
Strategy into the 21st Century

Conclusions and Recommendations

National Economic and Social Council

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An Chomhairle Náisiúnta Eacnamaíoch agus Sóisialach

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Constitution and Terms of Reference

1. The main tasks of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government through the Taoiseach, on their application. The Council shall have regard, inter alia, to:
 - (i) the realisation of the highest possible levels of employment at adequate reward.
 - (ii) the attainment of the highest sustainable rate of economic growth.
 - (iii) the fair and equitable distribution of the income and wealth of the nation.
 - (iv) reasonable price stability and long-term equilibrium in the balance of payments.
 - (v) the balanced development of all regions in the country, and
 - (vi) the social implications of economic growth, including the need to protect the environment.
2. The Council may consider such matters either on its own initiative or at the request of the Government.
3. Members of the Government will meet regularly with NESC on their initiative or on the initiative of NESC to discuss any matters arising from the terms of reference and in particular to discuss specific economic and social policy measures and plans and to explore together proposals and actions to improve economic and social conditions. Any reports which the Council may produce shall be submitted to the Government, and shall be laid before each House of the Oireachtas and published.
4. The membership of the Council shall comprise a Chairperson appointed by the Government in consultation with the interests represented on the Council, and
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 - Six persons nominated by the Irish Business and Employers Confederation and the Construction Industry Federation;
 - Six persons nominated by the Irish Congress of Trade Unions;
 - Fifteen other persons nominated by the Government, including one from the National Youth Council, the Secretary of the Department of Finance, the Secretary of the Department of Tourism and Trade, the Secretary of the Department of Enterprise and Employment, the Secretary of the Department of Social Welfare and the Assistant Secretary, Office of the Tanaiste.Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairperson to regulate the numbers attending.
5. The term of office of members shall be for three years. Casual vacancies shall be filled by the Government or by the nominating body as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office.
6. The numbers, remuneration and conditions of service of staff are subject to the approval of the Taoiseach.
7. The Council shall regulate its own procedure.

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Strategy into the 21st Century – Conclusions and Recommendations –

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ABBREVIATIONS

CAP	Common Agricultural Policy
CRC	Central Review Committee
CSO	Central Statistics Office
EMS	European Monetary System
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESRI	Economic and Social Research Institute
FÁS	Training and Employment Authority
FEOGA	European Agricultural Guidance and Guarantee Fund
FIS	Family Income Supplement
GDP	Gross Domestic Product
GGD	General Government Deficit
GNP	Gross National Product
IBEC	Irish Business and Employers' Confederation
ICTU	Irish Congress of Trade Union
IFSC	Irish Financial Services Centre
IPC	Irish Productivity Centre
LES	Local Employment Service
LRC	Labour Relations Commission
NAPS	National Anti-Poverty Strategy
NESF	National Economic and Social Forum
OECD	Organisation for Economic Co-operation Development
PCW	Programme for Competitiveness and Work
PESP	Programme for Economic and Social Progress
PNR	Programme for National Recovery
PRSI	Pay Related Social Insurance
R&D	Research and Development
SME	Small and Medium-sized Enterprises
SMI	Strategic Management Initiative
WTO	World Trade Organisation

PREFACE

Since the mid-1980s, the National Economic and Social Council has produced periodic overviews of economic and social policy. These reports - *A Strategy for Development* (1986), *A Strategy for the Nineties* (1990), and *A Strategy for Competitiveness, Growth and Employment* (1993) - have documented developments in the Irish economy and society, and constituted an input into the negotiation of the national social partnership programmes. The Council has now completed a fourth overview of Ireland's economic and social strategy. This publication contains the 'Conclusions and Recommendations' of that study. The main report is published separately.

In presenting its ideas on an economic and social strategy to take Ireland into the 21st Century, the Council has arranged its work in four parts. Part I sets out the foundations upon which economic and social policy must now be based. These foundations are derived from a review of the Irish economy and Irish society since 1960. This long-time horizon allows a clear perspective on the major challenges. It shows that the major economic challenge is to manage growth and lay the foundations for future competitiveness. The major social challenge is to reduce unemployment and start a long-term reversal of inequality. The third element of the foundations is a perspective on Irish policy in a global context. Globalisation places a premium on structural adjustment and high levels of social cohesion and co-operation.

Part II sets out the economic framework for Irish policy in the coming years. The maintenance of low inflation, reduction of public sector deficits and debt and transition to EMU provide clear guidelines for macroeconomic policy. Co-ordinated wage bargaining - in the context of a negotiated national programme - is the approach most likely to yield appropriate settlements across the economy.

Part III outlines a set of policy areas in which change is necessary in the coming years if Ireland is to strengthen its competitive position, reduce unemployment and strengthen social cohesion. These include policies for enterprise and competitiveness, enterprise-level partnership and training, action on unemployment and social exclusion, measures to enhance

equality, new approaches to combating crime, reform of taxation and action to promote institutional change in the public sector.

In Part IV, the Council considers partnership and the policy process. This reflects the Council's belief that successful implementation is dependent on effective and extensive participation in social partnership and the monitoring of progress in negotiated programmes.

The Council commends its conclusions and recommendations to the Irish government, the social partners and the wider society. It does this in the belief that the widest participation in social life, economic activity and policy-making are inseparable and fundamental requirements for the well-being of Irish society.

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The Council is grateful to Dr Tony Fahey, of the ESRI, who was commissioned to prepare a paper which was drawn upon in the preparation of Section 2, on Irish Society Since 1960. It is also grateful to Professor Bill Roche, of University College Dublin, and Professor Tom Kochan, of the Massachusetts Institute of Technology, who prepared a background paper on the development of partnership at enterprise level. Thanks are also due to Dr Jonathan Michie of the Judge Institute, University of Cambridge, who provided material on social partnership in other countries. The Council is also grateful to Mr Colm O'Reardon of Wolfson College, Oxford, who assisted in the preparation of Section 5.

Officials of the Department of Finance, too numerous to record individually, and of other Government Departments provided great assistance to the Secretariat in the preparation of the report. Mr Paddy Molloy of the Revenue Commissioners provided analysis of the Council's taxation proposals. Ms Sara Cantillon, of the Department of the Taoiseach, provided detailed assistance in the preparation of Sections 1 and 5.

