An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

Re-finding Ireland's Success in Europe: The Core Arguments

An Oifig Náisiúnta um Fhorbairt Eacnamaíoch agus Shóisialta
National Economic & Social Development Office NESDO

Core Arguments

1. NESC's Study of Ireland's Experience and Changing Engagement in the EU

The Government asked the National Economic and Social Council (NESC)[1] to prepare a report on Ireland's experience and changing engagement in the European Union (EU) and to identify strategic issues that will shape Ireland's use of EU membership to serve national economic and social development. NESC's work covered the main areas of EU policy, but could not be exhaustive. The topic of economic and monetary union is of such significance and current policy relevance that NESC decided to issue its analysis in a separate report, *The Euro: An Irish Perspective*, published in August 2010 (NESC, 2010). NESC's wider analysis, findings and recommendations are published in *Re-finding Success in Europe: the Challenge for Irish Institutions and Policy* (NESC Report No. 122, published in December 2010). The two reports should be read in conjunction with one another.

This document outlines the core arguments that emerge from the overall study. It is drawn from Chapter 1 of *Re-finding Success in Europe*, which serves as a summary of the analysis and conclusions.

The core arguments set out here reflect the approach adopted by NESC in responding to the Government's request. That approach begins with an outline of the nature and evolution of the EU, focusing on its changing systems of policy making and implementation. It then explores Ireland's experience of, and changing engagement with, European integration by analysing the impact of key EU policies: the internal market, the Common Agricultural Policy (CAP), economic and monetary union, employment and social policies, environmental policy and the Eastern enlargement of 2004. Indeed, the wider study includes some discussion of EU policies on justice, home affairs and foreign relations. While NESC does not normally consider these issues, it was felt that they warrant some consideration; an EU role in an increasing number of policy spheres—and the overlap between issues of economic development, social policy, migration, environmental sustainability and fundamental rights—is, we argue in *Re-finding Success in Europe*, a key feature of the modern EU that needs to be more widely understood. That wide analysis of EU policy provides the basis for reflections on Ireland's experience and changing engagement and the core arguments set out below.

1 In the EU context the term Council refers to the Council of Ministers; accordingly throughout this report, we refer to the National Economic and Social Council as NESC.

This summary of the core arguments begins with a statement of our basic orientation on the place of European integration in Irish development and on the changing nature of the EU. It then sets out the evolution, achievements and failures of the EU. This provides the context for a short statement on the evolution, successes and failures of the European Union. We argue that both Ireland and the EU are at the end of an 'unfulfilled decade'.

It then considers the main policy challenges at EU and national level. Two particularly stand out and are of greatest relevance to Ireland. First, the EU and the member states must continue to take action to protect the euro, implement the stronger system of economic coordination agreed at the European Council, address the deficit and debt problems, support macroeconomic recovery and respond to the further risk of financial sector turbulence. Second, the EU and the member states must strengthen the processes of reform and peer review to make a success of the, recently adopted, *Europe 2020 Strategy for Smart, Sustainable and Inclusive Growth*. Ireland has a strong interest in the success of EU initiatives on both these fronts.

The core arguments proceed to compare the findings of this inquiry with the findings and lessons of earlier studies of Ireland in Europe, highlighting both remarkable similarities and some important changes. This allows us to restate and update the conditions for success in the EU and to identify the challenge to Irish institutions and policy.

2. The Strategic Messages

1. Membership of the EU and the success of the Union in achieving its core goals are of critical importance to Ireland's sustainable economic and social development. This is the context in which difficulties and anxieties in Ireland's EU experience should be considered.

2. The quality of national policy and implementation is the main determinant of Ireland's success or failure within the EU. In adapting national systems for maximum effectiveness, it is vital to take account of the ways in which the EU has changed and the experience of Irish public agencies in working with the new EU processes.

3. Increasingly, the EU asks that member states benchmark their progress against common objectives, share their learning with each other and reconfigure their practice in light of the insights gained from this process. This need for organisational review and reform is a vital element of Ireland's 'new narrative' of engagement with the EU and needs to be widely understood.

