational system is being called upon to innovate and change in specific and profound ways if it is to meet the new and higher demands coming from the general population, people at work and employers.

The insight that quality early education and childcare services have the character of a public good—in a similar fashion to primary education—as Ireland gears up for the knowledge economy and learning society needs to be taken more seriously. While the jury must remain out on how effectively existing measures will contribute to reducing the cost and improving the quality of childcare, major long-term costs may result if existing provision proves too little too late. It is urgent to renew and restate Ireland's vision for early education and childcare services as a whole so as to ensure the coherence of the new and old measures being taken and how they interact with one another.

A significant number of young people struggle to leave school with the competences and confidence to lead full and productive lives. The effectiveness of the additional resources being given to schools to address educational disadvantage needs to be assured. Priority should be given to learning, from the experiences of Irish schools and from international best practice, how the work of Special Needs Assistants, learning support teachers and those who promote school attendance can be integrated most effectively by schools.

'The insight that quality early education and childcare services have the character of a public good needs to be taken more seriously.'

‘Co-ordinated action by employers, training and education providers, unions, professional associations, regional bodies, and the community and voluntary sector is needed to meet the up-skilling challenge.’

The student numbers in Higher Education Institutions are set to grow strongly for some time, and there are significant changes underway in undergraduate teaching. It is important that the most successful initiatives are evaluated to the benefit of learning across the entire third level sector, and that they are sustained, with the funding implications for institutions and learners being identified and addressed. Hugely increased capital and current spending on higher education research and teaching in Ireland over the last decade register Ireland's serious intent to develop a learning society and a knowledge-based economy. Rapid catch-up is taking place with the higher levels of educational spending in the best-performing EU member states. However, the levels reached in 2004 (latest available comparative data) were still some way off from placing Ireland among the highest-spending five or six states at any level of the educational system (primary, second level or third level).

Training and Labour Market Policies

Sixty per cent of those who will be in the labour force in 2020 are already in employment. Consequently, it is what people learn at work or while in-between jobs that will critically affect productivity growth and living standards over the coming decades. Yet the higher age groups in Ireland's workforce have much lower formal educational attainment, on average, than in most advanced countries. It is important to communicate the inclusive and feasible nature of the up-skilling challenge and to counter any perception of the knowledge economy as exclusive or elitist.

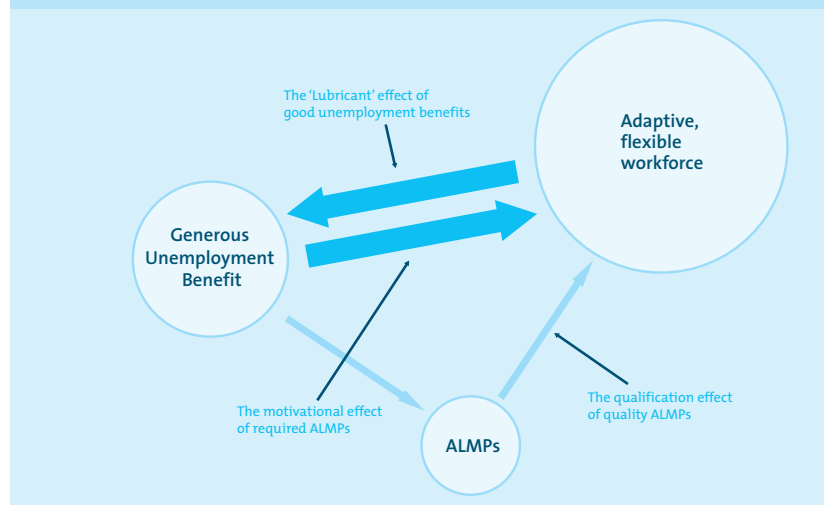
The 2007 EGFSN Report should lead to a clearly-articulated National Skills Strategy in consultation with all the relevant stakeholders. The Inter-Departmental Committee that is to respond to it must seek to coordinate action by the large number of actors—employers, training and education providers, unions, professional associations, regional bodies, and the community and voluntary sector—without whose active and expert participation the required mobilization of the adult population, in particular of those with the lowest starting qualifications, is unlikely to take place.