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Part I

Foundations

1. THE IRISH ECONOMY SINCE 1960¹

(i) Growth and Structural Adjustment

Four significant successes can be identified in the Irish economy since 1960. First, taking the period since 1960 as a whole, it is clear that the country has achieved fairly strong growth. Real GNP per head is about 2½ times the 1960 level. The second success has been the dramatic structural adjustment of the Irish economy. In 1960, agriculture, forestry and fishing accounted for almost 37 per cent of all employment. By 1990, this had fallen to 11 per cent, reflecting very rapid productivity growth. At the same time, the non-agricultural economy adjusted to membership of the European Community and a greatly liberalised world trade regime. This produced a remarkable shift in the structure of industrial activity in Ireland. These long-term achievements – growth and structural adjustment – were accompanied by a third, which is best labelled ‘modernisation’. The period since 1960 has seen a strong increase in living standards and expectations. Incomes, wages and welfare have converged on those of the UK and, in some cases, surpassed them. Central to this process of modernisation was increased investment in, and expenditure on, health, housing, education and training. A final success in the period since 1960 has been the attraction and use of inward investment.

Overall, Ireland’s national competitiveness has improved significantly over the years since 1960, as reflected in strong growth in GNP, exports, producing significantly higher income levels, and doing so at acceptable levels of the balance of payments, of inflation and of the public finances.

These successes occurred in a context which contained an unanticipated difficulty. Ireland’s demographic pattern yielded a large increase in the labour force at a time of acute international and domestic economic difficulties. The resulting rise in the dependency ratio – and the emergence of high, structural, long-term unemployment – constituted a significant increased demand on both public and private resources.

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

(ii) Competing Claims, Unemployment and Weak Indigenous Development

Although the Irish economy achieved significant economic growth, adjustment, modernisation and inward investment since 1960 and a substantial increase in employment in recent years, these successes are qualified in important ways. Inconsistent claims on the Irish economy meant that the potential benefits of growth in the 1960s, the 1970s, and the early 1980s were not fully realised. Awareness of the international environment was incomplete. The adjustment of indigenous enterprises to international competition failed more often than it succeeded. Job creation was insufficient, old jobs were lost at a remarkable rate and unemployment increased. High levels of savings and corporate profits were not matched by investment in the Irish economy. Inevitable adversities were allowed to become divisive and produced delayed and insufficient responses. Overall, there was an insufficient appreciation of interdependence in the economy – between the public and the private sectors, between the indigenous economy and the international economy, and between the economic and the political.

Problems in Growth as well as Recession

A central argument of Section 1, which informs the whole report, is that these problems arose as much in periods of strong economic growth, as in periods of international recession.

Even in periods of strong economic growth – 1960-73 and 1973-79 – *inconsistent claims* on Irish output were allowed to develop and were resolved in ways which created major economic problems. In the 1960s, these problems were evident in inflation and industrial conflict. In the 1970s, inconsistent claims were resolved by inflation and increased government spending financed by borrowing. In the 1980s, inconsistent claims were resolved by a combination of public borrowing, expenditure cuts, unemployment, tax increases and a squeeze on profits.

Even in periods of strong economic growth, many actions – in business, public policy and industrial relations – would seem to have been based on a very incomplete appreciation of just how *competitive the international economy* was becoming.

While Ireland achieved significant growth and structural adjustment since 1960, the role of indigenous enterprises in those achievements was disappointing. By default, Ireland's economic strategy became one which relied heavily on inward investment. Buoyant domestic growth in the 1960s and 1970s – funded by foreign borrowing in the late 1970s –

postponed the day of reckoning for indigenous manufacturing industry. The 1980s saw a major shake-out of indigenous enterprises and employment.

The most striking failure in the Irish economy since 1960 is, undoubtedly, the increase in *unemployment*. Here, too, weakness was evident in periods of both growth and recession. Although the increase in unemployment occurred primarily in the 1980s, it partly reflected factors shaped earlier. These included the need for a sharp fiscal correction, the decline and disappearance of numerous manufacturing enterprises, the increased tax wedge and a rapidly increasing labour force. Indeed, two striking features of Irish unemployment have been its persistence and the high proportion of long-term unemployment. To understand these features, it seems necessary to take note of the extent of labour force growth, the loss of jobs in indigenous manufacturing, the changing skill requirements of the economy, inequality of educational outcomes, increased labour force participation of women and the high propensity to migration. These factors mean that a general increase in economic activity and labour demand tends to have a limited impact on unemployment, particularly long-term unemployment.

The *adversities* which Ireland faced since 1960 proved *divisive*, and frequently produced delayed and insufficient responses. Ireland's handling of the difficulties of 1974 and of subsequent strong growth, greatly increased the problems it faced after 1979. A build up of public debt and the second oil price rise created new claims on national output at a time of deep international recession. Adjustment to these claims proved highly divisive, yielding conflict over taxation, public expenditure and pay. At the same time, membership of the ERM altered the way in which inconsistent claims would be resolved.

Insufficient Appreciation of Inter-Dependence

The common factor in each of these failures would seem to be insufficient appreciation and acceptance of inter-dependence in the economy and society. First, failures seem to have arisen – in periods of both growth and recession – when there was insufficient recognition that the cost and efficiency of the public sector impacts strongly on the competitiveness of the private sector. The dramatic structural adjustments have been borne primarily by private sector employers, workers and, most of all, the unemployed.

Second, failures also seem associated with insufficient recognition of the inter-dependence between the traded and non-traded sectors. Like many

other countries, Ireland has painfully discovered the extent to which domestic economic and social arrangements are exposed to international competition. A paradoxical effect of globalisation is an *increase*, rather than decrease, in the significance of local and domestic factors. In a global economy, it is vital to have effective internal economic, political and social arrangements.

Failure since 1960 seems also to have arisen when sight was lost of a third inter-dependence: that between the economic and the political. Inconsistent claims on national output, and damaging actions, can arise from either economic actors or policy-makers or from the interaction between them. Success requires that both economic actors and policy-makers adopt a strategic, long-term, and mutually consistent approach.

(iii) Characterising the Current Economic Challenge: Managing Growth

It is useful, in the light of developments since 1960, to characterise where Irish policy stands now. While much attention has naturally focused on the contrast between the early 1980s and the period since 1987, this contrast may begin to lose some of its relevance. Viewing development since 1960, the current problem is how to manage economic growth, not how to adjust to extreme adversity. The challenge now is to maintain effective and consistent approaches outside of a crisis context. This would seem to require an inclusive perspective involving:

- Realistic expectations;
- A widely shared understanding of the key mechanisms and relationships in the Irish economy.

Such an inclusive perspective requires that:

- (i) *Everyone* is taken into account;
- (ii) *Everything* is taken into account.

Taking *everyone* into account implies that each economic and social group must take account of the unemployed, those dependent on social welfare, those not in the labour force, conditions in various traded and non-traded sectors, and the relative experience of enterprises, employees and the self-employed. Taking *everything* into account implies noting not only pay, but also changes in taxation, public services, employment creation, interest rate reductions and the relative benefits and costs of a strong exchange rate. An inclusive perspective requires that note be taken of the many ways in which the fruits of growth are distributed.