3. The Evolution, Achievements and Failures of the European Union

4. Over the past decade the role and methods of the EU have changed in fundamental ways for three main reasons:

   a. As its membership has increased to 27 it has become more diverse;

   b. Many of the issues it deals with now have a global dimension;

   c. It increasingly deals with economic, social, environmental and political problems that are complex and contested.

   In addition, the current crisis has revealed weaknesses in the EU's approach to co-ordination in a number of spheres and this is now prompting further significant change in the EU's processes (see points 13 to 16 below).

5. For a variety of reasons, issues concerning the four freedoms, social goals, environmental impact and fundamental rights increasingly interact with one another. The EU is called upon to find a balance between these goals in both its high-level frameworks and its fine-grained decisions. Many of the anxieties concerning the EU arise in areas where these dimensions interact.

6. While the EU retains a number of policy modes, there are significant trends in the systems of decision making and implementation over the past fifteen years:

   a. In a number of areas where the EU has explicit competence, policy making has become less centralised, hierarchical and uniform;

   b. In many areas where member states have primacy, policy making and implementation increasingly take place in an EU framework;

   c. The result is that in many areas the EU approach combines elements of 'hard-law', 'soft-law' and financial instruments. Within this 'hybrid' approach, the hard-law elements create framework goals and imperatives for engagement, and the soft-law dimension enables member states and other actors to explore the meaning of the agreed goals and the methods for attaining them;

   d. As a result of these trends, in a range of policy spheres the EU has developed an effective system of joint goal setting, decentralised execution, information-sharing, learning and system revision.

   This recursive form of governance has particular attractions and advantages when there is a degree of strategic uncertainty about how a problem can be addressed and when member states and other actors are interdependent. Where it works well, it turns the diversity of member states from a paralysing disadvantage into an opportunity for learning.

7. The EU has mostly succeeded where its institutions and member states have adopted this approach and made it effective. This is evident in many aspects of the internal market (such as the 'new approach' to standard-setting and certification, drug authorisation, food safety, and competition policy), network regulation (as in energy and telecommunications), environmental protection (such as the Water Framework Directive), anti-discrimination, justice and home affairs and the way in which the EU has enlarged to include ten member states in Central and Eastern Europe.

8. It has failed both where it seeks excessive uniformity and, conversely, where its member states are reluctant to fully buy in to a process of joint goal setting, mutual monitoring and discussion of collective and national problems. Although the EU has, over the past fifteen years, moved away from making detailed prescriptive rules, remaining instances of uniform rules and burdensome procedures can frustrate citizens and firms and make them sceptical about the EU. Of greater significance is the fact that in key areas the EU has not achieved sufficient benchmarking or coordination of member states' approaches.

9. The global financial crisis and the severe imbalances within the euro area have exposed the weakness of EU coordination in key policy areas. These include imbalances between member states sharing the single currency, insufficient financial-sector supervision at European level, ineffective surveillance of member states' economic policies (yielding unsustainable credit expansion, deficits and debt in some member states), asymmetric economic developments and weak overall growth. Because of lack of member state buy-in or weak EU institutions and processes, or both, the EU did not create an effective system of joint goal setting, monitoring and learning in several of the policy areas that most strongly shape member states', economic and social performance. This is most starkly true in fiscal policy coordination and banking supervision. Indeed, since mid-2010 it is recognised that insufficient monitoring and coordination of member states, economic and financial imbalances threatens the euro. This has prompted urgent steps to design and agree a more effective system of economic policy coordination (see points 13 to 16 below).

4. Ireland's Evolution, Successes and Failures in the European Union

10. Reflecting the changes in the EU listed above, Ireland's engagement with Europe has changed in four significant ways in the past fifteen years:

    a. *Pluralisation*: there has a been a pluralisation of the channels through which the EU impacts on Ireland and through which Irish people and organisations engage with the EU;

    b. *Contestation*: in Ireland and other member states, European integration has increasingly touched on policy areas that are more contested than the initial trade liberalisation and, in consequence, there is a greater *politicisation* of EU issues;

    c. *Internationalisation*: many of the issues have a global as well as an EU dimension;

d. *Complexity*: challenges of governance in many policy areas increasingly arise not only because of initiatives and bargaining at EU level, but also within Ireland because of the complexity of technology, society, business and ecology.

