Jobs Potential of the Services Sector

Forum Report No. 7

April 1995
Jobs Potential of the Services Sector

Forum Report No. 7

PUBLISHED BY THE NATIONAL ECONOMIC AND SOCIAL FORUM

Copies of this Report may be obtained from the:
GOVERNMENT PUBLICATIONS SALES OFFICE
Sun Alliance House, Molesworth Street, Dublin 2.

or

THE NATIONAL ECONOMIC AND SOCIAL FORUM
Centre Block, Government Buildings,
Upper Merrion Street, Dublin 2.

Price: £4.00
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Executive Summary</td>
<td>1</td>
</tr>
<tr>
<td>Section I</td>
<td>Introduction</td>
<td>5</td>
</tr>
<tr>
<td>Section II</td>
<td>Profile of the Services Sector</td>
<td>9</td>
</tr>
<tr>
<td>Section III</td>
<td>Future Potential of the Sector</td>
<td>21</td>
</tr>
<tr>
<td>Section IV</td>
<td>Barriers to Job Creation in the Sector</td>
<td>35</td>
</tr>
<tr>
<td>Section V</td>
<td>Conclusions and Recommendations</td>
<td>49</td>
</tr>
<tr>
<td>Annex</td>
<td>Terms of Reference and Constitution of the Forum</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>Membership of the Forum</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>Reports published to-date by the Forum</td>
<td>66</td>
</tr>
</tbody>
</table>
Executive Summary
Executive Summary

1. This is the latest in a series of Reports which the Forum is devoting to employment and unemployment issues. The services sector has been selected because this sector offers the greatest potential for net employment creation in the years ahead.

2. Section II profiles the nature and importance of the sector; the main points highlighted are:
   - services are a major determinant of our living standards, quality of life and overall economic competitiveness; the argument that the sector is less important than the "traded" sectors (i.e. industry and agriculture) is refuted;
   - the market services sector is relatively small compared to the EU average in both output and employment terms;
   - employment growth in services has been relatively poor compared to other countries, although this has improved significantly in recent years; and
   - the social economy which is a distinctive component of the sector.

3. Section III outlines and assesses a number of key factors which will influence the future potential of the services sector and their overall employment implications. The sector is expected to continue to be the main source of jobs but long-term unemployment will remain unacceptably high. This emphasises the need to target particular growth areas where a wide range of jobs can be created. In addition, there are many unmet needs in our society which can be delivered through the social economy; a number of policy approaches to developing its employment potential are assessed.

4. Section IV highlights the barriers to employment creation in the sector. While many of these barriers apply to other areas of the economy, they are of particular relevance to the services sector, given its high employment-intensity. The Reports of the Task Force on Services and of the Task Force on Small Business have already addressed many issues affecting job creation in the sector and, in the circumstances, this Section is limited to detailing a number of key issues in areas such as the overall competitiveness of the sector; the anti-employment bias of the taxation system and the differential treatment of manufacturing and services; compliance costs which are of particular concern.
to smaller firms which are predominantly in services; State aids/supports and the unbalanced treatment of services; lack of competition in some areas of the services sector; labour market flexibility; education and training, particularly the needs of the long-term unemployed; and barriers of specific relevance to the social economy.

5. Section V presents the Forum’s conclusions and recommendations. Drawing on the analysis in earlier Sections, there is an urgent need to re-assess policy towards the services sector; this should involve a number of key elements:-

- redressing the relative neglect of the sector;
- tackling the barriers/restrictive practices which inhibit employment growth; and
- measures to exploit the employment potential of newly emerging and unmet needs, including those that can best be delivered through the social economy.

6. The Report’s recommendations fall under the following policy headings:-

- Taxation including income tax, corporation tax and other issues;
- State Aids/Supports;
- Competition, Regulatory Framework and Competitiveness;
- Education and Training; and
- The Social Economy (including provision of child care services).

7. The Report concludes that a policy strategy should now be initiated by Government and implemented across all these areas in a concerted, integrated and determined manner. This would yield significant employment gains and, for this reason, resistance to individual elements of these recommended reforms should be overcome.
Section I

Introduction
Introduction

1.1 Under its terms of reference and constitution, the Forum is required to contribute to the formulation of a national consensus on major economic and social policy issues. A particular focus of its work is on job creation, obstacles to employment growth and the development of new initiatives to combat unemployment.

1.2 The present Report is the latest in a series of Reports which the Forum is devoting to employment and unemployment issues. Its first Report outlined a range of new policy initiatives, particularly on unemployment, and served as an input to the negotiations then underway between the Government and the Social Partners on the Programme for Competitiveness and Work. Its Report No. 4 on Long-term Unemployment endorsed the objective of “employment opportunities for all” and argued that the target of eliminating long-term unemployment was both necessary and feasible. To achieve this, the Forum emphasised the need, inter alia, for four supporting strategies:

- firstly, appropriate macroeconomic and structural policies to help create more sustainable employment and thereby reduce overall unemployment;
- secondly, an early identification and intervention strategy in the education sector so that young people leave school with qualifications and do not become the long-term unemployed of the future;
- thirdly, preventing people in the labour market from becoming long-term unemployed; and
- fourthly, getting the long-term unemployed and other similar groups back into employment through a combination of measures specifically targeted at these groups.

1.3 The Forum’s Report No. 4 dealt with the third and fourth strategies in detail and also addressed a number of issues underlying the second strategy. It was recognised, however, that implementation of these strategies would not, in themselves, be sufficient to meet the ambitious targets set and that it would be necessary to address the first strategy in greater detail in later Reports.

1.4 In the present Report, the Forum has decided to concentrate on the “Jobs Potential of the Services Sector” on the basis that this sector, in line with the experience internationally, offers the greatest potential for net employment
creation in this country. Indeed, one of the important conclusions from the Forum’s Plenary Session which was held on 25th October last was the general agreement reached by its Members that (i) the service sector is the area for net employment growth in the future and that (ii) this sector has up to now been relatively neglected in terms of policy and State support.

1.5 The services sector has, therefore, been selected for attention in this Report from the perspective of accelerating its growth and employment performance through more focused action on a number of key strategic policy issues. In addition to this, the Forum considers that there are a number of “new” areas of employment potential within the sector which remain to be more fully exploited. These could offer the prospect of further employment growth, particularly for the long-term unemployed and other groups, as well as addressing newly-emerging or unmet needs in our society.

1.6 The structure of the Report is as follows:-

- Section II outlines the nature and importance of the services sector and examines its relative employment performance and characteristics;
- Section III looks at the outlook for employment in the sector, highlighting the key factors which will influence its future development, with particular reference to new areas of employment potential;
- Section IV examines possible impediments to employment creation in the sector; and finally
- Section V sets out the Forum’s overall conclusions and policy recommendations.

1.7 Finally, the Forum wishes to record its appreciation to all those who presented papers and contributed to the preparation of this Report. A special word of thanks is due to Fitzpatrick Associates, Economic Consultants, for the study they undertook for the Forum at short notice.
Section II

Profile of the Services Sector
Profile of the Services Sector

Introduction

2.1 This Section outlines the role of the services sector in our economy. As a starting point, the sector is defined and classified. The nature and importance of the sector's role in the economy is highlighted. Its employment performance is also analysed and some of the characteristics of services sector employment are outlined. Finally, the nature and features of one part of the services sector which the Forum has a particular interest in – the social economy – are discussed.

Definition and Classification

2.2 There is no fully satisfactory definition of the services sector but the definition of a service as an output that is consumed at the moment of its production is frequently used. The sector is heterogeneous in nature and encompasses a very diverse set of economic activities, often having little in common other than the "intangible" nature of their outputs.

2.3 Given its level of diversity, sub-sectoral classifications are necessary for policy and analysis purposes. A wide range of sub-divisions is possible, generally based on the nature of supply and/or demand characteristics of the services involved. Common, albeit overlapping, distinctions include:-

- "market" and "non-market" services, referring to services which are bought and sold commercially and those which are distributed free of direct charge, usually by the State;

- "traded" and "non-traded" services, with most services traditionally regarded as non-traded, e.g. business and professional services, social and personal services etc. (but see paragraph 2.9 below regarding the rapid growth in trade in services);

- "public" and "private" sector services, although many contain a mixture of both e.g. postal services, transport, health and education; and

- "producer" and "consumer" services, the former generally provided to businesses and the latter to individuals and households.
2.4 Statisticians and economic analysts have sought to disaggregate economic activity on the basis of groupings of end-products as in the NACE classification which is outlined in Box 2.1. The NACE is a functionally-orientated classification which breaks economic activities into ten broad sub-divisions, four of which – trade and commerce, transport and communication, public administration and defence and other non-agricultural economic activity – are regarded as services.

Box 2.1

**Statistical Classification of Economic Subsectors**

*used by the Irish CSO (NACE)*

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Agriculture, Forestry, Fishing</td>
</tr>
<tr>
<td>Industry</td>
<td>Mining, quarrying and turf production, Manufacturing, Building and Construction, Electricity, Gas and Water</td>
</tr>
<tr>
<td>Services</td>
<td>Commerce, Insurance and Finance, Transport, Communications and Storage, Public Administration and Defence, Other non-agricultural economic activity</td>
</tr>
</tbody>
</table>

2.5 This statistical classification of services excludes both construction and utilities sectors which share many of the features of the services sector. However, the construction sector is an important part of the services sector and is treated as such in this Report (except for statistical purposes). In addition, the NACE does not take account of some unrecorded service activities which come under the term “the social economy” which is discussed later on in this Report.

**Nature and Importance of the Services Sector**

**The Nature of Services**

2.6 The services sector has a number of characteristics which distinguish it from the other sectors of the economy. Service firms tend to be more labour-intensive and the portion of output accounted for by wages is on average twice that of manufacturing. Labour productivity growth in services has lagged behind that of manufacturing – the share of services in Irish GDP rose much more slowly
than that of employment in the last two decades. However, and as is well documented elsewhere, the very rapid growth in labour productivity in the “modern” manufacturing sector during the 1980s is somewhat illusory while conventions for measuring service sector output may not adequately capture productivity growth. Service firms also have a relatively lower capital-intensity and a significantly higher degree of linkage with the rest of the economy than manufacturing firms.