The experience since 1960 strongly underlines the importance of a shared understanding of key mechanisms and relationships in the economy. These need to be re-examined, restated and widely disseminated. Successful management of current growth, future challenges and inevitable future diversities, requires a widely shared understanding of the context within which the Irish economy operates and the inter-dependencies discussed above.

2. IRISH SOCIETY SINCE 1960

This section parallels, for the social sphere, the review of the economy in Section 1. It focuses on three key dimensions of social and demographic change in recent decades: socio-demographic trends, increased levels of education and human capital, and social resources and capacities. Each of these aspects of Irish society has shown considerable advance since 1960. When these are combined with economic progress – in living standards, housing and health – they signify a remarkable pace of overall economic and social change in Ireland.

(i) Socio-Demographic Trends

The decades since 1960 have seen a most significant demographic transformation in Ireland. In particular, the reversal of a more than century-old trend of population decline has had important consequences for both society and economy. Past high levels of fertility and emigration have declined, with the effect that although there are fewer people born annually, many more of them remain in Ireland. From an economic and social perspective, this is a very positive development and it has created a context for social development, including a higher regard for children and the quality of their emotional development.

At the same time as fertility within marriage has been falling, extra-marital birth rates have grown substantially. While not all lone parents' children are at risk of marginalisation, many are, due to prior social circumstances, such as low income, unemployment or poor educational attainment.

The single most important demographic development in coming decades will be an increase in the working age population and a decline in the proportion below working age. As a result, an increase in dependency due to ageing is some decades off. Prospects for economic dependency are also improved by the rise in female labour force participation and the reduction of unemployment that must be achieved.

(ii) Human Capital and Education

The quantitative recovery of Irish population since 1960, has been elevated into a considerable qualitative development, by the sustained increase in education which has occurred over the period. Expansion of the education system has been remarkable. The numbers in second-level education grew from 132,000 in 1965 to almost 370,000 in 1993/94, and the rate of retention of second-level pupils to leaving certificate standard has risen from 20 per cent in 1960, to over 85 per cent today. Third-level student numbers increased from 18,500 in 1965 to almost 91,000 in 1993/94, such that 40 per cent of the age cohort of school leaving age progress to third-level education. However, older cohorts of the Irish population display considerably lower levels of average education. While this is evidence of a significant inequality, it also means that the full effects of the large investment in human capital are still to be felt, and augur well for the future.

Educational Disadvantage

While educational performance among those now in school will yield an eventual improvement in educational levels, there remains a hard core of educational disadvantage among school pupils which is unlikely to disappear easily. Using a notion of educational disadvantage based on a combination of reading difficulties among 14 year olds, early school leaving, low incomes and material deprivation, it has been estimated that about 16 per cent of the present school population could be considered as suffering from serious educational disadvantage.

The persistence of a substantial degree of educational disadvantage is the key weakness in the educational record since 1960. While educational inequality exists in all Western countries, it is of particular significance in Ireland, since education is an unusually dominant influence on occupational roles. Consequently, the link between educational disadvantage and employment disadvantage is exceptionally close.

Education, Occupations and Social Inequality

Differences in the distribution of educational disadvantage have profoundly shaped the social restructuring which has accompanied economic change since 1960. It has especially influenced the social impact of the changing occupational profile which has been a major feature of Ireland's structural adjustment. As shown in Section 1, this changing profile can be summed up as the decline of employment in agriculture and in unskilled/semi-skilled manual occupations and the rapid expansion of white collar employment.

Farm families have responded to the declining employment opportunities in agriculture with high participation rates in education and the use of education as a route to the expanding white collar occupations. The decline of unskilled and semi-skilled employment has not been compensated by a similar response. This is reflected in the educational disadvantage, noted above, and particularly low rates of participation in third-level education in many urban areas, especially Dublin. Whatever its cause, the differential response to educational opportunity of those groups most affected by economic change has yielded the principal social structural defect in modern Irish society – the creation of large numbers who have lost their traditional occupational base, who have been unable to find new occupational outlets, and whose children are frequently poorly integrated into the full range of the education system and who are, in consequence of these problems, progressively marginalised. Estimates suggest that such households amount to about 11 per cent of non-elderly and non-farm households in Ireland. Educational inequality has not been the prime cause of this outcome. Rather, it has been the mechanism by which other inequalities in resources have been brought together and reproduced in the emerging new social order. This failure is a major defect in Irish social development since 1960.

(iii) Social Resources and Capacities

As well as assessing tangible resources – population and education – it is useful to consider other social resources and capacities, those which reside in social relationships between people. The Council's assessment focuses on three clusters of such relationships – those centred on family, gender roles and community. To some extent, we can assess progress or decline in the social resources and capacities which these sets of relationships represent, and assess the basis they provide for future social development, while recognising that hard evidence is not readily available.

Family

While much of the public discussion of family life in Ireland today is dominated by the themes of crisis and decline, this may not reflect an objective overview. Indeed, it is possible to point to many positive trends and to suggest that there has been a net improvement, rather than decline, in the social resources and capacities represented by family life in recent decades. This is evident, for example, in the overall advance in the condition of children, much of which is due to higher levels of material and emotional investment on the part of parents and, underlying that, a

transformed view of children's rights and of what children require to develop. These changes have generated a new set of norms and ideals about child rearing within families which amounts to a powerful new dimension of social resources. In order to reconcile this with popular malaise about the family, it is necessary to shift attention from average or aggregate patterns of family behaviour, to the inequalities in family conditions. A minority of families undoubtedly have a poor quality of domestic life. Some of this can be related to trends in material circumstances. Families were the major victims of the distributional failures which arose from the economic stresses of the 1980s and children, in particular, emerged as the main category of the population in poverty. Widening social gaps in patterns of education and employment also have implications for family life.

These arguments suggest that the 'crisis of the family', insofar as it exists, is a crisis of the uneven distribution of family resources, rather than of the overall quality of family life. In that sense, it is a localised or limited crisis, since it affects only a minority, though it also has a more general character in that it is partly shaped by wider factors and norms. This way of interpreting the issue directs our attention away from generalised concerns about the family as an institution, and towards the redistribution of resources and opportunities as a means of reducing family problems. Many of these resources have a material base (jobs, income, material standards of living, human capital) and so are subject to action by public policy, voluntary associations and the wider society.

