

## CHAPTER 9

### ENHANCING EQUALITY

#### 1. INTRODUCTION

This *Strategy* has, in Part 1, recorded some key changes in the Irish economy and society and presented a perspective on future development and change. An intrinsic part of these processes of change has been, and will continue to be, how to enhance equality and counter discrimination, in employment and more generally in other aspects of societal life.

In this chapter, we identify the combination of such factors as income, technology and labour market trends which creates new possibilities for the fullest expression of individual potential. Equality and anti-discrimination measures and policies are – at heart – directed towards realising these possibilities and expectations for everyone regardless of gender, age, religion, ethnicity, cultural or sexual orientation.

#### 2. THE MODERN EQUALITY FOCUS

Gender and marital status have been a significant focus of debate on equality and discrimination in Ireland over the past 25 years. More recently, however, the concepts of equality and discrimination have begun to inform debates about disability, travellers, ethnicity, nationality and sexual orientation. One of the most notable aspects of changing discourse on these issues has been the shift from paternalistic to a rights focused language. There has been a broadening of minds (in the “dominant” social groups) which has sometimes been a response to a new willingness of those groups experiencing discrimination to voice their interests and assert their entitlement to fair and equal treatment.

The benefits of equality – in freeing individual potential – are not just measurable in personal terms but in tangible economic and social terms too. The influx of women into employment across a range of occupations and professions provides new reservoirs of talent and energy which are increasingly valued. The removal of gender barriers in professional services, in particular, also affects the nature and quality of certain products and services such as medicine and health care, legal and financial services, and the capacity of professionals to empathise with service users and consumers, while their male counterparts learn from working with female peers.

What is true of gender could also be said to apply, in principle, to other areas of discrimination. In the case of people with disabilities, their participation in employment and other mainstream social activities is a positive boon, not just to those who overcome the barriers but also to those whose social world they inhabit. Every activity successfully undertaken publicly by someone with a disability is a social vindication of their ability and potential to contribute to economic and social development.

Many of the difficulties which are experienced by people with a disability are generated by economic, social and environmental factors. Advances in technical knowledge make it possible and necessary that we address these issues. Doing so also brings long-run benefits to society as a whole: many people will experience disabilities, particularly as they grow older, and population ageing is now a major social phenomenon. Every advance in the rights and participation of people with disabilities has potential long-term gains for the wider population, and for greater autonomy in later life. This is a considerable benefit in the context of population ageing.

#### (i) Gender, Equality and Change

Undoubtedly, Ireland has been influenced by the emergence of equality issues internationally, and particularly in the EU, since taking up membership in the 1970s. The basis of the new focus on rights and equality since the 1960s is also to be found in underlying processes of economic and social change and restructuring that came about internationally in the context of the post-war boom. The civil rights movements and student upheavals in the 1960s initially reflected these changes. Subsequently, the modern feminist movement provided a sustained and more lasting effect on social structures, culture and ideology. The growth of universal education in developed countries provided the initial visible impulses. However, other key changes were taking place too, driven by innovation and new technology affecting production and labour processes world-wide.

Allied to these changes are falling fertility, a retreat from early marriage, rising educational levels and earnings aspirations among women, and a greater demand by women for employment to supplement family income. These economic and social trends coalesced over the last few decades to produce a major shift in labour force participation rates. These trends thus provided the powerful undertow beneath the more visible changes in attitudes and the vibrant debates on equality in the 1970s and 1980s in many countries. It was no accident that the EU articles on equality from the Treaty of Rome – having lain dormant since the mid-1950s – only came to life in the 1970s and subsequently.

In the Irish context too, it was not merely membership of the European Community that propelled a new concern with equality. The opening of the Irish economy since the late 1950s gave its own accent to the process of modernisation. Rapid decline in rural occupations and the inflow of high-tech industries together with the erosion of Ireland's traditional manufacturing base coincided in time and were accompanied by the massive expansion of education – firstly at second level in the late 1960s and later at higher levels in the 1970s and 1980s. Belatedly, Ireland's exceptionally low female labour force participation rates too started to shift upwards. This process is still under way and is expected to continue for decades to come (CSO, 1995).

In Ireland, these changes led to pressure to remove major legal bases of discrimination against women, especially married women, and, despite considerable resistance from diverse quarters, legislation was introduced on equal pay (1974), employment (1977) and, over a protracted time period, in other areas such as birth control and marriage.

Propelled by such factors, labour demand began its inexorable shift in the direction of higher skilled and educationally qualified workers. Traditional bases of workplace discrimination in favour of male or unskilled labour (or traditional skills), were eroded by the changing nature of work to the extent that it began to rely less on physical properties and manual and industrial labour and more on a range of disciplines and skills related to education.

In addition, the post-industrial expansion of all kinds of personal services created the conditions for increased female labour force participation – often in low-skilled sectors with low pay. Much of the expansion of female labour force participation takes the form of part-time, temporary or otherwise atypical employment. This meets an important and growing demand for flexibility by employers but gives rise to a range of issues which have become the focus of attention, notably in the EU, where many issues are unresolved, and nationally (IBEC, 1996; ICTU, 1996). These issues need to be addressed at various levels for all women, as appropriate, including collective bargaining, promotion of good practice and employment conditions, education and training. This is a particularly important issue too for women who wish to establish enterprises and for lone parents wishing to take up employment.

The inexorable rise in demand for and supply of women in the labour force has also raised questions about the adequacy of arrangements for childcare facilities – both provision and regulation. The Working Group on Childcare Facilities for Working Parents (representing statutory interests and the social partners) reported to the Minister for Equality and Law Reform in 1994. The Council endorses the broad thrust of the

recommendations of the Working Group, which should inform future practice and provision in this area.

Also, the more general issue of reconciling family and paid work commitments has arisen. The EU has successfully piloted a Parental Leave Directive through the new social dialogue procedures provided under the Social Protocol of the Maastricht Treaty. The Directive leaves a considerable amount of discretion to the member states.

Special problems have traditionally arisen for women due to their typically dependent economic status as full-time home-makers and as a result of their childcare responsibilities. Additional problems arise for women seeking to gain or retain independence through employment and self-employment or where they are lone parents. In spite of the undoubted progress made since the 1970s (following the 1972 Report of the Commission on the Status of Women) in combating discrimination and exclusion experienced along gender lines, there is still a range of areas where policy changes are required. The Report of the Second Commission on the Status of Women (1993), set out a detailed set of 210 policy recommendations covering:

- Legal and constitutional issues;
- Women in the home;
- Paid employment;
- Child-care;
- Situations of disadvantage;
- The rural dimension;
- Political and civic participation.

This was followed up by a Monitoring committee which first reported on progress in 1994 and again in 1996. Also, several of its recommendations were used as a basis for commitments in the PCW in 1994. The Council recommends that the Progress Reports of the Monitoring Committee on the Second Commission be taken into account in discussions on a new programme.

#### (ii) A Broader Equality Paradigm

The example of gender has had repercussions for other aspects of discrimination in three distinct respects. First, this model of gaining gender equality has been, in part, emulated in the more recent and current concern to tackle inequality and discrimination based on disability and other criteria.

Second, at a wider level, the equality agenda has spilled well beyond the work-place to include a range of areas including education and the provision of services and consumer rights. The concept of 'equal status' has thus been articulated, and Equal Status legislation is promised to counter discrimination against a range of identifiable groups by service providers.

Third, because of the multiplicity of aspects of the equality debate and the range of reforms – including legislative and technical changes, and changes in practices, principles, values, attitudes and behaviour – the approach adopted has increasingly centred on special commissions providing detailed recommendations on a comprehensive agenda for change. Key among such bodies – following the examples of the First and Second Commissions on the Status of Women, have been the Task Force on Travelling People, 1995, and the Commission on the Status of People with Disabilities, which is due to report in 1996. These bodies are, in the Council's view, a most effective way of promoting the equality agenda in a concrete way, covering as they do very detailed issues, as well as the central themes, for policy – mostly of a non-legislative kind. In addition, there has emerged a 'tradition' of forming advisory NGOs of an ongoing kind with a specific expertise and commitment in some of these areas, such as the National Women's Council and the proposed Council for the Status of People with Disabilities.

A key development, currently, is the recommended Employment Equality Bill which was published in early 1996. The Bill extends the principles underlying the original employment equality legislation of 1970s to cover nine distinct discriminatory grounds: gender, marital status, family status, sexual orientation, religious belief, age, disability, race and membership of the Traveller Community. It also broadens the scope of equality legislation in respect of gender to prohibit sexual harassment – or harassment on the other grounds – and broaden the scope for positive action by employers in relation to access to employment, promotion and vocational training. The Bill covers discrimination, not just by employers but also in relation to collective agreements, advertising, employment agencies, vocational training, and certain vocational and representative bodies such as trade unions, professional and trade associations. While employers' organisations have expressed reservations in relation to its implementation, the Council looks forward to the recommended Equal Status Bill which has not yet been published.

A constitutional amendment to outlaw sex discrimination was also recommended by the Second Commission on the Status of Women. The Report of the Constitution Review Group (1996) has proposed an amendment to Article 40.1 guaranteeing equality before the law and

providing protection against unfair discrimination on any grounds. In the EU too there is increasing support for a general non-discrimination clause to be included in the Treaty.

Legislative change has been – and will continue to be – but one of the most visible and definite markers of change. Such change is only effective to the extent that it propels or codifies the transformation of patterns of inequality that are more deep-seated in structures, institutions and practices which were long in the making. Legal change must be accompanied by changes in the social structures underpinning inequality and in the practices and attitudes that keep these structures and patterns of inequality in existence. This places the onus for change more widely, particularly on employers, in relation to best practice and on collective bargaining procedures to bring about negotiated change. The Council recognises the potential for, and encourages affirmative action by employers, statutory and other bodies aimed at facilitating equality of access and outcome for vulnerable social categories through enlightened recruitment, education and training policies.

#### *Disability Issues*

In December 1993, the Commission on the Status of People with Disabilities was set up by the Minister for Equality and Law Reform to recommend measures aimed at achieving greater equality for people with disabilities. The publication of its report is due at the end of September 1996. The publication of the Commission's report should provide a comprehensive basis upon which measures to counter the inequality and exclusion of disabled people will be introduced.

In addition, progress made on the areas agreed in the PCW – such as the 3 per cent public service quota and the commitments by the private sector to promote employment of disabled people – should be reviewed. Appropriate measures in community employment, training and employment services for disabled people too should be promoted.

#### *Travellers*

The Traveller Community comprises a section of the population suffering social exclusion in almost all areas of life. Their much lower average life expectancy testifies to long-standing problems due to social and material deprivation. They are increasingly afflicted by long-term unemployment, compounded by poor educational levels which reinforce their accommodation problems. On top of all this, the Traveller Community suffer the effects of strained relations with the settled population which arise periodically and, in the absence of mutual understanding and respect

for cultural differences, can suffer from social stigmatisation bordering on hostility.

The inclusion of Travellers here reflects the importance the Council attaches to recognising the distinctness of this community as a status group in society. Not all Travellers experience the same economic and social hardships. It is their cultural identity – regardless of how poor they are – that is usually the basis of discrimination against them, by members of the settled Community. It is appropriate, therefore, that they should be specifically covered by the terms of the Employment Equality Bill, 1996.

The Council welcomes the report of the Task Force on the Travelling Community (1995), which deals in a comprehensive way with the multi-faceted problem of social exclusion of Travellers. The Council agrees that the improvement of relations between the settled and Traveller Communities is a key goal of policy and needs to be achieved through a wide-ranging package of measures including legislative, educational, accommodation, health and social service policies. These must be buttressed by legislative measures and the provision of agencies to provide mediation and to supervise and implement equality measures.

The Council welcomes the Employment Equality Bill, 1996, which encompasses Travellers, and supports the introduction of new equal status legislation and the inclusion of Travellers in it. The reconstitution of the Employment Equality Agency with a wider remit, as proposed by the Task Force, should be considered, as should the proposed Equality Court, in conjunction with the Employment Equality Bill (1996) and the promised Equal Status Bill. The Task Force's recommendations on accommodation are very comprehensive and should be used as the basis for improving provision over the coming years. Similarly, in the key areas of health and education, the Council supports the broad direction of the detailed proposals put forward by the Task Force. Such measures will take time to take effect and require determination if they are to be implemented effectively. The Council, therefore, supports the principle that the traveller community should be represented through its various organisations at all of the relevant levels of health, education, accommodation and anti-discrimination policy-making and implementation.

A key issue for countering exclusion and inequality among travellers is the provision of employment. The promotion of a transition to work through targeted measures including training, CE and the LES is vital in this context. It is important that these measures take account of the particular situation of Travellers and of issues of cultural difference in terms of outreach, access mechanisms, content and progression routes.

The Council also welcomes the acknowledgement of the Traveller economy and the constructive proposals for its development put forward by the Task Force. In the present report, proposals are made below for a working party to investigate the potential of the social economy. This should include potential applications in the area of the Traveller economy.

### 3. CONCLUSION

The Council acknowledges the significance of the modern focus on equality, which reflects deep-going changes in economic and social organisation and the expansion of education. We view the promotion of equality of opportunity, participation and outcome as a positive good and support key anti-discrimination and equality measures, both legislative and practical, by a range of actors, particularly in areas such as recruitment, training, services, employment, equality of opportunity, participation, and citizenship. The Council supports affirmative action by employers and public bodies which can play a real part in facilitating greater equality of outcomes in the future. In relation, specifically, to gender, disabilities and Travellers, the Council notes the ongoing work focused around Commissions and Task Forces which have been established or reported or are in the process of implementation. The representation of these interests in the policy-making process too is an important issue to be returned to in a subsequent chapter.

## CHAPTER 10

### COMBATING CRIME

#### 1. INTRODUCTION

There is a widespread perception and concern that the nature and extent of crime in Ireland has changed significantly in recent years. In addition to the fact that criminal activity has been on the increase for the past thirty years, there is concern about the recent spate of serious crime. In particular, there is concern about the apparently ruthless nature of recent murders, sometimes contract killings or murders associated with major drug rings and organised crime. The clustering of murders (often reflecting diverse motives) which have occurred recently has added to fears. In addition, the scale of reported violent/sexual offences, such as rape, indecent assault and the abuse of children is a major cause of concern. Apart from these 'conventional' forms of crime there is also a need to take account of the problem of 'white collar' and other hidden crime, which covers many activities against or by business, financial fraud, or fraudulent acquisition of public resources through tax evasion or breaches of safety or environmental standards.

While there is no simple answer to crime, there are many policies which must be pursued. Crime impacts most seriously on the quality of life and the cohesion of society. Action to promote social inclusion as outlined in this report, if pursued successfully, will help reduce crime levels, in particular conventional crimes against property and less serious crimes. It must be remembered that, in addition to impacting adversely on society, crime has an economic cost, seen very clearly in rising insurance costs; conversely, action to combat crime has an economic pay back, when pursued successfully.

In this chapter, the Council sets out its perspective on the current problem and measures to tackle it. Section 2 comments on crime trends, policing and punishment in Ireland, and Section 3 examines the response of society to crime and the need for a strategy to combat it.

#### 2. THE EXTENT OF CRIME AND POSSIBLE CAUSES

##### (i) Extent and Trends

The quantification of crime and its effects is a difficult and controversial subject. Firstly, much is unknown due to factors including non-reporting

(especially in the case of sexual offences), non-detection (crimes involving drugs frequently go unreported by definition unless detected), and the efficiency of recording and classification procedures. There is a need for more systematic research on the extent and nature of crime and the response to crime.

Despite statistical problems, however, considered research accepts that there has been a significant long-run increase in the number of indictable offences in Ireland since the 1960s (Rottman, 1984). The total number of indictable offences increased by 233 per cent between 1970 and 1995, while offences against property with violence increased by 353 per cent, and offences against the person increased by 46 per cent. Of the latter, the most serious crime – murder – increased threefold during the 1960s, from 8 in 1961 to 23 in 1971, and fluctuated around this level up to 1991, when there were also 23 (McCullagh, 1996; O'Mahony, 1993). The latest figures show that there were 41 murders and 101,500 indictable offences in 1995. The latter figure is consistent with the continuing upward trend. The figure for murders is well above the trend, however, and is the focus of much recent attention to the problem of serious crime (Garda Report, 1995). By international standards, nevertheless, crime rates are still on the low side and Ireland is still perceived abroad as a comparatively safe place to live.

Secondly, the perception of crime can vary quite independently of underlying trends. Crimes which receive most media attention are the ones which are unusual, and, therefore, newsworthy, and consequently may impact most upon the public perception of crime. The occasional clustering of murders, which can lead to media saturation coverage, often has this effect, but this may mask the underlying long-term trend. Therefore, the impact of crime tends to hinge not just on its extent but on how it is experienced and represented. A few serious crimes can have a marked impact on the perceived quality of life of individuals and the welfare of society while crime figures overall are declining. At the same time, researchers tend to agree that there has been a definite trend towards more serious crime, with the use of violence increasingly prevalent in the context of property crime (O'Mahony, 1993; McCullagh, 1996). On the other hand, some types of crime arising from fraud, tax evasion, abuse of financial responsibility or embezzlement – white collar crime – can be quite extensive and yet never become visible. If prisons, therefore, are populated by more 'conventional' criminals from deprived backgrounds this does not mean that the poor have a monopoly on crime.

### *Detection*

The growth of crime over the past thirty years has not been matched by a corresponding growth in detection: following substantial declines in the 1960s, overall detection rates fell from 50 per cent in 1970 to 33 per cent in 1990, but rose to 39 per cent in 1995. This decline in detection rates is heaviest in relation to offences against property with violence, where the rate has fallen from 55 per cent in 1970 to 30 per cent in 1990, rising to 35 per cent in 1995. Detection rates of offences against the person, traditionally the highest, have also declined, but to a lesser extent, from 90 per cent in 1970 to 83 per cent in 1990 and 80 per cent in 1995. Falling detection rates, particularly in relation to crimes against property, are difficult to stem. In addition to falling detection rates, there is concern about the effectiveness of the Gardaí in relation to the particular problems associated with drug pushing. Perceived failures on this front have given rise to efforts at 'self-policing', and rivalries and tensions between some local communities and the Gardaí.

