Chapter 4

Boosting competitiveness and raising living standards

Living standards in Ireland will remain high, despite the severe contraction, but stronger structural policies would encourage sustainable long-run growth. Hard times can be a good time to make overdue reforms and these would also help improve competitiveness. Policies are already favourable to competition in many respects, but market forces are weak in the network industries and parts of the services sector. Prices could be lowered by measures to increase competition. The infrastructure has been upgraded but more investment is needed, although plans in the short term need to adjust in light of budgetary constraints, and the efficiency of infrastructure use could be improved. Ireland has benefitted from past improvements in education. While performance is good, there is scope to improve educational outcomes. Pre-primary education and in-work training should ultimately be increased. Innovation spending has increased rapidly but from a low base. Achieving environmentally sustainable growth is a major challenge and it will be difficult for Ireland to meet its commitments to reducing carbon emissions. While environmental policy has improved, there are significant weaknesses in management of waste.

Living standards in Ireland measured by national income per capita in PPP terms will remain among the highest in Europe, even though the economic contraction is more severe than in other euro area countries. However, GNP per capita will have fallen substantially during the downturn. Ireland retains many economic advantages, including a relatively young population; a skilled workforce; and a flexible, internationally open economy. As a result, the Irish economy has the potential to expand somewhat faster than the euro area average once the crisis has passed, although at a much slower pace during the period of economic catch up in the late 1990s. However, there will remain a gap with the best performing OECD economies in terms of living standards and Ireland will be starting from a weaker initial position than reached at the most recent peak.

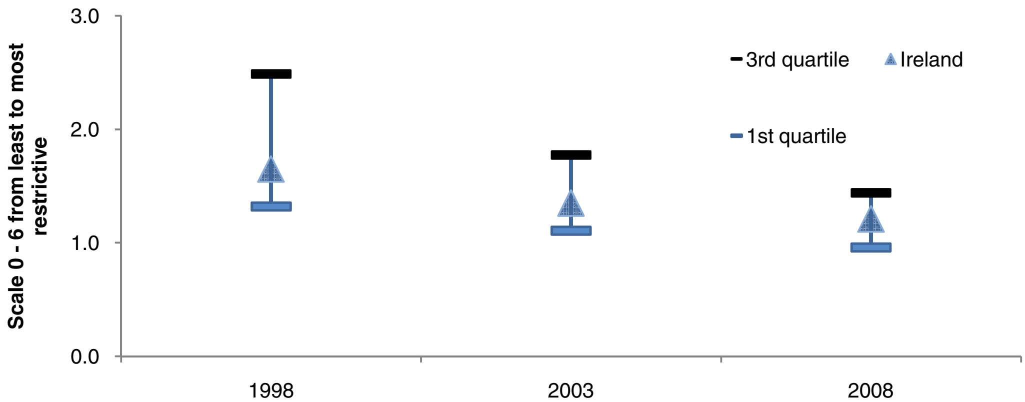
It is therefore important to take structural policy measures now to ensure that Ireland achieves strong and sustainable growth in living standards for the long term, despite the immediate pressures of restoring macroeconomic and financial stability. These issues have been extensively discussed in previous *Surveys* (OECD, 2006 and 2008) and the OECD's *Going for Growth* studies (OECD, 2009). Some of these issues are addressed in the government's framework for sustainable economic renewal, *Building Ireland's Smart Economy*, which sets out plans to support the enterprise sector, increase high-quality employment, secure energy supplies and improve the infrastructure (Department of the Taoiseach, 2008). The need for such measures is even clearer with the reversal of the credit cycle, taking with it unsustainable gains in economic performance and exposing a weaker underlying position than previously thought. As discussed in Chapter 1, it is inevitable that a number of policy settings will become less favourable to growth, particularly the higher taxes necessary to rebuilding the public finances. Improving other structural policy settings could help to offset this. In the near term, undertaking such reforms would contribute positively to the economic adjustment. In particular, policy measures that help to reduce costs would boost non-price competitiveness. Less restrictive policy settings would also assist in the reallocation of resources as the economy adjusts, including by lowering structural unemployment.

There has been some progress in many areas of structural policy, as outlined in this chapter and the annex. But, progress has often been extremely slow and piecemeal; significant scope remains to make policies more favourable to long-run growth. While it can be difficult to make reforms when the economy appears to be prospering, political economy suggests that hard economic times can be a good time to undertake necessary and over-due reforms because the need is more apparent and the bargaining power of some sectional interests may be constrained. The weak fiscal position, however, means that costly measures may have to be delayed until consolidation has progressed further or public resources are reallocated from lower priority activities. This chapter provides an overview of significant weaknesses that need to be addressed, in addition to those to boost labour market participation discussed in Chapter 3.

Competition is weak in some sectors

Competition is important to achieving an efficient allocation of resources, high productivity and keeping prices low, making it a key part of ensuring that the Irish economy is competitive. The regulatory environment for the business sector is fairly light-handed and competition friendly. However, while this was a clear advantage for Ireland relative to other OECD countries a decade ago, a faster pace of reform in the most regulated economies implies that Ireland is now close to the OECD average, despite some further liberalisation of Irish markets (Figure 4.1). It is relatively easy to establish a new business, administrative burdens are fairly light and it is easy for foreign firms to enter the Irish market. However, the burden of different licences and permits is relatively heavy, the government remains heavily involved with providing infrastructure, and barriers to entry in the network industries remain higher than the OECD norm (Wölfl *et al.*, 2009). State ownership is more extensive than in some other OECD countries with government-owned firms having monopoly or strong positions in postal services, energy, health insurance, television and forestry. Such firms are likely to enjoy some competitive advantages, which is a barrier to full competition, and the efficiency and innovation it can bring. The sale of these firms after financial markets have recovered could also contribute to rebuilding the public finances. However, the most significant weakness in the regulation of product markets is in a numbered of sheltered sectors, discussed below, where competition is limited and consumer interests take second place.