In addition to these gradual changes, the international crisis has in the past two years prompted actions—in central banking, financial regulation and public finance—which are altering the engagement of all member states within the EU, especially countries, such as Ireland, that are facing severe public-finance problems.

11. Ireland has succeeded where its policy system, public agencies and partnership approach have been attuned to effective processes at EU level and have adopted a similar problem-solving approach at domestic level. Examples include large parts of the internal market, building a new employment rights infrastructure, creation of agencies and networks for environmental monitoring, licensing and enforcement, food safety and many others. Ireland has failed, or had less success, precisely where it has not grasped the new range of EU methods and possibilities, or where the EU itself has been ineffective:

a. Both where national policy actors have seen EU involvement as an *intrusion on sovereignty* (as on the fiscal stance) and, conversely;

b. Where government has seen the task as *mere conformity* with a fixed EU regime, without a sufficiently clear view of the specific national policy challenge (as in the initial policy approach to telecoms and energy);

c. Where government and others have not seen EU goal setting and data-monitoring as an opportunity for in-depth review and policy-learning, or have not had the capacity to undertake this (as in the area of public finance and expenditure mangement, banking supervision, biodiversity protection, childcare and parts of the employment and social inclusion);

d. Where interdependent national policies and systems—such as fiscal policy, cost determination and wage-bargaining—were not adequately attuned to the disciplines of the euro; and

e. Where national policy and/or partnership processes fail to resolve underlying conflicts (as in aspects of waste management, water quality and as shown in NESC's report on the euro, issues relating to taxation, housing and distribution, (NESC, 2010)).

At the start of the 21st century, it seemed that Ireland's model of public policy and administration was developing in tandem with the new governance regime that was manifesting itself within many EU policy sectors. The landscape of public institutions in Ireland was profoundly changed by the creation of numerous regulatory agencies, in line with EU developments. The government made local development a theme of its 1996 presidency and Ireland's approach to policy and partnership were the subject of much international interest. However, subsequent developments in policy, public administration, the economy and social partnership suggest that, in general, the expected evolution of disciplined policy development and review, focused on problem-solving with social partners and others, and nourished by international benchmarking, did not happen. An understanding of the successes and relative failures listed above is critical in identifying the new conditions for Ireland's success in the EU.

5. An Unfulfilled Decade at European and National Level

12. Despite remarkable achievements at both national and EU level the past decade must be judged as unfulfilled. At national level, a period of enhanced business performance, participation, educational attainment and social spending gave way to a property-led boom funded by excessive private-sector lending and borrowing, ending in a severe five-part crisis (NESC, 2009a). At EU level, the monitoring and coordination of member states' economies was ineffective and there was partial success in enhancing productivity and social inclusion through the Lisbon Strategy and in maximising Europe's influence in the world.

6. Challenges at National and EU Level: Economic Co-ordination and Europe 2020

13. The partial success of the EU in both economic coordination and structural reform challenges the Union and the member states to devise more effective processes on both fronts:

    a. The flaws in the operation of the earlier Stability and Growth Pact have been much discussed. At EU level, economic surveillance was not sufficiently diagnostic to reveal the underlying imbalances across the member states. In addition, as NESC noted in the recent report on the euro, instead of balancing a definite and deliberate loss of sovereignty in monetary policy with enhanced collective action on economic policy, 'member states were inclined to balance it with retention of sovereignty in the economic area' (NESC, 2010: 71). The result was that the hard-law elements of the regime were not applied and the soft-law elements did not provide a basis for mutual learning. The EU must ensure that the hybrid governance mechanisms that it has already developed and made effective in many other policy spheres are now brought to bear in economic surveillance and especially in euro-area coordination;

    b. The reasons for the partial success of the Lisbon Strategy are not quite so clear or universally agreed. But there is a consensus that the EU must strengthen both the operation and understanding of the processes—of reporting, peer review and reform—that will be used to pursue the goals of the new EU strategy, *Europe 2020 Strategy for Smart, Sustainable and Inclusive Growth* (discussed below). Research shows that the effectiveness of these processes—such as the Open Method of Coordination—depends largely on the degree to which they are embraced and used by actors at national level, prime among which is, of course, the member state.

    Measures to improve both these processes are now a central part of the EU agenda.

