Executive Summary
Introduction

Ireland’s economy in the early twenty-first century is in transition to a new phase in its development. A combination of factors in 2008 is creating a particularly difficult policy context in which to continue managing this transition. The vulnerabilities that are present must not distract attention from the policies and actions that matter most for economic prosperity and well-being in the long-term.

A deeper shared understanding of the transition the economy has to make, and of the economic and social policies that will support it in doing so, helps ensure that policy adjustments in the short-term do not damage the economy’s potential growth path. This transition is from a period of exceptionally rapid growth, turbo-charged in the second half of the 1990s by exports and in the early part of this decade by high levels of house-building; it is towards a period of robust but slower growth led by exports once again but with domestic demand remaining significant, and services exports from Irish-owned business as well as multinationals making a major contribution. This report presents the Council’s shared understanding of the changing structure of the Irish economy and of what that entails for the workforce and population.

Two overarching policy priorities arise out of the analysis:

- first, the need to fine tune some of the strategic investments in the National Development Plan, 2007-2013, and the social partnership agreement Towards 2016, elements of which need modification in the light of new information and understanding; and
- second, the need to manage a difficult transition for the economy during what is an uncertain conjuncture.

These policy priorities build on existing strategic approaches in the National Development Plan (NDP) and the partnership system. The NDP combines a programme for investment in physical infrastructure with critical investments to underpin enterprise performance, human capital, social infrastructure and social inclusion. The most fundamental proposition in the report is that investment across this spectrum must be maintained, even if economic conditions and revenue buoyancy worsen further. Any other approach would be to ignore the central thrust of the analysis – that skills and capabilities are the most important assets in an advanced modern economy. This is the context in which the Council proposes some fine tuning of strategic investments. Addressing the second policy priority – managing a difficult transition in a highly uncertain economic context – can be
aided by social partnership. The partnership approach, from its inception, aims to resolve difficult immediate issues not only in a cooperative fashion, but also in a way that is informed by strategic thinking and supportive of, rather than at the cost of, long-term economic and social success.

Globalisation and Climate Change

Long after the restoration of health to international credit markets and the crisis of 2008, the Irish economy and the EU economy will continue deep restructurings that, in the final analysis, arise because the global economy is having to ‘make room’ for the large populations of China, India, Brazil, Russia and elsewhere that have new productive capabilities and purchasing power.

The Council does not believe that globalisation must or should undermine the prosperity and social cohesion of advanced European countries. It takes confidence from the evidence that several of the European countries with the strongest competitive advantage in the world are countries with high levels of participation and effective systems of social protection, and whose populations are confident about globalisation. At the same time, NESC does not believe that globalisation automatically produces economic and social benefits. It can damage countries, social groups, individuals and the environment and can, ultimately, fuel conflict. It is mainly public governance (at national and international level), institutions and capabilities that determine whether the current phase of globalisation will have positive or negative effects.

Climate change also presents serious global risks and it demands an urgent global response. Addressing it will have far reaching economic and social effects. Ireland’s target for greenhouse gas emissions by 2020 is still to be finalised and will pose considerable challenges. The move to a low-carbon economy will also create many new economic opportunities and it is highly desirable that Ireland participates in what is increasingly seen as a ‘new industrial revolution’. A shift away from fossil fuels and towards renewable and efficient energy use will be a key characteristic of development in future decades. This is required both because of climate change and imbalance between the supply and demand for oil. The Council is soon to begin a separate study on ‘Sustainable Energy and Climate Change’ which will include policy recommendations.

The Future of Manufacturing (Chapter 3)

Manufacturing continues to have a key role in Ireland’s future economic development. However, the current wave of globalisation is profoundly affecting the types of activities that most characterise it.

Manufacturing in High-Cost Countries

Increasingly, tasks within global manufacturing supply chains are being traded internationally rather than completed products. The tasks offshored from higher cost countries like Ireland can include production itself, when based on routinised work. The tasks retained and expanded include R&D, design, logistics, marketing, after sales service and corporate financial functions. Considered in isolation,
moving business functions out of the Irish economy means the loss of the jobs and income arising from those activities. However, the remaining business functions may become stronger and new ones, with higher value-added, take the place of those that migrate.

The continuing development of Ireland’s high-tech manufacturing sector requires that multinational companies here continue to upgrade their Irish operations. This occurs particularly when they locate advanced functions – R&D, trials and testing, sales and marketing, supply chain management, corporate financial services – in Ireland.

