

Opportunities, Challenges and Capacities for Choice



Overview, Conclusions and Recommendations

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PART I: OVERVIEW

1. Introduction

The 1999 NESC Strategy exercise comes at the end of a five-year period of robust economic and employment growth that has greatly changed popular perceptions and expectations in Ireland. This contrasts strongly with the dire economic conditions that confronted the social partners in 1986 when the first Strategy document was produced by the Council. Unwelcome as those conditions were they stimulated agreement on a broad basis on difficult economic and social priorities based on a shared analysis of our situation, of the options available and their consequences. In addition, they inspired a shared goal of a society that would achieve a level of economic and monetary stability that would secure employment growth and would allow participation in European Monetary Union. This goal and the associated strategy provided the consistent framework for action that yielded success.

We have now attained EMU membership and are recognised as a success story in terms of key macroeconomic characteristics by EU and OECD standards. Furthermore, by historical standards we have attained an impressive level of prosperity characterised by sustained population and employment growth, falling unemployment, increasing living standards for those in employment and sustained net immigration. This prosperity signals enormous capacity for action to make success self-sustaining. But serious problems remain — in fact they are starker against the transformed background. Nonetheless for the first time in many years Ireland has the capacity to press on with economic development, where there is some way to go. We also have the capacity to tackle important remaining deficits, in short, to realise in a generation, a quality of life for all our people to match that of our European partners. But unless these objectives are systematically pursued, the opportunity to achieve these goals as part of a coherent vision could be missed.

Informed by the Council's analysis in previous Strategy reports, each of the four social partnership agreements since 1987 has helped to create a virtuous circle. By restoring Ireland's cost competitiveness, deepening confidence in the credibility of the policy agenda, and boosting business activity and profitability, the agreements resulted in rapid growth in investment and massive job creation. These, in turn, helped deliver a remarkable turnaround in Ireland's public finances. The sharp reduction in the burden of national debt permitted a strong expansion in public spending on essential services — health, education and social welfare. It also facilitated the undertaking of ambitious tax reform. Large reductions in the burden of personal taxation in the economy supported very strong growth in take-home pay for a greatly expanded workforce. In the language of a previous NESC report, Ireland developed, albeit belatedly, a successful national system of innovation.

Agreement on a set of goals in previous Strategy reports helped to build consensus on the way forward. Over the last 13 years, the commitment to these goals and the strategy to achieve them has produced real benefits for the economy and society as a whole. The substantial growth in employment and reduction in unemployment on the scale seen over recent years and the transformation of public finances and the associated easing of the tax burden are significant achievements. However, the earlier goals were incomplete. New challenges and the persistence of remaining problems suggest that a new vision is now required to lead us into the next century. The aim is to build on our achievements to date and sustain the virtuous circle that has brought us thus far.

The charts in Figure 1 show the extraordinary economic and social change that has taken place in Ireland in the 1990s.

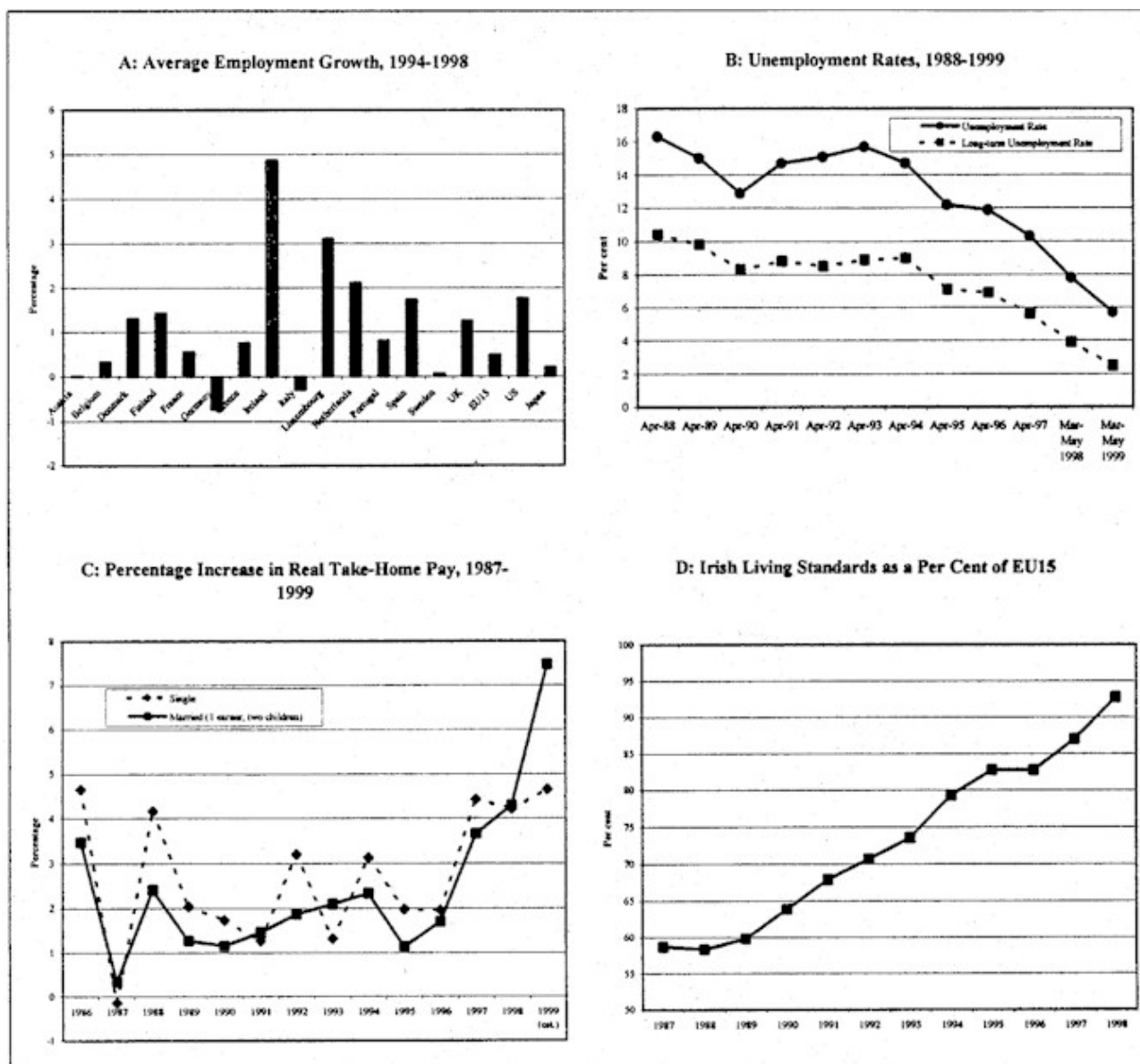
Total employment climbed by 335,000 between early 1994 and early 1999 to a level of almost 1.6 million. In 1999 there are five workers in Ireland for every four workers of 1994. As chart A reveals, no other OECD economy can match this performance.

Chart B shows that Ireland's economic success has had a significant social impact. Just as rising unemployment in the 1980s led to increased poverty, so falling unemployment today is helping to lessen social exclusion. Unemployment in Ireland, which had been one of the highest in the EU, has dropped from 15 per cent in 1994 to below 6 per cent in 1999. A welcome aspect of lower joblessness is that long-term unemployment has fallen from 9 per cent in 1994 to 3 per cent today, a reduction of two-thirds.

Chart C presents the significant increase in the real earnings of those at work. By the end of 1999, the earnings of a single manufacturing worker will be 18 per cent greater, after tax and inflation, than five years ago. The earnings of a married person, working in manufacturing and supporting a spouse and two children, will be 19.5 per cent greater, after tax and inflation.

Because of rising employment and earnings, Irish living standards have moved much closer to the EU average, as seen in chart D. In 1994 the standard of living (measured by per capita GNP) of the average Irish citizen was 80 per cent of that of a citizen of the 15 states of the European Union (measured by per capita GDP). Five years on, Irish living standards will on this basis reach 93 per cent of the EU average.

In order to maintain economic and social developments on a similarly positive path in the period ahead, the Council has proposed a new vision for Ireland and an accompanying strategy to help to deliver that vision.



2. A New Vision for Ireland

Given our present economic and social context, what is the appropriate vision not just for the immediate future, but for the next decade? The foundations of a successful society are

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

The vision of a society that displays these characteristics and provides an improved standard of living has implications for policy choices across a wide range of issues. But choices merely seeking to preserve what we have are not sufficient — the goals which underpinned our recent success are no longer adequate. In part, this is because the actions necessary to secure jobs and living standards will be very different in the period ahead. In part, it is because it is now clear that wider aspects of the quality of life, and the need for fairness in economic and social affairs, have acquired a much greater significance over recent years. This vision has several dimensions the most important of which are:

- economic inclusion based on full employment,
- social inclusion, reflecting full participation in those activities which constitute the norm in society,
- successful and continuing adaptation to change,
- commitment to the utilisation and development of the potential of the Information Society and the promotion of research and development,
- commitment to lifelong learning,
- sustainable and balanced development between regions and between urban and rural areas,
- commitment to the further development of the European Union and international solidarity, and
- an entrepreneurial culture.

2.1 Economic Inclusion

A full-employment society is based on a high employment/ population ratio with a high labour force participation of both men and women and the absence of long-term unemployment. It means full-time, high-quality employment where that is desired, but it also means flexibility and adaptability both on the side of employers and employees. On the part of employees, it implies adaptability and lifelong learning; on the part of employers, it implies the creation of the necessary conditions to facilitate such adaptability. This includes recognition of the need for balance between work and family responsibilities not only by employers but through the public policy framework. Such recognition would be reflected in financially accessible high-quality childcare, maternity and parental leave and adaptability in employment structures. The goal is an adaptable, forward-looking society with a labour force characterised by a range of skills appropriate to the opportunities associated with the increasingly knowledge-based economy and society. This would help to protect Ireland against the re-emergence of mass unemployment and poverty in the future.

2.2 Social Inclusion

Social inclusion constitutes an essential aspect of the vision, not only because of the inherent importance of citizenship rights and obligations but also because social cohesion and economic prosperity are dependent on a fair society. Social inclusion is essentially about full participation in society and such participation is possible only with access to core, taken-for-granted rights and the fulfillment of the associated obligations that characterise full membership of society.

Citizenship rights encompass not only the core civil and political rights and obligations but also social, economic and cultural rights and obligations which are embedded in our political culture and which underpin equality of opportunity and policies on access to education, employment, health, housing and social services. Citizenship obligations refer to such obligations as the payment of taxes and the fulfillment of obligations implied by access to services and benefits.

The view of the Council is that social inclusion is not based on a set of specific rights understood in a justiciable sense. We are referring to equal access to those social benefits and services that are taken for granted by members of society — this means access that is not linked to social and economic status. The Council recognises that the identification of rights without benchmarks may be an empty exercise. Furthermore, rights are not just a question of access to services but have implications for the quality and effectiveness of services as reflected in outcomes. In view of our present level of economic development, it is realistic to adopt as benchmarks in key areas of social development outcomes which match those of our EU partners in line with the continued development of our economy up to and beyond the EU average. These areas include standards of health, education, housing, training, social protection and social services including standards relating to accessibility for people with disabilities.

Benchmarks in these areas are standards against which achievements can be measured and aspirations directed. This does not imply replication of any particular policy model from other countries — how standards are met depends on unique national conditions and policy choices. In line with the Council's emphasis on rights and obligations, these standards are to be seen as reflecting the combined impact of personal responsibility, employment relations and public policy.

2.3 Successful Adaptation to Continuing Change

Successful adaptation to continuing change is the essential means through which economic and social success and, in particular, full employment and social inclusion are sustained. It is the dynamic expression of competitiveness and represents a necessarily moving target. Its achievement is even more important within the single currency area than previously — compensation for loss of competitiveness through devaluation is no longer an option. As the pace of globalisation continues, the pressure for competitiveness is reinforced by rapid technological change, increased capital mobility and expanding trade opportunities. As a small open economy, Ireland is particularly exposed to these currents, so that the drive for successful adaptation to change must remain at the centre of national policy`.

