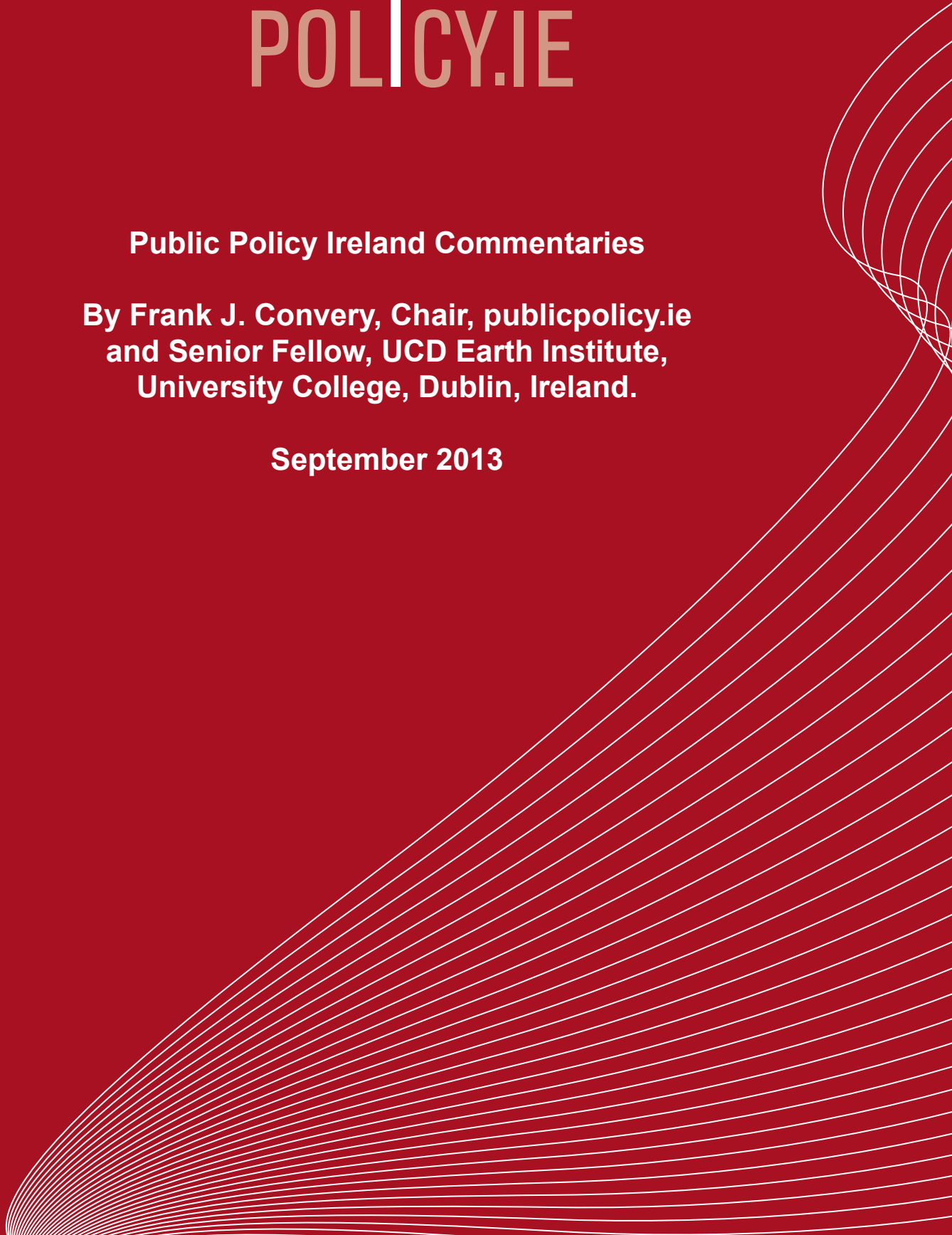


# PUBLIC POLICY.IE

**Public Policy Ireland Commentaries**

**By Frank J. Convery, Chair, [publicpolicy.ie](http://publicpolicy.ie)  
and Senior Fellow, UCD Earth Institute,  
University College, Dublin, Ireland.**

**September 2013**



## CONTENTS

DATE PUBLISHED	TITLE	PAGE
	PREFACE	3
<i>Tuesday 30 July 13</i>	Organ Donation – The Case For ‘Opt Out’ Rather Than ‘Opt In’	4
<i>Thursday 4 July 13</i>	Independence Day – Insights From The US	5
<i>Monday 24 June 13</i>	Why Coillte’s Timber Harvesting Rights Should Not Be Sold	7
<i>Thursday 25 April 13</i>	Getting Water Metering Right	16
<i>Tuesday 19 March 13</i>	The First Steps In Ireland’s Emerging Climate Strategy Assessed	18
<i>Tuesday 19 February 13</i>	Implementing EU Directives – An Opportunity To Lead	25
<i>Wednesday 30 January 13</i>	Éamon De Buitléar (1930 - 2013) Defender Of The Commons	31
<i>Saturday 19 January 13</i>	Property Tax Why Dubliners Should Pay More	33
<i>Friday 30 November 12</i>	Budget 2013 & ‘Future Health’	38
<i>Friday 12 October 12</i>	Budget 2013 – University Collaboration – A Modest Proposal	46
<i>Friday 21 September 12</i>	Budget 2013 – Three Cheers For The Carbon Tax	49
<i>Monday 3 September 12</i>	Budget 2013 – Insights From Daniel Kahneman	57
<i>Friday 17 August 12</i>	Budget 2013 – The Case For Periodic Instead Of Lump Sum Payments For Damages Arising Out Of Alleged Medical Negligence	63
<i>Tuesday 7 August 12</i>	Do The Benefits Of The London Olympics Justify The Costs Of £9.3 Billion	66
<i>Tuesday 24 July 12</i>	Aurora Colorado And The Importance Of Social Capital	68
<i>Tuesday 10 July 12</i>	Airline Competition In Ireland – Back to Monopoly?	72
<i>Monday 25 June 12</i>	Water For Poor People – The Case For Affordable Water	82
<i>Sunday 10 June 12</i>	Bogs – When They’re Gone, They’re Gone	86
<i>Friday 25 May 12</i>	Dragon O’Sullivan Identifies Ireland’s Critical Constraint	90
<i>Tuesday 8 May 12</i>	Fracking And Local Creditibility In Ireland	94
<i>Monday 30 April 12</i>	Making Sure Economists Do More Good Than Harm	96
<i>Thursday 19 April 12</i>	Invest In Cavan	98

## PREFACE

In December 2010, the Troika (European Central Bank, European Commission, International Monetary Fund) agreed to provide the Irish government with funds when it could not borrow on international markets. But the Troika imposed conditions: government expenditure had to be cut, taxes had to be raised, and we were required to make various adjustments in how we conduct our fiscal affairs. And compliance with these conditions is necessary if we are to re-gain the trust of international markets, and more autonomy in the management of our affairs.

It is planned that we exit the Troika programme in 2014. But there will be transition provisions, and we are entering a European world of more constrained budgetary provisions and collective surveillance, which are designed to avoid a repeat of the Euro crisis.

Publicpolicy.ie exists to help us better understand the very difficult choices and tradeoffs we face in Ireland, and how to navigate them in ways that are fair, and enable the emergence of an economy and society that is sustainable. We do our best to use credible evidence, and a language and style that is accessible. We do our own research, extract data and flag studies and activities we feel are worth knowing about, we build analytical capacity via our student internship programme, we invite local and international experts to help, we engage with the policy process [Troika, government ministers, deputies and senators, Oireachtas (Parliamentary) committees, party leaders and party conventions, civil servants and agency staff] and meet with groups and individuals from all walks of life at their request. In all cases, we draw on the most credible evidence and best local and international practice. And we use our web site ([www.publicpolicy.ie/](http://www.publicpolicy.ie/)) as the window to the fruits of these activities.

Because we are supported by the Atlantic Philanthropies, we have the enormous privilege of complete independence – we don't have to worry that what we say today may tomorrow choke off a lucrative consultancy, or the votes of a disgruntled electorate.

Many of the issues that achieve media prominence are driven by private, sectional or sectoral interest, masquerading as the public interest. The Chairman's commentaries are written to provide a short, evidence-based reaction to a contemporary issue, with the focus on where the wider public interest lies.

Examples include challenging the hysteria engendered by a proposal to test septic tanks; the popular debate focused entirely of the costs of testing, and none on the huge health, social and economic benefits of identifying water pollution potential before it arises ("Invest in Cavan") and challenging the opposition to water metering, but making the case for special provision for the poor ('Water for Poor People')

The first 22 of these, issued over the April 2012-July 2013 period are compiled in this volume. As they were issued, they were mailed to our list of 2000 subscribers, and are also posted on our web site (<http://www.publicpolicy.ie/organ-donation-the-case-for-opt-out-rather-than-opt-in/>).

Enjoy.

# Organ Donation – The Case For ‘Opt Out’ Rather Than ‘Opt In’

*Published: Tuesday 30 July 13*

When money is short, it is especially important to seek out those opportunities that make us better off, and don't cost much.

In his book, *Thinking, Fast and Slow*, Daniel Kahneman highlights the importance of framing in terms of shaping our decisions; the way we are asked can have a very large influence on what we do, and this in turn can be very influential as regards the well being of society<sup>1</sup>. As regards organ donation, he cites research showing that the rate is very much higher if the citizenry are assumed to have agreed to donate unless they opt out, compared with those jurisdictions where one has to opt in to qualify as a donor. In Austria and Sweden, where you have to opt out, the rate of donation is respectively 100% in Austria and 86% in Sweden. This compares with 12% in Germany and 4% in Denmark, where you have to opt in. In a letter to the *Irish Times* on July 26th, 2013, UCD economist Kevin Denny provides a more nuanced interrogation of the evidence.<sup>2</sup>

Ireland is an ‘opt in’ country, with predicable shortage of organs – close to 600 people are on a waiting list. Spain is ‘opt out’, and leads the performance in terms of deceased organ donors; in 2011, it was 35.3 per million people compared with 20.7 for Ireland, and 17.0 for the UK.<sup>3</sup>

The ‘opt out’ provision is not the only factor influencing performance, and on its own it will not solve the organ scarcity problem. But it is an important step, and we should take it.

The programme for government calls for legislation to change organ donation to an opt out system.<sup>4</sup> Its Human Tissues Bill is being evaluated by an Oireachtas Committee. The legislation enacted should include ‘opt out.’

---

1. See: ‘Budget 2013 – insights from Daniel Kahneman’, by the author, available at <http://www.publicpolicy.ie/wp-content/uploads/Budget-2013-Insights-from-Daniel-Kahneman2.pdf> for a more complete understanding of Kahneman's insights.

2. Available at: <http://www.irishtimes.com/debate/letters/organ-donation-and-consent-1.1475005>

3. See: ‘International Figures on Donation and Transplantation 2011’. Newsletter Transplant 2012, Council of Europe, available at: <http://www.transplant-observatory.org/Documents/NEWSLETTER2012.pdf>. there is more detail available on the issues in: ‘The Information: Organ Donation by Country’ by Serge Debabant, in Life and Arts Magazine, Financial Times, June 5, 2010, available at: <http://www.ft.com/cms/s/2/d121f426-6eb1-11df-ad16-00144feabdc0.html#axzz2aRYtM686>. This article cites Science, 2003; Newsletter Transplant, 2009; “The potential impact of an opt-out system for organ donation in the UK”, Department of Health, 2008; Organ donor registers, 2006 as sources.

4. Available on page 8 at: [http://www.merriestreet.ie/wp-content/uploads/2010/05/Programme\\_for\\_Government\\_2011.pdf](http://www.merriestreet.ie/wp-content/uploads/2010/05/Programme_for_Government_2011.pdf)

# Independence Day – Insights From The US

*Published: Thursday 4 July 13*

The most appealing aspects of US culture are those which are independent of its politics, military prowess, reach and power. They are the reflexes that today characterise the behaviour of most Americans most of the time. Below I touch on those that are attractive to me.

Most Americans are Hibernophiles – they are instinctively positive to Irish people and our style and behaviours. The fact that this positiveness is often ill deserved makes it all the more precious. To those of us with a sporting inclination, it is a huge bonus that the speedy behemoths who play American football do not play rugby; if they did, they would win everything – the delusions of excellence that today obtains in Australia, New Zealand, South Africa and the European rugby playing countries would be cruelly and permanently punctured.

Americans are cheerful, even in adversity. It is astonishing how frequently one encounters them bending into the wind and rain on Nassau street in Dublin, assuring all around them that they are having a great time. A man was interviewed recently in New Ross recalling the visit of President John F Kennedy 50 years ago. His main memory was how cheerful and smiling Kennedy and his entourage were, compared to the dour, unsmiling demeanour of our political leaders of the time. Of course our boys had many reasons for gloom (mainly self-inflicted by their inept economic policies) but Kennedy was not without his problems. The American custom of providing clear street signs at the right level and large enough to be read by the short sighted from 5 metres is the opposite of the Irish tradition, where most street signs – where they exist - are placed so as to be read comfortably only from the upper deck of a double decker bus. Those at ground level risk neck and eye strain if they wish to be informed. And then there is the peculiar tradition in Ireland where householders only number about one in every 10 houses. Visitors seeking a particular address must first find the one house on the street with a number that can be seen and then count up or down in hopes of locating their destination.

The lack of government involvement in religion in the US is feature that has helped both the state and religion. In Ireland, we know better than most that, when cardinals, mullahs or other divines are the final arbiters of policy, outcomes are frequently unhappy. Providing feedback is an attractive American obsession; it is no coincidence that TripAdvisor and most other such sites have their origin and ethos in the US, a culture where self- improvement depends on constructive feedback. Except where lawyers dictate otherwise, practical simplicity is characteristic. One example, amongst many, is the tradition of universities in cities such as Boston providing mutual access to their courses, as long there is capacity and the students have the necessary pre-requisite training. In Europe, we embrace turf protecting transaction costs, and justify them as necessary for the maintenance of standards. The achievement of the civil rights movement and the consequent laws protecting minority rights has made the US uniquely open and congenial to a diversity of cultures and races. In *The Billionaire's Apprentice – the Rise of the Indian American Elite and the Fall of the Galleon Hedge Fund*, Business Plus, Anita Raghavan documents the rise (and very American fall of two of them) of graduates of the Indian Institutes of Technology ('beacons of excellence in an India bedevilled by cronyism and back scratching') on Wall Street. One observes that 'Wall Street was tough to get into for us. Not to be crude but there's a Jewish mafia, a WASP mafia, and an Irish mafia....They hire their own; they socialise with their own'. But they did get in. No large country provides the degree of cultural mix and the openness to new entrants that the US does.

## Independence Day – Insights From The US *continued*

And this ability to engage across racial and cultural frontiers is also enabled by the widely shared view of life and work as a positive sum game – ‘if you do well, I’ll probably do well, or at least your success won’t harm me.’ And then there is the humour. No one punctures fatuous questioning better than Woody Allen. Asked what, if he had to live his life over, he would do differently, he replied: ‘I wouldn’t read Moby Dick.’

Of course the US has other cultural features that bemuse many outsiders. These include the idea that anyone who wants to own an AK47 or other lethal weaponry should be free to do so untrammelled by any oversight, some TV and radio stations whose propaganda owes more to the style of Pravda than to that of Edward R. Morrow, and where access by all to health services is regarded as bad thing.

But taken in the round, this is a culture to be proud of; it has a lot to teach us all. Happy Independence Day.

# 1Why Coillte's Timber Harvesting Rights Should Not Be Sold

*Published: Monday 24 June 13*

## KEY POINT

The Government has decided not to sell the harvesting rights to the State owned forests managed by Coillte. This is the right decision.

A sale would have yielded a substantial lump sum, probably in the order of €700 million, the amount depending on expectations as regards wood prices, discount rate and conditions imposed. The financial costs of securing this lump sum would comprise the foregoing of the future flow of income which these forests generate, which at present is used mainly to pay for costs (replanting, road building, amenity and recreation provision, pension costs etc.) which would continue to be incurred after the sale; these costs have a present value in the order of €500 million. In addition to the financial considerations, there are two aspects which complicate the analysis. The first is the incumbent forest products industry, which depends on the flow of wood from Coillte, which supplies over 85% of the wood; periodically, sealed tenders are sought, and the wood goes to those who bid the highest price. In the event of sale of the harvesting rights, a new owner (who would have close to monopoly power in terms of wood supply) might decide to depart from sealed bid auction sales and limit supply to one mill or a few mills. Over time, this could result in a very dynamic forest products sector, but there would be significant transitional costs. The second is the amenity value for recreation; Coillte facilitates and encourages access by the public. In the context of many developed countries, Ireland has a poor endowment of publicly owned forests and national parks. For most in Ireland, Coillte is the only forest recreation game in town; limitations on access could impose substantial losses. A new owner might well decide to facilitate and encourage visitors, but might not. In addition, there are the usual challenges that can occur with an ownership transfer, where financial stresses could result in harvesting more than the sustainable yield, and pose difficulties for meeting environmental and related commitments and conditions. Given these complications, and the magnitude of the financial yield expected, I conclude that the decision to retain the harvesting rights in public ownership is correct. However, the evidence base could be substantially improved, independent expert analyses of performance (financial, silvicultural, environmental, amenity and recreation etc.) should be publicly available; there is a case for allowing a new entrant to take over a substantial area - perhaps 30 thousand hectares - and innovate in terms of costs, products and services.

## INTRODUCTION

Keynes observed that "Each age needs to distinguish for itself between what the state ought to do, and what ought to be left to the individual, or, in Bentham's term, between the Agenda and the Non-Agenda of government." In Ireland, we are at present being required to decide on the agenda and nonagenda of government in a variety of spheres. As regards assets and associated activities, there are at least 4 forms of state intervention: wholly owned, partially owned, privately owned but shaped by regulation, and privately owned untrammelled by regulation.

---

1. Declaration of Interest. Acquiring a profession involves also acquiring a set of values and prejudices which shape attitudes. When I studied forestry in UCD, we had the sense of recreating for posterity that which was lost, and the course involved a 'practical year' during which, inter alia, we planted trees, some of which may now be part of the harvesting sale. This immersion may influence my analysis and conclusions. I am grateful for the feedback (including additional reference material) on an earlier draft provided by board member Mary Walsh.

# **1Why Coillte's Timber Harvesting Rights Should Not Be Sold**

## *continued*

Coillte is a state owned company which since its foundation in 1988 manages Ireland's national forests. All of the shares in the company are held by the Minister for Agriculture, Food and the Marine and the Minister for Finance on behalf of the Irish State. These forests were created in part from the woodland 'left over' after the large estates were distributed to the former tenants, but mainly from the buying of land and its planting by the State. This creation of new forests commenced in the 1920s, and continued up to late 1990s; it took place almost exclusively on land with little or no value for agriculture, and was motivated in part by a national desire to re-create the forests of a past when wood was plentiful and Ireland was free; the restoration of our woodlands had similarities with the restoration of the Irish language – a national project to restore that which was lost. As State planting wound down, there was a corresponding increase in private planting, which gathered momentum through the 1980s and 1990s, with a peak reached in 2001 when more than 15,000 hectares were planted; the private afforestation rate has since fallen, amounting to around 6,000-7,000 hectares annually over the past 5 years.

The State planting policy was driven by two simple imperatives – don't compete with farming, and plant a certain specified area per year, with the annual area planted ranging from time to time from 4,000 to 10,000 hectares and more. An irony of these policies was that most of the land purchased was too poor to support commercial crops of indigenous species. Instead of re-creating the forests of a mythic Celtic past, plantations of Sitka Spruce and Lodgepole Pine (*Pinus Contorta*) from the Pacific North West of North America became the new norm in the Irish uplands. Because the return on investment in forestry for wood production generally increases the better the land, the commercial returns on investment were substantially lower than would have been yielded with the purchase and planting of more fertile land.

When considering this form of privatisation, the following are the inter-linked considerations that should shape the decision. Is there government failure, in the sense that the asset is being managed by the State inefficiently (higher costs and/or poorer service than would be delivered by the private sector)? Is more competition likely to be the outcome of privatisation? Is there likely to be market failure in the sense that there are substantial non market benefits that will be foregone, or external costs imposed, by privatisation? Will the sale generate substantial net revenues, that will make the transaction and other costs of the sale worthwhile? These issues are addressed below. Notes are provided at the end of this commentary giving more detail and sources on area planted, finance, recreation valuation, and general facts, the latter drawn mainly from a report by Bacon and Associates on the issue commissioned by Impact, a trade union which represents many of the employees of Coillte.

### **INEFFICIENT MANAGEMENT?**

Coillte's annual report for 2011 shows fixed assets valued at €1,469 million, and profits after tax of €20 million, a financial rate of return on fixed assets of 1.3% which is very low. However, if to this we add the annual value of recreation (18 million visits) estimated by Mayor, Scott and Tol of the ESRI at €77 million – see Notes for the detail on this estimate - the rate of return on fixed assets increases to a more respectable 6.6%.

Peter Bacon and Associates observe that the privatisation of the State owned plantation forests (1.8 million hectares) of New Zealand reduced costs and increased innovation, but they add that Coillte has benchmarked itself against best practise, improved productivity over time – doing more with less staff – and this is likely to continue.