Output and Trade

2.7 The services sector, as classified by NACE, is smaller in this country than in most other industrial countries. In Ireland, the output of this sector accounts for 55 per cent of GDP, compared to an EU average of 64 per cent. If the agricultural sector is excluded (which is still relatively large in Ireland’s case), services account for 59 per cent of GDP, but this is still well below the EU equivalent average of 66 per cent. In New Zealand – an economy which is similar in population size and GDP per capita to Ireland and also has a relatively large agricultural sector – output of the services sector accounts for almost two-thirds of GDP and over 70 per cent of non-agricultural GDP.

2.8 The relatively small services sector in Ireland is largely explained by the small size of the market services sector. Market services in this country account for just 39 per cent of GDP (the smallest share of all EU countries) compared to an EU average of 50 per cent. On the other hand, the share of the non-market sector is among the highest of all EU countries and above the EU average. Even if the agricultural sector is excluded, Ireland still has the smallest market services share and an above average non-market share.

2.9 Trade in services accounts for approximately one third of all global trade but has been growing faster than merchandise trade. The major components of growth are in sub-sectors such as transportation, financial services, education, tourism and business services. This trend is mirrored in Ireland where trade in services (both imports and exports) has grown more rapidly than merchandise trade over the last 10 years. However, and despite growth in net tourism revenues, this country now has a balance of payments deficit in services.

Importance of the Sector

2.10 Traditionally, services were looked upon as a residual, i.e. activities which were neither agricultural nor industrial. They were seen as largely a derivative of the other sectors of the economy and incapable of generating or sustaining

---

1 The distortions arising from transfer pricing have the effect of inflating both industrial output and GDP and may lead to an understatement of the services sector’s relative share.

economic growth in their own right. This stemmed from both the intangible and non-traded nature of services output. As services output is intangible, it was not thought of as production (like the physical output of goods in agriculture and manufacturing) but only in terms of consumption. This viewpoint is, however, not tenable. Services, like goods, are consumed for the benefit they provide and their price is a measure of their value. In this way, a service is no different from a good and contributes to overall welfare and living standards in the same way as the output of other sectors. In addition, many unmeasured services such as caring and work in the home are key determinants of the quality of life and are essential for the efficient functioning of the economic system.

2.11 More recently, it is the non-traded nature of services that has been relied upon to support the view that the sector was of lesser importance than other sectors. The traded sectors (agriculture and manufacturing) were seen as the key to faster economic growth (especially in the context of a small open economy like Ireland) as it was argued that their output was not constrained by domestic demand, unlike the output of the non-traded sector. On this basis, it was held that by expanding the output and exports of the traded sector, the economy would become richer and there would then be greater derived demand for services in the (dependent) non-traded sector. One difficulty with this approach is that with advances in technology and increasing internationalisation of services markets (see Section III), the classification of services as non-traded is somewhat misleading. More fundamentally, recent work\(^3\) has called into question the assumption that the output of the traded sector is not demand constrained.

2.12 The policy emphasis on the relative importance of the traded sector as opposed to the non-traded sector (i.e. services) is also questionable on other grounds. The traded sector relies on inputs from the non-traded sector (and vice versa) and it is therefore misleading to argue – as is frequently done – that one sector is dependent on the other. The sectors are interdependent. Moreover, and from the perspective of the competitiveness of the economy as a whole, the services sector plays a key role. For instance, a recent paper by O'Rourke\(^4\) argues that since the price of traded goods is set on the world market, improved competitiveness is brought about by reductions in the cost of domestic inputs. The most important determinant of Irish competitiveness and economic

---

\(^3\) See Paper by Dr. John Fingleton, "The Services Sector and Competition Policy", mimeo, Department of Economics, Trinity College Dublin, March 1995. In this Paper, Dr. Fingleton argues that extra exports are only of value if the revenue is needed for consumption of foreign goods and the output of the traded sector is, therefore, demand constrained.

performance lies, therefore, in the non-traded sectors as it is only the price of these products that are determined domestically. This has not been sufficiently taken into account for policy purposes, which up to now has tended to focus unduly on labour costs.

**Employment in Services**

**Composition**

2.13 In general, the more developed an economy is, the greater is the share of services employment. The sector accounts for two out of every three jobs in the OECD area, but there are significant variations across countries. In North America, services accounts for almost three out of every four jobs. At the other end of the scale, the services sector in Turkey employs barely one in three workers (see Table 2.1).

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
<th>Country</th>
<th>%</th>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>72.6</td>
<td>Norway</td>
<td>70.7</td>
<td>Ireland (2)</td>
<td>56.8</td>
</tr>
<tr>
<td>Switzerland</td>
<td>66.3</td>
<td>Italy</td>
<td>59.6</td>
<td>Portugal</td>
<td>55.6</td>
</tr>
<tr>
<td>Germany</td>
<td>58.5</td>
<td>Netherlands</td>
<td>69.1</td>
<td>Greece (2)</td>
<td>50.3</td>
</tr>
<tr>
<td>Japan (1)</td>
<td>58.5</td>
<td>Australia</td>
<td>71.0</td>
<td>Turkey</td>
<td>34.0</td>
</tr>
<tr>
<td>Canada</td>
<td>73.0</td>
<td>Sweden</td>
<td>70.1</td>
<td>North America</td>
<td>72.6</td>
</tr>
<tr>
<td>France</td>
<td>64.7</td>
<td>United Kingdom (1)</td>
<td>69.2</td>
<td>European Community</td>
<td>61.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>69.3</td>
<td>Finland</td>
<td>63.3</td>
<td>EFTA</td>
<td>65.3</td>
</tr>
<tr>
<td>Austria</td>
<td>56.6</td>
<td>New Zealand</td>
<td>66.2</td>
<td>Oceania</td>
<td>70.2</td>
</tr>
<tr>
<td>Denmark (2)</td>
<td>65.6</td>
<td>Spain</td>
<td>57.5</td>
<td>OECD</td>
<td>64.1</td>
</tr>
</tbody>
</table>

(1) 1990 census results (2) data refers to 1991.

1Countries are ranked according to their GDP per capita.


2.14 The large number of jobs in the wholesale and retail trade sectors, particularly in restaurants and hotels, explains some of the difference between employment shares in services in North America and Europe. However, an even greater part of the difference is accounted for by North America's higher share of total employment in the finance, real estate and business services sector (13 per cent) – where many jobs are high-skilled and well-paid. By contrast this subsector's share of total employment in both the European Union and Ireland is only 8¹/₂ per cent. Employment in the community, social and personal services
(an OECD definition which includes non-market or public service employment), makes up about a third of all employment in the US and Canada compared to the EU average of 29 per cent.

2.15 While the share of employment accounted for by services in Ireland is lower than the EU or OECD averages, it is in line, however, with what might be expected given our relative GDP per capita. If agricultural employment is excluded, this country has the same proportion (66 per cent) of people employed in services as the EU average. However, compared to New Zealand, the share of services in both total employment and non-agricultural employment in Ireland is a good deal lower (see graph below).

![Graph: Employment in Services and GDP per capita.](image)


2.16 Reflecting relative output shares, our share of employment in market services (about 33 per cent) is the second lowest in the EU, with only Portugal (27 per cent) having a smaller share. Non-market services account for one quarter of total employment in this country, which is among the highest in the EU, with only France and Denmark having higher shares.5 These features apply even if agricultural employment is excluded. However, employment in public administration and defence (a sub-sector of non-market services) accounts for almost 8 per cent of total employment in the EU compared to under 5 per cent in Ireland.

---

5 Eurostat, op cit.
Employment Performance

2.17 For many years, the services sector has been the only sector of substantial net employment growth in our economy. For example, in the 22 years to 1993, services employment increased by over 230,000 – more than compensating for the large decline in agricultural employment, (while industrial employment declined marginally) – with the result that overall employment here increased by 97,000.

2.18 As can be seen from Table 2.2 below, over the period 1971-1993 all services sub-sectors experienced growth in employment, though non-market services grew more rapidly, especially in the areas of health and education which almost doubled in size. The market services sub-sectors which showed the strongest growth were retail distribution, business services, professional services and hotels and catering, in line with trends internationally.

<table>
<thead>
<tr>
<th>TABLE 2.2</th>
<th>Employment change in Services</th>
<th>by main sub-sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1971–1993 (‘000’s) (%)</td>
<td>1986–1993 (‘000’s) (%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>236 51.8</td>
<td>82 13.4</td>
</tr>
<tr>
<td><strong>Market Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution – Wholesale</td>
<td>6 17.2</td>
<td>–1 –3.3</td>
</tr>
<tr>
<td>– Retail</td>
<td>29 26.4</td>
<td>21 17.9</td>
</tr>
<tr>
<td><strong>Business Services</strong></td>
<td>36 151.3</td>
<td>14 30.9</td>
</tr>
<tr>
<td>Transport, Comm. &amp; Storage</td>
<td>9 15.6</td>
<td>3 4.0</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td>23 73.9</td>
<td>9 19.0</td>
</tr>
<tr>
<td>Hotels, Restaurants &amp; Cafes</td>
<td>15 64.4</td>
<td>9 31.8</td>
</tr>
<tr>
<td><strong>Other Personal Services</strong></td>
<td>11 35.9</td>
<td>11 36.6</td>
</tr>
<tr>
<td><strong>Other Market Services</strong></td>
<td>13 123.0</td>
<td>3 13.3</td>
</tr>
<tr>
<td><strong>Non-Market Services</strong></td>
<td>92 72.6</td>
<td>13 6.1</td>
</tr>
<tr>
<td>Public Admin. &amp; Defence</td>
<td>18 37.1</td>
<td>–6 –8.3</td>
</tr>
<tr>
<td>Health</td>
<td>37 96.8</td>
<td>8 12.6</td>
</tr>
<tr>
<td>Education</td>
<td>37 93.0</td>
<td>10 15.6</td>
</tr>
</tbody>
</table>

2.19 Compared to other countries, an analysis done by the NESC\(^6\) found that over the period 1973 – 1990, the growth of services employment in this country was the third lowest of 16 OECD countries for which data were available. However, there was a significant variation as between the 1970s – when Ireland was ranked the sixth best performer of the countries examined – and the 1980s when Ireland had the lowest employment growth and when long-term unemployment increased very rapidly.