It is critical for Ireland to develop world-class research and development capability in niche areas of Information and Communication Technology (ICT) and Biotechnology as recommended by the Irish Council for Science Technology and Innovation (ICSTI) as a result of its Technology Foresight exercise. It is also necessary to build a strong indigenous industrial sector with the capability to develop new products/ services and to successfully penetrate new markets. The crucial importance of foreign direct investment for the Irish economy further reinforces the centrality of maintaining competitiveness. Any development which would diminish our competitiveness would, over time, have an adverse effect on this investment, which has been a fundamental driving force in the success of our economy over the past decade. The requirement is an economy that is competitive in key dimensions not only vis-à-vis traditional competitors, but vis-à-vis our current and future competitors for investment and trade.

Since trade with the UK remains significant for the Irish economy, safeguarding Ireland's international competitiveness vis-à-vis movements in UK domestic costs and Sterling remains an important policy concern for the medium term. This means taking account of price movements in the UK, to the degree that is appropriate for different sectors of the domestic economy. Moreover, general measures to improve the responsiveness of the economy to outside shocks — including improvements in labour market adaptability and giving fiscal policy room to manoeuvre — would help to lessen the disturbance to the Irish economy of any sudden change in the value of Sterling.

Competitiveness is not merely about economic growth and consistent and effective responses to changed circumstances; it is fundamental to combating social exclusion. There is a reciprocal relationship between competitiveness and social inclusion. Competitiveness helps to generate the resources to enhance social inclusion, increased social inclusion facilitates

enhanced competitiveness. The guiding objective is an economy that is structured to achieve self-sustaining competitiveness in the context of increasing economic integration. In this context, we wish to highlight two related issues that are crucial to achieving this objective in the period ahead: the Information Society and lifelong learning.

2.4 Information Society

We have addressed the challenge of competitiveness in terms of continuing adaptation to change because it is not simply about doing things more cost effectively, it is also about doing things better. Moreover, we anticipate that, over the next decade, a revolution in information and communications technology is likely to change the face of the global economy and will bring about enormous changes in economic and social structures in developed economies. Ireland has performed remarkably well as an economy at the outset of this information revolution. However, much more needs to be done, and it needs to be done quickly, if the country is to reap the opportunities provided. This includes the need to:

- (i) build a competitive, knowledge-intensive, high-skilled human resource base committed to lifelong learning;
- (ii) create the conditions necessary for timely investment in the necessary infrastructure, by providing a competitive market which is attractive to national and international companies;
- (iii) ensure that policy in respect of information and communication technologies and related sectors maximises competition in the interests of consumers;
- (iv) ensure that universal access is available to advanced telecommunications and electronic commerce infrastructure and services, anticipating effective demand, so as to facilitate economic development, as well as the social benefits for citizens resulting from the provision of Government services electronically and full and active participation in the Information Society.

Our capacity to position the Irish economy strategically to cope with the Information Society and the promotion of R&D will be critical in determining how competitive we are in the early years of the next millennium.

2.5 Lifelong Learning

A commitment to lifelong learning is fundamental to our vision of a successful society. The Council defines lifelong learning as learning over the entire lifespan. It includes all learning activity, whether taken on a formal or informal basis, with the aim of improving knowledge and skills and promoting personal fulfillment. A commitment to lifelong learning demands universal attainment of literacy and numeracy at primary level, and completion of second-level education, a high level of participation (by international standards) in third-level education, in employment-related training, in second-chance and adult and continuing education. This conception of education is a common platform to meet our key objectives of full employment, international competitiveness and social inclusion.

2.6 Sustainable and Balanced Regional Development

associated with sustainable urban and rural adjustment attuned to changing economic, demographic and social structures. This requires, in turn, an accelerated programme of balanced, economically and environmentally sustainable, infrastructural development which is geared to underpinning our economic success and contributing to, and enhancing, the social cohesion on which our current economic prosperity is built. This implies a broad definition of infrastructure encompassing both economic and social dimensions. It suggests infrastructural development that is planned, co-ordinated and implemented in a timely manner and which reflects the potential for linkages between policy objectives. A particular priority is the potential for enhanced infrastructure links with Northern Ireland.

The need for more balanced spatial development requires greater emphasis on regional development policies. The regionalisation arrangements negotiated by Ireland in the context of Agenda 2000 discussions resulted in the designation of two regions in Ireland for Structural Funds purposes — the Border, Midlands and West Objective 1 Region and the Southern and Eastern Objective 1 Region in Transition.

In order to achieve greater regional convergence of per capita incomes and output it will be necessary to increase the attractiveness of poorer regions for investment in industry, tourism and natural resources.

This will require:

- (i) improvement in the quality of infrastructure in less-developed regions, particularly roads, water and sanitary services and advanced telecommunications;
- (ii) building up the capacity of these regions to attract foreign direct investment through the development of regional gateways;
- (iii) giving more favourable support to productive investment in less-developed regions as is provided in the Regional Aid Guidelines;
- (iv) augmenting the human capital stock of poorer regions, and
- (v) strengthening their research and technology development (RTD) capacity.

The National Development Plan should focus on these types of actions to promote regional development. It should provide support for measures to address the significant intra-regional urban and rural variation in the distribution of poverty and economic deprivation through a continuing commitment to local development initiatives.

A society built on a commitment to achieving and maintaining regional balance must be based on the recognition of the constant need to adapt to new needs, lifestyle choices and opportunities but within a policy framework that is attuned to the long-term consequences of current choices, including the spatial distribution of economic, educational and social activity. The impact of advanced information and communications technologies on economic growth and employment generation necessitates access to advanced, high-capacity, low-cost communications/ electronic commerce infrastructure and services.

While major urban centres in Ireland may be adequately served by the market, public investment is required to leverage infrastructure investment in economically marginal areas — both urban and rural — to pump-prime electronic commerce flagship projects such as research into the next generation of internet technologies, and to accelerate investment in public electronic commerce systems and services, including enabling public assets to be utilised to support the Government's Information Age Strategy.

The expected outcome of such investment would be:

- (i) the attraction of further investment to locations outside the major urban centres;
- (ii) the opening up of decentralisation opportunities to redress broader infrastructural and socio-economic imbalances within the country and opportunities for the development of a more socially-inclusive Information Society,
- (iii) the provision of public services electronically, which enhance access and reduce costs and as a consequence ensure full and active participation by all citizens in the Information Age. The type of services most suitable would include education services, virtual libraries, one-stop shops and access to specialised health services.

2.7 Commitment to the further development of the European Union

Consistent with our commitment to the European Union and our improved economic conditions we can now firmly establish our vision of a country that participates in, and contributes to, the European Union and other supra-national bodies on an equal footing with all our European partners. This implies building on our achievements in these fora and recognising that an active participation, including a commitment to leadership in development co-operation and the affirmation of citizenship rights at an international level, has widespread positive consequences for the reputation of Ireland and its citizens. It also implies optimising the advantages of our location within the European Union coupled with our success in

attracting high levels of investment in leading-edge technology from other locations, particularly the United States. The lessons to be garnered from this dual character of our economy, and particularly the adaptation of our labour market, are relevant not only for our future success, including our ability to attract continued investment, but also for our European Union partners.

The vision outlined here takes account of the present prosperity, and how it was achieved, as well as the challenges and risks that continue to face Ireland at home and abroad. It recognises the newly achieved capacity to meet these challenges and the possibilities for choice in terms of future direction. It implies a commitment to consolidate and build on our achievements, to address the deficits which are clearly evident, and to push the boundaries of development to ensure a self-sustaining success that is equitably shared.

2.8 An Entrepreneurial Culture

All of the dimensions outlined so far presuppose, either directly or indirectly, a context characterised by an entrepreneurial culture. An entrepreneurial culture implies a climate of development that values creativity, innovation, risk taking and initiative. The fostering of an entrepreneurial culture is essential for the development of new enterprises, the growth of SMEs and an expansion in related employment. The challenge now is to maintain a constantly regenerated environment that is conducive to innovation and risk-taking, to ensure continued success, and to inspire a commitment to this and a sense of possibility for all citizens.

Entrepreneurship has traditionally been discussed in relation to commercial activities and it is of crucial importance to a vibrant business environment. However, it is increasingly recognised that entrepreneurship, in the sense of vision, drive, creativity and commitment to the achievement of desired objectives, is equally important in the public sector, both commercial and non-commercial, and in the community and voluntary sector. As we outline below, the achievement of the Council's vision for Ireland over the next decade and the achievement of the associated strategy are also dependent on the adaptation of the institutional capacity of our current public policy framework. The creativity and commitment of social entrepreneurs in the community and voluntary sector are also of crucial importance in the identification of new possibilities for development and service delivery in health, housing, education, social services and other policy areas.

The Council believes that the development of Irish society would be enhanced both economically and socially through an increased commitment to fostering an entrepreneurial culture, broadly conceived. Key mechanisms for this should be developed in the mainstream educational system but also through the entire lifelong learning process.

3. Realisation of the Vision

The realisation of the Council's vision would have a number of practical beneficial consequences for individuals and for society of such significance as to justify the effort required to make the necessary strategy happen. These would include:

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

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

as a result of the fact that:

- every firm would have the capacity to compete effectively in the global market place, through enhanced partnership with their employees and a supportive business environment backed up by an appropriate macroeconomic policy;
- every region would have an efficient physical infrastructure to support sustainable economic activity, and promote social cohesion, based on a balance between urban and rural needs;
- disadvantaged communities would have received the benefits of an investment programme and more responsive public services to overcome the accumulated burden of unemployment and marginalisation; and
- average living standards (GNP per capita) would have exceeded the EU average, those dependent on transfer payments would share in the increased affluence and a reduced rate of poverty would ensure a more widespread participation in the lifestyle of a mature developed economy.

4. Strategy to Deliver the Vision

The challenge now is to maintain the momentum in support of consistent action to address the significant, but now often different problems that characterise our present situation, relative to the crises of the 1980s. In a situation of economic success, rapid technological development and a significantly changing demographic profile the context for which we have to plan is a rapidly evolving one. While we can identify the key demographic and educational changes over the period ahead, how these are likely to interact with other less obvious developments, domestic and external, are not predictable. This means that we must adopt a consistently open and responsive attitude to change. This will necessitate continuing evaluation of programmes and a willingness to act on the conclusions of such evaluation. This will require an increasing emphasis on high quality and timely data.

The Council believes that it is vital to build a new consensus now in support of a new set of national economic and social goals, appropriate to Ireland's changed circumstances set out above. Without agreement on national priorities, each sector of the economy and of society is likely to pursue its separate aims in the years ahead in ways that, taken together, would, without question, overload even the strongest economic performance. Something of this kind occurred during previous periods of Irish economic strength, to everybody's eventual cost. In this regard, the Council's last strategy report, *Strategy into the 21st Century*, pointed out that:

Although the Irish economy achieved significant economic growth, adjustment, modernisation and inward investment since 1960, these successes are qualified in important ways. Growth was not handled well. 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, at times 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 the 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 (p.4).

In pursuing the vision of a new Ireland, the Council continues to support the following essential elements that have underlain social partnership in Ireland:

- a macro-economic policy that secures steady growth with low inflation;
- structural policies to promote change and adapt to the shifting external environment;
- policies to develop an inclusive society; and
- an evolution of incomes that pays dividends to those in employment consistent with maintaining competitiveness and dealing with distributional conflict without disrupting the economy.

However, in varying degrees, a changed focus is now required to adapt this framework to reflect Ireland's altered circumstances. The broad direction of the changes is indicated below; full details are given in the main report.

4.1 Greater priority needs to be given to the issues affecting people's well-being

The need for a very significant infrastructure investment is apparent, not only to enhance competitiveness and to continue economic progress, but also because of the adverse impact on living standards due to such problems as shortages and high prices for housing, and longer commuting times caused by heavy congestion on the roads, buses and trains. Large-scale investments in the road, rail and bus network, in improved public transport, and in housing, although they do not raise incomes directly, would improve the ability of Irish people to enjoy a higher real standard of living.

Furthermore, infrastructure investments would also contribute significantly to social cohesion. However, better infrastructure is not just about additional investment. Many of our existing infrastructure problems are due to the uncoordinated way in which infrastructural development has taken place in the past. Therefore, the Council argues that the most effective way of improving infrastructural development is through the development and implementation of a National Spatial Development Strategy that would provide an integrated response from a spatial perspective to the goals of maximising economic performance, social inclusion and environmental sustainability.