Figure 4.1. **Aggregate regulation (integrated PMR) and its dispersion across countries over time**[1]



1. Level in index points, 0 = least- and 6 = most-restrictive.

Source: OECD *Regulatory database*, 1998, 2003 and 2008.

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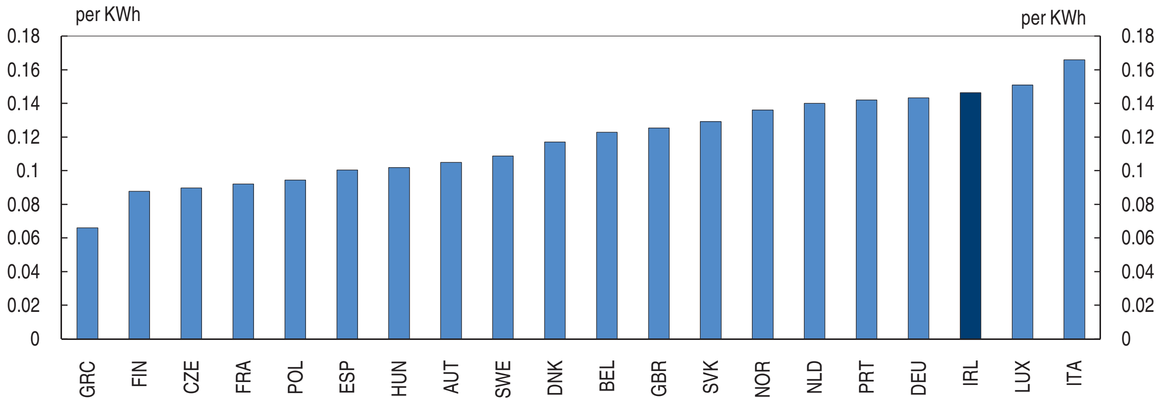
Electricity and gas

Electricity prices in Ireland are very high in pre-tax terms by European standards (Figure 4.2). Although there is legal separation between network and generation activities, these remain integrated on an ownership basis in the hands of the Electricity Supply Board (ESB). In addition, on the basis of Grid Development plans put forward by the transmission company (EirGrid), the ESB remains responsible for maintenance and capital investment in the transmission network. This proximity may discourage new entrants to the generation market through their need to connect to the grid, and there is no clear advantage in

Figure 4.2. **Electricity is expensive in Ireland,[1] 2007**



1. Electricity prices for household consumers are defined as follows: Price in euro per kWh without taxes applicable on 1 January each year for annual consumption of 3 500 kWh in euro per kWh.
2. Retail distribution.

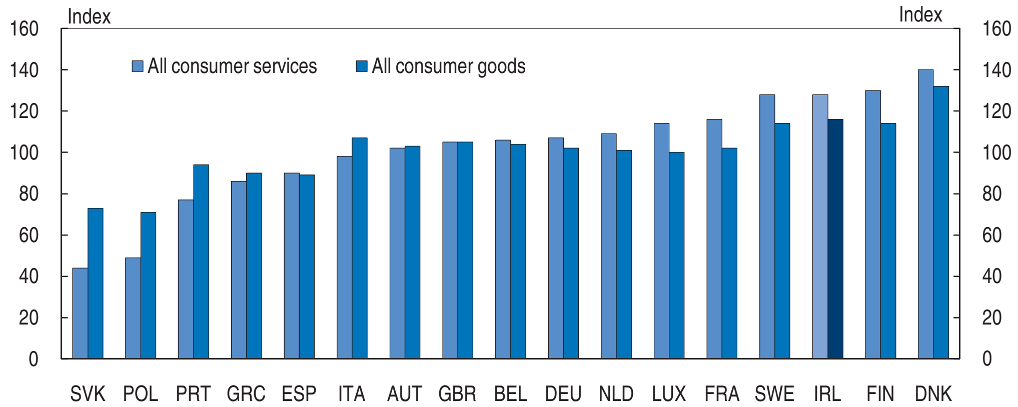
Source: Eurostat.

StatLink http://dx.doi.org/10.1787/733011378574

maintaining integration of the generation and network functions. In addition, the ESB continues to have a strong position in the all-Ireland electricity generation market, even if it has been required to divest a substantial part of its production and is on target to reduce its share to 40%, as envisaged in its agreement with the regulator. The on-going upgrading of connection with the electricity grid in Northern Ireland and the construction of interconnectors across the Irish Sea will help to raise competition. In the retail market, the ESB also holds the licence to the distribution grid. While high voltage users rely heavily on independent suppliers and these providers are also active in the market to supply small and medium enterprises, the domestic retail market is almost entirely supplied by the ESB (Commission for Energy Regulation, 2008). However, Bord Gais Eireann and Airtricity both entered the domestic retail market in 2009 and appear to be making some inroads. Further efforts should be made to increase competition in the electricity market, rather than relying on regulation, by separating the ownership of different activities. The gas market has many of the same features and Bord Gais Eireann also owns the network. This should be reformed along the same lines as the electricity market.

