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# FOREWORD

Ireland's society and economy have been transformed over the past 15 years or so. This country is now one of the wealthiest in the world and the standard of living of its inhabitants has significantly improved. Business has flourished and Irish entrepreneurs are at the cutting edge of global enterprise. Ireland has become a modern and forward looking nation, confident to compete on the world stage across all aspects of business and society.

Despite our recent prosperity, however, many challenges remain. The economy is now facing an uncertain period as the domestic sector (housing and consumer spending) is starting to slow while the traded sectors remain stifled by years of lost competitiveness. The next government must quickly confront this threat and recognise an important element in maintaining our future prosperity is to foster a recovery in the traded sectors in order to compensate for the pending slowdown in domestic activity.

The next government must also grasp the challenge of addressing an important range of quality of life issues. Economic recovery has failed to result in a sufficient improvement in the planning and provision of public services and the well-being of our citizens. Our transport infrastructure, health and education and the quality of public services generally all remain suboptimal. Inadequate housing availability and affordability continue to curtail the economy's potential and place a significant burden on young people, in particular. These are all issues that impact on Ireland's ability to attract and retain high quality mobile labour and investment. Notwithstanding the considerable progress that has been made in the fight against poverty, more needs to be done to ensure that all members of society, in particular those on fixed incomes, share fully in the fruits of economic success.

A prosperous enterprise sector has been at the core of Ireland's transformation. The rapid growth in employment and incomes has been central to improved living standards. The subsequent surge in tax revenues has allowed government to invest in much needed infrastructure and help the less well-off in society. Enterprise has been a critical ingredient in ensuring that Ireland optimises the potential of all its physical, natural, social and human resources. IBEC understands the challenges facing the next government. Our members experience on a daily basis how difficult it is to stay ahead in an increasingly competitive global market. The challenge for the next government in maintaining Ireland's economic prosperity in the face of growing international competition is equally difficult.

IBEC has carefully considered the nature and extent of these difficulties and has a clearly thought-out vision and strategy on how they can be overcome. The first section of this document provides a succinct analysis of the difficulties and challenges currently facing Ireland's economy. The second section sets out the strategic framework needed to ensure that Ireland's prosperity is maintained. It explores the need to restore competitiveness; improve quality of life; and ensure that all members of society share in the benefits of Ireland's success. The essential component in making all of this happen is a strong enterprise sector. Finally, the last section of the document provides the detailed policy priorities which the next government must take on board in order to ensure that Ireland's prosperity is maintained in the coming years.



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# 1. ECONOMIC CONTEXT AND CHALLENGES

## 1.1 MACROECONOMIC OUTLOOK

The past decade has been one of unprecedented economic growth and prosperity. The economic recovery has been made up of two very distinct eras, however. The first - from the mid 1990s to 2000 - was one of strong economic growth primarily based on a buoyant manufacturing sector and a strong contribution from the traded sectors of the economy. Since 2000, however, the components of economic growth have changed significantly with housing activity and consumer spending now the main drivers of growth.

Another significant difference between the first and second phases of economic recovery is inflation. Cumulative inflation in the seven year period from 1993-1999 was 14.3%, while over the following seven year period from 2000-2006 it was 30.7%. Over this period wage inflation has been more than double that in our main trading partners. The impact of higher inflation and falling competitiveness on the traded sectors of the Irish economy has been stark. Merchandise exports have remained stagnant for the past five years as Ireland's rising cost base has meant that manufacturers have struggled to compete in international markets. This has occurred at a time when the global economy has performed exceptionally well and international trade has expanded rapidly. Ireland's share of global merchandise trade has declined each year since 2002. Given the current slowdown in the US economy, the coming years could well prove even more challenging for Irish firms looking to compete in international markets.

While most of Europe experienced a rapid slowdown in economic growth since the technology downturn and the 2001 terrorist attacks, Ireland was well poised to benefit from the resultant cut in euro area interest rates. Accommodative monetary policy, favourable demographics and a strong labour market performance all combined to ensure a rapid expansion in housing activity. While the rest of Europe remained in a slump, strong domestic demand in Ireland compensated for the downturn in the traded sectors and maintained high economic growth rates.