It is important to protect workers rather than jobs. Denmark is widely, and justly, admired for having achieved synergy between three elements in a successful labour market strategy for any advanced society in the early 21st century (dubbed 'flexicurity', see Fig.1). The three elements are:

- (i) freedom for enterprises to restructure their operations, including to reduce workforce numbers and alter job requirements when necessary;
- (ii) generous unemployment benefit and opportunities for training during a prolonged period of job-search; and
- (iii) required participation in quality active labour market programmes that are effective in helping people find employment who have exhausted their entitlement to unemployment benefit.

However, hugely important background systems are in place in a country like Denmark that support its flexicurity model and enable its enterprises and workers to experience high levels of job churn as mutually beneficial. Danish workers and their employers, for example, benefit from high levels of investment in education that began much earlier than in Ireland, a developed system for the retraining of workers and a range of services (childcare, public transport, health care, housing, etc.) on which people can rely, in or out of work, and which support their mobility and flexibility in employment.

Ireland, in fact, faces two formidable challenges which encompass and condition how it must fashion its own version of flexicurity (see Fig.2). (1) It has to put in place the background services that support people in being mobile between jobs and enable them to use periods of unemployment to improve their skills. (2) It has to respond to a scale of growth in its labour force that has been the highest in the industrialised world (along with Spain) since the early 1990s. This growth has come from three sources—the outflow from the educational system, women formerly working solely in the home and migrants—and each group brings specific needs to Ireland's educational and training system.

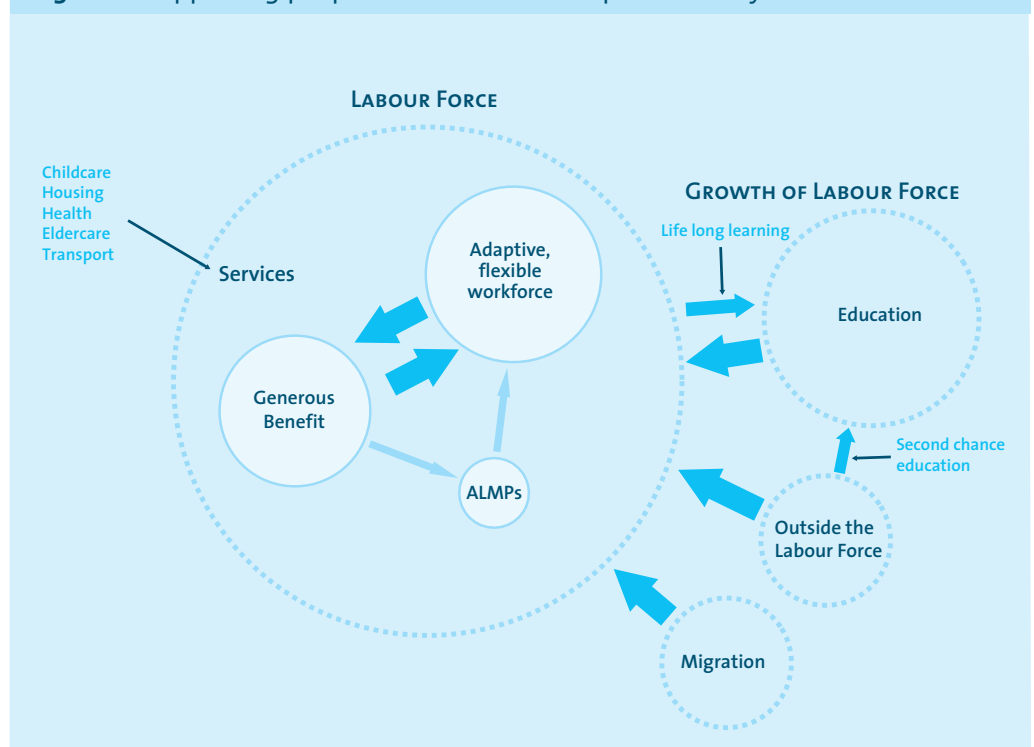
Figure 1 The labour market model of 'Flexicurity'

It is prudent to expect higher levels of employment churn in the Irish economy over the coming years and urgent to improve support to individuals and regions accordingly. Quality research is needed to throw more light on the factors that compound or mitigate the effects of plant closures. The role of regional actors in activating, co-ordinating—and where necessary re-designing and supplementing—the supports and expertise available from statutory bodies should be given a more prominent place.