14. In the past six months, the EU has taken important initiatives to address the weaknesses of the past decade that have been revealed by the crisis. Two are particularly important:

    a. It has adopted a new ten-year strategy entitled *Europe 2020: A European Strategy for Smart, Sustainable and Inclusive Growth* (European Commission, 2010b). In order to pursue these three goals, it names five **headline targets** (on employment, R&D, climate change, education (particularly early school-leaving) and, for the first time, poverty). It has adopted ten **integrated guidelines** and seven EU-level **flagship initiatives**—on challenges such as the digital agenda, new industrial policy, new skills for new jobs, poverty and resource efficiency (European Commission, 2010c). It defines new processes for the formulation and peer review of **National Reform Programmes** (NRPs). The overall strategy and processes are described in Section 11.3.4 and illustrated in Figure 11.1 (page 219);

    b. It has taken emergency measures to address the crisis in the euro, including creation of the European Financial Stabilisation Mechanism (EFSM) (and used it to assist Greece), and designed a much stronger process to co-ordinate national fiscal policies and avoid macroeconomic imbalances within the EU and euro area. It has established the European Systemic Risk Board to monitor and act on macro-prudential risks in the financial system. It is creating three new European Supervisory Authorities (ESAs)—with micro-prudential responsibility over banks, securities markets, and insurance and occupational pensions—that will work with the national institutions to ensure that inconsistencies are reduced and systemic risks are addressed.

15. In order to drive these strategies for economic coordination and smart, sustainable, inclusive growth the EU has designed a new coordination cycle in which the first part of the year will be designated a ‘European semester’ (see Section 11.3.5 for details). It is intended that National Reform Programmes will cover both macroeconomic surveillance and structural reforms and will be addressed simultaneously with the fiscal surveillance in the Stability and Convergence Programmes (SCPs). There is widespread recognition that the future of the EU and the prosperity of the member states depends on making each of these initiatives effective and co-ordinating them with each other.

16. Ireland has a strong interest in the success of both these EU initiatives:

    a. There is now a real congruence between the EU’s agenda, as set out in the *Europe 2020 Strategy* and Ireland’s goals for knowledge-based, sustainable, economic and social development;

    b. As a member of the euro area, Ireland has a strong interest in the EU urgently developing sufficient coordination and policy instruments to protect the euro, address the deficit and debt problems of member states, support macroeconomic recovery and sustainable growth and address the risk of further financial sector turbulence.

7. The Need for Both Enhanced Economic Governance and Europe 2020

17. Given the urgency of the fiscal and financial issues, some might fear that, despite the EU's stated intentions, one of Europe's new initiatives (stronger economic surveillance) could displace the second, the ten-year *Europe 2020 Strategy*. This could occur if it were believed that the substantive and procedural challenges are very different in each case:

    a. *Substantively*, it might be considered that the urgent challenge of fiscal correction, banking resolution, fiscal consolidation and stronger surveillance must displace the goal of knowledge-based, sustainable and inclusive growth;

    b. *Procedurally*, given the undoubted fiscal crisis and the pressure of time, it is tempting to think that the improvements in fiscal and economic reporting, EU recommendations and member-state fiscal planning are different kinds of processes from, and must take priority over, more effective monitoring and learning on innovation, employment, social inclusion and sustainability.

    If these two views were to emerge and prevail then EU processes in the coming years could consist of little more than the preparation of the national Stability and Convergence Programmes.

18. The much stronger new approach to economic coordination agreed over the summer and autumn of 2010 does indeed demand that member states and the EU think freshly about how they approach the *Europe 2020 Strategy*, which was framed before the Greek crisis became acute. A National Reform Programme that reported existing and planned actions across a wide spectrum of departments, agencies and national strategies is unlikely to be effective and will not persuade our EU partners that Ireland is addressing the key factors that will shape economic and social outcomes in the coming years. But simply replacing the *Europe 2020 Strategy* with tougher fiscal coordination, either explicitly or in practice, is unlikely to succeed:

    a. *Substantively,* while the dominant challenges in the enhanced process of economic policy coordination, via the next National Reform Programme, are undoubtedly fiscal correction, bank resolution, structural deficits and economic growth, addressing these will require consideration of innovation, participation, service reconfiguration, social inclusion, tax reform and sustainability. For example, it does not seem possible to achieve the necessary fiscal adjustment without in-depth knowledge of how well different programmes work, how the welfare system can be made more developmental, and which taxes are most supportive of economic growth, employment and sustainability—including awareness of international best practice on these issues. Discussing the new approach to economic coordination, the President of the European Central Bank (ECB), Jean-Claude Trichet, says 'experience suggests that the short-term costs of fiscal consolidation can be contained if the consolidation strategy is effectively designed and includes a comprehensive programme of structural reforms'