As the euro area is now recovering, monetary policy is tightening and the housing boom is

coming to an end. The past five years, in particular, have seen unsustainable growth in housing activity. Ireland's economy is now more reliant on the housing sector than that of any other OECD country - the sector currently accounts for about 10% of GNP. While strong demographics will continue to result in higher than the EU average demand for new housing, medium-term housing demand is in the region of 20%-30% below the 2006 output level.

Over the lifetime of the next government, the housing sector is therefore likely to be a drag on economic growth. Ireland's economic prosperity can of course be maintained but only if this decline in domestic demand is compensated for by a recovery in external demand. Restoration of Ireland's traded sectors is thus the greatest economic challenge facing the new government.

## 1.2 COMPETITIVENESS TRENDS

Ireland's competitiveness is a function of both its cost base and productivity performance. Strengthening competitiveness helps Irish companies trade in international markets and ultimately improves living standards. Falling competitiveness on the other hand damages the traded sectors of the economy and is a threat to Irish jobs. Throughout much of the 1990s Ireland's unit cost performance compared very favourably with that of our main trading partners and our productivity performance was one of the strongest of developed economies. The 'win-win' impact on competitiveness meant that enterprise prospered, taxes on labour and investment were cut and living standards improved. Strong competitiveness delivered an improved quality of life for all.

Since the start of this decade Ireland's competitiveness has been substantially eroded. Wage growth well in excess of that in the countries with which we compete and higher than average inflation over a number of years has driven up Ireland's cost base. Around the same time as our costs started to accelerate, our productivity performance began to wane. In fact when the impact of the high-tech multinational sector is excluded, the productivity performance of the Irish economy has been decidedly ordinary

in recent times. Our competitiveness has therefore been dealt the double blows of rising costs and falling productivity.

Ireland can no longer sell itself as a low cost base for mobile investment and much of our manufacturing sector will remain under threat from cheaper locations. Neither, however, can we trumpet our technological capacity as years of under-investment in R&D and innovation has left us leagues behind the leading R&D performers such as the Nordic countries. After a number of years during which our falling competitiveness was masked by largely debt fuelled domestic demand, we could face the prospect of eroded competitiveness - if left unchecked - translating into lower economic growth and rising unemployment.

### 1.3 FISCAL POLICY AND PUBLIC FINANCES

The current government leaves office with the public finances in excellent condition. Higher than forecast economic growth for much of the last decade has resulted in exchequer revenues far in excess of those required to meet current expenditure requirements. This has facilitated increased capital investment while also allowing a considerable reduction in the debt burden.

While all tax revenue streams have grown strongly over the past decade, the performance of individual tax heads in more recent years has mirrored that of the economy generally. Exchequer finances have thus become increasingly reliant on the property sector and consumer spending. Since the start of this decade revenue growth from stamp duty, capital gains and VAT have far exceeded that from the productive elements of the economy. These windfall revenues from exceptional buoyancy in the property market and strong consumer spending have provided a particularly strong boost to the exchequer finances in recent years. With a slowdown now imminent in both these sectors, the public finances must adjust to more moderate growth in tax revenues. Strong employment growth and a vibrant enterprise sector can continue to provide the tax revenues needed for the provision of high quality public services and investment in much needed infrastructure but it is unlikely that the next government will enjoy the same degree of tax buoyancy as that experienced in recent years.

Current government expenditure has risen rapidly. The IMF has been critical of the pro-cyclical fiscal policy of recent years. The rapid growth in current expenditure has added to the inflationary pressures already evident in the economy and has contributed to Ireland's falling competitiveness levels. In particular, the increase in the number of public sector employees and pay has led to a crowding out of the private sector.

Successive governments have reduced the tax burden for labour, investment and enterprise. Ireland's low taxation strategy has been central to the economy's performance over the past decade or so and many other developed countries have tried to emulate our taxation policies. A number of European countries, in particular, have recently reduced corporate and income taxes.

The commitment to a low corporation tax rate has enhanced Ireland's ability to attract mobile capital investment in an increasingly competitive global economy. Developments in other countries, however, mean that what was once a significant competitive advantage might quickly be eroded. International tax competition is becoming increasingly complex and now involves much more than just offering a low tax rate. Attractive capital allowance structures, favourable treatment for interest and borrowings and other financial structures are all part of an attractive tax regime for business.

The challenge for the next government will not just be to protect our current corporation tax regime against tax harmonisation proposals at EU level, but also to ensure that Ireland's taxation offer remains competitive in the face of tax reform measures across a range of countries.