2.20 The contrast is less marked, however, for market services employment. In this area, the average rate of employment growth here over the same period (1973-1990) was in the middle range of EU countries, but it was significantly stronger in non-European OECD countries. However, this occurred against a background of a GDP growth (4.1 per cent) which was well above the average of EU (2.3 per cent) and OECD (2.7 per cent) countries. The Irish growth rate has, however, been much less employment-intensive, partly because of the strong contribution of the export sector, as against only modest increases in domestic demand (which, by its nature, is far more labour-intensive). Nevertheless, more rapid growth in service employment might still have been expected because of the general correlation between levels of income per capita and service sector employment.

2.21 However, Ireland’s relative employment performance in services has improved over recent years. Between 1990 and 1992, the contribution of services employment to total employment growth was among the highest in EU countries and above the EU average\(^7\). Services employment increased by over 13 per cent (or 82,000) between 1986 and 1993 (see Table 2.2), driven mainly by a strong expansion in market services areas such as retail distribution, business services and personal services. There was also some increase in public (or non-market) services, especially in areas such as health and education, although employment in public administration and defence declined.

Characteristics of Service Employment

2.22 The nature of employment in the services sector differs from other sectors. Service employment is characterised by considerable variation in wages and working conditions and by a number of important related features, most notably:-

- the role of women – 78 per cent of women in paid employment in Ireland in 1992 were employed in services, a pattern which is generally consistent across the EU, while 45 per cent of those employed in services in Ireland in 1990 were women, compared to an EU average of 48 per cent;


the importance of part-time employment – 11 per cent of employment in services was of a part-time nature in Ireland in 1990, compared to almost 30 per cent in the UK and an EU average of 18 per cent;

- temporary and self-employment – both are more evident in services than in industry, with most self-employed and employers being men; and

- trade union membership in the private sector is generally much lower than in industry, largely because of the predominant role small and medium-sized enterprises play in services.

The Social Economy

2.23 The “social economy” is concerned with meeting real demands which cannot be fully met by the market alone and are not provided by the public sector. It represents a continuum of delivery possibilities between fully commercial and public provision. In its Report No. 4, the Forum supported the thinking in the EU White Paper on the identification of the “social economy” as an area with employment potential in the services sector, particularly for the long-term unemployed. In this Paper, the EU Commission identifies new sources of jobs in local services, improvements in the quality of life and environmental protection which are emerging to meet new needs in society.

2.24 The determining factor in defining the social economy is the particular context within which it operates. In this regard, the primary features in the operation of the social economy are:-

- despite a genuine demand for particular goods and services within a local community, those who need them most do not have sufficient resources to pay for them at a viable rate;

- often the service is provided on a non-traded, non-commercial basis e.g. tidy towns, community associations etc.; and

- often it is a new service responding to social or environmental concerns where demographic patterns and the size of the potential market mean that these services cannot be provided commercially.

2.25 Activities within the social economy have a number of distinctive characteristics which set them apart from other service-type activities. These include:-

- a local focus – in terms of market, ownership and operation of the enterprise;

10 See the Paper "The Social Economy," by Mr. Niall Crowley, Forum Member, which was submitted to the Forum’s Employment and Economic Policy Committee, December, 1994.
an income focus, with priority given to the generation of adequate and sustainable levels of income for those involved;

- the pursuit of social, cultural and environmental goals with an emphasis on improving the quality of life; and

- different forms of organising economic activity (e.g. the distinct economic organisation within the Traveller community).

Conclusions

2.26 This Section of the Report has outlined the importance and role of the services sector in our economy. In this respect, the sector is a key determinant of our overall competitiveness as well as being vital for the well-being of our society, both in terms of living standards and quality of life. The nature of the sector and of a distinctive component, the social economy, as well as the characteristics of employment in the services sector have also been outlined. The relatively small size of the market services sector, both in output and employment terms, was noted and the below average employment performance of services in this country over the past 20 years has been highlighted. However, the sector has performed strongly in employment terms in more recent years and the focus of this Report is to accelerate this.
Section III

Future Potential of the Sector
Future Potential of the Sector

Introduction

3.1 This Section charts the evolution of the services sector into the next century. The starting point is an examination of the likely employment performance of the sector, based on the latest available economic forecasts. The implications of these for the overall employment/unemployment situation are then explored. A number of key factors likely to influence the future of the sector and their implications for various sub-sectors are then outlined. Finally, there is a more in-depth analysis of areas where there might be particular potential for an accelerated employment performance.

Employment Potential and Labour Market Developments

3.2 The ESRI's (April 1994) Medium-Term Review of the economy projects a strong economic performance over the medium term with rapid growth, low inflation and a healthy budgetary and balance of payments position. The ESRI's forecast for employment and unemployment is shown in Table 3.1.

3.3 It will be noted from this Table that services employment is expected to increase from just over 60 per cent of total employment in 1993 to 63 per cent in 2000 and to 66 per cent in 2005. The strongest growth in employment is forecast to take place in market services, compensating for a continuing decline in agricultural employment and slow growth in industry and non-market services. Some three-quarters of the increase in total employment is expected to occur in the market services sector, with virtually all of the increase accounted for by the services sector. Combined with slower growth in the labour force than recently experienced (due mainly to the dramatic fall in the birth rate from 1980 onwards), this results in a projected fall in the unemployment rate to 12.6 per cent (on a Labour Force Survey basis) by 2005.

3.4 These forecasts show clearly that the services sector and, in particular the market services sector, will remain the main source of employment growth over the next decade. However, total unemployment is still expected to remain unacceptably high at one-eighth of the labour force. More critically, as noted by the Forum with great concern in its Report No. 4, long-term unemployment would be no lower by the end of the decade than now, even on the basis of the optimistic scenario depicted by the ESRI. In fact, registered long-term unemployment is projected to amount to 132,000 by the year 2000 or almost 9
Table 3.1
ESRI Employment Projections

<table>
<thead>
<tr>
<th></th>
<th>Employment 1993 000’s</th>
<th>Average growth</th>
<th>Employment 2000 000’s</th>
<th>Average growth</th>
<th>Employment 2005(1) 000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td>144</td>
<td>-2.9</td>
<td>117</td>
<td>-3.7</td>
<td>97</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td>312</td>
<td>2.0</td>
<td>359</td>
<td>0.1</td>
<td>361</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>688</td>
<td>2.3</td>
<td>808</td>
<td>1.7</td>
<td>880</td>
</tr>
<tr>
<td><strong>Market Services</strong></td>
<td>473</td>
<td>2.4</td>
<td>559</td>
<td>2.1</td>
<td>620</td>
</tr>
<tr>
<td><strong>Non-market services</strong></td>
<td>215</td>
<td>2.1</td>
<td>249</td>
<td>0.9</td>
<td>260</td>
</tr>
<tr>
<td><strong>Total at work</strong></td>
<td>1,144</td>
<td>1.7</td>
<td>1,285</td>
<td>0.9</td>
<td>1,344</td>
</tr>
<tr>
<td><strong>Unemployment</strong></td>
<td>235</td>
<td>-2.3</td>
<td>200</td>
<td>-0.7</td>
<td>193</td>
</tr>
<tr>
<td><strong>Labour force</strong></td>
<td>1,379</td>
<td>1.1</td>
<td>1,484</td>
<td>0.7</td>
<td>1,537</td>
</tr>
<tr>
<td><strong>Unemployment rate</strong></td>
<td>17.0</td>
<td></td>
<td>13.4</td>
<td></td>
<td>12.6</td>
</tr>
<tr>
<td><strong>Services as % of total</strong></td>
<td>60.1</td>
<td></td>
<td>62.9</td>
<td></td>
<td>65.5</td>
</tr>
</tbody>
</table>

(1) Derived, components may not add because of rounding.


per cent of the labour force. As well as emphasising the critical need to take action along the lines recommended in that Report to provide positive labour market assistance to the long-term unemployed, this scenario also highlights the need for a greater acceleration in job creation.

Against this background, it is useful to ascertain what a more acceptable outcome would require in terms of job creation in the services sector. It is assumed here for illustrative purposes that full employment in an Irish context would correspond to an unemployment rate of 5 per cent allowing for the existence of frictional unemployment as people move between jobs. To achieve this by 2005 would require, for example, an annual growth of employment in the market services sector of some 3.8 per cent per annum (or an additional 116,000 jobs) compared to the 2.3 per cent for the period 1993 – 2005 projected by the ESRI.
3.6 On this basis and assuming that employment in other sectors evolved as per the ESRI projections, services employment would then account for 68 per cent of total employment. Of course, if employment in the market services sector were to expand at this rate, there would be significant implications for labour force participation rates and for migration (both emigration as well as immigration by returned emigrants) and the fall in unemployment would not, therefore, be as large. Thus, while the assumptions underpinning this “full employment” scenario are somewhat implausible, nevertheless, they are useful in providing an illustration of the scale of the employment and long-term unemployment challenge ahead.

Factors affecting the future of Services

3.7 It is clear from the foregoing that the relative importance of the services sector in employment terms will continue to increase into the next century. This essentially reflects increases in projected living standards. The extent to which this translates into increases in services output and employment will, of course, be determined in turn by the balance between personal savings and expenditure and social and recreational habits.

3.8 In this Section a number of general factors which will influence the sectoral pattern of growth and employment within the sector are analysed and their implications briefly assessed. The factors considered here – which are largely exogenous or international in nature – are as follows:

- technological developments and associated changes in the organisation of production;
- increasing internationalisation of services;
- environmental factors; and
- demographic factors.

Technology and Changes in Production Systems

3.9 A NESC Report\textsuperscript{1} emphasises that technological change will be the key driving force behind future economic growth and that successive waves of technological innovation have driven the world economy since the industrial revolution. The technologies and forms of production based on large plants and continuous-flow production lines came to an end in the 1970s and a new production model or “techno-economic paradigm” emerged based on microelectronics and bio-technology. The European Commission’s White Paper takes a similar view arguing that a new information society is emerging and

\textsuperscript{1} "The Irish Economy in a Comparative Institutional Perspective", NESC Report 05, December, 1992.
information technology will permeate every sector of the economy. This will bring major improvements in productivity in every sector, but especially in the services sector. A continued blurring in the distinctions between goods and services and an increasing need for European industry to make extensive and effective use of information technology are expected.