(Trichet, 2010). This is the challenge of 'combining retrenchment with reform' identified in NESC's second report on *Ireland's Five-Part Crisis* (NESC, 2009b);

b. *Procedurally*, despite undoubted differences in timing and method, what is required in both cases is a much more reliable, better-understood, more disciplined, widely endorsed and clearly articulated process for joint setting of goals, discussion of collective and national-level problems, and how these two relate to each other. Rules and sanctions can, of course, play a role in such a system. Since many of Europe's goals and initiatives refer to complex supply-side policies and growth processes, the starting point is less significant than the ability to animate reform and learn from success and failure.

Consequently, the challenge is to frame Ireland's forthcoming National Reform Programme addressing the big-ticket items—banking resolution, deficit reduction, fiscal consolidation and the engines of growth—in a way that is genuinely informed by the transition to knowledge-intensive, inclusive and sustainable growth, as reflected in the agreed EU headline targets and integrated guidelines. In some respects, this is a familiar task as Ireland has had a number of encompassing national strategies in the past 20 years. In other respects, it is a formidable challenge as these strategies tended to include an ever-widening agenda, which at times left key issues unresolved and definitely fell short in implementation (NESC, 2006a; NESC, 2010).

19. There can be no doubt that the EU needed to urgently strengthen its approach to economic coordination. While many feared that it was moving too slowly, during 2010 it showed real determination to devise new approaches to this critical task. It is, of course, too early to say what kind of regime will emerge from the measures already agreed and the further changes proposed. A number of possibilities can be identified:

a. In the area of economic policy, the EU may be advancing to a regime of real benchmarking, systemic and diagnostic monitoring, peer review, learning and system revision—in which the hard-law elements enforce engagement and searching self-examination—like that found in other more successful areas of EU policy; or

b. It is possible that, having had a weak regime in which member states flouted the Stability and Growth Pact (SGP) rules and resisted real benchmarking, and paid a big price for this in the past two years, the EU will turn to a regime that relies too heavily on precise rules, *fixed* targets and strong sanctions.

The latter would be a worrying development, not because it would be too strong, but because it could fail *even in the task of achieving immediate fiscal consolidation and long-term fiscal discipline* if the precise rules did not capture the underlying weaknesses—as was the case in the SGP to date.

8. Restating and Updating the Conditions for Success in the EU

20. This review strongly echoes the findings, conclusions and criticisms articulated in earlier reviews of Ireland's experience in the EC/EU, including NESC's studies in 1989 and 1997. Among these were the following:

    a. 'The macroeconomic policies pursued from the late seventies into the eighties contained serious errors' and were 'for a considerable period, inconsistent with the decision to join the European Monetary System (EMS)' (NESC 1989: 215 and 525);

    b. '[T]he public and private sector spheres interact to an enormous extent, and this illustrates that satisfactory implementation of the decision to join the European Monetary System (EMS) required not only recognition and acceptance of the macroeconomic policy conditions, plus acceptance of the implications for wage increases in the private sector, *but also* consensus on the management of the public finances, especially taxation. This was not adequately appreciated by either Government or the social partners at the time' (NESC, 1989: 216, emphasis in the original). Consequently, building an agreed and consistent approach to fiscal, monetary and wage policy 'must now be an integral part of Ireland's overall European policy' (NESC, 1989: 216);

    c. 'The reduction in the macroeconomic policy autonomy of the member states, which was an unavoidable implication of economic integration, has not been adequately replaced by Community-level responsibility for the management of the macro-economy' (NESC, 1989: 525 and 216);

    d. 'It was not appreciated that the effects of integration can take considerable time to work themselves out. Adjustments to membership of the EC were experienced in the 1980s as well as the 1970s' (NESC, 1989: 525);