Prices of consumer goods and services are relatively high in Ireland (Figure 4.3). While this is partly related to high labour and land costs, weak competition explains part of the high level of prices: detailed analysis of cost differences in retail operations in Ireland compared with the United Kingdom suggests that Irish costs are modestly higher, but by less than the difference in retail prices (FORFÁS, 2008). Higher operating costs in Dublin only add 5-6% to the total cost of retail goods compared with Belfast, and stores in other cities in Ireland should be cheaper. A striking feature of this analysis is that such a wide range of goods and services used as inputs in the retail sector are more expensive in Ireland, including professional services and energy, which points to a wider weakness in the competitive pressures. The planning system is a major obstacle to new entry and greater competition in the retail sector (ICA, 2008). Caps on the overall size of retail premises prevent the entry of very large format retailers. Incumbents have the right to object to new developments and the new entrants are required to make an economic case for entry. Although there has been some entry in recent years by foreign retailers, this may have served only to dilute rather than eliminate high mark-ups. The planning system should be reformed

Figure 4.3. **Price level indices for consumer goods and services, 2006**



Source: Eurostat.

StatLink http://dx.doi.org/10.1787/733014663375

to remove unnecessary obstacles to new entrants. In the licensed trade, competition between pubs should be enhanced by reforming the licensing system. In particular, the requirement that a new licence can only be granted if another is extinguished, which keeps the total number of pubs fixed, restrains new entrants and hinders competition.

Professional services

Competition in professional services is generally low, due to a number of restrictions to entry and price competition. As a result, professional fees are high. The Irish Competition Authority (ICA) has conducted a number of studies in this area, mostly recently for veterinary practitioners. Common difficulties that emerge are restrictions on advertising, price competition, and commercial companies providing these services. Although some restrictions on who can undertake certain activities are necessary, the rules can be excessively limiting. In addition, intake into some professions has been too low to meet the need, thereby increasing the market power of qualified professionals. Self-regulation in the legal profession hinders competition for legal services (ICA, 2006). Although barriers between solicitors and barristers have been lowered, there is no independent regulator for the legal profession, as is the case in some other countries, to ensure that regulation is run in the interest of clients rather than the profession.

Pharmacies and health professionals

Limited competition in the pharmacy sector leads to high margins, but the Pharmacy Act 2007 has introduced important reforms, including the abolition of the "three-year" rule that formerly restricted the entry of foreign-trained pharmacists. The number of places to study pharmacy in domestic institutions has increased substantially, and the overall number of pharmacies has grown. Wholesale and retail mark-ups are determined on the basis of contracts between individual pharmacists and the Health Service Executive (HSE), and have historically been excessive. New legislation in 2009 gave the Minister for Health and Children the power to set new terms for payments to health professionals, and the payments to community pharmacists for wholesale delivery and dispensing have been reduced. Consideration should be given to whether additional structural changes could help to ensure that fees are at an appropriate level in light of international best practice.

The number of medical school places is also low, which contributes to high medical fees. Restrictions on the number of places to study medicine should be removed.

Competition law and practice

Ireland's competition law is distinctive in its emphasis on criminal rather than civil law to enforce the rules (OECD, 2006). The Irish Competition Authority (ICA) has no binding powers to sanction anti-competitive behaviour and must instead bring cases through the criminal courts. Although the basic legal framework is in line with other countries, criminal law standards of proof make it difficult to enforce the rules compared with other countries. There have been some successes, including the imposition of a limited number of prison sentences, but the number of cases remains small. In addition, the courts have often imposed relatively low fines. A higher probability of being sanctioned together with more severe punishments is essential as a credible economic deterrent to anti-competitive practices. Some progress has been made in both regards and the ICA has made efforts to increase judges' awareness of international best practice, but it may be useful to include clearer guidance on fines to the judiciary in the forthcoming review of the 2002 Competition Act. Furthermore, consideration should be given to whether an approach based on civil law would be more effective. The scope of competition law should not be narrowed as has been done with the exemption from its provisions of voice-over actors, freelance journalists and session musicians. Although these particular groups are small, there is no reason why their services should not be subject to the same competitive pressures as other products and services. Furthermore, allowing any exceptions risks creating a precedent and encouraging other professions to seek similar exemptions with more widespread consequences for the economy. Competition law is currently being reviewed. The proposal that government departments should be required formally to consider and respond to reports of the ICA is useful and would bring Irish practice into line with other countries. This should help to increase the impact of ICA research.

While there has been some progress in strengthening competition in recent years, overall progress has been slow (Table 4.1). The most significant changes are arguably the result of initiatives taken at the EU level rather than domestically. During the recent years of strong credit-driven growth, firms may have been able to charge high prices relatively easily and the negative impact on Ireland's competitiveness was masked by strong domestic and international demand. It is now very important to raise the level of competition through more effective policy actions.

The infrastructure has improved but further investment is required

Ireland began its period of economic catch up with poor infrastructure in many areas. Public investment accelerated as the economy expanded and has averaged around 4.7% of GNP since the start of the decade, among the highest rates in the OECD. While it is difficult to identify the exact impact of infrastructure spending on economic growth, econometric evidence from a wide range of different specifications points fairly robustly towards the conclusion that infrastructure investment can boost growth but that more is not always necessarily better because diminishing returns often set in (Égert *et al.*, 2009). The returns to investment also depend on policy: how robust the decision making process is in choosing investment projects, the existence of competitive pressures and effective regulation in network industries (Sutherland *et al.*, 2009).