3.10 The move to this new paradigm will give rise to the replacement of large, specialised plants by more integrated plant systems where design, management, production and marketing are integrated. This will require a well-educated, multi-skilled workforce with competence in handling information technology. Individual responsibility will be greater as will be the need for continuous on-the-job training. Other implications for the organisation of production and work – which present both risks and opportunities – will include:-

- increased out-sourcing of non-core functions;
- continuing relocation of more traditional manufacturing industries to third world locations and Eastern Europe;
- the emergence of teleworking (i.e. working at home) because of improvements in communications and information technology;
- the emergence of new service activities arising from the effects of information and communication technologies in production, consumption and employment patterns; and
- an acceleration in the internationalisation of services which is discussed further below.

Internationalisation of Services

3.11 Traditionally, services have dominated domestic production and employment but have been under-represented in international trade. Two traditional barriers to trade in services have been the need for face-to-face contacts between service producers and consumers, and cultural barriers, including language. These barriers are now being eroded and several other factors are contributing to an acceleration in services trade:-

- the need for face-to-face contacts is declining because of improvements in communications, greater mobility of people and improvements in the provision of services;
- the standardisation of services products is diminishing cultural and linguistic barriers;
deregulation in areas such as telecommunications, transport and energy – driven by EU policies and, in some countries, by privatisation – is exposing hitherto protected services to more international competition;

- the services sector is now incorporated in the new GATT agreement; and
- this factor, together with economies of scale, are making size more important in service industries.

Environmental Issues

3.12 The environment is regarded increasingly as a global policy issue and will have a significant influence in the years ahead. Its integration with other sectors of economic and social activity has become the cornerstone of environment and development policy with the adoption of Agenda 21 at the 1992 UNCED Conference at Rio de Janeiro. Since then, this has become part of official EU policy with the adoption of the Fifth Environmental Action Programme, “Towards Sustainability”. It was also reflected in the EU White Paper which addressed the need for a “new development model” for the EU economy. Such a model would focus on ways in which economic growth could be promoted in a sustainable way with a higher intensity of employment and a lower intensity of natural resources consumption.

3.13 Acknowledgement of environmental issues has direct implications for job creation and competitiveness. It is now increasingly recognised that these issues are not confined to manufacturing alone but also embrace the services sector. The adoption of environmental considerations as a business goal can help ensure job retention and lead also to significant opportunities for job creation within existing businesses and services. Maintaining natural assets and addressing environmental damage is giving rise to significant job opportunities in areas such as the development of clean technologies, investigation of alternative energy sources, energy conservation (including insulation) and waste management including re-use, recycling and final disposal.

3.14 As well as creating direct job opportunities in these and related areas including innovation, research and environmental consultancy, environmental resource management has a direct influence on the potential for increased job opportunities in other sub-sectors of the services sector. The future of our food industry and the growth of employment opportunities in tourism (see below, paragraph 3.19) are dependent on the quality of the environment and a perceived clean green image. Through the adoption of environmentally-conscious policies and strategies right through these sectors, this country can gain a competitive advantage which will ensure the viability of employment in the long-term.
Demographic Factors

3.15 The ageing of the EU population, a feature of recent years, will continue over the medium term. In Ireland’s case, the age profile of our population is at least “a generation” younger than the EU average and it will not be until 2010 before population “greying” will occur. For the foreseeable future, a substantial fall in the dependency ratio in this country is foreseen as the number of young people falls dramatically. This will contribute to further increases in living standards which, in turn, will disproportionately favour the development of services and leisure-related activities. The falling numbers in the education sector will raise important resource allocation issues in this sector. In addition, increased demands on labour-intensive health and caring services will arise as the proportion of elderly people increases.

3.16 The number of women entering the labour force has increased dramatically\(^2\) in recent decades and this trend is likely to continue, given the below average female participation rates in this country. This has implications for job creation from two perspectives. Firstly, the demand for child care services, care for the elderly and household services will increase. Secondly, increased participation rates in the workforce by both parents in family households will lead to an increased availability of disposable income to pay for such services.

Sectoral Implications

3.17 The global forces discussed above present both threats and opportunities to the service sector in this country. Information technologies and increased trade in services in particular will open many traditionally non-traded activities to international competition. Outsourcing will become more commonplace. The demand for education, health care and other services will be affected by demographic changes and increased living standards. Environmental and energy concerns will give birth to a wide range of new services and technologies. The main implications of these factors at a sectoral level for business and consumer/personal services are outlined below.

3.18 The business sector will continue to be a source of employment expansion in the services sector. Among the areas identified by the Task Force on Services\(^3\) were software services, direct marketing and market research areas. In the software sector, for instance, it is estimated that employment will increase from the current level of 8,000 to about 20,000 by the year 2000.\(^4\) Business services

---

\(^2\) The number of women employed in the services sector increased by 98,000 between 1979 and 1993 compared to an increase of 34,000 for males. (Source: CSO, Annual Labour Force Survey).


such as accountancy and "lower order" services such as security and cleaning also have strong growth potential. Telemarketing and teleservices as well as the location of back office services in this country are also areas which are receiving attention from the relevant State agencies. The financial services sector has experienced rapid growth here in recent years, boosted by the establishment of the International Financial Services Centre in 1987. Additional areas of growth are likely to emerge in this sector.

3.19 The Task Force on Services identified a number of sectors in the consumer services area as presenting significant opportunities for growth. These include:

- tourism – Ireland has had one of Europe’s fastest growing tourism sectors since the late 1980s and this sector has potential to create significant numbers of new jobs, particularly in rural areas; factors such as EU enlargement, higher living standards, the growing shift from “sun lust” to “wander lust” tourism, and demographic changes (outlined earlier) should contribute to further growth in the decade ahead;

- education – demographic changes here may provide opportunities to exploit this country’s strong reputation in overseas markets and for consultancy projects offering the transfer of Irish educational experience to transitional and developing economies;

- cultural services and the arts5 with the development of the Irish film and music industries representing a good example of the possibilities; and

- personal services such as child-minding and leisure-related activities.

Areas of Particular Potential

3.20 There is increasing concern in many European countries that the influences on the evolution of the services sector into the next century – in particular the shift to a knowledge-based economy – will pose particular difficulties for persons of relatively low skill and educational levels. Many of the new growth areas in the services sector will require a highly educated, multi-skilled and flexible workforce. The Forum believes that this will pose a serious problem for this country, given the extent of our long-term unemployment problem. As documented in its Report No. 4, many of the long-term unemployed lack formal educational qualifications and tend to be concentrated in the low-skill areas.

---

5 According to the Report prepared by Coopers and Lybrand, "The Employment and Economic Significance of the Cultural Industries in Ireland", (October 1994), employment in the cultural sector amounts to a total of 33,800 people (21,500 on a full-time equivalent basis).
3.21 The ESRI forecasts outlined earlier show that despite strong growth in employment, and particularly in services employment, long-term unemployment is projected to remain unchanged. Implementation of the strategies recommended by the Forum in its Report No. 4 (comprising action to assist the long-term unemployed in the labour market through appropriate education, training and employment experience options supported by a comprehensive counselling and guidance system and the revamping of Community Employment to provide contract-type jobs) would do much to remedy this problem. However, these measures must also be reinforced by focusing on areas of employment growth in the services sector where a wide range of jobs can be created, including for the long-term unemployed. In the Forum’s Report No. 4, the social economy was identified as an area of potential job creation.

Meeting Unmet Needs, the Social Economy

3.22 The EU White Paper argues there are still many needs waiting to be satisfied in modern society and that the fulfilment of these may offer considerable employment potential. These needs stem from the forces identified earlier, including changes in demographic structures and in lifestyles. Despite rapid increases in living standards, there is a latent demand for improvements in the quality of life in areas such as the environment and leisure/cultural pursuits. There is also an unmet need for many local services, particularly in disadvantaged areas. Moreover, on-going changes such as the ageing of the population and increased female participation in the labour force will give rise to new needs. For instance, the ageing of the population in many European countries together with changes in family structures means that the number of dependent elderly people is going to increase more rapidly than the number of relatives to look after them. The increasing numbers working outside the home points to the emergence of a demand for services which will allow people to better combine working and parental responsibilities.

3.23 In a number of EU countries, most particularly Denmark, there is considerable interest among policy makers in the potential for increasing employment in the consumer or household services sector in areas such as home help, child care, repairs and maintenance to houses and cars which are at present largely carried out by people on a Do-It-Yourself (DIY) basis or in the black economy. There are considerable labour resources tied up in unpaid work in the home. For instance in Denmark it is estimated that time spent on unpaid work in the home made up about two-thirds of total time spent in the labour market for an average adult in 1987.
3.24 The European Commission estimates that up to 3 million jobs could be created in the European Union in the areas of local services, improvements in the quality of life and environmental protection. In a paper presented to the European Council meeting in Essen in December last, the Commission identified local initiatives in no less than 17 sectors or fields of activity (see box 3.1 below). The Commission estimates that employment in these areas has been expanding by between 4 and 7 per cent per annum compared to average growth in other service activities of only about 2½ per cent.

**BOX 3.1**

**Areas of Job Potential**

The following are the 17 Sectors which the Commission has identified:-

- Home services
- Child-minding
- Neighbourhood shops
- Counselling and assistance for young people
- Housing improvement
- Safety
- Local public transport
- Improvement of public areas in towns
- Tourism
- Television, etc.
- Cultural heritage
- Local cultural development
- Waste management
- Water industry
- Protection and maintenance of rural areas
- Regulation and control of pollution
- New information technologies

Source: Paper by the European Commission, “Action to turn growth into jobs” submitted to European Council Summit at Essen, on 9th and 10th December, 1994.

3.25 There is evidence in an Irish context of the job potential of some of these types of “social economy” activities. For instance, the pilot project\(^6\) of the Conference of Religious of Ireland (CORI) has created 1,000 jobs in a wide range of areas over a twelve-month period. These positions were created in both urban and rural areas across a diverse range of sectors including tourism, adult education, the arts, sport, child care and caring for the elderly. The increased numbers on

---

the Community Employment Programme in similar areas also points to the considerable employment potential in activities of a "social economy" nature.

3.26 The EU White Paper calls for a “new initiative” comprising measures to stimulate both demand and supply “thus creating a continuum of possibilities ranging from supply totally protected by public subsidies to totally competitive supply”. The possible measures include:-

- labour subsidies;
- concessions in the form of VAT exemptions;
- income tax deductibility of expenditure on services; and
- direct sales subsidies to “firms” in the sector (see Box 3.2 for hypothetical example in an Irish context).