### 1.4 ECONOMIC CHALLENGES

Despite the fact that Ireland continues to benefit from the most sustained period of economic success and prosperity in its history, the next government must take urgent policy action if an economic slowdown is to be avoided. The following are the key economic challenges which it must address:

- Restoring the traded sectors: Ireland's falling competitiveness has meant that exporters have lost considerable market share in recent years. For a small island economy, our ability to sell our goods and services abroad remains key to our future prosperity. Unless the next

government does more to help Irish businesses compete in international markets it is inevitable that economic growth and living standards will decline

- Controlling inflation: the recent rise in inflation has been damaging for workers and business. Workers have seen much of their pay increases given up in the form of higher prices while businesses are finding themselves under further pressure internationally as Ireland continues to price itself out of the market. The government has a key role to play in ensuring that it does not add to inflation through excessive price growth in the services it provides itself, through the wages it pays to the public sector or through excessive growth in public expenditure generally
- Maintaining a competitive taxation regime: the competitiveness of Ireland's corporation tax regime is under pressure on a number of fronts. The proposed harmonisation of EU corporation tax systems could damage Ireland's ability to attract and retain multinational investors and could ultimately result in a shortfall in the public finances. A second threat is also emerging in the guise of increased tax competition from other jurisdictions. Innovative and proactive tax policy is therefore required in order to ensure Ireland does not fall behind its competition
- Managing globalisation: globalisation brings a range of threats and opportunities to the Irish economy. Irish firms can now compete in a greater number of international markets and increased capital and labour mobility enhances Ireland's ability to secure foreign direct investment. Ireland has also seen the negative impacts of globalisation, however, as greater job churning leads to higher redundancies. It is not possible to prevent all future company closures and job losses but the next government must ensure that appropriate labour market supports are provided to help those who are made redundant to quickly become re-integrated into the labour market
- Addressing infrastructure gaps: despite a decade of record investment levels and the recent completion of the last NDP, considerable infrastructure gaps remain. Our transport network remains under pressure and congestion continues to limit the efficiency of the economy and reduce quality of life. The next government must stay true to recent commitments on infrastructure investment irrespective of any deterioration in the public finances.

## 2. FRAMEWORK FOR SUSTAINED PROSPERITY

### 2.1 ENTERPRISE - THE ESSENTIAL INGREDIENT FOR PROSPERITY

The framework for building a more prosperous and inclusive society has been agreed by the social partners and clearly set out in the Towards 2016 Agreement. Working to deliver on the details of the Agreement must remain a key priority for the next government. Delivering a more prosperous Ireland will be dependent on ensuring that the economy restores its competitive position; quality of life issues such as education, health, housing and congestion are addressed; and that everyone in society can share in the fruits of Ireland's success.

As a nation we can only achieve our full potential by making the most of all the social, human, natural and physical resources at our disposal. The essential ingredient in bringing these together to form a prosperous society is enterprise. Rather than viewed as the beneficial third party in economic activity, government must acknowledge enterprise as a partner and driving force in building a better society and not just a better economy.

Recent governments have recognised the importance for all of promoting enterprise and providing an environment that rewards entrepreneurs, but some elements of Irish society still regard successful enterprise and an inclusive society as mutually exclusive. This is clearly not the case. A prosperous enterprise sector provides the platform for individual fulfilment for those at work and the resources necessary to care for those unable to work. A country in which all elements of society work together to optimise the return from its available resources is best placed to compete internationally.

Support for enterprise must be the centrepiece for the next Programme for Government. It is only through a prosperous enterprise sector that Ireland's economy can remain competitive internationally; successful enterprise and strong employment are prerequisites for improving quality of life; and the less well off in society can only be helped once enterprise has generated the resources necessary to do so.

### 2.1 RESTORING IRELAND'S COMPETITIVENESS

Falling competitiveness is costing Ireland jobs and threatening its economic stability. The next government can help restore lost competitiveness but it will be a difficult task requiring focused policy interventions over a number of years. It will require a government which is committed to reducing Ireland's cost base and raising the productivity performance of the whole economy.

Government can reduce Ireland's cost base by:

- adopting appropriate fiscal policy
- controlling the price of publicly administered services
- addressing high energy costs
- helping reduce labour costs.

The next Programme for Government can boost the country's productivity performance by:

- providing increased support for R&D
- addressing remaining infrastructure gaps
- prioritising investment in training and education
- ensuring that Ireland's public sector operates at a world-class efficiency level.