Table 4.1. **Progress in structural reform: Competition policy**

Recommendations from previous *Surveys*	Action taken since the March 2006 *Survey*
Consider giving the Competition Authority power to impose sanctions. Review the Authority's staffing. Reduce the costs and delays of court proceedings.	No progress, but the Competition Act 2002 is under review.
Revise the retail planning guide to allow bigger stores.	No change but retail planning guidelines are being reviewed.
For pharmacies, replace the 50% retail mark-up with a flat dispensing fee, auction the right to run a pharmacy and abolish the "three year" rule for pharmacists who were not trained in Ireland.	50% retail mark-up reduced to 20%, partly offset by an increased dispensing fee. No auctioning of pharmacy licences. The three-year rule was abolished at the end of 2008.
Remove the ceiling on the number of pub licenses.	A Bill to reform the licensing regime will be published in 2009.
Remove unnecessary restrictions in the legal profession including abolishing the monopoly on legal training. Speed up the registration process for foreign professionals.	There have been some minor reforms regarding barristers but other competition restrictions remain in place. The government has not responded to the Competition Authority's recommendation for an independent regulator.
Integrate the electricity market with Northern Ireland and the rest of the United Kingdom. Split up ESB by separating the transmission grid from the generation capacity. Consider splitting generation into competing firms.	The All-Ireland electricity market is now in place and work is on-going to build a second North-South and an East-West electricity interconnector. The transfer of transmission assets to EirGrid from the ESB is ongoing. ESB has sold some of its generation assets to Endesa and its All-Ireland market share is now 35% with some addition through its independent trading arm.
Liberalise the bus market. Appoint an independent regulator and remove restrictions on the number of bus routes that can be operated by private firms.	Legislation is in place to facilitate the appointment of an independent regulator for the Greater Dublin Area, but this also gives the incumbent a 5-year guarantee that its routes will not be subject to open tender. Further legislation is promised to overhaul the outdated route licensing regime. The European Commission is investigating whether state aid to bus companies is legal.
Reduce state ownership.	No progress.

Substantial progress has been in upgrading the physical infrastructure. The inter-urban motorway network linking Dublin with Waterford, Cork, Limerick and Galway and the Border/Belfast, is due to be completed by 2010. This network closes a substantial gap in Irish infrastructure. In the area of broadband, regulatory issues around access to local telecommunications network have been resolved and take-up of broadband services has recently increased at a fast pace. Excluding mobile broadband, penetration rates still lag behind the best performers, although there is substantial take up of mobile broadband services in Ireland. Environmental infrastructure, where substantial investment and progress has taken place, still has some ground to make up. While the physical infrastructure in general has improved at a fast pace, consideration should also be given to measures that would help ensure that this capital is used in an efficient way through pricing mechanisms (Table 4.2), including for roads through tolls and congestion charging.

High levels of capital investment emphasise the importance of a vigorous framework for appraising capital investment. A reinforced capital appraisal and value for money framework has been put in place, which should help to ensure that the impact of investment is optimal. The weaker economic circumstances will require both a re-evaluation of projects in the light of changing needs and require even more robust selection of projects. In particular, priority should be given to those projects which promise the best contribution to economic recovery and which provide a high economic return and enhance national productivity and competitiveness

Table 4.2. **Progress in structural reform: Upgrading infrastructure**

Recommendations from previous *Surveys*	Action taken since the April 2008 *Survey*
Upgrade the infrastructure for transport, energy, waste and broadband internet. This requires substantial investment, as well as measures to ensure that investment gives the highest returns.	Public investment has been reduced substantially but remains at a reasonable rate.
Improve infrastructure planning:	
● Introduce a "silence is consent" rule to increase the incentive for planning board to comply with its statutory deadlines.	No progress.
Strengthen cost-benefit analysis for major investment projects.	A substantial capital appraisal framework is in place. CBA is a requirement for all major investment projects over € 30 million.
Allow for better use of infrastructure services through appropriate user charges:	
● Charge the full cost of providing drinking water and collecting and treating sewage.	Households continue to receive free water and sewerage collection, although meters for most non-domestic users have been in place since 2007.
● Introduce a congestion charge in central Dublin when public transport alternatives improve.	No progress.

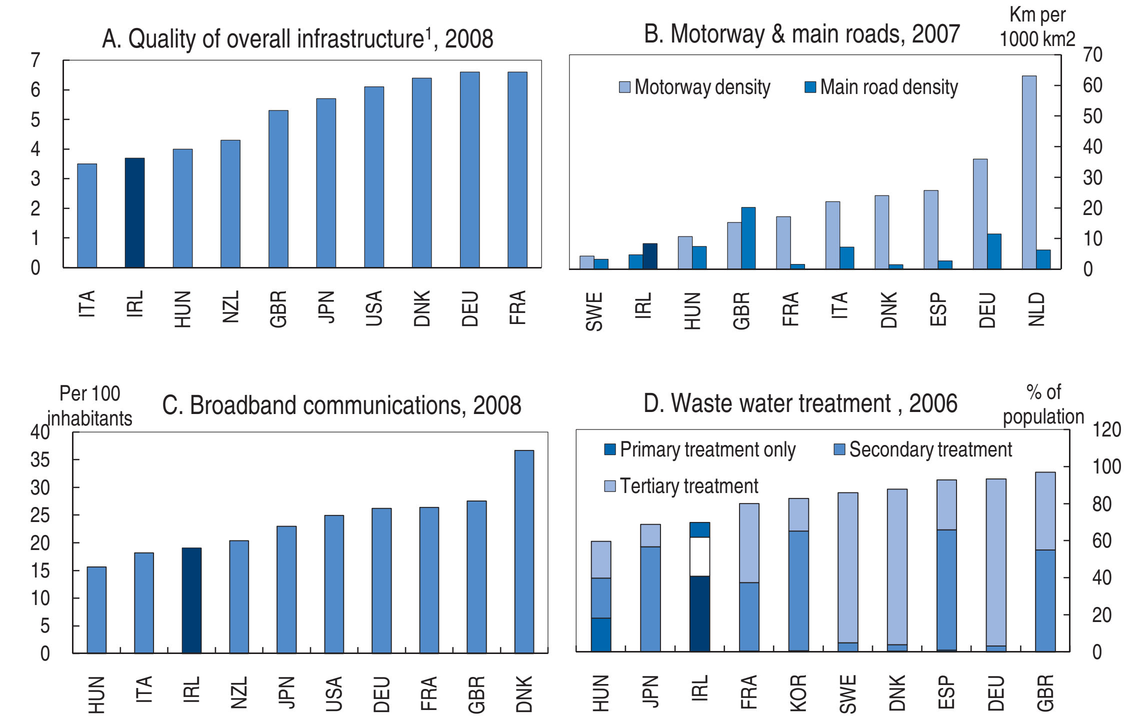
The budgetary situation places a constraint on the rate of public investment in coming years. As discussed in Chapter 2, government capital expenditure should be reduced in line with current plans. This will allow Ireland to keep making substantial improvements to its infrastructure without contributing to an excessive strain on the public finances. In the short run, infrastructure spending is likely to help to support construction demand. Lower construction tenders due to weak demand elsewhere in the economy imply better value for money can be obtained. Given the severe adjustment Ireland is undergoing, projects should be re-evaluated in light of possible changes in needs due to the new economic situation and evaluation should be extremely careful given the tight overall constraints on government resources (Figure 4.4). Finally, the Government should prioritise those projects which promise the best contribution to economic recovery and which provide a high economic return, enhance national productivity and boost competitiveness.