# **1Why Coillte's Timber Harvesting Rights Should Not Be Sold**

## *continued*

### **MORE COMPETITION?**

There are large economies of scale and scope in the forest enterprise, and therefore there is likely to be some sacrifice in efficiency if the estate were broken up. Coillte contributes 87% of total round wood sales, and a much higher proportion of sales to the forest products industry. If it were sold as a block, a private monopoly would replace a State monopoly, although this market power would weaken over time as the more recent planting on private land begins to add to the flow of wood coming to market.

### **MARKET FAILURE?**

The State enterprise produces two important benefits that could be compromised by a State sale. The first is the sustainability of the local timber processing sector (sawmilling and panel production).

1. Coillte is the almost exclusive source of round wood for this industry (the private forests are too young to yet deliver much commercial wood). It sells the wood by sealed big auction, and commits to put a specified volume up for sale each year. The forest products industry employs about 4,000, has a direct output value of €380 million (which Bacon Associates estimates can be doubled 'because there are considerable linkages'), and annual exports amount to €286 million. There is no guarantee that new owners would want to continue to guarantee to sell a specified volume by auction (which gives every processor the opportunity to bid and secure his or her supplies). They might wish to build their own plant and supply most of the wood to it, and/or to export round wood, or some combination, and this could result in a more dynamic forest processing sector. It is conceivable that the existing processors could make up a roundwood supply deficit by imports – and wood prices in Ireland generally exceed those achieved in the UK – but they are located inland near the Irish forests, which are not near the coasts, and so the costs of transport would likely be prohibitive. Also, there may be phyto-sanitary risks (disease importation) arising, which could probably be overcome, but at a considerable cost in terms of inspection and testing. A sense of the very demanding requirements in place can be judged from the Forestry Commission's regulations relating to Great Britain.
2. Coillte operates an 'open forest' policy, where any and all many enter, and also manages 10 forest parks, over 150 recreation sites and 3 mountain bike facilities, together with over 50% of all off-road long distance hiking routes in Ireland. There are about 18 million visits annually, valued (there is no entry charge), at about €77 million. It is possible that a private owner would continue to operate the open forest policy, and provide related services.

### **SUBSTANTIAL REVENUES?**

Applying a discount rate of 8% to the expected stream of wood sales, Bacon and Associates argue (p.34) that "Potential purchasers are likely to base their bids on recent timber prices, which are €43.10 if averaged over 5 years or €50 if 2012 is used. If we take the mid-point of this range then this provides a central estimate that the sale will realise €774 million."

But they note that the State would have legacy financial costs now being met from Coillte's cash flow which would have to continue to be paid with or without the sale (Table 1)

# 1Why Coillte's Timber Harvesting Rights Should Not Be Sold

*continued*

**Table 1.** Estimate of Financial Costs that will continue after sale

Item	Present Value	Comment
Replanting, road development and maintenance, staff needed to continue non-commercial functions.	313	
Debt Liability	172	from Annual Report
Pension	130	from Annual Report
Total	515	

If these continuing financial obligations are netted out of the present value of net revenues of €774 million, this yields a net of €259 million. And this turns out not to be far off the Bacon valuation of the company sold as a going concern. Bacon and Associates note (p.44) that: "Coillte's Annual Report 2011 shows an operating profit of €32.4 million and profit after taxation of just under €20 million. This was just below the 5 year average profit of €21.125 million. Applying a P/E of 10 to the 2011 profit would provide a valuation of €200 million.

When Bacon and Associates add the present value of Coillte's stream of revenues foregone – estimated at €565 million - to the above costs, together with a value for loss of amenity (estimated at €105 million), and the value of Coillte job losses (estimated at €19 million), they find that selling would result in a substantial net loss.

## DISCUSSION

The sale of harvesting rights would likely yield over €700 million , but would mean that the stream of annual revenues which Coillte generates at present, which is used to finance road building, replanting, provision of amenity services, pensions etc., would be foregone. Capitalising future income into a lump sum available now is of course the point of privatisation; the choice comes down to how important we judge a lump sum now versus a future income stream.

If Coillte were sold as a going concern, with a requirement to maintain its recreation, amenity and other services, its financial value would probably fall in the range of €200-300 million. The value of its recreation services is estimated to be about €77 million annually. The utility of such access is likely to be especially valuable for those whose incomes are very low; it represents a form of freedom, at a time when other freedoms are shrinking. But these recreation values do not translate into cash – access by the public is free. And the estimates of visit numbers (18 million), and the estimates by Mayor Scott and Tol (ESRI) of value per visit are both in need of updating (the valuation is based on a survey of over 1,200 households undertaken in 1998).

# **1Why Coillte's Timber Harvesting Rights Should Not Be Sold**

## *continued*

An export oriented forest products (saw logs and panels) business employing about 4,000 in rural areas has developed. These firms buy saw logs by sealed bid auction from Coillte, which supplies over 85% of the market. The volume of logs to be sold annually is guaranteed, but who gets them depends on who pays the highest price. Companies expand, contract or go out of business in part on the extent to which they compete successfully or not for the supply of logs. The purchaser of the harvesting rights<sup>3</sup> could decide to continue supplying by sealed tender, and/or favour one or more processors which they might own. The latter procedure could sustain a large integrated plant which has economies of scale and scope, and can innovate and develop and secure new markets. But at the cost of contraction or closure of some existing plants that are at present commercially viable.

Would there be an efficiency gain from transfer of ownership? While the monopoly power of the purchaser would weaken over time as the supply of logs from private forests increases, for a decade or more they would be the dominant supplier of wood to the Irish market. Private monopolies are not necessarily more efficient than their public counterparts. Peter Bacon and Associates note that "Coillte has undertaken several rationalisation programmes since its establishment in 1988 including benchmarking against best international practice. Furthermore, the organisation outsources much of its forestry operations including harvesting and replanting". Nevertheless, there might well be some efficiency dividend from introducing new people, management systems and techniques and innovations.

As regards amenity and recreation, Coillte provides services that are valuable, although the data on the magnitude of use and value needs updating. Would these continue to be provided in the event that the harvesting rights were sold? There are positive precedents from other countries, e.g. Scandinavia, where access is provided for the public to privately owned forest land. In others, access is provided under certain conditions. But in all cases, the public also have access to extensive areas of publicly owned – national, State and local - forest and parkland, in addition to the usual regional and urban parks. In New Zealand, 99% of timber is harvested from plantations of introduced species. These cover 1.8 million ha of land. The privatisation was limited to these forests. Indigenous forests cover 6.6 million ha – 79% of the total forest area. These were retained in public ownership and continue to be managed for amenity, conservation and environmental objectives.

Weyerhaeuser is a global forest products company which manages over 8 million hectares of forest in North America on a sustainable basis. As regards its US holdings, it notes : "In some states, we allow public access to company land for recreational purposes when compatible with company operations. Some locations require access fees or leases. Other locations may be open during a portion of the year (such as hunting season) and some may not be open at all. Unfortunately, problems associated with illegal dumping, vandalism and damage to young seedlings have forced Weyerhaeuser to tighten restrictions regarding public access to our forests".

## **CONCLUSIONS**

There is a best case scenario where the harvesting rights are sold for a substantial sum to a company that does not subsequently encounter financial difficulties, brings productive innovations to forest stewardship in Ireland, encourages and facilitates public access, harvests the wood on a sustainable basis, including the protection of water systems and biodiversity. In principle, well drafted terms of

## **1Why Coillte's Timber Harvesting Rights Should Not Be Sold** *continued*

reference, wise selection, well drafted and implemented agreements that are robust in the face of legal challenge, professional supervision and regulation, and good luck could deliver such outcomes.

There is the worst case scenario where the purchaser encounters financial difficulties, harvests more wood than is sustainable, and/or does it in fashions that are environmentally deleterious, limits public access, and successfully challenges in court implicit or explicit agreements.

The Old Head of Kinsale Head golf course case provides an interesting insight into the relevance of property right assignment, planning and public access for recreation and amenity. This part of County Cork juts into the Atlantic, with striking views of ocean, meadow and cliffs, and a lighthouse at the end of the promontory. Although privately owned, it was widely used by the public for hiking and recreation. The land owner offered it for sale to Cork County Council for £300,000 but the offer was not accepted. He then sold it to an entrepreneur who developed it as a golf course. An Bord Pleanála attempted to impose a condition on the development which would require that the public have access, and that they could only be charged the costs of insurance and administration. In 2003, the Supreme Court found unanimously in favour of the developer, on the basis that the planning authority was exceeding its legal authority in imposing such a condition. In this case, there were a number of circumstances which may have relevance to the provision of access by Coillte and the prospective purchaser of the harvesting rights: prior to the development, although there was considerable use by the public of the Old Head, there was no public access as of right to any part of the Old Head; there was no precedent where a condition of public access was attached to a grant of planning or retention permission in respect of adjoining lands; the developer had indicated, prior to the first application for permission, a willingness to accept and facilitate a measure of public access and had not appealed conditions in that regard contained in the original planning permission; though there is statutory provision for the creation by order of the planning authority of public rights of way over lands, this had not been availed of in the present case. <http://www.courts.ie/Judgments.nsf/597645521f07ac9a80256ef30048ca52/43d458215469a54b80256ce50044285a?OpenDocument>

In practise, we would likely end up somewhere between these two extremes. It is possible, and perhaps likely, that Coillte's performance could be improved in regard to timber and environmental and amenity management. In an article in the Financial Times celebrating the Nobel Prize in Economics for 2012 (one of the awardees was Alvin Roth), Tim Harford wrote<sup>7</sup> : "Many of the markets Professor Roth has designed do not work perfectly. A lot of theoretical economics is concerned with proving that perfection is possible. Professor Roth is interested in answering the question 'is this good enough?' My conclusion is that the company's performance is probably 'good enough' and it should be allowed to continue. However, the data underpinning performance should be improved, it would help to have some independent and publicly available assessment of commercial, amenity and environmental performance, and there is a case for allowing a new entrant to manage say 20-30 thousand hectares of mature forest to show what they can do, and what innovations and productive insights could be transferable to the management of Coillte and of the private forests as they progress to maturity. These aspects should be addressed as part of the discussion about the merger with Bord na Móna. But in the Irish context, publicly owned land generally, and forest land in particular, is relatively scarce; the agenda of government should be to hold onto most of what we have created.

# **1Why Coillte's Timber Harvesting Rights Should Not Be Sold**

## *continued*

### **NOTES**

#### **1. Area Planted, and Finance**

Data on area planted, wood prices etc. are available in: Irish timber Growers Association, Forestry and Timber Yearbook 2013, [www.forestryyearbook.ie](http://www.forestryyearbook.ie)

Financial and related information on Coillte is available in the Annual Report 2011, available at: [http://annualreport2011.coillte.ie/fileadmin/user\\_upload/documents/2011\\_documents/EnglishDocs/2011/Coillte\\_Annual\\_Report\\_2011.pdf](http://annualreport2011.coillte.ie/fileadmin/user_upload/documents/2011_documents/EnglishDocs/2011/Coillte_Annual_Report_2011.pdf)

#### **2. Recreation Valuation**

Estimates on recreation valuation are derived from Mayor, Karen; Scott, Sue; Tol, Richard S. J. (2007) : Comparing the travel cost method and the contingent valuation method: An application of convergent validity theory to the recreational value of Irish forests, Working Paper, The Economic and Social Research Institute (ESRI), Dublin, No. 190, available at: <http://www.econstor.eu/bitstream/10419/67984/1/529822571.pdf>

They used a 1998 survey data set compiled by UCD (Peter Clinch) and ESRI (Williams) Over 1200 households in the electoral register were randomly selected, and surveyed. They applied two well recognised approaches to recreation valuation – contingent valuation methods (CVM) and the travel cost method (TCM) to the same data set to estimate the value per visit of the recreation experience in Irish forests.

Mayor et al conclude that “The analysis shows that the CVM formulation employed does not produce a reliable estimate of WTP and in this case it is the value of consumer surplus from the TCM, i.e. IR£2.40 per adult equivalent per trip, that is considered the better estimate. The Willingness to Pay (WTP) estimate was less than half this value with about a third of responses being zero or protest bids.”

Converting the IR£ value of 2.40 to Euro (X1.27) and to 2012 Euro (inflation from 1998 to 2012 was 40.1%: Annual average Consumer Price Index from: [http://inflationdata.com/Inflation/Consumer\\_Price\\_Index/HistoricalCPI.aspx?reloaded=true](http://inflationdata.com/Inflation/Consumer_Price_Index/HistoricalCPI.aspx?reloaded=true)

2.  $40 \times 1.27 \times 1.401 = €4.27$  per visit. Applying this to 18 million visits yields a value of €77 million.

#### **3. Forestry Facts**

Source: Peter Bacon and Associates: Assessment of the Consequences of the Proposed Sale of Coillte's Timber Harvesting Rights January 2013, available at: <http://cdn.thejournal.ie/media/2013/01/forestryfinalreport1.pdf>

# 1Why Coillte's Timber Harvesting Rights Should Not Be Sold

*continued*

**Annex Table 1.** Some Forestry Facts

Characteristic	Amount	Comment
<b>Total Forest Estate (Coillte and Private)</b>		
Area	750,000 hectares	Area in 2011, comprising 11% of total land area
Roundwood Sales (M <sup>3</sup> )	2.708 million in 2010	2.217 million from Coillte; 0.463 million from private forests
<i>Employment</i>		
Total direct	3125	Bacon estimates that there are an additional 2,400 'supported by multiplier effects.'
Forest Products	3907	996 in sawmills, 805 in panel board mills, the rest in planting, harvesting etc.
Direct Output	€380 million	In 2010. Bacon estimates that 'because there are considerable linkages', the overall value to the economy in 2010 was €673 million
Value of Exports	€286 million	In 2011
Wood Harvested	2.9 million M <sup>3</sup>	2.7 million M <sup>3</sup> for industrial round wood, the balance mainly for firewood.
Net Afforestation	6,000-10,000 hectares annually	Since 2002, entirely by the private sector.
Carbon Capture (CO <sub>2</sub> )	4 million tonnes	About 6% of total emissions – estimate by COFORD.
<b>Coillte Forest Estate</b>		
Area	445,000	351,000 currently afforested; 91,000 hectares of mountain tops, water, open spaces and areas of biodiversity.
Price of Standing Timber per M <sup>3</sup> sold – saw logs	€43	Average price paid to Coillte in recent years; price in 2012 was €50.
Price of Standing Timber per M <sup>3</sup> sold – pulp wood	€7	Average price of €5-7.5 in recent years (Based on COFORD data on sales by the private sector)
Coillte employees	967	Which includes 337 engaged in the panel board mills owned by Coillte.
Annual Profitability	~€21 million	Average for past 5 years

## 1Why Coillte's Timber Harvesting Rights Should Not Be Sold *continued*

Characteristic	Amount	Comment
<b>Total Forest Estate (Coillte and Private)</b>		
Debt	€172 million	Finance charge in 2011 of €11.6 million
Retained earnings	€247 million	According to Bacon, 'these funds have been invested over the years in the forest estate. As such they are not liquid'....
Pension liability	€66 million	
Annual Investment	€34.5 million	For 'renewing and developing the estate' including upgrading 375 km of forest roads, which Bacon estimates would 'not be required every year, particularly beyond 2035'
Wage Bill	€60 million	Average wage, including social insurance, of €59,000
Net Afforestation	Negligible since 2002	All net increase is now by the private sector (mainly farmers). Coillte is replanting 6,000 to 7,000 hectares of harvested land per annum.
Replanting	6000 to 7000 hectares per annum	Annual cost of €19 million
<i>Open Access and Amenity</i>		
Activities		Manages 10 forest parks, over 150 recreation sites and 3 mountain bike facilities, together with over 50% of all off-road long distance hiking routes in Ireland.
Annual Expenditure	€8.5 million	
Visits	18 million annually	
Value of visits	Estimate of €3.89 per adult visitor in 2005 by ESRI using willingness to pay	Total annual value in 2012 of €79 million (my estimate is €77 million, applying a value per visit of €4.27 in 2012 to 18 million visits.)

## Getting Water Metering Right

*Published: Thursday 25 April 13*

Some years ago, I spent an afternoon in the control room of the Singapore Electronic Road Pricing system with Eddie Lim Sing Loong, Engineer, Electronic Road Pricing. He explained that their system works as follows: you are charged for using the road, and this charge varies depending on the road and the time of day, with the price level designed to give you a smooth and fast journey. This approach has many advantages: before you set out, you know how long your journey will take, and that traffic will flow smoothly –time and energy are saved, stress and pollution are reduced, and much of the revenue generated is recycled to finance public transport; Singapore has a state of the art mass transit system.

But what impressed me in particular was his description of how much time and effort they put into the planning, design and (especially) testing of the system before they went live. Years were devoted to making sure that it worked, and that consumers would get what they had been promised. This attention to detail and the obsession with getting it right is relevant to the debate about introducing water pricing in Ireland, with charges based on use.

We should not have abolished water charges in 1997, but the system we had then – lump sum payment - was very deficient, because it did nothing to encourage efficient use of water and it rewarded the irresponsible and the feckless. By changing to metering, and paying based on use, we get many benefits:

- Cuts wastage of water by encouraging the identification and repair of leaks.
- Discourages wasteful practices such as running water 24 hours a day in winter to prevent freezing of pipes.
- Provides greater ability to manage shortages, e.g. in periods of drought by using pricing to manage scarcity without cutting off or rationing supply.
- Reduces the need to waste scarce capital by premature investment in water supply and waste treatment plant.
- Rewards those who invest money, time and effort to save water and penalises those who don't bother.
- It's fair. Without metering, those who are careful in their management of water are in effect subsidising the feckless.
- It makes paying more acceptable to many of the public.

But deciding what to do, designing, installing and operating meters successfully requires capital, experience, skill and time, assisted by a degree of luck, modesty and humility. Nobel Prize winner Daniel Kahneman talks about the 'planning fallacy' where estimates as to the cost of any major investments, and the time it will take to implement them, are often unrealistic, being based on best case scenarios, rather than on evidence from experience drawn from a range of similar projects. This tendency is typically driven by 'optimistic bias'. He notes that people often take on risky projects because they are overly optimistic about the odds they face – it probably contributes to an explanation of why people litigate, why they start wars, and why they open small businesses.



## Getting Water Metering Right *continued*

The implication for Ireland today is that we should take as much time as necessary to get our water metering system right. But this measured approach seems to be inconsistent with the provisions of our fiscal adjustment programme. The Eighth Review of Ireland's Programme by the IMF states: "The authorities' commitment to the European Commission to introduce metered water charging is expected to raise about €0.5 billion in 2015." Trying to meet this revenue target by either imposing a fixed charge per household, or implementing metering before it has been tested and re-tested, would be a mistake. It would result in a public revolt comparable to that associated with the household charge, and to disillusion. Better to take our time and get it right. And there are more general lessons to be learnt both from our experience and that of others.

- Reform taxes, don't abolish them –reform, not abolition, is what the State of California did when they had a tax payer revolt against property taxes; once taxes are gone, the political costs of re-introducing them are huge.
- Recognise that abolishing one tax means that others must be raised to make up the difference, and this can damage both fairness and economic performance. The abolition of domestic property tax and water charges are not the main reason we went over an economic cliff, but it did deepen the fall. Those that worry that paying water charges will take money out of local economies ignore the fact that if the money is not raised from water charges, it will have to come from somewhere else.
- If we can reduce any other taxes, this should be timed to coincide with the introduction of water charges. We missed a trick during the boom, when we could relatively easily have reduced other taxes as a quid pro quo to introducing water charges. We should not repeat the mistake.
- Do not ignore the experience of other countries and regions. Henri Smets of the French Water Academy notes that: "In all countries, it is now accepted that water users should pay to a very large extent for the water they use and that the amount of payment be proportionate to water consumption. The Irish model of free water for domestic users was hardly known to the rest of Europe and did not inspire the policy of any country in Western Europe". When everyone is out of step except our Johnny, we should consider that Johnny may have got it wrong.

At <http://www.publicpolicy.ie/themes/water-policy/>, you can find a range of short papers we at publicpolicy.ie have put together ourselves ('Our Analysis'); this includes a note on alternative revenue sources if we have to meet the Troika's revenue requirement. And under 'External Analysis' you will find papers contributed by others, including one by Henri Smets on how best to meet the needs of those of us who cannot afford to pay.

# The First Steps In Ireland's Emerging Climate Strategy Assessed

*Published: Tuesday 19 March 13*

## KEY POINT

The Irish government has published the draft heads of a climate bill. Because we won't know the essence of what is proposed until we see the national and sectoral roadmaps that will follow, it is not possible to draw definitive conclusions as to the sense and effectiveness of what is proposed. But we can surmise that it has some strengths, and some gaps. The strengths are:

- Commitment to sectoral roadmaps; each sector has particular characteristics that require separate design and implementation. Developments in the Common Agricultural Policy (Multiannual Financial Framework) and in the food industry (Glanbia) make agriculture especially interesting as a focus of attention, and improved efficiency in buildings can yield big economic, social and environmental gains.
- The primacy of policies that are cost effective (likely to achieve outcomes at least cost). [But the considerable achievements of the existing policy portfolio need more recognition and support]
- Avoidance of 'ourselves alone' targets disassociated from the wider European policy framework.
- Institutional integration, with the EPA, Sustainable Energy Authority of Ireland, Teagasc and the Economic and Social Research Institute anchoring the National Expert Advisory Body, and Ministers reporting to the Dail on the performance of their sectors.