Preparation of the National Spatial Development Strategy should not impede implementation of the urgent infrastructure investment decisions in the National Development Plan, which would be supportive of the overall objective of balanced and sustainable regional development. Furthermore, there is scope for increasing efficiency in the management and use of infrastructure through, for example, planning process improvements, the introduction of user charges and enhanced co-operation between the private and public sectors in service provision.

In a labour market that is characterised by labour shortages and adaptability requirements, employer and employee representatives have to achieve a balance between work and family responsibilities. Childcare is a priority to meet changing labour market developments but also because childcare shortages and high costs erode living standards. Childcare also has to be seen in the wider context of benefiting child development, supporting family life, increasing opportunities for women who are traditionally the primary care-givers and providing opportunities for men to play a more active care-giving role. Funding for an appropriate package of measures to expand childcare supply, and make the cost more affordable is a priority.

Public services such as education, health, social services and pension payments are consumed by all of the population at some point. If the Irish economy continues to grow as expected, and the Council's strategic guidelines are adopted, there will be scope for some further real increase in such services, and a corresponding contribution to a higher real standard of living of Irish people.

4.2 There is scope for improving living standards, including the reward for employment, consistent with protecting economic success to date

All previous social partnership agreements had the objective of increasing employment, reducing joblessness and improving living standards. Significant progress has been made in achieving these objectives. With the attainment of high rates of employment and a slower prospective rate of increase of the labour force, the balance between pay and jobs can afford to shift, somewhat, towards further improving the reward for employment, commensurate with maintaining competitiveness, protecting the jobs growth achieved to date and providing the extra jobs needed for a still-growing labour force. Rising real disposable incomes will gradually begin to replace employment growth as the principal benefit from further economic progress. The introduction of the Minimum Wage from April 2000 will raise the incomes of the lowest-paid workers.

In the forthcoming deliberations among the social partners on a possible successor agreement to *Partnership 2000*, one key question will be the appropriate scale of wage increases in the period 2000-2002. A number of factors must be allowed for. One imperative is competitiveness and the need to sustain job growth. A second requirement is the need to address on a sustainable basis the issue of labour shortages in parts of the economy. A third consideration is to find ways of sharing the benefits of growth while maintaining a capacity to respond to a major economic slowdown, were one unexpectedly to occur.

The increased rewards for employment can take several possible forms, some more desirable than others in the context of maintaining international competitiveness in a single currency environment. For instance, greater profit- and gain-sharing would allow increases in income that would be responsive to changing economic fortunes as well as reinforcing the productivity and competitiveness gains associated with greater partnership at the level of the enterprise.

The challenge of providing a more rapid rate of improvement in standards of living, including social and other public services, while continuing to move towards full employment cannot be met by repeating the policy formulas of the past. What is needed is a new combination of competitive pay increases, further tax reductions, and an increasing emphasis on performance-related pay, applied in the public and private sectors. The Council's view is that the basic objectives in relation to pay determination are best met through co-ordinated wage bargaining in which there is an element of co-operation and a focus on long-term interests.

The continuation of a satisfactory pay determination system is most likely to be achieved through a negotiated consensus that includes agreement on pay, tax reform, the public finances, infrastructure, housing and policies to address social exclusion.

4.3 Further investment in people is required for an inclusive society and in order to make economic and social development self-sustaining

While Ireland re-invented itself during the 1990s, the rest of the world did not stand still. We remain highly exposed to the ever-changing global economy and will face increasing competition from eastern European countries for foreign direct investment as the EU enlarges. Although our openness worked to our advantage in the 1990s, we must stay alert to shifting trends in the international marketplace.

The organisation of work is going through considerable change in the interests of a more competitive economy but this has consequences for individuals in terms of work intensification, demands and pressures. There is the paradox that national growth leads, not to a less demanding work life, but often to a more pressurised and complex one for many individuals, not least because of the insecurity which flows from continuous change.

The Council believes that lifelong learning can reduce this sense of insecurity, enhance adaptability and employability in the labour market, as well as increase personal fulfillment. The introduction of new forms of work organisation, allied to the development of more family-friendly working environments are other ways to manage economic change and improve competitiveness. A successful and modernised education and learning system should equip

Irish people with the skills to ensure that they could cope with future economic adversity without a recurrence of massive long-term unemployment.

4.4 There should be decisive steps towards a fairer and an inclusive society

The Council is committed to the goal of a society that generates social inclusion. While responding to specific forms of social exclusion is an essential element of policy, it is only one element in a strategy to achieve an inclusive society. The other element is a comprehensive strategy to create an equality framework and counter discrimination in both employment and other areas. The commitments made in Partnership 2000 must be re-affirmed and the measures already taken must be comprehensively implemented. The objective must be a policy process where actions against social exclusion, including poverty proofing and the mainstreaming of equality, are systematically perceived as core dimensions of the policy process. This necessitates the creation of a policy framework that will not just act against discrimination but will proactively enhance equality.

4.5 Overall sustainability must be achieved

In the period ahead, the concept of sustainability, now applied mainly to the natural environment, requires a much wider application. While economic growth is the key ingredient in economic progress, it is only the means not the end. Maintaining the quality of the natural environment is certainly a crucial consideration, whether in planning and building infrastructure, in protecting the rural heritage, or in considering environmental taxes and user charges. But more must be done to ensure successful development. Rapid growth that degrades the environment or leaves a significant portion of the population in poverty would not represent sound policy or a sustainable outcome. The quality of economic development, as well as its level, should be the focus of policy.

5. Macroeconomic Policy in support of Strategy

The Council notes that most of the explicit objectives proposed for fiscal policy in 1996-99 were achieved well ahead of the target dates proposed, although public expenditure growth has been more rapid than was envisaged in 1996. The Council believes that a key aspect of public expenditure is whether improvements in public services have been commensurate with the additional spending. This question is not easily answered using currently available statistics; these should be considerably improved, particularly in regard to the measurement of the quantum of public sector output.

Although the extra spending has been much greater than the two per cent real rate envisaged by the Council at the time of its last Strategy report in 1996, rising tax revenues have financed the spending additions without extra recourse to public borrowing. Nonetheless, if these spending increases were to continue against a background of much slower economic growth, the health of the public finances would be seriously weakened.

In making recommendations for fiscal policy in the period 2000-2002, the Council seeks to avoid two dangers. One would be to use the proceeds of economic growth in a short-sighted way. This would involve temporarily boosting incomes and public spending on the basis of an assumed continuation of exceptional conditions, without funding the infrastructural investment and other measures essential to sustaining Ireland's economic performance. A second danger, in the Council's view, is an over-emphasis on longer-term factors that could unwittingly jeopardise the necessary consistency of approach by appearing to withhold justifiable improvements in economic rewards, while also postponing measures to tackle an evident imbalance between economic and social development in Ireland.

To provide a basis for its recommended fiscal policy package the Council has made the following tentative projections of the fiscal position to the year 2005 under a number of

different scenarios (see the notes to the Table in Box 1). In the upper panel of the Table it is assumed that real economic growth and inflation are a steady 5 per cent and 2 per cent per annum respectively, giving nominal GNP increases each year of 7 per cent.

Nominal public revenues rise almost in line with economic growth (6.5 per cent) and there is substantial public investment equal to 5 per cent of GNP throughout the period.

Although these assumptions represent a reasonable conjecture about future economic performance, they are not in any sense a forecast.

The evolution of the fiscal balance then hinges on the real rate of increase in current public expenditure. As may be seen from the upper panel of the Table, if real current spending growth is less than real GNP growth — say 4 per cent a year — the 1999 overall surplus of 2 per cent would gradually edge upwards to reach 4 per cent by 2005. But if public real current spending rises faster than GNP — say by 6 per cent a year, which has been the trend during the 1990s — the budget stabilises at a 1 per cent surplus. The proposed public pension fund would reduce the net surplus by a further percentage point while leaving the underlying position unaffected.

The lower panel of the Table in Box 1 shows the evolution of the public finances with the same spending assumptions but slower economic growth. Real growth at a rate of 2.5 per cent — very respectable by both international and historical standards — combined with real current spending increases of 4 per cent a year would produce a balanced budget in 2003-2005. On the other hand, 6 per cent real current spending growth would imply a large deficit of 4 per cent of GNP by 2005 (before taking account of the pension fund), breaching by a wide margin the terms of the Stability and Growth Pact.

5.1 Budget Balance

The Council believes that, while growth remains strong, policy should aim to maintain substantial overall budget surpluses (excluding privatisation receipts) at close to present levels. Reasons for running a large fiscal surplus under present conditions include: avoiding a further stimulus to demand to prevent overheating, providing funds for public infrastructure investment, leaving fiscal policy with room for manoeuvre should there be an unexpected and serious deterioration in the economy, and repaying some of the debts incurred when the economy was weak in the past. The credibility of Irish economic policy would also be enhanced, thereby maintaining the confidence of domestic and foreign investors in the medium-term prospects of the Irish economy.

The Council welcomes the announcement by the Government to allocate revenues equal to 1% of GNP to a dedicated fund to begin to provide for the State's future liabilities in regard to social welfare pensions and public service pensions.

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5.2 Current Expenditure

The Council believes that, over the three years to 2002, the real increase in public expenditure should, at a maximum, correspond to the real growth rate of GNP. Allowing current public spending to grow by a rate no greater than the increase in GNP implies a significant slowdown on the trend increase in spending during the 1990s if, as expected, the economy grows more slowly in the period ahead. If the previous increases were to continue against a background of slower growth, the health of the public finances would be seriously weakened.

The proposed objective is nonetheless consistent with significant increases in the volume of public services, especially on a cumulative basis. If spending is targeted at priority programmes, the scope for expansion would be greater still. From a strategic perspective, the Council believes that the present very favourable climate should be used to implement reform

of the structure, management and financing of public expenditure programmes. This would help to place Irish public services on a sound basis for the next century.

Box 1: Projected Overall Fiscal Surplus/Deficit to 2005

	Scenario A						Scenario B					
	2000	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004	2005
Surplus/deficit (as%GNP)												
With 4% real current spending growth	2	2	3	3	4	4	2	2	2	0	0	0
With 6% real current spending growth	1	1	1	1	1	1	1	0	-1	-2	-3	-4

The assumptions used to prepare the projection of the budgetary position in the above Table are as follows.

Economic Variables

GNP is assumed to grow by 5 per cent or by 2.5 per cent each year from 2000 to 2005. Inflation is assumed to be 2 per cent per annum throughout the period.

Current Revenue

- Nominal tax revenues rise in line with nominal GNP (7 per cent in the upper panel, 4.5 per cent in the lower panel) which is equivalent to holding constant the average tax rate ;
- non-tax revenues evolve in line with inflation;
- social insurance contributions (PRSI and levies) rise proportionately to nominal GNP but only 80 per cent as quickly, and
- other current receipts remain constant in cash terms.

Current Expenditure

- Central Fund non-interest expenditure (mainly Ireland's contribution to the EU budget) remains at 1.5 per cent of GNP throughout; debt servicing is taken as the 1999 level adjusted for envisaged debt repayment on which the interest rate payable is the present average of 8 per cent until 2002 and 7 per cent thereafter;
- Public pay and pensions increase at a real rate of 4 or 6 per cent per year;
- Non-pay spending (calculated on a gross basis, inclusive of PRSI and levy receipts) also rises in real terms by 4 per cent or 6 per cent each year.

Capital Expenditure

Public investment under the forthcoming National Development Plan is assumed to be 5 per cent of GNP throughout the period. Due to the fall in capital receipts from the EU, there is a sharply rising borrowing requirement for public investment purposes.

Definition of Overall Fiscal Surplus/Deficit

The 'overall' fiscal balance is the current account surplus less the net capital deficit (capital expenditure less capital - mostly EU - receipts) without regard to the allocation of 1 per cent of GNP to a dedicated public pension fund.

Baseline Data

The 1999 baseline data (not shown above) are taken from the Budget 1999 Statistics and Tables and the Revised Estimates for the Public Services 1999, updated according to the

end-September 1999 Exchequer Estimates statement.