Some indigenous companies, providing products no longer profitable to manufacture in a high-cost economy (e.g., electrical appliances and clothing), are prospering in Ireland because they have specialised in the higher value tasks (design, logistics and marketing) and offshored the lower value ones (production, assembly). Research to date suggests that the net effects of overseas direct investment for the companies practising it and the Irish economy are positive. For higher-wage, higher-skilled economies like Ireland, there are not really ‘sunset industries’ only ‘sunset activities’.

Yet, as demonstrated by the Expert Group on the Future of Manufacturing, rising costs – particularly for energy, waste-management, local authority and professional services – are seriously threatening the competitiveness of Irish manufacturing. While increased innovation and higher productivity are necessary for industry to thrive in a high-cost environment, escalating costs can shrink Ireland’s manufacturing sector.

Irish-Owned Industry

While productivity in Irish-owned industry is good by EU standards, the propensity to export is low. As noted by the Enterprise Strategy Group (2004), manufacturing in Ireland has significant expertise in operations and manufacturing but more limited capabilities in applied R&D and new product development and in sales and marketing. Growing more Irish-owned companies to a scale where they can invest adequately in R&D and marketing remains a major objective of policy.

This is particularly the case for Ireland’s largest indigenous manufacturing sector, the food industry. Rising food prices internationally, the continuing reform of the EU’s Common Agricultural Policy (CAP) and the changes being discussed for international trade in food at the World Trade Organisation (WTO) present opportunities and threats to Ireland’s food industry and agricultural sector. Their exposure to global market pressures and volatility could be significantly increased. It is important that the ‘European Model of Agriculture’ is not undermined and that the EU has a key role in ensuring that the process of globalisation is accompanied by sufficient international governance to achieve both stability and respect for social and environmental goals.

Innovation and Research

Innovation is key not just in high-tech manufacturing, but also in lower-tech sectors. Innovation is enabling some lower-tech firms to remain significant employers within manufacturing in Europe, and their prospects in Ireland are also reasonably promising.
Innovation is distinct from research but, in key instances, much more likely in the wake of research.

Ireland’s success in attracting foreign direct investment in the past two decades offset the need for a well-developed research infrastructure. The Strategy for Science, Technology and Innovation (SSTI) now aims to build this infrastructure in Ireland. In increasing funding for research, it is important to understand the different channels through which it can bring economic and social benefits. The SSTI needs to be monitored and adapted over time to ensure that the investment is yielding benefits and that there is increased innovation and new product development in enterprises. It will take several years for the benefits of this investment to be realised.

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

The Rise of Services (Chapter 4)

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

Services Employment

By 2006, services accounted for 71 per cent of total employment in the Irish economy. Ensuring that services employment continues to grow is now central to achieving Ireland’s economic potential. In this regard, it is important to recognise the close relationship between the employment level in services and the strength of the traded sector. Low international demand for Ireland’s exports will result in many more jobs being lost in the labour-intensive, non-traded, sectors of the economy – including public services – than in the traded sectors themselves. Furthermore, the impact of low growth is particularly negative for occupations that require relatively modest and easily-acquired skill sets, such as clerical and sales work. Thus, a competitive economy exporting on a large scale is particularly good news for lower-skilled workers in services and the public sector, while a slump in Ireland’s export trade hits them particularly hard.

Services Exports

Services have also accounted for a huge proportion of the growth in exports in recent years. In 2005, Ireland was the world’s 9th largest exporter of services and the single largest in two areas – ‘Computer and Information Services’ and ‘Insurance Services’. In a relatively short space of time, Ireland has become an attractive location from which multinationals serve their subsidiaries and customers across Europe and wider afield. There are several significant benefits when the composition of exports
shifts towards services: it stems deterioration in the terms of trade; given their low import content, services exports provide a bigger injection into the domestic economy than do exports of goods; service exports are, in general, more consistent with a low-carbon economy. The skills, competence and stability of people are critical in sustaining a successful service-intensive, small open economy.

Services in Domestic Demand and Well-Being
The Council endorses the view that, driven principally by unsustainably high levels of residential construction, the balance between domestic demand and net exports tilted too much in favour of the former in the first half of this decade, and that a re-invigoration of net exports is now required. At the same time, the crucial role of domestic demand in maintaining a high level of employment needs to be acknowledged. In addition, domestically-provided and consumed services have an indispensable role in enhancing well-being. So long as the balance of payments is not a binding constraint, circular flows in which people sell services to each other, and which are largely domestic, can be as generative of value, higher living standards and well-being as the circular flow in which manufactured goods are exported in exchange for imported goods.