Gaps include no overt treatment of:

- Innovation and associated research and development as an essential instrument for progress, and for the development of business.
- Supporting European action as a means of helping China make the transition to a low carbon future.
- Climate justice, where we have an important contribution to make, and only passing reference to adaptation to the climate change that is already happening or in the pipeline.
- Engaging effectively with the generation that will be most impacted by climate change.

## INTRODUCTION

The Irish government recently approved the draft heads of a 'Climate Action and Low Carbon Development Bill, 2013,'<sup>1</sup> – referred to in this paper as the 'climate bill' - which lays out a general scheme. This was complemented by the simultaneous publication of a detailed analysis of the context and choices by the National Economic and Social Council (2013).<sup>2</sup> The essence of the proposed approach is 'to achieve transition to a low carbon, climate resilient and environmentally sustainable economy in the period up to and including the year 2050'. This is to be achieved by preparing and implementing national and sectoral road maps that are informed by scientific evidence, research findings, and the advice of an Expert Advisory body, and consistent with existing and future European Union and other obligations. The plans will specify the policy measures to be undertaken for both mitigation (reduction of greenhouse gas emissions) and adaptation (accommodating the climate change that is already upon us, or very likely to happen), and they are to be cost effective and economically efficient.

---

1. <http://www.environ.ie/en/PublicationsDocuments/FileDownload,32468,en.pdf>

2. 'Ireland and the Climate Change Challenge: connecting 'How Much' with 'How Do''. Final Report of the NESC Secretariat to the Department of Environment, Community and Local Government, Dublin, 2013. Available at: <http://www.environ.ie/en/PublicationsDocuments/FileDownload,32467,en.pdf>

## The First Steps In Ireland's Emerging Climate Strategy Assessed *continued*

Until the national and sectoral road maps are available, it is impossible to draw conclusions about the likely quality and effectiveness of what is proposed, but we can identify the characteristics that would lead us in a useful direction.

### 1. Will the road maps and their implementation help us be positive and effective leaders for Europe on climate change?

The centre of gravity of the global economy is shifting to Asia, and this is reflected in greenhouse gas emissions, with China and India in 2011 accounting for over a third of CO<sub>2</sub> emissions.

**Table 1. CO<sub>2</sub> emissions, by selected jurisdictions, 1990 and 2011, Billion tonnes.**

Jurisdiction	1990	% of Total	2011	% of Total	Per Capita 2011
EU 27	4.35	19.2	3.79	11.2	7.5
US	4.99	22.0	5.42	16.0	17.3
China	2.51	11.1	9.70	28.6	7.2
India	0.66	2.9	1.97	5.8	1.6
Total	22.7	100	33.9	100	

Source: Olivier, Jos G.J., Greet Janssens-Maenhout, Jeroen A.H.W. Peters, 2012.. Long-Term Trend in Global CO<sub>2</sub> Emissions, 2012 Report, Netherlands Environmental Assessment Agency and JRC European Commission 39 pp.  
[http://edgar.jrc.ec.europa.eu/news\\_docs/C02%20Mondiaal\\_%20webdef\\_19sept.pdf](http://edgar.jrc.ec.europa.eu/news_docs/C02%20Mondiaal_%20webdef_19sept.pdf)

China alone now accounts for almost 30% of the global CO<sub>2</sub> emissions, and its share is rising. It is instituting a number of very ambitious measures to address greenhouse gas emissions. Success or otherwise in addressing the global challenge will be decided there. And the difficulties in doing so are immense. China's GDP per capita in 2012 in purchasing power parity was \$12,302. Ireland's was over three times that level (\$41,739). There is intense political and popular pressure to keep growing so as to catch up with the richer countries. There is a chance that the transition to a low carbon and prosperous economy will be achieved, but it will take a comparable effort and support from the EU and the US if the climate progressives in China are to prevail.

Ireland's greenhouse gas emissions are about 0.1% of the global total. On our own, whether we succeed or fail to cut emissions is immaterial, unless our performance has a multiplier effect on others. Action at European level can provide the multiplier. We have the advantage of being at the decision making table of the European Union, which has real leverage. Although the EU in 2011 only accounted for 11.2% of total global CO<sub>2</sub> emissions - and this share is shrinking - it is still a major global player; it has some negotiating heft because it is doing rather than talking, and, as the largest importer of goods and services in the world, it has incomparable market power. Our own roadmap should first and foremost assist the EU in shaping and the advancing the European and global agendas, and this should be recognised as a priority in the Irish roadmap.

# The First Steps In Ireland's Emerging Climate Strategy Assessed

*continued*

## THE ISSUE OF TARGETS

The meat in any policy sandwich is the quality and credibility of the policies that are proposed and then implemented, and their prospects of achieving a productive change in direction. Do not judge any policy process by what it aspires to in the long term – such commitments are politically costless and so can be extremely ambitious, because they become due for delivery way beyond the current political cycle. Focus instead on what is proposed now to achieve a change of direction; this is where difficult choices, tradeoffs, priorities and allocation of scarce financial, political and administrative effort are to be found, and where political skill and courage (or its absence) can be judged.

Having Irish climate targets is not irrelevant, but they are relevant only in the context of contributing to the ambitions of Europe, and thereby as a means of helping China make progress, for reasons outlined above. There is no logic in establishing targets for ourselves alone, independent of the European context. But a *sinn féin* approach has its supporters.

In 'Climate Report is a dismal technocratic document' (Irish Times February 22, 2013) Frank McDonald bemoans the absence of 'specific real targets' in the recent NESC report on facing the climate change challenge in Ireland. This enthusiasm for targets is also shared by a number of non- governmental organisations (Friends of the Earth, Stop Climate Chaos, Environmental Pillar, Irish Corporate Leaders on Climate Change) who on February 20 issued 'Six Tests for the Government's Climate Change Bill' the leading two of which are: 'Is there a 2050 target?' and 'Are there interim targets?'

Making 'real targets' the top priority is misconceived for three reasons.

The first is that Irish (and other) governments consistently do not meet many environmental and other targets that are legally binding, especially those that come due outside the electoral cycle in which the target was set. And this is true even when non achievement results in large lump sum and daily financial fines being imposed on us by the European Court. In 'Implementing EU Directives – an Opportunity to Lead' (available at: <http://www.publicpolicy.ie/wp-content/uploads/Implementing-EU-directives.pdf>), I elaborate on the reasons for this lack of action. Irish governments do not embarrass easily. It is optimistic beyond reason to imagine that a target for 2050, which between now and then will see about governments come and go, will have any real purchase on how these many governments will act.

The second reason why national targets covering the whole economy will be ineffective is that our emissions from the power sector and heavy industry (cement, refineries etc.) are already part of an EU-wide cap which is fixed at EU level; this is called the European Union Emissions Trading Scheme (EU ETS). Even if we reduce to zero our emissions from the traded sectors, there will be no commensurate reduction in total emissions.

A third reason is that under European Law we already have very demanding legally binding annual targets over the 2013 to 2020 period for emissions from sectors not in EU ETS, i.e. emissions from agriculture, transport (excluding aviation), buildings (heat), waste. The total reduction from a 2005 base for the EU is -10%. Ireland (with Luxembourg and Denmark) was given the most demanding minus 20% target. The huge task we face can be judged from the fact that our annual non traded emissions in 2011 (41.7 million tonnes) - after 3 successive years of decline in GDP - still exceeded our legally binding target for these sectors (40.56 million tonnes). We have a huge mountain to climb, and this challenge will intensify if this cap is further tightened at EU level.

# The First Steps In Ireland's Emerging Climate Strategy Assessed

*continued*

## 2. Are we transforming agriculture to be climate efficient?

In 2011, agriculture in Ireland contributed over 44% of the total greenhouse gasses emitted from the non-traded sectors. There are ambitious plans to expand output once quotas are removed.<sup>3</sup> Without an effective strategy, emissions will grow and result in some combination of tax payer buying of allowances from other countries to cover the deficit, and compensating reductions from the transport and heat sectors which could be very difficult and expensive.

There are initiatives and instruments emerging to support farmers in making the transition: In the Conclusions of the European Council on the EU budget to apply from 2014 to 2020<sup>4</sup>, we find the following (p. 27):

“The overall environmental performance of the CAP will be enhanced through the greening of direct payments by means of certain agricultural practises, to be defined in the *Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy*, beneficial for the climate and environment, whilst avoiding unnecessary administrative burden, that all farmers will have to follow. In order to finance those practises, Member States will use 30% of the annual national ceiling, with a clearly defined flexibility for the Member States relating to the choice of equivalent greening measures. “

And from the enterprise sector, we find a very interesting initiative with huge potential: Glanbia is a major Irish food company that has ambitious plans, which are summarised by the National Economic and Social Council (2013, p. 74) as follows:

“Glanbia views the drive to reduce energy costs and environmental impact as key to future growth. To support this it has created a very sophisticated process by which it assists farmers to farm more efficiently and reduce emissions. Bord Bia and Teagasc were centrally involved in this project. They designed the data collection questionnaire, collected the information on farms, developed the methodology and model and achieved certification from The Carbon Trust.

There is now a Code of Practice that supports continuous improvement on farms. This includes things that farmers must do and should do. Independent audits will be used to determine if standards are reached. There is also an education and awareness programme to introduce the code of practice, explain how it works and highlight its impact on farms, particularly the scope to reduce costs. It allows farmers to assess their performance relative to national benchmarks and with local peers. In addition, farmers receive a visit from inhouse advisers working with the company who provide advice based on detailed analysis of the audit and ongoing performance data for the farm. Having completed a pilot programme, Glanbia is planning to roll out this initiative to all of its milk suppliers over 2013/14.<sup>5</sup>

---

3. See 'Food Harvest 2020', available at:

<http://www.agriculture.gov.ie/media/migration/agrifoodindustry/foodharvest2020/2020FoodHarvestEng240810.pdf>

4. European Council (from General Secretariat of the Council to Delegations) 'Conclusions: Multiannual Financial Framework', EUCO 37/13, February 7/8 2013.

5. NESCC, 2013. "Ireland and the Climate Change Challenge: Connecting 'How Much' with 'How To'", Final Report of the NESCC Secretariat to the Department of Environment, Community and Local Government, available at: <http://www.environ.ie/en/PublicationsDocuments/FileDownload,32467,en.pdf>

# The First Steps In Ireland's Emerging Climate Strategy Assessed

*continued*

This initiative is potentially transformative: What doesn't get measured doesn't get done; this provides the measurement, Glanbia can see advantage in the global market place from adopting this approach, and the CAP provisions noted above can be designed and implemented so as to reward farmers who embrace the approach. It needs to be re-enforced by an innovation and research and development strategy (see below).

If Ireland becomes a global leader in the area of transforming farming and forestry to be resource and environmentally efficient, it can have spillovers and insights for China and other countries that are struggling to expand food production while protecting local and global life support systems. [The other 'big win' opportunity is improving the energy efficiency of buildings, but this can only be achieved if the transaction costs of retrofit can be dramatically reduced, and this involves scaling up to community and neighbourhood levels]

### **3. Is energy efficiency prioritised?<sup>6</sup>**

Energy efficiency is about getting more output per unit of energy input. As efficiency improves, it can lower energy prices, reduce greenhouse gas emissions, improve comfort and health levels, especially for the most vulnerable, and generate employment. But it only delivers these outcomes for households if the barriers inhibiting action are successfully addressed; these include small individual scale which increases unit costs and makes investment of limited interest to banks, fear of strangers in the house, apprehensions about disruption, split incentives - where landlords don't reap the benefits of their investment in energy efficiency. And this requires achieving substantial economies of scale and scope through community-wide schemes and making the choice 'opt out' rather than 'opt in'.

### **4. Is climate efficient innovation embedded so as to influence how we think and act as producers, consumers and government?**

Business, families, farmers, civic society, the universities, government all need to do research, experiment, find new ways of doing more with less. And some of these new ways need to be converted into enterprises. Teagasc and the universities have key roles here. There needs to be a substantial research, development and demonstration programme in place to support the innovation imperative. The main vehicle for research funding in Ireland is Science Foundation Ireland (SFI), and it plans by 2015<sup>7</sup> to devote all of its funding to the 14 areas specified in the Report of the Research Prioritisation Steering Group<sup>8</sup>. In the priorities report, 'Climate Change and Related Environmental Research' is listed in an Annex as an example of policy research but is not addressed at all in the funding portfolio. An appropriately funded climate research, development and demonstration programme needs to be front and centre if the climate strategy is to succeed.

---

6. A discussion of the issues involved can be found in: Convery, Frank. 2011. 'Reflections—Energy Efficiency Literature for Those in the Policy Process', *Review of Environmental Economics and Policy*, 5 (1): 172-191.

7. See SFI 'Agenda 2020', 2013, page 14, available at: <http://www.sfi.ie/about/sfi-strategy-and-opertional-plan/>

8. See: [http://www.forfas.ie/media/ffs20120301-Research\\_Prioritisation\\_Exercise\\_Report.pdf](http://www.forfas.ie/media/ffs20120301-Research_Prioritisation_Exercise_Report.pdf). The areas are: A. Future Networks, B. Data Analytics, C. Digital Platforms, D. Connected Health and Independent Living, E. Medical Devices, F. Diagnostics, G. Therapeutics, H. Food for Health, I. Sustainable Food, J. Marine Renewable Energy, K. Smart Grids and Cities, L. Manufacturing, M. Processing technologies, N. Services.

# The First Steps In Ireland's Emerging Climate Strategy Assessed

*continued*

## **5. Do our political and institutional arrangements foster and facilitate effective action?**

The 5 key sectoral players at national level are the departments of agriculture, employment, energy, environment and transport. They all need to be mobilised, with political leadership from An Taoiseach, and executive leadership from environment, reporting regularly to the appropriate Oireachtas committee. In the context of the conflict in Northern Ireland, Frank McGuinness observed that “The greatest mistake we have made is not that we didn’t love our neighbour, rather we don’t know them, and that is our continued mutual choice.” In regard to policy development and implementation, this idea has its analogue in that each department and agency has its own missions, personnel and professional skills, ethos, priorities and budgets, and finds it difficult to impossible to reach across and know what others are doing, and collaborate effectively to advance a shared objective. This silo mentality and practise is damaging in general, but it is disastrous when it comes to addressing climate change, which is quintessentially a multi sectoral challenge. The draft Climate Bill includes an important feature that would make the silos more porous; it proposes (Heads 6-9) a National Expert Advisory Body with 5-7 members, four of whom will comprise the directors of the Environmental Protection Agency (EPA), the Sustainable Energy Authority of Ireland (SEAI), Teagasc, and the Economic and Social Research Institute (ESRI), to which should be added the Director of the National Transport Authority. It also provides for regular reporting to the Dáil by each Minister on his or her sectoral performance. Presumably periodic reporting to the relevant committee(s) will also be part of the oversight functions.

## **6. Are the policies that are already working well being sustained and developed?**

As noted above, the degree of substance in a strategy can be judged by the quality and coherence of policies being pursued. The emphasis on the ‘how’ in the NESC analysis is well justified.

We are amongst the leaders in the EU in introducing and increasing a carbon tax, and in the recalibration of the vehicle registration tax and the annual road tax applied to new cars to reflect their emissions performance. The income from the carbon tax is helping avoid the need to raise other taxes, and both taxes are helping re-shape our behaviour in the direction of reducing climate change pressures. [Emissions from transport fell by over 10% between 2009 and 2011]. We have also been very effective at introducing an energy efficiency labelling scheme, and in making new houses almost carbon neutral. We need to continue with these policies, and re-enforce them. The first requirement in an effective strategy is to make sure not to weaken or abandon the policies in place that are effective. The second is to keep scanning the horizon for new and better ways to move the agenda forward. The emphasis in the draft bill on policy measures is important and should be retained, as should the focus on sectoral road maps; the three sectors that make up the non-traded emissions - agriculture, buildings (heat) and transport – have very particular technological, business, consumer and policy features that require separate treatment.

# The First Steps In Ireland's Emerging Climate Strategy Assessed

*continued*

## **7. Are we making sure that our children understand?**

We are the first generation in human history to, by our own actions, begin to shape how our planet's life support systems function. Most adults who interrogate the evidence<sup>9</sup> are convinced intellectually that climate change is happening, but for most, it is not embedded in how we think and act, and how we value what we have.

The costs of climate irresponsibility are likely to be borne tomorrow by those who are in our schools today. Every student needs to understand the issues, the evidence, the risks, the choices, and the likely implications of not taking action. In Ireland we have done well, with our Green Schools and Eco UNESCO initiatives, to embed the value of protecting the local commons with a global consciousness. Continuing and developing these initiatives need to be an integral part of the strategy.

## **8. Are we effectively addressing adaptation and climate Justice?**

Some climate change is already upon us. And the costs are being borne in the main by those with the least resources to adapt, namely, the 800 million who are already struggling to put enough food and clean water on the table to survive. The Mary Robinson Foundation is providing global leadership in giving an effective voice to the voiceless in this critical area. Irish Aid, Concern and others are making the link between climate change and nutrition, so we have a nucleus of advocacy, performance and expertise in adapting to climate change in ways that are effective and fair.

In the Climate road map, adaptation in general should be given more prominence, and global leadership in climate justice should feature.

If we can answer 'yes' to these 8 questions, we have a climate strategy we can be proud of.

---

9. A recent World Bank publication – Turn Down the Heat – why a 4C warmer world must be avoided – a report for the World Bank by the Potsdam Institute for Climate Impact Research and Climatic Analytics, Washington DC, 2012. Available at: [http://climatechange.worldbank.org/sites/default/files/Turn\\_Down\\_the\\_heat\\_Why\\_a\\_4\\_degree\\_centrigrade\\_warmer\\_world\\_must\\_be\\_avoided.pdf](http://climatechange.worldbank.org/sites/default/files/Turn_Down_the_heat_Why_a_4_degree_centrigrade_warmer_world_must_be_avoided.pdf) - provides the evidence.



# Implementing EU Directives – An Opportunity To Lead

*Published: Tuesday 19 February 13*

## KEY POINT

The Irish policy system has been properly obsessed by the need to make progress in reducing the extent and impact of the bank related debt. Now that we have made some progress on this front, it is timely to focus on another dysfunctional aspect of Irish and European governance. By delays amounting to decades in the implementation of some directives, the member states of the European Union (EU) undermine the Union's credibility, effectiveness and its competitiveness. Once they have finally been found guilty by the European Court and been fined, member states rush to comply. As a result, 'Europe' gets blamed by the citizenry for being forced to take actions the justification of which has been poorly explained, where a credible evidence base for action is often not available or not accessible, and the many benefits of action get lost in a maelstrom of recrimination and disputation. What is needed is to learn from the many cases of successful implementation in Ireland and elsewhere, including those member states - Nordic countries, Netherlands and the UK – that perform best. Each member state should design and implement a credible plan once a directive has been approved, and then monitor implementation as part of the European semester process. Ireland should implement these procedures itself so as to become one of the leaders in best practice. The European Affairs Committee of the Oireachtas (Parliament) should be given an explicit mandate to monitor and report on performance. Ireland should use its influence in Europe to put this issue on the EU agenda.

## INTRODUCTION

There are many areas where the performance of the EU can be improved. Improving the governance of the banking system and addressing public debt have dominated recent efforts in Ireland and across the Union. Now that the promissory note aspect of our banking crisis has been addressed, there is an opportunity to focus on another area where the performance of the EU and Ireland is inadequate.

Ireland holds the Presidency of the European Union from January through June 2013. We have a well deserved reputation for being business-like and administratively effective in advancing those agendas which are at a point where they can be progressed. We rarely add our own strategic perspective. There is one area where there is significant policy failure, which does not involve banking and finance, and where we could make an important contribution at EU level. This is in the implementation of directives. It is too late in the EU policy cycle to effect any change during our Presidency, but we should work at getting the issue on the European agenda.

The general pattern is as follows: after a number of years of deliberation, a legislative proposal from the European Commission is approved by the member states (Council) and the European Parliament; Ireland has a voice in both fora. It is then transposed into domestic legislation in each of the member states. Typical legislation lays out what is to be achieved, by which dates, but leaves considerable discretion to the member states as to how it is to be achieved. A relatively long period for implementation – typically two years but sometimes 10 years or more – is allowed. In the event of non compliance – and after several warnings – the Commission takes a case to the European Court. Where the court finds against the member states, it imposes fines, typically a combination of lump sum and daily charges, the latter continuing until compliance is achieved.

Two recent Irish examples, announced by the Court of Justice of the European Union 19 December 2012<sup>1</sup>:

---

1. Details can be accessed via: <http://curia.europa.eu/jcms/upload/docs/application/pdf/2012-12/cp120171en.pdf>

# Implementing EU Directives – An Opportunity To Lead

*continued*

## SEPTIC TANKS

This ruling relates to Ireland's failure to properly regulate the installation and use of septic tanks (individual waste water treatment systems). Discharges from septic tanks, of which there are close to 500,000 in Ireland, have contributed to micro-biological pollution of groundwater and nutrient pollution of surface waters. Human health is put at risk because pathogens can enter drinking water sources via septic tanks that are poorly designed, located or maintained.

*Fine:* A penalty payment of €12,000 for each day of delay in adopting measures necessary to comply with the 2009 judgment, from the date on which judgment is delivered in the present case to the date of full compliance with the 2009 judgment. Also a lump sum payment of €2,000,000.

This directive<sup>2</sup> was first approved 38 years ago (in 1975) when James Tully was the relevant Irish Minister (for Local Government).

## IMPACT ASSESSMENT

The Court found that the thresholds for undertaking an environmental impact assessment for certain types of projects, including the restructuring of rural landholdings and water management projects for irrigation or land drainage, were too high.