5.3 Capital Expenditure

The Council considers that the priority in public investment spending is a major construction programme of physical infrastructure including accelerated development of the national road and public transport system and a significant increase in the housing stock. The new physical infrastructure should include both economic and social elements. Accordingly, the Council welcomes the reported broad thrust of the forthcoming National Development Plan. Priorities for current spending are identified elsewhere in this report. To give precedence to these areas, greater restraint will have to be applied in non-priority areas of spending.

5.4 Tax Strategy

Allowing current spending to grow by rates no greater than the increase in GNP also implies keeping the present share of tax in GNP broadly unchanged. However, given the healthy state of the public finances, and the tendency for uncorrected 'fiscal drag' to cause public revenues to grow faster than the economy, there is scope for further tax reductions while holding the tax-take as a GNP share close to present levels. This opportunity should also be used to reduce the remaining undesirable features of the tax regime, especially the relatively high taxation of low incomes.

5.5 Public Sector Pay

Given the close association between public service pay and public expenditure, the Council believes that reform of the current system of public service pay determination is an important priority. It is a necessary element of wider public service reform to meet society's expectations of high-quality public services and to recruit and retain the necessary personnel. A greater emphasis on the relationship between public service pay and performance is a key dimension of reform. Some decentralisation of pay management and responsibilities to government departments and agencies is likely to be a necessary component of a more efficient pay determination system, which must also be consistent with the desired evolution in public expenditure.

5.6 Social Inclusion

Following a number of budgets in which income taxes have been cut and overall public spending raised, there is a strong case for giving increased priority to social inclusion within public spending.

Consistent with these aims, the Council in the latest Strategy report advocates a three-pronged approach to problems of poverty and exclusion, covering social welfare, mainstream public policy programmes and a special investment package. If Ireland's economic performance should evolve very differently to current forecasts, for better or worse, a key test of social partnership would be its ability to evaluate the new situation and modify the medium-term strategy without losing sight of the longer-term vision. In particular, in any changes made to the strategy it would be important to balance the impact on current spending programmes that add to productive capacity, those that improve inclusiveness, and those that represent other forms of public consumption.

In the context of priorities, the Council, taking a global perspective, believes that Ireland's much higher national income of recent years would permit a considerable improvement in the resources provided in aid to the developing world.

6. Enhancing Institutional Capabilities

The Council has set out an ambitious vision for the period to 2010. The attainment of the vision, and the implementation of the strategy for its realisation, are dependent on successful development and implementation of policy. In turn, these require that key institutional structures of the public sector are capable of meeting the challenges and opportunities that Ireland will face over the next decade.

Concerns about the ability of the policy process to anticipate needs and to implement decisions effectively in a changing context were among the key reasons for the Strategic Management Initiative (SMI) which is directed to achieving significant modernisation of the Irish public sector. While the SMI has led to the development of useful blueprints and has improved long-term strategic planning, a shift from development to implementation of the new structures and approaches is now essential. In particular, new institutional capabilities are required which enable the State to deliver services in an environment characterised by:

- anticipation of needs and adaptation to change,
- monitoring and evaluation of policy, and
- effective evaluation and rewarding of performance.

These processes should characterise all areas of the public service. Our analysis points to the following requirements of the policy process if its ability to anticipate needs, adapt to change and monitor and evaluate policy is to be enhanced:

(i) the availability of appropriate and timely information for policy analysis and planning, and for monitoring and evaluation of policies and outcomes;

(ii) scenario identification and planning, that is the development of policy relevant scenarios based on anticipated demographic and social changes, in order that the implications for policy be available in time to plan for emerging needs;

(iii) adapting to changing relationships with EU institutions, recognising that Irish policy-makers will, in future, need to be concerned more with the indirect but still substantial benefits to Ireland arising from the overall development of the EU than with direct cash transfers of diminishing importance;

(iv) an ability to develop frameworks to implement policy and move the policy process forward in cross-cutting areas, that is with regard to those policies that cut across institutional boundaries and levels of government.

All of these requirements raise intra-institutional and inter-institutional issues. Key considerations relating to these issues are outlined in the main Strategy report. The Council believes that enhancing institutional capabilities is essential to the achievement of its vision and that the success of both are dependent on commitment to the social partnership ethos and process.

7. Social Partnership

The Council strongly believes that renewed social partnership is essential for the achievement of its wide-ranging objectives. The benefits of social partnership in the Irish context are widely acknowledged. It has helped to deliver industrial peace and moderate pay settlements. These have improved competitiveness and in conjunction with favourable external economic developments played a crucial role in converting strong economic growth into the remarkable

job gains achieved in recent years. In turn, higher levels of employment have contributed to sharply falling unemployment and to lower levels of social exclusion. Social partnership allowed for a consistent policy approach to key macro-economic demands in the period of crisis and subsequently. This consistency has laid the foundations for our present opportunities and ensured the possibility of choices in meeting the challenges we now face.

It would be a mistake to take the virtuous circle — competitiveness, employment, reduced social exclusion — associated with current social partnership structures for granted or to assume that their achievements to date are sufficient to generate a self-sustaining dynamic economy and an inclusive and participatory society. Furthermore, it would be a mistake to conceive social partnership so narrowly as to refer only to the negotiation of centralised agreements or to assume that there is one perfect model of partnership agreement at the national level or only one national-local level balance. Instead, we should consider what actions are needed to secure the foundations of partnership structures broadly conceived.

The objective is a negotiated consensus on key economic and social issues, not adherence to a particular formula. Our present model of social partnership is the means through which we have achieved this to date, not the end.

Ireland is not the only country with successful social partnership structures at present. Both the Netherlands and Denmark have social partnership approaches that have achieved long-term viability. It is noteworthy that each is quite different from Ireland and has adapted its structures for negotiated consensus to changing circumstances and this has contributed to their long-term viability.

The Council strongly re-affirms its commitment to social partnership. We believe that this allows us to continue the pursuit of consistency between levels of action, which is necessary for continued growth and development. The benefits of social partnership at the national, local and enterprise level are widely acknowledged. The Council believes that complementary partnership processes at the sectoral level could have much to contribute in the forthcoming policy context. Our concern here is not with negotiations about pay but with the broader policy context where challenges relating to skill shortages and lifelong learning need to be addressed. Sectoral agreements may well provide scope for the development of our recommendations in these and other areas.

The objective in Ireland must be a social, economic and policy framework that generates social inclusion in tandem with economic success. This must permit further improvements in employment and living standards, and a broadening of opportunities for all members of Irish society including the opportunity to participate in partnership structures. This should achieve a more balanced pursuit of each of the foundations on which the arrangement rests — competitiveness, employment and inclusion.

PART II: CONCLUSIONS AND RECOMMENDATIONS

In this section we outline key conclusions and recommendations on: taxation; labour market adaptability and employability; enterprise policy; poverty, unemployment and social exclusion; infrastructural development; and housing. These complement and expand on the recommendations already outlined above.

1. Taxation

Tax reform has been a significant element in Ireland's economic success in the 1990s and it should continue to play an important role in ensuring that the potential for full employment is achieved and also in promoting social cohesion. The Council welcomes the significant progress made in reducing the tax burden in Ireland, especially on the low paid. The Council notes that the standard rating and subsequent increase in personal allowances in the 1999 Budget has been a key mechanism for delivering tax reductions to the lower paid.

1.1 Income Tax

The Council supports further reductions in income taxes. It attaches a high priority to increases in the standard rated personal allowances (which are due to be converted to tax credits). An increase in the personal allowance/tax credit raises the threshold at which people enter the tax system. It is the most effective way of helping the low paid while at the same time providing tax reductions of equal amounts to most taxpayers in a straightforward way. The Council also attaches significant priority to an increase in the income level at which people become liable for the higher rate.²

The Council is concerned at the proliferation of new forms of tax relief without any obvious guiding principle. Some tax reliefs serve a useful purpose but a complex system of reliefs and allowances tends to encourage tax avoidance and evasion and causes resentment among those not in a position to benefit. Tax reliefs are also less visible than direct public expenditure and once introduced tend to grow automatically. The Council recommends that greater effort be devoted to the evaluation of tax expenditures on a regular basis and that such evaluations should be published.

1.2 Environmental Taxes and Charges

While the primary function of taxation is to raise revenue to provide public services and to permit income transfers, the Council believes that it is now appropriate for tax policy also to place a stronger emphasis on promoting environmentally sustainable development. The Council is strongly committed to urgent action to meet our obligations under the Kyoto Protocol. The Council believes that environmental taxes, charges and incentives have a role to play in addressing environmental issues. The design of environmental taxes, charges and incentives needs to pay close attention to equity and competitiveness concerns. The design of these measures should also take account of potential differences in impact across regions and should not undermine the prospects of balanced regional development. Meeting these requirements will be a complex task.

The Council notes the recently-published Green Paper on Sustainable Energy, the imminent publication of the greenhouse abatement strategy and the ongoing discussions at the ECOFIN Council.

An open consultative process on how best to address the challenges of Kyoto is now underway starting with the Green Paper on Sustainable Energy. While such a beginning is indeed welcome, the Council believes that these matters, so critical in terms of our long-term environment, must be addressed as a matter of urgency. In terms of implementation, there are grounds for concluding that the institutional arrangements and the deployment of resources within and between relevant Departments should be strengthened.

The Council recommends that user charges should more adequately reflect the cost of providing environmental services (water, waste water and solid waste disposal) and these charges should be volume based wherever possible.

1.3 Tax Evasion

The problem of tax evasion is a cause of concern for the Council. The Council notes that the recent report by the Comptroller and Auditor General has provided well-researched evidence that there has been systematic evasion of DIRT tax through the use of bogus non-resident accounts. There is also emerging evidence of other questionable tax practices. At the same time collection systems have become more effective and there is now more widespread recognition that tax evasion is an anti-social activity.

The Council recommends that a stronger approach should be taken to tackling tax evasion, whether in terms of more effective implementation of existing legislation or new legislation. The Council welcomes the significant measures in the 1999 Finance Act to strengthen the powers of the Revenue Commissioners. The current inquiry of the Public Accounts Committee and the Moriarity Tribunal should be helpful in identifying what measures can usefully be taken to reduce tax evasion and fraud.

1.4 Local Taxation

Ireland is unusual among OECD countries in having a very low incidence of local taxation. In 1996, the share of local taxation in total tax revenue in Ireland was 2.3 per cent. This was lower than any other OECD country with the exception of Greece. While Ireland is a small country, the very low utilisation of local taxation cannot be solely explained in terms of size. Even OECD countries that are smaller than Ireland, such as Luxembourg and Iceland, have greater reliance on local taxation. The low share of local taxation in total tax revenue in Ireland is paralleled by the limited devolution of powers to local government.

The Council acknowledges that some reform of the financing of local government has taken place with the establishment of the new Local Government Fund. In addition, commercial rates are a substantial source of local authority income, representing one quarter of the total income of local authorities. If any additional local taxes were to be introduced, this should be offset by reductions in income tax so that the total tax burden would not be increased.

1.5 Other Issues

Policy issues that arise in relation to other forms of taxation are discussed in the main report.

2. Labour Market Adaptability and Employability

Labour market conditions have changed considerably since the publication of the last Strategy report in 1996. Substantial employment growth has led to a dramatic reduction in the unemployment rate (including long-term unemployment) to the extent that labour and skill

shortages have replaced unemployment as the most urgent labour market issue that needs addressing. These national trends have to be placed against a background of increasing economic integration influenced in particular by the growing importance of technology and the mobility of capital and labour flows.

A key source of competitiveness is the availability of a good quality labour force that is adaptable to changing circumstances. At the same time, existing systems of work may no longer be appropriate to changing lifestyles. With human capacity now more important in the strive for competitiveness, firms and employees increasingly have to work together to balance work and family responsibilities.

All of these trends suggest that Irish policy-makers will have to consider a wider set of labour market issues than has been the case in the past. Fortunately, Ireland already has a framework, in the form of the European Employment Strategy, that can be used to address these issues.

2.1 European Employment Strategy

The European Employment Strategy was devised as a co-ordinated policy mechanism to try to modernise European labour markets by increasing the adaptability and employability of workers and firms, as well as those seeking employment. The aim is to develop a labour market that is more adaptable to change such as the challenges imposed by a macroeconomic shock or the opportunities presented by globalisation and new technologies.

The European Employment Strategy is framed around Employment Guidelines that are updated annually by the European Commission. Each Member State is required to submit a national employment action plan in line with the guidelines on an annual basis.