Gender Roles

The changing legal, cultural, economic and social status of women has undoubtedly been one of the most significant developments of the last three decades. Even allowing for the fact that women's role in agricultural production was inadequately acknowledged in the past, there is no comparison between the current social status of women in Ireland, compared with the early 1960s. This advance must be seen as a most positive aspect of social development, and one which has greatly enhanced Irish social resources. Nevertheless, there remain differences between the life experience of different groups of women, depending on economic and social conditions, income, social class and relationship to the labour market. Here again, the problem of marginalisation presents a major hurdle for many women. Policy issues concerning gender inequality are discussed in Section 9(ii).

Community and Associations

Community life and voluntary associations are a critical social resource and the depository of many social capacities. The decline of community is an important theme in studies of rural Ireland. There is less clear evidence of a decline in community in urban areas in general, even though there are clear instances of localised crises of community in certain marginalised urban areas. Despite these trends, Ireland has displayed considerable vitality in the continuation, formation and vibrancy of associations in sport, culture, voluntary action, self-help and other areas. In addition, the crises of the 1980s have prompted both the revival of local community activity and a new engagement, on the part of the State, with communities as potential partners in promoting development and combating long-term unemployment. The recent OECD study of Ireland's local development initiatives, *Ireland: Local Partnerships and Social Innovation*, considers that aspects of Ireland's recent approach in this area are, potentially, of global significance as experiments in economic regeneration and democratic renewal. The Council considers the vitality of associational life – and, where necessary, State support for formation of interest organisations – as key sources of the trust and capacities which are necessary for successful economic and social life in the modern world.

(iv) Characterising the Current Social Challenge: Reversing Inequality

The specific social factors surveyed here – demographic, educational and social resources – have evolved in a strongly positive direction in Irish society as a whole. This, and other evidence, suggests that the resources of Irish society have increased in recent decades, and are set to increase further. Nevertheless, there has been a marked failure in relation to a section of population that is increasingly marginalised through lack of employment, low income, low morale and poor educational attainment. While most Irish citizens will benefit from general economic growth and related social progress, the major challenge facing Irish society is to ensure that social inequalities – which have widened in the dramatic economic and social adjustments of recent decades – now begin to decrease. The alternative, a continued increase in social polarisation, is not only morally unacceptable, but would ultimately impose huge social and economic costs on Irish society. The enhanced resources and capacities for development of the society as a whole indicate that the measures necessary to address acute disadvantage, and start a long-term reversal of inequality, are feasible, both economically and socially.

(i) Technological and Organisational Innovation

Ireland faces and will face a rapidly changing environment over the remaining years of this decade and into the next century. The world which Ireland faces is one in which:

- Technological change is ever more pervasive;
- Positive flexibility in working methods is essential to apply technology effectively;
- A premium is placed on high skilled training and education for work;
- Life-long learning is a necessity;
- East Asia and Central and Eastern Europe are of much greater significance;
- Competition for mobile investment and trade are intense;
- Environmental concerns are taken into account;
- Trade arrangements alter patterns of agricultural production;
- Service activities are ever more significant;
- The nature of the nation state and the role of government are altered significantly;
- The need for and value from trust and partnership are greater.

In addition to these forces of change, there are a series of identifiable institutional developments:

- The EU Inter-Governmental Conference to revise the Maastricht Treaty;
- EMU;
- Enlargement of the EU;
- World Trade Organisation negotiations on a new trade round.

It is of the very essence of this changing environment, that it requires response at every level of the economy and society. The necessary changes cannot be outlined in a single blueprint and implemented on instructions from the centre. There are, nevertheless, strategic requirements on national policy. Indeed, national frameworks can encourage or hinder the flexible, innovative, responses which are required at every level. In the Council's view, a key foundation of Ireland's strategy

is the partnership approach developed in recent years. Below, we outline why this is a key to effective national policy in a global context.

(ii) The Three Elements of a Consistent Policy Framework

In previous *Strategy* reports, it was argued that there are three requirements for a consistent policy framework in a small, open, European democracy:

- (i) The economy must have a macroeconomic policy approach which guarantees low inflation and a steady growth of aggregate demand;
- (ii) There must be an evolution of incomes which ensures continued improvement in competitiveness, which handles distributional conflict in a way which does not disrupt the functioning of the economy, and which accords with the society's values concerning fairness;
- (iii) There must be a set of complementary policies which facilitate and promote structural adjustment in order to improve competitiveness.

The manner in which a consistent and effective overall approach is developed varies considerably across countries. Consideration of how various countries, with different structures and political traditions, operate economic and social policy suggests two important requirements:

- (i) The overall system must be consistent;
- (ii) It must be suitable for the economy and society to which it is applied.

(iii) Core Elements of the Emerging Irish Model

The question then is: what substantive policies are appropriate in each of these three categories (macroeconomic growth with low inflation, competitive and fair incomes, and structural adjustment) and how can consistency be achieved?

The Council's Orientation: Participation and International Competitiveness

The Council's orientation is one which begins from the belief that the widest participation in social life, economic activity and policy-making are inseparable and fundamental requirements for the well-being of Irish

acceptance of Ireland's participation in the international economy and the European Union. This implies that the competitiveness of the Irish economy is a precondition for the pursuit of all other economic and social goals. The Council has long argued that international competitiveness requires both inward investment and indigenous development and has proposed measures to enhance each. The Council has argued that macroeconomic performance, international competitiveness and social justice are best served by a negotiated determination of income distribution, which encompasses wage growth, taxation and social provision. The Council has recognised, however, that this approach is insufficient in addressing long-term unemployment and social exclusion. Consequently, it has identified the need for a range of policies in taxation, social welfare, housing, industrial development and targeted, multi-dimensional, area-based measures on long-term unemployment.

Negotiated Programmes

In Ireland, the recent achievement of a consistent approach to macroeconomic policy, incomes and structural adjustment has been strongly associated with negotiated programmes. These align the social partners to consistent and competitive actions and provide a framework within which government can adopt a strategic perspective on important policy issues. The relatively successful negotiated programmes of the 1980s and 1990s have been based on a shared understanding of the problems facing the Irish economy and society and the main lines of policy required to address them.

Globalisation Places a Premium on Structural Adjustment and Social Cohesion

There is little doubt that globalisation of markets and firms has undermined many elements of national economic policy. However, there are several areas where national policy remains crucial. National policies which influence corporate governance, innovation, the labour market and industrial relations still have a significant effect on national prosperity. Study of current economic conditions further clarifies the policy approach which should be adopted by a small, open, European, democracy like Ireland:

- (i) Most of the policies which affect national prosperity are *supply-side* policies;
- (ii) Given rapid economic change, national policies must produce *flexibility*;

- (iii) Successful national supply-side policies, directed towards innovation and competitiveness, depend on the high level of social cohesion and co-operation that the state can both call upon and develop.