Education and skills are the key to long-run growth

Investment in a highly educated workforce is a key part of raising Ireland's living standards in the long run, with the rising level of educational attainment in the adult population an important factor in the increase in productivity since the mid-1990s. Given that real wages are high by international comparison and an ambitious strategy for long-term growth based on research and other skill-intensive activity, it is essential that the education system performs well. Overall, the education outcomes at secondary level are good relative to the OECD average but not as good as in the best performing countries. The proportion of the population aged 25 to 34 having reached at least upper secondary education is high but lower than in several countries (OECD, 2008b). OECD PISA scores suggest that Irish students at age 15 perform relatively well at reading, but the performance in mathematics and science is less impressive than in many other high-income countries (Figure 4.5). Measures discussed in Chapter 2 to increase public sector efficiency could also help to raise standards, including greater school autonomy.

Other features of the education system are also important for growth. Pre-school attendance in formal education remains low in Ireland by international standards, despite a considerable increase in the number of childcare places in recent years (Table 4.3). There has been a major effort to increase the number of qualified staff and only 12% of staff do

Figure 4.4. **Infrastructure**

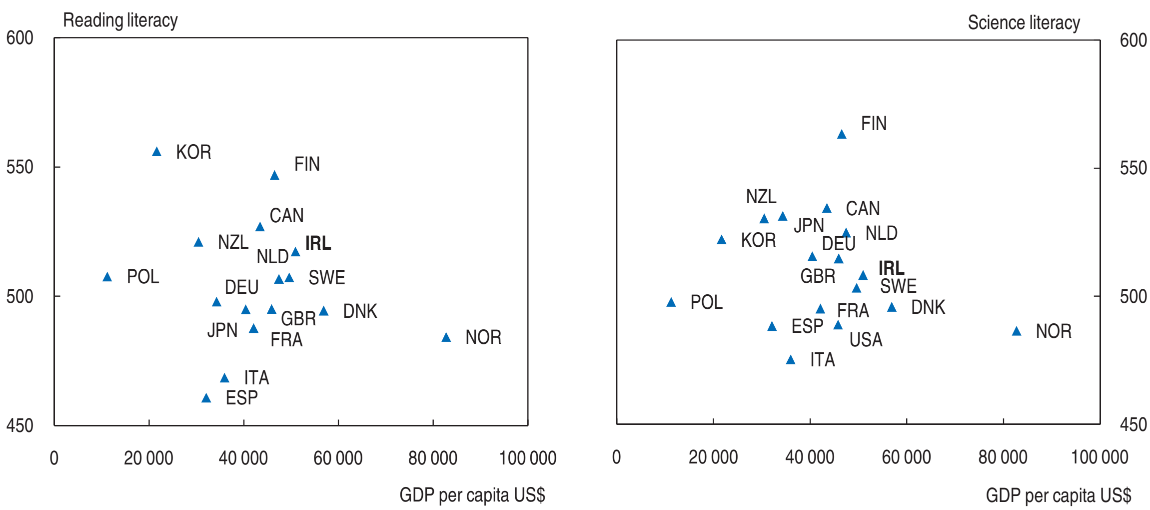


1. General infrastructure in the country is (1 = underdeveloped, 7 = extensive and efficient by international standards).

Source: World Economic Forum, *The Global Competitiveness Report*; European Commission, Directorate for Energy and Transport: *Energy and Transport in Figures 2009*; OECD Broadband Portal (2008) and OECD *Key Environment Indicators*.

StatLink http://dx.doi.org/10.1787/733055086862

Figure 4.5. **PISA scores in science are lower than in many countries**



Source: *PISA Database* 2009.