The Council broadly supports the co-ordinated approach of the European Employment Strategy. One of the important features of the Strategy is the role assigned to Member States' social partners in both devising and implementing the strategy. The Council welcomes this role but is concerned that it remains under-developed in Ireland.

The Council recommends that the social partners in Ireland be given a more direct formal role in the development and implementation of the Irish Employment Action Plan. The Department of Enterprise, Trade and Employment should agree with the social partners a formal institutionalised process through which active consultation and co-operation can take place on the Irish Employment Action Plan. This would ensure that the Employment Action Plan remains a relevant policy document, and indeed a plan for action.

While the European Employment Strategy is framed around a number of policy areas, the social partners are assigned a direct role in the design and implementation of policy in three key areas: lifelong learning; childcare and parental leave; and work organisation changes.

2.2 Lifelong Learning

The Council views lifelong learning as learning over the entire lifespan. Lifelong learning can provide the basis for enhanced adaptability and employability, as well as personal fulfilment. In line with OECD recommendations, policies to establish and promote lifelong learning have to include a commitment to early childhood education, a good standard of primary, secondary, tertiary and adult education, clear pathways from one stage to the next and clarification of the roles and responsibilities of the various partners involved. The Council recommends that these themes should be used as a guide to the development of a strategic framework for the promotion of lifelong learning.

The Council identifies a number of immediate priorities for lifelong learning:

(i) Early Childhood Education: pending the expected publication of the Government's white paper on early childhood education, the Council recommends that the targeted provision of early childhood education should be maintained. Linkages between pre-school and primary school should also be enhanced so as to maximise the benefits of these types of early intervention measures. Development should proceed in cognisance of the support structures already in place within the family and the wider community.

(ii) Tackling high drop-out rates: the Council is concerned that high drop-out rates at both second and third-level will undermine future growth rates and lead to higher unemployment. Most studies show that early and sustained interventions are crucial for securing the interest of young people in continued learning. Thus, efforts to improve attrition rates are fundamental to the development of lifelong learning.

The Council welcomes the recent announcement by the Department of Education and Science of a new school-based scheme to tackle early school-leaving. The intractability of the problem suggests that novel "bottom-up" approaches may yield greater success. The Council recommends continued investment in innovative approaches that generate positive outcomes, including approaches that will deal with the particular problems experienced in rural areas.

The Council also commends the work of local and community-based organisations in reducing drop-out rates in their local areas. Third-level attrition rates may be reduced by more careful matching of students with college places and promoting more non-traditional places, such as at vocational level. The availability of good quality career guidance seems essential here. The Council also recommends greater co-operation between schools, community groups and third-level institutions and the provision of more flexible ways of learning (including distance-learning, part-time study and modularization). These would allow a broader range of students to participate and would also enable students to balance study and other work and family responsibilities.

(iii) Vocational Training: the Council welcomes the broadening of the education system from its traditional academic orientation to include other important vocational and life skills. However, new certificate options at second-level are still not available to all students. The Council recommends that access to all available certificate options should be widened. Access to other vocational training, such as VTOS, should also be improved through the introduction of part-time options and greater modularization.

(iv) Literacy and Numeracy Skills: recent international surveys have highlighted Ireland's low literacy and numeracy levels, particularly among older-age groups. The Council argues that any drive towards lifelong learning has to be grounded in a commitment to increase basic literacy and numeracy levels, particularly in the adult population. The Council firmly supports the Green Paper on Adult Education's proposal to develop a National Adult Literacy Programme. The social partners could play a key role here.

(v) Progression Pathways: the Council welcomes the new Qualifications (Education and Training) Act, 1999, which will establish the first national system of certification and accreditation. The Council recommends that the new National Qualifications Authority should aim to establish links with similar authorities in other countries so that students can maximise the benefits of their training when working or pursuing further education abroad. Pathways to lifelong learning are also dependent on greater co-operation between students, parents, schools, universities and firms. The aim should be to make the education and training system more responsive to changes in work and family lifestyles, as well as economic circumstances.

(vi) Company Training: the Council argues that companies have an important role to play in developing lifelong learning. The needs of those with poor educational attainment, who may be undertaking low-skilled and low-paid work, should be a particular focus. The Council recommends that employers, employees and their representatives should, as a priority, devise appropriate mechanisms to promote lifelong learning in the workplace. This could draw on work currently being undertaken by the Department of Enterprise, Trade and Employment

to review the support structures for company training, funding and grants mechanisms. Such mechanisms could include more delivery of training by the social partners themselves, particularly in the context of encouraging new work practices and enterprise partnership.

(vii) The Council believes that personal and social development, through non-formal education comprises an essential element of lifelong learning, complementing formal academic and vocational education processes. The Council recognises the value that the provision of opportunities in this area can bring to individuals and society, not least facilitating participation in civil society. There have been some key developments in this field in recent years, particularly in the youth work area where legislation and planning processes have been initiated.

The Council welcomes the proposal in the 1999 Employment Action Plan for the Department of Enterprise, Trade and Employment, in collaboration with the Department of Education and Science, to establish a working group with the aim of developing a strategic framework and defining participation targets for lifelong learning.

The strategic framework will be developed within the context of the broad definition of lifelong learning adopted in the Plan, which includes all formal and informal learning activity undertaken on an ongoing basis with the aim of improving knowledge, skills and competence. The framework is also likely to be influenced by a scoping report on lifelong learning currently being prepared by the ESF Evaluation Unit of the Department of Enterprise, Trade and Employment.

The scoping report is expected to discuss how the concept of lifelong learning is evolving in Ireland and relative to our EU neighbours. The working group is expected to adopt a broad but focused approach. This implies the identification of priorities from across the whole spectrum of education and training that are essential for the development of lifelong learning.

The Council recommends an active role for the social partners on this working group. This reflects the growing opinion that it is through social partnership that training systems capable of meeting skill demands can best be devised and introduced. This type of co-operation enhances the responsiveness of the education and training sector to the needs of the economy, while still prioritising the needs of the individual.

2.3 Childcare and Parental Leave

The Council is fully committed to the development of family-friendly employment policies that will enable employees to contribute more fully both to their workplace and home responsibilities. Childcare is a difficult policy question to address because it impinges on a wide variety of issues relating to child welfare, equal opportunities, the role of the family and so on. Therefore, the Council argues that there can be no 'magic bullet' solution to the current childcare problem. The solution lies in a package of appropriate measures that will balance demand, supply and cost concerns.

On the supply side, the Council supports continued capital allowances for expenditure on workplace-based childcare facilities but also calls for measures to aid existing independent registered facilities to meet the requirements of the 1996 Childcare Regulations. Regarding implementation, the Council is concerned that the involvement of a large number of Government Departments in childcare initiatives has resulted in a fragmentation of responsibility for childcare policy. The Council recommends a more streamlined approach to childcare policy, planning and implementation.

On the demand side, the Council favours an increase in Child Benefit as part of the policy response to demand side difficulties. This would be neutral with respect to childcare choice and labour market position. Including Child Benefit as taxable income would yield resources that could be used to raise its overall value which would then be particularly advantageous to low-income groups. This would make a significant contribution to alleviating child poverty.

However, for the after tax value of Child Benefit to make a meaningful contribution to childcare costs, its gross value would have to be increased substantially. This highlights the difficulties of reconciling childcare and child poverty objectives through the taxation of Child Benefit. It may therefore be necessary to introduce other measures to address the childcare affordability issue.

Finally, the Council welcomes the recent introduction of parental leave but is concerned that because it is unpaid, it will remain an option open only to those on higher incomes. Further analysis is required to investigate ways to make the take-up of parental leave more equitable. In recognition of the significant minority of people who have to juggle the competing demands of work and other care responsibilities (for example, elderly parents, sick relatives etc), the Council also supports the introduction of other types of family leave arrangements that would enable employees to balance work and home responsibilities. Examination of the implementation of family leave arrangements in other countries may be a useful guide for possible implementation in Ireland.

2.4 New Forms of Work Organisation

The introduction of new forms of work organisation is seen as one possible way for firms to cope with economic change and remain competitive in the global environment. Survey evidence suggests that the incidence of new forms of work organisation is comparable to other European countries but that the depth of change is less well developed. The social partners, in line with commitments in Partnership 2000, will continue to work with the IPC, the NCP and other relevant organisations to facilitate and support the introduction of new work practices in co-operation with employers and their employees.

In consultation with the NCP, priorities for the promotion of workplace changes over this Strategy period should be developed. These could include the identification of best practice, the wider dissemination of case studies detailing success stories and the establishment of network support structures amongst firms that would enable both employers and employees an opportunity to share and learn from their experiences.

Partnership 2000 identified training as an important tool for facilitating the introduction of new practices into the workplace. The Council recommends that training materials developed under existing pilot projects should be disseminated to all relevant firms and trade unions and be subject to further review and modification based on their wider application. General skills (for example problem-solving, team-working, communications skills) are particularly important for the development of new work practices.

The Council recommends the development of appropriate company training and testing materials for these general skills. These types of skills should also be given more emphasis in the traditional education sector. At secondary level, general skills could most usefully be developed in Transition Year where there is less emphasis on academic subjects and where students often participate in some form of work experience in co-operation with local employers. At third level, the increasing trend towards modularization provides an opportunity to develop training modules where students could learn general skills that they would find useful both in their studies and in their future careers.

The growing importance of new work practices, adaptation to change and lifelong learning as sources of competitive strength suggests that a shift in enterprise policy and related resources may be required to ensure the continued development of these factors. This would be in line with the recommendation in Chapter 7 of the main Strategy report for a re-alignment of State support from capacity expansion to building business capability.

3. Enterprise Policy 3

The competitiveness of enterprise in Ireland is an essential requirement if the Council's vision of a dynamic economy and participatory society is to be achieved. There are many dimensions to enterprise competitiveness that are addressed both in this report and in the forthcoming Forfás report, Enterprise 2010. In this section, the focus is on enterprise issues at sectoral level; other aspects are discussed elsewhere in this report. The changing environment and faster income growth will intensify the pressure for sectoral restructuring. This implies, for example, an acceleration in the decline of agricultural employment and poses problems for parts of indigenous manufacturing.

Irish enterprises must be competitive in an increasingly integrated global economy. Developments in information and communications technologies (ICT) are a key driving force in the process of globalisation. The Irish economy has benefited greatly from the contribution of high-tech enterprises in the ICT sector. However, the application of ICTs is not confined to the high-tech sector and it is important that smaller enterprises across the economy embrace the information revolution.

3.1 Services

It is well known that Ireland has outperformed other OECD countries in terms of the growth of manufacturing employment. It is perhaps less well known that the growth of services employment during the 1990s has also been among the highest in the OECD. Over the period 1990 to 1997, the only OECD countries that had stronger employment growth in services were Luxembourg and Korea.

The Council emphasises the importance of achieving stronger productivity growth in the services sector. The regulatory environment and approach to competition policy are a significant influence on the productivity of this sector. The Council's views on regulation and competition are outlined below.

One implication of the ICT revolution is that international trade in services is becoming increasingly important. Internationally-traded services in Ireland are expanding rapidly although Ireland's share of service exports, as a proportion of total exports, is comparatively low at only 11 per cent. Only 3 per cent of service enterprises in Ireland are actively engaged in exporting. The expansion of high value-added knowledge-intensive services is an important dimension of achieving an economic structure that is consistent with higher income.

3.2 Tourism

Tourism is one of Ireland's fastest growing service industries and is an interesting case of the challenges facing services. The key focus of tourism policy should be on skills development and marketing Ireland overseas. Skill shortages in the labour market should continue to be addressed by initiatives such as the industry's Quality Employer Programme.

There is also a need to raise the quality of tourism products across the country, to achieve a better regional balance of tourism growth, to ensure that tourism development occurs in a manner that respects the quality and absorption capacity of local communities and landscapes, and to reduce seasonality. Marketing will need to be increasingly funded by the industry itself, but State support should be provided in relation to marketing Ireland overseas. This should be supplemented by voluntary contributions from individual businesses in the tourism industry.

3.3 Industrial Policy

If Ireland is to reach European living standards, continued expansion of the manufacturing and internationally-traded services sectors is required. Industrial policy has to adapt to the

environment of a tighter labour market and skills shortages. There is a particular need to address the problem of low productivity in indigenous manufacturing. Industrial policy should support the repositioning of indigenous manufacturing enterprises to help them move to higher value-added activities.