BOX 3.2

Re-defining the concept of “Commercial Viability” in Disadvantaged Communities

Summary

The paper argues that one of the main difficulties facing local businesses in disadvantaged communities is that even if there is a demand for the good/service in question, members of the local community cannot afford to pay a commercial rate. A strategy to overcome this difficulty is advanced.

The specific measure proposed is the provision of a “price subsidy” which would be the difference between the cost of producing and selling the goods and services (in a well-managed and market driven enterprise) and the price that the local market could bear. For example, if the provision of child-minding costs £2.20 per child per hour but the local market could only sustain a viable number of customers at £1.75, then the supplier of the service would be subsidised at the rate of 45p per hour for providing the service.

Payment of subsidies would be retrospective and evidence that members of the local community were the primary consumers of the goods/services would be provided. In order to qualify, a majority of the employees in an enterprise would have to come from the local community. A ceiling on the level of subsidy would apply to ensure that the programme operated within budget constraints and could be tied to the numbers of previously unemployed local people working in the enterprise.

Source: Paper presented by Mr. Ciaran Byrne to the National Economic and Social Forum on 2nd November, 1994.
3.27 The effect of such measures would be to reduce the costs of these services, thereby generating an increase in demand. As these services are relatively labour-intensive, there would be an increase in employment and an associated fall in unemployment. An economic analysis carried out in Denmark\(^7\) shows that these gains could be very significant with a reduction in the unemployment rate of almost 5 percentage points predicted under one set of assumptions. There would also be other benefits including a reduction in black market activity and an increase in overall productivity and welfare in the economy. While there are costs involved (stemming from the financing of the subsidies), the Danish research shows that the benefits would exceed these.

3.28 There has been some limited experimentation with this type of approach in Denmark where a scheme, known as Home Service, was introduced in January 1994. This operates by subsidising household services from VAT-registered companies. These include cleaning, grocery shopping, cooking etc. The subsidy is payable to the companies carrying out the work, on the basis of vouched invoices. However, the scheme has been slow to take off despite a considerable amount of money being made available by the Danish Government to finance it. In part, this arises because of a lack of suppliers in the areas mentioned, as there had been no market for these services up to now. In addition, consumers have shown some reluctance to become involved as they have traditionally relied on personal contact for work of this nature. Despite these difficulties, the programme is likely to be made permanent.

3.29 Critics of the approach advocated in the EU White Paper and elsewhere argue that it represents a “second-best” way of tackling unemployment and cite the possible dangers of job displacement. Another criticism is that the benefits might accrue in the main to the better-off who would be better able to afford the cost of such services. They also argue that if the approach leads to increased taxation to finance interventions, there may be adverse effects on employment elsewhere. There are also practical problems, as evidenced by the difficulties of the Home Service scheme in getting off the ground in Denmark.

3.30 On balance, the Forum believes that the potential benefits in terms of employment and welfare of the approach advocated in the EU White Paper exceed the costs that are likely to arise. The co-existence of a sizeable black economy (between 5 and 10 per cent according to recent estimates\(^8\)) and large numbers of relatively low-skilled people who are unemployed, together with a limited market for these types of services, points to the potential for

---


\(^8\) See the Paper "Measuring the Size of Ireland's Black Economy", presented by Mr. Gabriel Fagan to the Statistical and Social Inquiry Society, on 7th October, 1993.
employment expansion through this approach. Higher living standards, environmental considerations and demographic factors such as increasing numbers of elderly people and women working outside the home will increase the demand for these types of services. However, the costs of financing support measures such as labour subsidies and employment programmes (over and above social welfare savings) need to be borne in mind. The development of the social economy also needs to be considered in tandem with public service employment policy to avoid possible displacement effects.

Conclusions

3.31 As is the case internationally, the services sector seems set to remain the most buoyant sector of our economy in employment terms into the next century. It will also be a dynamic sector where global forces will lead to significant changes in the nature of the sector and in the type of employment that will be generated. However, despite the likelihood of a strong employment creation performance from the sector, it is clear that unemployment and, in particular, long-term unemployment will remain unacceptably high. This emphasises the need to ensure that those areas where jobs can be created – while at the same time meeting demands for new services and unmet needs in our society – need to be better targeted and exploited. In this context, the potential of the social economy to create jobs has been particularly highlighted. In the next Section, the barriers to the development of these and other areas within the services sector are dealt with.
Section IV

Barriers to Job Creation in the Sector
Barriers to Job Creation in the Sector

Introduction

4.1 In the previous Section, it was noted that services is the main sector expected to create jobs in net terms over the next decade. However, despite this relatively strong performance, total unemployment and, in particular, long-term unemployment is projected to remain unacceptably high. A faster rate of growth in employment is, therefore, needed. This will involve exploiting more fully those areas where the potential exists for an accelerated employment performance and rigorously tackling those barriers restricting the employment potential of the services sector. In fact, many observers would argue that this is the more appropriate primary role for Government – tackling barriers to job creation – rather than that of trying to develop particular sub-sectors through grants, tax incentives etc.

4.2 The focus of this Section is, therefore, on barriers to employment creation in the services sector. As a starting point, it should be noted that many of these barriers are also relevant to other sectors of the economy, but the burden involved is much greater for the services sector, given its relatively high employment-intensity. Other barriers may only affect employment indirectly and their primary effect may be to limit the size or potential of the sector in output terms (in Section II, the relatively small size of the market services sector in this country was noted). In many cases, where a policy-related barrier exists, it may have arisen unintentionally as Governments sought to achieve other objectives such as the promotion of activity in another sector of the economy.

4.3 The recommendations in the Report of the Task Force on Services and those in the Report of the Task Force on Small Business address many issues affecting job creation in the services sector. The Forum understands that these recommendations are now being acted on by the Departments concerned and, in these circumstances, the policy issues considered in this Section of the Report are limited to:-

- the overall competitiveness of the services sector and its importance;
- taxation, including labour and corporation taxes and other specific tax issues, including the interaction of the taxation and social welfare systems;
- compliance costs;
- State aids/supports;
- the extent of competition in the sector;
- labour market flexibility;
- education and training; and
- barriers of specific relevance to the social economy.

**Competitiveness**

4.4 The competitiveness of the traded sector has long been regarded as the key to increasing growth (and in turn employment) in our economy. For the services sector, this has led to a concern with containing the costs of services inputs to firms in the traded sector. As the services sector was viewed as largely non-traded, the importance of it being competitive in its own right was rarely highlighted. However, with such a large proportion of consumption made up of services, the competitiveness and efficiency of services directly and increasingly impinge on our living standards. In addition, services are featuring more in trade and also in direct foreign investment. The competitiveness of the sector is, therefore, vital both in its own right as a producer of services for final consumption and trade and as a determinant of the overall competitiveness of the traded sector.

4.5 Competitiveness in this context is defined by the NESC\(^1\) (adopting the definition of the US Commission on industrial competitiveness in 1985) as “the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real income of its citizens”. The NESC has distinguished between short-term and long-term competitiveness, with the former essentially concerned with cost and wage competitiveness. These issues have already been addressed by the Forum in its Report No. 1. According to the NESC, long-term competitiveness relates to the ability to adopt and adapt to new technology or “technological and quality competitiveness”. Given the factors discussed in the previous Section, such as the changes in production methods and the shift to a new “techno-economic paradigm” and the importance of environmental considerations, it seems clear that in the future the competitiveness of the services sector will hinge on its ability to take advantage of new technologies particularly in the communications, information and environmental areas. This will involve ongoing pressures and challenges to innovate and use the most modern and effective technologies. Failure to achieve this would constitute a serious barrier to the growth of the sector and to realising its employment potential.

---
\(^1\) NESC Report '96, op. cit.
4.6 One assessment of the competitiveness of our economy is that compiled by the World Economic Forum in its annual World Competitiveness Report. This Report details the competitiveness ranking of countries based on eight factors of competitiveness (see Box 4.1) drawing on both statistical indicators of competitiveness and perceptions of senior business executives. In 1994, this country was ranked 19th of the 41 countries surveyed, 15th among OECD countries and 7th among EU countries (the UK was ranked 6th). As regards the specific competitiveness factors surveyed, our highest rank was in respect of domestic economic strength (8th) followed by internationalisation (11th). Our poorest rankings were in respect of government and infrastructure (both 23rd), both in the domain of the non-traded sector.

| BOX 4.1 |
| The Eight Factors of Competitiveness |

<table>
<thead>
<tr>
<th>Domestic Economic Strength</th>
<th>Internationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>macrorconomic evaluation of the</td>
<td>extent to which the</td>
</tr>
<tr>
<td>domestic economy overall</td>
<td>country participates in</td>
</tr>
<tr>
<td></td>
<td>international trade and</td>
</tr>
<tr>
<td></td>
<td>investment flows</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Science and Technology</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>scientific and</td>
<td>extent to which</td>
</tr>
<tr>
<td>technological capacity,</td>
<td>government policies are</td>
</tr>
<tr>
<td>together with the success</td>
<td>conducive to</td>
</tr>
<tr>
<td>of basic and applied</td>
<td>competitiveness</td>
</tr>
<tr>
<td>research</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>World Competitiveness</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>performance of capital</td>
</tr>
<tr>
<td></td>
<td>markets and quality of</td>
</tr>
<tr>
<td></td>
<td>financial services</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>extent to which enterprises are managed</td>
<td>extent to which resources and systems are adequate to serve the basic needs of business</td>
</tr>
<tr>
<td>in an innovative, profitable and responsible manner</td>
<td></td>
</tr>
</tbody>
</table>

Taxation Policy

4.7 The Culliton Report, the Report of the Task Force on Small Business and the Report of the Task Force on Jobs in Services all highlighted the negative impact of our tax code on employment. The Forum’s Report No.1 also highlighted the “anti-employment bias of our taxation and social insurance systems”. In relation to the services sector, there are a number of aspects of the present tax system which are of particular significance to the sector, because of its relatively high employment-intensity. These are:-

- employers PRSI – as a tax on labour, this acts as a disincentive to employment creation in all sectors of the economy to some extent; but given the labour-intensity of services it is a more serious problem in that sector;

- high marginal income tax rates – much concern has been expressed at the effects of high marginal rates of personal taxation applying at relatively low levels of income; for single persons earning the average industrial wage, the rate of income tax (48 per cent) payable combined with employee PRSI and other levies, implies a marginal tax rate close to 56 per cent;

- the tax wedge – the gap between gross labour costs for the employer and the net take-home pay by employees (see graph) which is recognised as a serious impediment to employment; and

- the interaction of the tax and social welfare systems – this interaction can cause serious distortions, particularly for those on low pay and act as a disincentive to work because of the existence of unemployment and poverty traps.