### *Punishment*

In addition to the concern to tackle crime and the problem of falling detection rates more resolutely, there are serious problems with the capacity of the justice system to cope with the volume of pending prosecutions and the accommodation problems of a rising number of convicted offenders. There is widespread concern about the heavy demands on prison accommodation for remand purposes while, at the other end, early release policy and reviews of sentences are perceived to be influenced by expediency rather than an assessment of the appropriateness of a sentence.

### (ii) Explanations

Several 'common sense' theories are put forward to explain the rise of crime. Usually these include the identification of single factors such as the availability of drugs, drunkenness, the influence of television and videos, the breakdown of morality, poor parenting, the inadequacy of prisons or policing, poor living conditions, etc. On the other hand, there are broader sociological theories about crime which may incorporate elements of the above. These include arguments to the effect, for example, that modernisation and rapid urbanisation processes result in a dislocation of traditional communal sources of social control, with a consequent rise in crime. So, for example, the disproportionate crime rate in Dublin might be seen in the light of rapid urbanisation. Some difficulties with this approach in the Irish context have been identified (McCullagh, 1996),

particularly in view of the role of emigration to urban centres abroad in absorbing the population leaving the land between the 1950s and the end of the 1960s. Consequently, the growth of Dublin was primarily a result of the natural increase of the existing population rather than immigration. Secondly, whereas urbanisation theories usually identify the immigration of the unskilled as a significant feature, such migration into Dublin city often comprised skilled, educated and middle income strata.

An alternative sociological approach to the explanation of crime in Ireland is grounded in a more specific understanding of economic and social development. Within this perspective Irish economic development since the 1950s has been characterised by inward direct investment in modern sectors, frequently involving greenfield plants outside established industrial and urban areas. In addition, labour demand in such firms shifted from the traditional strata of male, manual unskilled workers towards female and semi or skilled labour. Meanwhile, traditional, protected industries – in Dublin especially – collapsed when faced with open door policies. Furthermore, the role of education became increasingly important in determining opportunities for employment. Finally, at least some of this inward investment was attracted by the less restrictive regulatory environment offered by Ireland in comparison with the source country.

It has been suggested that this pattern of development has contributed towards specific patterns of crime in Ireland. First, and fairly obviously, economic and social development has increased wealth and affluence. Much of this takes the form of portable property and creates new opportunities for conventional crime. Second, opportunities for 'white collar crime' may also have arisen in the context of a less rigid regulatory environment, in relation to environmental or accounting controls related to grants, tax breaks and other public incentives. A weaker form of this thesis would be that the rapid pace of economic expansion itself outflanked the capacity of the state to regulate it fully. A third aspect is related to the concentration of conventional crime in Dublin (in 1991, 55 per cent of indictable crime was recorded for the Dublin Metropolitan area, which has 35 per cent of the total population). By the early 1980s, Bannon *et al* (1981) had observed distinct geographic concentrations of disadvantage in the Dublin area which were more marked than elsewhere in Europe or, indeed, parts of inner city London. Where such geographic concentrations of disadvantage persist over time, it is argued, they provide fertile conditions for a distinct criminal culture. This culture may also be seen as an extreme expression of the black economy where, not alone are activities unregulated and untaxed, but they are also illicit in substantive terms. In this context, Hagan (1994) refers to the growth of 'deviance service industries' such as prostitution and drug dealing.

Finally, the predominance of male over female criminal activity, which is sometimes ascribed purely to biological factors, and, after feminism, to patriarchy or misogyny, may also reflect the differential nature of processes which have, while increasing affluence for many, intensified marginalisation for some. The feminisation of new employment, and the destruction of mainly male employment, combined with the socially defined importance of employment in forming the male identity, have been identified as factors which intensify the alienation of men as compared with women in localities which become marginalised. O'Mahony (1993) noted a similarity between the growth in reported crime and unemployment over certain periods in Ireland (1970-83), but not others (1983-89) and speculated that when young men become unemployed (as in the 1970s) there may be a stronger effect on crime trends than when older workers do so (as in the 1980s), but he recommended further research on this.

Whether these particular theories are valid or whether a single explanatory account of the rise of crime is indeed possible is perhaps less important than that we try to appreciate the broader, complex nature and environment of crime. The tendency to simplistic conclusions about how to tackle crime should be tempered by a sober assessment of the underlying social processes involved in reproducing it.

### 3. SOCIETY'S RESPONSE TO CRIME

Recently, as the problem of serious crime has begun to be seen as a threat to social order, opinion has been galvanised around the need to deal with criminal activity "head on", through better policing and detection, clamping down on money laundering and the imposition of effective punishments in response to crime. In the long-term, such measures can only be effective if they are an integral part of a package of measures which seeks to address the complex sources as well as the symptoms of the problem. Ironically, policy-makers do often address the sources, although the measures are not always acknowledged in terms of their effect on crime. While we may never hope to see the disappearance of crime, the response to crime can be made more effective through a thought-out and comprehensive approach. A strategy against crime comprises many policies.

#### (i) Social Inclusion

The many schemes and programmes aimed at tackling long-term unemployment, poverty and marginalisation, for example, have considerable potential in preventing crime indirectly. These have

developed in recent years, and require further development. Not all unemployed people are by any means likely to get involved in crime. However, local initiatives to provide recreational and social facilities, e.g. through local area-based partnership, may play an indirect part in preventing the drift into crime. Tackling social disadvantage from early childhood can both improve the child's long-term chances and draw her/his parents into a collaboration with schools.

#### (ii) Empowering Potential Victims

Education policies which enlighten children, and support-organisations which provide counselling, protection and information for individuals, communities and vulnerable sections of society, contribute in a long-term way towards weakening the potential effects of certain forms of criminal activity. These range from cost effective measures such as Stay Safe Programmes and drugs awareness education at school age, to co-funded voluntary agencies to protect and advise women, children or others who are at risk of being abused.

Legislative changes and enforcement of laws in favour of groups and sections of society who suffer discrimination, inequality or abuse, such as women and children, also contribute by empowering individuals. This is particularly important both in signalling society's abhorrence of crimes against the person and in providing protection against abuse which is frequently hidden behind closed doors in dysfunctional family settings, or institutional environments, or indeed perpetrated more widely. The implementation of the Child Care Act 1991, is an important focus of current policy and must remain a priority.

#### (iii) Drugs and Crime

Apart, altogether, from the specific consequences for crime of the drugs problem, drugs are a huge cost in a wider sense – wreaking havoc on the psychological well-being and physical health of thousands of children, youth and young adults. Drug addicts are both victims and, may in some cases, become perpetrators of crime. The drugs scourge eats into the very heart of local communities, with the potential to create powerful divisions between members of the community and between the community and law enforcement and other agencies.

In the context of the link between drug addiction and criminal activities such as muggings, robberies and burglaries aimed at feeding a "habit", effective healthcare measures for the treatment, maintenance and rehabilitation of drug addicts are an essential part of any policy response. These policies require significant resourcing but also demand an

integrated approach and the co-operation of local communities as, for example, in the case of GP involvement in follow-up methadone maintenance programmes.

The workings of the Gardaí are now the focus of a Strategic Management Initiative review. The structure of existing co-operation arrangements between Gardaí and local communities – particularly those communities hardest hit by drug addiction – should be thoroughly reviewed as part of the SMI review, and placed on a sound footing based on partnership principles.

#### (iv) Organised Serious Crime

Resort to increasingly callous acts of violence and attempts to intimidate officialdom and elected representatives by key figures in the crime under-world presents a fundamental threat to democratic institutions and the rule of law. The cold-blooded assassination of Veronica Guerin, journalist, spurred a reaction seldom seen in this country in the context of a single criminal act. Her death symbolised the threat posed to society and its legitimate institutions and to freedom of expression. The idea that the perpetrators of this act – and people known to be involved in organising serious crime – could be described as "untouchable" cannot be given the slightest credence. Therefore, quite correctly, attention has focused on measures to seize the assets of these criminals and to identify and prosecute those behind organised crime in Ireland today. The Council notes, in this context, the passage of the Proceeds of Crime Act, 1996, the Disclosure of Certain Information for Tax and Other Purposes Act, 1996, and introduction of the Criminal Assets Bureau Bill, 1996.

#### (v) Policing

Careful attention must be given to policies which identify how best to deploy resources, including new resources, to policing and detection. The Council welcomes the government's July 1996 package of measures, which include the provision of 400 more Gardaí than originally planned for 1996-1997, the redeployment of Gardaí from office to police duties and the recruitment of more civilian staff. In relation to certain types of crime, however, particularly associated with drug pushing, a key issue is how to develop a constructive arrangement between local communities and the Gardaí. Co-operation along these lines is essential if detection and prevention are to be improved. As noted above, this should be addressed in the context of the SMI review being undertaken.



#### (vi) Punishment and Rehabilitation

It has been noted that public attitudes have shifted in a more punitive direction in recent years. While this is perfectly understandable, we need to be wary of this trend, particularly if it implies abandonment of principles of rehabilitation. The 'criminal population' is as varied as the motives for crime. Failure to address this through varied punishment and rehabilitation strategies could actually worsen the situation. Prisons have been described as 'universities in crime' in which links are forged between seasoned criminals and inexperienced 'apprentices'.

Policies for young offenders, for example, should aim to prevent them graduating to a life-long career in crime. Co-ordinated measures should be actively developed involving the Departments of Justice, Health and Education *and other* Departments in a team approach including community service orders, intensive supervision projects and alternatives to prison, based on good practice.

#### (vii) Institutional Issues

The growth in crime rates has been gradual but the sense of concern about the crime problem and about the capacity of the justice system to cope with it has arisen more recently and dramatically. This suggests that there are serious issues at the level of institutions and the capacity of the justice system to respond to changes as they occur.

This inflexibility at institutional level appears to be due, in part, to the absence of sufficient demarcation between the role of the Department of Justice as policy-maker and that of executive responsibility which should be devolved to separate statutory agencies accountable to the Department. This is particularly true of the prisons, where no separate executive agency exists from the Department. The courts are now being placed under the separate courts service, while the Garda Síochána has long been seen as a separate body with its own independence in relation to day-to-day operations.

Subject to the simultaneous need for co-ordination between separate agencies and services, in which the Department – with the support and co-operation of *other* departments – should have a strategic role, such a division of labour could, in the Council's view, contribute to achieving greater institutional flexibility. The Department, acting in a strategic, policy-making capacity must also develop its information and research base.

#### 4. CONCLUSIONS

Rising crime rates are part of the price paid by many societies for rapid growth. However, there are many policies which must be enlisted in order to minimise the growth of crime, to prevent victimisation, and to detect, and prosecute offenders when crimes are committed. It is evident that there have been numerous failures in the institutional response to crime in Ireland – in minimising it, detection, and in the prosecution and management of offenders through the prison system and other options.

The recent concern with serious crime has triggered a response dealing with the most pressing aspects of policing, detection and prosecution of major criminals as well as bringing forward a range of recommendations on prison accommodation and the courts.

While supporting the thrust of the government's package of measures, the Council emphasises the need for a long-term approach and an in-depth review and researching of the nature and extent of the crime problem in a wider social context, and of the appropriate policies and strategic institutional responses to it.

## CHAPTER 11

### TAXATION AND PRSI

#### 1. INTRODUCTION

Taxation is a central component of the Council's approach to economic policy. The Council's recommendations on taxation in *A Strategy for Competitiveness, Growth and Employment* were designed to maximise the growth of sustainable employment within the context of a reform of the tax system.

Section 2 examines recent tax changes in view of the Council's previous recommendations. Section 3 surveys a number of studies on the potential contribution of tax reform to increasing employment and reducing unemployment. Section 4 seeks to identify the priorities for the future direction of taxation policy, including corporation tax. Control of the growth of public expenditure is required to provide some scope for tax reductions, subject to overall public finance constraints (see Chapter 4).

#### 2. DIRECTION OF TAX REFORM IN RECENT YEARS

##### (i) Personal Taxation

###### *Average Tax Rates*

There have been reductions in average tax rates at all income levels since 1993 (see Appendix). The reductions have been greatest at lower income levels in percentage terms, although in absolute terms, the gains have been greater, the higher the income level. These tax rates are calculated on the basis of personal allowances only; they exclude discretionary reliefs which reduce actual tax liabilities, especially at higher income levels. Conversely, restrictions placed on some of the reliefs (see below) had the effect of reducing the tax gains of many higher income earners. The reductions shown represent real tax savings; i.e. the changes have been adjusted to take account of inflation.

###### *The Tax Wedge*

The tax wedge is the difference between the cost to the employer of employing someone and the value of earnings to the employee. It includes direct income and social security contributions as well as employers' social security taxes and consumption taxes. The average tax wedge as

presented in Appendix (Table A5) is comprised of income tax, levies, employee PRSI plus employer PRSI, as a percentage of gross labour costs (gross earnings plus employer PRSI); consumption taxes are excluded because of data limitations. There has been a reduction in the tax wedge at all income levels. In percentage terms, the reductions have been greatest at low income levels, even more so than in the case of average income tax rates. In absolute terms the gains do not vary systematically with income level, but in some cases the absolute gains have been greatest at low to middle income levels (up to £13,000 in this context).

#### Tax Rates and Bands

The evolution of tax rates and bands over the past three years is summarised in Table 11.1. The significant changes which contributed to reducing the tax burden for those on low incomes have been the provision of an allowance of £80 per week (up to £4160 per year) against the payment of PRSI, exemption from the Health and the Employment and Training levies (2.25 per cent) for incomes under £188 per week (£9750 per year), and the reduction in the marginal relief rate of tax from 48 per cent to 40 per cent.

The general exemption limit has increased marginally in real terms, while the additional exemption per child has increased by 20 per cent. For a single PAYE taxpayer the basic non-discretionary allowances for *income* tax fell slightly in real terms. This reflects the abolition of the PRSI allowance against income tax, although the impact of this on disposable income was more than offset by the introduction of the allowance against the payment of PRSI. For a married PAYE taxpayer, the non-discretionary allowance was increased moderately, by 4.6 per cent in real terms. Another significant change has been the increase in the standard rate band by 14.2 per cent in real terms. The 1 per cent income levy was abolished in the 1994 Budget. A notable change in employers' PRSI has been the introduction of a lower rate of 8.5 per cent for employees earning up to £13,000. This has been instrumental in reducing the tax wedge at lower income levels.

The percentage of taxpayers paying above the standard rate has fallen from 40.7 per cent in 1993/94, to 37.3 per cent in 1996/97, due to the increase in the standard rate band. Most taxpayers (62.7 per cent) are not subject to the higher rate. The large number of taxpayers in the marginal relief band is an aspect of the tax system which the Expert Group on the Integration of the Tax and Social Welfare Systems drew attention to. The Group's proposals on this are discussed below.

#### Discretionary Reliefs

The most significant base-widening measure in recent years has been the restrictions placed on mortgage interest and health insurance relief. In the past, these reliefs were available to taxpayers at their marginal rate. From 1997/98, these reliefs will be restricted to the standard rate. This reform has been phased in over a three year period, beginning in 1994/95. Another discretionary relief which has been restricted is the relief that is available for covenants. Tax relief is no longer available on most covenants.

TABLE 11.1  
Evolution of Tax Bands and Rates 1993-1996  
Constant 1996 Prices

Single	
1993/94	1996/97
£8,234 @ 27%	£9,400 @ 27%
Balance @ 48%	Balance @ 48%
Exemption limit £3,862	Exemption limit £3,900
Allowance £3,499	Allowance £3,450
(Personal + PAYE + PRSI)	(Personal + PAYE)
Married One Earner	
1993/94	1996/97
£16,468 @ 27%	£18,800 @ 27%
Balance @ 48%	Balance @ 48%
Exemption limit £7,724	Exemption limit £7,800
Allowance £5,832	Allowance £6,100
(Personal + PAYE + PRSI)	(Personal + PAYE)
Employee PRSI and Levies	
1993/94	1996/97
Employee PRSI – £21,457 @ 5.5%	Employee PRSI – £22,300 @
Levies: All income @ 3.25%	5.5%, weekly allowance of £80
Exemption on 2.25% levies for medical	Levies: All income @ 2.25%
card holders	Exemption on 2.25% levies below
Exemption on 1% levy below £9655.74	£188 per week (£9,750 per year)
Employer PRSI	
£0 – £22,852 @ 12.2%	£0 – £13,800 @ 8.5%
Employer liable for levies of medical	£13,800 to £26,800: @ 12%
card holders	of all income

Another *de facto* base-widening measure has been the closing off of a loophole in a scheme designed to provide incentives for R&D (the Patent Income Relief Scheme). This scheme had been used to generate tax free income for directors and certain employees, often without significant R&D activity. The Council welcomes the changes which have been made to this scheme. As previously recommended by the Council, unemployment benefit was made reckonable for tax purposes with effect from 6 April, 1994.

While there has been significant progress in restricting some important reliefs, at the same time a range of new reliefs have been introduced in recent years and existing reliefs extended. New tax reliefs have been introduced in relation to service charges to local authorities, fees to private third level colleges, burglar alarms for those aged 65 and older and contributions to Third World charities. Rent relief has been extended to those aged under 55 in private rented accommodation. Under an amendment to this year's finance bill, the fees of certain part-time students are to be allowed against income tax; in addition, the ceiling on income that can be contributed tax free to Retirement Annuities is to be raised from 15 to 20 per cent for aged 55 and over. There has been an increase in tax relief for the donation of heritage items of national importance to recognised cultural institutions. The urban renewal scheme has been continued and a similar scheme has been developed providing tax incentives for investment in certain traditional seaside resorts. Tax incentives have also been introduced for investment in off-shore islands. The Business Expansion Scheme (BES) has been renewed, although efforts have been made to orient the scheme more towards genuine risk investment. A seed capital scheme has been introduced which provides a refund of tax paid on income up to a limit of £125,000 (paid in the past five years) for individuals investing in a new BES eligible business. One aspect of most of the new reliefs introduced in the 1995 and 1996 Budgets is that they were restricted to the standard rate. There is potential to extend this approach to other existing reliefs.

### (ii) Capital Taxation

The most significant Council recommendation in this area was for the introduction of a comprehensive residential property tax. An effort was made in the 1994 budget to broaden the scope of the existing Residential Property Tax (RPT). However, following a strong adverse reaction by those affected, this move was reversed in the subsequent budget and the RPT continues to be applied to a small minority of residential properties.