This has implications for the three elements of a consistent policy framework, outlined above. It suggests that – as long as firm macroeconomic discipline is maintained – the focus of Ireland's economic and social policies should now be on the second and third elements of a consistent policy framework. Supply-side policies which facilitate and promote structural adjustment and flexibility in order to improve competitiveness are clearly vital in a globalised economy. But the success of supply-side measures for competitiveness depends on the level of social cohesion and co-operation. Consequently, long-term unemployment and the fairness of incomes, taxation and social provision, remain central policy issues. Long-term unemployment stretches social cohesion to the limit and would, in the long-term, threaten economic prosperity also.

Unemployment and Social Exclusion

The strength of the emerging model of policy-making, business and industrial relations, is hugely qualified by the continuing problem of long-term unemployment. This undermines the very features of Irish society – social solidarity, a shared perspective on key policy needs, and mutual accommodation – which underpin the negotiated approach to policy. This *Strategy* report suggests ways in which Ireland can address this weakness of its recent approach. The Council is anxious that the policy process take greater heed of those who have, so far, benefited least from Ireland's recovery. It is convinced that this can be done without undermining its effectiveness in aligning economic actors to coherent approaches.

(iv) The Current Challenge: Self-Generating Competitiveness and Social Inclusion

While negotiated, multi-annual, programmes at national level remain necessary, the task now is to make competitiveness and social solidarity *self-sustaining*. Public policy is most effective when social actors are responsible for ever-improving competitiveness and social inclusion. Consequently, the next programme must provide a framework for building competitiveness at firm and industry level. Likewise, it must provide a framework in which social inclusion and fairness are achieved by harnessing Ireland's energetic business associations and trade unions,

associations and absence of deep social divisions. This requires extending the benefits of social partnership by consciously promoting a wider distribution of the fruits of growth and wider participation in policy deliberation and implementation.

Consequently, the Council explores ways of developing the social partnership model both below the national level and at national level. Two strands of development of the policy process are examined. These are:

- (i) Industrial relations partnership below the national level, and in new spheres;
- (ii) The representation of marginalised groups at national level.

The first of these issues is considered in Section 7 and the representation of marginalised groups at national level is discussed in Section 13 below.

Part II

Economic Framework

As noted in Section 3, a small open economy requires a consistent set of macroeconomic, distributional and structural policies. What are the appropriate policies for Ireland? Part II of the Council's *Strategy* report outlines the Council's view on the macroeconomic approach and the evolution of incomes. These are, of course, closely related. In the movement to EMU, a major challenge confronting all European countries is to establish a consistent and effective relationship between a 'fixed' exchange rate, public finance and wage bargaining. The first two of these are considered in Section 4. Wage bargaining is discussed in Section 5.

4. MACROECONOMIC POLICY

(i) The Overall Macroeconomic Approach

It can be argued, that in recent years Ireland has made significant progress towards achieving two of the elements of a consistent policy approach, the macroeconomic and the distributional. Preparation for, and transition to EMU, provides the sheet anchor of the macroeconomic approach, 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. The combination was not easily achieved. It took many years for Ireland to converge towards German inflation and interest rates, and Ireland's adherence to the EMS narrow-band was occasionally threatened by devaluation of Sterling. Indeed, the whole European Exchange Rate Mechanism (ERM) was significantly loosened in 1993, when exchange rate speculation undermined the narrow-band parities. Following the widening of the ERM narrow band, the Council argued that Ireland should continue to adopt a credible, non-accommodating, exchange rate policy. This can be seen as a continuation of the same fundamental exchange rate and macroeconomic strategy, in new circumstances. By adopting that strategy in combination with social partnership agreements covering pay and other policies, Ireland has made major advances in economic management and performance. In particular, consensus on this long-run strategy has taken the exchange rate, and therefore inflation, outside political competition and industrial relations conflict.

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.

We focus here on the first of these. In the Council's view, consensus on exchange rate policy and on movement to a single currency are critical to the success of those policies. The factors which favour Ireland's choice of EMU, and which will determine its eligibility, are not purely technical. Several of them are shaped by the degree of consensus on economic policy and the institutional arrangements of wage setting. Consequently, the accepted goals of national strategy, the degree of consensus on these, and a willingness to reflect these in industrial relations practices and public finance, should not be seen as mere icing on the cake of economic 'fundamentals' which are given, and technical, in nature. The Council's perspective on the policy requirements of EMU is similar to that which prevails in those countries likely to be in the first tier of European economic and monetary union.

(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.

The Features of the System

The share of public expenditure in national output has fallen from 58 per cent in 1986, to 46 per cent in 1996. At the same time, the *volume* of public expenditure has increased strongly. This reflects significant increases in the volume of social services – in health, welfare and education. In a general sense, the Council sees this as one component of the social partnership approach. Some increase in social services is a valuable concomitant to the moderate pay settlements and the adherence to competitive economic disciplines, which form another component of the social partnership approach. Whether the increased quantity and quality of social services required such a large increase in expenditure is a separate matter. As noted in Section 5(iv) of this report, the Council is anxious about several features of public sector pay bargaining.

In contrast to public expenditure, the share of taxation in Irish economic output has fallen much less (from 40.2 per cent in 1986 to around 38.7 per cent in 1996). This reflects the effort to maintain public services (see below), while significantly reducing the deficit. The reduction in the debt/GDP ratio is a most important aspect of public finance developments

in the last decade. This too, is a key component of the social partnership approach, since reduction in the debt burden was a fundamental requirement for economic recovery and the establishment of public policy options.

Overall, this experience underlines two things. First, in Irish circumstances, management of the public finances – including the reaction to crisis – benefits from the element of consensus created by the national partnership approach. Second, sudden changes in either the quantity or composition of taxation and expenditure are difficult to achieve within the Irish system. These mean that long-term public policy priorities – including radical changes in expenditure and tax – are likely to require coherent, consensus-based, medium-term, programmes of reform.

The Weaknesses

First, control of overall public expenditure remains a difficult policy and managerial problem. Even when new priorities and programmes emerge, expenditure on existing programmes has a strong tendency to grow. This tendency for expenditure to grow undermines the ability of policy to reflect priorities. In particular, it tends to pre-empt tax reform and tax reduction and measures to address social polarisation, even though these are seen as high priorities by policy makers and the social partners.

Within public expenditure control, an important problem is fraud. Indeed, developments in recent years show that there have been a number of cases where control procedures were quite inadequate. 'Quality service' in the public sector must mean service to those legitimately entitled to benefits, grants and subsidies.