Policy Implications
Software, financial and business services are high-value added, akin to high-tech manufacturing. There is potential for significantly higher foreign exchange earnings in services where opportunities hinge primarily on organisational and institutional innovations. Tourism has now been joined by other significant indigenous sectors exporting services, such as insurance, air travel and education. In addition, a widening set of service providers are realising that they are capable of operating in other countries because of what they have learned in and through serving the Irish domestic market.

Productivity in services: productivity in services is central to maintaining economic competitiveness and improving living standards. This applies not only to internationally traded services, but also to domestic market services and public services. In the public sector, the quality and speed of strategic decision-making and the quality and effectiveness of service delivery vitally affect national economic performance. It is critical that tax revenue is used efficiently to produce outcomes that improve the wider environment for business in order to ensure that the net impact of the public sector on international competitiveness is positive.

Innovation in services: Policy must recognise that innovation in services can result from processes that differ from innovation in manufacturing. The factors that are particularly important include user involvement and feedback, speed in seizing opportunities, multi-party dialogue, and advanced telecommunications, which includes access to high speed broadband on the part of SMEs and households. There is need for a step-change in Ireland’s ambition to have an economy and society in a position to reap the innovative and productivity-enhancing capabilities of ICT.
Innovation in public services and the wider not-for-profit sector can contribute directly to advancing core national objectives such as improving the quality of human settlement, containing urban sprawl, promoting healthy living, protecting the environment, developing an age-friendly society and enhancing social cohesion and social inclusion. Innovation in public services frequently entails deep change in organisational cultures that are risk-adverse and in which accountability is traditionally based on conformity in how inputs are used rather than on the outputs produced and their effectiveness in supporting the outcomes sought.

**Human capital and services:** The rise of services has major implications for human capital. It makes ‘soft’ or people-handling skills increasingly important requirements, alongside ‘hard’ skills and qualifications. Widespread services innovation requires the educational system to impart foundation skills, high levels of participation in first-time and further education, management and organizational cultures that value and competently guide innovation, and social policies that are seen to protect people while rewarding change.

**Regional Dynamism (Chapter 5)**

A traditional approach to regional policy, that viewed it as distributing the fruits of a successful national economic strategy, may need to shift to viewing it as constitutive of a successful national economy. The principal reason is that the scope for productivity enhancements and the potential for innovation in economies that are services-intensive and knowledge-intensive require dynamic urban regions.

**Agglomeration Effects**

A new emphasis is now placed on the way knowledge-intensive service activities benefit from features that can potentially arise in any high-density urban area. This is not clustering by sector, so much as the ability of concentrations of high-skilled and professional workers – employed across a diversity of sectors – to attract more such workers because they contribute to each other’s employment prospects and quality of life. Research suggests that the main reason for regional productivity differences are not to be found in differences in levels of educational attainment or public infrastructure endowments but in these agglomeration effects.

**Regional Developments within the State**

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

Ireland’s regions differ most in their employment structures. For example, 20 per cent of employment in the GDA in 2006 was accounted for by financial and other business services, significantly ahead of the South West with the next highest share at 11 per cent. The other regions, by contrast, had significantly higher shares of their total employment in construction, manufacturing and agriculture.
Perspectives on the Growth of the Greater Dublin Area

The most significant finding for Ireland in the OECD’s first global study of metropolitan regions is the inclusion of Dublin (OECD, 2006). Its recent and current dynamism emerge as impressive, even in the global context. This is despite the GDA not having a strong form of metropolitan governance and the emergence of significant congestion and other externalities.

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

Dublin can and must continue to be an engine of national economic growth; paraphrasing the OECD report, ‘it would be hard to imagine a strong national economy for Ireland without a thriving and innovative Dublin’ (OECD, 2006: 211). But the quality of spatial development in the GDA needs to be monitored and improved.

Perspectives on the Gateways

The National Spatial Strategy’s (NSS) aims to ensure that the potential of the GDA is fully realised and greater regional balance is achieved through development of the gateways. The gateways are key to addressing the vulnerabilities in the economic structures of the regions, namely the extent of their employment reliance on construction, manufacturing and, in some cases, agriculture. The development trajectory of each gateway will be shaped by the energy, vision and effectiveness of all the gateway actors working in concert to identify and harness their region’s economic assets. This will include exploiting the opportunities latent in each urban centre’s current pattern of connectedness with the global economy (building on its existing foreign investors, tourist profile, Irish diaspora, etc.), its proximity to a European/global metro-region (the GDA), and the commitment and readiness of the states’ development agencies and other public bodies to assist their urban centre in exercising gateway functions.