A number of reliefs have been introduced in relation to Capital Gains Tax (CGT). The standard rate of capital gains taxation is 40 per cent, with full

indexation provided for inflation. A new special rate of 27 per cent was introduced in 1994 for shares held for five years in unquoted SME companies, so long as not more than 25 per cent of the value of the company is derived outside Ireland. The five year requirement was reduced to three years in this year's budget. The conditions attached to rollover relief on equity investment, which allows an investor to defer CGT on the disposal of shares where the proceeds are reinvested in new shares in a trading company, have been relaxed and it has been extended to the services sector. There is also relief from CGT where the owner of a family business or farm is retiring if certain conditions are met. This relief has been made more attractive and it is possible for a family business or farm to be passed on to a child without incurring any liability for CGT. A technical amendment to the 1996 Finance Act addressed an avoidance issue whereby capital gains tax could be avoided through the use of loan notes.

Significant relief was introduced for Capital Acquisitions Tax (CAT) in relation to family businesses or farms. This relief implies that a child could inherit or receive a gift or inheritance of a qualifying business asset of up to £730,000 without incurring any CAT liability. The general thresholds for exemption from CAT have been indexed. A full exemption from the 2 per cent probate tax was introduced in relation to the transfer of assets between spouses.

### (iii) Corporation Tax

The major developments in relation to corporation tax in recent years have been as follows. The standard rate of corporation tax was reduced from 40 per cent to 38 per cent, which was of benefit to services companies. Certain overseas multinationals were exempted from Irish corporation and capital gains tax on the profits of their foreign branches under a new scheme aimed at attracting certain major corporations to Ireland. The bank levy, which was already being deducted from the banks' corporation tax payments, is being phased out over a three year period, beginning in 1995. The Council had previously criticised the bank levy as an anomaly in the system and welcomes its abolition. In 1996 a new low rate of corporation tax, 30 per cent on the first £50,000 of taxable income, was introduced. This is of particular significance for smaller companies.

The Council has previously welcomed the approach to corporation tax reform initiated in 1988. This has combined rate reduction (the standard rate was 50 per cent in 1988) and base broadening. Corporation tax revenue has grown strongly in the context of this reform. From 1992 to 1995, there was an increase in revenue of 55.7 per cent, with a forecast increase of 12.6 per cent in 1996. The increase in profitability in the

corporate sector and the growth of the IFSC have been important factors in the growth of corporation tax revenue.

#### (iv) Conclusion on Tax Changes Since 1993

There have been reductions in average tax rates for all taxpayers. Most taxpayers had a reduction of 1 per cent in their marginal rate (due to the abolition of the income levy) while some lower and middle income taxpayers had a greater reduction in their marginal rate. In percentage terms the gains from income tax and employee PRSI reductions have been greatest at low income levels, although in absolute terms the gains have been greater at high income levels. The reductions in the tax wedge have also been greatest in percentage terms at low income levels, while the absolute gains have not followed a distinct pattern. The Council welcomes the fact that the gains have favoured the lower paid in percentage terms. The reductions in income tax rates have been accompanied by, and to some extent facilitated by, a number of base-broadening measures. A number of new reliefs have been introduced in personal, capital gains and capital acquisitions tax. Corporation tax rates have been reduced somewhat.

The limits placed upon existing tax reliefs, most notably the confining of mortgage interest and health insurance relief to the standard rate, along with associated income tax and PRSI reductions, are significant changes and represent real tax reform along the lines advocated by the Council. However, the Council is concerned about the proliferation of new reliefs which have been introduced. Some of these provide potentially useful incentives for investment, but there is a danger if new reliefs are introduced in an uncontrolled way that this could undermine the progress that has been made in tax reform.

### 3. TAXATION, EMPLOYMENT AND UNEMPLOYMENT

A central question is the role that further changes in taxation can play in a strategy to increase employment and reduce unemployment. Before addressing this question in the Irish context, it is useful to review how this question has been approached in a number of international studies.

The Commission's White Paper, *Growth, Competitiveness, Employment*, made a number of recommendations with respect to taxation. The White Paper recommended that the member states should set themselves the target of reducing non-wage labour costs by an amount equivalent to 1 to 2 per cent of GDP, according to the tax structures in the member states. The White Paper considered that compensatory measures in the form of

increases in other taxes would be necessary in most cases to finance these reductions. It also recommended that the reduction of statutory charges on labour should apply as a priority to the lowest earnings. Several reasons are given for this. 'Unemployment is particularly high among unskilled workers. Furthermore, in most member states non-wage costs bear relatively more heavily on those in low paid employment'. In addition, 'focusing on those on the lowest earnings would make it possible to limit the budgetary cost of the measure per job saved or created' (p.155). The White Paper also saw the potential to use reductions in statutory charges on labour as a way of promoting more flexible working arrangements. (European Commission, 1994)

The OECD *Jobs Study* (1994) also adopted the view that the scope for increasing employment through tax adjustments is greatest in the case of the lower paid. The OECD study pointed out that recent tax reforms in many OECD countries have barely touched those on low incomes, who have in several cases, seen their marginal and average tax rates rise. The OECD study identified both demand and supply benefits from cutting taxes on the low paid.

The OECD study shared the view of the White Paper that the regressive structure of social security contributions in many countries is undesirable. It suggested that ceilings on the wage base subject to contributions could be eliminated. It also suggested that social security contributions could be restructured by introducing thresholds or reduced contribution rates for low income earners (p.100).

The case for cutting payroll taxes to reduce unemployment is critically examined by Nickell and Bell (1996). They note that employer social security contributions are very high in many European countries.<sup>1</sup> However, they point out that there is not a significant relationship between employers' social security contributions and unit labour costs. They argue that in the long-run payroll taxes are shifted on to employees. Hence, 'any attempt to reduce the unemployment rate in the long-run by cutting across-the-board tax rates on employment is likely to fail' (Nickell and Bell, 1996, p.60). However, hysteresis has been identified as an important characteristic of Irish unemployment, i.e. once unemployment is high it tends to stay high. Given this, short run changes in labour costs due to changes in employer's social security contributions may have long-run effects.

In contrast to a general cut in payroll taxes, Nickell and Bell believe that a reduction in payroll taxes (or provision of subsidies) for those on low

<sup>1</sup> By international standards, social security contributions are relatively low in Ireland.

earnings can contribute to lower unemployment. If employers' payroll taxes are ultimately borne by workers, then the same objection can be made against a cut in payroll taxes for the low paid as applies to the case for a general cut in payroll taxes, although there could be a positive effect on employment through the roundabout route of increasing take home pay and hence reducing the replacement ratio, with a consequent increase in effective labour *supply*. However, Nickell and Bell argue that wages at lower earnings levels are *not* flexible, because of the wage floors generated by minimum wage laws, unions or the benefit system:

This fact ensures that payroll taxes are not wholly borne by labour at the bottom end of the distribution. Thus, when payroll taxes are imposed, wages at the bottom end cannot fall because of the minimum wage, say, and unemployment goes up instead. This ensures that moving in the opposite direction with payroll cuts and job subsidies may have a significant long-run employment effect as well as some positive impact on take-home pay, (Nickell and Bell, 1996, p.61).

Nickell and Bell do not expect cuts in payroll taxes or job subsidies for the unskilled to play a major role in reducing unemployment. However, they argue that their proposals could make a contribution. In addition, they conclude that given the parlous position of the unskilled in an era of high unemployment, an improvement in their position is a matter of urgency. A recent report from the Centre for Economic Policy Research (1995) uses a similar reasoning to argue that a *selective* rather than a *general* cut in payroll taxes could have a significant effect on certain segments of the workforce. Selective reductions in employers' PRSI have been made in Ireland in recent years.

#### 4. PRIORITIES IN TAX POLICY

##### (i) General Approach

The central policy objective of the Council is to increase sustainable employment and reduce unemployment. The studies discussed above suggest that tax reductions (including employers' PRSI) aimed at the low paid are likely to make the most significant contribution to higher employment. While there are strong arguments against adopting a low wage/low skill approach as a *general* strategy, a realistic approach to reducing unemployment should include measures to stimulate employment for those with low earnings potential. This perspective was adopted by both the EU *White Paper* and the OECD *Jobs Study*.

The condition of the public finances imposes constraints on the scope for reducing taxation. The public finances must respect the Maastricht

criteria. An additional constraint on the Irish public finances is the need to prepare for a reduction in EU transfers at the end of the decade. Control of public expenditure is essential to ensure that tax reductions are consistent with a low public deficit.

The other possibility for reducing the tax burden for those on low incomes is through tax reform, i.e. restructuring the tax burden. Tax reform and tax reductions can be complementary. Where there is some scope to reduce overall taxation, it is easier to achieve some restructuring in the system as there is scope to provide some compensation for those who would experience losses from the restructuring.

##### (ii) Personal Taxation

###### *Report of the Expert Working Group on Integrating Tax and Social Welfare*

In considering the desired direction of tax reform in the coming years, it is useful to begin with the findings of the Expert Working Group on the Integration of the Tax and Social Welfare Systems. The objectives of this report were focused on improving the interaction of the tax and social welfare systems with a particular emphasis on employment. While the Group rejected the option of complete integration of tax and social welfare, it developed an approach designed to improve the interaction between the tax and social welfare system over time. One of the underlying principles outlined by the Group was that the tax burden on the low paid should be reduced:

Since many unemployed people, in particular the long-term unemployed, cannot command earnings at or above the average, every effort must be made over time to reduce or eliminate the tax wedge at lower income levels; where low earners pay no tax, subsidisation through the benefit system provides an important and well targeted support to work. (Expert Working Group, 1996, p.iv)

Other principles set out by the Group were as follows:

- There must be a reward for working;
- The transition to work should be facilitated;
- The tax and social welfare systems should be simpler;
- Tax and social welfare reforms should be co-ordinated (Expert Working Group, 1996, p. iv).

The Group's analysis of tax focused on the exemption/marginal relief system.<sup>2</sup> This is a feature of the tax system designed to assist the low paid. The exemption threshold is an income below which no tax is paid. It is set at a level above the normal standard allowances. If the normal tax system operated immediately above the exemption threshold, net income would fall when income rose above the threshold. Marginal relief is a mechanism which prevents this from happening. It operates by restricting the actual amount of tax paid to a maximum of 40 per cent of the excess of income over the relevant exemption limit. Marginal relief applies to those whose income is above the exemption limit but less than twice the exemption limit.

There are advantages and disadvantages to this mechanism. The advantage is that it is a cost effective way of providing tax relief and hence reducing replacement ratios for the low paid. However, a disadvantage is that it means the low paid have a high marginal tax rate (40 per cent). This high marginal tax rate interacts with the withdrawal rate for Family Income Supplement (FIS), so that the combined tax and benefit withdrawal rate can exceed 100 per cent over a certain range of income. The number of taxpayers who are taxed through the marginal relief system is very high: 174,000, or one in six, taxpayers are taxed in this way. On balance, the Review Group considered that the disadvantages of the exemption/marginal relief system outweighed the advantages.

#### *Personal Allowances*

The Council believes that there are several advantages to a substantial increase in personal allowances. First, an increase in personal allowances up to or above the exemption limit would facilitate the gradual elimination of the exemption limit/marginal relief system. This would significantly reduce the poverty trap for low income employees and make a modest contribution to reducing unemployment traps. This could provide significant tax relief for those on low incomes as well as reducing their marginal rate. This approach was also recommended by the Expert Working Group. Second, an increase in personal allowances is the most effective way of providing tax relief for those on low incomes, while simultaneously providing tax reductions for the generality of taxpayers. The gains in absolute terms are higher for higher rate taxpayers, although much less so compared to a reduction in the higher tax rate. However, the gains decrease as a percentage of take home pay as income increases within a tax band. The cost of increasing allowances to the exemption

limit are significant (£395 million). Because the self-employed do not have the PAYE allowance, this increase will not be sufficient to bring the allowance for the self-employed up to the exemption threshold. To increase the allowance sufficiently high to take the self-employed up to the exemption threshold would cost an additional £186 million.

The Expert Working Group envisaged that this change would be phased in over a number of years. This makes the cost more manageable, although it increases the total cost. Because there is already a significant difference between the exemption limits and the personal allowances, it would be necessary to increase the personal allowances at a faster rate than the exemptions simply to maintain, rather than close, the gap. The group outlined a possible evolution of personal allowances in which personal allowances were gradually increased to the exemption limit over a five year period. The annual average cost (net of the cost of indexing for inflation) was estimated at around £82 million.

#### *Move to Tax Credits/Standard Rating Personal Allowances*

The Council sees particular merit, by way of tax reform, in moving to a system of tax credits, rather than personal allowances. The Council sees the advantages of tax credits as providing a highly transparent and easily understood mechanism for making tax changes. An increase in the value of the tax credit of, for example, £100, would provide a reduction of that amount for almost all taxpayers. The Council acknowledges that a considerable period of preparation would be required to enable the Revenue Commissioners and employers to adjust to a tax credit based system.

If tax credits were introduced in place of the current tax allowances, it would be appropriate to accompany this change by a corresponding increase in the standard rate band. This would ensure that higher rate taxpayers do not lose and also ensure that almost no taxpayers would have an increase in their marginal rate.<sup>3</sup> This change would be revenue neutral. It would also be necessary to increase the standard rate band by somewhat more than the CPI (apart from the initial compensating increase in the

<sup>3</sup> One complication which arises from tax credits concerns those on secondary allowances (e.g. the age, lone parent's, blind person's allowance). If these allowances were converted to credits, higher rate taxpayers benefiting from these secondary allowances would not be fully compensated by an increase in the standard rate band. This could be addressed in some cases by providing a higher tax credit for the groups in question. This would imply a (small) windfall to standard rate taxpayers currently in receipt of the relevant secondary allowance and involve some net revenue loss, although the amount involved is small.

<sup>2</sup> The Group also analysed PRSI (see below).

band associated with the introduction of tax credits) to at least maintain the proportion of taxpayers at the standard rate as real income rises over time.

The Council recognises that similar results to tax credits could be achieved by standard rating personal allowances. In particular, a similar tax take at each income level can be achieved. However, standard rating of personal allowances lacks the advantages of transparency of tax credits. For these reasons, the Council favours a move to a credit-based system in the coming years and sees standard rating of personal allowances as an interim move in that direction.

#### *Standard Rate Band*

The advantage of increasing the standard rate band is that it is a cost effective way of providing tax reductions and reducing the marginal tax rate for single people on average industrial earnings (around £14,000) or for couples on incomes around double this level. The disadvantage is that it does not benefit the 63 per cent of taxpayers who are not currently paying the higher rate.

#### *Tax Rates*

The other primary mechanism for reducing taxes is to reduce tax rates. The main advantage of rate reduction is that it is clearly visible. The distributional implications depend on which rate is reduced. Reducing the higher rate is only of benefit to the top 37 per cent of taxpayers and provides no relief at all for those on lower incomes. Reducing the standard rate is of benefit to most taxpayers, except those who would still be on marginal relief. The gains from reducing the standard rate increase with income up to the top of the standard rate band (£12,850, single; £25,700, married), and then remain at a fixed amount for incomes above this level, but decline as a percentage of take home pay. To derive the maximum benefit from reducing the standard rate, one needs to be at the top of the standard rate band or on the higher rate. If the main emphasis of tax policy were to be on rate reductions, tax relief for the lower paid could be achieved by reducing the marginal relief rate. However, this would extend or maintain the marginal relief band. A disadvantage of focusing policy on rate reduction is that it would delay progress on the strategy of increasing personal allowances to eliminate the exemption/marginal relief system over time.

#### *Discretionary Reliefs*

The Council has on many previous occasion drawn attention to the role of discretionary reliefs which erode the tax base. These reliefs are of more

value to higher income earners because such taxpayers are more likely to have the resources to take maximum advantage of the reliefs and because most of the reliefs are available at the marginal rate. This implies that the tax burden at lower income levels is higher than it would otherwise be. The reliefs may have some positive effects, although their effectiveness is not generally known. A list of tax allowances and reliefs is included in the Appendix (Table A7).

The Council has previously recommended that discretionary reliefs and allowances should be minimised. Abolition of discretionary reliefs appears to be problematic. The cost of these reliefs could be reduced and their regressive distributional impact mitigated by restricting the reliefs to the standard rate and placing a limit on the value of individual reliefs, where this is not already the case. Standard rating has been successfully implemented in the case of the relief for mortgage interest and health insurance and many of the new reliefs which have been introduced also operate on this basis. The Council recommends standard rating of some other discretionary allowances and reliefs (excluding retirement contributions), as well as placing limits on the value of individual discretionary allowances and reliefs, as is already the case for mortgage interest relief.

#### *Property Tax*

A significant tax reform identified by the Council in previous reports was the introduction of a comprehensive residential property tax. The efficiency and equity arguments for a residential property tax have been outlined many times before.<sup>4</sup> The Council remains persuaded of the advantages of a comprehensive residential property tax. The introduction of a comprehensive residential property tax would justify retention of mortgage interest relief at the standard rate. In the absence of a comprehensive property tax, there is a case for adopting a very restrictive approach to mortgage interest relief. The Council emphasises, once again, that implementation of its proposals on property taxation must be accompanied by reductions in income taxation and would not involve an increase in the total tax burden.

#### *PRSI*

The changes to PRSI over the past three years have reduced the adverse impact of PRSI on low income employees. The *EU White Paper*

<sup>4</sup> These arguments are comprehensively presented in NESC (1988) and NESC (1993).



recommended making non-wage employer costs neutral or progressive, rather than regressive as they generally are at present. In the UK, employer social security contributions have a progressive rate structure, and no ceiling on contributions.

One disadvantage with PRSI, if it is evaluated as a tax, is that its base is very limited: it is mainly concentrated on employment in the private sector, with ceilings on contributions. An interesting option explored by the Expert Group was abolition of employee contributions and retention of the contributory principle for benefits on the basis of employer contributions. This reform partly shifts the tax burden away from employment, removes a regressive form of taxation and greatly simplifies the system. However, the Group did not agree on the desirability of this change. The most significant difficulty cited was the possible legal or expenditure problems in relation to sectors which currently receive a reduced range of benefits (public servants and the self-employed), due to the operation of the contributory principle on the basis of employer contributions. The potential legal problem is whether it would be justifiable to maintain differential treatment in relation to benefits, based on employer contributions, as this is a factor over which the person has no control. If the differential treatment was not maintained then there would be a large increase in expenditure.