The ongoing difficulty of managing public expenditure can, occasionally, give rise to a second problem: where expenditure grows well above its sustainable rate of increase for a period, it then requires a period of unusually slow expenditure growth (or tax increases). This zigzag effect – while partly inevitable – can give rise to fruitless short-term debates and take the focus off more important medium-term goals.

The third weakness revealed in the experience of the past decade concerns public sector pay. The Council argues that the system must produce public pay outcomes which are consistent with: (i) developments in the private sector; (ii) the demands on public resources and their impact on competitiveness; and (iii) the pace of change within public sector organisations (see Section 5(iv) below).

These weaknesses indicate 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) That the system of public sector pay bargaining be coherent with private sector experience and the need for restructuring;
- (iii) There is a need for greater dissemination of the meaning of the social partnership approach – particularly interdependence and solidarity (see Section 5(iv) below).

(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 Section 8), significant tax reform (see Section 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/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 other members of the single currency.

5. WAGE BARGAINING

As noted in Section 3, the second 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 the main report, 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.

(i) The Analytical Issues

The analytical review begins from the argument that centralised and decentralised wage bargaining systems are superior to intermediate systems. However, this argument may exaggerate the benefits of decentralised bargaining and inadequately characterise more successful

wage bargaining systems. In this regard, the concept of *co-ordination* turns out to be more important than the idea of centralisation. A key idea in explaining the success of co-ordinated wage bargaining systems is the concept of *encompassing* agreements. More encompassing organisations and bargains tend to take greater account of the economy-wide effects of any given action.

One objection to centralised wage bargaining is that it limits wage dispersion and, consequently, employment. However, the upward flexibility of wages in dynamic industries can dominate the downward flexibility in stagnant industries, so the net impact of flexibility on employment can be negative.

A co-operative approach by unions – in which they pursue a wider national interest or their own long-term interest – significantly improves the economic effect of wage bargaining and reduces the significance of centralisation/decentralisation. It seems likely that co-operative behaviour is, in turn, encouraged by the existence of a wide ranging national programme which aligns economic actors to particular policy approaches and provides union members with guarantees on non-wage issues.

This review 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.

(ii) 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.

Experience shows that in the past 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.

(iii) 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 Section 4(v) above.

(iv) Public Sector Pay Bargaining

The Facts of Public Sector Pay under the PNR, the PESP and the PCW

The Council acknowledges that concerns exist that the PNR, the PESP and the PCW have given rise to excessively large increases in public service pay. However, some commentary on developments in public service pay under the PNR, the PESP and the PCW has not been sufficiently well founded. First, there has been insufficient recognition of the extent to which the PNR period was influenced by awards deriving from earlier conciliation and arbitration machinery, and insufficient recognition of the way in which unresolved issues under the PESP have coloured developments under the PCW, and may arise in a future programme. Second, certain comparisons of the increase in 'average' pay in the public sector with increases in average industrial earnings are simply of doubtful value.

Understanding the *origin* of current public sector pay negotiations, does not imply satisfaction with the *system* or acceptance of the *outcome*. The Council accepts that public sector developments have formally accorded with *procedures* laid down in the PESP and the PCW. It is, nonetheless,

concerned that the *outcome* of those negotiations should produce an increase in overall pay which is consistent with the needs of the economy and society. In that context, the Council believes that there must be greater change in the organisation and efficiency of the public sector.

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 Section 1 above. 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 Section 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 six 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.
- (vi) Supports achievement of the fiscal policy recommended by the Council.

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.

Part III

Priority Action for Integrated Structural Change

**PART III –
PRIORITY ACTION FOR INTEGRATED
STRUCTURAL CHANGE**

6. 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. In many cases, high-technology, high-skill products and processes will have a competitive advantage, reflecting the fact that they are innovative. It has been argued, by both the Council in its early reports and by the Science, Technology and Innovation Advisory Council, that existing firms can only survive in this new era of globalisation if they have a strong commitment to innovation. This involves flexibility, creativity and a constant willingness to change, particularly, the continuous search for new and better products and services to sell on the world market. Technology, as well as management, can be a key factor in such innovation, whether it be via research and development, in the increased use of information technology and communications to provide up-to-the-minute market data, or in the exploitation of new knowledge and expertise through the acquisition of product or process innovations.

High-technology is not a requirement for competitive advantage in all sectors. Significant value can be added and captured in non high-tech activities. But the competitive advantages must be 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.

Non-traded services have an important role to play in helping to reintegrate the unemployed back into the labour market. The competitive provision of these services will also enhance the welfare of customers. 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 progressively reduce the standard 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.

Tourism is an important industry in the Irish economy and has been a major source of employment growth in recent years. There are some indications, however, that overcrowding may be occurring in certain regions during the peak season. Future implementation of 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. There are also indications of human resource constraints emerging in the industry. 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

In order to deepen competitive advantage and create higher employment, Ireland needs to increase the role of the indigenous sector and its constituent industries and firms in the economy. To this end, the Council is undertaking a comparative study of enterprise support policies in those European regions which have achieved dynamic, employment-intensive, economies. Its findings suggest that co-operation between firms can play a significant role in reducing the scale-related disadvantages, in particular of enterprises and regions. Small and medium-sized enterprises (SMEs) derive particular benefits from co-operation in marketing, purchasing, training, product development, technical problem solving, technology transfer, R&D and sub-supply to transnational corporations.

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 a pilot 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. In particular, the Council believes that:

- (i) It is possible to widen and deepen inter-firm co-operation in Ireland;
- (ii) A network programme may have significant benefits;

- (iii) in order to identify the most appropriate arrangements, a pilot project should be implemented;
- (iv) The Department of Enterprise and Employment should establish a Steering Group consisting of IBEC, ICTU and the relevant agencies;
- (v) The brief of the Steering Group should be to develop proposals for, and oversee, the implementation of a pilot Network Programme in selected sectors, drawing on:
 - The lessons emerging in the forthcoming NESC report on inter-firm co-operation, business associations and network programmes abroad;
 - Existing Irish experience in facilitating and supporting networking arrangements via State agencies and business associations;
- (vi) The Steering Group would review the pilot programme to determine its suitability for promotion nationally. On the basis of this experience, the Steering Group would recommend the appropriate arrangements for an effective National Network Programme, including the role of State agencies, business associations and other social partner interests.

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

In addition to promoting networks, mainstream industrial policy requires a renewed focus on certain key challenges. The recent Forfás study, *Shaping our Future*, identifies the need for initiatives to transform indigenous manufacturing industry through innovation, repositioning, development of scale and improved profitability. The Council also supports its call for measures to promote science and technology.