The development of governance frameworks that will allow key actors in the gateways to take coordinated and effective action together is, probably, the greatest and most urgent challenge facing the implementation of the NSS. Most important of all, the unique development trajectory of each gateway requires the local authorities who share responsibility for promoting it to co-ordinate their goals, strategies and actions. Currently, county loyalties can get precedence over strategic regional issues. A much stronger pooling of power and resources by local
authorities in the common interest of implementing a gateway development plan should go hand in hand with a recasting of regional structures.

A degree of false opposition between Dublin’s development and that of the other gateways can be created when developments in the latter are exclusively benchmarked against the former. Consolidation of the GDA as a metropolitan region in the global economy should lead to metrics that are unique by Irish standards, but a fair assessment of its performance and what it needs should be based on comparison with other European metro-regions – not, for example, Cork or Limerick. In a similar way, dynamic and balanced growth in the regions should be assessed primarily against standards they generate themselves of what is deemed attainable and compatible with their distinctive characters, while their gateways should be benchmarked against successful international cities of a scale to which they can realistically aspire.

The Economy of Rural Areas

The economy of rural Ireland need not be considered as endangered by the trends outlined in this report. In the first place, there are multiple ways in which larger and more affluent urban populations generate additional demand for rural goods and services. The challenge is to manage the economic activity this demand generates in a way that is sustainable and in the interest of year-long residents. In second place, the same ICT technologies that fuel agglomeration economies and urbanisation offer a new wave of opportunities in the on-going search to find sources of economic activity that compensate for declining employment in agriculture, forestry and fishing. Micro-enterprises and self-employed activities can be viable from rural locations where the quality of internet access enables rural service providers to interface as effectively with service users as any urban-based provider.

Supporting People in an Open Economy (Chapter 6)

A central theme of the Council’s work in recent years is that the inter-dependence between economic and social policy is critical in in the next stage of Ireland’s development: ‘in a globalised world, the strength of Ireland’s economy and the attractiveness of its society will rest on the same foundation – the human qualities of the people who participate in [each of] them’ (NESC, 2005: xxiii). Bringing this about will be the tri-partite achievement of Ireland’s educational system (beginning in the early years and serving people through their adult lives), its training system and labour market policies, and its social policies and welfare state. Measures that address the needs of the Ireland’s migrant population must be integral to improvements on each of these three fronts.

A landmark report from the Expert Group on Future Skills Needs (EGFSN), National Skills Strategy Research Report, sets objectives for education and training that, in being attained and when achieved, will have profound social and economic consequences. The Council wholly endorses its high ambitions and believes they need the widest possible ownership to be delivered on. The Council underscores the pivotal significance of two perspectives in particular: (i) educational success
is cumulative – for example, quality early childhood education improves school completion rates, raises the transfer rate to third level and increases the number of fourth-level researchers; (ii) many of the skills and qualities which enterprise needs for the new economy are skills for life as well as for the workplace.

**Education**

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

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

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

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

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

The EGFSN Research Report should lead to a clearly-articulated National Skills Strategy in consultation with all the relevant stakeholders. The Council urges the Inter-Departmental Committee to underline the need for coordinated action by the large number of actors – employers, training and education providers, unions, professional associations, regional bodies, the community and voluntary sector – without whose active and expert participation the required mobilization of the adult population, in particular of those with the lowest starting qualifications, is unlikely to take place.

It is important to protect workers rather than jobs. This implies three immediate elements: freedom for enterprises with developed technological and marketing capabilities to restructure, high levels of unemployment benefit during periods of job-search, and active labour market policies effective in helping people unable to find employment on their own. However, other factors are essential to ensure that these elements combine effectively – principally, systems for the retraining of workers and a range of services (childcare, public transport, health care, housing, etc.) on which people can rely, in or out of work, and which support their mobility and flexibility in employment. It is in ensuring these background conditions that Ireland, in particular, continues to have considerable ground to make up.

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

Social Policies and the Welfare State

The current downturn in the economy, rise in unemployment and fall in state revenues is not the time to doubt the core objective of the National Development Plan’s Social and Economic Participation Programme or withhold the resources necessary to implement it.

In order to foster the confidence and expectations of its clients and provide income support that is integrated with access to services in the context of progression pathways, the Department of Social and Family Affairs (DSFA) requires the wholehearted engagement of the principal service providers (FÁS, HSE, local authorities, VECs, HEIs and others). This demands that all organisations adopt the same positive vision and objective for social welfare recipients, but also clear and
effective procedures for their collaboration and positive incentives for the personnel who are critical to making it happen. It will also be important that the purchasing power of social welfare payments is protected so that recipients can co-operate and benefit fully from the profiling, personal attention and tailored pathways to which the DSFA is committed.