*Fine:* a lump sum of €1,500,000.

This directive<sup>3</sup> was first approved in 1985 (28 years ago) when Liam Kavanagh was the relevant Minister.

Why do we do this, does it matter, and what should we do about it?

### **Why do we delay?**

There are a number of reasons:

#### **Time Disconnect**

There is a large time lag between when agreement is reached on the policy at EU level, and Court proceedings. The politicians and the governments in which they serve that are involved in the initial decision have moved on long before engagements with the European Court take place, and the associated costs are incurred. So the current political incumbent – Phil Hogan in the Irish case – is stuck dealing with a mess not of his making. The same applies to the public servants involved, although the file will be there, and it their job to process it.<sup>4</sup>

---

2. Council Directive 75/442/EEC of 15 July 1975 on waste (OJ 1975 L 194, p. 39), as amended by Council Directive 91/156/EEC of 18 March 1991 (OJ 1991 L 78, p. 32).

3. Council Directive 85/337/EEC of 27 June 1985 on the assessment of the effects of certain public and private projects on the environment (OJ 1985 L 175, p. 40), as amended by Council Directive 97/11/EC of 3 March 1997 (OJ 1997 L 73, p. 5).

4. One of the problems is that there are very few lawyers in the public service, and none with specialist skill in EU law. We hope to address this issue with a separate commentary.

# Implementing EU Directives – An Opportunity To Lead

*continued*

## **PLANNING DEFICIT**

Secondly, effective implementation requires hard thinking and effective planning, and the Irish system is not well designed to deliver this. There are exceptions, but ours is a ‘put out the fires’ model, and seems to be only fully energised by crisis. This is especially true when effectiveness requires substantive involvement by a number of departments and/or agencies. Who is going to do what, when? What minimum knowledge will be needed to understand where we are starting from (the baseline), and to judge policy effectiveness over time? How and by whom will this be delivered? What skills in science, engineering, design, risk assessment, economics, law and project management etc. are needed and how can they best be mobilised? What are the financial implications, and how will costs be covered? Can we identify a financial model that is self sustaining, or will subsidy be required? Are there property or other rights involved that need to be understood? How can the economic social and environmental benefits of policy implementation be maximised? How and by whom will the interest and engagement of the Oireachtas, the key stakeholders and the general public be achieved? This level of planning requires someone with the mandate and the skills to be given sufficient time to sort through the issues, engage with key players, and put an implementation framework together. And then senior management need to agree an implementation plan.

## **WRONG INCENTIVES**

No Minister or civil servant suffers any career or other sanction for failing to act early on in the manners suggested, and similarly there are no career gains – from the electorate in the case of politicians, or in terms of promotion for civil servants – if they do act effectively early on. The incentive asymmetry is especially sharp where one department has the legal responsibility for compliance, but effort by other departments and agencies is needed to deliver effectively. The latter have little or no incentive to devote scarce staff time and budgetary effort to the task.

## **WE’RE NOT THE WORST**

There is little peer pressure from other member states to improve our performance. Table 1 gives indicative evidence for EU15 over the 2005-2007 period. The ever virtuous Nordics are the best, Italy is the worst, and we are in the middle at number eight.

# Implementing EU Directives – An Opportunity To Lead

*continued*

**Table 1. Infringement Cases Opened against Member States, 2005-2007, ranked from least to most.**

Country	Number	Rank
Denmark	14	1
Sweden	25	2
Finland	33	3
Netherlands	59	4
UK	65	5
Portugal	84	6
Austria	85	7
Ireland	91	8
Spain	100	9
Luxembourg	112	10
Belgium	118	11
Germany	120	12
Greece	150	13
France	195	14
Italy	211	15

Source: Nicolaidis, Phedon and Anne-Marie Suren, 2007. 'The Rule of Law in the EU: What the Numbers Say', EIPASCOPE 2007/2, available at: <http://publications.eipa.eu/en/eipascope/search/>

## DOES IT MATTER?

There are important costs incurred by delay. One is credibility of the EU mission. At EU level, it is striking that 5 of the 6 worst in terms of compliance (Italy, France, Germany, Belgium, Luxembourg) are also founding members of the EU. It weakens the credibility of the whole when so many key members are delinquent. And it is paradoxical that three of the top 5 performers (Denmark, Sweden, U.K.) are not members of the Euro. There is a gap between rhetoric and reality. David Cameron, Prime Minister of the UK, has initiated a discussion about the character of the EU, and has committed to hold an in-out referendum within the first half of the next parliament (if the Conservatives form the next government)<sup>5</sup>. Many issues will arise in the course of the debates on the future of Europe over the next years, but one is likely to be the lethargy of the core countries - relative to the UK and the Nordic performance - in implementing EU legislation. It is likely to be tagged as another example of European sclerosis and complacency or worse. The delays also damage the image of the EU with its citizens. It gets blamed for 'forcing' us to do what our governments have consciously agreed should be done and what any self-respecting country should do anyway. The blame arises because the issues involved and the benefits accruing are not explained and discussed over a reasonable period. Furthermore, the evidence supporting the action is either not available, or is only available to experts, the choices for implementation are not articulated and support from the public is not generally secured for the

---

5. The full text of his speech is available at: <http://www.guardian.co.uk/politics/2013/jan/23/david-cameron-eu-speech-referendum>

# Implementing EU Directives – An Opportunity To Lead

*continued*

preferred means of implementation. To take two recent examples of non-compliance, where many would support effective implementation if fully informed in time: the conservation of the last remnants of intact boglands as being of value for ourselves and posterity<sup>6</sup>; secondly, understanding if and to what extent septic tanks were deficient in protecting surface and ground water. But the engagement with the citizens seems to happen when action is immediately required, in an atmosphere where the costs are seen to loom large, the benefits are ignored, and there is low confidence in official pronouncements and promises. We need to find a path to do what needs to be done because we the citizens agree that it makes sense, rather than be dragged by the courts to do what 'Europe' wants.

It also damages EU competitiveness. Most directives yield substantial net benefits, and these are foregone as long as non compliance prevails. And these wider considerations apply also locally. There is the diversion of scarce political and management capital, and the payment of legal fees involved in dealing with court cases. Instead of advancing our strategic economic, social and environmental agendas, we are sucked into case making, documentation and actions to meet our obligations. Finally, the fines are not trivial. A year's delay in meeting our septic tank inspection obligations will cost €4.38 million.

## WHAT SHOULD WE DO ABOUT IT?

Four elements are needed. We need to learn from best practise within and between countries. Not all Irish experience is poor. One example among many: The Energy Performance in Buildings Directive came into force at EU level in 2003. By 2006 the Irish legislation was transposed, and in 2007 began the process of rating buildings on a phased basis<sup>7</sup>. We need to learn from our own good experiences as to why they succeeded.<sup>8</sup> We also need to learn from the Nordics, Dutch and the UK about why and how they succeed. Secondly, we need to include leading successful implementation of directives as an important criterion for promotion in the public service, especially where this requires agreement across departments and agencies.

Thirdly, we need a commitment by every member state to prepare a realistic implementation plan whenever a directive is approved at EU level. Finally, we need reporting on the progress of the implementation plan. In Ireland, the European Affairs Committee of the Oireachtas (Parliament) should be given an explicit mandate to monitor and report on performance. At EU level, performance monitoring should be undertaken as a routine part of the European Semester; this is an EU level policy coordination tool which is part of a broader EU aim to strengthen economic governance. As it stands, this surveillance framework governs the:

---

6. See: Commentary 'Bogs – when they're gone, their gone' June 2012 available at:

<http://www.publicpolicy.ie/bogs-when-theyre-gone-theyre-gone/#comments> for why such conservation makes sense.

7. See: Implementation of the EPBD in Ireland, available at:

[http://www.epbdca.org/Medias/Downloads/CA\\_Book\\_Implementing\\_the\\_EPBD\\_Featuring\\_Country\\_Reports\\_2010.pdf](http://www.epbdca.org/Medias/Downloads/CA_Book_Implementing_the_EPBD_Featuring_Country_Reports_2010.pdf)  
pp.III175-III186

8. Declaration of interest. I was chairman of the Sustainable Energy Authority of Ireland at the time; it was designated as the 'issuing authority' for implementing the directive.

## Implementing EU Directives – An Opportunity To Lead

*continued*

- Implementation of fiscal policies under the Stability and Growth Pact to strengthen economic governance and ensure budgetary discipline.
- Implementation of structural reforms in the context of Integrated Guidelines outlined in National Reform Programmes to ensure progress towards the agreed goals of the EU Strategy for Growth and Jobs (“Europe 2020”).<sup>9</sup>

If we could make progress on the implementation of directives, the coherence and credibility of the European mission would be improved, as would our own self- image and performance. We would all gain. And there is a framework to build on. In regard to environmental policy, there is a framework already in place which provides evidence and analyses. These include the European Environmental Law Network<sup>10</sup>, and Milieu which comprises a team of lawyers, economists and policy analysts who address legal challenges<sup>11</sup>. We should build on these.

---

9. Details at: <http://www.consilium.europa.eu/special-reports/european-semester>

10. [http://www.asser.nl/default.aspx?site\\_id=7](http://www.asser.nl/default.aspx?site_id=7)

11. <http://www.milieu.be/index.php?page=home>

## Éamon De Buítléar (1930-2013) Defender Of The Commons

*Published: Wednesday 30 January 13*

Fiscal policy is about getting our public income and expenditure in balance, in ways that are acceptable and foster the creation of employment. When expenditure dramatically exceeds income, and crisis is upon us, extricating ourselves becomes all consuming. **But it is important even in crisis to retain what is valuable about those aspects of life that are not readily valued in markets, and don't enter easily into the fiscal calculus.**

A society can be judged in part by the extent to which it protects those aspects of our lives we share in common – our air, water, wildlife, our culture and language. Where profits are to be made, it takes no particular skill to ensure that what is needed will be provided. In his characteristically apt and pithy fashion, Adam Smith captured the essence:

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but their self love, and never talk to them of our necessities but of their advantages.

But self love will not protect the commons – in belonging to everyone, it belongs to no one. And so, without intervention, the climate changes, water and air quality diminish, natural endowments – bogs, woodlands, wetlands – get exploited to extinction, and most undomesticated wildlife struggles to survive. And these features are all interrelated.

**Our history has made protecting wildlife and its habitats in Ireland a particular challenge.** For centuries, land and fishing rights belonged to the landlord class, who were typically Protestant, while the predominant religion of their tenants was Roman Catholic. Landlords were relatively rich when their tenants were poor; they were educated where their tenants lacked formal education; they were English speaking, often with a posh accent – they pronounced their 'ths' – where their tenants spoke Irish.

At their best, this landlord class nurtured innovation, creativity, research and science, helped their tenants in time of crisis, notably in Famine times, promoted democracy, fostered an understanding of Irish and Celtic culture, created and conserved beautiful buildings, and protected nature and woodlands. At their worst, they were rapacious mediocrities who used their status, legal and political power to protect their privileges and to maximise their own well being, often investing the proceeds outside Ireland, and treated their tenants not as fellow citizens, but as sources of income.

The transfer of land and associated buildings from landlords to tenants had many economic and social advantages, but one disadvantage was that most of the new owners did not have the scale or the income to protect woodlands, wetlands and wildlife. This tension between meeting economic necessities and protecting what does not yield income was often resolved in favour of the former. Advocates speaking up courageously for the conservation of our shared endowments often spoke with an Anglo-Irish accent. There was an old joke that the definition of a member of An Taisce (National Trust for Ireland) was someone who didn't know how to pronounce it! The wisdom of their insights and their saliency as regards popular support and political effectiveness was hobbled by (an often unfair) association with the landlord class. They were perceived as not being in touch with the realities, an attitude nicely captured by Lionel De Rothschild in a talk to a city gardening club: "gentlemen, no garden, however small, should be without its two acres of rough woodland."

## Éamon De Buitléar (1930-2013) Defender Of The Commons

*continued*

And this perceived disconnect between many of the spokespersons for environment and those who could protect it, meant that our built and natural heritage was gradually but inexorably eroded.

Enter Eamon de Buitléar, the man who convinced the first generation of Irish children that watched television that nature was ours, not only 'theirs'. That nature is to be understood and cherished, not only to be exploited and profited from.

Constable observed that 'you can't see what you don't understand'. Eamon used his humour, attention to detail and considerable style to enrich our understanding. An oft heard argument against conservationists was they 'they prefer birds over people'. He loved both people and birds, and was fearless in extending our ethical compass, showing that sometimes we the people must make sacrifices if our natural world was to flourish. He did this while working as an entrepreneur depending on the market for his keep, where every hour he devoted to the non commercial public interest was time not spent earning a living. His business instinct led him to seek and encourage enterprise that protects and enhances the environment; he devoted his last months to supporting Rory Harrington advance the installation of constructed wetlands which dispose of waste while sustaining wildlife and cleaning our water.

His talent at breaking down barriers was also manifest in other areas: he made the Irish language a natural means of communication; he helped Seán Ó Riada revolutionise the interpretation and presentation of traditional Irish music. His meticulous sartorial style stood out from that of his fellow environmentalists, where bearded unkemptness was the norm. There is some truth in the observation that behind every great man stands a very surprised woman. His wife Lailí grew up Irish speaking in Carraroe in a family suffused with artistic and literary tradition. She was the rock on which he stood, and which made his achievements possible. And, most of the time, she was not surprised.



# Property Tax – Why Dubliners Should Pay More

*Published: Saturday 19 January 13*

## KEY POINT

Some have complained that the residential property tax that will be applied in Ireland from 2013, which will be based on the market value of the property, will be unfair to Dubliners, because property values are higher there than elsewhere in Ireland. The value of the 298 properties sold in Dundrum, County Dublin are compared with the value of the 25 properties sold in Dundrum, County Tipperary, over the 2010-2012 period, using the Residential Property Price Register (RPPR). The median value (and associated full-year property tax in brackets) for Dundrum, County Tipperary are €100,001-150,000 (€225); the equivalent for Dundrum, County Dublin are €350,001-400,000 (€675); the median property owners in County Dublin will pay €450 more in annual property than their counterparts in County Tipperary. But the latter have manifold advantages over the former, including easy access to tax-payer subsidised infrastructure and services in: transport, culture, sports, education, health; and the widest range of life style possibilities, job options and entrepreneurial potential on the island. These benefits are reflected in property prices and therefore in property taxes; this is fair and appropriate. The timeliness and transparency of the property price evidence available on the RPPR is impressive, as is the quality and clarity of the background information and responses to 'Frequently Asked Questions' provided by the Revenue Commissioners. One weakness is that the price is not converted into price per M<sup>2</sup>. This gap should be corrected as a matter of urgency. The data, combined with the Revenue Commissioners' ability to nudge us towards compliance with a variety of soft and hard measures, make it likely that most of us will comply.

## INTRODUCTION

In Ireland, property taxes (or 'rates' as they were known) on domestic dwellings were abolished by central government in 1977, and this was followed by elimination of property taxes on agricultural land.

In order to help make good the shortfall in revenues, local authorities imposed levies on new developments to cover the costs of infrastructure and services provision, and central government increased the tax on property at the time of acquisition (stamp duty). What is notable about both of these revenue streams is that their magnitude depends on the volume and value of new development and property transactions. With the collapse of the property market, in terms of both volume and value, these two revenue streams also fell sharply.

It is clear that confining the tax base to transactions and new development made revenues very dependent on the level of economic activity in the property market, which in turn contributed to the sharp fall in government income and the rise in the deficit. This in turn played its part in Ireland's exclusion from international money markets and the request to the European Union (EU) and International Monetary Fund (IMF) on November 21, 2010 for financial support. Agreement was reached in December 2010, the terms of which are included in the EU/IMF Programme of Support for Ireland.<sup>1</sup>

Not surprisingly, this agreement includes a requirement to re-introduce a property tax (p. 9):

---

1. Available at: <http://www.finance.gov.ie/documents/publications/reports/2011/euimfrevised.pdf>. The Troika programme provides up to €85 billion over a three-year period to assist public finance needs and facilitate banking assistance. The package is provided equally by the ESFM, the EFSF, the IMF, an Irish contribution through its treasury cash buffer and investments by Ireland's National Pension Reserve Fund.

## Property Tax – Why Dubliners Should Pay More *continued*

“On the tax side, we will build on the base-broadening measures outlined above and establish a sound basis for sub-national finances through a new residential-property based site value tax”.

In December 2012, the government announced its decision to introduce a tax, payable by the property owner, and administered by the Revenue Commissioners, based on the market value of property in early 2013, at the rate of 0.18% of market value up to €1 million, and 0.25% on all value above €1 million<sup>2</sup>.

This has engendered a reaction that this is unfair to property owners in Dublin where property values are much higher than elsewhere in the country. Also, it is argued that because of economies of scale and scope, the cost of providing some public services – parks, water, roads, waste collection etc. - per household are lower in Dublin than elsewhere, and so the revenue required per household will be lower.

This is the urban analogy to the case made by rural residents, some of whom objected to the requirement to assess the performance of septic tanks.<sup>3</sup>

### The Property Value Difference – two Dundrums compared.

The Property Services Regulatory Authority maintains a publicly available property price register covering all residential transactions since January 2010.<sup>4</sup> It provides the date of each sale, its value, and its address but unfortunately nothing about the size or nature of the property. We can get a sense of the discrepancy between Dublin and the rest by comparing the records for two Dundrums – one in south county Dublin, the other in Tipperary.

Over the 2010-2012 period, there were 25 units sold in Dundrum County Tipperary, and 298 in Dundrum County Dublin. If we assume that the property tax rates agreed by government will be applied to these prices, the taxes payable will be as shown in Tables 1 and 2.<sup>5</sup>

**Table 1. Property Tax in Dundrum County Tipperary, based on sale prices 2010-2012.** All values in current Euro

Property value range	Number of Properties	Annual Property tax per property €
200,001-250,000	3	405
150,001-200,000	3	315
100,001-150,000	11	225
0-100,000	8	90
<b>Total</b>	<b>25</b>	

Source: <http://www.propertypriceregister.ie/> for property prices, and <http://www.revenue.ie/en/tax/lpt/index.html> for annual tax rates

The median property value is 100,001 to 150,000, with a tax liability of €225.

2. Details available at: <http://www.revenue.ie/en/tax/lpt/index.html>. Discussion of the policy available at: <http://www.publicpolicy.ie/thenew-property-tax/>

3. See: 'Invest in Cavan' available at: <http://www.publicpolicy.ie/invest-in-cavan/> for details of the proposal, and why it deserved support.

4. Available at: <http://www.propertypriceregister.ie/>

5. This assumption is likely to exaggerate the taxable value of properties sold in 2010 and 2011; the residential property price index (January 2005 = 100) declined from 90.5 in 2010 to 68.8 in November 2012 – see [http://www.cso.ie/en/media/csoie/releasespublications/documents/prices/2012/rppi\\_nov2012.pdf](http://www.cso.ie/en/media/csoie/releasespublications/documents/prices/2012/rppi_nov2012.pdf). Property will be valued in early 2013, and this value will apply from 2013 to 2016

## Property Tax – Why Dubliners Should Pay More *continued*

The median property value is 100,001 to 150,000, with a tax liability of €225.

**Table 2. Property Tax in Dundrum County Dublin, based on sale prices 2010-2012.** All values in current Euro.

Property value range	Number of Properties	Annual Property Tax per property
1,805,000	1	3812
1,300,000	1	2550
1,050,000	1	1915
950,0001-1,000,000	2	1755
850,001-900,000 1 1575	1	1575
800,001-850,000 1 1485	1	1485
750,001-800,000 1 1395	1	1395
700,001-750,000	3	1305
600,001-650,000	4	1125
550,001-600,000	10	1035
500,001-550,000	7	945
450,001-500,000	20	855
400,001-450,000	34	765
350,001-400,000	56	675
300,001-350,000	40	585
250,001-300,000	37	495
200,001-250,000	35	405
150,001-200,000	32	315
100,001-150,000	6	225
0-100,000	6	90
<b>Total</b>	<b>298</b>	

Source: <http://www.propertypriceregister.ie/> for property prices, and <http://www.revenue.ie/en/tax/lpt/index.html> for annual tax rates

The median property price in Dundrum, County Dublin over the 2010-2012 period is €350,000-400,000, with a median tax liability of €675, which compares with a median tax liability of €225 in Dundrum, Tipperary. The RPPR Property Price Register is an excellent resource, providing real data in real time but it does not provide data on the size [square metre (M<sup>2</sup>)] of the properties or any other characteristics. Such information would be very valuable in addressing valuation of two properties in the same area that are significantly different in size. Since most European countries provide valuation data per M<sup>2</sup>, it would also be useful as a help in identifying emerging price bubbles in the future; for example, if Dublin prices per M<sup>2</sup> were rising well above those in Stuttgart or Lyon, this would be one indicator that there may be problems looming.

## **Property Tax – Why Dubliners Should Pay More** *continued*

### **WHY IT IS RIGHT THAT DUBLIN HOUSEHOLDS SHOULD PAY MORE**

Median households in Dundrum County Dublin are likely to pay €450 more than their counterparts in Dundrum Tipperary, and the gap widens at the upper end, where the annual tax payment on the most expensive property sold in Dundrum County Dublin (valued at €1,805,000) would be €3812, compared with a tax payment of €405 payable on the most expensive property sold over the same period in County Tipperary, valued at €247,000.