#### *Energy Tax*

Another possible measure to reduce taxation on employment is an energy tax. The OECD *Jobs Study* regards the possibility of increasing employment in this way as limited, but the EU *White Paper* argues, on the basis of econometric simulations, that there is significant scope, particularly if the revenue is used to reduce employers' social security contributions on the low paid. Research by Fitzgerald and McCoy (1992) found that the introduction of a carbon tax in Ireland, with the proceeds applied to reducing employers' PRSI, could lead to an increase in employment.<sup>5</sup>

#### (iii) Corporation Tax

The regime of 10 per cent corporation tax for manufacturing extends to 2010 and for the IFSC to 2005. The Council believes that an early decision on the regime beyond those dates is necessary because of the planning horizons of firms for projects now under development. The objective in

deciding on a future corporation tax regime should be to secure the maintenance of the 10 per cent manufacturing rate and to bring about a progressive and substantial reduction in the actual standard rate of corporation tax, taking into account the position of small business through the threshold mechanism.

#### *Double Taxation Regime*

While the issue of corporation tax rates has received considerable public attention, the issue of the double taxation regime facing Irish companies, though somewhat technical, is of considerable strategic importance. This issue relates to the taxation of companies headquartered in Ireland who have significant overseas subsidiaries. The relevance of this issue is that it affects the attractiveness of Ireland as a base for the headquarters of multinational companies (whether of Irish origin or not), the willingness of companies who are headquartered in Ireland to repatriate profits to Ireland as well as the post-tax returns on overseas investment and the competitiveness of such companies.

A special relief was introduced in the 1988 Finance Act whereby profits repatriated here from foreign subsidiaries are not taxed here subject to certain conditions, in particular, that the funds are used for the creation and maintenance of employment in Ireland. A further change relating to this issue was made in the 1995 Finance Act.

The complexity and technical nature of double taxation precludes a comprehensive examination of the issue here. However, there is a need for a review of this question as it is one of growing importance in the light of increasing economic integration.

## 5. CONCLUSIONS

The Council attaches particular importance to the reform of taxation in the coming years. Three reasons for this priority can be identified:

- (i) The creation of employment and the reduction of unemployment;
- (ii) The need to underpin continued wage moderation by sharing the fruits of growth;
- (iii) The need to support investment.

The Council's proposals for taxation policy are informed by these objectives.

<sup>5</sup> For a number of caveats concerning this proposal, see NES (1993).

The Council acknowledges that significant reform of taxation has occurred since 1987. The Council welcomes the fact that, in the most recent years, the reductions have been greatest in percentage terms for those on low incomes. It feels, however, that tax reform tends to be a residual item, and is, consequently, vulnerable whenever expenditure or revenue developments are unfavourable. The Council sees tax reform as an integral part of Ireland's overall economic and social strategy, rather than a windfall to be distributed when other circumstances are particularly favourable or expedient. In order to give tax reform appropriate priority, the Council proposes that a specified portion of GDP be allocated to tax reductions over a three year period. As indicated in Chapter 4 above, the Council believes that at least 0.5 per cent of GDP would be an appropriate amount in each year, summing to 1.5 per cent of GDP after 3 years.

#### (i) Income Tax and PRSI

The Council believes a balanced package of personal tax reductions is necessary:

- To assist in promoting social inclusion;
- To facilitate a moderate pay deal; and
- To generate growth.

#### *The Council's Priority in Income Tax Change*

The Council believes that the priority in income tax change is reduction of the tax burden for lower to middle income earners. In practice, this implies that priority should be given to increasing basic allowances, rather than reduction of income tax rates, as the latter would provide only limited relief to the lowest income earners. In contrast, increasing personal allowances has several advantages:

- (i) Higher personal allowances would facilitate the eventual elimination of the exemption limit/marginal relief system. This would provide significant tax relief for those on low incomes, as well as reducing their marginal rates;
- (ii) It is effective in reducing the tax burden for those on low incomes, while simultaneously providing tax reductions for the generality of taxpayers.

The Council believes that this general superiority of increased personal allowances should be a principle guiding income tax reduction in the coming years.

#### *Move to Tax Credits*

The Council sees particular merit, by way of tax reform, in moving to a system of tax credits, rather than personal allowances. The Council sees the advantages of tax credits as providing a highly transparent, easily understood, and equitable mechanism for making tax changes. An increase in the value of the tax credit of, for example, £100, would provide a reduction of that amount for almost all taxpayers. The Council acknowledges that a period of preparation would be required to enable the Revenue Commissioners and employers to adjust to a credit-based tax system.

The Council recognises that similar results to tax credits could be achieved by standard rating personal allowances; in particular, a similar tax take at each income level can be achieved. However, standard rating of personal allowances lacks the advantage of greater transparency of tax credits. For this reason, the Council favours a move to a credit-based system in the coming years and sees standard-rating of personal allowances as an interim move in that direction.

A key principle in the Council view of tax reform is that the system should not be further eroded by the proliferation of new reliefs. The Council acknowledges the progress that has been made in restricting some tax expenditures but is concerned that the cumulative effect of introducing many new concessions could quickly erode the progress that has been made. Many of the existing discretionary reliefs could be eliminated. Where it is not feasible or desirable to do this, the Council recommends restricting some of the reliefs to the standard rate. Furthermore, the Council recommends that a limit be placed on the individual value of most discretionary allowances or reliefs, where this is not already the case.

#### *Council Recommendations*

The Council recommends that the reduction in income taxation be achieved through a combination of:

- Standard rating all personal and certain discretionary allowances (excluding retirement contributions) and limiting the value of most discretionary allowances (as is the case at present for mortgage interest and health insurance);
- Widening the standard tax band to compensate for the standard-rating of personal allowances;
- A significant increase in the (now standard rated) personal allowance;
- Reducing the standard tax rate to 25 per cent.

The regime of 10 per cent corporation tax for manufacturing extends to 2010 and for the IFSC to 2005. The Council believes that an early decision on the regime beyond those dates is necessary because of the planning horizons of firms for projects now under development. The objective in deciding on a future corporation tax regime should be to secure the maintenance of the 10 per cent rate and to bring about a progressive and substantial reduction in the current standard rate of corporation tax, taking into account the relative position of small business through the threshold mechanism.

**(iii) PRSI**

Research suggests that selective reductions in taxation and employers' social security contributions can assist the growth of employment, although this effect is not easily quantified. This approach has been adopted in Ireland in recent years. The focus of change in employers' PRSI should be on reducing the overall tax wedge on lower paid jobs.

**(iv) Replacing Taxes on Work with Tax on Property**

The Council remains persuaded of the advantages of a comprehensive residential property tax, as demonstrated in previous Council reports and numerous other expert studies. It underlines, once again, that a property tax would *replace* taxes on income, rather than increasing the total tax burden.

The Council's recommendations on taxation are designed to assist in the promoting social inclusion, to facilitate a moderate pay deal and to generate growth. The Council views these recommendations as a core element of its approach to economic and social policy.

## APPENDIX TO CHAPTER 11

The approach adopted in Tables A1 to A6 has been as follows. The actual tax rates for the income levels shown have been calculated for 1996/97. These tax rates are then compared to the tax which would have been paid at the equivalent real income in 1993/94. Thus, for example, the tax rate paid in 1996/97 at £10,000 is compared to the tax rate paid at £9,320.80 in 1993/94.

**TABLE A1**  
**Marginal Tax Rates, Single Person**  
**Constant 1996 Prices**  
**Income Tax and Employee PRSI**

	1993/94	1996/97
5,000	34.75	32.50
7,000	34.75	32.50
10,000	35.75	34.75
12,000	56.75	34.75
15,000	56.75	55.75
20,000	56.75	55.75
25,000	51.25	50.25
30,000	51.25	50.25
40,000	51.25	50.25
50,000	51.25	50.25

**TABLE A2**  
**Marginal Tax Rates, Married – One Earner, No Children**  
**Constant 1996 Prices**  
**Income Tax and Employee PRSI**

	1993/94	1996/97
5,000	5.5	5.5
7,000	7.75	5.5
10,000*	56.75	47.75
12,000	35.75	34.75
15,000	35.75	34.75
20,000	35.75	34.75
25,000	51.25	50.25
30,000	51.25	50.25
40,000	51.25	50.25
50,000	51.25	50.25

\* Marginal Relief.

**TABLE A3**  
**Average Tax Rate, Single Person**  
**Constant 1996 Prices**  
**Income Tax and Employee PRSI**

	1993/94	1996/97	Change
5,000	15.9	9.3	-6.6
7,000	21.3	15.9	-5.3
10,000	26.3	23.1	-3.2
12,000	28.3	25.1	-3.3
15,000	34.0	30.0	-4.0
20,000	39.7	36.5	-3.3
25,000	42.3	39.8	-2.5
30,000	43.8	41.7	-2.1
40,000	45.7	43.9	-1.8
50,000	46.8	45.2	-1.6

**TABLE A4**  
**Average Tax Rates, Married – One Earner, No Children**  
**Income in Constant 1996 Prices**  
**Income Tax and Employee PRSI**

	1993/94	1996/97	Change
5,000	5.5	0.9	-4.6
7,000	7.75	2.2	-5.5
10,000	19.7	14.3	-5.4
12,000	22.6	19.1	-3.5
15,000	25.3	22.2	-3.0
20,000	27.9	25.4	-2.5
25,000	30.9	26.8	-4.1
30,000	34.3	30.9	-3.4
40,000	38.5	35.8	-2.7
50,000	41.1	38.8	-2.3

TABLE A5

**Average Tax Wedge, Single Person  
Constant 1996 Prices  
Income Tax, Employee PRSI and Employer PRSI  
as a Percentage of Gross Labour Costs**

	1993/94	1996/97	Change
5,000	25.0	16.4	-8.6
7,000	29.8	22.5	-7.3
10,000	34.3	29.2	-5.1
12,000	36.1	30.9	-5.2
15,000	41.2	37.5	-3.7
20,000	46.3	43.3	-3.0
25,000	48.1	46.3	-1.8
30,000	48.6	47.3	-1.3
40,000	49.2	48.1	-1.1
50,000	49.6	48.5	-1.1

TABLE A6

**Average Tax Wedge, Married – One Earner, No Children  
Constant 1996 Prices  
Income Tax, Employee PRSI and Employer PRSI  
as a Percentage of Gross Labour Costs**

	1993/94	1996/97	Change
5,000	15.8	8.7	-7.1
7,000	17.8	9.9	-7.9
10,000	28.4	21.0	-7.4
12,000	31.0	25.4	-5.6
15,000	33.4	30.6	-2.8
20,000	35.7	33.4	-2.3
25,000	37.9	34.7	-3.2
30,000	39.9	37.6	-2.3
40,000	42.6	40.6	-2.0
50,000	44.2	42.5	-1.7

TABLE A7

**Tax Allowances and Reliefs 1995-96**

The following table sets out the estimated cost of the main tax allowances and reliefs for the most recent year in each case, (1995-96 unless stated otherwise).

Allowance/Relief	Estimated Full Year Cost £m
<b>Personal Allowance</b>	
Married (£5,000)	876.0*
Single (£2,500)	452.0*
Widowed (£3,000) (£5,000 in year of bereavement)	60.0*
Widowed Parent Bereavement Allowance	1.0
One Parent Family (Single: £2,500) (Widowed: £2,000)	18.0
Dependent Relative (£110)	1.0
Age Allowance (Married: £400) (Single: £200)	5.6
Blind Allowance (£600 and £1,400)	0.2
PAYE (£800)	215.0
<b>Exemption Limits</b>	
General: £3,700/£7,400	
Child Addition: £450/650	
Aged 65-74: £4,300/£8,600	
Aged 75 or over £4,900/£9,800	93.0**
Incapacitated Child (£600)	2.1
Incapacitated Taxpayer (£5,000)	0.2
Loan Interest (Mortgage Interest)	136.0

\* Costs of allowance granted to all persons on the tax records *whether liable to tax or not*.

\*\* Costs of exemption limits in excess of the personal allowances and includes cost of marginal relief.

TABLE A7 continued

Allowance/Relief	Estimated Full Year Cost £m
Retirement Annuity (Sch D)	42.6 (93/94)
Pension contributions by employees	58.0 (1993)
Pension contributions by employers	142.0 <sup>(1)</sup> (1993)
Exemption of retirement lump-sum gratuities (including civil service lump-sums)	20.0 (1993)
Relief for payments as compensation for Loss of Office	8.5 (93/94)
Statutory Redundancy Payments	9.0 (94/95)
Approved Superannuation funds' income	
– Gross of Pension Payments	125.0 <sup>(2)</sup> (1993)
– Net of Pension Payments	30.0 (1993)
Medical Insurance	58.0
Permanent Health Benefit Scheme	2.5
Health Expenses	8.1
Post Office Saving Schemes	20.0
Dispositions (Covenants and Maintenance Payments)	8.0
Schedule E expenses	35.6
Stock Relief for Farmers	3.1
* Share Options	3.0
* RICT (BES or Venture Capital)	31.0
Seed Capital	0.7
* Rent Paid in Private Tenancies	20.3

<sup>(1)</sup> Based on estimated corporation tax saving.

<sup>(2)</sup> Based on applying a 27 per cent rate of tax to the Superannuation Funds' investment income. The investment income of the Superannuation Funds was £462 million in 1993, representing 3.3 per cent of pension fund assets.

TABLE A7 continued

Allowance/Relief	Estimated Full Year Cost £m
*Profit Sharing Schemes	4.1
Exemption of income of charities	27.5
Relief for Donations of Heritage Items	0.5
Film Investment (Section 35)	19.0
Special Savings Accounts	20.0
First Step and Enterprise Trust	0.4
Rented Residential Accommodation (Section 23)	17.6 (1993)
Urban Renewal	68.0
Double Taxation Relief (CT and IT)	44.0 (92/93)
Patent Royalty Relief	15-20 <sup>(3)</sup>
<i>Exemption from tax of certain social welfare payments:</i>	
Child Benefit	77.0
Maternity Allowance	3.6
Injuries Benefit	0.7
Capital Allowances (Plant, Machinery and Industrial Buildings – does not include IFSC or Shannon)	588.0 (92/93)
Govt. Securities – Non-Residents	93.0 (1992) <sup>(4)</sup>

<sup>(3)</sup> Estimate based on sample survey.

<sup>(4)</sup> As this estimate assumes *no* change in behaviour should full taxation be applied it is likely to grossly overstate revenue foregone in respect of the relief.

TABLE A7 *continued*

Reliefs in respect of which costs are negligible or are not quantifiable
Certain payments made by a person carrying on a trade or profession to an Irish university or other qualifying educational establishment;
Relief for donations made to certain bodies engaged in the promotion of the arts;
Exemption in respect of certain income derived from the leasing of farm land;
Expenditure on significant buildings;
Expenditure on certain buildings in designated inner city areas;
Interest on money borrowed by an individual to pay death duties or for business purposes;
Relief for new shares purchased on issue by employees;
Relief for donations made to "Cospóir" – the National Sports Council;
Relief for investment in research and development;
Designated Third World Charities;
Exemption of certain earnings of writers, composers and artists;
Exemption of Stallion Stud fees;
Exemption of Forestry profits;
Relief for Mining Incentives;
Relief for Petroleum Exploration;
Seaside Resort Relief.

Source: Revenue Commissioners

## CHAPTER 12

### PROMOTING PUBLIC SECTOR INSTITUTIONAL CHANGE

#### 1. INTRODUCTION

This part of the Strategy Report deals with action to achieve change in areas that will have a significant impact on Ireland's development over the years ahead. This is clearly true for the public sector both because of the services, especially social services, it delivers directly and because of its policy and regulatory responsibilities which have a major impact on the country's overall competitiveness.

Chapter 5, which sets down the Council's conclusions and recommendations on Wage Bargaining, identified the need for restructuring across the public sector if reasonable expectations on the part of public servants are to be reconciled with the country's developmental needs and the public financial constraints within which Ireland must operate in the years ahead. This Chapter is set in that context and gives the Council's views on the issues arising now in the area of the changes affecting public sector organisations in many countries and on the particular issues arising for the Irish public service in implementing *Delivering Better Government* and the Strategic Management Initiative. It also considers the future of the Commercial State bodies, now operating virtually exclusively in the utilities areas, and issues related to local government and the devolution of both powers and functions.

#### 2. PUBLIC SECTOR INSTITUTIONAL CHANGE

A series of forces for change have acted to cause a rethinking of the role of the public sector in many countries in recent years. These forces include:

- new demands created by social change;
- transformed thinking about the nature of effective management in the public sector based on private sector and market principles;
- heightened consumer awareness of quality of service issues.

The impact of these forces have combined with a climate of tight financial control, of external scrutiny of public spending especially in terms of value for money, and, of renewed commitments to quality in public

service delivery to encourage action aimed at improved performance by many public sectors.

The direction of the changes that have taken place in this context include:

- change from an emphasis on internal procedures to a concern for outcomes;
- change from an emphasis on hierarchical decision-making to an approach stressing delegation and personal responsibility;
- change from a focus on the quantity of service provided to one also concentrating on quality;
- change from a culture that values stability and uniformity to one that cherishes innovation and diversity.

There is a sense that, in some countries, financial and political constraints imposed by central governments have limited the possibilities for innovation because they have lost sympathy with the values and practices of public enterprise. In many others, however, public organisations have responded to their newly insecure position with a creative engagement that has seen positive results. A boldness and innovation have been released where before there may have been conformity and tradition.

In pursuing change, the point has been stressed that public sectors cannot simply borrow from the private sector. 'It is all too common for critics of the performance of public companies to jump to the unwarranted conclusion that there are ready made private sector solutions available' (Metcalf and Richards, 1990, p.ix). Whatever lessons can be learned from private enterprise, the particular ideals and imperatives of the governance of public enterprise will always involve a distinctive approach. As Kate Pinder argues, 'There is a need to develop new sorts of management, capable of meshing the requirements of democratic accountability with those of swift response and efficient service delivery, and capable of meeting a range of social objectives without abandoning a concern with value for money' (1993, p.412).

Crucial for the survival of democratic public enterprise will be the capacity to change and respond to new social demands as they arise. 'The key issue for the public sector is about learning. Is the public sector capable of sustaining learning adaptive organisations?' (Stewart, 1990, p.23). New forms of innovative response will be achieved when people in the public services recognise and understand the importance of this in terms of the values they uphold about social results – as Susan Weil puts it, 'when the energy to reconstruct the world ... becomes self-generating' (1992, p.15).