Social Policies and the Welfare State

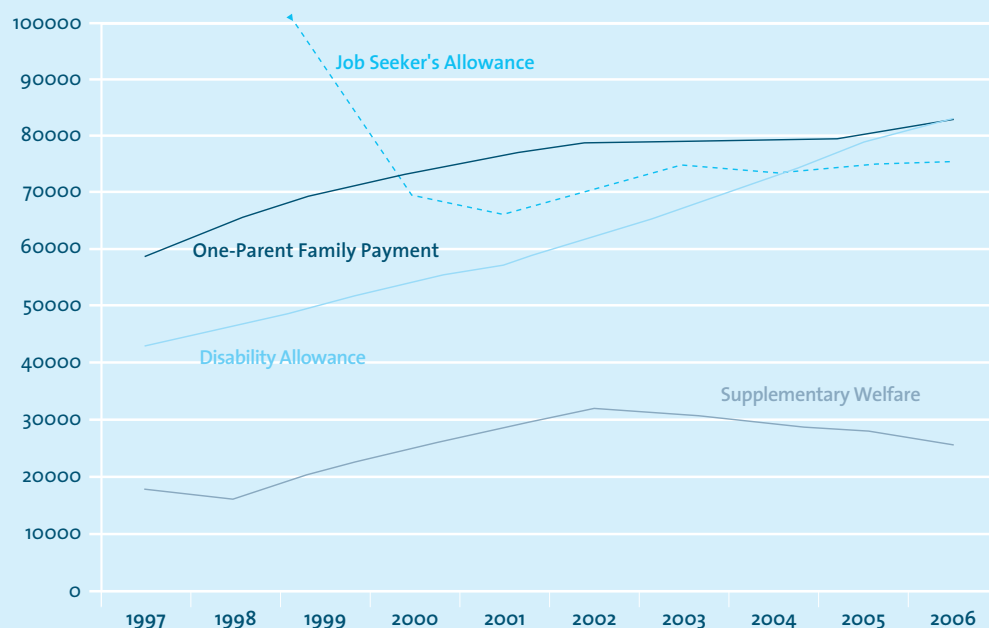
The current downturn in the economy, rise in unemployment and fall in state revenues is not the time to doubt the core objective of the National Development Plan's Social and Economic Participation Programme or to withhold the resources necessary for implementing it. To foster the confidence and expectations of its clients, and to provide income support integrated with access to services in the context of progression pathways, the

'The purchasing power of social welfare payments must be protected so that recipients can co-operate and benefit fully from the profiling, personal attention and tailored pathways to which the government is committed.'

Figure 2 Supporting people in Ireland's small open economy

‘The relationships between the macro-economy, distribution and structural factors are more complex now than at any time since the late 1980s.’

Some Categories of Social Assistance have Grown in Importance while Others have Declined



Department of Social and Family Affairs (DSFA) needs the wholehearted engagement of the principal service providers (FÁS, HSE, local authorities, VECs, HEIs, etc.).

All organisations need to adopt the same positive vision and objective for social welfare recipients, but also clear and effective procedures for their collaboration and positive incentives for the personnel who are critical to making it happen. It is also important that the purchasing power of social welfare payments is protected so that recipients can co-operate and benefit fully from the profiling, personal attention and tailored pathways to which the DSFA is committed.

The proposal to subsume the One-Parent Family Payment (OFP) into a wider parental allowance has the potential to be a landmark initiative in modernising Ireland's income support arrangements. Success in overcoming acknowledged weaknesses in the OFP will yield significant learning on how to reform other programmes.