    e. 'Negative integration'—the removal of national obstacles to free movement of goods, service, capital and people—will not automatically yield economic convergence, stability or good social and environmental outcomes. There is a need also for significant measures of 'positive integration'—the creation of EU policies and institutions;

    f. 'During a significant portion of the period since Ireland's accession to the EC, priority was given to short-term goals in taxation, public expenditure, macroeconomic management, exchequer borrowing, job creation, industrial policy, pay-bargaining and approaches to issues at the European level. However, the Council stresses that this approach was not confined to government policy making—which largely reflected priorities in the society' (NESC, 1989: 217);

    g. Earlier analysis highlighted the importance of a developmental perspective in approaching the opportunities and threats of international economic integration. 'Even though a proportion of the problems of the eighties can be fairly directly ascribed to the severe financial imbalances of the late seventies, that fiscal crisis has, in turn, some longer-term determinants' (NESC, 1989: 209);

h. In a context in which competitive advantage is only to a small extent determined by natural factors, 'the task of policy and corporate strategy should have been to foster activities in which Ireland could develop a *genuine, sustainable* and, indeed, *renewable* competitive advantage. This requirement was not always kept in sight of under pressure to create jobs and exports' (NESC, 1989: 216 emphasis in original);

i. Consequently, 'the criterion by which Ireland's membership of the Community be assessed should primarily be the kind of economy which evolved as a result of EC membership and only secondarily whether a particular strategy maximised receipts from the Community' (NESC, 1989: 553);

j. Between 1973 and 1989 'the balance between Community and national policy competence was not always correct. In some cases, for example agriculture, the existence of a Community policy was seen as virtually precluding national policy. In other cases, for example regional policy, an increased Commission role was viewed with ambivalence—but not on the basis of a superior national grasp of regional development planning' (NESC, 1989: 218);

k. Indeed, the most general finding of NESC's 1989 report was that 'membership of the Community does not reduce the need for clear Irish policy aims and methods. In particular, membership of the Community does not diminish the need for a national ability to identify solutions to national problems—even where those solutions require Community policies and action' (NESC, 1989: 218);

l. This suggested that the 'conception of what is meant by Ireland's European policy should be broadened from reference to the strategic and tactical positions it took at the European Council and the Council of Ministers, to include the set of *domestic* policies devised, or not devised, in the light of the common policies adopted at EC level' (NESC, 1989: 553, emphasis in original);

m. Finally, ideas and ambitions matter: 'the way in which member states conduct business at the European Council and the Council of Ministers is not immutable and, in particular, is not independent of the conception of the Community which prevails' (NESC, 1989: 430; 1997: 10–20). A subsequent review of Ireland's first 25 years in the EU concluded that 'The state of the Union—and a correct understanding of its nature—are of critical importance to Ireland' (O'Donnell, 2000: 175).

Most accounts are in agreement that—following the difficulties from accession to 1986, reflected in the criticisms reported above—Ireland had a much more successful engagement in European integration from 1987 to 2000. In analysing and understanding that success, most studies draw attention to both the EU's greater ambition and Ireland's improved identification of the conditions for success of a small peripheral member state. Many highlight the achievement of a consistent approach across macroeconomic, distributional and structural policies, supported by a wide range of social and economic groupings (see

Chapter 11). In addition, analysts attribute Ireland's improved performance to institutional and policy innovations in industrial policy, sector regulation, regional and local development, environmental protection and social inclusion (NESC, 2002, 2005b; NESF, 1997; Adshead, 2002; O'Donnell, 2000b). Indeed, these analyses highlighted the fact that EU membership had significant effects on Ireland's policy and administrative system. In particular, the Commission's approach to the increased Structural Funds prompted a step-increase in the scope and quality of programming, monitoring, evaluation and auditing of public expenditure in Ireland, at least in the period when Ireland was a major recipient (Matthew, 1994; O'Donnell, 2000; FirzGerald, 1998; Laffan and O'Mahony, 2008; McNamara *et al*., 2009).