### 2.3 IMPROVING QUALITY OF LIFE

For many people today, income prosperity has not been translated into an improved quality of life. Chronic congestion, inadequate housing provision and poor quality of public services often mean that although people have more material wealth than a decade ago, their daily routines are more difficult. Quality of life issues make Ireland a less attractive place in which to live and work, damage the economy and ultimately impact on individuals' happiness.

The planning and provision of high quality public services must be a priority for the next government. It must ensure that our transport system works more efficiently; housing is more affordable and available where people work; our education system matches the needs of a modern and wealthy society; and health services are accessible and efficient.

Government must also ensure that all parts of Ireland are facilitated to maximise their own potential. The Greater Dublin Area (GDA) continues to suffer from the failure of previous administrations to promote balanced regional development. The new National Development Plan (NDP) provides the opportunity to prioritise investment in the hubs and gateways identified in the National Spatial Strategy (NSS) and thereby develop effective counter-balancing growth centres to the GDA. Prioritisation of resources is difficult for any government but ultimately it is the key to improving the quality of life for those living in both Dublin and the regions.

#### **2.4 SHARING THE FRUITS OF ECONOMIC SUCCESS**

All members of society must be provided with the opportunity to fully share in the benefits of Ireland's economic prosperity. Substantial progress has been made in this regard over the past 15 years. A strong enterprise sector and good labour market policies have meant that unemployment is near record lows and more households than ever now receive a weekly or monthly wage. Low income taxes mean that those at work in Ireland enjoy among the highest take-home pay packets in the world. Our social welfare system has also improved and particular progress has been achieved in recent years in improving the living standards of pensioners and others on fixed incomes.

Social exclusion and poverty still exist, however, and the next government must remain focused on addressing the plight of the less well-off in society. Promoting an inclusive labour market will be central to this and fostering strong employment opportunities coupled with low labour taxes must remain the starting point in the fight against poverty. The role of education and training is critical in addressing the impact of early school leaving and assisting those with low skills in re-entering the workforce. Economic recovery has not yet eliminated poverty from Irish society but further progress in poverty reduction will be much easier if government supports a successful enterprise sector which can in turn provide strong employment opportunities.

## 3. OUR POLICY OBJECTIVES

### 3.1 FISCAL POLICY

Since Ireland no longer has direct control over monetary policy, effective fiscal policy is critical for economic stability. Inappropriate fiscal policy has added to the imbalance in the Irish economy in recent years and has been partly responsible for inflationary pressures and falling competitiveness. Expansionary fiscal policy has primarily taken the form of excessive growth in current expenditure. The next government can use fiscal policy to redress these difficulties by:

- Maintaining a low taxation policy which provides a strong incentive to work and promotes enterprise and investment. In relation to income tax the preservation of a low effective tax take is essential and full indexation of tax bands and credits must be maintained in every budget
- Not increasing taxes on labour through increasing PRSI rates or failing to fully index thresholds
- Vigorously defending Ireland's tax sovereignty and resisting all attempts at EU level to harmonise corporation tax
- Ensuring that Ireland's taxation offer remains competitive in the light of tax developments in alternative investment locations
- Curtailing current public expenditure and accelerating capital investment at the appropriate time in the business cycle

### 3.2 BUILDING AN INNOVATIVE ECONOMY

The launch of the Strategy for Science, Technology and Innovation (SSTI) and the investment announced for science, technology and innovation in NDP II were very welcome. What is needed now is a concerted effort to deliver on these announcements and to continue striving towards a vision of an Ireland internationally renowned for its excellence in research. However, to underpin this goal, there are a number of issues that must be resolved:

- The continued success of Ireland in attracting value added R&D should be underpinned by our maintenance of a competitive tax regime. The changes in the last Budget to the base year for calculation of R&D Tax Credits was most welcome. However, it is still not volume based and the issue remains of small indigenous companies who are unable to claim credits as they are not yet profitable. We

would welcome an opportunity to discuss this issue further with a view to a change of policy