Houses in Dublin are worth more, because there are many benefits to living and working in the Dublin region that increase demand for living space; these advantages get capitalised into property values. Key Dublin advantages relate to transport, education, health, access to places of worship, religion and lifestyle, culture and sports, enterprise and jobs. Many of these benefits can be characterised as what economists call 'option value', i.e. the value that most of us attribute to the choice of being able to avail of a good or service, even if we never take up the opportunity; there is real benefit in having the choice available.

### **TRANSPORT**

*Internal:* With its existing (and generally) improving bus services (more bus lanes, real time timetabling etc.) light rail (Luas – lines being connected – which is relevant to Dundrum, Dublin), commuter rail (DART etc.), cycle lanes, footpaths and M50 motorway, Dublin is getting close to international standards in internal connectivity, a diversity and density unmatched anywhere in Ireland, including Belfast.

*External:* The hub (Dublin) and spokes (to everywhere else) transport system give Dublin residents easy access to other parts of the island. Regular train service –including hourly to Cork and Limerick, 2 hourly to Galway and Belfast – busses going everywhere with increasing frequency, a motorway system that brings almost everywhere within a 3 hour commute for business or recreation travel by Dubliners. Dublin airport (average of 457 commercial movements per day, compared with 64 for Cork, and 57 for Shannon in 2012) is the main artery for connection with the outside world, and Dublin Port and Dun Laoghaire also provide regular ferry services.

### **EDUCATION**

The advantage is especially notable at 3<sup>rd</sup> level, with three universities and a range of institutes and specialist academies (music, design etc.) within cycling distance of most residents.

### **HEALTH**

Amongst physicians, Ireland has the lowest share of specialists in Europe. This means that access to such care is a key pinch point for patients. But a majority of specialists are Dublin based, as are the specialist hospitals and associated equipment.

### **RELIGION AND LIFESTYLE**

Agnostics, Anglicans, Atheists, Bahai's, Baptists, Buddhists, Catholics, Charismatics, Doubters, Evangelicals, Falun Gong, Hindus, Jehovah Witnesses, Jews, Methodists, Muslims, Orthodox, Presbyterians, Secularists, Taoists, Unitarians and many others can find companionship and fellowship in Dublin. All lifestyle choices are available.

## Property Tax – Why Dubliners Should Pay More *continued*

### CULTURE AND SPORT

Access is free to much public cultural Infrastructure and services including: three branches of the National Museum [Archaeology (Kildare Street) Natural History (Upper Merrion Street) Decorative Arts and History (Collins Barracks)]; the National Gallery (Clare Street); the Chester Beatty Library, Dublin Castle. In terms of what they offer, and how it is presented, these are of a very high standard, and welcome families and children. After considerable public investment, Dublin Zoo is now of international standard and one of the biggest tourist attractions in Ireland.

Specialist cinemas include the Lighthouse and the Irish Film Institute; the National Concert Hall provides a flow of classical music offerings; there are a number of venues provide international calibre theatre, and a variety of clubs and large entertainment centres. All major international games are played in Dublin; Croke Park and Aviva Stadium dominate in terms of ability to host major international events; the RDS is the venue for the major horse show jumping event of the year. Noisy concerts galore – Croke Park, RDS, Marley Park, RDS ....

### ENTERPRISE AND EMPLOYMENT

Cities agglomerate people, ideas, innovations and economic activity, because they have economies of scale and scope (diversity of skills and opportunities). They are about choice, from the profound to the trivial (A sign seen in New York City - 'Tattoos available, with or without pain' – exemplifying the latter). And the gap between the largest and the others tend to widen as these advantages reenforce each other. The Irish American Willie Sutton famously explained that he robbed banks because "that's where the money is." In Ireland, Dublin is where most of the money is. Ready access to this market – and the diversity of consumers and their demands - is a huge advantage to a start-up business. And the connectivity to the rest of the world via Dublin airport makes it a good place to expand internationally. Even in a depressed economy, there is likely to be more job turnover and more enterprise and employment opportunities in Dublin than elsewhere.<sup>6</sup>

### CONCLUSIONS

All of the above options / amenities are available to the residents of Dundrum, County Dublin; most can only be accessed by residents of Dundrum County Tipperary if they come to Dublin. Of course the motorway and rail spokes go both ways, so that physical access is easier than heretofore; and where it exists, high quality internet access can reduce the value of Dublin's advantage. But geography still imposes iron constraints, and gives those in the capital manifold advantages that are reflected in the value of property. Urban dwellers have many legitimate causes for complaint, but the higher value of property in Dublin, and the associated higher property taxes property owners will pay, is not one of them. The reason Dublin house prices are higher than Tipperary house prices is in part because of the greater benefits created there by society. It is not surprising then that Dubliners should be asked to contribute more via property taxes. The case made by rural lobbyists against the inspection of septic tanks was inappropriate and misconceived. The case against the property tax in Dublin is similarly misguided.

The timeliness and transparency of the property price evidence available on the RPPR is impressive, as is the quality and clarity of the background information and responses to 'Frequently Asked Questions' provided by the Revenue Commissioners. This, combined with the latter's ability to nudge us towards compliance with a variety of soft and hard measures, makes it likely that most of us will comply.

---

6. See: Glaeser, Edward, *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier* Penguin, 2011 for supportive evidence. Bettencourt et al 2007 provide specifics on the importance of scale in driving innovation and economic activity in cities, available at: <http://www.pnas.org/content/104/17/7301.long>

# Budget 2013 & 'Future Health'

*Published: Friday 30 November 12*

## INTRODUCTION

Having been in hospital in Ireland in early 1979 for minor surgery, Elizabeth Shannon, the wife of the then US ambassador to Ireland, wrote in her diary as follows<sup>1</sup>:

“Irish hospitals are wonderfully kind, warm places, very unlike my scanty experience with American hospitals. The nurses, many of them nuns, are patient, humane and understanding. Doctors have time to talk to patients in a reassuring and unhurried manner. I think I shall come back to Ireland if I ever need to be hospitalised. The medical care is excellent, the nursing care superb, and the rules....well, relaxed enough to make recovery fulfilled with laughter, surely a good medicine for everyone.”

I wonder what her reaction would be if Elizabeth Shannon came back today for a similar procedure, 33 years after her first idyllic experience? Few aspects of Irish life today are as much criticised as the health service. Can we ever again find the nirvana she evoked? For many readers of a certain age, “bring back the nuns” would be a preferred solution, but there are no nuns to bring back.

*Future Health - A Strategic Framework for Reform of the Health Service 2012 – 2015* was issued by the Irish Department of Health and Children on November 15, 2012.<sup>2</sup> It is hugely significant in that, if acted upon, it will affect our well-being and economic and social performance like no other initiative. If we get it wrong, it will cause huge damage. If we get it right, it could be transformative in a positive sense.

## OUTCOMES AND COST EVIDENCE

The key reference for this section is *Health at a Glance Europe 2012*, OECD Paris, 2012<sup>3</sup> the result of a collaboration between the European Commission and the OECD.

From a policy point of view, what is of particular interest are those areas where we are excelling in an EU context, and those where we are doing badly, defined as being in the top 5 (excelling) or bottom 5 (doing badly). Most rankings are out of a total of 27, with 1 being best, and 27 being worst in the EU. The data in Annex Table 1 summarise the situation, from which the observations below are drawn.

The Irish system has excelled at some things – notably the reduction in mortality – and performed poorly at others, notably incidence of cancer. A logical next step for a strategy would be to tease out what factors are most likely to explain excellence and the opposite – i.e. what mix of medical intervention, genetic endowment, social and cultural norms and wider policies explain performance. This would set the stage for an analysis of the combination of policies within and outside the health sector per se that could improve performance in manners that are cost effective and fair. The Report of the Expert Group on Resource Allocation<sup>4</sup> chaired by Frances Ruane identified pathways whereby progress could be made, with a particular focus on aligning the incentives faced by the key players in the system with what is desired.

---

1. Shannon, Elizabeth, 1983. *Up in the Park – the Diary of the Wife of the American Ambassador to Ireland 1977-1981*, Gill and Macmillan, p. 177

2. [http://www.dohc.ie/publications/pdf/Future\\_Health.pdf?direct=1](http://www.dohc.ie/publications/pdf/Future_Health.pdf?direct=1)

3. Available at: <http://www.oecd.org/els/healthpoliciesanddata/HealthAtAGlanceEurope2012.pdf>

4. Department of Health and Children, 2010. *Report of the Expert Group on Resource Allocation and Financing in the Health Sector*, Dublin. Available at: [http://www.dohc.ie/publications/resource\\_allocation/resource\\_allocation\\_report\\_hiRes.pdf?direct=1](http://www.dohc.ie/publications/resource_allocation/resource_allocation_report_hiRes.pdf?direct=1)

The group's work was supported by a very useful research report: Brick, A., Nolan, A., O'Reilly, J. & Smith, S. (2010) *Resource Allocation, Financing and Sustainability in Health Care: Evidence for the Expert Group on Resource Allocation and Financing in the Health Sector*. Dublin, Department of Health and Children and Economic and Social Research Institute. Available at:

[http://www.esri.ie/publications/latest\\_publications/view/index.xml?id=3059](http://www.esri.ie/publications/latest_publications/view/index.xml?id=3059)

## Budget 2013 & ‘Future Health’ *continued*

The costs of the Irish system are astonishing. An analysis by Paul Redmond<sup>5</sup> adjusts for our very favourable demographic profile. This adjustment is especially relevant in the case of Ireland, because we have a relatively small share of the population over 65 (11.1%) compared with the rest of Europe – e.g., Germany (20.5%), Italy (20.4%), France (16.7%). Gross National Product (GNP) is used for Ireland instead of Gross Domestic Product (GDP)<sup>6</sup>.

He concludes that we have the most expensive health system in the European Union, and the third most expensive in the world. As such, it is a considerable drag on economic performance, since more resources are tied up unproductively. This is the bad news. The good news is that this allows considerable scope for reform, and for releasing resources that could be more productively used. The OECD ranks the Irish health system 28th out of 28 in terms of productivity.<sup>7</sup>

“It has measured the potential impact of a range of structural reforms that can impact directly upon productivity and can directly improve national fiscal positions while maintaining current outcomes. This analysis suggests that Ireland could save up to 0.25% of GDP through educational reform (Education is ranked 3rd out of 24), and more significantly, 4.8% of GDP through reform of the health care system”.

In terms of human medical resources, we rank number 2 in the EU for number of physicians. The OECD data<sup>8</sup> tells us however that we have the highest proportion of generalists (66%) in Europe. This implies that the specialist share (now totalling 34% - the lowest share in Europe) should be increased. Our top ranking in terms of number of nurses per capita deserves analysis, and specifically, to net out those in management and administration. It may also be the case that they are doing work which in other jurisdictions is done by other professions, such as social workers.

### KEY ELEMENTS OF ‘FUTURE HEALTH’

The case for change is made on the basis that the aging population is growing – expected to increase by 54% by 2025, and the numbers aged over 85 will double. Incidence of chronic disease – which accounts for around 70% of health resources - will increase by about 40% by 2020. This implicit increase in demand will have to be met while resources shrink. Reform is essential.

---

5. Redmond, Paul 2012. Expenditure and outputs in the Irish Health System- a cross country comparison. Publicpolicy.ie, November 2012 available at : <http://www.publicpolicy.ie/wp-content/uploads/Expenditure-Outputs-Irish-Health-System.pdf>

6. The former measures income accruing to residents of the country, while the latter values total output of goods and services. For most countries, they are roughly the same, but in Ireland, because of the substantial repatriation of profits by multinational companies located in Ireland, GDP is much larger than GNP and does not well reflect the actual well being experienced by residents. See de Buitelir, Donal. 2012. International Comparisons of Taxation and Public Spending and GNP/GDP for details, available at: <http://www.publicpolicy.ie/wpcontent/uploads/International-Comparisons-of-Taxation-and-Public-Spending-and-GNP-GDP.pdf>

7. Taken from: National Competitiveness Council, 2012. Ireland’s Competitiveness Scorecard 2012, Forfas, Dublin, p. 51

8. OECD (2012), p. 69

## Budget 2013 & 'Future Health' *continued*

Some key elements in the strategy include:

- Universal Health Insurance to be introduced from 2016
- Free GP care for all to be introduced in 2015
- A new patient safety agency to be set up in 2013 next year and a health and wellbeing agency in 2015.
- A reorganisation of services by hospital groups, on a trial basis at first.
- Control of health spending to return from the HSE to the Department of Health in 2014
- The introduction of new financial management systems aimed at controlling costs.

### CONCLUSIONS AND IMPLICATIONS

Clearly, with limited resources and rising demand because of the aging population and emerging (expensive) treatments and technologies, reform of our systems of healthcare is essential if quality is to be maintained, and if the drag on the economy is to be reversed.

#### 1. 'Future Health' Does Not Represent a Credible Reform Effort

Credibility is about convincing the public and the key actors that what is proposed makes sense, and that it can and will happen. Not everyone shares my enthusiasm for independent evidence, but neither am I alone; our experience at [publicpolicy.ie](http://publicpolicy.ie) is that there is a growing constituency for verifiable facts. 'Future Health' does not meet minimum standards in this regard – hardly any numbers, no references, no background notes explaining the strengths and limitations of the proposals, and a strange paucity of visual prompts – pictures, graphs, flow charts, tables etc. So its credibility is already impaired, in the context of a sector that already suffers a considerable credibility gap. If we don't tackle the choices - especially the 'how', on a careful scrutiny of the evidence, in 2016 we are likely to be chanting Hardy's catchphrase to Ollie: "Well, here's another nice mess you've gotten us into!"

#### 2. There should be a rule at cabinet that no proposals from any government department will be admitted for consideration unless it meets minimum standards in this regard.

The imperative of good policy analysis is evident at European level, where for any significant policy proposal, the European Commission must undertake an impact assessment, which is based on an integrated approach which analyses both benefits and costs, and addresses all significant economic, social and environmental impacts of possible new initiatives.<sup>9</sup> It would demonstrate a certain maturity and respect for the citizenry and tax payers if we were to adopt and apply this precedent. It will necessitate having in place a policy analysis team that has up to date knowledge of the data and the literature, that understands policy instruments, the role of incentives and behavioural science, and the importance of interaction and engagement, both intellectual and practical.<sup>10</sup>

---

9. [http://ec.europa.eu/governance/impact/index\\_en.htm](http://ec.europa.eu/governance/impact/index_en.htm)

10. There is a welcome commitment in 'Future Health' to both improve the policy analysis analytic capacity, and to promote research and development.



## Budget 2013 & 'Future Health' *continued*

### 3. Focus Attention on the 'how'

The arguments contained within 'Future Health' for more integration, achievement of scale economies by grouping, money following the patient, the aligning of incentives to achieve the outcomes desired, the separation of purchasers and providers, etc. all make sense. But how they are going to be achieved is not explicitly addressed, beyond organisational changes, led by the Programme Management Office which will have 'central, overarching coordination function for health reform.'

### 4. In addition to the usual suspects, engage with those who have an interest in cost containment

A worrying element of 'Future Health' is that 'active support will be sought of patients and clients, advocacy groups, health and social care professionals, health system managers, other workers, professional bodies and staff associations, the Oireachtas the wider political system, government departments, relevant statutory bodies, colleges and institutes, EU and other international bodies.' Most of these will be pushing vigorously to increase expenditure and expand services. There also needs to be some grit in the system that vigorously questions such propositions, that demands credible evidence, and that in effect represents the wider tax payers who will have to pay for same.

### 5. Involve the OECD

'Future Health' does not flag the OECD insights, including the reform measures they envisage. This is an important gap, in terms of both identifying measures that should be included in the strategy, but also in terms of benchmarking the reform process. The OECD should be invited to review and evaluate the Irish proposals, and to monitor and report on progress as it evolves. We need serious and periodic international peer review if the reform process is to have credibility and to stay on track.

The OECD data show that the Irish system does excel in some areas. There is no attempt in 'Future Strategy' to learn from these, or from the areas where performance is very poor. It is important to recognise world class achievements where they are to be found, to understand what brought them about, and what lessons can be learned for the rest of the system.

### 6. Adopt Graduated Access to Primary Care

A core proposal of the strategy is to provide free access for all to GPs. This is justified on the basis that there is a "body of evidence that user fees are a barrier to accessing care at the primary care level and thereby cause late detection of illness, poorer health outcomes and greater pressures on the acute hospital and long term care systems." But there is also a body of evidence that when prices fall – and especially when they fall to zero – demand rises; with this policy change, we can expect far more pressure on the GP services, with waiting lists and queuing as a likely outcome.

I prefer the illustrative proposal to create a graduated set of Medical Card entitlements that came from the Ruane Resource Allocation group<sup>11</sup>, namely:

- **The Standard Card:** capped GP and prescription drug fees for all who register with a GP

---

11. See: [http://www.esri.ie/news\\_events/latest\\_press\\_releases/publication\\_of\\_report\\_of\\_/index.xml](http://www.esri.ie/news_events/latest_press_releases/publication_of_report_of_/index.xml).

## Budget 2013 & 'Future Health' *continued*

- **Standard Plus Card:** reduced capped fees and cheaper prescription drug fees for those with chronic illness and incomes between 40-50% of the average
- **Enhanced Primary Card:** further reductions in fees and the cost of prescription drugs for those with chronic illness and incomes between 30-40% of the average
- **Comprehensive Card:** No fees or prescription costs for those with incomes under 30% of the average. This is identical to the current medical card.
- This hews to the spirit of access to all and is consistent with the commitment in the Programme for Government, but does embody elements of cost containment, fairness and incentives not to overload the system. The graduated system also reduces the dangers of a poverty trap, whereby if you 'lose' the card, you lose all other entitlements.

### 7. Hire More Specialists

Considerable damage to the provision of health services in Ireland seems to be attributable to the Common Contract agreed in 1997 for specialists; because of its ambiguities and generosity<sup>12</sup>, it has been a vehicle whereby some specialists have captured rents on a grand scale, comparable to those generated when the mobile phone licence was allocated (rather than auctioned) in 1995. This in turn has engendered a reluctance to hire sufficient specialists to meet needs, with consequent stresses and inadequacies. The supply needs to be expanded to international norms, at pay and conditions that also reflect international norms.

### 8. Incorporate Housing with care as an option for older people

As we get older, and more dependent, international experience shows that, for most, the hierarchy of preferences is first to stay at home, then move to what is variously characterised as assisted living, housing with care, or supported care, and then finally to nursing home where more or less complete dependence is characteristic. The key is to maintain independence and as much autonomy as is feasible for as long as possible. Although the second stage – housing with care – is characteristic of most economically developed societies, it is largely absent in Ireland<sup>13</sup>. Including this strand should be an explicit element in the review of the Fair Deal scheme [the fact that this is titled 'The Nursing Home Support Scheme' tells its own story]. Dying with dignity, tranquillity and no pain should be available to all, and the Hospice movement in Ireland has an excellent record in this regard. The commitment in regard to palliative care is welcome.

### 9. Clarify Nurse Numbers

It is important to verify (or not) if we are indeed the most nurse-intensive health system in Europe. The outcome will have considerable implications for resource allocation.

And let's bring back Elizabeth Shannon in 2014 – 35 years after her happy experience in an Irish hospital – and get her judgement as to whether we continue to deserve her endorsement...

---

12. Details available at: [http://www.audgen.gov.ie/documents/vfmreports/55\\_MedicalConsultantsContract.pdf](http://www.audgen.gov.ie/documents/vfmreports/55_MedicalConsultantsContract.pdf). A revised contract was agreed in 2008.

13. See: Dutton, Rachel. 2009. 'Extra-Care' Housing and People with Dementia, A Scoping Review of the Literature 1998-2008, Housing and Dementia Research Consortium with funding from Joseph Rountree Foundation for emerging trends internationally for one segment of the ageing population.

