



An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

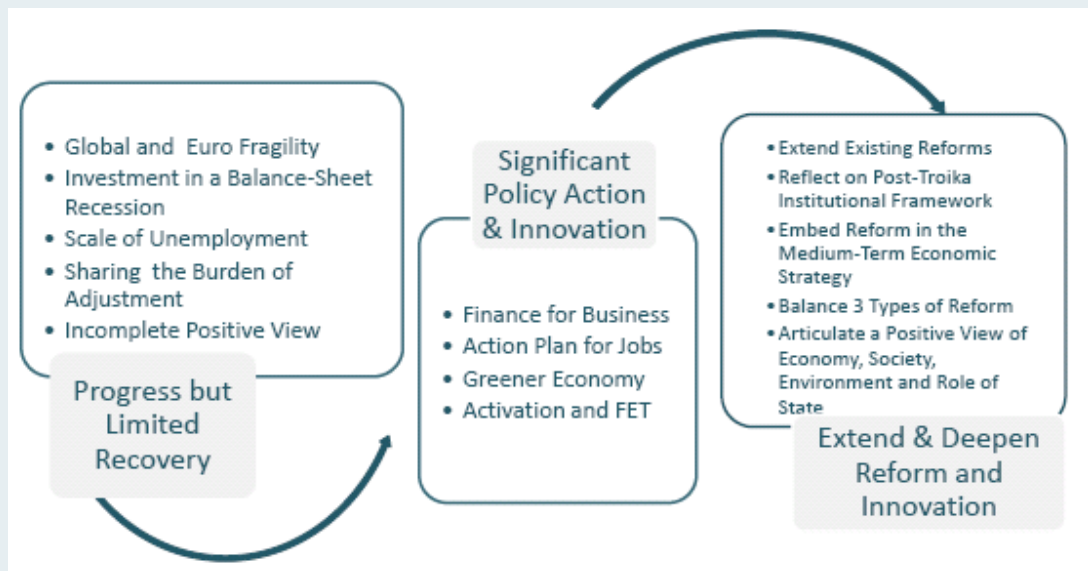
Ireland's Five-Part Crisis, Five Years On: Deepening Reform and Institutional Innovation

Executive Summary

No. 135 October 2013

In 2009 NESC published two reports on Ireland's Five Part Crisis. It highlighted the need to move from partial and sequential responses to a more integrated approach and identified the characteristics of an effective Irish response. This report examines Ireland's five-part crisis five years on.

Structure of the Report



Progress But Limited Recovery

There is now a significantly more integrated government response and strategy. Important progress has been achieved on several fronts:

- Budgetary adjustments of €26bn (16% of GDP) have repaired the country's reputation.
- There has been a significant recovery of cost competitiveness, an improvement in export growth (since 2010) and GDP growth (from 2011) and FDI has been sustained.

- The rate at which mortgages are falling into arrears is declining, even though the numbers are very significant.
- Positive indicators for 2013: improvements in consumer spending, investment, full-time employment, yields on Government bonds and exchequer returns.

However, international and domestic factors qualify progress and future prospects:

- **Global economy:** a sustainable global recovery is not yet firmly established.
- **Euro area:** remains vulnerable to renewed financial, banking and sovereign debt tensions and does not provide a consistent combination of macroeconomic, distributional and structural measures.
- **Investment:** the balance-sheet nature of the recession is acting as a drag on investment: Irish households and businesses invest half the euro-area average.
- **Unemployment:** several years of stronger employment growth are needed if full employment is to be achieved and if net migration is to be reduced.
- **Social dimensions:** two complex sets of problems confront policy in the decade ahead and will require both targeted action and reform of mainstream services:
 - *Long-standing disadvantage:* during the boom Ireland did not achieve a sufficient increase in participation, equality of opportunity, or an adequate reduction in relative poverty and deprivation. Thus, those who were least well off prior to the economic crisis remain so.
 - *Reversal:* Many families and individuals have suffered a very significant reversal in their income, assets and fortunes as a result of the crisis.
- **Incomplete positive perspective:** In seeking a path through the crisis we do not yet have a persuasive positive perspective on the future of Irish society, economy, environment and state.