There should be a decisive shift in State support from capacity expansion to building capability in terms of employee and management skills, new forms of work organisation, research, innovation, marketing, technology and design. Vulnerable sectors should not be neglected by policy. It is not possible to protect non-viable jobs but the focus should be on assisting vulnerable sectors in terms of developing their capabilities. There are opportunities to develop higher value-added products in all sectors.

The food industry is a key indigenous sector. Food, drink and tobacco (which is mainly food) represented over 50 per cent of the exports of Irish-owned manufacturing in 1996. The food sector has shown strong output growth over the past decade but faces significant challenges in the context of a reduction in support for its main products. Key issues that need to be addressed are an over reliance on commodity-type products and scale-related difficulties. There needs to be a national strategy to redirect Ireland's food exports to the EU consumer market based on the highest standards of food quality, safety and traceability. This is only possible in the context of much closer integration between farmers and food processors.

Foreign direct investment (FDI) has made a very strong contribution to Irish economic development. FDI will continue to have a significant role in the achievement of convergence of European living standards. In relation to FDI policy, the Council supports the approach of Forfás that grant assistance for capacity expansion will be gradually phased out over time in line with the reduction in aid levels in similar regions of the EU.

A decline in the provision of financial incentives for most of the country points to the importance of other factors that contribute to Ireland's attractiveness for FDI and it is essential that Ireland's competitive position in respect of these factors be enhanced. Key factors are the availability of a skilled and flexible workforce, high quality infrastructure and competitive business services. FDI policy should focus on attracting high-quality projects and encouraging the existing base of multinational companies to undertake higher value-added functions, such as research, in Ireland.

Industrial policy has an important role to play in achieving the objective of regional development. The focus should not simply be on offering more attractive financial incentives to the Border, Midlands and West region, although this will be part of the policy. The focus should be on developing the regional economies in an organic way in which there are close links between enterprises, regional education and research institutions and sub-suppliers in order to generate sustained growth. Greater consistency will be required between infrastructure investment and the activities of the industrial development agencies in order to achieve the regional development objective.

3.4 Networks

One way of building capability among smaller indigenous firms is through the development of networks. The Council welcomes the recently-launched Training Networks Programme. This programme seeks to mobilize companies to address common training needs. By pooling resources and by purchasing solutions to common training problems as a group, the costs of accessing training can be reduced for individual network members. As well as reducing costs, this approach may to some extent also address the 'free rider' problem associated with training.

Another recent network initiative is the pilot programme on Inter Firm Co-operation Networks. This had been recommended by the last NESc Strategy report, and by a report of the Science, Technology and Innovation Council entitled Making Knowledge Work for Us. A commitment was given in Partnership 2000 to establish a pilot programme.

The idea of this type of networking is that SMEs co-operate in a significant way in strategic activities such as product/process development. This approach is used in several OECD countries and the idea of the pilot programme was to test its applicability in Ireland. The pilot programme was operated by Enterprise Ireland. The main benefit was that the networks enabled the companies involved to work together as a team in strategic development of new business opportunities. The Council recommends that the experience of this successful pilot programme should be built upon.

The Council also supports the recommendation of Forfás to encourage ‘technology innovation networks’, that provide companies with access to relevant research at national and international level. This would include stimulating research in third level institutions that is of relevance to industry and identifying opportunities for the transfer of knowledge from research institutions or companies abroad to Irish companies.

3.5 Regulation and Competition

Regulation is a key instrument of Government policy that is used to address a range of critical concerns such as worker and consumer safety; environmental protection; market/competition regulation; management of scarce resources, for example, licensing of radio spectrum; and consumer protection on non-safety issues, for example, price, quality and continuity of supply. However, the burden of regulation has built up over time so that some regulations are not appropriate to an economy and society that are undergoing rapid change.

The Government has recently launched a programme of regulatory reform: Reducing Red Tape: An Action Programme of Regulatory Reform in Ireland (1999). This programme has been developed as part of the Strategic Management Initiative. Under this programme each Government Department or Office will list the relevant legislation and identify the scope which exists for consolidation, revision or appeal. There is to be particular reference to barriers to market entry and the administrative burden on small business.

One dimension of regulatory policy is the appointment of new industry regulators in areas that were formally State monopolies such as telecommunications and electricity. This raises an important institutional issue of the appropriate relationship amongst such industry regulators and between the regulators and the Competition Authority. The Minister for Public Enterprise has recently announced that she intends to publish a discussion paper on the accountability arrangements in relation to the regulators in the public enterprise sectors. Furthermore, sectors such as international financial services and e-commerce require cutting-edge regulatory systems if Ireland is to maintain its competitive position.

The Council welcomes the Government’s action programme of regulatory reform and believes that its effective implementation is important for the competitiveness of the enterprise sector. In addition, the Council supports the following recommendations proposed by Forfás in relation to regulatory reform:

- EU harmonisation efforts should be closely monitored;
- Ireland should participate in the OECD country review programme on regulatory reform;
- detailed regulatory reform of business services and transport should be initiated;
- the relationship between the regulators and the Competition Authority should be clearly defined and any necessary institutional changes undertaken;
- a Regulatory Impact Analysis should accompany any proposals for specific regulatory reform; and
- regulatory innovation in competitor countries should be monitored systematically and effectively.

Progress in achieving these regulatory goals can be assessed by monitoring the degree to which fully competitive markets have been achieved, and the extent to which individual sectors are dominated by a small number of firms. In establishing targets, the focus should be on outcomes. Targets should take account of social goals including the need to provide services on a universal basis. For each sector specifically regulated, independent monitoring of improvements in efficiency and cost competitiveness should accompany standard measures of industry concentration.

The Council believes that competition addresses a critical societal concern — the concern to have desired goods and services delivered at optimum prices from the consumer viewpoint. In that context the Council continues to emphasise the importance to consumers of the work of the Competition Authority to broaden and deepen the operation of competitive forces.

3.6 Agriculture

The Council fully supports the principles of the European model of agriculture based on the family-farm structure that underpins sustainable agricultural development and contributes to a viable rural economy.

In the context of the upcoming World Trade Organisation (WTO) negotiations, the Council recommends that Ireland should endeavour to ensure that the EU achieves full accommodation for the European model of agriculture. Recognising, however, that Irish agriculture and food sectors will face increased competition on EU and third country markets arising from the liberalisation of trade, it is the Council's view that domestic policies and supports should also be sharply focussed on improving the sector's capacity to meet this challenge.

Structural change that facilitates the entry of trained young entrants and increases the proportion of viable farms is a key requirement in this context. Ireland's food exports need to be increasingly redirected to the EU consumer market, and this offers the only long-term prospect of closing the price gap between Irish and EU producer prices. Policies to promote competitiveness should be complemented by attention to the environmental implications of agriculture.

3.7 Rural and Regional Development

The decline in agricultural employment is associated with higher productivity within the sector and it also releases labour that could be used in other sectors characterised by growing demand for labour. Many farmers have succeeded in finding off-farm employment. Agricultural restructuring allied to other economic and social changes points to the need to adopt a broad rural development policy. The Council welcomes the new institutional arrangements proposed in the recently-published White Paper that seek to achieve a co-ordinated approach to the many dimensions of rural development policy and recommends that the new institutional arrangements are quickly introduced.

The Council also welcomes the commitment in the White Paper to ensuring that the necessary physical and telecommunications infrastructure is provided so that rural communities can exploit the enormous potential of ICTs. While major urban centres may be adequately served by the market, the Council recommends public investment to leverage infrastructural investment of this kind in economically marginal rural and urban areas, as discussed earlier in this document.

Rural poverty is one of the key themes of the National Anti-Poverty Strategy. It is important that rural development policy effectively addresses social exclusion in rural areas. The Council welcomes the commitment in the White Paper to the provision of essential public services in rural areas.

The Council believes that an effective regional development policy is essential to achieving the objective of rural development. Selected larger towns and medium-sized cities should play a crucial role in the concentration of regional services, public services, transport systems, telecommunications, community infrastructure and as distribution centres and markets for agriculture, tourism and other hinterland activities. These towns and cities could act as centres of dynamic regional systems of urban settlements of all sizes, fully integrated with rural areas. This approach should make it possible to ensure that all rural areas are within commuting distance of an employment centre. The preparation of a National Spatial Development Strategy as outlined below would provide the basis for this approach.

3.8 Fishing

The fishing industry makes an important contribution to the objective of balanced regional development. The single most important policy affecting the development of the industry is the Common Fisheries Policy (CFP) which is due to be reviewed in 2002. The Council recommends that a diplomatic effort be made to secure an improvement in the unsatisfactory treatment of the Irish fishing industry under the CFP. In the meantime, opportunities for development in relation to non-quota species, aquaculture and processing should be fully exploited. The Council also emphasises the importance of reducing dependence on international commodity markets and enhancing the development of the industry as a supplier of higher value-added seafood products.

4. Poverty, Unemployment, Social Protection and Social Exclusion

The new strength of the Irish economy is the fundamental backdrop to evaluating whether Irish society has become more just and socially cohesive in the process of becoming more wealthy. The pace of change is forcing a revision of targets and timetables for reducing social exclusion, but it may also be inviting an evaluation of the strategic analyses of problems that have been employed to date, and even the fundamental conceptualisations of the problems themselves as well as recognition of new sources of social exclusion.

Social exclusion is defined in Partnership 2000 as cumulative marginalisation from production (unemployment), consumption (income poverty), social networks (family, neighbourhood and community), decision-making and from an adequate quality of life. Our concern here is mostly with income poverty and unemployment. Our analysis is complementary to the creation of a strategic framework for equality and the Council's commitment to achieving a socially inclusive society in tandem with the enhancement of competitiveness.

Data from the 1997 Living in Ireland Survey (LIIS) were published in June, 1999, and they provide evidence of a substantial reduction in "consistent poverty" and, at the same time, of a widening of relative income inequality. The consistent poverty measure incorporates relative income poverty and enforced deprivation of a basic necessity. From 1987 through 1994 to 1997 there was a fall from 10 to 9 to 7 per cent in the population experiencing consistent poverty based on the 50 per cent poverty line and a fall from 16 to 15 to 10 per cent at the 60 per cent line.

The same 1997 LIIS data, however, have a less encouraging message as regards developments in relative income inequality. The proportions of the population estimated to be living on incomes below 50 and 60 per cent of mean income in each year increased by one percentage point each over the 1994-97 period, to 22 and 35 per cent respectively. The proportion below the very lowest relative income threshold (40 per cent of the mean), however, increased by three percentage points to 10 per cent, the first recorded increase since the situation began to be monitored in 1973. This slippage at the very bottom of the income ladder means that measures of the depth of poverty also record quite a significant deterioration. By the standards of recent decades, it is clear that the lowest incomes in Irish society in the second half of the 1990s began to lag developments in the rest of society more seriously than before.

The risk of falling below the 50 and 60 per cent relative income lines was particularly high for unemployed people, people with disabilities and those on "home duties" and the risk for the latter group increased significantly over the 1994 to 1997 period. The risk of poverty at the 50 per cent relative poverty line for women who live alone rose during the 1987 to 1994 period from 4 per cent to 24 per cent and the risk for lone mother households in the same period rose from 17 per cent to 32 per cent. This meant that by 1994 the risk of poverty for these two groups was substantially higher than that of all other household types.

The findings point to the importance of adequacy in social welfare payments and of policies facilitating labour market participation for those with caring responsibilities. This raises the issue of affordable and appropriate childcare and family friendly policies. However, these must be situated within an integrated tax and social welfare system that does not lead to poverty or unemployment traps.

There is now considerable support for the argument that Child Benefit is the best family support option from an anti-poverty perspective. The Council has consistently argued for a substantially increased, universal and taxed Child Benefit. The difficulties of reconciling child care and child poverty objectives in relation to the taxation of Child Benefit have been outlined above. Despite these the Council continues to believe that Child Benefit is a potentially important contribution to the mitigation of poverty in families with children and the enhancement of equality.

The advantage of increasing Child Benefit is that it provides support to families with children without any adverse incentive effects. Making Child Benefit assessable for taxation would have the effect of targeting it more effectively and freeing up money to increase its level. It would also be consistent with the Council's general principle that the tax base should be as broad as possible.