Revisiting NESC's Consistent Policy Framework

The sharp contraction in economic activity in 2008 underlines the continuing value of a consistent policy framework. In fact, the relationships between the macro-economy, distribution and structural factors are now more complex than at any time since the late 1980s.

Macro-Economic Policy

The Irish economy has experienced a loss of cost competitiveness, exacerbated by the strength of the euro in 2008. Many general business costs are now relatively high in Ireland. In recent years, some loss of cost competitiveness was not in itself a problem as the economy grew strongly despite it and had continuing success in attracting high levels of inward investment. Relatively strong wage growth, also, increased living standards and underpinned growth in domestic demand and employment in the services sector. However, further losses of cost competitiveness are likely to have more effects on the economy than the experience to date.

‘Capital investment should be maintained at at least 5 per cent of GNP.’

Three principles should inform the management of the public finances: sustainability, stabilisation, and adherence to the Stability and Growth Pact.

- (i) Sustainability requires that the public finances are in a position to absorb the normal budgetary pressures that arise as well as the long-term costs associated with population ageing.
- (ii) Stabilisation means management of the public finances must take account of the economic cycle and on no account be procyclical.
- (iii) Finally, managing the public finances must respect the Stability and Growth Pact through which the Economic and Monetary Union of the European Union is facilitated and maintained, to Ireland's and other Member States' long-term benefit.

The Council's current recommendations on the public finances are informed by the integrated view of economic and social strategy articulated in the National Development Plan and *Towards 2016*. The Council proposes that:

- ◆ Capital investment should be maintained at the level of at least 5 per cent of GNP;
- ◆ Overall taxation should be set at a level that is consistent with a dynamic economy and to maintain a level of expenditure adequate to support economic and social development; and
- ◆ The management of the public finances should provide scope for current expenditure to invest in the services required in critical areas identified in *Towards 2016*.

In addition, the Commission on Taxation should examine the possibility of replacing stamp duties with a more sustainable and equitable form of property tax.

A critical concern is the efficiency, effectiveness and flexibility of the public sector. Quality and accountability in public services can be seen as central both to maintaining a strategic direction in the medium-term and to managing the current difficult transition and uncertain conjuncture.

Distributional Policy

Short—and, possibly, medium-term—factors are bringing distributional tensions to the surface. The factors include slower earnings growth, higher than anticipated inflation, high childcare costs, rising eldercare costs, higher unemployment, unequal access to healthcare, poor pensions prospects for many, anxieties about employment, significant job losses in more vulnerable regions, and a widening gap between median/average earnings and the top of the income distribution. The conditions which made distributional tensions relatively minor in the 1990s—reflected in the ability to simultaneously reduce taxes, increase public spending and lower the debt/GNP ratio—may not recur.

NESC believes that collective bargaining remains appropriate, given the dynamics of wage setting and the open nature of the Irish economy. In developing the partnership perspective, it has always sought to place wage bargaining—not only in its wider economic and policy context—but in the context of the analyses and understandings that the partners bring to the wage bargaining process.

‘Narrowing or reducing the range of investments would be to ignore that skills and capabilities are the most important assets in an advanced modern economy.’

Structural Policy

Sustained investment in physical and social infrastructure is beginning to ease bottlenecks and further benefits can be expected. However, many supply-side challenges remain serious. In the next decades, the medium- and long-term strength of the economy will depend not only on investment in infrastructure and scientific research, but also on:

- ◆ deepening capabilities on the part of a wide spectrum of actors;
- ◆ higher levels of participation;
- ◆ an infrastructure of care that improves both the quality of life and the ability to participate;
- ◆ internal as well as external connectivity;
- ◆ social inclusion;
- ◆ more social mobility;
- ◆ the successful handling of diversity including immigration; and
- ◆ high environmental standards both in large manufacturing enterprises and in a range of arenas influenced by the behaviour of thousands of households, farms and businesses.