The OECD has made and continues to make an important contribution to work on public sector change through its Public Management Service (PUMA). It has emphasised the importance of good governance in ensuring that challenges to society are dealt with adequately (OECD, 1995). It has emphasised that unchanged governance structures and classic responses of 'more of the same' are inappropriate because:

- maximising economic performance and ensuring social cohesion requires governments to adjust rapidly to changing circumstances, to create and exploit new opportunities and thus to deploy and redeploy resources more rapidly and flexibly;
- highly centralised, rule-bound, and inflexible organisations that emphasise process rather than results impede good performance;
- large government debts and fiscal imbalances exacerbated by recession – and their implications for interest rates, investment, and job creation – place limits on the size of the State and require governments to pursue greater cost-effectiveness in the allocation and management of public resources;
- extensive and unwieldy government regulations that affect the cost structures and thus the productivity of the private sector restrict the flexibility needed in an increasingly competitive international market-place;
- demographic changes and economic and social developments are adding to the services that the community expects from governments, while consumers are demanding a greater say in what governments do and how they do it; they expect value for money and are increasingly reluctant to pay higher taxes.

PUMA suggests that a new paradigm for public management has emerged aimed at fostering a performance-oriented culture in a less centralised public sector. This is characterised by:

- a closer focus on results in terms of efficiency, effectiveness and quality of service;
- the replacement of highly centralised, hierarchical organisational structures by decentralised management environments where decisions on resource allocation and service delivery are made closer to the point of delivery, and which provide scope for feedback from clients and other interest groups;
- the flexibility to explore alternatives to direct public provision and regulation that might yield more cost-effective policy outcomes;



- a greater focus on efficiency in the services provided directly by the public sector, involving the establishment of productivity targets and the creation of competitive environments within and among public sector organisations;
- the strengthening of strategic capacities at the centre to guide the evolution of the State and allow it to respond to external changes and diverse interests automatically, flexibly, and at least cost.

PUMA argues that, while many countries have embarked on a process of public sector change, implementation is far from complete and has raised a number of issues that countries will need to address, if public sector change processes are to reach their full potential. These include:

- the uneven pace and extent of devolution; further work is necessary to ensure that the empowerment of managers filters downwards and outwards in organisations;
- concerns that greater managerial flexibility, which has fostered diversity of practice, could lead to the erosion of a service-wide perspective, the collective interest of government and traditional public service values;
- efforts to link incentives for individuals to organisational performance through performance appraisal and performance pay have encountered significant difficulties;
- the processes of converting broad and sometimes conflicting government objectives into operational targets and measuring the extent of their achievement need to be further refined;
- increased managerial autonomy has implications for public accountability, requiring clarification of precisely who – elected representatives or officials – is responsible for which results in a decentralised management environment.

PUMA argues the important point that a 'selective radical' strategy for implementing public sector reform may well be the preferred solution. Incrementalism is unlikely to succeed in bringing about fundamental change in behaviour and attitudes. The Council believes this argument deserves careful consideration in the Irish context.

### 3. THE STRATEGIC MANAGEMENT INITIATIVE AND DELIVERING BETTER GOVERNMENT

#### (i) The Strategic Management Initiative (SMI)

The Strategic Management Initiative was launched in February 1994 with a focus on three key areas:

- the contribution which public bodies can make to national development;
- the provision of an excellent service to the public;
- the effective use of resources.

Departments and Offices were asked to develop Statements of Strategy setting out their key goals and objectives and how to achieve them, based on the three key areas identified above.

A Co-ordinating Group of Secretaries was set up to consider and recommend management changes, including legislative changes, to enable individual Secretaries to manage more efficiently and effectively. In their first report in February 1995, the Co-ordinating Group made proposals for the further development of the Strategy Process, including publication by all Departments of Statements of Strategy. They also recommended an approach to management changes, particularly in the personnel and finance areas. Structures for dealing with 'Cross-Departmental' issues were proposed as was the extension of the process to the wider Public Service.

The Government agreed to the implementation of the recommendations of the report and mandated the Co-ordinating Group to:

- (a) review existing systems for making decisions, allocating responsibility and ensuring accountability in the Civil Service;
- (b) bring forward for Government consideration proposals for an integrated programme to modernise the systems and practices in question and for the consequent modernisation of existing personnel and financial management in the Civil Service.

The Co-ordinating Group produced a second Report in October 1995 which set out recommendations designed to ensure that the Civil Service is efficiently and effectively managed to achieve the objectives set for it by Government. This Report provided the basis for the Government Programme, *Delivering Better Government: A Programme of Change for the Irish Civil Service*, which was launched on 2 May 1996. This Programme has as its central thrust the achievement of an excellent service for the Government and for the public as customers and clients at

all levels. This will be done by assigning responsibility and authority to the person or persons who actually deliver the service. Certain key issues are identified as central to successfully implementing the programme of change to achieve this. These are:

- new structures of management;
- a different approach to human resource management;
- a new approach to financial management;
- the use of information technology to support change.

A new Co-ordinating Group was established under the *Delivering Better Government* programme to include business, trade union and independent representatives. The remit of this Group is to oversee the implementation of the Government's programme of change for the Civil Service, to validate reviews of expenditure programmes as requested by the Government and to report regularly to Government on the progress of the change programme and the Strategic Management Initiative.

The implementation process now underway involves the widening and deepening of the Strategic Management Initiative. Widening of the SMI will be achieved by extending it to the wider Public Service by the end of 1996. This will set the Chief Executives of all Public Service bodies the task of producing a Strategy Statement within twelve months. These Statements will be set within the context of the Government Programme and the Statement of Strategy of the parent Department.

Deepening the process in Departments and Offices requires embedding of the strategic management approach at the heart of the day to day management of the organisation and in particular a focus on developing a coherent performance management system and an effective approach to performance measurement. The next step is to design an integrated performance management framework for the Civil Service, based on experience in Ireland and overseas, in both the public and private sectors. Specific international expertise in this area will be engaged to assist in the process.

A number of structures are being put in place to drive the programme for change based on the principles of maximising involvement and consultation across the Civil Service. In addition to the overall Co-ordinating Group, a number of Working Groups have been put in place to develop and implement change in the following key areas:

- Quality Customer Service;
- Human Resource Management;

- Financial Management Systems;
- Information Technology;
- Regulatory Reform;
- Open and Transparent Service Delivery.

The input of front-line staff will be particularly important in successfully developing and implementing change to the programme and front-line groups have been established in respect of:

- Quality Customer Service;
- Training and Development;
- Information Technology.

Finally, a dedicated cross-departmental team drawn from across the Civil Service to support implementation is being put in place. The team will operate under the aegis of the Department of the Taoiseach.

The Council welcomes the direction of the SMI and *Delivering Better Government* in promoting public sector change. The Council believes it important that this implementation process should bear in mind the issues identified by PUMA and noted earlier in this Chapter.

The Council is conscious that earlier initiatives in public sector reform were less than completely successful and evoked a 'nothing will ever really change' attitude. This underlines the necessity for a consistent and coherent implementation effort to avoid a similar cynical response. The Council sees merit in the SMI Working Groups now at work adopting PUMA's 'selective radical' approach. In this way fundamental change in behaviour and attitudes can be achieved and major benefits won for the public sector and for the country.

#### (ii) Past Council Reports

The Council has over a number of Strategy reports argued for the effective management of the public sector, and of public expenditure and public enterprises in particular. In *A Strategy for the Nineties* the Council made a series of specific recommendations including:

- the use of a total financial frame or block budget within which greater freedom is given to reallocate funds and adjust programme priorities;
- the accompanying creation of appropriate mechanisms to monitor results and outputs;

- improvement in the capacity of individual Departments to take a strategic perspective and allocate resources to reflect that perspective;
- charging the Comptroller & Auditor General with a comprehensive auditing function, covering efficiency and effectiveness as well as financial regularly;
- greater exposure of the public expenditure system to market forces;
- the effective management of tax expenditures.

The Council now reiterates these recommendations.

### (iii) State Enterprise

The Council considered State Enterprise extensively in *A Strategy for the Nineties*. The changes made in recent years have altered the composition of commercial State bodies such that these now fall almost exclusively into the utilities area. Within the utilities area the key issues for policy relate to regulation and competition.

The Council concludes that the time is right for an updated audit of State utilities identifying:

- the nature of the product market and the scope for enhancing competition;
- the regulatory regime in place or being put in place;
- the need for and an outline of policy choices appropriate to specific bodies.

The Council recommends that a mechanism to carry out this audit should be agreed in formulating the next Programme.

## 4. DEVOLUTION AND THE DEVELOPMENT OF LOCAL GOVERNMENT

The Government Statement on Local Government Reform of 4th July 1995 argued that a renewed system of local government can provide a more effective focus for the delivery of a wider range of public services, for the better development and well-being of local communities and for promoting local development and enterprise. It argued that a local focus can enhance partnership and participation, harness local identity and local loyalties to foster social inclusiveness, equality of opportunity and a tangible sharing of the burdens and rewards of society. It can also facilitate

integration of environmental considerations into local projects, plans and programmes. Arising from this, the Government stated that the guiding principles in approaching local government renewal are: subsidiarity, accountability, integration, effectiveness and participation. On that basis, the Devolution Commission was asked to identify significant additional functions to be devolved to local government and to make recommendations as to how local authorities would become the focus for local development activity in the future.

### (i) Local Government and Local Focus

The devolution process is proposed in the interests of (a) enhanced democracy and (b) greater effectiveness in service delivery. These are not synonymous. The allocation of a policy function to a local authority may produce greater local democratic control but at the price of higher unit costs, increased externalities and the loss of coherence at national level. Similarly, enhanced management procedures in national agencies can produce greater delegation to local managers, allowing greater variation in the details of delivery within a national framework. It is useful to tease out further the distinction between these two aspects of devolution.

The tailoring of service delivery to the needs of individual localities makes sense. The location, timing, promotion, staffing and orientation of services should reflect the needs of varying communities (urban and rural, affluent and unemployed, age and gender variant). Above all, services should be delivered in an accessible form and with the maximum possible consumer responsiveness. This is at the heart of the Strategic Management Initiative and it reflects the internal devolution characteristic of the most successful private sector corporations. For national public service bodies it requires giving local managers maximum discretion within stated policy and holding them accountable for performance. This in turn requires greater transparency as to the resources (financial, personnel and logistical) to be made available to service customers in a given area.

Devolution can also produce greater effectiveness through the potential for integration or linkage. Sharing of resources (premises, staff and information networks) is the most obvious dimension of this. Equally important, however, is the scope for redesigning activity to maximise the potential for synergy. In such cases the *nature* of the services to be provided is changed to take account of their mutual interaction at the point of delivery to individual communities or customers. Again, this requires that local managers have the authority to make such changes.

The case for extended local government on grounds of greater effectiveness is that the potential for achieving synergy across local public services is maximised when they are managed by a unitary local body which is democratically accountable. The conclusion would be that, unless economies of scale are overwhelmingly in favour of national level delivery, the presumption should be that all public services are candidates for devolution to a local authority. However, it is notable that the functions listed in the Devolution Commission's Interim Report as candidates for local authority delivery are quite limited (1996). They primarily envisage local authorities as an administrative machine for administering grants and related schemes.

### (ii) Local Development and Devolution

What is significant about the recent local development experience is that it has produced a degree of devolution and integration which, though limited, far exceeds the experience with previous attempts to devolve functions to local authorities (indeed, most other functional transfers vis-a-vis local authorities have involved centralisation). This reflects the following characteristics:

- (a) existing functional and agency responsibilities remain unchanged – each organisation is an equal partner in the process;
- (b) participation requires agencies to give greater authority to their local managers;
- (c) co-ordination through partnership is based on a shared commitment to a strategic plan, which identifies priority issues and how the various partners can address them in a co-ordinated manner;
- (d) the additional funding available is modest relative to existing budgets, but it is sufficient to induce co-operation since agencies may benefit from its allocation;
- (e) the community sector involvement provides access to resources of information, outreach and legitimacy which official bodies may otherwise lack, especially in disadvantaged areas;
- (f) informal secondment of public agency personnel to partnership projects provides a non-threatening basis for integration, teamworking and contract staffing.

Criticism has been voiced regarding the number of agencies involved in the local development process (County Enterprise Boards, Area Partnerships and Leader companies). However, these are being co-ordinated through the *County Strategy Groups*. This is in effect a process of evolution. By the end of the current Operational Programme in 1999 the County Strategy Groups should have produced a measure of integration such that a new, integrated structure to support local development, based on the local authority, will have emerged. Its strength will lie in: (i) its strategic focus, (ii) the local acceptance of the process, (iii) the recognition that the end of the CSF will require changes for the future, and (iv) the development of the capacity of local authorities to work in partnership on a wide agenda of socio-economic development.

This area-based focus has produced a significant level of real devolution. It has, however, by-passed the local government system. (It is questionable whether, in the absence of a partnership structure, particularly one based in the national level social partnership agreement, local authorities *could* have achieved a similar degree of participation from, and co-ordination with, national public agencies). However, it is in the detail of the local delivery of services, rather than in the policy as to which services are to be provided, that the devolution has taken place. Given the uncertainty as to whether economies of scale would permit the full devolution of many policy functions to local authorities, it makes sense to seek to develop the local authority as a focus for co-ordination and linkage at the local level, building on the experience of the local development process. This will require a strengthening of the local authority planning system, to support elected members in adopting a strategic plan to provide a framework for all public services, whatever agency delivers them within the county/city.

In any event, local government alone cannot meet the needs of the local population on a self-contained basis. Local authorities, especially as promoters of local economic and social development, will need to maintain partnership working arrangements with the social partners, with national bodies operating locally and with local communities and the voluntary sector. This will require a significant enhancement of the management capacity of local authority staff and a more strategic form of political leadership from the members.

### (iii) Local Government and Local Democracy

The argument for devolution of functions also rests on the case for greater democratic accountability. If devolution simply amounts to the local administration of national schemes, within nationally-defined eligibility criteria, little is added to local democracy. However, where a policy

function resides locally or, probably more significantly, where a local statement of strategic priorities is expressed in a local authority plan to be taken into account by all public bodies, the scope for political leadership is greater.

It has been argued that the sort of local development which has taken place in recent years has been subversive of local democracy, weakening the elected members. There is clearly some basis for this view. However, the current pattern reflects the acknowledged failure of local authorities to develop a leadership role, either political or managerial, across the full range of socio-economic development.

In any event, local democracy is not necessarily synonymous with elected local authorities. Given the low level of public involvement in local government matters, the low level of turnout for elections and the low esteem in which local authorities are generally held, it can be argued that successful local governance requires more than a mechanism to bolster the functions of local authorities. Alienation from the institutions of State and a greater degree of withdrawal of individuals from communal life threatens the democratic process in most developed countries. By contrast, Ireland retains an active voluntary sector (with a third of adults actively involved in some form of community voluntary activity), as well as strong commitment to local community identity as reflected in local development companies, Tidy Towns committees etc. A renewal of local government as an enabler and supporter of *participative* democracy would, arguably, be the most effective way of deepening the authority of *representative* democracy at local level. This is even more important in disadvantaged areas, where long-term unemployment and social exclusion tend to be associated with a total withdrawal from the electoral process and antipathy to institutions of State.

The Council believes that the demonstration of relevance and purpose by local political leadership in partnership with civil society is likely to be the basis for renewed local government and sustainable local development strategies. In that context the Council believes that the broad thrust of the Devolution Commission's Interim Report makes sense: in terms of building on what is happening at present in the form of local strategic planning, confirming that the local government system will be the framework for local development effort when the present Structural Fund arrangements terminate (1996). The Council welcomes the Government statement of 1st August which effectively authorised the Devolution Commission to continue the analysis of the trade-off involved in devolving further functions while monitoring the experience of the local development process for effective devolution.

## PART IV

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# Partnership and The Policy Process

## CHAPTER 13

### THE PARTNERSHIP PROCESS: PARTICIPATION AND MONITORING

Throughout this report, the Council has made several recommendations and proposed a series of implementation mechanisms. Successful implementation is dependent on effective and extensive participation in social partnerships and the monitoring of progress in negotiated programmes. Participation is still unevenly developed and the monitoring of progress has received little attention. Consequently, there is considerable scope for enhancement of the partnership process through developments in both areas. The first part of this chapter is concerned with participation and the partnership process and the second with monitoring of progress.

#### 1. PARTICIPATION IN THE PARTNERSHIP PROCESS

Chapters 8 and 9 demonstrate that the achievements of national social partnership are hugely qualified by the continuing problem of long-term unemployment and social exclusion. The strength of the emerging model of policy-making, business and industrial relations has not been sufficient to address the problem of long-term unemployment and other forms of social exclusion. This threatens to undermine those features of Irish society – social solidarity, a shared perspective on key policy needs, and mutual accommodation between social partners – which underpin a negotiated approach to policy. The Council is convinced that the social partnership approach can be *deepened* and *widened* without undermining its effectiveness in aligning economic actors to coherent approaches.

In the Council's view, the next national programme must provide a framework in which social inclusion and fairness are achieved by harnessing Ireland's energetic business associations and trade unions, its high levels of community involvement and extensive voluntary associations. This requires extending the benefits of social partnership while consciously promoting a wider distribution of the fruits of growth and wider participation in policy deliberation and implementation. Devising the best way to do this requires careful study of the nature of the partnership process and must take into account the following features.

(i) **Features of the Partnership Process**

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

An example of a trade-off between interest groups is that between employers and unions on the subject of wage bargaining. An example of a trade-off within an interest grouping, is that in which unions agree a particular level of wage increases across *all* firms and public organisations, as opposed to higher increases where employers can afford to pay more. There is a clear benefit for Government and for the overall economy and society in reaching agreement with interest groupings on a national programme incorporating moderate levels of trade-offs in both areas. It is less clear that similar trade-offs, and consequent benefits, can be delivered by interest groupings in general. This makes it more difficult to determine a basis for partnership in those cases.

These observations on the nature of existing partnership processes should inform the extension of the partnership process.

(ii) **The Council's Approach to Extending Partnership**

While various abstract, ideal models of partnership can be devised, the Council believes it is more useful to take a substantive approach by asking:

What is the job to be done, that is, what is the primary policy emphasis?

- (i) Whose agreement and engagement is necessary to design and implement policy?
- (ii) On what issues and between which groups is there a shared understanding or between which groups is it possible to develop such a shared understanding?