21. In this report, and the recently published study *The Euro: An Irish Perspective* (NESC, 2010), we identify findings and policy lessons remarkably similar to those listed above. In particular:

   a. After 1999, Irish macroeconomic policy was, at significant times, pro-cyclical, unsustainable and not consistent with membership of the euro;

   b. EU-level macroeconomic monitoring and coordination was insufficient to prevent major imbalances developing;

   c. Recent experience confirms that the full effects of integration—in this case monetary and financial integration—can take a considerable time to work themselves out;

   d. As in the 1970s and the first half of the 1980s, priority was given to short-term goals in much of the past decade, certainly in taxation, public expenditure, macroeconomic management and aspects of pay bargaining. As in the earlier period, this was evident in government policy, but also reflected priorities in the society;

   e. As in the 1980s, the current fiscal crisis reflects not only macroeconomic policy mistakes, but deeper developmental, distributive and public service issues, which were not adequately resolved by Ireland's political, administrative and interest group system over the past decade;

   f The past decade confirms the importance of a developmental perspective, and demonstrates the high price that is paid for losing the focus on genuine, sustainable and renewable competitive advantage;

   g. Most of all, the need for 'national policies that are informed by clear analysis of national needs' is strongly echoed, as illustrated in areas such as telecommunications and energy.

   It is striking that twenty years after their initial statement, a new review of Ireland in the EU yields such similar findings and criticisms. It is disappointing that, in certain respects, the past decade bears more resemblance to the 1970s and early 1980s, despite the existence of partnership processes for identifying stresses and mediating conflicts. This warrants further analysis and reflection.

22. While the current review of Ireland's engagement largely restates the findings and lessons of earlier studies, it is necessary to adapt or extend a number of them in the light of subsequent experience:

a. While successful participation in monetary integration certainly requires a consistent approach to macroeconomic policy, wage bargaining and taxation, we have learned the hard way that effective financial regulation and supervision is a precondition, one that was definitely lacking in Ireland since 1999;

b. The earlier observation that the 'public and private sector spheres interact to an enormous extent' needs to be extended to take account of the dramatic way in which excessive private debt can become public debt;

c. While a significant degree of EU-level positive integration remains necessary for desirable economic, social and environmental outcomes, this is now more likely to be a hybrid of hard-law and soft-law approaches than detailed and prescriptive European rules;

d. Our understanding of the need for a developmental focus has widened. We now see that the action of Ireland's networked developmental state—in attracting foreign direct investment (FDI), building infrastructure and supporting innovation—needs to be complemented and supported by a developmental welfare state, combining income transfers, tailored services and innovation (NESC, 2005a and b: 2009a and b).

e. The centrality of national policy is strongly echoed in this report, but can also be seen in a new light. First, the pluralisation of EU influences means that many more branches of Irish policy are engaged in EU processes and must play a role in enhancing Ireland's performance in the EU. Second, in the past, there was a greater distinction between national and EU policy and NESC emphasised the necessity for Irish domestic policy to be developed and articulated *in light* of whatever policy was agreed at EU level. Now it is much more the case that national policy is configured *in tandem with* EU policy, a much more embroiled engagement. Third, while the earlier focus was on the critical role of national policy, we have learned in the intervening years that effective *implementation* is as important and, indeed, the two are more intertwined that we thought (NESC, 2005b; OECD, 2008; Government of Ireland, 2008);

f. A related change concerns the need to achieve consensus. While it is hard to see Ireland succeeding within the euro in the medium term without a degree of consensus on fiscal and wage policy, we understand the need for consensus and participation of interests in additional ways. Experience shows that if participation is a necessary condition for success, it is not sufficient. What is most critical is whether a country's system of policy and participation is geared to learning and reform. Many of the issues that are pivotal for Ireland's long-term success—such as innovation, training, education, tailored services and activation—cannot be resolved only through high-level bargaining of the type that we developed to address macroeconomic stabilisation in the late 1980s (NESC, 2002, 2005a and b). Analysis and problem-solving must be located closer to the issue at hand and high-level actors within Ireland should see themselves, like the EU, as setting framework goals, monitoring, assessing and extending instances of success—as advocated in the OECD report on the Irish public service (OECD, 2008);