![The Tax Wedge](image)

Source: Department of Finance, forecast for 1995.
Corporation Tax

4.8 The NFSC has argued that the operation of the tax code has not resulted in neutrality between the services and manufacturing sectors and that "a significant source of non-neutrality results from the present structure of Corporation Tax." Only a limited number of services are eligible for the 10 per cent rate of Corporation Tax applying to manufacturing with most services and construction taxed at 10 per cent (reduced to 38 per cent in the 1995 Budget). Canada is the only other OECD country which distinguishes between manufacturing and services in respect of differential rates of corporation tax and, even there, the difference is quite small (at 5 per cent) and there is also a substantially reduced rate for small businesses. Many EU countries also have special rates for small businesses or tiered rates based on levels of profit.

4.9 This differential taxation treatment of the services and manufacturing sectors is perhaps the most obvious example of a policy bias towards the traded sector. However, the reduced Corporation Tax rate for manufacturing is widely regarded as one of the key elements in the range of incentives provided to attract foreign-owned firms to locate in this country. The policy intention has clearly not been to discriminate against services per se but to provide an incentive to manufacturing. Nevertheless, given the need to raise tax revenue from the corporate sector, the effect may have been to limit the size of the services sector and indirectly inhibit its employment performance.

Other Tax Issues

4.10 There are a number of other taxation issues of relevance to the self-employed and "small" businesses (both of which are largely in services) which place considerable burdens on firms and have the effect of discouraging enterprise and restricting output and employment. These costs, which may also contribute to unfair competition from the black economy, include:

- the treatment of the self-employed relative to the PAYE sector for income tax purposes;
- withholding tax procedures - the deduction of this tax from payments by State bodies to private firms for professional services disrupts the cash flow of the firms concerned; this regulation does not apply to manufacturing firms and, in addition, the requirement for firms dealing
with the public sector to produce tax-clearance certificates effectively removes the raison d'être of withholding tax;

- the very significant increase in the VAT burden for many services over the past decade; in some cases the VAT rate has jumped from zero to 21 per cent; and

- VAT collection procedures – the current system of collecting VAT on an invoice basis before firms receive payment from customers poses serious problems for many firms and is biased in favour of the Exchequer's revenue position.

**Compliance Costs**

4.11 Considerable attention has been paid of late to the administrative burden placed on enterprise by the State. This is particularly onerous on small firms, (80 per cent of which are in services) absorbing relatively greater resources of time and energy than is the case for larger firms. The primary area where administrative burdens impact negatively on services firms is that of taxation and social insurance. These burdens include reporting requirements for VAT, PAYE, PRSI, Corporation tax, disability benefit and so forth. Other areas include red tape, incorporation costs and the requirement to send statistical returns to the CSO. The Report of the Task Force on Small Businesses identified a number of key characteristics of this paperwork burden which could constitute barriers to development and employment growth in the small business sector including:

- unnecessary reporting requirements;
- excessively low thresholds below which the reporting burden is less severe or does not apply;
- excessive frequency and complexity of required reporting; and
- duplication in reporting requirements with respect to different Government Departments.

4.12 A recent OECD Report⁴ identified three types of compliance costs: money costs (e.g. payments to advisers), time costs and psychological costs. This Report showed that the mean compliance costs for PAYE and social security contributions for Irish firms with less than 25 employees represented about 4 per cent of the tax paid in 1986, compared with only 0.9 per cent for firms employing more than 400. Most small service firms, however, have considerably less than 25 employees. A New Zealand study shows mean compliance costs for PAYE alone as 17.5 per cent when there are 1-2 employees compared to 2.0 per cent for 3-50 employees and 0.05 per cent when there are over 500 employees. It is clear, therefore, that compliance costs can be significant for smaller firms and may adversely affect their competitiveness.

---

State Aids/Supports

4.13 The area of State aids is one which is also characterised by unbalanced treatment as between the services and manufacturing sectors. At present the range of assistance provided by the State’s Development Agencies are mainly available only to the manufacturing sector, although since 1981 a limited range of services sub-sectors have become eligible for certain assistance (see Box 4.2). Essentially, these are limited to services firms which are providing “international services” i.e. firms which are export-oriented. This requirement is quite stringent and to qualify for support, a firm must be either 100 per cent export-based or be deriving (or capable of deriving) at least 50 per cent of sales revenue from export markets and have plans for further export expansion.

BOX 4.2
International Services Designated for Assistance from State Agencies, 1994

Software Development
Data Processing
Technical and Consulting Services
Commercial Laboratory Services
Media Services
Training Services
Administrative Headquarters Services
Research and Development Services
Publishing Services
International Financial Services
Healthcare Services

1Eligible for 10% corporation tax

Source: Paper presented to the Plenary Session of the Forum on 25th October, 1994 by Mr. John Travers, Chief Executive, Forfis.

4.14 These restrictions greatly limit the number of services firms who qualify for assistance and are questionable against the background of a blurring of the distinction between goods and services in certain instances. This distinction can lead to a tangle of policy contradictions e.g. foreign-owned companies can receive grant assistance to locate research and development (R&D) facilities here associated with their manufacturing plants, but an indigenous Irish company setting up the same R&D facilities to provide a service to that foreign-owned company is not eligible for assistance as a non-traded service activity.
4.15 The extent to which lack of State aids represents a barrier to the services sector is unclear. While the current policy stance clearly favours the manufacturing sector, many of the supports available (capital grants etc.) may not, in any case, be appropriate to the services sector. In addition, it is acknowledged that the provision of the full range of State supports to the services sector would give rise to potentially serious displacement as well as deadweight difficulties. This problem is much less likely to arise in the case of the manufacturing sector, although at international level, State support does result in displacement effects between countries and can lead to costly competitive outbidding for foreign investment.

**Competition**

4.16 The claim that the absence of competition in many areas of the services sector constitutes a barrier to output and employment in the economy is one which is becoming increasingly prevalent. This argument is essentially that barriers to entry, restrictive practices, planning regulations, licensing requirements or the existence of artificial monopolies may have the effect of restricting output and consumer choice, raising prices and restricting employment creation. These barriers may be imposed by professional associations or by Government licensing requirements. Examples which have been advanced by observers in an Irish context include:-

- services such as taxis and pubs where a limited number of licences is made available;
- professions where representative bodies restrict entry;
- services, such as banking and insurance, where lack of competition may impose excessive costs on other sectors; and
- certain services provided by the State or by semi-State companies where a monopoly producer exists such as postal and telecommunications services; however, in some cases there may be a “natural” monopoly where economies of scale may mean that it is more efficient to have one producer.

4.17 Recent work undertaken, both internationally and in this country, has highlighted the potential significance of these issues for employment in the services sector. For example, a study by McKinsey & Company, Inc.⁵ found that product market restrictions (i.e. absence of competition) were probably more important than labour market restrictions in explaining why job creation in Europe was below that in the US, particularly in the services and construction sectors. In this country, the paper by O’Rourke cited earlier in Section II argues

---

that the official policy of favouring the traded sector of the economy (i.e., largely the manufacturing and agricultural sectors) at the expense of the non-traded sector (i.e., largely services) has been misplaced. He argues that as the price of traded goods are set in world markets and are not open to domestic influence, the crucial determinant of Ireland’s competitiveness and economic performance is the efficiency of the non-traded sector. In his view, there are strong grounds for suspecting that concentration or lack of competition may be a problem in much of the non-traded sector in this country. This leads to a consideration of how the efficiency of that sector might be improved through the wider application of competition which O’Rourke sees as the major way the Government can improve its efficiency and increase employment.

**Labour Market Flexibility**

4.18 The increasing importance of the services sector and of changes in technology highlight the need for increased labour market flexibility. Put another way, if labour markets are inflexible, they may restrict the employment potential of the sector. The EU White Paper highlights the need for “double flexibility” in the labour market in respect of:-

- *external flexibility* which focuses on means to help unemployed people to get jobs and is concerned with issues such as increasing geographical mobility and vocational training; and

- *internal flexibility* which is concerned with flexibility within the firm through measures such as staff versatility, flexible working hours, investment in human resources etc. and may be particularly appropriate in the case of services.

**Education and Training**

4.19 The successful adoption of new technologies will require a labour force which is innovative, highly flexible, has a high level of general education, and which possesses good basic skills in handling information technology. This has considerable implications for this country’s education and training systems, which can make a major positive contribution to innovation and employment growth in the services sector, but which could equally act as a serious barrier unless appropriate steps are taken to address weaknesses in this area.

4.20 It is generally accepted that, for individuals, education is strongly related to labour market success. As has already been documented in the Forum’s Report No. 4, the long-term unemployed in general tend to have a particularly poor education and skills profile. Given the increasing importance of technology, especially in the services sector and the education profile which the use of
technology requires, the present level of education and training of the vast majority of those who are unemployed and of early school leavers is inadequate. This has created a two-tier society, while at the same time greatly curtailing the potential labour supply for services. The Forum’s Report No. 4 proposed a package of measures to address these difficulties.

4.21 The Culliton Report noted that the incidence of formal off-the-job training is significantly lower here than in more advanced economies and that the duration of such training is also significantly shorter. In addition, as noted in NESC Report 96\(^6\), there is an imbalance in FÁS provision with a number of training programmes not available to service sector companies. As the skill requirements of jobs in the services sector are likely to become significantly more advanced, the importance of continuous career training will increase. Failure to adapt training policies appropriately would constitute a serious barrier to employment growth in services.

4.22 Another serious barrier to trade, growth and employment in services is the poor level of foreign language skills. In the EU, Ireland ranks last in terms of foreign language capabilities. Although this can cause problems for manufacturing, its impact on services employment is potentially greater. International trade in services generally requires foreign language contacts which are frequent and take place between non-specialists, whereas in manufacturing contact is infrequent and can largely be handled by specialists. Basic learning of modern continental European languages will become increasingly necessary across a whole range of service occupations, especially those involving contact with customers of other EU Member States. Furthermore, it is clear that personnel with competence in non-European languages such as Japanese possess vital skills which greatly enhance their own employment prospects as well as the potential of the services sector.