Overall, the crisis has revealed that past progress was less comprehensive and less sustainable than believed: we did not adequately address non-participation and disadvantage in the boom; our relationship to the international system has been revealed as more one of vulnerability and dependence than we thought; and, our overall system of collective decision-making and public governance has been shown to be extremely weak.

Significant Policy Action and Institutional Innovation

As part of the more integrated response to the crisis there is significant policy action and institutional innovation. In this report, the Council focused on four areas—banking and finance, enterprise policy, greening the economy and activation. It found that there have been a number of positive developments and important, but not widely noted, institutional and process innovation. These include:

- **In banking:** bank re-structuring, solvency arrangements and financing initiatives such as the Irish Strategic Investment Fund (ISIF), which could be viewed as a further step towards a formal state business or investment bank.
- **In enterprise policy:** the Action Plan for Jobs (APJ) which includes a dynamic implementation, monitoring and evaluation process.
- **In greening the economy:** the EPA State of the Environment reporting and acceptance that the challenge is how to get beyond policy and legislative ambition towards practical ways of integrating environment into mainstream economic and social policy.
- **In activation:** legislation, new structures linking welfare with supportive services and an activation service model, set out in the Government strategy *Pathways to Work*.

Extend Existing Reform in the Four Selected Areas

There is a need and important opportunity now to advance Ireland’s reform agenda in these four selected areas, and others.

Banking and Investment

- The focus of Irish policy on investment is important and the Council strongly endorses the establishment and use of the ISIF as a vehicle for national and sectoral development.
- Institutional developments underway—to develop long-term competitive forms of financing, including a state business-development bank—should be seen steps towards a financial system that serves the real economy.
- Ongoing dialogue about the changing nature of financial regulation is needed.

Enterprise Policy

- The APJ process needs to animate and mobilise industry and agencies of the State to jointly explore issues which are more open-ended, complex, possibly contested or potentially knotty, but which if resolved could have significant potential, such as the development of an indigenous anaerobic digestion industry.
- The enterprise-policy process needs to be more open to innovation, ideas from outside business and beyond ideas that business can identify at a given moment.
- Following the OECD's recent critical assessment a more probing examination of the role of innovation policy and the innovation system is needed.

Greening the Economy

- All policy stakeholders must reflect and grapple with the problem and opportunity of integrating environmental concerns into core policy: making progress requires that trade-offs are analysed and addressed effectively.
- The ability to capture the full potential of the green economy would be enhanced by further developing an Ireland-specific cleantech 'green' enterprise strategy.
- It is important to explore ways in which green economy development can most support employment and local economic development.

Activation and Further Education and Training

- There is a need to build capacity and quality-assurance systems to provide activation supports that make a difference to unemployed people and those seeking employment.
- Case managers need extensive knowledge of the social welfare system, employment opportunities, education and training, work programmes and how to provide guidance to people with a varied range of skills and qualifications.
- A strategic review of further education and training (FET) is underway, in which the NESC Secretariat is playing a part. This should improve the provision of FET to unemployed people and address the skills mismatch in the labour force.

Post-Troika and the Medium-Term Economic Strategy

Credit for the achievement of a more integrated response to the five-part crisis should be shared between the Troika and the Irish Government. Earlier Irish high-level strategies and reform proposals often had less traction. This underlines the importance of current initiatives, such as the formulation of a new Medium-Term Economic Strategy (MTES), and the need for further work on the strategic and institutional arrangements that will operate once Ireland leaves the Programme, and intense monitoring by the Troika no longer applies.

The Council strongly supports the need for a fiscal framework that enhances stability, prevents excessive debt and supports growth; indeed, it believes that such a framework can facilitate policy experimentation by providing reassurance that expenditure on innovative initiatives is not part of a general loss of fiscal discipline or accountability.