Overarching policy priorities

Two overarching policy priorities arise out NESC’s 2008 Report:

- ◆ **the need to fine tune some of the strategic investments in the current National Development Plan and Social Partnership Agreement (*Towards 2016*), elements of which need modification in the light of new information and understanding; and**
- ◆ **the need to manage a difficult transition for the economy during what is an uncertain conjuncture**

It is of great significance that the NDP combines investment in physical infrastructure with critical investments to underpin enterprise performance, human capital, social infrastructure and social inclusion. Perhaps, the most fundamental proposition in NESC’s 2008 Report is that investment across this spectrum must be maintained, even as economic conditions and revenue buoyancy worsen. Narrowing or reducing the range of investments would be to ignore the central thrust of the Report’s analysis—that skills and capabilities are the most important assets in an advanced modern economy. These arguments have important implications for the way in which various elements in the NDP are monitored and evaluated. In particular, it demands that new systems for designing programmes, monitoring outcomes and evaluating actions and agencies be developed, equally rigorous, but not necessarily the same, as those now in place for physical capital investments.

'New systems of monitoring and evaluation are needed in areas of social and human capital investment as rigorous as those now in place for public investments in physical capital.'

Conclusion

Social and Environmental Factors

The manner in which economic growth takes place impacts strongly on the quality of society and of the environment. This has been appreciated for some time. But now social and environmental factors can also influence the economy's strength and resilience. Climate change is an example. A shift away from fossil fuels and towards renewable and efficient energy use will be a key characteristic of development in future decades. Ireland's target for greenhouse gas emissions by 2020 is still to be finalised and will pose considerable challenges. However, the move to a low-carbon economy will also create new economic opportunities and it is highly desirable that Ireland participate in what is increasingly seen as a 'new industrial revolution'

Globalisation

New dangers and opportunities are being brought into play by the widening and deepening globalisation of economic activity. Long after the restoration of health to international credit markets and the resumption of sustainable levels of house-building, the Irish economy and the EU economy will continue deep restructurings that, in the final analysis, arise because the global economy is having to 'make room' for the large populations of China, India and elsewhere that have new productive capabilities and greater purchasing power. This does *not* mean globalisation must undermine the prosperity and social cohesion of advanced European countries. Several European countries with strong competitive advantage in the world have high levels of participation, effective systems of social protection and populations who feel confident about globalisation. At the same time, globalisation can damage countries, social groups, individuals, the environment and fuel conflict. It is mainly public governance (at national and international level), institutions and capabilities that determine whether globalisation has positive or negative effects.

Recent NESC Reports

Report No. 112, 2004
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Report No. 113, 2005
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Report No. 117, 2008
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Key Recommendations

- ◆ Investment across the spectrum in the NDP—physical infrastructure, enterprise performance, human capital, social infrastructure and social inclusion—must be maintained, even as economic conditions and revenue buoyancy worsen. Narrowing or reducing the range of investments would be to ignore the central thrust of NESC's analysis—that skills and capabilities are the most important assets in an advanced modern economy.
- ◆ The 2007 landmark report (*Tomorrow's Skills: Towards a National Skills Strategy*) sets objectives for education and training that, in being attained and when achieved, will have profound social and economic consequences. NESC wholly endorses its high level of ambition and believes it needs the widest possible ownership to be delivered on.
- ◆ It is important to protect workers rather than jobs. There is considerable ground to be made up in regard to systems for retraining workers and providing services (childcare, public transport, health care, housing, etc.) on which people can rely, in or out of work, and that support their mobility and flexibility in employment.
- ◆ The National Spatial Strategy's aim to ensure greater regional balance hinges on the development of the gateways. The development of governance frameworks that will allow key actors in the gateways to take co-ordinated and effective action together is indispensable to successfully implementing the NSS.
- ◆ Collective bargaining remains appropriate, given the dynamics of wage setting and the open nature of the Irish economy. In developing the partnership perspective, NESC has always sought to place wage bargaining - not only in its wider economic and policy context – but in the context of the analyses and understandings that the partners bring to the wage bargaining process.

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