4.1 Social Welfare Payments, Income Adequacy and Poverty

Despite the fact that social welfare payments have increased in percentage terms more than earnings over the 1987-99 period, relative income poverty rates have increased. This is largely attributable to the fact that increases in social welfare rates have lagged increases in average income to which the poverty lines are linked.

The Commission on Social Welfare's (CSW) minimum guidelines relating to targets for benefit levels were met in the 1999 Budget.⁴ Despite this, the pattern identified in the National Anti-Poverty Strategy (NAPS) review relating to the 1994 to 1997 period still holds with the exception of old-age pensions which were increased significantly in the last two Budgets.⁵ Attainment of the CSW minimum rates means that there is now no agreed benchmark against which improvements in social welfare payments, other than old-age pensions, can be measured — the Government is committed to increasing old-age pensions to £100 per week by 2002. If enhancing equality is to be carried through the policy process and present levels of income inequality are not to increase, social welfare payments would have to be linked to changes in average incomes.

The Council recognises that this raises complex measurement issues, and policy choices including the possibility of a trade-off between changes in income adequacy criteria and employment incentives. Notwithstanding these factors, the Council strongly recommends that social welfare payments must be linked to improvements in the general standard of living. In view of this, and consistent with its medium and long-term vision for Ireland, the Council proposes that a new benchmark for the income adequacy of social welfare payments, other than old-age pensions, be established through the social partnership process and that a mechanism be agreed to index levels of payment to improvements in the general standard of living once the benchmark has been reached.

Key considerations relating to these issues outlined in the main Strategy report include benchmarking options such as the fifty per cent average income threshold, a percentage of Gross Average Industrial Earnings (GAIE), the uprated maximum Commission on Social Welfare rate and indexing options such as linkage to some rate above inflation, increases in average income or increases in GAIE. The potentially substantial implications for expenditure and taxation of each of these, and other options for benchmarking and indexation, will require to be assessed in the context of the fiscal strategy set out by the Council earlier in this report.

The basis for calculation of the Family Income Supplement (FIS) was changed from a gross to a net income basis in the 1998 Budget. This was an important improvement but this payment continues to be plagued by low take-up. If it was paid through the tax system rather than as a social welfare payment, it is likely it would be more acceptable to potential beneficiaries. The conversion of FIS to an equivalent tax credit is a narrower and more straightforward issue than the general introduction of refundable tax credits. FIS is a potentially effective way of providing support for those with families in low-income employment. In view of these facts the Council recommends that the feasibility of payment of FIS through the taxation system be examined.

The individualisation of social welfare payments has been on the policy agenda for several years. The Council acknowledges the complexity of introducing change in payment systems and welcomes the analysis of this issue in the Report of the Working Group Examining The Treatment of Married, Cohabiting and One-Parent Families Under the Tax and Social Welfare Codes (1999). It notes the agreement among the Group towards extending the administrative arrangements in the area of separate payments and also that the increase in social insurance coverage which is taking place at present would lead to a greater degree of individualisation among social welfare recipients. The Council supports 'Administrative Individualisation', that is, the splitting of social welfare payments, which is available on request in certain cases at present. It supports the extension of the arrangement over time.

4.2 Poverty and Policy Targets in a Changing Context

It is clear from the first review of the National Anti-Poverty Strategy (NAPS) that the targets set for that strategy were modest. This was argued by some analysts at the time although it should be acknowledged that relevant data for the 1994 to 1997 period have become available only in mid-1999. While this is a vast improvement in the situation that has pertained to date it still reflects a time-lag of two years. In a rapidly-changing economic and social situation, this is a significant limitation. While affirming strong support for the NAPS, and particularly its commitment to monitoring and evaluation, the Council recommends that the following points be taken into account in its next review:

- The percentage of the population that is "consistently poor" is an important measure for targeting but the elimination of consistent poverty as measured in the NAPS does not equate with the elimination of relative income poverty as is clearly indicated by the increase in the percentage of the population below the 40 per cent relative income cut-off, that is below £60 to £64 per week for each adult equivalent depending on equivalence scale in 1997. While the consistent poverty measure should continue to be used the list on which it is based should be regularly evaluated to reflect changing circumstances. The fifty per cent relative income poverty criterion should continue to be used to monitor progress vis-à-vis our EU partners.
- The feasibility of targets for sub-groups of the population with particularly high-poverty rates should be explored and programmes for these groups tailored to reach national targets.
- Unemployment targets as set by the national Employment Action Plan should be the guiding policy objective.

- Targets relating to the focus of health care and to health status are not included in the NAPS. In view of the consistent international evidence on the reciprocal association between poverty and health status and the 1987 and 1994 evidence of the high risk and incidence of poverty for people who are ill or who have disabilities, it is important that practicable targets in this area be included in the NAPS at its next review.
- All of the above are dependent on a commitment to enhancing the timely availability of data that can be disaggregated by social category and spatially. The enormous strides that have been made in this area to date should be adequately resourced to facilitate this objective.

4.3 Unemployment

A key theme emerging in our analysis of unemployment is the changing context within which policy is now being formulated. Most of the policies and programmes now in place were developed in the context of high unemployment and weak labour market conditions of the 1970s and 1980s. The context is now considerably changed to one of skill and labour shortages co-existing with continued unemployment, albeit unemployment that is low by historical and comparative standards. Some programmes have been adapted but is this sufficient to meet current needs? In this context the Council makes recommendations relating to:

- programmes;
- the transition from unemployment;
- failure to make the transition from unemployment; and
- the prevention of unemployment.

4.3.1 Evaluation of Programmes

Given the importance of evaluating the effectiveness of policy initiatives and their outcomes for participants, the Council strongly urges closer monitoring of all programmes in terms of meeting the needs of the current cohort of long-term unemployed people and labour market opportunities and demands. There is already considerable commitment to evaluation in EU-funded programmes — such an approach should characterise all programmes as should a commitment to act on recommendations. This is particularly important in regard to the mainstreaming of successful pilot initiatives.

4.3.2 Transition from Unemployment

There is little information on the destination of those who move out of long-term unemployment. This is particularly the case for those who move into employment either directly or through employment schemes such as Community Employment (CE). Allied to the former recommendation, the Council recommends a longitudinal analysis to assess people's eventual destination and whether existing active labour market policies contribute as much as possible to social inclusion. This information is important for the development of the most appropriate measures to ensure successful labour market transition.

4.3.3 Failure to Make Transition from Unemployment

In view of the paradox of high unemployment co-existing with labour shortages, what can policy do to help those long-term unemployed people who are not making the transition to the positions that currently exist? The Council supports measures to develop clear progression pathways for the long-term unemployed. In this regard, existing programmes may not be appropriate for particular sub-groups of the long-term unemployed.

There may need to be greater attention to core skills including literacy and numeracy training, as well as general skills such as good presentation, oral skills and confidence-building. Training programmes should be developed that include a combination of formal training activity and work experience to ease the transition into work.

FÁS or the Local Employment Service (LES) should continue contact with those people they have placed who have been long-term unemployed for a set period even after they have secured employment.⁶ The Council recognises that for reasons of age, educational background and distance from the formal jobs market, it will still be necessary to provide supported employment opportunities either through social economy or other options for some long-term unemployed people and others with special needs.

4.3.4 Reducing the Risk of Unemployment

Since the most effective policy on unemployment is its prevention, the Council strongly supports the initiatives in this area taken by the Department of Education and Science and recommends innovative approaches to tackling the educational and training needs of early-school-leavers in the workforce. This will necessitate a joint approach by the social partners, the Department of Education and Science, and the Department of Enterprise, Trade and Employment. These programmes must also address the needs of those young people who are drawn out of the education system prematurely into short-term employment and who become unemployed after a short period out of the educational system.

Despite the increasing demand for labour and the actions that have been taken to eliminate unemployment traps, the Council is concerned that there may still be traps which militate against participation in training and employment for certain categories of the population — for example adults in households with children. In view of this the Council recommends that the evidence for poverty and unemployment traps be sought and action taken to eliminate them. In this regard greater attention needs to be given to the incentive effects of housing subsidies such as rent/mortgage supplements. This may need to be given greater priority in the context of the current housing crisis.

4.3.5 Community Employment and the Social Economy

The vibrancy of the current labour market and the 1996 changes to the CE criteria have contributed to a significant decrease in the numbers of CE participants in many areas. This success has meant that meeting the re-integration objective of CE programmes is becoming more demanding and the need for review of traditional approaches more pressing. The introduction of a new social economy stream is an acknowledgement of this. It is probable, however, that the distinction between those sponsors dedicated to exploring the social economy and those committed to the integration objective is now so central that two wholly independent programmes are called for. This would finally free the integration option of the current CE programme from the ambiguity that has constantly attended its implementation.

The Council recommends continuous evaluation of the CE programme in terms of how it meets the activation and training needs of various categories of unemployed people as well as community needs.

The Council supports the commitment in the 1999 Employment Action Plan to introduce a dedicated Social Economy Programme and recommends that the programme have two explicit streams: one to support organisations developing services which aspire to be commercially viable, and another to support organisations which address community needs but which despite support from other sources, are not self-funding. Where CE is currently being used to provide essential mainstream services, their continuation should be secured through funding from the appropriate Department or agency.

4.4 Social Inclusion and Equality

Action directed to combating poverty and enhancing employment are central to the Council's commitment to pursuing social inclusion as a strategic objective in its own right. The Council believes that this action must be paralleled with time-limited and clearly targeted intervention in relation to poverty and unemployment relief, full implementation and monitoring of all interventions in these areas and the establishment of a strategic framework for action on equality. The considerable range of initiatives that have already been taken must be fully implemented and new initiatives implemented where necessary and appropriate.

4.4.1 Framework for Action on Equality

The Council reiterates and reinforces its support for the enhancement of equality through "the promotion of equality of opportunity, participation and outcome as a positive good". It argues that public policy is an essential mechanism for combating discrimination and enhancing equality. Consistent with this it calls for the full implementation and monitoring of existing measures and the evaluation of achievements against an agreed set of standards. The Council supports the creation of a Strategic Framework for Action on Equality which would include the comprehensive strategic implementation of the recommendations on past/current equality agendas and the development of equality agendas for the 'legislatively new groups' experiencing discrimination.

4.4.2 Targeted Special Investment Approach to Poverty Relief and Social Inclusion

Despite the fact that the majority of people affected by poverty and social exclusion are not spatially concentrated, it is clear that there are spatial concentrations of unemployment, poverty and exclusion. This spatial concentration is not lessening but intensifying due to the consequences of long-term unemployment, poverty and past policy choices. To stem the social and economic costs of this social exclusion, the Council recommends a targeted investment-oriented approach to poverty relief and social inclusion. This would involve a programme of measures, that are time-limited and designed to develop the infrastructure necessary for communities to harness the social capital and capacity necessary for their economic and community development. This is a logical development of the Council's emphasis in its 1996 Strategy on the importance of social resources and capacities which reside in the social relationships between people — those centred on family, gender and community.

This special investment package implies a dual policy focus directed to the social groups who are excluded and those at greatest risk of exclusion but also focusing on the locations where cumulative disadvantage is pervasive. It is not a substitute for the social inclusion focus that must inform the National Development Plan, nor for the programmes in operation to tackle social disadvantage, such as labour market training and education programmes. It is a complement to both but directed to areas that due to long-term and cumulative exclusion need an extra impetus to create the conditions that will allow them to harness their resources.

The investment would be directed to the provision of local multi-purpose physical complexes for the provision of community services — for instance, training and lifelong learning, childcare, cultural and recreational services as well as enterprise-support facilities — according to the greatest local need as identified by the communities in question on a partnership basis. Such infrastructure would not be a panacea for the economic and social problems of these communities. However, the Council believes that, allied to effective mainstream programmes, it would make an important contribution to enable the communities to harness their social capital, improve their capacity for economic and social development and enhance social cohesion.