Balance and Integrate Three Kinds of Reform

Reflection on, and reform of, the evolving processes of policy-making, monitoring, delivery and review needs to go further and be more encompassing. For example, in each of the four areas described in this report, it is worth asking: how is the reporting of *actions* or *outputs* combined with measurement of *outcomes* for citizens and firms? What process is initiated to grapple with knotty, cross-cutting, contentious and ambiguous issues?

To advance reform there is a need to balance and integrate three different types of reform:

- a) **Fiscal-driven reform:** reflecting the need for fiscal consolidation and discipline (e.g. pay adjustments, tax, shared services, rationalisation, some privatisation, budget process);
- b) **Substantive reform:** needed to underpin future prosperity, high participation and social cohesion (enterprise/MTES, activation, education, skill development, care, etc.);
- c) **System-oriented reform:** creation of the systems of strategy and policy-making, standards, autonomy and accountability necessary for the delivery of high-quality services, continuous improvement and policy adaptation.

Balancing and linking these three kinds of reform will involve some widening of the way in which the reform agenda is often discussed. The central public-sector reform agenda might be fertilised, and maybe even reconfigured, by learning from the achievements and problems in enterprise policy, banking and finance, environmental policy, activation, eldercare, education, disability, policing, end-of-life care and homecare. A range of Irish public-sector organisations—in areas such

as industrial policy, environmental protection, children’s services, food safety, and others—demonstrate the combination of innovation, quality and accountability that government is committed to achieving more widely.

The MTES and the major reform agendas listed above, offer an opportunity to balance these trajectories of reform. The central challenge is to both increase innovation and accountability at the front line and build a supportive centre capable of spreading best practice, and leading policy review and learning.

Positive Perspective on Future of Irish Society

Ireland’s path through the crisis, and the successful central design and delivery of a major public-sector reform agenda, requires to be informed by a more clearly-articulated positive perspective on the future of the Irish economy, society, environment and state.

In key areas of policy there is a risk of divergent articulations of Ireland’s challenges and the purpose of public policy: enterprise policy as an aid to individual entrepreneurs, welfare as a defence of passive transfers and existing services, environmental policy as conservation of nature against economic activity. This approach, drawing on and emphasising divergent worldviews and interests, closes off the search for practical innovations or new thinking that can generate more positive outcomes and, indeed, redefinition of interests.

NESC seeks to articulate a more unified developmental perspective on the future of Ireland’s economy, society and environment. In each of these spheres, the role of the State should be to enable upgrading and transformation in the ‘private’ sphere—whether firms, households or associations. Drawing on earlier thinking by the Council and others, this can be summarised as follows:



This is a more unified developmental perspective, *within which* inevitable conflicts can be resolved. It would allow the reform agenda to be built around understandable economic and social projects—such as business development, learning, activation, agri-food, care—seen as framework goals. It could enlist a wide range of stakeholders to the mission of creating services and interventions that are customised, bundled and continuously revised. It could explain the higher-level public transformation and reform agenda as aimed at creating, at the centre, national policy processes, organisations and information systems to support front-line quality, accountability and responsiveness. It reflects a clear view on the role of the state in enabling a competitive, dynamic, high-employment, sustainable economy and a cohesive society. Relying on standard precepts of public sector modernization—such as ‘joined-up government’, ‘leadership’ and ‘evidence-based policy’, it will be impossible to communicate the purpose and thrust of the reform agenda.

This perspective is positive in that it builds on the existing strengths of parts of the Irish public system. It is practical in that it does not set impossible hurdles (derived from Silicon Valley, on the one hand, or Scandinavia, on the other) for Irish policy to jump, or ideal ‘models’ that Ireland might aspire to. It is urgent, because the success of the fiscal correction and public-reform agenda (in achieving the ultimate goals of sustainable prosperity and social inclusion) will depend on whether the public system we build now is in tune with the economic, technological and social realities that will prevail in the years ahead.

Overall, the journey from boom to bust, and the struggle to find a way through the consequent five-part crisis, has highlighted the fact that strategies and policies can only be provisional starting points; what is critical is good systems for monitoring success and failure and institutional arrangements capable of review, learning and policy adaptation. The Council wants both to draw attention to that feature of the current context and be a part of the necessary system of evidence gathering and review.