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

Managing a Difficult Transition and Uncertain Conjuncture (Chapter 7)

A combination of developments in 2008 created a more difficult policy context than has been experienced for many years. These include a global credit market contraction, greatly increased energy and commodity prices, a strong euro, a sharp contraction of the domestic construction sector and a definite weakening of current tax revenue. The fall in construction employment looms particularly large over the short-term outlook for the economy; largely because of it, there will be little if any net employment growth in 2008 and a rise in unemployment.

This uncertain current conjuncture makes it more difficult to continue managing the economy’s transition to a new phase in its development and underlines the continuing value of a consistent policy framework.

The relationships between the macro-economy, distribution and structural factors in 2008 and the coming years are more complex than have existed since the late 1980s. This creates a number of temptations that, if followed, would yield a deeply inconsistent policy approach. As outlined in Chapter 7, several of these would involve the repetition of policy mistakes made in past decades. Each neglects aspects of the interdependence underlined by the Council over recent decades – between the public and the private sectors, between the indigenous economy and the international economy, between the economy and society, and between the economic and the political. The Council believes that a shared strategic analysis can assist Irish policy actors in steering a prudent course through these risks.

Macro-Economic Policy

The Irish economy has experienced a loss of cost competitiveness in recent years, substantially exacerbated by the strength of the euro in 2008. Many general business costs are now relatively high in Ireland. In recent years, some loss of cost competitiveness was not in itself a problem for the economy, which grew strongly despite it and had continuing success in attracting high levels of inward investment. Relatively strong wage growth in Ireland, also, increased living standards and underpinned growth in domestic demand and employment in the services sector. However, future growth will need to have a stronger component of net exports so that further losses of cost competitiveness are likely to have greater effects on the economy than the experience to date.
In successive Strategy reports, the Council has agreed that the public finances must be managed in accordance with three principles: sustainability, stabilisation and the Stability and Growth Pact. Sustainability requires that the public finances are in a position to absorb the normal budgetary pressures that arise as well as the longer-term costs associated with the population ageing. Stabilisation means that policy needs to take account of the economic cycle and on no account should it be pro-cyclical.

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

- Capital investment should be maintained at the level of at least 5 per cent of GNP;
- Overall taxation should be set at a level that is consistent with a dynamic economy and to maintain a level of expenditure adequate to support economic and social development; and
- The management of the public finances should provide scope for current expenditure to invest in the services required in critical areas identified in Towards 2016, including making progress towards the services envisioned in the Developmental Welfare State and the delivery of the National Disability Strategy.

A critical concern is the efficiency, effectiveness and flexibility of the public sector. Quality and accountability in public services can be seen as central not only to maintaining a strategic direction in the medium-term, but also to managing the current difficult transition and uncertain current conjuncture.

**Distributional Policy**

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

The Council believes that collective bargaining remains appropriate, given the dynamics of wage-setting and the open nature of the Irish economy. Indeed, experience shows that the positive changes in employment relations can be combined with collective bargaining.
Structural Policy

Sustained investment in physical and social infrastructure is beginning to ease bottlenecks and further benefits can be expected. However, many supply-side challenges remain serious. In the next decades, the medium and long-term strength of the economy will depend not only on investment in infrastructure and scientific research, but also on a deepening of capabilities across a wide spectrum, greater participation, an infrastructure of care that improves both the quality of life and the ability to participate, internal as well as external connectivity, social inclusion, more social mobility, the successful handling of diversity including immigration, and high environmental standards not only in large manufacturing enterprises but also in a range of arenas influenced by the behaviour of thousands of households, farms and businesses.

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

Developing and Implementing Towards 2016

A central theme in the Council’s policy advice over the past two decades has been the importance of seeing interdependence between the economy and society. In developing the partnership perspective, it has always sought to place wage bargaining not only in the wider economic and policy context, but also in the context of the analysis and understandings that the partners bring to the wage bargaining process. Analysis of wage bargaining systems suggest that these understandings are as important as the degree of centralisation or decentralisation. In addressing ongoing public policy and wage bargaining issues, government and the social partners need to be able to rely on, and take into account, a set of inter-related developments and understandings. The medium-term perspective on the economy, and recognition of its dependence on effective social and skills policies, set out in this report, is one important element of that understanding.