All major economic and social policy areas are linked and action in one area is likely to have consequences for other areas. This must be recognised in all policy development and evaluation. Yet, it is recognised that the primary policy emphasis is different in deliberations on macro policy and pay, unemployment and other forms of social exclusion, and local development. Likewise the groups whose engagement and agreement are necessary differ depending on the primary policy emphasis. Finally, the degree of shared understanding of key mechanisms varies from one policy area to another. While the past ten years have been characterised by the development of a significant shared understanding of Ireland's place in the international economy, and this is reflected in significant improvements in key macroeconomic indicators, a shared understanding of the unemployment problem, and effective policy approaches to it, are only now emerging from the work of the NESF and other bodies. Similarly, local partnerships in several areas have made innovative and effective responses to economic and social problems including long-term unemployment (Sabel, 1996). This suggests that different areas of policy require, and can sustain different models of partnership and that there is considerable scope for the enhancement of citizenship participation through innovative models of participation, consultation and democratic accountability.

Drawing on these observations, the Council recommends that a widely based participation approach, that is adapted to the issues in question, be adopted.

Specifically, the Council recommends that:

- At the outset, all relevant parties, including Government, make opening position statements at a formal meeting for that purpose;
- Discussions thereafter proceed bilaterally and multilaterally as appropriate depending on the issues being considered.

## 2. MONITORING OF PROGRESS

Despite three wide-ranging strategy reports (NESC, 1986, 1990 and 1993) and several other documents on social and economic policy produced by the Council, and other agencies, over the past decade there have been no systematic attempts to develop measures to monitor comprehensively the progress of national strategies and negotiated programmes. The Central Review Committee has monitored the *implementation* of programmes since 1987 and ensured consultation among the Government and the social partners. Systematic and appropriately timed monitoring would facilitate effective policy making in subsequent periods and could allow for corrective action and/or timely change in ineffective policies.

Monitoring of progress involves two issues relating to the measurement of change:

- What are the appropriate indicators?
- What are the relevant comparators – time periods, other programmes, organisations or countries?

### (i) Indicators, Benchmarks and Benchmarking

There are several macroeconomic, social protection expenditure and, to a lesser extent, outcome indicators available for European Union and OECD countries. In addition, comparative data bases such as the Luxembourg Income and Employment Studies provide ideal sources of data for comparison of key aspects of Irish public policy with countries at broadly similar levels of economic development. Longitudinal and comparative analysis of appropriately selected indicators from these sources can provide useful information on the location of Ireland relative to other countries and how this is changing over time in response to domestic policy objectives, in particular negotiated programmes, and changing international conditions. Identification of relevant indicators is dependent on clear specification of programme and policy objectives and intended outcomes. In undertaking this kind of analysis it is important to monitor progress on a broad range of indicators – successful performance on key macroeconomic indicators does not guarantee uniform successful performance as is indicated by Ireland's persisting high levels of unemployment and inequality in income distribution despite superior growth performance over the past few years (Atkinson *et al*, 1995).

Increasingly it is recognised that broad macroeconomic and social contextual measures must be supplemented by more finely tuned performance measures, not only quantitative but qualitative. This

recognition is associated with attempts to apply benchmarking to public services. This is consistent with the development of the Strategic Management Initiative discussed in the previous chapter, in particular, its emphasis on accountability and performance.

Benchmarking is widely discussed as a process for 'finding and implementing best practice' in the private sector especially in large multi-national manufacturing enterprises, but is also discussed in relation to private sector services and to a lesser extent public sector services [Bullivant, 1994, p.1; Rolstados (ed), 1995]. "Benchmarks are measures or standards, benchmarking is the process of understanding key issues within [an] organisation and learning from others who are better" (Bullivant, 1994, p.4). The essential elements of benchmarking relate to the identification of codes of best practices in organisational activities and adherence to a commitment to develop these on a continuous basis within the home organisation. Whereas the identification and comparison of appropriate benchmarks is essential to monitor progress of national strategies and negotiated programmes, benchmarking is directly relevant to the process of organisational change and the achievement of policy objectives.

A key issue often raised in relation to benchmarking in the public service sector is whether one can apply frameworks originally developed in the private sector. But this is not a public or private sector issue nor an issue of manufacturing versus services. The appropriateness of benchmarking depends on the organisational issues being considered and the objectives of policy (Fleisher and Burton, 1995; Paine, 1994; Johnson and Stern, 1995). It may be appropriate to compare public sector agencies with private sector enterprises or vice versa depending on where best practice is identified. Furthermore, there is now considerable public sector experience in the use of benchmarking in some countries notably Britain, the Netherlands, Australia and New Zealand, the United States and Canada. This ranges from extensive use in the health care sector in several countries to the monitoring of competitiveness levels in Australia and the Netherlands.

While benchmarking is not directly applicable to the monitoring of progress in all aspects of negotiated programmes it provides a frame of reference for the development of measurable criteria, or benchmarks, for monitoring progress that are in accordance with best practice outcomes. It is directly applicable to examination of current services and comparison of their provision with that in best practice organisations.



## (ii) Comparative Cases

Part One of this report demonstrates the value of an historical focus in situating the current Irish situation in the context of developments since the 1960s. While it is essential for policy analysis to know where Ireland stands on various indicators relative to its earlier performance, this is only one way of measuring progress and learning from policy experience. The other element is Ireland's location vis-à-vis its competitors and vis-à-vis other small open economies at a similar level of economic development. Ideally, progress would be made not only relative to earlier periods in Ireland but comparatively as demonstrated by appropriate indicators.

Monitoring of progress relative to strategically chosen comparative cases offers at least two potential advantages:

- it may offer insights for the design of better policies through identifying alternative strategies and throwing light on hidden assumptions operating within the country;
- it may illustrate the importance of the linkages between policy choices and policy outcomes.

The value of comparative analysis is dependent on the selection of appropriate comparative cases and time periods. In considering appropriate cases there are several strategies: one involves the selection of most similar cases with the objective of explaining crucial differences; another involves the selection of most different cases with the objective of explaining why similar developments in some crucial aspect of policy have come about; a third approach is to compare individual cases relative to average or median performance of clusters of countries such as the OECD members or EU members.

In *A Strategy for the Nineties*, the Council recommended that Ireland's position be compared to that of other small open European economies on the grounds of contextual similarities but, despite this, their historically higher levels of economic growth and associated economic achievements, especially low levels of unemployment. A subsequent report undertook an historical institutional analysis of Ireland, Denmark, Sweden, Finland, Switzerland and Austria (NESC, 1992). Some policy lessons from this analysis relating to innovation and competitiveness were developed in *A Strategy for Competitiveness, Growth and Employment* (NESC, 1993) and earlier in this report but a systematic analysis of the implications for policy development in Ireland has yet to be developed. All of these small open economies, with the exception of Switzerland, are now in the European Union adding a further dimension of contextual similarity. While their recent economic performance, as reflected most markedly in their levels of unemployment, has not been as successful as their historical

patterns, the strategies adopted to cope with these economic difficulties are likely to have relevance to the Irish policy framework (Stephens, 1995). But these are not the only economies whose experience may have relevance to Ireland. For example, New Zealand as another small open economy which has gone through major structural change since 1984 offers an example of radical change in the structure of government and public services, which is associated with positive and negative consequences, depending on the indicator chosen [Boston *et al* (ed), 1991; Sharp (ed), 1994]. This points to the importance of monitoring progress on a broad range of indicators of policy outcomes. As pointed out above in relation to Ireland, successful performance on key macroeconomic indicators does not guarantee uniformly successful performance on all indicators, nor does it imply equal distribution of the benefits of success.

The alternative approach, of evaluating Irish performance relative to countries that are very different from Ireland in terms of economic and social structure, may have advantages depending on the aspect of policy under consideration. Applying the principle of benchmarking means that the selection is based on finding the best practice in the relevant area with the objective of implementing it. This may entail learning from organisations within Ireland or organisations within other countries. It may also entail selection of appropriate comparative cases across countries.

The Council recommends that the various issues included in the negotiated programmes should be benchmarked both over time and across countries to allow a comprehensive monitoring of progress. The Council recognises that techniques will need to be developed for this purpose and would be happy to play a part in the process.

**PART V**

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**Conclusion**

## CHAPTER 14

### KEY CONCLUSIONS AND RECOMMENDATIONS

#### 1. MAJOR CHALLENGES: MANAGING GROWTH AND REDUCING UNEMPLOYMENT

A review of the Irish economy and Irish society since 1960 establishes the major challenges addressed in this report. The major *economic* challenge is to manage growth and lay foundations for future competitiveness (Chapter 1). The major *social* challenge is to reduce unemployment and start a long-term reversal of inequality (Chapter 2). The Council believes that negotiated social partnership programmes are a most effective mechanism for developing Irish competitiveness and social cohesion in the current global context (Chapter 3). The Council's analysis, conclusions and recommendations are outlined in Chapters 4 to 13. The key conclusions and recommendations are summarised in this chapter.

#### 2. MACROECONOMIC POLICY

##### (i) The Overall Macroeconomic Approach

Preparation for, and transition to EMU, provides the sheet anchor of the macroeconomic approach adopted in Ireland in recent years, and national agreements on pay, taxation, social welfare and social provision, determine distribution. This combination produces low and predictable inflation and steadily increasing international competitiveness.

In the Council's view, adherence to the Maastricht criteria and eventual EMU requires:

- (i) agreement on the exchange rate strategy;
- (ii) agreement on the public finances;
- (iii) co-ordinated wage setting;
- (iv) a strong focus on competitiveness.

##### (ii) A Medium-Term Perspective on the Public Finances

There has been a remarkable transformation in the public finances over the past decade. The pattern of that transformation reveals both the

strengths and weaknesses of the Irish policy system. Taking these into account, the Council identifies three requirements for successful public finance management, in the medium-term:

- (i) Review and development of the systems of public expenditure management and control within the context of the Council's recommended budgetary strategy and the Strategic Management Initiative (SMI);
- (ii) A system of public sector pay bargaining that is coherent with private sector experience and the need for restructuring;
- (iii) A need for greater dissemination of the meaning of the social partnership approach – particularly interdependence and solidarity (see Chapter 5, Section(iv)).

### (iii) Principles Governing Future Public Finance Development

The Council previously outlined principles which should govern public finance policy. These reflected underlying principles of public finance – sustainability and flexibility – and the priorities which the Council saw in 1986, 1990 and 1993. On this occasion, the Council reiterates these principles and adds to them, drawing on the experience of the past decade. These may be summarised as follows:

Enduring public finance principles:

- (i) Sustainability requires a further fall in debt/GDP ratio;
- (ii) Flexibility requires a reduction in debt service costs.

Principles reflecting the Irish system:

- (i) Coherent, consensus-based, medium-term programmes of reform;
- (ii) Improved public expenditure management;
- (iii) Reform of public sector pay bargaining.

Principles reflecting current priorities:

- (i) Additional measures to address unemployment and social polarisation;
- (ii) Tax reform;
- (iii) Lower public expenditure growth;
- (iv) Adherence to the terms of the Maastricht Treaty and the Stability Pact.

### (iv) Council Proposals on Fiscal Policy

The Council proposes that its Action Programme on Unemployment (see Chapter 8), significant tax reform (see Chapter 10) and the Maastricht criteria must be met over the next three years. Accordingly, the Council recommends an equitable and balanced fiscal policy that incorporates:

- an action programme for social inclusion;
- real tax reductions representing at least 0.5 per cent of GDP each year;
- current public expenditure strictly limited to a 2 per cent real increase;
- a gradual reduction in the public financial deficit to not more than 1.5 per cent, between 1997 and 1999; and
- a debt to GDP ratio of 70 per cent by 1999 (a 60 per cent level can on this basis be achieved early in the 21st century).

The Council believes that an equitable and balanced approach must be adopted in implementing the principles set out above. That approach must recognise that action to deliver greater employment, social inclusion and action to reduce taxation, especially personal taxes, are fundamental priorities. These priorities must be achieved in the first instance, and not as residuals when existing or 'no policy change' expenditure bills are met. The Council wishes to stress the need to limit the growth in current public expenditure to no more than 2 per cent per annum in real terms. The Council appreciates that it will be necessary to make significant savings on existing activities both to observe that limit and to find room for the costs of the Council's social action programme. The Council believes that there is scope for greater efficiency and effectiveness in many areas of public expenditure. A strict adherence to this limit will allow the priorities identified in this Strategy to be achieved within the recommended deficit targets.

The Council believes this package:

- will assist significantly in promoting greater employment, social inclusion and in reducing disadvantage;
- will facilitate a moderate pay agreement;
- will generate growth; and
- will deliver a General Government Deficit comfortably within the requirements of the Maastricht criteria and in line with those of a stability pact.

#### (v) Monetary Policy

Irish policy is oriented towards joining EMU on its establishment. This is an approach which the Council endorses. In the context of EMU, a key issue that needs to be considered is how Ireland should address any problems which might arise should the UK remain outside EMU and there is a sudden fall in the value of Sterling.

In the Council's view, there are four major requirements for dealing with the possible occurrence of Sterling weakness in the context of Irish membership and UK non-membership of EMU. First, it is necessary that, in the face of a rapid depreciation of Sterling, the relevant Irish partners have sufficient trust to address the problem in a timely and effective way. In the Council's view, co-ordinated wage bargaining, in the context of a negotiated social partnership programme, which is operational at the level of the individual enterprise, is the environment most likely to guarantee the necessary degree of trust, information-flow and burden-sharing. The existing arrangements for monitoring national programmes could be utilised to provide a mechanism for review should this be necessary. Second, every effort must be made – in public policy, individual enterprises, IBEC, ICTU and other associations – to strengthen the underlying competitiveness of Irish businesses. Third, it is necessary to achieve further reduction in the non-wage costs of labour, through reform of tax and PRSI. Fourth, it is necessary to assist Irish enterprises to make maximum use of financial market hedging instruments, while recognising that these instruments will not provide complete cover.

Profit sharing arrangements can have significant benefits at both enterprise and macroeconomic level. Where these are developed, they can also assist the handling of problems arising from downward movement in Sterling.

#### *Domestic Monetary Policy Issues*

In *A Strategy for Growth, Competitiveness and Employment* (1993), the Council reiterated its view that the primary goal of monetary policy is price stability. It outlined its preference for a credible, non-accommodating, exchange rate policy during the transition to EMU. Day-to-day management of this monetary policy must take note of three factors: the Maastricht criteria, domestic credit expansion and the nominal value of Sterling.

The fundamental requirement is that Ireland continue to adhere to the Maastricht criteria. The criteria relevant to monetary policy are:

- (i) Inflation close to the three best performing member states;

- (ii) A currency which has observed the normal EMS fluctuation margins for at least two years, without devaluation;

- (iii) Interest rates which suggest that the convergence is durable.

The Council believes that the Central Bank must continue to ensure that these criteria are met. It recognises the major benefits which have derived from lower interest rates after the 1992-3 crisis of the ERM. It recognises that a loss of credibility in the exchange rate, or in the transition to EMU, would probably increase interest rates significantly, and undermine the stable economic environment.

#### *European Policy Issues*

At European level, a major monetary policy issue is 'cohabitation' – the relationship between the Euro and the currencies outside of EMU. The Council is firmly of the opinion that this is a genuinely European issue, on which a clear position is desirable before movement to a single currency. From its contacts with Economic and Social Councils in other European countries, the Council is aware that Ireland is not alone in dissatisfaction with the possibility of excessive currency fluctuations within the Single European Market. However, it is conscious that Ireland may be more exposed to damage from such fluctuations than any other members of the single currency.

### 3. WAGE BARGAINING

As noted in Chapter 3, a key element of a consistent policy framework is an evolution of incomes which ensures continued improvement in competitiveness, which handles distributional conflict in a way which does not disrupt the function of the economy, and which accords with a society's values concerning fairness. In Chapter 5, the Council explores what wage bargaining system can meet these requirements. That exploration involves a review of the analytical issues, an overview of wage developments in Ireland since the Second World War, an examination of the partnership process developed since 1987 and consideration of wage bargaining in the context of EMU.

The Council's review of analytical and empirical studies of wage bargaining suggests three conclusions:

- (i) The case for co-ordinated wage bargaining is strong, on both empirical and analytical grounds;
- (ii) Co-ordinated wage bargaining must be led by the private, exposed, sector of the economy;

- (iii) The success of co-ordinated bargaining is dependent on the wider policy framework, including exchange rate policy, taxation and public provision.

#### (i) Pay in the Irish Economy

Applying these analytical conclusions to Ireland, indicates some features of a desirable pay system. The pay determination system in Ireland is one which must:

- (i) Recognise the need for improvements in competitiveness and employment;
- (ii) Take account of tax reform measures in facilitating wage moderation, while providing for increased take-home pay;
- (iii) Assist restructuring in enterprises and public sector organisations;
- (iv) Utilise performance related reward systems and share achieved gains;
- (v) Facilitate the active labour market participation of the unemployed.

The Council sees a pay bargaining system which meets these goals as a fundamental element of national economic and social strategy. Several aspects of such a pay system can be identified.

Past experience shows that decentralised wage bargaining can result in higher settlements in high productivity or low competition sectors being transmitted to the rest of the economy. The Council argues that, given the structure of the Irish economy and the competitive position of firms in both the traded and non-traded sectors, co-ordinated bargaining – in the context of a negotiation national programme – is the approach most likely to yield appropriate settlements across the economy.

Ireland's centralised wage bargaining system has been criticised on the grounds that it has protected 'insiders' and raised the level of unemployment. Two points should be noted:

- (i) It is inaccurate to attribute the absence of wage under-cutting to the existence of *centralised* agreements in the past decade;
- (ii) Without national agreements, income determination will remain a non-competitive, highly collectivised, process, with tendencies to monopoly power on both sides of industry.

There are strong arguments for the view that, in the Irish context, a negotiated consensus – with a non-accommodating exchange rate as the sheet anchor of macroeconomic policy – must include agreement on the evolution of pay, taxation, the public finances, the exchange rate and monetary policy, and the level of publicly provided services and social welfare.

#### (ii) Wage Bargaining in the Context of EMU

In economic discussion on wage bargaining in the context of EMU, two arguments have been put in recent years:

- (i) Centralised wage bargaining is inconsistent with a fixed exchange rate policy;
- (ii) In moving to EMU, Irish wage contracts (at national or firm level) should be related to the Sterling exchange rate.