StatLink http://dx.doi.org/10.1787/733078386775

not now have formal qualifications. The introduction of the pre-school Early Childhood and Education Scheme (ECCE) from 3 years and 3 months will help to address the need for more generalised early years' education, although the hours will remain relatively short. Much later in the educational cycle, the introduction of third-level tuition fees, discussed

Table 4.3. **Progress in structural reform: Education**

Recommendations from previous *Surveys*	Action taken since the April 2008 *Survey*
Invest in pre-primary schooling by generalising pre-primary education from the age of three, avoiding infant classes of more than 30 children, and expanding the duration of daily classes.	The Early Childcare Supplement is being abolished and will be replaced by a pre-school Early Childhood and Education Scheme (ECCE) for those aged 3-4. With effect from September 2009, one teacher will be allocated for every 28 pupils at primary level.
Ensure that resources for special needs learning is well targeted at students who need help.	The system remains that, in high incidence areas, resources are allocated based on enrolment.
Increase resources for universities and improve incentives by levying fees that students repay from their subsequent earnings. Public funding should be not be reduced as fees are introduced.	No progress.

in Chapter 2, would give students more power to demand better performance from universities and increasing their own incentives to make the most of their studies. In-work participation in training appears to be relatively limited: enrolment rates for those aged over 30 are either at or below the OECD average with particularly low participation by older workers (OECD, 2008b). This is surprising given that Irish workers enter the labour market fairly young and that older workers may need additional training given their low initial levels of education. Raising the skills level of labour force is an important part of sustaining productivity growth. This should be taken into account in the re-evaluation of labour market programmes suggest in Chapter 3, both for using the current downturn to train workers and further ahead.

Research and development (R&D) activity has increased

As Ireland has sought to move to higher value-added activities, a healthy base of R&D activities has become more important. There has been some success in attracting and building up more R&D activity, particularly in pharmaceuticals, life sciences, and software. The rate of increase of R&D spending has been among the highest in developed countries (FORFÁS, 2009). However, the overall level relative to national income remains relatively low. Most R&D activity is undertaken by foreign firms, although there is some activity in indigenous firms, such as in the food sector.

Recent policy actions have sought to encourage higher volumes of R&D by increasing tax credits (Table 4.4). Improving financial incentives in this way can encourage additional innovation activity but these measures are not well targeted: although the credits apply to incremental R&D, the base year is 2003 so that the system is moving ever closer to giving credits for the volume of research. Since 2009, the tax treatment of carried interest has switched from being treated as income to being taxed as capital gain, lowering the tax rate. This is likely to be attractive to venture capital activities and may encourage additional innovation activity. The effectiveness of the system of tax credits for R&D and related issues should be reviewed. There are plans to invest up to € 500 million through a new channel, Innovation Fund Ireland, linked to Enterprise Ireland for projects in R&D-intensive SMEs. This would support companies in the early stages of research and development. As argued in previous *Surveys* (OECD, 2008), improving the effectiveness of publicly-funded research by ensuring an efficient allocation of funding remains important.

Table 4.4. **Progress in structural reform: Research and innovation**

Recommendations from previous *Surveys*	Action taken since the April 2008 *Survey*
Improve economy-wide framework conditions as they are the most important determinant of R&D.	No progress.
Consider rebalancing the science budget by making more use of market-led measures and scaling back direct grants. Evaluate the new tax incentive and channel more assistance through it if successful.	The tax credit for incremental research and development (R&D) expenditure has been raised from 20% to 25% with new options to offset credits against past corporation taxes or received cash where credits are exhausted. 2003 has been made a permanent base year for calculating incremental expenditure so that the scheme will become essentially volume-based over time. Conditions for including spending on buildings have been relaxed.
Consider where public funding is too thinly spread and whether resources should be focussed on world-class centres of excellence.	A new Strategy on Higher Education in Ireland will be finalised by the end of 2009.

Sustainable development and climate change

Achieving economic growth that is environmentally sustainable is a major challenge. Some aspects of this, such as climate change, are global issues where Ireland should play its part. Others, such as air and water quality, have a local impact on living standards. Since the mid-1990s, environmental performance has improved on a wide range of measures as the result of stricter standards and improved incentives, voluntary action, and changes in the structure of the economy. However, the sharp increase in economic activity over that period has added to underlying pressures on the environment.

Ireland has managed to achieve a substantial decoupling between the pace of GNP growth and increases in emissions of carbon dioxide (CO_2), the main greenhouse gas. This has largely been achieved by improved performance from electricity generation, only partly offset by higher emissions from transport. Nevertheless, Ireland now needs to achieve very significant reductions in CO_2 outputs to achieve its Kyoto target under EU burden sharing arrangements. It is required to reduce emissions to 13% above the 1990 baseline over the period 2008-12, even though these emissions had risen by 2007 to stand 25% above the original baseline. The Carbon Fund, used to purchase additional credits under the Kyoto Protocols flexible mechanisms, will make some contribution to meeting the target, alongside the impact of existing measures and the growing importance of renewable energy. The government has a target of producing 40% of electricity using renewable energy sources by 2020, above European norms. The main challenge, however, is to address the rising CO_2 output from both freight and passenger transport. A number of measures have been introduced to curb the growth in road transport and increase its efficiency, including an overhaul of motor taxation which linked the rate of taxation to the level of emissions and provisions exist that could be used to extend this principle to the taxation of company cars. On-going improvements in public transport will also help but more is required to increase the alternatives to car travel and to counter the effect of urban sprawl. As discussed in Chapter 2, carbon emissions are largely controlled through the EU Trading Emissions System (ETS); transport and agriculture are the main sectors outside the scope of the ETS but road vehicles and fuel are already highly taxed, although taxes may need to be adjusted to be consistent with ETS prices. The ETS will be extended to aviation. The most important policy measure, rather than additional taxes in this area, would be to remove subsidies to domestic aviation and electricity generation from peat, and tax concessions on fuel oil.