g. While the earlier phase of European integration had an impact on Ireland's approach to high-level national development planning and programme evaluation in areas funded by the EU, the phase reviewed in this study had a different kind of impact on Ireland's system of public administration. For a number of public agencies, engagement in the evolving EU processes would seem to have prompted developments in intra-organisational review and inter-organisational networking, involving the development and use of systemic and diagnostic indicators. Examples include agencies such as the Environmental Protection Agency (EPA), the Food Safety Authority, the various economic regulators, the local authorities and others. In other policy spheres and organisations—notably public finance and banking supervision and, to a degree, employment and social inclusion—the process of goal setting, data generation, monitoring and review was less effective and led to limited diagnostic inquiry into Ireland's problems. In public finance and banking supervision the lack of sufficient real benchmarking and diagnostic monitoring, at either EU or national level, eventually had disastrous consequences. In these areas, the Irish departments and agencies were linked to EU regimes that were less effective and not geared for mutual learning.

These adaptations and extensions of earlier findings and lessons can inform future policy and the preparation of Ireland's policy system to meet the new conditions for success in the EU.

9. The New Conditions for Success

23. In addressing policy issues with an EU dimension, Ireland needs to take account of the ways in which the EU, and Ireland's engagement with the Union, have changed. Combining our review of the Union's evolution over several decades with an awareness of the major, crisis-induced, current initiatives at EU level, several changes are particularly noteworthy:

a. The EU has become more diverse and increasingly deals with economic, social, environmental and fundamental rights problems that are complex and contested;

b. Ireland's engagement with the EU has become more plural, contested, complex and influenced by global developments;

c. In many of its most successful policy areas, the EU approach increasingly combines elements of hard law and soft law to create systems of joint goal setting, decentralised execution, information sharing, learning and system revision;

d. But, in a number of critical policy areas—notably economic coordination, and benchmarking of employment and social policy—the EU did not create effective systems of joint goal setting, monitoring and learning;

e. In the face of crisis, the EU has recently decided to strengthen its approach to economic coordination;

f. After the partial success of the Lisbon Strategy, the EU aims to more closely integrate macroeconomic surveillance and growth-enhancing structural reform in order to achieve knowledge-based, sustainable and inclusive growth (the *Europe 2020 Strategy*).

24. While these developments have particular implications for different parts of Ireland's policy system, it is possible to identify a number of headline and general conditions for future success in the EU:

a. The first is recognition that the success of the EU in progressing towards its core goals is a condition for Ireland's economic and social development;

b. In this context, it is necessary to affirm the appropriateness of enhanced euro-area and EU-level mutual surveillance and collective disciplines;

c. While projection of Ireland's interests in EU-level negotiation remains important, and has become more complex, in an increasing range of areas' national policy, goals and methods must be formulated in interaction with other countries and the EU institutions;

d. Consequently, European integration demands more intensive exploration 'at home' as well as more effective benchmarking 'abroad';

e. While Ireland's earlier engagement with the EU required understanding among strategic actors, the new EU context requires, in addition, wider societal understanding of the EU and its methods of goal setting, benchmarking and learning.

25. From this experience and analysis we can begin to identify some of the actions that might help Ireland meet the new condition for success.

a. Success in the 21st century EU requires a national policy system with greater ability to record, compare, analyse and discuss its own policy and service systems (in a wide range of policy areas) at agency, departmental, political and EU level. Consequently, a minimal condition for successful Irish participation in a range of EU processes is implementation of the Government's reform agenda set out in *Transforming Public Services* (2008). In identifying possibilities for enhancing Ireland's engagement with, and learning from, EU processes it would be worthwhile to consider the methods adopted by Ireland's best agencies—such as the IDA, the EPA and the Food Safety Authority (FSA). These institutions have a high international standing in the most up-to-date systems of standard setting, monitoring and learning. Their methods of in-depth review, network formation and system revision are similar to—indeed, have largely developed in interaction with—the emerging EU methods of hard and soft law, networked regulation and learning.

b. It may be worth exploring the possibility that the Irish departments and agencies that have been engaged in areas in which EU processes have involved less effective monitoring, peer review and learning—and in which national policy outcomes have been most disappointing—might learn from those that have been connected to more successful EU processes and, partly as a consequence, have mastered the new methods of joint goal setting, decentralised execution, diagnotic review and learning.

In many policy spheres the design and implementation of *national* policy must be undertaken in—and can be greatly enhanced by—a process of European goal setting, benchmarking, disciplined review and continuous improvement. Only states that can do this will succeed in the new Europe.