**Barriers to the Social Economy**

4.23 In the previous Section, the role played by the social economy and its potential to create more jobs (especially for the long-term unemployed) while simultaneously meeting important needs in our society (which cannot be met adequately through private or public provision) were emphasised. However, there are substantial barriers to the development of the social economy, including some of those discussed earlier on in this Section of the Report. The EU White Paper identified the key demand-side difficulty of price (i.e. people who need the services cannot afford them) and the supply-side problem that jobs in the sector are often perceived to be synonymous with unskilled or semi-
skilled work. The point was also made earlier in this Report that many of the services involved are currently carried out by people in their own homes or in the black economy. Other barriers include:

- low levels of investment and difficulty of getting access to finance;
- the very high effective “tax wedge” on some of the services resulting from a combination of taxes on labour (i.e. income tax and PRSI) and VAT rates; in effect these jobs have been priced out of the market by the taxation system;
- the tendency for consumers to rely on word-of-mouth contacts for services of this nature;
- the high non-wage costs of jobs, particularly low-paid jobs;
- the often intermittent nature of the activity carried out;
- the fragmented and limited access to the full range of official supports and mainstream programmes and the absence of decentralised, well-resourced local Government structures compared to other countries;
- the inability of the tax and social welfare systems to adapt to employment patterns in the sector; and
- the failure to use social welfare resources in a more pro-active way.

4.24 In short, these barriers largely result from the non-recognition of the social economy for public policy purposes and from a failure to recognise more fully new forms of employment. In the absence of such recognition, the particular problems facing these activities are rarely highlighted – much less addressed – in official fora.

Conclusions

4.25 Despite some relaxation in recent years, there are significant barriers which need to be addressed if the employment potential of the services sector is to be more fully exploited. These include the less favourable treatment of the services sector as regards taxation and other State supports, as well as the lack of an effective competition policy in certain areas. There is also limited recognition of the value and potential for job creation in areas such as the social economy and environmental resource management. Given the importance of the services sector for overall competitiveness and the fact that it is the only sector likely to create employment, both on the scale and diversity of skills required to deal with our unemployment and, in particular our long-term unemployment problem, this approach needs to be re-assessed.
Section V

Conclusions and Recommendations
Conclusions and Recommendations

Introduction

5.1 In the Forum's view, there is an urgent need to re-assess policy towards the services sector. This is based on a number of key considerations which stem from the analysis in the earlier Sections of this Report:

- the fact that the services sector is and will continue to be the principal contributor to net employment creation means that it should be better targeted if the scale and nature of this country's unemployment, and particularly long-term unemployment, problem is to be more decisively addressed;

- present policies for the services sector need to be adapted to exploit the potential of new areas and forms of employment particularly in the "social economy";

- the need to take account of the new development model outlined in the EU White Paper (see paragraph 3.12) which would offer society a better quality of life with reduced pressures on environmental resources;

- the increasing importance of the services sector for overall competitiveness and living standards and the need to strengthen the capacity of indigenous service firms calls for a thorough re-assessment of the underlying policy approach to the non-traded sector in this country; and

- the distinctions between some services and manufacturing sectors have become increasingly blurred (not least because more service activities are now exposed to foreign competition) and can no longer be relied on to differentiate between the two sectors.

5.2 In some cases, policy is not neutral in its treatment of the services sector for example in the areas of taxation and State aids. In other instances, what is at issue is a failure to adapt systems and policies to the services sector in areas such as education, training and competition. There is some evidence of a change in official thinking towards the services sector as evidenced, inter alia, by the Reports of the Task Forces on Services and Small Business. However, the Forum's view is that significant further changes in attitude and policy are
required if the employment potential of the sector is to be realised. Such a change in policy should involve a number of elements:

- redressing the relative neglect of the sector;
- action to tackle the barriers and restrictive practices which inhibit employment growth in the sector; and
- measures to exploit the employment potential of newly-emerging or unmet needs, including those that can best be delivered through the "social economy".

5.3 In the following paragraphs, the Forum sets out its recommendations under each of the main headings involved. At the outset, it wishes to emphasise the importance of aiming for good quality jobs and of ensuring that State regulations on health, safety and Joint Labour Committee pay rates are effectively enforced.

**Taxation**

5.4 In the last Section, a number of aspects of the tax system which impede employment creation in the services sector were highlighted. Some of the issues raised such as PRSI burdens, high marginal tax rates at relatively low income levels and the interaction between the tax and social welfare systems are, of course, barriers to employment generally and are not specific to the services sector alone. Nevertheless, they are of particular relevance given the labour-intensity of this sector and its employment-creation potential. On the other hand, the treatment of the sector for Corporation Profits tax is a specific issue of relevance to the services sector.

5.5 In framing recommendations in this area, the Forum wishes to make clear its understanding of the constraints which face policy makers. Firstly, there are significant budgetary constraints and the Forum (in its first Report) has already recognised the need to keep overall Government borrowing within the Maastricht Treaty limits. The Forum also recognised in that Report that there was little scope for overall reductions in the tax burden. In addition, there are other important considerations in some areas arising from competition for foreign investment and legal commitments.

5.6 While recognising these constraints, and the associated need to control public expenditure, the Forum believes that some further reforms of our taxation system are necessary if the services sector is to create jobs on the scale required. The Forum’s main concern is – to repeat what is stated in its first Report – “to decisively alter the anti-employment bias of our taxation and social insurance systems”. Against that background, and in the interests of moving forward from
the present ad hoc and piecemeal adjustments made each year at budget time. The Forum recommends that a medium-term tax strategy should be put in place, with more clearly defined targets, over the next few years in the areas of:

(i) Income tax

In line with strategies advocated by the EU and OECD, the aim here should be the further reduction of the tax wedge at low income levels through reductions in income tax and PRSI burdens, including greater integration between the tax and social welfare systems¹, for the purpose of ensuring that:

- there is a greater incentive to take up employment for social welfare recipients; and
- increasing employer demand, especially for relatively low-skilled labour.

(ii) Corporation tax

In the short to medium term, consideration should be given to a number of steps such as:

- a selective and lower tax regime for certain designated labour-intensive services; and
- an extension of the lower 10 per cent rate to a wider range of internationally traded services with proven employment potential.

(iii) Other taxation issues

Many of the other taxation issues raised in Section IV also need attention. While these represent barriers to the services sector, their effect on employment is more indirect than that of the priority tax issues identified above. Nevertheless, they should be addressed as circumstances permit. These include:

- the relative treatment of the self-employed and the PAYE sector for income tax purposes;
- the treatment of the services sector for withholding tax purposes;
- alleviating compliance costs particularly for smaller firms;
- maintenance of the reduced VAT rate (12½ per cent) for certain labour-intensive services; and
- simplification of VAT collection procedures (which pose particular problems for the services sector).

¹ The Forum would like to be consulted when the Expert Group publishes its Report on these issues later this year.
State Aids/Supports

5.7 The imbalance between the range of State aids available to the manufacturing and services sectors has already been highlighted, but there are other constraints which also have to be recognised. The strength of competition from other countries for direct foreign investment is the most obvious one and this limits the extent to which financial-aid in the form of grants etc. to the manufacturing and internationally traded sectors can be curtailed if the objective is to achieve a more balanced treatment of all sectors. Many of the State aids may not be appropriate to the services sector and, in any event, it is not feasible to extend the whole range of State supports to the entire services sector. This would be prohibitively expensive and would give rise to displacement and deadweight problems. With these constraints in mind, the Forum's recommendations in this area are as follows:

- as recommended in the Culliton Report, Ireland should actively promote the case for more effective EU restrictions on State aids and the policy of easing reliance on capital grants should be continued;

- State advisory, marketing and technical services in areas such as enterprise development should be made more fully available as appropriate to firms in all sectors;

- in particular, the services of the Trade Board should be made more available to the services sector, with the Board developing specialist packages in areas of potential export growth such as education, health and consultancy;

- international certification of standards for education and health services should be established for this purpose; e.g. accreditation of institutions providing English language teaching here;

- an integrated package of measures to attract international services investment, particularly of R&D and headquarters staff of foreign companies already located here; and

- encouragement for firms involved in import substitution activities and in improving linkages between foreign-owned companies here and domestically-provided services.

Competition, Regulatory Framework and Competitiveness

5.8 The analysis in the earlier Sections of this Report has highlighted the significance of product market restrictions as a barrier to employment creation
in the services sector and the importance of competition in the sector as well as the burden imposed by State regulatory requirements. Policies to promote competition may be the most effective way for Government to improve the competitiveness of both the traded and non-traded sectors of the economy and could yield significant overall employment gains. Against this background, the Forum recommends that a strategy to ensure greater competition should be applied throughout the services sector comprising the following elements:-

- the elimination of barriers to entry which cannot be justified on public safety or "common good" grounds;
- having regard to the "common good", the Government should seek to avoid artificial national or local monopolies in the public or private sectors and ensure that there is no abuse of dominant market position or involvement in ancillary business where there is no evident market failure;
- the proposed strengthening of the powers of the Competition Authority to give it investigative and enforcement powers should be proceeded with as soon as possible, including provision for stiff court penalties for offending firms;
- sufficient resources should be made available to the Authority to discharge these new functions;
- establishment of consumer charters, performance indicators etc. for all public services and State companies as advocated in the Forum’s Report No. 6 on the "Quality Delivery of Social Services"; and
- in the area of regulation, every effort should be made to ease compliance/administrative burdens on services firms and small businesses along the lines recommended in the Task Force on Small Business.

5.9 Competitive advantage is essential to the future growth and job potential of the services sector and will hinge on the sector’s ability to successfully adopt new technologies as well as adapting to rapidly changing consumer preferences. Measures required to improve competitiveness, in addition to those outlined above, include the creation of an environmentally aware business community. Given the growing importance of environmental considerations discussed earlier, (see paragraphs 3.12-3.14) there will be a need to better incorporate environmental considerations into national and sectoral policies from a competitiveness perspective. The Forum recommends that consideration be given to a number of possible options here, including:-

- more focused Government support aimed at developing a greater understanding of environmental issues and a positive approach to development; and
development of appropriate round-table models of business, local authority and NGO interests (along the lines of the European Partners for the Environment) to facilitate greater dialogue and action on the theme of sustainable development and job creation.