- There is a need for research into the teaching of mathematics and sciences, in primary school and continuing on to Junior Certificate level. By merely concentrating on the falling numbers taking these subjects for the Leaving Certificate, structural difficulties within the education system regarding the teaching of sciences, mathematics and information technology further down the pipeline are ignored. If we are serious about developing a knowledge based economy, this issue needs to be tackled urgently
- With regard to innovation, the SSTI makes little mention of innovation policy and equates innovation with research and development. There is little mention made of innovation in the public sector, an area which will be of growing importance over the lifetime of the NDP as increased value for money is sought. There is a need for a comprehensive national innovation policy encompassing both the public and private sectors
- We would caution that detailed work programmes in the areas of science and technology investment are vital if all of the money earmarked for investment is to provide the tangible outcomes that will progress our economy over the coming years. There is also a danger that merely spending vast sums of money on research and development will not produce the results aspired to in the Strategy. Like all investments, a business case for investing in specific areas of science is vital. Merely throwing resources at aspirational targets will not deliver the desired effects. It is important to remember that R&D spending is an input, not a measure of efficiency, effectiveness or productivity.

### 3.3 BALANCED REGIONAL DEVELOPMENT AND THE NATIONAL DEVELOPMENT PLAN

There is a high level of convergence in the areas of concern among IBEC's regional members. The NDP, with its investment prioritisation, must go further to providing the 'meat on the bone' of the NSS. The contribution of the next NDP to delivering balanced regional development is its most important horizontal consideration. Ireland will only achieve its full potential when all regions of Ireland can contribute fully to the economic, social and cultural strength of the nation.

- Business, irrespective of location, requires world-class business infrastructure in terms of transport and supply chain management, broadband, business property, energy, environmental services, education, training, marketing skills and R&D. The NDP provides the budgetary framework to build this infrastructure 'in advance of demand' in all regions thereby stimulating business development as the vehicle for social and economic development of all parts of the Island
- Comparing the quality of infrastructure in different countries has never been easier. Potential customers and investors visiting Ireland expect to see a developed, technologically advanced country. The infrastructural deficits that have become apparent damage this perception, just as they impact on how companies carry out their business. If Ireland is to continue to grow and develop our economy over the coming decades, then we must be progressive and strategic in our planning for both hard and soft infrastructure.
- Finally it is critical that the next NDP is output orientated and flexible in terms of approach. The last NDP suffered from being driven by the need to spend the allocated budget rather than setting out to achieve defined results - this must change. With the backing of a good strategy, a plan that is goal orientated and which emphasises value for money will provide a foundation for success.

### 3.4 TRANSPORT INFRASTRUCTURE

Investment in transport infrastructure must continue with vigour. It is vital that priorities detailed in NDP II and Transport 21 are delivered within the timeframes envisaged. IBEC's Transport and Logistics Council has identified five core areas for crucial infrastructural development:

- Continued road and rail improvements
- Increased passenger and freight capacity at national and regional airports
- Seaport capacity expansion
- Improvement of strategic market access corridors
- Logistics and supply-chain optimisation.

Coherent and complete national policies must be prepared, particularly for the development of

Ireland's ports and airports. Strategic investment decisions made by companies from all sectors will be driven by the prospect of real and timely infrastructure development. For businesses to remain competitive and Ireland to remain an attractive location for foreign direct investment, clear commitment to the country's transport priorities is required from government. The broad level strategy has been provided but the next government must deliver on specific project commitments within time and budget.

### 3.5 ENERGY AND ENVIRONMENT

Provision of secure and cost effective energy is critical for a competitive enterprise sector. Ireland continues to have a high reliance on imported fuel sources and energy costs here are well above those in our main EU trading partners. The next government must also address important issues in relation to climate change and the role of local authorities in providing environmental services. Key priorities in the area of energy and environment include:

- The ever increasing burden of local authority charges on business must be addressed. The base for local charges must be broadened, the services must be provided more efficiently and the accountability of the system must be improved
- IBEC believes a new climate change agency must be established so that the cross-sectoral and cross-departmental policies and measures in the National Climate Change Strategy are implemented in a coordinated manner
- Government must fully exploit the potential of business to provide solutions to climate change by meaningfully incentivising the development and commercialisation of low carbon technologies such as renewable energy, alternative fuels, and forestry, to name but a few
- With security of supply and energy costs affected by our 90% dependence on imported fossil fuels, and environmental commitments to carbon abatement, Ireland must evaluate all energy technologies that may be used to meet growing demand. As an alternative technology the potential of nuclear energy in Ireland must be debated in an open, informed and timely manner