The framework of environmental policy has been strengthened in other areas in recent years with better water and air quality, waste management and protection of the environment (OECD, forthcoming). Compliance with EU rules on waste water has improved substantially as the result of considerable investment, but further progress is needed to meet targets set for 2015. Despite improvements, around 30% of drink-quality water is lost in the Dublin area with much higher rates of leakage elsewhere. This is much worse than the norm in other developed countries (OECD, forthcoming). Water charges for domestic households are now essential to create an efficient water services sector. This would increase incentives to avoid leaks and improve sewage treatment. In addition, providing water services is the responsibility of 34 local authorities acting through 32 different bodies. This fragmented responsibility leads to inefficiency. Stricter rules, better enforcement and improved incentives through levies and schemes like volume-based collection charges have helped to improve waste management. But, the overall amount of waste has increased in line with the economy and *per capita* waste generation is among the highest in the OECD. The organisation and infrastructure for waste management and recycling should be improved in the context of the on-going comprehensive review of waste management policy.

Box 4.1. **Summary of recommendations to promote sustainable long-run growth**

This summarises policy recommendations to promote sustainable long-run growth, other than the labour market issues in Chapter 3. The implementation of any recommendations that require additional public expenditure must be carefully considered in the short run given constraints on public finances. This chapter's main recommendations are:

Competition

- Competition law should continue to be strengthened by increasing sanctions. Consideration should be given to giving the judiciary clearer guidance on appropriate fines and improving the court process and to whether a framework based on civil law would be more effective. The scope of competition law should not be narrowed through the exclusion of certain sectors.
- In the electricity market, transfer the ownership of the transmission network assets from the ESB to EirGrid. Continue to integrate the electricity market with the United Kingdom.
- In the retail sector, remove planning restrictions that discourage competition by lifting caps on the overall size of retail premises, dropping the requirement for new stores to make an economic case for their implantation and removing the right to object of incumbent stores. The restriction on the number of pubs should be removed.
- For pharmacies, consideration should be given to what additional changes can be made to raise competition and lower margins in the pharmacy sector. Restrictions on the number of medical school places should be removed.
- In the legal profession, remove unnecessary restrictions. Speed up the registration process for foreign professionals. Establish an independent regulator for the legal profession.
- Reform the bus market by removing the restrictions on the bus routes that can be operated by private firms more quickly, overhaul the route licensing regime and appoint independent regulators to cover the entire network.

Box 4.1. **Summary of recommendations to promote sustainable long-run growth** *(cont.)*

Infrastructure

- Continue to upgrade the infrastructure for transport, energy, waste and broadband internet by sustaining investment as fiscal conditions allow. Cost-benefit analysis should be strengthened to ensure that funds are well-used and projects reviewed rigorously in the light of changing economic conditions.
- Extend user charges to improve the use of infrastructure services. Charge households for the provision of water, and sewage collection and treatment.
- Introduce a congestion charge in central Dublin.

Education

- Generalise pre-primary education from the age of three and expand the duration of daily classes when resources permit.
- Introduce fees for third-level education to increase university funding and to improve incentives. This should be accompanied with the introduction of income-contingent loans.

Innovation

- Evaluate the cost effectiveness of the system of tax credits for R&D.
- Continue to concentrate direct support for research and development in fewer world-class centres of excellence. Improve co-ordination between researchers and with industry.

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ANNEX 4.A1

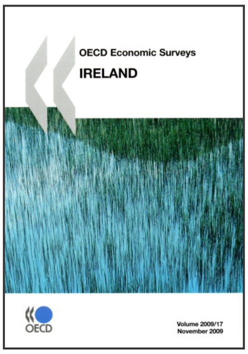
Progress in structural reform

This annex reviews actions taken on recommendations from previous Surveys, other than those covered in the main text of this chapter.

Recommendations from previous *Surveys*	Action taken since the April 2008 *Survey*
	HOUSING POLICY
Phase out the bias in the tax system towards home ownership either by reducing mortgage interest tax relief or introducing a property or capital gains tax on owner-occupied housing. Reduce the tax incentive for speculative investment on properties.	Mortgage interest tax relief has been eliminated after the first seven years of a mortgage but increased for the first 5 years. Interest relief will be kept under review with a view to eventual abolition over successive budgets.
Introduce a property tax to fund local infrastructure and services, broadening the tax base and redistributing some of the windfall gains to those living close to public infrastructure projects.	A € 200 local authority charge on non-principal private residences was introduced in Budget 2009. The future financing of local government is being considered by the Commission on Taxation.
Social housing policy should become more tenure-neutral by less reliant on direct provision of publicly-owned housing and providing more assistance through alternative methods such as the Rental Accommodation Scheme (RAS).	The Social Housing Investment Programme is being restructured, including using long-term lease arrangements to provide social housing at least 2 000 additional homes. Combined with additional provision through the Rental Accommodation Scheme, leasing will account for approximately 50% of all social housing completions this year.
	FINANCIAL STABILITY
Enhance transparency further by regularly surveying off-balance sheet exposures of banks.	A further survey was carried out in mid-2008.
Improve stress testing further.	A complete review of the methodologies of such exercises will be undertaken in the light of recent financial developments.
Consider the efficacy of Ireland's deposit guarantee arrangements.	The ceiling on the deposit guarantee scheme has been raised to € 100 000 and all retail deposits are guaranteed until September 2009. Coinsurance has been eliminated. Pay outs should now be made within 20 working days.
	PENSIONS
Use the opportunity provided by the Green Paper on Pensions to undertake a major reform package. This would include setting long-term objectives for the state pension, linking the standard retirement age to longevity, and replacing in-kind allowances with an equivalent cash increase to pensions.	After consultation process, a report on the Green Paper issues has been published.
Encourage workers to stay longer in the labour force by offering an actuarial-equivalent to the state pension for deferred retirement, considering a tighter link between the pension and years of contributions, and further limit means-testing for the non-contributory pension.	A long-term framework for pensions is under consideration by the government shortly.