Education and Training

5.10 The increasing importance of the services sector and its expected requirements for a well-educated, highly skilled work force will impose enormous demands on education and training policies into the next century. The Forum is particularly concerned about the position of the long-term unemployed and those who have left school without any qualifications. These are the priority issues and the Forum draws attention again to the recommendations in its Report No. 4 to tackle these and looks to the proposed White Paper on Education to bring forward proposals relating to early intervention in the education sector.

5.11 In addition, there are a number of other areas relating to the education and training systems which the Forum recommends should be addressed:

- redressing the imbalance in FAS training provision for the services sector through appropriate training and apprenticeship programmes;
- an increased emphasis on language training at all levels of the education system, this issue should also be addressed in the White Paper on Education;
- improving technological skills at all levels of the educational system as well as for those in services employment so that the sector makes the most efficient use of technologies;
- more emphasis should be given to development of management and marketing skills, including use of an enhanced Mentor programme; and
- implementation of the commitment in the Programme for Government for a unified national system for the certification of vocational training (the proposed National Education and Training Certification Board).

The Social Economy

5.12 This Report has highlighted the employment potential in meeting demand for unmet needs and services in our society. While some of these services are being provided on a partial basis at present in areas of the public and private sector, the social economy – representing a continuum of delivery possibilities between
fully commercial and public provision - may be the most appropriate model for meeting increased needs in some of the areas identified. There is already a considerable amount of State resources made available to the social economy. However, the current approach is too piecemeal and needs to be more effectively co-ordinated and integrated to minimise duplication and to better exploit the employment potential of the social economy.

5.13 For these purposes the Forum recommends as a starting point that:

- there should be formal recognition by Departments and State Agencies of the social economy's role and potential; and

- drawing on the list outlined in Box 3.1 as well as in other areas, identifying those needs which are not being met or only partially met at present, distinguishing between those which could best be left to the State, the private sector and which could be more appropriately responded to by the social economy.

5.14 The second stage would be to put in place, on the basis of partnership and consultation between the relevant Departments and State Agencies and those involved in the social economy, appropriate support strategies and effective local delivery mechanisms. Some of the earlier recommendations - such as the reduction of the tax wedge - will assist in overcoming some barriers such as the high non-wage cost of jobs and the problems caused by the interaction of the tax and social welfare systems. Beyond this, and as argued in the EU White Paper, a variety of approaches will be required depending on the nature of the service being provided through the social economy. The Forum recommends that these should include:

- access to the full range of official supports and programmes (particularly training, seed capital, management skills, start-up assistance etc.) should be made available with particular reference to assistance provided by the County Enterprise Boards, the Area-based Partnership Companies and FAS;

- these and other relevant Agencies and Government Departments should be specifically charged to play a pro-active role and to develop support packages appropriate to the social economy;

- the Forum's proposal (in its Report No. 4) for the revamping of Community Employment to create longer-duration, part-time and full-time contract jobs in the public and voluntary sectors could be targeted at areas of potential; and

- the Danish approach to the development of household services should be considered and experimented with; the designated areas under the Area-based Partnership Strategy would represent obvious "test" locations and
possible areas of activity could include child care, the provision of services such as cleaning etc. to households and house repairs and maintenance. Various incentives could be considered including labour and sales subsidies to enterprises setting up in the sectors (based on numbers of long-term unemployed involved), subsidies to consumers, tax exemptions etc..

5.15 The provision of child care services is one which the Forum regards as having particular potential in the social economy, given the demographic and other factors discussed earlier, especially the increasing number of women in employment. Ireland has the lowest level of child care provision in the EU with only 2 per cent of young children having access to publicly-financed child care. Action needs to be taken to follow-up the various Reports on this subject (including that of the Working Group on Child Care) to ensure that all options for the provision of child care are looked at. The Forum recommends that measures to increase the availability of child care to parents should build on the following principles:

- child care provision should be affordable, accessible and responsive to the needs of both parents and children;
- child care services should be regulated to ensure proper safety and supervisory standards; and
- providers should be adequately trained to a nationally recognised standard.

5.16 In developing support mechanisms for social economy enterprises, the experience of successful initiatives in this area in a number of EU Member States (France, Italy and Belgium) should be drawn on, including assistance under the EU Structural Funds. The co-ordination arrangements at national and local levels established under the recently-published Operational Programme for Local Urban and Rural Development 1994/1999 should be the mechanism for integrating the social economy for these purposes, with particular reference to key groups such as the County Enterprise Boards, LEADER and ADM.

---


Conclusion

5.17 While the services sector has and will continue to be the main source of net job creation in the economy, it is clear that given the unacceptable extent and nature of our unemployment problem a faster rate of employment increase will have to be attained. The scope exists for a better performance given that the long-run employment record of the sector in this country has been relatively poor. This can be attributed to the existence of substantial barriers to development and job creation in the sector.

5.18 The conclusion of the Forum, therefore, is that a range of policy changes are now needed to support the further development of the sector and to accelerate its employment performance. This policy strategy should, in the Forum's view, comprise the three elements identified earlier – the ending of the sector's relative neglect through a more balanced treatment of all sectors, action to tackle employment barriers and a more integrated approach to new areas of growth potential in services.

5.19 This strategy should be initiated by the Government and implemented across all areas of policy. This is important as it is unlikely that action on the individual recommendations in isolation would have as great an impact on employment. However, as with all policy reforms, a programme of concerted, determined action across all the relevant policy headings could cumulatively lead to considerable gains. While such an approach may encounter some resistance, this will have to be overcome in the interests of tackling more decisively our unemployment problem.
Annex
Annex

Terms of Reference and Constitution of the Forum

1. The Terms of Reference of the National Economic and Social Forum are to develop economic and social policy initiatives, particularly initiatives to combat unemployment, and to contribute to the formation of a national consensus on social and economic matters.

The Forum will:
(i) Have a specific focus on:
   - job creation and obstacles to employment growth;
   - long-term unemployment;
   - disadvantage;
   - equality and social justice in Irish society; and
   - policies and proposals in relation to these issues.
(ii) Make practical proposals on measures to meet these challenges;
(iii) Examine and make recommendations on other economic and social issues;
(iv) Review and monitor the implementation of the Forum's proposals and if necessary make further recommendations; and
(v) Examine and make recommendations on matters referred to it by Government.

2. The Forum may consider matters on its own initiative or at the request of Government.

3. The Forum will work in two year cycles and will inform Government of its programme of work within three months of the beginning of each cycle.

4. In drawing up its work programme, the Forum will take account of the role and functions of other bodies in the social and economic area such as NESC and the CRC to avoid duplication.

5. The Forum may invite Ministers, Public Officials, Members of the Forum, and outside experts to make presentations and to assist the Forum in its work.

6. The Forum will publish and submit all its reports to Government, to the Houses of the Oireachtas and to other Government Departments and bodies as may be appropriate.

7. The Forum will be drawn from three broad strands. The first will represent the Government and the Oireachtas. The second will represent the traditional Social Partners. The third strand will be representative of groups traditionally outside the consultative process including women, the unemployed, the disadvantaged, people with a disability, youth, the elderly and environmental interests.

8. The Forum will have an independent Chairperson appointed by Government.

9. The term of office of Members will be two years during which term Members may nominate alternates. Casual vacancies will be filled by the nominating body or the Government as appropriate and Members so appointed shall hold office until the expiry of the current term of office of all Members. The size of the membership may be varied by the Government.

10. The Forum is under the aegis of the Office of the Tánaiste and is funded through a Grant-in-Aid from that Office. This Grant-in-Aid is part of the overall estimate for the Office of the Tánaiste.
Membership of the Forum

Independent Chairperson: Maureen Gaffney

Government Representative: Eithne Fitzgerald, T.D.,
Minister of State at the Office of the Tánaiste and at the Department of Enterprise and Employment

Chair (Employment and Economic Policy Committee): Prof. John O’Hagan

Chair (Social Policy Committee): Tríona Nic Giolla Choille

Oireachtas

Fianna Fáil: Ned O’Keeffe, T.D.
Eamon Ó Cuív, T.D.
Chris Flood, T.D.
Martin Cullen, T.D.
Sen. Paschal Mooney
Sen. Willie Farrell

Fine Gael: Frances Fitzgerald, T.D.
Paul Connaughton, T.D.
Michael Ring, T.D.
Sen. Madeleine Taylor-Quinn

Labour: Joe Costello, T.D.
Sen. Jan O’Sullivan

Progressive Democrats: Mairín Quill, T.D.

Technical Group: Kathleen Lynch, T.D.

Independent Senators: Sen. Mary Henry

Social Partners

Trade Unions: Philip Flynn
Paula Carey
Tom Wall
Mary-Ann McGlynn
Manus O’Riordan
Employer/Business Interests:
Deelan Madden
Karin MacArthur
Aebhric McGibney
David Croughan
Mirette Corboy

Agricultural/Farming
Organisations:
John Tyrrell
Michael Slattery
Ciara Dolan
Clare Higgins
Monica Prendiville

"Third Strand"
Womens Organisations:
Anne Taylor
Noirin Byrne
Ina Broughall

Unemployed:
Brendan Butler
Jane Foley
Mike Allen

Disadvantaged:
Niall Crowley
Joan Byrne
David Joyce

Youth:
Gearóid O’Maoilmhichil

The Elderly:
Michael White

People with a Disability:
Roger Acton

Environmental Interests:
Jeanne Meldon

Academics:
Fr. Seán Healy
Stasia Crickley

Secretariat
Director:
Secretary, Employment & Economic Policy Committee:
Secretary, Social Policy Committee:
Economist:
Executive/Secretarial:
Scán O’hÉigecartaigh
David Hegarty
Larry O’Reilly
Michael McGrath
Theresa Higgins
Patricia Lynch
Mercedes Kelly
## Reports published to-date by the Forum

<table>
<thead>
<tr>
<th>Report No.</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Negotiations on a successor agreement to the PESP</td>
<td>November 1993</td>
</tr>
<tr>
<td>4.</td>
<td>Ending Long-term Unemployment</td>
<td>June 1994</td>
</tr>
<tr>
<td>5.</td>
<td>Income Maintenance Strategies</td>
<td>July 1994</td>
</tr>
<tr>
<td>6.</td>
<td>Quality Delivery of Social Services</td>
<td>February 1995</td>
</tr>
</tbody>
</table>