

Embargo until 5.00 pm, Monday 12 October 2009

NESC Launches new report: 'Next Steps in Addressing Ireland's Five-Part Crisis: Combining Retrenchment with Reform'

- *Ireland's five-part crisis requires an integrated nationally-supported response*
- *The economic and social focus needs now to be embedded in fiscal policy*
- *Four criteria can help us find a coherent and widely-understood response*
- *Combine retrenchment with major reform*
- *Cannot be a task for government alone*

Dublin, Monday 12 October 2009—The National Economic & Social Council (NESC) today highlights the need for an integrated nationally-supported response that addresses all five parts of Ireland's crisis: banking, fiscal, economic, social and reputational.

The report includes a review of policy responses and developments since the Council's last report on the crisis in March 2009. Despite important steps, an integrated, nationally-supported and widely-understood response has yet to be achieved.

The Council notes that partial and sequential measures, even where necessary, will not be sufficient or effective. It argues that a convincing approach to any one dimension of the crisis is, in part, dependent on a widely-understood approach to the overall national crisis: but equally, a widely-understood approach to the overall crisis requires a clear and purposeful approach to each of the five elements, taken one by one. This bind is the context in which, in the coming months, Irish society must make critical decisions.

The Council emphasises that the most immediate challenge is to embed the economic and social focus within measures to correct the public finances. It suggests that in working our way out of the five-part crisis four criteria be adopted:

- **Cyclical:** Measures should, as far as possible, contribute to the revival of economic activity and employment;
- **Developmental:** Measures should, as far as possible, strengthen the foundations of Ireland's economic and social development;
- **Fairness:** It should be possible to explain how the chosen tax, expenditure and other policies are as fair as possible;
- **Sustainability:** The adjustment process must be sustained until Ireland comes through the crisis, must yield a sustainable public finance approach, and should, as far as possible put Ireland on a path that is sustainable—economically, socially and environmentally.

While these criteria will leave policy options hotly debated, they do offer the possibility of a more coherent and widely-understood policy response.

The Council further notes:

- If the debate and policy on bank stabilisation has evolved, and become increasingly informed by an awareness of long-term weaknesses in Ireland's policy system, it cannot yet be said that a similarly-informed and evolving debate is occurring on the fiscal, social and, indeed, the economic aspects of the crisis. In these areas debate still seems to be dominated by short-term, immediate and zero-sum aspects.
- It is possible to combine unavoidable retrenchment with major reform in a range of policy areas and systems. These include taxation, training and activation, welfare and social services, land management and systems of public management and accountability. Most immediately, the aim must be to stimulate 21st century equivalents to the special labour market programmes of the late 1980s and early 1990s.
- Previous work by NESC on the *Developmental Welfare State* provides guidance on the ways in which income transfers, services and activation measures can be re-cast to achieve better outcomes. Indeed, adopting such a reforming approach, it will often be possible to achieve better outcomes while achieving necessary budgetary adjustments.
- It was a search for practical responses to a severe unemployment crisis that set Denmark on the road that eventually led to the 'principles' of its renowned 'flexicurity' system and transition from a 'Keynesian welfare state' to what they now call 'an enabling welfare state'.
- Finding an integrated and nationally-supported response cannot be a task for government alone. The Council believes that no economic or social organisation or interest can avoid the consequence of the crisis or absent itself from the search for solutions. Consequently, this report is addressed not only to

Government, but to the full range of economic, social and policy actors—all of whom have a role in finding and implementing a path through this national crisis.

The report published today includes, in an appendix, a review of responses and developments since March 2009, written by the NESC Secretariat. The Secretariat notes:

Banking

- The public consultation on how NAMA should proceed has been active and has broadened the debate raising significant issues such as risk sharing, the mechanisms for achieving this, the pricing of loans and the potential of NAMA to contribute to the achievement of broader public policy objectives.
- There is evidence that the degree of tightening for credit eased during the first half of 2009. However, during the third quarter of 2009, the overall pattern of tighter credit standards and declining loan demand is expected to remain.

Fiscal

- Government has achieved a fiscal adjustment of €10.5 billion or 6.3 per cent of GDP and published the McCarthy Report. But there continues to be a huge gap in the public finances.
- There is scope for the tax share of GNP in Ireland to rise without making Ireland a 'high tax' country. The Council argued, in March 2009, that it seems certain a medium-term strategy to restore balance to the public finances will require an increase in the tax share of GNP—from its reduced 2009 level—if a satisfactory level of provision of services and benefits is to be achieved.
- The Commission on Taxation report is consistent with advice provided by the NESC Council, over several decades, about widening the tax base. The advantage of a broad tax base is that it minimises the tax rates, particularly on labour and enterprise, required to achieve any given level of revenue.
- Beyond addressing the current crisis, structural and institutional reforms could improve the formulation of fiscal policy and management of public expenditure.

Economic

- There are two schemes which seek to protect employment, the Enterprise Stabilisation Fund (€100m of which €50m is in 2009) and the Employee Subsidisation Scheme (€250m of which €60m is in 2009). Given the scale of the job losses, other initiatives and ways of supporting and creating new employment could to be explored by government, business and trade unions.
- Non-pay costs remain stubbornly high. The National Competitiveness Council (NCC) has shown that significant service costs facing business—in particular electricity, broadband, waste disposal, professional and legal services—remain very high in comparison to other countries.
- At the end of September the euro was worth £0.91. As was evident in the early part of 2009, this creates very significant challenges for Irish exporters and those

competing with imports from the UK. The euro has also strengthened against the dollar since March 2009.

Social

- In its report of March 2009, the Council drew on the lessons of the late 1980s and early 1990s—concerning the scarring effects of long-term unemployment and how a generation can be lost to the economy and to satisfactory participation in society—to urge imaginative and 'smart' innovation in this area and to suggest a Job and Skills Summit as a way of accelerating it.
- Assessing the timeliness and effectiveness of employment and training initiatives, a number of issues are now coming to the fore—principally, the extent to which the composition of the supply response and its regional provision meet demand, and the extent to which financial impediments and eligibility rules are blocking people from accessing courses.
- An OECD review, in 2009, highlighted that there is a high degree of fragmentation in Ireland's public employment service and the proportion of staff time devoted to implementing an activation agenda was low.

Reputation

- International perceptions towards Ireland have improved in recent months and the gap between the yield of ten-year German bonds relative to Irish ones has narrowed in recent months to a difference of about 1.4% compared to nearly 3% earlier this year.

* * * * *

Note to Editors:

The **National Economic & Social Council** (NESC) was established in 1973. Its function is to analyse and report to the Taoiseach on strategic issues relating to the efficient development of the economy, the achievement of social justice and the development of a strategic framework for the conduct of relations and negotiation of agreements between the government and the social partners.

The Council is chaired by the Secretary General of the Department of the Taoiseach and comprises representatives of trade unions, employer bodies, farm organisations, the community and voluntary sector, key Government departments and independent experts.

For further information:

Dr. Rory O'Donnell, Director NESC Email: Rory.odonnell@nesc.ie	Dr. Larry O'Connell, NESC Secretariat Email: Larry.oconnell@nesc.ie
---	---

Phone: 01- 8146330 OR 087-6595619

Phone: 01- 8146331 OR 086-6069758