## Budget 2013 & 'Future Health' *continued*

**Annex Table 1 Some Comparative Health-Related Outcomes and Activities in an EU Context, Ireland, 2010**

Outcomes and Activities	Indicator	Ranking	Comment
Excelling		Ranks are from the best (1) down	
Decline in mortality rates from all causes, 1995-2010	Per cent change from 1995-2010 (37%)	1	Ireland has also seen a decline of close to 40%, driven largely by reductions in cardiovascular and respiratory diseases mortality, which in turn may be linked to rising living standards and increased expenditure on public and private health services in recent decades."(OECD, 2012, p.20)
Stroke mortality rates 2010	Age standardised rates per 100,000 (37)	3	Strokes ..are the lowest in Cyprus, France, Ireland and the Netherlands. Rates are also low in Switzerland, Iceland and Norway.(OECD, 2012, p. 24)
Lung cancer mortality rates, males and females, 2010	Age standardised rates per 100,000 (48)	4	
Transport Accident Mortality Rates, 2010	Age standardised rates per 100,000 (4.2)	4	Reductions in Ireland, Portugal and Slovenia and a number of other countries are more than 60% since 1995, although vehicle kilometres travelled have increased substantially in the same period (OECD, 2012, p. 26)
Good or very good health (self-reported), 2010	% of population 16 and over (83%)	1	In Ireland and Sweden, as well as Switzerland, more than eight out of ten people report good or very good health. (OECD, 2012, p. 34). Demographic structure is a big factor here.
Adults reporting a limitation in usual activities, 2010	% of population 16 and over (5.2%)	4	Demographic structure is a big factor here.
Smoking among 15 year olds (at least once a week), 2009-10	% of population 15 years old Boys (12%) Girls (14%)	4	

## Budget 2013 & 'Future Health' *continued*

Outcomes and Activities	Indicator	Ranking	Comment
Daily vegetable eating among 15 year olds 2009-10	% of population 15 years old Boys (39%) Girls (42%)	4	
Daily moderate to vigorous physical activity 11 and 15 year olds, 2009-10	% of population 11 and 15 years old (43%)	1	
Daily fruit eating among adults, 2008	% of population Males (70%) Females (78%)	4	
Daily vegetable eating among adults, 2008	% of population Males (95%) Females (96%)	1	
<b>Performing Poorly</b>			
Breast cancer mortality rates, females, 2010	Age standardised rates per 100,000 (26.2)	24	
Change in suicide rates, 1995-2010	Percentage change, 1995 to 2010 (-3%)	22	Improvement is small, but absolute level is lower than EU average
Breast Cancer incidence rates, 2008	Age Standardised rates per 100,000 females (94)	23	
All cancer incidence rates, males and females, 2008	Age standardised rates per 100,000 (358)	26	In 2008, the incidence rate for all cancers combined was highest in Northern and Western Europe – Belgium, Denmark, France, Iceland, Ireland and lower in some Mediterranean countries such as Cyprus, Greece, Malta and Turkey, at less than 220. (OECD, 2012, p. 40)

## Budget 2013 & 'Future Health' *continued*

Outcomes and Activities	Indicator	Ranking	Comment
Prostate cancer incidence rates, males, 2008	Age standardised rates per 100,000 (126)	27	At least part of the five-fold difference between countries with the highest and lowest incidence rates is due to underregistration of prostate cancer in some countries, as well as the use of sensitive diagnostic tests for early detection in others The rise in the reported incidence of prostate cancer in many countries since the 1990s is due largely to the greater use of prostate specific antigen (PSA) tests. (OECD, 2012, p. 40)
Reported overweight among 15 year olds, 2009-10)	% of 15 year olds (12%)	21	
Adult population smoking daily	% of population 15 and over (29%)	25	
Change in per capita alcohol consumption, 1980 to 2010	% change over the period (24%)	26	
Prevalence of obesity among adults, 2010	% of adult population Males (22%) Females (24%)	25	The growth in overweight and obesity rates among adults is a major public health concern. Obesity is a known risk factor for numerous health problems, including hypertension, high cholesterol, diabetes, cardiovascular diseases, respiratory problems (asthma), musculoskeletal diseases (arthritis) and some forms of cancer. Mortality also increases sharply once the overweight threshold is crossed (Sassi, 2010). Because obesity is associated with higher risks of chronic illnesses, it is linked to significant additional health care costs. OECD, 2012, p. 62)

# Budget 2013 University Collaboration – A Modest Proposal

*Published: Friday 12 October 12*

## KEY POINT

Suggestions to merge Trinity College Dublin (TCD) and University College Dublin (UCD) have been rejected. But they should emulate the US precedent and provide the facility for students, both undergraduate and graduate, to take courses for credit in each other's programmes. This should be done across the board, with a minimum of bureaucracy and no fees transfer; the only requirements would be that students meet the necessary pre-requisites to take the course(s) in question, and that there is classroom or other relevant capacity in the receiving institution. It would help make the programmes of both universities more internationally competitive, and will encourage specialisation and scale in research; the whole will be more than the sum of the parts. The TCD-UCD Innovation Alliance and a few Higher Education Authority (HEA) bottom-up collaborative initiatives show promise, but to achieve serious economies of scale and scope, access should be universal. What is good enough for Harvard and MIT should be good enough for UCD and TCD

## INTRODUCTION

Budget policy is in part about getting more and better outcomes from the same or a shrinking level of resources. Are there opportunities to do this in Ireland with our universities? A recent report has recommended that one way of doing so in the Republic of Ireland would be to merge the two largest and internationally highest ranked universities, namely the University of Dublin (Trinity College) and University College Dublin. This proposal did not find favour with any of the key decision-makers, including the Minister for Education. But there is another opportunity - allow all undergraduate and post graduate students access to the courses that each university offers, regardless of their home institution.

## THE TEACHING DIVIDEND

In the seventies, I co-directed a new 2 year course work Master's degree in Environmental Management at Duke University, North Carolina. It was competing with other programmes, notably a similar offering at Yale University. Fees were very high, and it was important to be able to offer an outstanding programme. There was an arrangement between the three major universities in the area – Duke, the University of North Carolina (UNC) in Chapel Hill (known as 'Communist Hill' by some locals because of its liberal traditions) and North Carolina State University in Raleigh – that their courses at both undergraduate and post graduate levels would be accessible to all. In our case, it allowed us to include environmental law, offered by UNC, and environmental design, offered by NC State, which were very popular with students, and a source of competitive advantage in their careers and in our programme. Duke has a law school, but at that time it did not offer a course in environmental law suitable for non-law students. In time, there was a backward flow, as students came to Duke to take courses in environmental economics and applied ecology.

Irish universities are looking to develop their taught master's offerings as a source of revenue. It will improve their attraction to both local but especially international students if they can widen their coursework menu. The only way to do this as resources and staff numbers shrink is to draw on what adjacent universities have to offer.

The influx of students from the neighbouring institutions had a subtle but real effect on performance. It was flattering that they were taking the time and trouble to come and take your course, and you did not want them going back to their home institution saying 'That course by Convery was a real waste of time and effort – avoid it.' You upped your game to ensure that reports on your content and performance were good. And the wider the pool of teaching available, the greater the chance of competition, and productive and transferrable innovation. See 'Notes' for some interesting innovations.

# Budget 2013 University Collaboration – A Modest Proposal

*continued*

There is an incentive for students to seek out enjoyable career-enhancing courses in other universities and bring them to the attention of their supervisors 'at home'. They find new and (to the academics) unexpected gems that add to their intellectual development.

This principle of mutual access is widespread in the US, and includes Harvard, MIT and other colleges in the Boston area, and the University of California Berkeley Stanford University and others in Northern California.

There is local precedent. For a few collaborative programmes in Ireland, most of which have been supported by the Higher Education Authority – for example the PhDs in Simulation Science and Earth and Natural Sciences - we are already doing this. But each case has to be built from the bottom up – the ability to automatically and quickly take advantage of a particular offering is lost. And the gap applies with particular force in regard to course work masters degrees.

## HOW TO MAKE IT WORK

It has to be a top down decision. The university managements agree on the principle and how it will work. The operating assumption is that everyone opts in.

The transaction costs are minimised. The only administration is registration for the course, and transfer of the grade back to the home institution, both of which can be done electronically. No fees are transferred. The only rules governing access are that the 'sending' supervisor/department/school agrees that the courses in question are appropriate, the students meet whatever pre-requisites are needed in order to succeed in the course, and there is capacity in the class room or lab. This will limit the collaborative potential in the case of lab based courses.

## RESEARCH DIVIDEND

To create an internationally competitive research cluster in your department or school, you need to be able to hire more than one person in the same specialist area. For many of us, research is a conversation, in which we invent questions and jointly examine our intuitive answers. But for this to work, we need someone nearby to talk to. An important inhibitor of research performance in the Irish system is the need to 'cover' all of the teaching needs. This means that whenever a new appointment is to be made, the first call is to ensure that the candidate fills any teaching gaps. But this makes it difficult to impossible to build up a team of expertise in a specialist research area. If it were possible to say: 'the minimum teaching requirement in this area can be met at a sister institution', this very limiting constraint on hiring can be relaxed. Over time, universities would tend, more or less automatically, to specialise in what they are best at, and draw on their neighbours for the rest.

## FINAL THOUGHTS

There will of course be opposition, especially from the insecure. Daniel Kahneman observed that people can maintain an unshakable faith in any proposition, however absurd, when they are sustained by a community of like-minded believers. But most will enjoy the challenge and embrace the opportunity. What's good enough for Harvard and MIT should be good enough for UCD and TCD.

The US experience implies that the amount of movement from one campus to another is modest - perhaps on the order of 2-5 per cent, so there is little likelihood of mass take up<sup>1</sup>. But students like

---

1. Of course, if this were to happen, it would tell its own, very useful, story.

# Budget 2013 University Collaboration – A Modest Proposal

*continued*

having the choice, even if they never exercise it – what economists call ‘option value.’ And it can be very important in terms of enhanced intellectual experience and professional development for the small number who do take up courses at another university; they are likely to be the leaders of tomorrow.

## NOTES

### Examples of Existing Collaboration

The TCD-UCD Innovation Academy is a collaboration to “transform our brightest scholars into vibrant entrepreneurs.” It involves 200 PhD students <http://www.innovationacademy.ie/>

And a number of *PhD programmes*. Examples include:

Economics and Political Science

Simulation Science

The Earth and Natural Sciences (also includes University of Limerick, National University of Ireland Galway, and Queens University Belfast).

### Teaching Innovation

Five TED presentations worth seeing (first brought to my attention in Financial Times ‘Life and Arts’ February 25, 26, 2012, p. 2) – see [www.ted.com/talks](http://www.ted.com/talks)

1. Kevin Slavin Algoworld (2011) - writing code we can’t understand, with implications we can’t control
2. Jane McGonigal Game on (2010) – harness gaming power to solve real world problems
3. Misha Glenny Hire the Hackers (2011). Hacking is more ‘nurture’ than ‘nature’ – recruit their talents.
4. Salman Khan (2011) Flip Teaching
5. Chimamanda Adichie -the single story (2009). The single story creates stereotypes - one story becomes the only story.

Also <http://conferences.ted.com>

### Kahneman observation

Daniel Kahneman, *Thinking, Fast and Slow*, Penguin Books, London, 2012, p. 214



# Budget 2013 – Three Cheers For The Carbon Tax

*Published: Friday 21 September 12*

## KEY POINT

Ireland is a pioneer in the implementation of a carbon tax. This has allowed us to avoid (more) increases in income tax which would have further reduced disposable income, increased labour costs and destroyed jobs. It is also facilitating us in meeting our very demanding legally binding obligations to reduce greenhouse gas emissions, and provides support for the creation of new jobs in improving energy efficiency and growing the low carbon economy. We will continue to benefit economically and environmentally if we keep it in place, and increase the rate per tonne of CO<sub>2</sub> from €20 to €25, as envisaged in the programme for government.

## CONTEXT

Ireland was the first of the fiscally stressed countries in Europe to implement a carbon tax, which is now an important source of income for government, generated in a way that does not destroy jobs, and which at the same time helps us protect the environment and meet our legally binding greenhouse gas emission reduction obligations.

This achievement has become a focus of attention internationally, as an increasing number of countries struggle to find a path that increases government income and does good at the same time.

Many countries talk about introducing a carbon tax, but few do it. We did it, and it is important to keep it in place. In this commentary, I summarise the economic context, what we've done, and to what effect as regards government income and greenhouse gas emissions, and why we need to increase it. Notes that give more detail, including sources etc., are provided at the end.

## ECONOMIC CRISIS

The economy was in free-fall between 2008 and 2009 – GDP (real terms) fell from €166.80 billion in 2008 to €157.69 billion in 2009, a drop of over 5%. Since then GDP has stabilised – expected to be €159.7 billion in 2012.

Tax revenues went over an even deeper cliff, dropping from €40.78 billion in 2008 to €33.0 billion in 2009, a fall of over 23%. Since then tax take has increased; it is expected to rise to €36.4 billion in 2012 (but still well below 2008 levels). Most of the increase has been in income taxes, which rose from €13.2 billion in 2008 to €15.3 billion in 2012.

## THE IRISH CARBON TAX

The carbon tax was first introduced in December 2009, to apply in 2010. In its design, it followed the recommendations of the Commission on Taxation which reported in 2009, of which I was a member. The key to progress was what we were not asked. We were not asked “Is a carbon tax a good idea?” We were told that the government had decided to implement a carbon tax – a key plank of the Green Party – and we were asked to advise as to how to do it. Most of our advice was taken. The tax has the following features:

*Coverage:* In all European countries, climate change policy distinguishes between emissions that are in the European Union Emissions Trading Scheme (EU ETS) which sets a (declining) cap on greenhouse gas emissions from the power and heavy industry sectors, and the non-traded sectors, which comprise the rest of the economy (heat in households and business, transport, agriculture, waste).

## Budget 2013 – Three Cheers For The Carbon Tax

*continued*

The Irish tax is on CO<sub>2</sub> emissions from the non-traded sectors (mainly transport and heat in buildings). The logic of applying the tax only to emissions from the non-trading sectors is that emitters in the trading sectors – who can buy and sell allowances - already confront a price for carbon.

*Rate:* €15 per tonne of CO<sub>2</sub>, applied in 2010 and 2011, increased to €20 for 2012. The idea was that there would be a rough symmetry between the tax and the allowance price in the trading sectors – everyone would face roughly the same price and therefore the same incentive to reduce emissions.

**Table 1. European Union Allowance (EUA) Price (trading sectors) and Carbon Tax (Non Trading Sectors), Ireland, 2008-2012**

Year	EUA Price in € per tonne of CO <sub>2</sub>	Carbon Tax in € per tonne of CO <sub>2</sub>
2008	22.40	0
2009	13.38	0
2010	14.46	15
2011	13.52	15
2012	7.38	20

The price symmetry held in 2010 and 2011, but a wide gap emerged in 2012.

*Revenue Yield:* Roughly €100 million per €5 per tonne tax. Tax-take has risen from €246 million in 2010 to about €400 million in 2012. It will approach €500 million if the rate is raised to €25 per tonne.

*Price Effects*

**Table 2. Impact of a €5 increment in tax, Ireland**

Fuel	Unit	Carbon tax increase (including VAT)	% change in price
Petrol	Litre	1.4 cents	0.93
Auto diesel	Litre	1.6 cents	1.09
Kerosene	1000 litres	€14.40	1.68
Natural Gas	13,750 kwh	€14.46	1.94

**Has it had any effect on greenhouse gas emissions from the non-trading sectors?**

We have good data on transport, and in particular consumption of petrol and auto diesel.

## Budget 2013 – Three Cheers For The Carbon Tax

*continued*

**Table 3. Transport Fuel Consumption, Ireland, 2008-2011**

Year	CO <sub>2</sub> tax - per tonne of CO <sub>2</sub>	Consumption of petrol Million litres	Consumption of Auto diesel Mill litres	Total (petrol and diesel) Million litres
2008	0	2310	2960	5272
2009	0	2117	2714	4832
2010	15	1930	2560	4491
2011	15	1829	2563	4393

Consumption of petrol fell from 2310 million litres in 2008 to 1829 million litres in 2011 (fall of 21%)

Consumption of auto diesel fell from 2,960 million litres in 2008 to 2,563 million litres in 2011 (fall of 13%)

Considering that GDP over the same period ‘only’ fell by 5%, this reduction in motor fuel consumption is very striking. However, note that the drop was already underway from 2008 to 2009, before the tax came into effect. And there are complementary policies which have played a role. Ireland imposes a substantial tax on car purchase, called Vehicle Registration Tax (VRT) and an annual motor tax. In the past they were based on engine size. From July 2008 both of these were recalibrated, based on open market selling price and CO<sub>2</sub> rating.

These had major effects on the composition of the new car fleet, shifting it dramatically towards low emitting vehicles. Ninety per cent of 90,000 new car sales in 2011 (down from 187,000 in 2007) were in the lowest carbon bands (A and B)

### Issues and Analyses

#### *Limitations of Data and Analysis*

Correlation is not causation – beware the ‘Leacock’ effect... With a very short time horizon, and very turbulent economic conditions and other policies (tax on new cars), it is difficult to draw definitive conclusions.

Stephen Leacock (early 20<sup>th</sup> century writer and political scientist): *When I state that my lectures were followed almost immediately by the Union of South Africa, the banana riots in Trinidad and the Turco-Italian war, I think the reader can form some opinion of their importance.*

But we cannot reject the hypothesis that the carbon tax has had some effect in reducing emissions

We would expect the biggest environmental effect to be on the heat in buildings sector – because the price increase is 8-12 per cent, and there is a presumption that there are some low cost responses available. But the data are not yet readily available to track such effects

## **Budget 2013 – Three Cheers For The Carbon Tax**

*continued*

### *Limitations of Coverage*

In terms of addressing total emissions from the non-traded sectors, its effects will be limited by the fact that it only applies to CO<sub>2</sub> emissions, while methane and nitrous oxide emissions from agriculture contribute about 50% of total emissions from the non-traded sectors, and are not taxed. Double income tax relief was provided to farmers in respect of their additional carbon tax liabilities for farm diesel from May 1, 2012.

For a combination of technical, leakage (with Northern Ireland) and political reasons, the carbon tax has yet to be applied to coal and peat, the most carbon intensive of all fossil fuels. This omission reduces the incentive to switch from peat and coal to woody biomass.

### *Limited Double Dividend Effect*

The double dividend is garnered where tax is raised by charging for emissions ('environmental bads'), and some or all of the revenue generated is used to reduce taxes on something good we want to foster, like jobs and employment, thereby stimulating the economy. "Taxer moins le travail, plus les pollutions ou les atteintes à la nature" (Tax work less, pollution or harm to nature more); so spoke François Hollande, President of France, on Sept 14, 2012. The tax on CO<sub>2</sub> in 2012 will raise about €400 million, increasing to about €500 million in 2013 if the rate is increased to €25 per tonne. This amounts to 3-3.5% of money raised from income tax. As such, it is by no means trivial, but it does not allow a major reduction in taxes on labour. But it does, (in the Irish case) help prevent increases.

### *Distributional Concerns*

When the tax was introduced in December 2009, the Minister provided funding for complementary measures to support retrofitting of homes to improve energy efficiency, and there is also a subsidy for the fuel poor. However, the number of weeks for which the latter applies has been reduced from 32 to 26.

A group that would not be 'picked up' by these policies are the long distance commuters, especially to Dublin, who lack good access to effective and efficient public transport. These were identified in a report by an ESRI team as the most significant 'losers' of a carbon tax.

### **EU Policy**

There is a revision to the Energy Tax Directive under consideration, which is likely to be finalised under the aegis of the Irish Presidency of the EU (January – June 2013). If this results in the setting minimum rates, they are likely to be well below the rates already applying in Ireland, but could bring peat and coal into the net.

A wide gap now exists between the carbon tax rate (€20) and the European Union Allowance price (EUA) of about €7 per tonne. This creates an incentive for consumers to 'favour' electricity over other sources, and as such will be economically inefficient. The likely solution is that action will be taken at EU level to increase the allowance price by either shrinking the supply of allowances, or increasing demand – e.g. by including transport in the EU ETS.

## Budget 2013 – Three Cheers For The Carbon Tax

*continued*

### Why stick with the carbon tax, and indeed increase it to €25?

There are several reasons:

- The government desperately needs the money. Raising the extra €100 million or so that another €5 tax on CO<sub>2</sub> would raise will do far less damage to the economy than raising the same amount by an increase in income tax.
- Why is it better to increase charges for using the environment, instead of raising taxes on income? Increasing the tax on labour reduces the amount each worker has to spend on goods and services, and increases the cost of labour, so that employers are incentivised to move jobs offshore, or replace workers with machines. With a rise in your income tax, your income shrinks and you have no choice but to pay it. But with the carbon tax, you are faced with a rise in cost but you do have some choice as to how to adjust.
- It helps us all transition to a more sustainable and affordable world. Anyone who can possibly afford it now has very strong incentives to invest in insulating their house and (if they need a car) buying one that is super fuel efficient. If they can store wood (which is exempt from the carbon tax), they have an incentive to switch from oil or natural gas, which are taxed. As energy costs rise, such investments will pay off in more affordable mobility and more comfortable housing.
- And the tax encourages innovation. Sean O’Sullivan showed how crowd sourcing could help solve the problems of the long distance commuter.
- A charge on environmental ‘bads’ improves the quality of our environment, which improves the quality of our lives.
- It means that we more easily and less expensively meet legally binding environmental obligations and avoid the costs (including fines) and reputational loss of being in the European Court.
- To the extent that we play a part in making the transition to a world less threatened by climate change, we also support our grand-children in limiting their exposure to the turbulence of climate change.
- It makes us less dependent on imports, and less vulnerable to potential interruption in the event of war or other supply-interrupting turbulence.
- It creates jobs as we invest in making our buildings, heating systems and boilers more energy efficient, and as we switch to locally grown wood as a source of heat.

Taxes are never popular. Edmund Burke’s familiar “To tax and to please, no more than to love and be wise, is not given to men” still rings true. But some taxes are less bad than others.

‘Dying must be very hard,’ a friend said to Flaubert, ‘It is’ he responded, ‘but not half so hard as writing a novel.’ Taxing is always hard, but we can reduce the pain by taxing smartly.

# Budget 2013 – Three Cheers For The Carbon Tax

*continued*

## NOTES

1. I am grateful to Cormac O'Sullivan of publicpolicy.ie for accessing data on GDP, income tax etc. from sources below:

GDP and income tax data comes from the National Accounts (current price<<http://cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?maintable=N1105&PLanguage=0>> and constant price<<http://cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?maintable=N1106&PLanguage=0>>) the forecast for 2012 was taken from the

ESRI's QEC (Quarterly Economic Commentary)<[http://www.esri.ie/publications/latest\\_publications/view/index.xml?id=3558](http://www.esri.ie/publications/latest_publications/view/index.xml?id=3558)>.