These proposals confront certain problems of a factual, conceptual and practical nature.

Factually, they would seem to be based on the misapprehension that the PNR, the PESP and the PCW are entirely inflexible arrangements, which prevent managers and workers addressing problems arising from the weakness of Sterling. The evidence suggests that this assumption is unwarranted.

Conceptually, these arguments would seem to be based on a framework which does not acknowledge the role of national programmes in making Ireland's ERM parity work. There is evidence that co-ordinated wage bargaining, as part of a wider consensus, plays a significant role in maintaining low inflation by means of a hard currency peg.

The Council does not believe that in the context of the negotiation of a national programme, linking wage rates to the Sterling exchange rate is a practical possibility. As well as involving less co-ordination of Irish wage settlements, introducing unsynchronised behaviour and establishing a most unusual wage-contract, such a system would allow a return to the type of inflation-based bargaining which proved so destructive in previous decades. In contrast, the Council emphasises the four requirements for dealing with the possible occurrence of excessive volatility of Sterling, discussed in Chapter 4.

#### (iii) Public Sector Pay Bargaining

The Council acknowledges that there has been significant evolution in the public sector system over the three programmes, and that, in general,

this has brought the public system closer to that in the private sector. However, it is concerned that this new system – in which pay increases must be accompanied by change in work patterns – has not taken firm root and is not adequately understood and accepted. It is essential that this position be corrected as all sectors of the economy, including the public sector, will have to take on board significant change agendas over the next number of years. The Council emphasises the importance of organisational change.

In deriving recommendations on public sector pay, the Council draws on two principles outlined in Chapter 1. Private sector pay has, in the past decade, been shaped by two strong disciplines. The first is the discipline of market competition, which does not operate in the public sector. The second is the discipline of social partnership, which has curbed wage growth, even in profitable sectors, and limited tax reductions to those which are consistent with increased social spending. It is not entirely clear how effectively this second discipline has operated throughout the public sector. Social partnership has two dimensions: interdependence and solidarity. As outlined in Chapter 1, one aspect of interdependence is recognition that the fate of the market economy is strongly shaped by the cost and quality of public services. One aspect of solidarity is recognition that public sector pay growth, ahead of that in the private sector – or beyond what is warranted by the overall public finances or efficiency gains in the public sector – directly limits the possibility of tax relief for low paid workers, and directly curtails the possibility of improving the living standards and chances of those suffering unemployment and social exclusion.

In the Council's view, the next national programme must produce a public sector wage settlement which achieves five things:

- (i) Settlements in line with those in the private sector;
- (ii) Adherence to the terms of the Treaty on European Union;
- (iii) Implementation of the Strategic Management Initiative and other reform programmes, so as to deliver effective services at minimum cost;
- (iv) Closer synchronisation of public and private pay settlements;
- (v) Promotes national competitiveness.

These outcomes – reflecting the principles of inter-dependence and solidarity – are necessary so that inevitable structural and procedural differences between the public and private sectors do not undermine the possibility of a coherent national approach to both competitiveness and unemployment.

#### 4. ENTERPRISE AND COMPETITIVENESS

##### (i) Introduction

The national economic and social strategy is based on an unambiguous recognition and acceptance of Ireland's participation in the international economy and the European Union. This implies that the competitiveness of the Irish economy is a pre-condition for the pursuit of all other economic and social goals. Competitiveness requires that Ireland can add sufficient value to resources, and capture sufficient amounts of value, to support our aspirations for both private and public goods. The competitive advantage which allows this must be based on distinctive capabilities which are sustainable and appropriable. This sets definite limits to total reliance on cost, since low costs can be replicated in numerous countries. Costs remain important but, as in the case of other developed economies, it is now accepted that Ireland has reached the stage of development when living standards and social factors mean that firms find it difficult to compete in industries where labour costs are the most significant factor in competitiveness.

While this competitive strategy does not imply that all activities must be high-tech, it does suggest that such activities will constitute an increasing proportion of economic activity. Furthermore, it strongly suggests that non high-tech activities will remain competitive in the long-run, only if they are characterised by superior organisation, innovation, reputation or strategic assets – all of which are dependent on ever-increasing skills and education.

##### (ii) The Service Sector

Service firms and industries have shown rapid employment growth in recent years and are forecast to be the main source of job creation into the next century. Changes in the Irish economy, and the need for new measures to overcome unemployment, require that a new emphasis be placed on the development of services.

Many service industries have remained subject to regulation that limits competition and maintains high prices. The Council accepts that regulation may be appropriate in certain circumstances, but recommends that renewed priority be given to the examination of instances in which regulation may be excessively anti-competitive. In this respect, the Council supports the call by Forfás for a more pro-active competition policy.

The Council believes that reform of the tax system can assist the development of local services. Two aspects of taxation require change:

- (i) The tax wedge on lower paid workers must be further reduced by changes in income tax and PRSI;
- (ii) Ireland must reduce the tax burden on smaller enterprises in services, and must ultimately move towards a uniform rate of corporation tax.

In addition, it is important that the administrative burden on SMEs is reduced. The Council also believes that the further development of quality indicators for services would help the sector expand.

In addition to reform of regulation and taxation, the Council recognises the key strategic importance of the telecommunications sector. Consequently, the Council strongly supports the call, in the recent Forfás report, for initiatives to achieve an early leadership position in telecommunications-based services, such as the creation of advanced communications 'nurseries'. In addition, action is necessary to establish Ireland as a multilingual European services hub.

The Council recommends that tourism policy should attempt to ensure that grants are disbursed in a manner which takes full account of the carrying capacity of a region, to ensure that any growth which takes place does so in a sustainable manner. To produce a quality tourism product, the industry, assisted by public policy, must invest in skill development and ensure attractive employment. The Council supports the recent Forfás report in calling for a strengthening of measures to promote tourism. The Council also believes that a new long-term strategy should be developed, to take account of the period after 1999 when EU funding, which has assisted tourism policy for the past decade, may be reduced.

#### **(iii) Networking**

As a result of the work it has undertaken, the Council believes that it is possible to widen and deepen the nature and range of inter-firm co-operation in Ireland and that on the basis of a pilot project, a network programme should be introduced in Ireland. This would aim to provide information to firms on the benefits to be gained from networks, to put in place a system of brokers to identify and establish networks, and, where appropriate, to provide finance for the start-up phase of network development.

The Council welcomes the recent decision by the Department of Enterprise and Employment to initiate a pilot network programme.

#### **(iv) Agriculture**

The Council recognises the continuing importance of agriculture, and EU policy, to Ireland. It supports a policy of incremental reform, but emphasises the importance of ensuring that a number of principles which have guided EU agricultural policy remain intact. It is particularly important that reform of the CAP takes full account of EU conditions and values. The wish to pursue a liberalised world market in agriculture must be tempered by the wish to maintain a particular farm structure and standards of production in relation to inputs, environment, quality and animal welfare, which may inhibit the further attainment of competitiveness in production. The Council supports measures to integrate agricultural policy with environmental policy and rural development policy, but recognises that this may impose certain costs on producers. It is important, therefore, that the speed of implementation of reforms takes adequate account of the need to adjust to these changed conditions. The Council has been strongly supportive of the CAP, given the major role it has played in European integration and Irish agricultural development. To preserve this role, and to protect current recipients, it is important that nationalisation of financial support to agriculture is resisted and that Community funding of the CAP is maintained. This is particularly important in the light of possible reduction in Ireland's Structural Fund receipts after 1999. The Council fully supports current policy in this regard, but emphasises the need to ensure that a coherent strategy is in place in advance of the challenges which will be faced by agriculture and the food industry in coming years.

#### **(v) Finance for Enterprise**

The Council is concerned about the falling rate of investment in Irish industry and the significant outflows of funds from the Irish economy which have occurred over the past decade or so. The Council agrees with the recommendations of the Forfás report that policy should support the development of new vehicles for the provision of funds. This seems necessary, because the Irish stock exchange is largely irrelevant to the funding requirements of most Irish firms. The Council believes that, given the limited success so far in developing an alternative market to provide funds for small enterprises, a consistent approach by the stock exchange and public agencies is required.

#### **(vi) Transport and Logistics**

As a peripheral island economy, transport infrastructure, services and systems logistics capability, are crucial elements in achieving a high level of international competitiveness.



For Ireland, this means continued improvement in:

- transport infrastructure;
- greater availability, competition, and efficiency in transport services;
- rapid achievement on the part of both the industrial and transport sectors of world class capability in the area of systems logistics.

The Council supports the recommendations of the Forfás report aimed at achieving the required progress in each of these areas over short to medium term.

#### (vii) The Environment

The Council is concerned at the rapid increase in waste in the Irish economy and at the continuing problems in disposing of this waste. In the case of water contamination, the Council recommends the development of a new pricing system by local authorities, in consultation with industry, to ensure that the prices charged to those producing liquid waste are adequate to cover the costs of disposal and treatment. The Council is supportive of the REPAK initiative developed by IBEC. In general, the Council accepts that an equitable application of the 'polluter pays' principle is a fair method for dealing with this problem.

## 5. ENTERPRISE PARTNERSHIP AND TRAINING

### (i) Partnership at Enterprise Level

#### *Competitiveness and the Partnership Approach*

The continued growth and development of Irish firms, and the maintenance of employment, demands continuous innovation, flexible working methods, high-skilled workers, and life-long learning in all work roles. These are vital because the pace of adaptation to change can be a key competitive advantage. Achieving this involves a focused combination of action by employers, employees, trade unions and government. Consequently, the Council believes that the partnership approach should now be further developed at enterprise level, such that key issues can be discussed there, enhancing the competitiveness of firms, the quality of the work environment and the access of employees to life-long learning.

### *The Challenge for Ireland*

In the Council's view, the challenge is to:

- (i) Encourage firms, employees and unions to advance from experiment to comprehensive innovation;
- (ii) Encourage the development of the new models emerging in Ireland in the past decade;
- (iii) Recognise the different starting points of different enterprises and employees.

The key to providing this encouragement lies in understanding that successful work-place innovation occurs:

- (i) In ways which support competitive strategy in an ever-changing market environment;
- (ii) At natural opportunities for change – such as training, new investment and crisis adjustment.

### *Principles for a National Framework*

On this basis, the Council recommend that a National Framework – that 'runs with the grain' of work-place innovation as it occurs in Ireland and abroad, and encourages change – should be agreed, based on the following principles:

- (i) That national partnership be continued, including national programmes which enhance competitiveness;
- (ii) That the next stage in the national partnership be to further extend partnership at the enterprise level of the economy. This should be done not by imposing any single structure or model, but in ways that recognise the need to tailor the partnership approach to fit different employment settings and take account of existing arrangements;
- (iii) That the objectives of enterprise partnerships are:
  - to enhance the prosperity and success of the enterprise;
  - to create the basis for discussion of major decisions affecting the organisation's future, including future economic security;
  - to engage all stakeholders' ideas, abilities and commitment;
  - to enhance the quality of the work environment;

- (iv) That appropriate arrangements and institutions be put in place at national, sectoral or regional levels to jointly monitor, study and learn from experience with enterprise partnerships and promote best practice among Irish enterprises;
- (v) That similar work-place innovations be implemented in both the public sector and commercial state enterprises.

The Council emphasises the close link between this national framework for enterprise-level partnership and a national programme which guarantees continued wage moderation and competitiveness.

#### *Action to Implement Enterprise-Level Partnership*

The Council recommends that, following agreement on these principles, an implementation process be considered for agreement to include the following elements:

- Arrangements for discussion at enterprise, network or sectoral level, as appropriate, on company performance, training, working methods, the work environment and other relevant issues;
- Arrangements at national level (considering the possible role of IPC, LRC and CRC) to monitor and promote best practice in enterprise partnerships;
- Arrangements on the part of the relevant state agencies stemming from the application of the principles, including in relation to project development.

The continuation of national partnership, and its extension to the level of the enterprise as part of national competitive strategy, will pose major challenges to business associations and trade unions. This calls for a programme of suitable training, including leadership training, supported by the state, to assist these organisations in discovering new policies, structures and roles.

#### **(ii) Training**

The importance of information as the key resource means a high degree of specialisation must be allied to a high degree of flexibility in abilities, relationships and organisational structures among both management and workers. This greatly enhances the need for constant improvements in skills, in both management and the workforce, and the development of the institutional arrangements to bring this about. The actions of public policy must be co-ordinated with firm strategies to ensure a successful national training policy. Training is an area in which enterprise-level

partnership has particular advantages. Consequently, the Council believes that a more effective training system can be achieved through the extension of the consensus approach, which has been developed at national level, to the enterprise level.

#### *Training Policy*

The Council is convinced of the vital importance of implementing a strategy to upgrade the Irish national training system. The Council is concerned that expenditure on training within industry, at only 1.2 per cent of payroll (as measured by Forfás) is wholly inadequate. It is also concerned that current institutional arrangements appear inadequate to achieve the target of 3 per cent of payroll, as laid down by Forfás.

The Council recognises that it is important that the institutional arrangements devised to implement a national training policy must encompass training for the unemployed, training for those in work and training for those entering, or re-entering, the labour force, and must play an important role in facilitating the return to gainful employment of unemployed people. The Council recommends that action be taken as a matter of urgency, and that the institutional arrangements be decided in the light of the forthcoming White Paper on training.

The Council suggests that, in the framework of any new training system, mechanisms need to be developed to ensure an employer-led process in the development and implementation of policy, aimed at upgrading skill levels in business. Such processes must also accommodate employee representatives. The Council recommends that the training provided must be responsive to the needs of firms and the wishes of employees. It is also important that human resource development policy is closely integrated with overall development policy.

## **6. ACTION ON UNEMPLOYMENT AND SOCIAL EXCLUSION**

### **(i) Principles Guiding Action**

The Council attaches the highest priority to combating unemployment and social polarisation. Consequently, a central part of this *Strategy* is the proposal for an integrated programme of enhanced measures to tackle unemployment and poverty. Social inclusion is a fundamental goal of policy. Policies in this area must be adequately resourced and prioritised with a strengthened emphasis on labour market performance. Income maintenance and employment incentive measures need to be designed together. The necessary policy changes are best managed through a

partnership approach. The Council also seeks the promotion of social solidarity by harnessing the energies of associations in the business and social sectors, particularly at local level.

#### (ii) Priority Policies for Action on Unemployment and Social Inclusion

The Council believes that a long-term strategy on unemployment and social polarisation must involve action of five different kinds:

- (i) Long-term measures to promote inclusion;
- (ii) Income supports and related measures;
- (iii) Action on incentives to work and poverty traps;
- (iv) Active labour market policies;
- (v) Exploration of the possibilities of the social economy.

From within these, the Council has selected a set of priorities for an Action Programme on Unemployment and Social Exclusion. These are:

- (i) Reform of child benefit and family income supplement;
- (ii) Modification of withdrawal rate of housing supplement;
- (iii) Expansion of targeted employment measures for hardest to place;
- (iv) Development of an effective Local Employment Service.

#### (iii) Long-Term Measures to Promote Inclusion

A long-term strategy for social inclusion requires that several areas of public policy – education, housing, transport, local government, health and social services and the legal framework – be consciously oriented in such a way as to promote a reallocation of resources to those in greatest need. In this regard, the Council notes the key role of the National Anti-Poverty Strategy (NAPS) which aims to ensure that the issue of poverty and social exclusion is on the agenda of all government departments and agencies with appropriate co-ordination across departments on policy in this area (December, 1995).

#### (iv) Income Support and Related Measures

Income supports are a key element of an action programme to promote social inclusion. Since the publication of the Report of the Commission

on Social Welfare (1986), income maintenance levels for those who depend on social welfare have been benchmarked against its 'recommended' rates. While some would advocate a Programme target in the region of £55 (£74.90 in 1996), the Council now recommends that the next national programme should seek to bridge the remaining gap with the *minimum* point, subject to overall exchequer constraints and pending consideration of the new review of income requirements now under way at the ESRI. In view of the cost – over £100m – of this measure, progress towards this goal is subject to available resources.

The Council believes that two elements of the Action Programme on Unemployment and Social Exclusion – income support and active labour market policies – need to be designed together. This is necessary: (i) to avoid the dependency which characterises traditional welfare approaches; and (ii) to ensure that active measures are successful in achieving real progression back to employment. The Council believes that a combination of income supports and enhanced active measures should be guided by the following principles:

- (i) Income adequacy;
- (ii) Targeting;
- (iii) Supportive conditionality and control of fraud;
- (iv) Active intervention;
- (v) Progression.

#### (v) Action on Incentives to Work and Poverty Traps

In seeking to reduce unemployment, policy must address the relationship between income when unemployed and net employment income, on the one hand, and the relationship between before tax and after-tax earnings from employment, on the other. Action is required in three areas: child income support, tax exemption and marginal relief tax rates, and supplements for housing, rent or mortgages.

##### *Child Income Support*

Currently, there are four types of child support. There are well known unemployment traps and poverty traps associated with these arrangements. The Expert Group on the integration of the tax and social welfare systems outlined three alternative approaches to reform:

- Reform of FIS, to provide an In Work Benefit calculated on a net income basis;

- A means-tested Supplementary Child Benefit, in addition to Child Benefit but replacing Child Dependant Allowances and Child Additions in full and FIS for the most part;
- Integrated Child Benefit – a taxed, universal benefit capable of replacing all existing supports but leaving some residual requirement for FIS.

The Council views a fully integrated Child Benefit as a benchmark against which incremental changes in the tax and benefit system should be evaluated. Indeed, in general, the Council emphasises the advantages of using the tax system to target support for low income families. It recognises the substantial cost involved in a fully integrated Child Benefit system. In consequence, the Council believes that this desirable system can only be achieved, if planned over several years and introduced incrementally, subject to available resources. Bearing in mind the time-scale involved in achieving a complete integration of child income support, and the merits of a reformed FIS aimed at increasing take-up, as outlined by the Expert Group, the Council includes the latter among the measures which could be implemented on an interim basis.

#### *Tax Exemption, Marginal Relief and Incentives*

In Chapter 11, the Council recommends the replacement of tax free allowances by tax credits or standard-rating of personal allowances. It also recommends that these credits or allowances be increased at a faster rate than the exemption limits in order to eventually eliminate the requirement for tax exemptions and the current 40 per cent marginal relief rate. This reform will reduce the poverty trap and benefit employment.