- To improve the infrastructure stock of the country the Strategic Infrastructure Act must be made fully operational and underpinned by significant reform of the High Court to expedite planning appeals
- Regulatory uncertainty, caused by the prolonged consultation on a regulator, is deterring much needed investment in the waste sector. National clarity and coordination is required without delay
- The Energy Efficiency Action Plan must be published without delay, backed by sufficient ambition and resources. Given its importance, the level of support for energy efficiency in the 2007 Budget and in the 2007 - 2013 NDP was very disappointing
- The East- West electricity interconnector is critical to improve security of supply and fuel diversity and delivery must be fast-tracked
- A clear path must be articulated as to how the appropriate investment in Ireland's energy market can be attracted in the short to medium-term, including a diverse portfolio of plant and fuel mix and back-up generation for renewables. Ireland must enhance electricity generation capacity and increase competition in the electricity and gas sectors.

### 3.6 PUBLIC SECTOR EFFICIENCY

An efficient and agile public sector is a prerequisite for a competitive economy. In contrast with trends in other developed countries, Ireland's public sector has expanded rapidly in recent years. The high cost of providing public sector pensions has meant that considerable liabilities have been built up which will adversely impact on public finances in years to come. IBEC remains very concerned about the substantial public sector remuneration premium that has developed and expects that the upcoming Benchmarking exercise will address this. Despite the vast increase in resources allocated to the public sector over the past decade or so, the quality of service provision remains sub-optimal in a number of areas.

In order to improve service quality and secure improved value-for-money from public services the next government must:

- Ensure that the upcoming Benchmarking exercise is conducted in an open and

transparent manner and involves full quantification of all aspects of remuneration, in particular pensions and job security, when comparing public and private sector employment

- Improve awareness among public sector employees and the public generally of the value of public sector pensions. All public sector recruitment should involve full quantification of the associated life-time pay and pension cost implications
- Prioritise resources to the provision of frontline services rather than administrative functions. Investment in IT and process improvements must go hand-in-hand with productivity improvements
- Deliver a world-class public sector which provides excellent services to businesses and individuals

### 3.7 POVERTY AND SOCIAL INCLUSION

There has been significant progress in addressing social and economic exclusion in recent years. Nonetheless, outstanding issues include some persistent long-term unemployment, the exclusion of a number of marginalised groups in Irish society and tackling areas of high deprivation. The challenge for the next government will be to continue to create and sustain the best possible economic conditions to deliver improved standards of living, good quality social services and support for those most in need. The guiding principles should be affordability, targeted support, empowerment and policy integration.

- Tackling social and economic exclusion in a sustainable and effective way requires the implementation of affordable policies. Value for money and the ability to pay must be critical components of any future policy in this area
- Resources should be aimed at those most in need. Vulnerable groups, such as people with disabilities, should be supported and, where possible, given the opportunity to take up employment
- A move towards a culture which empowers individuals to take responsibility for their own circumstances is essential to delivering an inclusive society

- Social inclusion structures and procedures across government, at national and local levels should be fully integrated and adequate monitoring mechanisms for all programmes put in place.

### 3.8 EDUCATION AND TRAINING

Investment in education and skills, both by individuals and society, will return significant economic and social benefits. Globalisation and new technologies bring change; human capital, acquired by education and training, is required to meet this challenge. Social equity and economic arguments suggest that renewed efforts are required to address the problem of early school leaving and to broaden participation in third level. This requires long term investment in primary education, strengthening careers guidance in schools, increasing the proportion of part-time students and treating them on the same basis as full-time students in respect of fees, and stimulating the demand for lifelong learning.

- More investment in pre-school education is required and a more holistic approach to addressing the needs of children at risk is needed. Investment at this stage is more successful at addressing educational disadvantage than later interventions
- Achieving substantial increases in student participation in science, mathematics and technology subjects at second and third level must be a national priority. Particular attention should be paid to reviewing assessment and teaching methods, together with improved laboratory and IT infrastructure
- Given the rapid and fundamental changes in the population, integration, and particularly language training, should be given a high priority in all language and training programmes
- A variety of responses are required to encourage lifelong learning including investment in training for those at work, measures to address adult literacy and flexible options for adult learners. Accreditation of prior learning outside the formal system must also be addressed.