Tax data comes from the exchequer returns (here<<http://finance.gov.ie/viewdoc.asp?DocID=-1&CatID=5&UserLang=EN&m=19>>) and the 2012 figures are based on

Finances' tax profile for 2012 (2012 revised tax

profile<<http://finance.gov.ie/documents/exchequerstatements/2012/revtaxprofile.pdf>>).

Year	Total GDP Millions of € in real (volume) terms	Total Tax Income (millions €)	Income Tax (millions €)
2008	166,796	40,777	13,177
2009	157,695	33,043	11,835
2010	156,487	31,753	11,276
2011	158,726	34,027	13,798
2012	159,700	36,375	15,300

## 2. Report of the Commission on Taxation 2009 is available at:

<http://www.commissionontaxation.ie/downloads/Commission%20on%20Taxation%20Report%202009.pdf>. The details of the analysis and recommendations on the carbon tax are in Section 9.

## 3. Emissions from the traded sectors

I am grateful to Eimear Cotter (EPA) and Luke Redmond (UCD) for assistance here.

*Pricing Carbon*, Cambridge University Press 2010 (Ellerman, Convery and De Perthuis) is a good source on EU ETS and its performance in the pilot phase

Year	Price per allowance (€/tonne)	Emissions in tonnes of CO <sub>2</sub> (EUAs) - Ireland
2008	22.40	20.38
2009	13.38	17.22
2010	14.46	17.37
2011	13.52	15.77
2012	7.38	

# Budget 2013 – Three Cheers For The Carbon Tax

*continued*

## 4. Greenhouse gas emissions from non-traded sectors

Some data sourced from *Ireland's GHG Emissions Projections 2011-2020*, EPA, April 2012 (Table A and B, pp. 22, 23) Available at:

[http://www.epa.ie/downloads/pubs/air/airemissions/EPA\\_GHG\\_%20Emission\\_%20Proj\\_publication\\_2012\\_final\\_v1.pdf](http://www.epa.ie/downloads/pubs/air/airemissions/EPA_GHG_%20Emission_%20Proj_publication_2012_final_v1.pdf)

I am grateful to Eimear Cotter (EPA) and Luke Redmond (UCD) for assistance in accessing data

Year	CO <sub>2</sub> tax - per tonne of CO <sub>2</sub>	NETS CO <sub>2</sub> emissions – transport (Mill tonnes)	Consumption of petrol Million litres	Consumption of Auto diesel Million litres	Total (petrol and diesel) Million litres	Agriculture
2008	0	13.17	2310	2960	5272	19.10
2009	0	11.98	2117	2714	4832	18.73
2010	15	11.08	1930	2560	4491	18.68
2011	15		1829	2563	4393	

The consumption of petrol and auto diesel is taken from a very useful paper by Eric Gargan, Fiscal Policy Division, Department of Finance. See especially Slide 16 ('Revenue Yields and consumption trends') in 'Reflections on the Implementation of the carbon tax in Ireland, presented at UCD/NESC Climate Change workshop, 16 May 2012. All the papers presented at this conference are available at: <http://www.nesc.ie/en/news-events/events/icc-workshop/>

## 5. President Hollande and the Double Dividend

I am grateful to Aldo Ravazzi for drawing my attention to this.

The link to the French president's thinking is: "L'écologie n'est pas une punition, c'est ce qui doit nous permettre d'être plus forts ensemble. Dès lors, il nous faudra changer des modes de prélèvement et surtout peser sur les choix, taxer moins le travail, plus les pollutions ou les atteintes à la nature; dissuader les mauvais comportements ; encourager les innovations ; stimuler les recherches ; accélérer les mutations."

François Hollande, ouverture de la conférence environnementale, 14 septembre 2012, page 5 line 5 [http://www.developpementdurable.gouv.fr/IMG/pdf/discours\\_ouverture\\_conf\\_environmentale\\_140912.pdf](http://www.developpementdurable.gouv.fr/IMG/pdf/discours_ouverture_conf_environmentale_140912.pdf)

## 6. Distributional effects of an Irish carbon tax

These are mapped by Callan, T., Lyons, S., Scott, S. and Tol, R. 2009. The distributional impacts of a carbon tax in Ireland. *Energy Policy*, 37, 2, 407-412.

## **Budget 2013 – Three Cheers For The Carbon Tax**

*continued*

### **7. Innovation**

Sean O’Sullivan “Revolutionary Mobility: Collaborative Consumption and Connected Computing – Crowdsourcing the Public transit Network” presented at the UCD-NESC workshop 16 May, 2012.

Available at: [http://www.nesc.ie/assets/files/downloads/project\\_climate%20change/ucd\\_workshop/seanosullivan.pdf](http://www.nesc.ie/assets/files/downloads/project_climate%20change/ucd_workshop/seanosullivan.pdf)

### **8. Edmund Burke on Taxation**

From a speech by Edmund Burke on American taxation in 1774. The full speech is available at: <http://www.econlib.org/library/LFBooks/Burke/brkSWv1c2.html>

Professor Frank J Convery, Chair Publicpolicy.ie and Senior Fellow, University College Dublin (frank.convery@ucd.ie)



# Budget 2013 – Insights From Daniel Kahneman

*Published: Monday 3 September 12*

## KEY POINT

We weigh losses far more heavily than equivalent gains, and we infer the general from the particular, rather than induce the particular from the general. These and many other features of our behaviour are elegantly documented in *Thinking, Fast and Slow*, authored by Nobel Prize winning Daniel Kahneman. In addition to loss aversion, he identifies the halo effect, anchoring, luck, the planning fallacy, optimism bias, the endowment effect and many other features characterising how we behave. They have considerable value as explanations as to how we got into such economic disarray, and provide some pointers as to how to frame the process of making progress. In this commentary, I summarise a few of the key insights, and their relevance to our situation in Ireland.

## CONTEXT

Daniel Kahneman is a psychologist who in 2002 won the Nobel Memorial Prize in Economic Sciences for having integrated insights from psychological research into economic science, especially concerning human judgment and decisionmaking under uncertainty. He is regarded as the father of behavioural economics. He has recently written a best-selling book – *Thinking, Fast and Slow* – which operates at two levels; it is a beautiful thank you, tribute and farewell to his late friend and long-time collaborator Amos Tversky, who died in 1996, and a very elegant and accessible pulling together of insights from a lifetime's work, both his own and that of other leading contributors to the field. He points us toward how to avoid the sin of intellectual sloth – drawing the 'obvious' but wrong conclusion based in intuition and whatever information is available. He argues that we draw conclusions about the general from the specific, when we should instead derive conclusions about individual cases from categories and ensembles. Ignorance is bliss; knowing little makes it easier to fit everything you know into a coherent pattern. "The emotional tail wags the rational dog." (quoting Jonathan Jaidt), and makes the point that those who avoid the sin of intellectual sloth could be called 'engaged.' "They are more alert, more intellectually active, less willing to be satisfied with superficially attractive answers, more sceptical about their intuitions. The psychologist Keith Stanovich would call them more rational." (p. 46).

Many governments, including Ireland's, are facing the unwelcome challenge of increasing taxes and reducing expenditure. Kahneman's work addressing how most of us react to challenges and make decisions provides useful pointers that both explain the nature of the challenge, and how to make progress. Below, I summarise some of his key insights, and conclude with some implications. For the points made below, Kahneman provides evidence linked to peer-reviewed literature. The page numbers used for direct quotations refer to the Penguin 2012 edition of his book.

## KEY INSIGHTS AND EVIDENCE

### *Loss Aversion, Endowment Effect and Anchoring*

We put far more weight on the prospect of a loss than an equal probability of a gain. Most of us will not accept a coin toss with an equal chance of winning or losing \$100. We become more open to the offer when heads will give us €200, tails a loss of €100. Golfers – even Tiger Woods – try harder to avoid a bogey (loss aversion) that when putting for a birdie. Related to this is the endowment effect, whereby the reference point is what we now hold. He notes that it is well known in wage negotiations that the current wage is the reference point, from which negotiations are expected to proceed; preventing decline is far more important than achieving a rise. The concession you make to me are my gains, but they are your losses; they cause you more pain than they give me pleasure. Anchoring is a where the number on the table becomes the basis for the negotiation, hence the importance of 'guide prices' in house sales. [He argues that if awards for injury were capped at €1 million, the size of all awards will over time drift up to this reference amount]

## Budget 2013 – Insights From Daniel Kahneman

*continued*

We can see all of these phenomena at work in Ireland's fiscal adjustment. One example: Incumbent teachers and other permanent civil servants (who are well represented by unions in negotiations) have lost much less in terms of salary and conditions than new entrants (whose interests are not well represented and who did not have a reference income). Aversion to loss can be mitigated by inflation; the money illusion allows us to be more accepting of *de facto* losses in real (net of inflation) income; this was an important feature of Ireland's last fiscal adjustment in the 1980s. On May 31<sup>st</sup> 2012, the Irish public voted in a referendum to support ratification of the EU "Fiscal Stability Treaty". In terms of engendering support, the campaign advocating ratification did not get traction until it began to emphasise what would or could be lost if we did not ratify. Pointing out the benefits of ratification generated little engagement; but once the perception of potential losses of not ratifying began to lodge in the public consciousness, the momentum in favour of approval began to grow.

### *Optimism Bias, the Planning Fallacy and the Sunk Cost Fallacy*

He makes the case that most of us think we are smarter and more likely to succeed than we are. Psychologists have confirmed that most people genuinely believe that they are superior to most others on most desirable traits. At a personal level it is a blessing. Optimists are normally cheerful and happy, and therefore popular; they are resilient in adapting to failures and hardships, their chances of clinical depression are reduced, their immune system is stronger, they take better care of their health, they feel healthier than others and are in fact likely to live longer. He notes (pp. 253, 255, 256):

"The main benefit of optimism is resilience in the face of setbacks...the optimistic style involves taking credit for successes but little blame for failures... Optimistic individuals play a disproportionate role in shaping our lives. Their decisions make a difference; they are the inventors, the entrepreneurs, the political and military leaders - not average people...the optimistic bias plays a role - sometimes the dominant role-whenver individuals or institutions voluntarily take on significant risks; it probably contributes to an explanation of why people litigate, why they start wars, and why they open small businesses" And as such of course they can be very destructive. Politicians and generals promise the troops that they will be "home before Christmas" as they start wars they always imagine will be easily won, and bankers deride the naysayers: "It is time to shout stop. The tide of regulation has gone far enough. We should be proud of our success, not suspicious of it" (Sean Fitzpatrick, CEO, Anglo Irish Bank, 21 June 2007)

Related to this optimism bias is the *planning fallacy* and wishful thinking

The planning fallacy describes plans and forecasts that are unrealistically close to best case scenarios. This happens for many reasons: Statistics from the reference class – the population of similar projects nationally and internationally that could be interrogated to inform estimates – are not systematically collected, insufficient effort goes into detailed estimation of costs and plans, expensive changes are then made mid-stream, costs are deliberately under estimated to secure approval, the role of luck is ignored, there is an illusion of control, and plans of competitors, and what we do not know, are neglected. Kahneman cites the new Parliament building in Edinburgh – where costs went from the estimate in 1997 of £40 million to an out-turn in 2004 of £431 million – as an interesting example of the planning fallacy in action. The sunk cost fallacy is where additional resources are allocated to an existing activity or project, when better choices are available. It is often driven by ego, embarrassment and unwillingness to admit defeat.

## Budget 2013 – Insights From Daniel Kahneman

*continued*

Ireland is an interesting case study of the optimism bias in action across all leadership classes. The planning fallacy applied to major one-off projects (e.g. light rail, Dublin Port tunnel) but not where there was a high volume of projects referenced to international norms (national schools, motorways) where there was also 'learning by doing.' There were many examples of the sunk cost fallacy, including electronic voting machines which were not popular, but were persisted with beyond what was rational.

Adjusting for the optimism bias and planning fallacy involves: collecting credible data on the reference class, creating realistic scenarios that include encountering seriously bad luck, and conducting what Kahneman calls a 'premortem' – a thorough review before decisions are made that legitimizes doubts.

### *The Halo Effect, Luck, Hindsight and Outcome Bias*

The halo effect describes the tendency to like or dislike everything about someone, without having evidence to support our judgement. Where our view is positive, we give those in leadership positions - enterprise, politics, religion etc. – the benefit of the doubt for all their decisions, and vice versa. Hindsight bias captures the situation where we "blame decision-makers for good decisions that worked out badly, and give them too little credit for successful moves that appear obvious only after the fact. Leaders who have been lucky are never punished for having taken too much risk. ..A few lucky gambles can crown a reckless leader with a halo of prescience and boldness (p. 204)...Because luck plays a large role, the quality of leadership and management practises cannot be inferred reliably from observations of success." (p. 207)

He argues that most of us vastly underrate the role of luck in shaping outcomes.

His favourite equations are:

Success = talent + luck

Great Success = a little more talent + a lot of luck

Ireland suffered from the global halo effect, in that all major independent assessors (IMF, OECD, European Central Bank) of our economic management before the crash were effusive in their praise.

### **THE IMPORTANCE OF FRAMING**

'Framing' is about the context and language used to present choices. Kahneman gives many examples, including: human organ donation – the rate is 100% in Austria and 86% in Sweden, compared with 12% in Germany and 4% in Denmark. The difference derives from how the choices are framed: in Austria and Sweden, you have to opt out of organ donation, while in Germany and Denmark, you have to opt in. Similarly, information saying (about food) '90% fat free' will be perceived differently by most if it says '10% fat', as will information on car performance that says 'kilometres per litre' vs. 'litres per kilometre'. And, the wider the frame, the more informed the choices are likely to be.

### **IMPLICATIONS**

I hope that his book will encourage other eminent economists to emulate Kahneman's idea of pulling together key insights from their field in a manner that is accessible to the public. There was a time when the luminaries of our profession did this, but it has fallen out of fashion.

## Budget 2013 – Insights From Daniel Kahneman

*continued*

For governments who have to cut expenditure and raise taxes, a first reaction to the Kahneman opus is that the news is all bad. Our intense aversion to losses and our anchoring (as contrasted with our much less strong feelings about equivalent improvements) to the status quo ordains that such change will be universally unpopular. But nevertheless there are insights that that can help both governments and ourselves make the transition to a better future. It is a sad particularity of politics that incumbent governments tend to increase expenditures and reduce taxes as an election looms; this does give the electorate a good feeling. But if they are re-elected, and have then to increase taxes and/or reduce expenditure, the odium and negativity they will experience will far exceed the feelings of bonhomie they generated before the election. The ideal political and economic strategy would be to generate large surpluses in the good times, and then use these to maintain expenditure and tax rates in recession. This is the essence of the Keynesian proposition. Unfortunately, the optimism bias ensures that most politicians don't expect recessions, and the immediate pressure to be popular and meet 'needs' - spend it while you have it – makes it difficult to be prudent and avoid the blow back.

For governments, setting the right frame, and focussing on losses reduced, rather than benefits accruing, will help mitigate the negativity. Thus, in the Irish context, when property taxes are being introduced, the focus should be on the *losses that will be incurred* if this is not done; these losses include take-home income (if increase in income tax is the alternative) and follow on losses in jobs as labour becomes more expensive; or (if increase in VAT is the alternative) increases in prices and losses in competitiveness and jobs. In the case of domestic water charges, similar to the above, but also note the loss in reliability of water supply and its quality if a sustainable funding system is not in place that encourages conservation. It is important to be as focussed and precise as possible, and not exaggerate the losses – just present the facts as best they can be discerned and the evidence that underpins them.

When we want people to act in ways that are in their own and (especially) in the public interest, we should frame the choices they face such that it is as easy and painless as possible to act appropriately (the organ donor case)

It is important that the new Irish Government Economic and Evaluation Service and those in the public service generally with responsibility for the design of policy absorb and apply the insights from behavioural economics.

To counter the planning fallacy and optimism bias, a key is to improve prediction, recognising that intuitive predictions tend to be overconfident and overly extreme.

Kahneman recommends the following:

- Identify the reference class – e.g. emergency health services, and then obtain statistics on reference class (e.g. costs per patient)
- Develop a large data base that provides information on plans and outcomes for hundreds of projects all over the world
- Generate baseline prediction
- Use specific information about the case to adjust the baseline prediction
- In the default case of no useful evidence, you stay with the baseline

## Budget 2013 – Insights From Daniel Kahneman

*continued*

For we the public, it is important that we resist the halo fallacy, recognising that “because luck plays a large role, the quality of leadership and management practises cannot be inferred reliably from observations of success (or failure)” (p. 207). Kahneman proposes that we should reward decision-makers on how the decision was made, not by how it turned out. Unfortunately, in Ireland, it is very difficult to act on this admonition. The most we get about decisions in the nature of how they were arrived at, predictions, processes, values, analyses, priorities and rationales are to be found in press releases, which vary in content and analytical quality. You cannot reward what you do not know. This omission is a discourtesy to the taxpayer who pays the bills, and a loss to us all. The new Irish Government Economic and Evaluation Service may begin to fill this gap, but it should be the task of all departments to do their bit.

**And, as the autumnal gloom descends, do read *Thinking, Fast and Slow*.**

### NOTES

Daniel Kahneman, *Thinking, Fast and Slow*, Penguin Books, London, 2012. All the pages numbers cited refer to this edition

Kahneman shared the prize in 2002 with Vernon L. Smith, who pioneered the use of laboratory experiments as a tool in empirical economic analysis, especially in the study of alternative market mechanisms.

Apropos the fact that we (unconsciously) strive harder to avoid loss than to achieve gain, Kahneman observes that “If in his best years, Tiger Woods had managed to putt as well for birdies as he did for par, his average tournament score would have improved by one stroke, and his earnings by almost \$1 million per season.” (p304)

The key evidence on the power of having to opt out in the case of organ donation comes from: J. Johnson and Daniel Goldstein, 2003. “Do defaults save lives?” *Science*, 302, pp. 1338-39

The Sean Fitzpatrick quote is from:

<http://quotesfromthebubble.blogspot.ie/2010/03/seanie-fitzpatrick-formerchairman-of.html>

For the announcement of the Irish Economic Research Services March 6, 2012 by Brendan Howlin, TD, Minister for Public Expenditure and Reform; see <http://per.gov.ie/2012/03/06/minister-howlin-announces-establishment-ofnew-government-economic-and-evaluation-service/>

The evidence that we suffered from a global halo effect before the crash is the following:

On September 2007 (by which stage Irish bank shares had lost one-third of their peak value) the IMF commended Ireland’s “prudent fiscal policy”, mentioning “Ireland’s continued impressive economic performance”: [See Section IV of IMF Article IV Consultation on Ireland (IMF Country Report No. 07/325).]

On 20 November 2007 Lorenzo Bini Smaghi, one of the more vocal members of the Executive Board of the ECB, stated that

## **Budget 2013 – Insights From Daniel Kahneman**

*continued*

“The Irish example shows that it is possible to prosper in the monetary union while having a higher potential growth rate than the rest of the union. This does not need to be ‘paid’ in terms of divergent or explosive inflationary outcomes and / or in unsustainable competitiveness for the country.”

[ ‘The value of central bank communication’, Speech by Lorenzo Bini Smaghi, Member of the Executive Board of the ECB, Financial market speech series, Landesbank Hessen-Thüringen permanent representation of Hessen in Brussels, Brussels, 20 November 2007]

In April 2008 the OECD noted that “Financial Sector Risks have been Contained” and that “The Irish banks are well-capitalized and profitable, which provides a cushion to weather the more difficult times ahead.” [OECD Economic Survey of Ireland, April 2008, Chapter 3: Financial Stability: Banking on Prudence]

From October 2001 to March 2009 Ireland enjoyed AAA credit rating from S&P.

Professor Frank J Convery, Chair Publicpolicy.ie and Senior Fellow, University College Dublin ([frank.convery@ucd.ie](mailto:frank.convery@ucd.ie))

# **Budget 2013 – The Case For Periodic Instead Of Lump Sum Payments For Damages Arising Out Of Alleged Medical Negligence.**

*Published: Friday 17 August 12*

## **KEY POINT**

We should move right away from lump sum to periodic payments in the case of medical negligence cases in Ireland. And this should happen before Budget 2013 is presented to the Oireachtas (Parliament) in December 2012. An excellent report explaining why this should happen, and how it should be done, was presented to the then Minister for Justice almost 2 years ago. Inaction will have many costs, not least that the Minister for Finance will have to find up to about €50 million right away that he (and we) can all ill afford.

## **INTRODUCTION**

At present, when damages are awarded in Ireland to a person who suffers serious impairment of health as a result of alleged medical negligence, it is in the form of a once off lump sum, to enable him/her to pay for a lifetime of care. At the time of the award, a decision must be made based on assumptions which include: life expectancy of the plaintiff, prospects of further deterioration, costs over time of medical care and treatment, loss of earnings, rates of inflation and of return when lump sum is invested. The Working Group on Medical Negligence and Periodic Payments was established in February 2010 under the leadership of then Justice of the High Court John Quirke (and currently President of the Law Reform Commission) to:

- Examine the present system within the courts for the management of claims for damages arising out of alleged medical negligence and to identify any shortcomings within that system.
- Make such recommendations to the President as may be necessary in order to improve the system and eliminate the shortcomings.
- Consider whether certain categories of damages for catastrophic injuries can or should be awarded by way of Periodic Payments Orders.