Recommendations from previous *Surveys*	Action taken since the April 2008 *Survey*
Modernise public-sector pensions by reconsidering the basis for up-rating pensions in payment, phasing in the minimum retirement age of 65 more rapidly and ensuring that arrangements evolve in line with changing needs and practices in other sectors.	A public service pension-related deduction was introduced in March 2009, although the system remains largely pay-as-you-go.
Make Personal Retirement Savings Account (PRSA) membership "opt out" for those without occupational cover and income above a threshold where the state pension offers a high replacement rate.	No progress.
Replace tax breaks for pension contributions with a system of (capped) matching contributions. Tax breaks for households aged over 65 should be reduced as part of a wider package.	The earnings limit for tax-relievable contributions has been reduced to € 150 000 from € 275 239 and indexed.
Consider changing the funding standard for defined-benefit (DB) pensions schemes to a continuing basis.	The Pensions Board will allow longer periods for recovery plans (greater than ten years) in appropriate circumstances to deal with current investment losses. This will be reviewed by early 2011. Greater flexibility has been introduced to restructuring scheme benefits.
Reconsider the requirement to purchase annuities with retirement savings by allowing access under all schemes to Approved Retirement Funds (ARFs) or similar instruments.	In December 2008, a temporary option was introduced for members of Defined Contribution occupational pension schemes to defer the purchase of a retirement annuity until end-2010.
Increase the flexibility to work past 65 in occupational pensions and change tax rules to allow people to continue to work for the same employer.	No progress.
MIGRATION	
Provide increased support for adult migrant language training and consider the level of provision for children of all ages, including pre-school children.	For adults, there is now a range of provision. Over 49 000 participants undertook adult literacy tuition in 2008 through Vocational Educational Committees, for which 12 500 studies English for Speakers of Other Language (ESOL). For children, there are over 1 500 English as an Additional Language (EAL) teachers in primary and post-primary.
Accelerate work on the recognition of foreign qualifications and introduce an on-the-job skill assessment programme.	The availability of services in this area has been publicised to migrant groups. Country Education Profiles have continued to be developed to give "rapid response" turnaround of applications.
Introduce a permanent migration channel and create flexible visas. Ensure that policy is administered flexibly and is not excessively burdensome.	Enhancements in the visa system have been to make the system more user-friendly.
Collect better statistics on immigrants and fund research into migrant experiences.	The Irish Naturalisation and Immigration Service has increased resources in this area.
FISCAL POLICY	
Public spending growth should slow to reflect lower revenue growth with upgrading infrastructure given priority over current expenditure.	With a sharp and unanticipated fall in revenue, the necessary budgetary measures have been taken to raise revenue and constrain expenditure (this appears to say that enough has been done). It is appropriate to have reduced capital spending, although maintaining it at a substantial level.
Further steps should be taken to reconsider the large number of tax expenditures and those that are shown to be inefficient should be eliminated.	The Commission on Taxation has examined these issues. Some tax expenditures have been reduced or eliminated.
Expensive commitments on public-sector pay should be avoided. The link between higher pay and improved performance should be more explicit and transparent.	Public-sector pay growth was constrained by the October 2008 national pay deal. This has since been superseded by a wage freeze. The Pension Levy reduces public-sector take-home pay further. A moratorium on recruitment and promotions was introduced and an examination of the remuneration of higher level posts in the public service is currently being undertaken.
A transparent, top-down budgeting process should be adopted, building on the potential of the United Budget, with multi-annual budgeting for current as well as capital expenditure. A balance sheet should be produced for the government.	Multi-annual plans are included in the budgetary projections giving the paths for taxation, current expenditure and capital investment to 2011.

Recommendations from previous *Surveys*	Action taken since the April 2008 *Survey*
Public sector management should be improved by improving the flexibility of human resources management; moving further from input control to output management, including strengthening the output statement framework and the Management Information Framework (MIF); and using analysis more systematically for decision-making, by for example using the Value for Money Initiative more thoroughly in setting budgets.	The OECD Review of the Irish Public Service, Towards an Integrated Public Service, was published in April 2008. A Task Force on the Public Service was set up and published a report on Transforming Public Services, along with a major Government statement. A Special Group on Public Service Numbers and Expenditure Programmes has reported, a new National Public Procurement Operations Unit has been created and a new round of value-for money and policy reviews is underway.
FEMALE PARTICIPATION	
Encourage more out-of-school-hours care where school facilities are suitable.	Schools are encouraged to participate in after-school provision and significant progress has been made. The target of creating an additional 5 000 places will be met.
Implement plans to increase the supply of training places for childminders.	Progress is on-going.
Gradually introduce a link between childcare support, such as the Early Childcare Supplement, and employment status or the use of formal childcare.	The Early Childcare Supplement is being abolished and will be replaced by a pre-school Early Childhood and Education Scheme (ECCE) for those aged 3-4.
Phase out the Home Carer's Tax Credit.	No progress.
Prioritise access to community childcare to working parents, especially lone parents.	Community childcare services are supported through the Community Childcare Subvention Scheme (CCSS) to enable them to charge reduced childcare fees to disadvantaged and low income working parents, in particular lone parents. In 2009, up to 58 million is expected to be spent on these supports.
Continue reducing average and marginal effective tax rates on second earners. Consider moving to individual taxation.	The Commission on Taxation is examining the overall design of the tax system. Taxes on income in general have increased, although this has been required by the deterioration in the fiscal position.
Introduce fines for employers found in breach of Equal Pay laws.	No progress.



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