(iv) Agriculture

Key aspects of enterprise and competitiveness in the Irish economy are agriculture and the food industry. Agricultural produce constitutes a significant portion of national exports. Agriculture and the food industry combined contribute close to 12 per cent of Ireland's GDP. In these areas, the issues involve world trade arrangements, the EU's Common Agricultural Policy and the problems of industrial and business development which confront the rest of the economy. Consequently, Ireland must have a clear national strategy on each of these fronts.

The agricultural sector will face a number of important challenges over the coming years. These will emerge from pressures as a result of the financing of the CAP, changed circumstances due to the proposed Eastern enlargement of the EU, the need to reach agreement with the EU's WTO partners on a new trade round and the changing requirements of consumers. In meeting these challenges, it must be recognised that further reform of the CAP would appear likely and that the market support system which existed in earlier years will be subject to further reductions in protection and support. The indications are that future reforms will result in agriculture being increasingly subject to competitive pressures, in supports being further decoupled from production, and agricultural policy in the EU being simplified and further integrated with general rural development policy. In addition, since the FEOGA Guidance scheme, which operates in the agricultural sector, is included in overall structural funding, changes in Ireland's eligibility for structural funds could have significant implications for the sector.

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.

- (ii) Widespread support for a macroeconomic approach which guarantees low inflation, a steady growth of aggregate demand and a falling debt/GDP ratio;
- (iii) A social partnership programme which produces rates of pay increase and reductions in non-wage labour costs which enhance national competitiveness;
- (iv) Supply-side policies – in areas such as training, regulation and innovation – which produce positive flexibility;
- (v) Sufficient social cohesion and co-operation to make these supply-side measures effective.

Significant progress has been made in achieving requirements (i), (ii) and (iii). However, in common with other European Union countries, Ireland now faces a global economy where there are major differences in costs of production, and where EMU will involve a clear focus on the requirements of a fixed exchange rate. Growth and development of Irish firms, and the maintenance of employment, in these conditions demands:

- Continuous innovation;
- Flexible working methods;
- High-skilled workers;
- 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 International and Irish Context

In devising an approach to developing partnership at enterprise level, the Council notes the following:

- (i) The building by the social partners of national level relationships over a period of nearly a decade provides them with a potentially powerful means for accelerating innovation at enterprise and work-place levels;

- (ii) Internationally, there has been an increased emphasis on the enterprise as the level at which competitiveness is determined and at which human resource and industrial relations patterns are shaped;
- (iii) Almost all countries have witnessed an increased focus on education and skills as competitive factors;
- (iv) Internationally, there is no evidence that any one structural or institutional model or approach systematically out-performs others, nor that an effort to import a model from one country to another is an effective approach;
- (v) That information and consultation obligations are developing at EU level, including the enactment of the recent European Works Council Directive;
- (vi) That the past decade has seen significant enterprise and work-place innovations in Irish industrial relations. These include:
 - Management-employee partnerships in unionised companies;
 - The human resource management systems adopted by many companies of US origin;
 - Experimental innovation in a wide range of companies and sectors;
- (vii) International evidence indicates that work-place innovations – designed to increase employee participation, work organisation, positive flexibility and teamwork, communications and gain-sharing and improve the distribution of work and working hours – have a substantial positive impact on economic performance, employment, quality and productivity.

These international and Irish trends define the context within which an enterprise-level component of the partnership approach can be developed.

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 discussed above;
- (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

Competitiveness and Training

The analysis in Section 3 above leads to the conclusion that changes are required in systems of production employed by firms, the system of relationships between, and within firms, management systems and the role of public policy, if the economy is to remain competitive in the face of global competition. 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.

Only by doing so can firms achieve the dynamic and competitive advantages required for economic success.

The actions of public policy must be co-ordinated with firm strategies to ensure a national training policy is successful. Workers should be encouraged to undertake training and become involved in the production process, in return for multi-dimensional flexibility and adaptability. 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. It also believes that the partnership process lays the foundation upon which this can be undertaken successfully. 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. Some separation, at the level of implementation may be required in the provision of training services to these different groups of 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 achieve 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 also suggests that in the context of any new institutional arrangement, priority be given to the following principles.

- The services provided must be responsive to the needs of firms and national competitiveness;
- Due recognition must be given to the wishes of employees and their representatives;

- Human resource development policy should be closely integrated with overall development policy;
- Services would be provided by either public bodies or private firms following a tendering process;
- Where appropriate, decisions regarding the contracting of services be taken on a sectoral basis;
- Local development bodies have a role to play in the implementation of this strategy.

The Council believes that adopting this structure will result in a training system which is responsive to the needs of industry and is integrated with overall development strategy.

8. ACTION ON UNEMPLOYMENT AND SOCIAL EXCLUSION

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.

(i) Principles Guiding Action to Promote Inclusion

- (i) The widest participation in social life, economic activity and policy making are inseparable and fundamental requirements for the well-being of Irish society. The inclusiveness and quality of relationships in social life, communities, economic life and public governance are goals in themselves;
- (ii) Inclusion and participation are impossible without adequate resources;
- (iii) Paid employment is a major aspect of participation, and lack of access to work is a major source and form of exclusion. Special attention must be paid to policies which promote employment and the distribution of jobs to those who are unemployed;
- (iv) In the overall approach to unemployment, the Council stresses the centrality of integrated action. This requires inter-departmental co-operation and cross-sectoral partnership at national and local level;

- (v) Short-term measures must be complemented by a range of long-term measures which reduce inequality;
- (vi) Action to promote social inclusion should be based on partnership. Partnership is characterised by a problem solving approach designed to produce consensus, in which various interest groups address joint problems;
- (vii) Integrated action to promote social inclusion requires an effective system of ongoing monitoring and benchmarking;
- (viii) Policy should aim to support self-generating social inclusion by defending and disseminating the idea of social solidarity and harnessing Ireland's energetic business associations and trade unions, high levels of community involvement, extensive voluntary associations and relative absence of deep social divisions.

(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 the 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). The Council welcomes the statements in the White Paper on Education concerning the allocation of resources to those in greatest need. Similar approaches are required in housing, health, transport and local development, within the overall 2 per cent limit on the real increase in current expenditure.

(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. Under the PCW, a commitment was made to making *further progress* towards the recommended rates, most of which had, in 1994, reached 90 per cent of the minimum £50 point (£68.10 at 1996 prices) of the recommended (£50-£60) band. 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;
- (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 Section 10, 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, special 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 Council has previously cautioned against taking too sanguine a view of the potential of training as a remedy for unemployment, particularly long-term unemployment. The benefit of training 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.