#### *Supplementary Welfare Housing Supplements*

The Supplementary Welfare Allowance rent and mortgage supplements can constitute a severe unemployment trap because they are withdrawn in full once a person works for 30 hours per week or more, and fall on a pound-for-pound basis on earnings below 30 hours. The Council recommends an extension of the taper by introducing a lower withdrawal rate, for example 50p per £1.

#### **(vi) Active Labour Market Policies (ALMPs)**

It is widely accepted that policies are also required which directly tackle unemployment through training, education, direct employment measures including employment subsidies, community employment and subsidies to new enterprise, and employment services concentrated on the

unemployed. A particular focus of such policies are the long-term unemployed, and policies both of a preventative and supportive nature are required.

#### *Training*

The benefit of training in an ALMP context comes when skills are created or adapted to meet existing demand. Therefore, emphasis must be placed on linking training and other policies, particularly guidance, counselling and placement measures. Training may be most effective in boosting the chances of a return to work for those who have recently become unemployed, or have left the education system or for those who have qualifications but wish to re-enter the labour force, such as married women.

#### *Employment Measures*

The Council welcomes the basis set out by the Task Force on Long-Term Unemployment for the targeting of special employment measures. The Council's third recommendation for immediate action is a substantial expansion of *targeted* measures in the light of experience and subject to overall resource limitations. Particular attention should be given to the hardest-to-place through part-time jobs and whole-time contract jobs.

#### *Local Employment Service (LES)*

The Council views the LES as a valuable development in public employment services. The LES, with a focus on local co-operation and service delivery, and a priority on the more 'hard-to-place' categories of unemployed people, has the potential to overcome past failures in employment services in a cost-effective manner. The key to its success is to bring about the institutional climate required for successful local collaborative action. In this regard, the LES is a critical test case for the Strategic Management Initiative in the public service. The Council, as its fourth priority for action, supports the recommendations of the Task Force on Long-Term Unemployment for an effective LES.

#### *Area-Based Partnerships*

The Council believes that the recent OECD study, *Ireland: Local Partnership and Social Innovation*, raises important issues. In particular, it challenges us to develop more effective systems of 'learning by monitoring'. This, in turn, requires careful study of the variety of

centre-local relations emerging in Irish public policy. The Council believes that these issues – particularly their implications for partnership and devolution – should be the subject of further policy analysis.

#### *The Control of Fraud*

The issue of unemployment fraud has been highlighted by a special CSO study on the discrepancies between Live Register figures and Labour Force Survey figures on unemployment. While these findings point to a significant degree of fraud, we do not have a precise figure. The Council recommends that further studies be undertaken to ascertain and monitor the level of fraud. The Department of Social Welfare is primarily responsible for tackling fraud in the payment of unemployment benefits, but a co-ordinated effort between the Department, the Revenue Commissioners and FÁS is now necessary to address the wider aspects of tax, welfare and employment fraud.

#### *Supportive Conditionality*

The shift in emphasis from passive income maintenance measures to active, labour market orientated, policies can raise fears of the introduction of a penal attitude to the unemployed. On the other hand, there is a concern that the social welfare system should not act to reinforce or institutionalise unemployment further.

The Council takes the view that unemployment payments should be paid to those who are genuinely available for work. It supports the regular review of claimants' situations after 6 months to identify pathways back to work and, whenever possible, to avoid the drift into long-term unemployment. There should be an ongoing review of conditions in connection with unemployment maintenance and Active Labour Market Policies. However, the degree of conditionality that can be applied depends on the availability, relevance and quality of options for the target groups concerned.

#### **(vii) The Social Economy**

The concept of the social economy was given a clear endorsement in the EU White Paper, *Growth, Competitiveness, Employment* (1994), and has been the focus of much discussion and some experimentation throughout the EU in recent years. By this is meant encouraging new types of social service provision and useful employment along a 'continuum' between

pure, commercial service provision, on the one hand, and pure statutory provision, on the other.

The Council proposes that a working group be established to make a systematic examination of the potential of the social economy on the basis of workable and concrete definitions suitable to Irish needs.

## **7. ENHANCING EQUALITY**

### **(i) A New Focus on Equality**

This strategy includes a new focus on equality. The increased focus on equality in recent decades is related to the economic growth and restructuring of the labour market, the expansion of second and higher level education, and the influx of married women to employment. This process has posed a challenge to traditional assumptions about social roles in relation to work and family responsibilities, and has revealed widespread processes of discrimination in pay and working conditions, as well as inequalities in social and legal status. These arise not just in relation to women but also other groups based on disabilities, ethnic, religious, sexual orientation or other criteria.

### **(ii) Gender**

In Ireland, there has been a growing awareness of gender equality since the 1970s both through the direct influence of the EU and as a response to these underlying processes of change. This is currently reflected in the Employment Equality Bill, 1996, and promised legislation on Equal Status which will address discrimination in relation to access to goods, services and facilities.

While employers' organisations have expressed reservations about some aspects of the report, the Council supports the general thrust of the Second Commission on the Status of Women, notes progress made since its adoption, recorded in the First and Second Progress Reports, and looks forward to further implementation of its recommendations.

Many areas of the Council's *Strategy* have relevance and application to the issue of gender equality in the development of a competitive economy, particularly areas such as employment, training and education. Specific attention is required to support the reconciliation of family and employment commitments, in accessing employment or establishing enterprises.

### (iii) Disability

The situation of people with disabilities is the subject of a Commission on the Status of People with Disabilities, due to report after the publication of this *Strategy*. The Council looks forward to the Commission's report and strongly supports the expansion of access to employment for people with disabilities.

### (iv) The Traveller Community

The position of the Traveller Community poses special problems due to their status as an identifiable community and relationships with the settled community. This overlays and reinforces the very low average standard of living, poor health status, poor educational level, accommodation, economic exclusion and unemployment which is the hallmark of a high proportion of Travellers. A multi-faceted approach to the needs and rights of Travellers is set out in the 1995 Report of the Task Force on the Travelling Community. The Council endorses, in broad terms, the approach outlined. It notes, in addition to the importance of special educational measures for children, the relevance of special options under Community Employment and the potential relevance of the social economy to their specific circumstances (see Chapter 8, Section (vii)). Progress with the implementation of the Task Force Report should be monitored by the Department of Equality and Law Reform.

## 8. COMBATING CRIME

Chapter 10 sets out the Council's perspective on crime. Although there has been a gradual upward trend in crime for several decades, there is a clear perception that the nature of criminal activity in Ireland, as in many countries, has changed significantly in recent years. The social and economic marginalisation – documented in Chapters 1 and 2 and discussed in Chapter 8 – is clearly a major factor in the upward trend of conventional crime against property. Certain types of crimes involving violence or sexual assault, particularly against children, are significantly more prominent issues now.

While there is no simple answer to crime, there are many policies which must be pursued. Crime impacts most seriously on the quality of life and the cohesion of society. Action to promote social inclusion as outlined in this report, if pursued successfully, will help reduce crime levels, in particular conventional crimes against property and less serious crimes.

Drug addiction, which is particularly prevalent in areas of acute social disadvantage, is a major source of minor crimes against property. Consequently, an important aspect of a strategy to combat crime must be effective programmes to prevent and treat the problems of drug addiction. This requires a thorough review of the institutions and policies currently designed to address drug problems. Effective approaches require that criminal justice measures be balanced by, and integrated with, effective approaches in health and education. Furthermore, effective approaches in these areas cannot be designed and implemented unilaterally by the public policy system, but must be undertaken in partnership with local communities.

There has been a fairly gradual increase in crime over a prolonged period. While we might not expect an immediate institutional response to incremental changes in crime rates, neither should it require a fundamental crisis to precipitate a response. The capacity of the Department of Justice to concentrate on policy issues in a strategic way has been diluted by the role it has had to play in the day to day running of operations. This must be addressed and is a matter initially for the Department. A strategy to deal with crime today, however, also requires flexible and co-ordinated action by several departments to be really effective.

Action to combat crime must be pursued at a number of levels: prevention, detection, legal framework, prosecution, detention and rehabilitation. The scope of these levels underlines the extent of the action that must be pursued simultaneously to be effective. A series of actions and reviews are already underway. These include in particular:

- Crime package recently announced by Government;
- Discussion document on the management of offenders;
- Review (Denham) of the Courts;
- SMI Review of Gardaí;
- Health and drug rehabilitation programmes.

The Council recommends that:

- a Strategy to Combat Crime, such as that announced by the Minister for Justice, be pursued;
- adequate resources be made available to implement the strategy;
- an implementation and monitoring mechanism be put in place to co-ordinate policy and ensure the effective use of resources.

## 9. TAXATION AND PRSI

### (i) The Importance of Tax Reform

The Council attaches particular importance to the reform of taxation in the coming years. Three reasons for this priority can be identified:

- (i) The creation of employment and the reduction of unemployment;
- (ii) The need to underpin continued wage moderation by sharing the fruits of growth;
- (iii) The need to support investment.

The Council's proposals for taxation policy are informed by these objectives.

The Council acknowledges that significant reform of taxation has occurred since 1987. It feels, however, that tax reform tends to be a residual item, and is, consequently, vulnerable whenever expenditure or revenue developments are unfavourable. The Council sees tax reform as an integral part of Ireland's overall economic and social strategy, rather than a windfall to be distributed when other circumstances are particularly favourable or expedient. In order to give tax reform appropriate priority, the Council proposes that a specified portion of GDP be allocated to tax reform over a three year period. As indicated in Section 4(iv) above, the Council believes that at least 0.5 per cent of GDP would be an appropriate amount in each year, summing to 1.5 per cent of GDP after 3 years.

### (ii) Income Tax and PRSI

The Council believes a balanced package of personal tax reductions is necessary:

- to assist in promoting social inclusion;
- to facilitate a moderate pay deal; and
- to generate growth.

#### *The Council's Priority in Income Tax Change*

The Council believes that the priority in income tax change is reduction of the tax burden for lower to middle income earners. In practice, this implies that priority should be given to increasing basic allowances, rather than reduction of income tax rates, as the latter would provide only limited

relief to lowest income earners. In contrast, increasing personal allowances has several advantages:

- (i) Higher personal allowances would facilitate the eventual elimination of the exemption limit/marginal relief system. This would provide significant tax relief for those on low incomes, as well as reducing their marginal rates;
- (ii) It is effective in reducing the tax burden for those on low incomes, while simultaneously providing tax reductions for the generality of taxpayers.

The Council believes that this general superiority of increased personal allowances should be a principle guiding income tax reduction in the coming years.

#### *Move to Tax Credits*

The Council sees particular merit, by way of tax reform, in moving to a system of tax credits, rather than personal allowances. The Council sees the advantages of tax credits as providing a highly transparent, easily understood, and equitable mechanism for making tax changes. An increase in the value of the tax credit of, for example, £100, would provide a reduction of that amount for almost all taxpayers. The Council acknowledges that a period of preparation would be required to enable the Revenue Commissioners and employers to adjust to a credit-based tax system.

The Council recognises that similar results to tax credits could be achieved by standard rating personal allowances, in particular, a similar tax take at each income level can be achieved. However, standard rating of personal allowances lacks the advantages of greater transparency of tax credits. For these reasons, the Council favours a move to a credit-based system in the coming years and sees standard-rating of personal allowances as an interim move in that direction.

#### *Council Recommendations*

The Council recommends that the reduction in income taxation be achieved through a combination of:

- standard rating all personal and certain discretionary allowances (excluding retirement contributions) and limiting the value of most discretionary allowances (as is the case at present for mortgage interest and health insurance);

- widening the standard tax band to compensate for the standard-rating of personal allowances;
- a significant increase in the (now standard rated) personal allowance;
- reducing the standard tax rate to 25 per cent.

### (iii) Corporation Tax

The regime of 10 per cent corporation tax for manufacturing extends to 2010 and for the IFSC to 2005. The Council believes that an early decision on the regime beyond those dates is necessary because of the planning horizons of firms for projects now under development. The objective in deciding on a future corporation tax regime should be to secure the maintenance of the 10 per cent rate and to bring about a progressive and substantial reduction in the current standard rate of corporation tax, taking into account the relative position of small business through the threshold mechanism.

### (iv) PRSI

Research suggests that selective reductions in taxation and employers' social security contributions can assist the growth of employment although this effect is not easily quantified. This approach has been adopted in Ireland in recent years. The focus of change in employers' PRSI should be on reducing the overall tax wedge on lower paid jobs.

### (v) Replacing Taxes on Work with Tax on Property

The Council remains persuaded of the advantages of a comprehensive residential property tax, as demonstrated in previous Council reports and numerous other expert studies. It underlines, once again, that a property tax would *replace* taxes on income, rather than increasing the total tax burden.

## 10. PROMOTING PUBLIC SECTOR INSTITUTIONAL CHANGE

### (i) The Strategic Management Initiative (SMI)

The recently introduced Strategic Management Initiative has put in place a framework designed to achieve an excellent service for the government and for the public, as customers and clients at all levels. The SMI is now establishing, within each department and across all departments,

structures and processes to develop and implement a programme of change. This programme of change involves:

- the publication of Strategy documents for each government department and office in 1996;
- the widening of the SMI process to all public service bodies within twelve months;
- an amendment to the Ministers and Secretaries Act 1924 to change the management structure of the civil service and assign authority and accountability to the person or people who actually deliver a service, whether that be a front-line service, the management of a programme or the provision of policy advice.

The Council welcomes the direction of the SMI, as outlined in *Delivering Better Government*, published in May 1996, in promoting public sector change. The Council believes it important that this implementation process should bear in mind the issues identified by the OECD in its review of public service management.

The Council sees merit in the SMI Working Groups adopting the 'selective radical' approach advocated by the OECD. The Council also underlines the importance of the SMI in improving the efficiency of delivery of public services as a means of achieving saving in expenditure. These are required to finance the Council's Action Programme on Social Inclusion and its recommendations on tax reductions, as outlined earlier. In this way, fundamental change in behaviour and attitudes can be achieved and major benefits won for the public sector and for the country. Consequently, the Council recommends that:

- the SMI process be implemented;
- specific restructuring action programmes be developed for each part of the public service;
- the SMI Working Group on Financial Management be asked to report on measures for the financial block grant approach and monitoring system;
- the Comptroller and Auditor General be asked to report on the implementation of value for money auditing.

### (ii) State Enterprises

On the subject of privatisation of state enterprises, the Council reiterates its previous view that each case must be examined individually and conclusion reached on the particular circumstances of each case.



The Council recommends that the time is right for an updated audit of state utilities identifying:

- the nature of the product market and the scope for enhancing competition;
- the regulatory regime in place or being put in place;
- the need for an outline of policy choices appropriate to specific bodies.

A mechanism to carry out this audit should be agreed in formulating the next Programme.

### (iii) Devolution and the Development of Local Government

A second important aspect of institutional change in the public sector is devolution and the development of local government.

The recent local development experience has produced a degree of devolution and integration which, though limited, far exceeds the experience with previous attempts to devolve functions to local authorities. It has, however, largely by-passed the local government system and this is a major issue to be addressed. Given the uncertainty as to whether economies of scale would permit the full devolution of many policy functions to local authorities, it makes sense to seek to develop the local authority as a focus for co-ordination and linkage at the local level, building on the experience of the local development process.

The Council believes that the demonstration of relevance and purpose by local political leadership in partnership with civil society is likely to be the basis for renewed local government and sustainable local development strategies. In that context, the Council believes that the broad thrust of the Devolution Commission's interim report makes sense: in terms of building on what is happening at present in the form of local strategic planning, confirming that the local government system will be the primary support for local development effort when the present Structural Fund arrangements terminate. The Council welcomes the Government Statement of 1 August which effectively authorised the Devolution Commission to continue the analysis of the trade-off involved in devolving further functions while monitoring the experience of the local development process for effective devolution.

## 11. THE PARTNERSHIP PROCESS: PARTICIPATION AND MONITORING

Throughout this report, the Council has made several recommendations and proposed a series of implementation mechanisms. Successful implementation is dependent on effective and extensive participation in social partnership and the monitoring of progress in negotiated programmes. Participation is still unevenly developed and the monitoring of progress has received little attention. Consequently, there is considerable scope for enhancement of the partnership process through developments in both areas.

### (i) Participation in the Partnership Process

The Council is convinced that the social partnership approach can be *deepened* and *widened* without undermining its effectiveness in aligning economic actors to coherent approaches. In the Council's view, the next national programme must provide a framework in which social inclusion and fairness are achieved by harnessing Ireland's energetic business associations and trade unions, its high levels of community involvement and extensive voluntary associations. This requires extending the benefits of social partnership while consciously promoting a wider distribution of the fruits of growth and wider participation in policy deliberation and implementation. Devising the best way to do this requires careful study of the nature of the partnership process.

#### *The Council's Approach to Extending Partnership*

While various abstract, ideal models of partnership can be devised, the Council believes it is more useful to take a substantive approach by asking:

- (i) What is the job to be done, that is, what is the primary policy emphasis?
- (ii) Whose agreement and engagement is necessary to design and implement policy?
- (iii) On what issues between which groups is there a shared understanding, or between which groups is it possible to develop such a shared understanding?

The Council recommends that a widely based participation approach, that is adapted to the issues in question, be adopted. Specifically, it recommends that:

- at the outset, all relevant parties, including Government, make opening position statements at a formal meeting for that purpose;
- discussions thereafter proceed bilaterally and multilaterally, as appropriate, depending on the issues being considered.

#### (ii) Monitoring of Progress

The Council recommends that the various issues included in the negotiated programmes should be benchmarked both over time and across countries to allow a comprehensive monitoring of progress. The Council recognises that techniques will need to be developed for this purpose and would be happy to play a part in the process.

## 12. CONCLUSIONS

This Strategy report represents the NESC's views on:

- how Ireland is currently positioned as an economy and as a society,
- what the future environment is likely to hold by way of opportunities and threats.

and the Council's recommendations on:

- the macroeconomic framework we should adopt in fiscal, monetary and wage bargaining policies; and
- the areas where action for focused fundamental change of direction is required to position Ireland well into the 21st century.

The two basic themes that the Council underlines are:

- the need for a combination of changes to fit Ireland as an innovative, high-value added, high-productivity, high-quality and high-skilled economy, which represents its best position for strong national competitive advantage; and
- the need for a further combination of changes to promote social inclusion and social cohesion, such that Ireland as a society can both support its national economic competitive advantage and benefit equitably from the success that advantage will bring.

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Title	Date
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