In implementing this programme lessons must be learned from existing targeted initiatives including the EU URBAN pilot programme. Under this programme a budget of 10 million Euros was invested in each of a number of urban areas of special need with a 100,000 population or more, across the EU (three in Ireland), to enhance business infrastructure, the physical environment, education and training and equality services. The proposed programme would differ on the population criterion but the targeting of a relatively small number of areas would be crucial for effectiveness. It would be directed towards the 25 most deprived urban and rural local authority housing estates. The Council is concerned that the effectiveness of some earlier targeted programmes was diminished through failure to adhere to the original principle of selectivity. The present recommendation is framed on the understanding that the specified targeting of this once-off and time-limited programme — three years — would be adhered to.

5. A Strategy for Improved Infrastructural Development

The Council views infrastructural development as a priority area for action over the coming years. Just as inadequate infrastructure can constrain growth, reinforce social exclusion and undermine environmental sustainability, increased building capacity that is efficiently managed and planned for can propel growth, contribute to social inclusion and protect our natural resources. These are the aims that should underpin Ireland's growth and development over the next decade.

Many of our existing infrastructure problems are due to the uncoordinated way in which infrastructural development has taken place in Ireland in the past. This resulted in a number of problems including a pattern of uneven regional development, the creation of isolated residential areas due to inadequate public transport and community infrastructure, and the under-development of roads and other access links. Significant under-investment in the past also contributed to these problems. Over the next few years, Ireland will embark on an ambitious period of infrastructural development. Many billions of pounds will be spent on numerous projects in all parts of the country. To avoid the mistakes of the past, it is critical that these projects form a coherent whole.

5.1 National Spatial Development Strategy

The Council argues that the most effective way of improving infrastructural development is through the adoption of a more strategic focus to the planning and management of infrastructure. In this regard, the Council welcomes the recent announcement by the Minister for the Environment and Local Government that a national spatial strategy is to be prepared. However, the exact terms of reference for this proposed strategy have yet to be developed and it is not clear how comprehensive the proposed strategy will be. In the main NESc Strategy document, the Council outlines the case for what it calls a National Spatial Development Strategy (NSDS) and recommends that the Department of the Environment and Local Government use the NSDS as the basis for any proposed national spatial strategy.

A NSDS would provide an appropriate framework for the adoption of three core principles that should underpin all infrastructural development: (a) a comprehensive definition of objectives; (b) greater co-ordination and integration of investment decisions across all infrastructure sectors; and (c) a long-term approach to planning and development. The Council believes that the role of the NSDS would be to support land-use policy, regulate the growth of urban centres and their relationship with their rural hinterlands, assist with balanced regional development and co-ordinate the work of local, regional and national authorities. The NSDS could also form the basis for developing cross-border infrastructure links with Northern Ireland and would complement European initiatives in this area.

The Council recognises that a NSDS will take a number of years to develop and implement. The NSDS should not take away from the urgent infrastructure investment decisions that are currently being made in the context of the National Development Plan. While the National Development Plan will set the framework for investment decisions over the next six years, the NSDS would set the groundwork for spatial development over the long term. However, the preparation of a NSDS should not be a once-off exercise. The likely pace of demographic, social and economic change in future years demands that for a NSDS to remain relevant, it must be updated regularly. In this regard, the Council supports the decision to establish a dedicated unit within the Department of the Environment and Local Government to oversee the preparation and implementation of the proposed national spatial strategy.

5.2 Efficient Management and Use of Infrastructure

In addition to more integrated spatial planning, there is considerable scope for improving the efficient use of existing and planned infrastructure. Delays in the planning system have contributed to the bottlenecks in infrastructural development in Ireland.

The Government has recently initiated new planning legislation that aims to speed up the planning process by setting time limits and introducing stricter procedures for third party interventions. While the Council supports these changes, it recommends that the planning process be subject to regular review to ensure that it remains an effective tool for sustainable infrastructural development. Legislative changes also need to be backed up by the necessary resources, including staff, to implement them.

For projects of particular strategic importance, the Council favours the development of fast-track planning procedures but stresses that these procedures should still be open and transparent and be subject to an adequate number of controls and checks. The new planning legislation proposes the introduction of a limited fast-tracking procedure in the creation of Strategic Development Zones. However, there are no formal procedures for deciding *ex ante* how a site/zone may be judged to be of strategic importance. The Council recommends that some clearer guidelines be drawn up on how to identify high-priority projects whose faster implementation is of strategic importance to the national economy.

Efficiency could also be improved by opening up public sector provision of infrastructure to more competition or tendering out specific tasks to private sector companies. The competitive potential of infrastructure provision should be regularly reviewed so as to ensure efficient and cost-effective service outcomes. Efficient management of scarce infrastructure resources also requires that users be charged a price that more fully reflects the costs and benefits of using infrastructure. User charges are also justified on grounds of promoting sustainable development and on equity grounds, where certain groups are already charged for certain services while others are not. The Council recommends that market mechanisms for rationing infrastructure use should be introduced, including concessions that may be necessary to reduce the impact of charges on disadvantaged groups such as low-income users and people with disabilities.

Finally, an important source of efficiency is flexible management that focuses on finding solutions to problems and breaking down traditional barriers to their implementation. The Council believes that this type of ‘can-do’ attitude in improved service and provision can play a significant role in overcoming the infrastructural challenges that the country now faces. Indeed, as discussed in Chapter 11 of the main Strategy Report, this type of intangible quality is essential for policy-making in all sectors. It involves continued commitment to public sector reform, including the development of a culture supportive of joint working both within the public sector and between the public and private sectors.

5.3 Public Private Partnerships

The Council supports the introduction of a more widespread Public Private Partnership (PPP) programme in Ireland. The Council views the potential attainment of private sector efficiency gains as the principal benefit of PPPs. The success of PPPs would be enhanced by establishing a clear framework to assess the appropriateness of PPP for infrastructure projects and to guide its implementation. This framework should take into account the wider economic, social and environmental objectives that should be embedded in the assessment of any procurement method.

PPP projects should be conducted in an open and transparent manner. This would help to create a more certain environment for everyone involved, including the local communities that PPP projects are expected to serve. The benefits of PPP, in terms of innovation and efficiency, should not be limited to any one type of infrastructure. All of the recently-announced PPP pilot projects can be classified as economic infrastructure projects, although some pilot projects in the education sector have been promised for the future.

The Council recommends that the role of PPP in providing for social and community infrastructure should be more actively explored. For example, Chapter 10 of the main Strategy Report identifies social housing as a potential PPP pilot project. While the Council favours the wider use of PPPs, they cannot be seen as a panacea for infrastructural development in Ireland.

Not all projects are suitable for PPP development and it will take some time for both the public and private sectors in Ireland to develop the necessary skills and experience to maximise fully the benefits of PPP. Therefore, there should be no mandatory testing of infrastructure projects for PPP development. Finally, the Council emphasises that PPPs must respect overall sustainable budgetary parameters having regard, inter alia, to any budgetary costs that they may generate over the longer term.

6. Housing in a Changing Society

Housing is an important factor in the quality of life of the population and must therefore be considered a central issue for overall public policy. Moreover, housing problems raise questions for many other policy areas including land-use, investment, infrastructure, transport, the labour market, income maintenance, social inclusion, and the continuation of social partnership. For these reasons, national housing policy must be framed against a broad public policy background. Equally, decisions in other policy areas — particularly, land-use, investment, infrastructure, and the labour market — should take account of housing policy objectives.

There is continuing evidence of serious housing problems in Ireland. The 1990s have seen a dramatic escalation in house prices, putting home ownership beyond the reach of many people with reasonable incomes and driving rents to very high levels. This increase in house prices and in rents derives principally from an inadequate increase in the supply of accommodation to meet the exceptional and quite unforeseen rise in housing demand during the 1990s. Other problems include homelessness, lengthening waiting lists for public housing, the unsatisfactory quality of some rented accommodation in the private sector, and the deprived conditions on some large public housing estates.

6.1 Integrated Policy Measures

Although annual national house building has doubled since 1992, there is still a backlog of unsatisfied demand that remains to be met. The Council believes that an integrated package of policy measures that recognises the linkages between supply and demand for housing of various types of tenure is essential to address the legacy of this supply shortfall. Such an approach is also essential to alleviate the fears of those seeking housing that purchase prices and rents will continue to rise and that waiting periods for local authority housing will not diminish in the foreseeable future.

6.2 Recent Initiatives

In this regard several initiatives to increase the overall supply of housing have been taken over the past year. These are outlined in the main Strategy Report and include commitments in relation to spatial planning, housing densities, a Serviced Land Initiative (launched in 1998), a new Affordable Housing Scheme (launched in 1999), the announcement this year of a Local Authority programme to produce 22,000 houses over the next four years, and a commitment to support a substantial increase in voluntary housing activity. In addition, the recently-published 1999 Planning and Development Bill, the infrastructure element of the National Development Plan and the Commission on the Private Rental Sector are intended to have a substantial impact over the medium term.

The Council believes that these initiatives, if consistently pursued, will contribute to an adequate overall supply of housing over the next several years. This should have a calming effect on purchase prices and rents. The achievement of these objectives requires maintenance of the present high rate of house-building to expand the supply of housing across all tenures, which in turn depends on improvements in the planning system and expanded infrastructure. Under current conditions, priorities for housing policy are: a further increase in the provision of social housing; a substantial reduction in the time any person has to remain on a local authority waiting list; measures undertaken jointly by Health Boards and

local authorities to address homelessness; action to bring about a well-functioning rental sector that can address not only short-term but also long-term housing needs of families and individuals; and a sustainable level of private home ownership.

6.3 Recommendations

A rising population, skewed towards the household formation age cohorts, and inward migration will require the rate of private house-building to be sustained at current high levels to meet the high level of demand and to stop the upward spiral in private house prices. A National Spatial Development Strategy incorporating a co-ordinated approach to all infrastructure including housing would help to achieve a regionally balanced and more sustainable pattern of residential development.

The Council supports the construction of all housing in line with the Development Plan, Housing Strategy and Area Action Plans of each local authority, matched by contemporaneous investment in social, physical and transport infrastructure, and without the segregation of people of different social backgrounds characteristic of past approaches to the provision of social housing.

The Council supports a substantial increase in the rate of provision of social housing. One mechanism through which this could be achieved would be a greatly expanded voluntary and co-operative housing output. This would require a more streamlined planning system and also a more generous and flexible system of funding. A pilot project in the area of Public Private Partnerships in social housing should be undertaken. This would draw on lessons from the UK and possibly other countries.

The Council believes that a much larger and better-functioning rental sector in Ireland, in part through greater institutional involvement (voluntary as well as commercial) in this market, would make an important contribution to housing the population well, affordably and flexibly. This will require a modernised legal framework. In this regard the Council welcomes the establishment of the Commission on the Private Rental Sector.

On grounds of equity, the Council reiterates its previous recommendation for tenure-neutrality of public subsidies to different housing sectors (subsidies include mortgage interest relief, tenant purchase discounts and Supplementary Welfare Allowance rent supplement). The Council recommends a review of the operation of the tenant purchase scheme in the context of the objectives of overall housing policy and the context of rising house prices and construction and maintenance costs.

The Council recognises that homelessness is not exclusively a housing issue — often it involves health and social support elements which means the Health Boards and local authorities must work together and with voluntary organisations in its solution. The Council recommends that:

- local authorities be given ultimate responsibility for the local response while the Department of the Environment and Local Government retain national responsibility, but action must be in co-operation with Health Boards;
- a homelessness initiative, involving voluntary and statutory services must be undertaken in each health board area;
- the provision of emergency hostel accommodation be expanded recognising that about half of the existing such spaces are effectively long-term accommodation; and
- the necessary resources to fund 'a continuum of care' approach to homelessness be identified and ring-fenced for that purpose — a separate costing of the housing element and the support services elements should be made and the resources targeted accordingly.

The Council welcomes the implementation of the 1998 Housing (Traveller Accommodation) Act and recommends effective monitoring of progress towards the implementation of the local authority 5-year plans.

The Council supports the proposed amendment to the Building Regulations to make new houses accessible to disabled people. It calls for the implementation of this change with effect from January 2000.

The Council supports the development of a network of independent housing information and advice centres. It recognises that the location of a specialist service has to be limited to a small number of urban areas and recommends that these be supplemented by maximum use of information technology facilities including computer networks and call service facilities. The latter would provide information to locally based non-specialist advice centres and directly to individuals concerning housing options. An important element of the mandate of this service should be data gathering which would help the making of informed decisions, which are in their nature very long-term, across housing options.