Special Employment Measures

The Task Force on Long Term Unemployment set out a basis for targeting direct employment measures, as follows:

- Positions designed to provide genuine opportunities for progression and integration into the open labour market for those for whom this is a realistic possibility;
- A longer duration part-time job for those older and longer unemployed who are less likely to get jobs in the open labour market in the short-term at least;
- A pilot programme providing a limited number of longer duration whole-time contract jobs for those most disengaged from the labour market by virtue of their duration of unemployment, age and the area in which they live.

The Council welcomes the Task Force's approach to targeting of schemes in this way. 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 Council, as its fourth priority for action, supports the recommendations of the Task Force on Long-Term Unemployment for an effective LES.

It is critical that the LES is given every opportunity to realise its potential through secondment of staff and systematic collaboration and information sharing across agencies and sectors. The key 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 existing departmental, statutory and other key stakeholders have a responsibility to ensure that the service is placed on a nationwide basis and becomes a properly functioning part of a vigorous drive to cut unemployment.

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. However, 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 conditionality in income maintenance and Active Labour Market Policies. The Council sees the setting and application of conditions as primarily the responsibility of the key providing departments and state agencies involved. 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* (1993), and has been the focus of much discussion and some experimentation throughout the EU in recent years. The EU identified the possibility of encouraging new types of social service provision 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. The group should study the potential range of activities as well as the pitfalls associated with extending the social economy. It should identify mechanisms through which the demand for and supply of suitable services could be generated.

9. ENHANCING EQUALITY

(i) A New Focus on Equality

This strategy includes a new focus on equality. This is a significant addition, which reflects the importance the Council attaches to equality issues. The Council is particularly concerned with inequality based on gender, disability and membership of the traveller community.

The increased focus on equality is related to the economic growth and restructuring of the post-war period, the expansion of second and higher level education, and the influx of married women to employment. These rapid and profound changes pose a challenge to traditional assumptions about social roles in relation to work and family responsibilities. They reveal 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, ethnicity, religion, 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 its 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 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 Section 8(vii)). Progress in the implementation of the Task Force Report should be monitored by the Department of Equality and Law Reform.

10. COMBATING CRIME

(i) The Nature of 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. In developing a new strategy for economic and social policy, the Council, for the first time, includes a section on crime. The Council emphasises that its concern encompasses several aspects of crime. The social and economic marginalisation – documented in Sections 1 and 2 and discussed in Section 8 – is clearly a major factor in the upward trend of conventional crime against property. Certain types of crime – such as armed robbery, contract killing, drug trafficking and drug-related theft – are significantly more prominent in recent years. In addition, there is a new awareness of other forms of crime, such as sexual offences, especially against children, and a range of activities sometimes labelled ‘white collar crime’. White collar crime includes many activities by and against businesses, financial frauds and fraudulent acquisition of public resources, including tax evasion and 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.

(ii) Crime, Disadvantage and Drugs

It is a fact that many criminals come from disadvantaged areas and backgrounds. It is equally true that most people who live in disadvantaged areas have no association with crime and that criminals also come from areas and backgrounds that are advantaged both economically and socially. 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.

(iii) A Strategic Response

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.

11. 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 snaring 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 reduction over a three year period. As indicated in Section 4(iv) above, the Council believes that 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 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.

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.

12. PROMOTING PUBLIC SECTOR INSTITUTIONAL CHANGE

(i) A Climate of Change in the Public Service

In its previous *Strategy* reports, the Council has argued for the effective management of the public sector, public expenditure and public enterprises. For a variety of reasons, similar rethinking of the role of the public sector is emerging in many countries. Forces for change include new demands, new ideas about effective management, based on private sector and market principles, and heightened consumer awareness. These have created a climate of tight financial control, external scrutiny of public spending and renewed commitments to quality in public service delivery. The direction of change in many countries include a switch from emphasis on internal procedures to a concern for outcomes, from hierarchy to delegation, from a focus on quantity to concentration on quality, and a change from a culture that values stability and uniformity, to one that cherishes innovation and diversity. In many countries, public organisations have responded to their newly insecure position with a creative engagement that has seen positive results. A breadth of vision

and innovation have emerged where before there may have been conformity and tradition.

(ii) 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 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 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.

(iii) State Enterprises

The Council also considered the subject of state enterprise extensively in *A Strategy for the Nineties*. On the subject of privatisation of state enterprises, the Council reiterates its previous view that each case must be examined individually and a conclusion reached on the particular circumstances of each case.

The changes made in recent years have altered the composition of commercial state bodies, such that these are almost exclusively in utilities. Within utilities, the key issues for policy relate to:

- Regulation;
- Competition.

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.

(iv) 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.

Background

The Government Statement on Local Government Reform of 4 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, having “due regard to financial constraints, efficiency and staffing implications”.

Given the Council’s interest in local development – as outlined in its 1990 *Strategy* report and *New Approaches to Rural Development* (1994) – it attaches considerable importance to these issues.

Building on Recent Local Development Initiatives

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.

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 co-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.

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 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.

Part IV

Partnership and the Policy Process

**PART IV –
PARTNERSHIP AND THE POLICY PROCESS**

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 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. The first part of this section is concerned with participation and the second with monitoring of progress.

(i) Participation in the Partnership Process

Sections 1, 2 and 8 have demonstrated 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 undermines 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.

Features of the Partnership Process

- (i) The partnership process involves a combination of *consultation, negotiation and bargaining*;
- (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 formation of interest organisations;
- (iv) The partnership process reflects *inter-dependence* between the partners. The partnership 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 participants on various 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.

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?

All major economic and social policy areas are linked and action in one area is likely to have consequences for other areas and 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, 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 macro-economic 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. 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 wide 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, appropriate depending on the issues being considered.

(ii) Monitoring of Progress

Despite three wide-ranging *Strategy* reports in 1986, 1990 and 1993, and several other policy 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 CRC, established under the PNR (1987), *monitors the implementation* of the programmes and ensures consultation among the government and social partners on open issues. Systematic and appropriately timed *evaluation of progress* 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?

Indicators, Benchmarks and Benchmarking

Longitudinal and comparative analysis of appropriately selected indicators from international 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 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.

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. 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.

The Council believes that benchmarking can be applied to public policy. Its appropriateness depends on the organisational issues being considered and the objectives of policy. 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.

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 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.

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 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 change over time in

individual countries to average or median performance of clusters of countries such as OECD or EU members.

The Council's own work has involved comparison of Ireland with other small, open, European economies. While some policy lessons from this analysis relating to innovation were developed, a systematic analysis of the implications for policy development in Ireland has yet to be developed. Indeed, these are not the only economies whose experience may have relevance to Ireland.

The alternative approach, of evaluating Irish performance relative to countries that are very different from Ireland, 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

Conclusion

PART V – CONCLUSION

14. CONCLUSION

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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