### 3.9 REGULATION AND BUSINESS ENVIRONMENT

The regulation of business is a key competitiveness issue. Both overregulation and underregulation can stifle investment and market activity. Getting the proper balance requires analysis and consultation in order to make it fair and workable. IBEC's principal concern in this area is with the lack of analysis manifested too often by reactive and rushed regulation and inadequate scoping of responsibility.

IBEC's key priority is the adoption of an effective regulatory impact analysis for all new legislation to ensure that the consequences and structures of the proposed legislation are properly thought through in advance. This means looking at issues including:

- what the problem is that the legislation seeks to address
- the effectiveness of current enforcement mechanisms
- what alternatives are available
- a cost benefit analysis of the proposal
- the results of the consultation with those impacted by the proposal.

It also entails publishing the results of the analysis and allowing an informed debate to take place on the draft legislation. We believe this is the proper basis for better regulation in a developed economy such as Ireland's.

While regulatory impact analysis has been formally adopted by government we have yet to see any significant delivery or activity on it within the public service. We need to see greater impetus towards tackling what is a significant competitiveness issue.

### 3.10 IMMIGRATION AND INTEGRATION IN A MULTICULTURAL SOCIETY

After 15 years of pronounced inward migration, there are now over 420,000 non-Irish nationals living in Ireland. They are a vital source of labour for businesses in Ireland and skilled migrants have contributed positively to the continued growth of the economy. The government's decision to concentrate on upskilling the workforce, maximising the potential of EEA nationals and putting in place an employment permit strategy that attracts highly skilled migrants to Ireland is what is needed. However,

for this to be effective, processes have to be practical as well as strategically planned for the longer-term:

- The effects of the recently enforced Employment Permits Act, 2006 and the related schemes need to be kept under review to ensure that they are the most appropriate and efficient possible
- Efforts should be made to increase the transparency of information around the various permits and visas in operation so that individual users and their prospective employers are clear as to the terms and conditions of their permission
- The expected Immigration, Residence and Protection Bill needs to ensure that a clear and coherent legal framework is put in place that is suitable for its purpose and does not place undue burdens on future users
- A comprehensive integration policy needs to be developed.

### 3.11 PENSIONS

The priority is to have a responsible and efficient pensions system that encourages individuals to supplement a decent state system. The current state pension support is inadequate and this results in a disproportionately heavy reliance placed on supplementary pensions including occupational pensions. Defined benefit schemes are especially costly for employers and, for most, simply bridge the gap between a low State pension and an adequate retirement income. With longer retirements this will increasingly cost more to provide for. For this and other market and regulatory issues, companies offering defined benefit schemes have seen their pension costs rise significantly in recent years and this is leading to the demise of such schemes. IBEC believes a better state pension together with focussed tax incentives, would help stem this and would also help support and encourage employers more generally to provide good occupational schemes. In particular, we believe the following initiatives are necessary:

- Increase the State pension
- Retain the current voluntary occupational pensions system
- Amend the current funding standard by removing its reliance on annuity rates and/or

breaking the link to a wind-up standard and/or remove indexation from it

- Standardise pensions tax relief at the higher tax rate for all taxpayers
- Provide state support for small companies offering pensions to employees
- Independently review the sustainability of public service pensions costs

In conclusion, IBEC welcomes the government's Green Paper as the beginning of a much-needed national debate on pension policy and looks forward to a pro-active response from the next government.

### 3.12 DEVELOPING THE ALL-ISLAND ECONOMY

Over a period of more than fifteen years, IBEC has supported the Joint Business Council strategic partnership with CBI Northern Ireland. The Council's overall objective is to champion business co-operation and to promote a climate conducive to competitive business and prosperity for both parts of the island, on a sustainable basis.

The Joint Business Council welcomed the 2006 comprehensive study on the All-Island Economy from the British Irish Intergovernmental conference. This sets out a blueprint for collaborative investment in areas including infrastructure, science and technology, trade and tourism promotion and labour market and skills development.

The Joint Business Council calls on the next government to support the co-operative approach to economic growth and development as set out in the comprehensive study.

More importantly, however, the formation of a new devolved Executive in Northern Ireland from May 8th next provides the context for a reordering of business and wider economic relationships on this island – and between these islands. Accordingly, JBC asks all political parties in the Republic to abandon any remaining vestiges of the partitionist psychology which has undermined community and business relationships on this island for over eighty years. We call on the parties to embrace policies in the economic and social spheres which are fully inclusive in respect of the development needs of both parts of this island.