## **ANALYSIS AND CONCLUSIONS OF THE GROUP**

The Group concluded that the current system of awarding damages for future pecuniary losses – the lump sum award – is inadequate and inappropriate, and that it should be replaced by periodic payments. The report was presented to the then Minister for Justice Dermot Ahern on November 15, 2010, and is available at:

at: [http://courts.ie/Courts.ie/library3.nsf/\(WebFiles\)/5CEEA19C4A5959BC802577DC0055C9F4/\\$FILE/Medical%20Negligence%201.pdf](http://courts.ie/Courts.ie/library3.nsf/(WebFiles)/5CEEA19C4A5959BC802577DC0055C9F4/$FILE/Medical%20Negligence%201.pdf)

Most of what follows is drawn from this report.

The disadvantages of the lump sum approach are many, and include:

- No recourse for the injured victim who exhausts the fund by exceeding his/her life expectancy. In practice, the State de facto ends up – with varying degrees of success – providing or funding the gap in care arising in such circumstances.

## **Budget 2013 – The Case For Periodic Instead Of Lump Sum Payments For Damages Arising Out Of Alleged Medical Negligence.**

*continued*

- Catastrophically injured persons who are intellectually capacitated are entitled to manage their own resources after a lump sum award of damages. Some may be youthful or inexperienced or both. Many invest unsuccessfully notwithstanding professional advice. Recent economic events illustrate the difficulties facing investors who need specific long term return on investments.
- A defendant has no recourse if a large lump sum is paid to a plaintiff who succumbs to his injuries earlier than expected. The next of kin of some deceased plaintiffs have received unintended multi-million euro windfalls. Ironically, some have been those whose negligence originally caused or contributed to the catastrophic injury.

The only advantage is finality for both parties –one knows how much must be paid, the other knows how much he or she will receive.

The current system is in a sense designed to fail. It fails the State, because it becomes in any event the residuary legatee of support in cases where the lump sum is poorly invested, and/or the individual lives longer than anticipated. It fails the individual, because he or she and their family must deal with risks of investment, mortality and inflation, and general stress in situations where what is needed is inadequate, or family tensions and frictions where a windfall gain is a possibility.

The Working Group examined alternatives to lump sum payments as implemented in Germany, Belgium, Italy, Sweden, Australia, the US, Canada, and the UK. It concluded that (p.25)

“The English system of compensation by periodic payments orders represents the most modern and effective model for payment of ongoing care and associated costs in personal injuries actions”.

Specifically (pp. 7-9), the Group’s principal recommendations are as follows:

- (i) Legislation should be enacted to empower the courts, as an alternative to lump sum awards of damages, to make consensual and non-consensual periodic payments orders (PPOs) to compensate injured victims in cases of catastrophic injury where long term permanent care will be required, for the costs of (a) future treatment (b) future care and (c) the future provision of medical and assistive aids and Appliances. The revolutionary aspect of PPOs will be the fact that the Orders may be made by the Court in the absence of consent between the parties.
- (ii) Periodic payments orders may only be made in circumstances where the court is satisfied that continuity of payment under the periodic payments order is reasonably secure;
- (iii) The State, through the agency of the NTMA, should be empowered to provide injured victims with the necessary security for periodic payments
- (iv) The Group recommends the introduction of earnings and costs-related indices which will allow periodic payments to be index-linked to the levels of earnings of treatment and care personnel and to changes in costs of medical and assistive aids and appliances, prepared under the aegis of the Central Statistics Office. This will ensure that plaintiffs will be able to afford the cost of treatment and care into the future.



## **Budget 2013 – The Case For Periodic Instead Of Lump Sum Payments For Damages Arising Out Of Alleged Medical Negligence.**

*continued*

- (v) Variation of periodic payments orders should be permitted where it has been determined that the plaintiff's condition will seriously deteriorate or significantly improve.
- (vi) A person entitled to receive periodic payments under a court order should not be entitled to assign or charge that right without the approval of the court which made the order.
- (vii) Periodic payments orders made to compensate for the costs of a plaintiff's care, treatment and medical and assistive aids and appliances should not extend to dependents of a plaintiff after the plaintiff's death.
- (viii) Exemption from income tax for such payments

### **BUDGET IMPLICATIONS**

It is now close to 2 years since the Group issued its recommendations. Delay in acting on its proposals has potentially extremely negative budgetary implications, for the following reason. There is now a substantial backlog of cases (11) awaiting action. If lump sum settlements are made rather than being spread out over the lifetimes of those injured, the amount required now will be of the order of €50 million, and could be much more. The relevant care costs must be paid from public resources in the long term either directly, by the State or indirectly, via insurance premiums.

The main immediate financial advantage for the State is that the care costs will be paid over a lengthy period and not immediately during a time when the State is "cash strapped". Also, when the Court orders insurers to purchase the annuities (i.e. the PPOs), from the NTMA by lump sum payments, the State is again receiving significant cash payments (albeit from premium payers). And the State will be entitled to keep the cash in the event of the death of the injured person; if the injured person exceeds life expectancy the State will have to bear the additional costs anyway.

Under the terms of Ireland's Stability Programme (the Troika agreement), we must cut the government's expenditure by €2.25 billion (1.70 billion current, 0.55 billion capital) in 2013, and by a further €2 billion in 2014. It will be an extraordinary missed opportunity if we allow ourselves to drift into gratuitously deepening the fiscal chasm that we must bridge by sticking with the lump sum payments model. And of course it will also continue to sustain all of the uncertainties, inefficiencies, unfairness and costs that the current scheme engenders.

On Wednesday, 16 May 2012 Minister for State Dinny McGinley, TD, responding in the Senate on behalf of the Minister for Justice and Equality to a question from Senator Colm Burke, pointed out that:

"The National Treasury Management Agency (NTMA) is conducting an actuarial review to examine the feasibility and cost-effectiveness of periodic payment orders as an alternative to lump sum payments or other options. The review will examine in particular the feasibility of the State acting as an annuity provider to insurers and indemnity providers in personal injury actions to enable compliance with the security of payments principle. The outcome of the review will inform the development of proposals under way in the Department of Justice and Equality to meet the Government's commitment to legislate in this area. The review is expected to be completed in June 2012".

<http://debates.oireachtas.ie/seanad/2012/05/16/00013.asp>

**The time for action is now.**

# Do The Benefits Of The London Olympics Justify The Costs Of £9.3 Billion?

*Published: Tuesday 7 August 12*

## THE BENEFITS AND COSTS OF THE OLYMPICS

The most acerbically enjoyable view of the London 2012 Olympics has come from the Robin Lane Fox, gardening correspondent for the Financial Times ('The real team GB', Financial Times, House and Home section, August 4 and 5, 2012, p. 10). He dedicated his piece to the allotment holders whose cherished allotments have been destroyed by the Olympic park, and to the thousands of friends of Greenwich Park who have seen it ruined in order to create an equestrian obstacle course. He addresses what has been foregone as follows:

"The total Olympian cost of £9.3 billion could build at least 30 new hospitals or nearly 500 schools or fund three universities in perpetuity with endowments as big as Oxford."

He also took aim at the opening ceremony:

"Why was there not a hint of Charles Darwin, the British mastermind who changed the world?"

And missing also were: the British geniuses who have changed many trillions of lives – Marie Stopes and her birth control, Fleming and penicillin, Crick and Watson and their DNA and Cicely Watson and her vision of proper pain control and a dignified hospice in which to die.

If economists had been asked to advise on the benefits and costs of the bid before proceeding (and they were not..), they would probably have estimated the willingness to pay by the British public for the Olympic experience; if these substantially exceeded the costs, then they would have approved. But the outcome would depend very much on how the choice was posed. Context is crucial: If what is foregone – the opportunity costs as outlined by Lane Fox – were presented as part of the question, they outcome would be much less favourable than if the choice was presented in isolation. But there are other considerations. The games give us insight into the evolution of national characteristics and culture.

A true but incomplete image of Englishness comes from George Orwell:

"The English have a horror of abstract thought, they feel no need for any philosophy or systematic world view. What endures is the addiction to hobbies and spare time occupations, the privateness of English life. We are a nation of flower lovers, but also a nation of stamp collectors, pigeon fanciers, amateur carpenters, coupon snipers, darts players, crossword puzzle fans."

The Olympics widens the view to include a ferocious competitiveness and professionalism, especially in cycling and sailing, but it also engenders a sense of sharing and community. A character in one of Ibsen's plays observes

"A community is like a ship; everyone ought to be prepared to take the helm"

– for these two weeks, the riots of yesteryear are forgotten – London is like Ibsen's ship.

## **Do The Benefits Of The London Olympics Justify The Costs Of £9.3 Billion?**

*continued*

And of course China's talents continue to surprise and impress. Chinese journalist and personality Hung Huang observed:

"We want people to really acknowledge our accomplishments. But by nature, the Chinese are conspiratorial. They don't like to show their cards. They want to keep something hidden."

The Olympics are the perfect antidote to this combination of need for acknowledgement and what in Ireland we call cute hoorism – Chinese talents in diving and many other fields that were hidden are given full acknowledgement on a world stage.

Acting and Olympic sports are two platforms where women are given (almost) full parity of esteem with men. Annalise Murphy (sailing) and Katie Taylor (boxing) are Irish Olympic stars in a country where women's accomplishments in Gaelic games, rugby and otherwise are hardly acknowledged.

Finally, the Olympics creates a sort of inclusiveness, a place where the extraordinary achievements of countries and people that are often ignored – Kazakhstani wrestlers and the fastest man in the world from Jamaica (Usain Bolt) – are at the centre of the world's stage.

### **SO DO THE BENEFITS EXCEED THE COSTS?**

Not for Robin Lane Fox, or the (former) allotment holders in what is now Olympic park, and not for all of those who seek refuge in Lyric Radio and other sports free zones for the duration. But for the rest of us, the calculus works, especially since the UK bears most of the costs, and the rest of us garner the benefits.

# Aurora Colorado And The Importance Of Social Capital

*Published: Tuesday 24 July 12*

**Social capital is that set of reflexes we absorb from our culture, religion, families and our ancestors. It shapes how we react to crisis and opportunity.**

In 19<sup>th</sup> century Ireland, the Quakers were famously honest in their dealings, competitive in business, but fair to employees and customers, open to new ideas and encouraging of enterprise and social endeavour, and antagonistic to violence in all its forms. This benefitted them, by making it relatively easy to borrow, attract and retain the smartest and most reliable employees, reduce to the minimum the needs for contracts and lawyers, and be accepted by the majority of the population; they were also the most active group in helping mitigate the hugely malign effects of the 1845 potato famine. But their social capital also helped adorn the society of which they were such a positive part. More generally, cultures that resist populist impulses, encourage innovation and enterprise, foster peace, make sometimes difficult choices informed by evidence, and take a long view (including protecting nature), will be rich in social capital and this is likely to enrich other forms of capital.

Aurora Colorado has been rich in at least one form of social capital. It is well known for having one of the most sensible and progressive water charging systems in the world. Householders have been charged on the basis of increasing block prices, and provided with support for investing in water saving devices. And this has allowed the city to reduce its consumption considerably, save on investment and ensure that water is available to all and also meet the needs of a rapidly growing population.

Unfortunately, its stock of social capital stock has now been diminished; its reputation will be coloured in future by the tragedy of the shooting to death of 12 patrons in a cinema on July 20, 2012, who were there to view the premier of the new Batman film, *The Dark Knight Rises*; over 50 others were injured, some critically. The suspect is a 24 year old neuroscience graduate student, who was arrested outside the theatre with a semiautomatic assault rifle and other weapons, all of which he purchased legally.

It is part of a sad tradition in the US, where shooting sprees periodically occur including (numbers killed in brackets): Austin, Texas in 1966 (16), Wilkes-Barre, Pennsylvania in 1982 (13), San Diego, California in 1984 (21), Edmund, Oklahoma in 1986 (14), Killeen Texas in 1991 (23), Littleton, Colorado in 1999 (13), Blacksburg, Virginia in 2007 (32), Tucson, Arizona in 2011(6) – the latter was associated with an assassination attempt on then Congresswoman Gabrielle Giffords.

## **A FEW FEATURES ARE CHARACTERISTIC:**

- The killings are undertaken mainly by Caucasian young men (an exception to the latter is Cho Seung-Hui, the killer in the Blacksburg Virginia case, who was born in South Korea) typically acting alone, and with a history of aloneness –no girlfriends, few if any close friends;
- They do not have criminal records, and the shootings occur in relatively small cities and towns;
- They account for a tiny percentage of the total firearm related deaths – the majority of gun-related deaths in the United States are suicides – 17,352 (55.6%) of the total 31,224 firearm-related deaths in 2007 were due to suicide, while 12,632 (40.5%) were homicide deaths;
- They are not unique to the US – one year ago, Anders Behring Breivik killed 77 people in Norway – but the pattern in the US is more enduring and pronounced;

# Aurora Colorado And The Importance Of Social Capital

*continued*

- The control of the types of weapons that can be purchased in the US and by whom has loosened since 2004, supported by the public. The passage in 1994 of a ban on certain semi-automatic firearms is said to have contributed to the electoral defeat of the Democratic Speaker of the House (Tom Foley) and the victory of Republicans in both houses in 1994; the 1994 law lapsed in 2004, and there is no prospect of its renewal;
- U.S. citizens own 270 million of the world's 875 million known firearms, and about 4.5 million of the 8 million new guns manufactured worldwide each year are purchased in the United States. Teenage gang members cite the need to protect themselves as the reason for having and using guns. This raises the question: is the genie irreversibly out of the bottle?

## **WHY ARE GUNS SO FREELY AVAILABLE IN THE US, AND WOULD CONTROLLING OF ACCESS MAKE ANY DIFFERENCE?**

Amongst the more spurious rationales for free access is the often expressed view that if people of malign intent can't kill with guns, they will find other ways. But the solution is to also choke off as far as possible those other avenues, including bomb making equipment. And most other weapons are not as lethal as automatic firearms, and their equivalents.

An Irish example: an individual (male, 24) was arrested for stabbing a number of guests at a concert attended by 45,000 in Dublin's Phoenix Park July 7, 2012. All but one of those injured have been discharged from hospital. If he had instead conducted the assault with a semiautomatic weapon, the outcome would probably have been orders of magnitude more lethal.

A more substantive argument is that it is allowed under the Second Amendment to the US Constitution which came into law in December 1791 as one of the 10 elements in the Bill of Rights:

'A well-regulated militia being necessary to the security of a free state, the right of the people to keep and bear arms shall not be infringed.'

But the right to provide conditions for access is also recognised in decisions of the Supreme Court, echoing George Washington's observation:

'A free people ought not only to be armed, but disciplined.'

Based in the evidence we have, when indiscipline combines with ready access to lethal weapons, innocent people die in large numbers.

## **IS THE US EXCEPTIONAL?**

The data below are indicative only; they are derived from a variety of disparate sources, and some are old, relating to outcomes in the 1990s. The US is in the second highest death rate cluster, together with Brazil, Panama, Mexico etc. The lowest group included Ireland, Scotland and England and Wales. There is a wide range of firearm related mortality rates in Europe, with Finland, France and Switzerland relatively high at over 60% of the US rate.

# Aurora Colorado And The Importance Of Social Capital

*continued*

**Table 1. Indicative data on Firearm Deaths per 100,000 Population in one year.**

Country Group in descending order	Deaths from firearms per 100,000 in one year	Comment
South Africa (74.57), Colombia, El Salvador, Jamaica, Honduras, Guatemala, Swaziland	74.57-37.16	
Brazil (14.15), Estonia, Panama, Mexico, US (10.27), Philippines, Argentina	14.15-9.19	
Seventeen countries ranging from Paraguay (7.35) to Israel (3.0)	7.35-3.0	This category includes a number of European countries – Finland (6.35), N Ireland (6.82), Switzerland (6.4), France (6.35), Austria (4.56), Norway (4.39), Portugal (3.72), Belgium (3.48), Slovenia (3.07)
Thirty five countries, ranging from Italy (2.95) to Chile (0.06)	2.95-0.06	Includes Ireland (1.21), England and Wales (0.46) and Scotland (0.58)

The Northern Ireland data are elevated by the killing during the troubles. The total deaths over the 1969-2010 period – 3568 – exceed the number killed on 9/11 in New York. Civilians in Ireland took the brunt of the Irish deaths, accounting for over half of the total (Table 2). Bombs and bullets account for most of the deaths, but in what proportion I don't know.

**Table 2. Number of Conflict related deaths in Northern Ireland, 1969-2010**

	Civilian	British Security	Republican Paramilitaries	Loyalist Paramilitaries	Irish Security	Total
Number	1879	1117	399	162	11	3568
%	53	31	11	5	<1	100

## CONCLUDING REFLECTIONS

- Many Americans love guns. Love by its nature transcends logic. The irrational is rationalised, and the preposterous is defended.
- Passionate love affairs are often dangerous for the lovers. Unfortunately, the costs of this affair will continue to be borne in part by third parties – the unlucky innocents who happen to be the target of the next undisciplined shooter.
- There is no sign at Federal level that George Washington's requirement for discipline to accompany the right to bear arms has been or is being taken on board at policy level. Until the love affair palls, this requirement is unlikely to be addressed.

# Aurora Colorado And The Importance Of Social Capital

*continued*

- If attention is to be devoted specifically to the 'shooting spree' class of killing, the focus should be on young Caucasian men. If access to dangerous weaponry by this group could be dramatically reduced, this would help.
- Samuel Johnson commented (unfairly) about Scottish Highlanders: " The inhabitants were for a long time perhaps not unhappy, but their content was a muddy mixture of pride and ignorance, an indifference for pleasures which they did not know, a blind veneration for their chiefs, and a strong conviction of their own importance".
- There are lessons to be learnt from other jurisdictions, but the muddy mixture of pride and ignorance that characterises much commentary makes learning difficult.
- One of the real successes of Irish freedom was the transition to peace from the guns and violence of the war of independence and civil war. An unarmed police force was established, and there was no infatuation by the public with gun ownership and all the rationalisations that it engenders. This was an important and enduring contribution to Ireland's social capital. But it is endangered by the inheritance of the Northern Troubles, where access to guns and a willingness to use them for some became the norm. For a few, killing for political reasons has morphed into murdering for profit, often linked to controlling the sale and distribution of drugs, and with guns as the essential enforcer.
- Aurora needs to highlight what it does well in the public interest, keep doing it, and tell the world that it refuses to be typecast by the horrors of July 20, 2012, which were not of its making.

## NOTES

### **Data on past shooting spree incidents are drawn from:**

'US Shocked by cinema mass shooting' by Shannon Bond and James Politi, Financial Times, July 21, 22, 2012, p. 8

### **Data on international comparisons – see:**

[http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_firearm-related\\_death\\_rate](http://en.wikipedia.org/wiki/List_of_countries_by_firearm-related_death_rate)

### **Data on the stock of guns held – see**

:<http://www.reuters.com/article/2007/08/28/us-world-firearms-idUSL2834893820070828>

### **Data on conflict-related deaths in Northern Ireland taken from:**

<http://www.guardian.co.uk/news/datablog/2010/jun/10/deaths-in-northern-irelandconflict-data>

### **Data on gun violence in the US – see:**

[http://en.wikipedia.org/wiki/Gun\\_violence\\_in\\_the\\_United\\_States](http://en.wikipedia.org/wiki/Gun_violence_in_the_United_States)

# Airline Competition In Ireland – Back To Monopoly?

*Published: Tuesday 10 July 12*

## INTRODUCTION

For any country, easy and efficient access to others is an important contributor to its economy and quality of life. It is particularly so when the country is an island with no land or rail links to major trading partners or potential tourists. In Ireland, this was recognised by earlier governments, who established and supported the establishment of State airline and shipping companies to ensure that such access was available. But these became State protected monopolies, with high costs and at times indifferent services. Some of us recall being frequent users of the Dublin to Brussels service offered by Aer Lingus in the 1970s and 80s, where flight availability was limited, and costs for a restricted economy ticket often fell in the range of €600-800 or even more.

But then came the competition revolution.

At its best, competition gives consumers choice, drives down prices, and encourages innovation. This has proven true of air travel. Ireland was one of the first movers in Europe to move from protection of a monopoly – the traditional ‘legacy’ airline which was shielded from competition by government – to allowing new entrants. The payoff was dramatic, and was extended to the rest of Europe with the implementation of full deregulation from 1997 at EU level.

The outcome has been documented by Barrett (1997, p.67)<sup>1</sup>.

The deregulation of air transport between Britain and Ireland in 1986 brought reductions in fares of over 50% and a doubling of passenger numbers in contrast to high fare increases and market stagnation before deregulation.

In Ireland, Ryanair, established in 1985, took first mover advantage of deregulation, to the extent that it is now ranked as the largest airline in Europe judged in terms of passenger numbers – carrying over 76 million passengers in 2011. It offers over 1,500 flights daily serving 170 airports across Europe with 294 Boeing 737-800 aircraft; Ryanair is now the seventh largest airline in the world . The incumbent monopoly airline in 1985 (Aer Lingus) continues to operate, and carried 9.8 million passengers in 2011, of whom 8.9 million are short haul (Europe).

Together, the two airlines dominate Europe-based traffic into and out of Ireland. They account for over 80% of traffic out of Dublin. On July 24, 2012, out of 66 routes by Aer Lingus from Dublin, 31 are also contested by Ryanair; the average price for a contested flight is €125.75, compared to €145.76 for an uncontested flight<sup>2</sup>.

---

1. Barrett, Sean, 1997. The Implications of Ireland/UK Airline Deregulation for an EU Internal Market, *Journal of Air Transport Management*, Vol. 3, No.2, 1997.

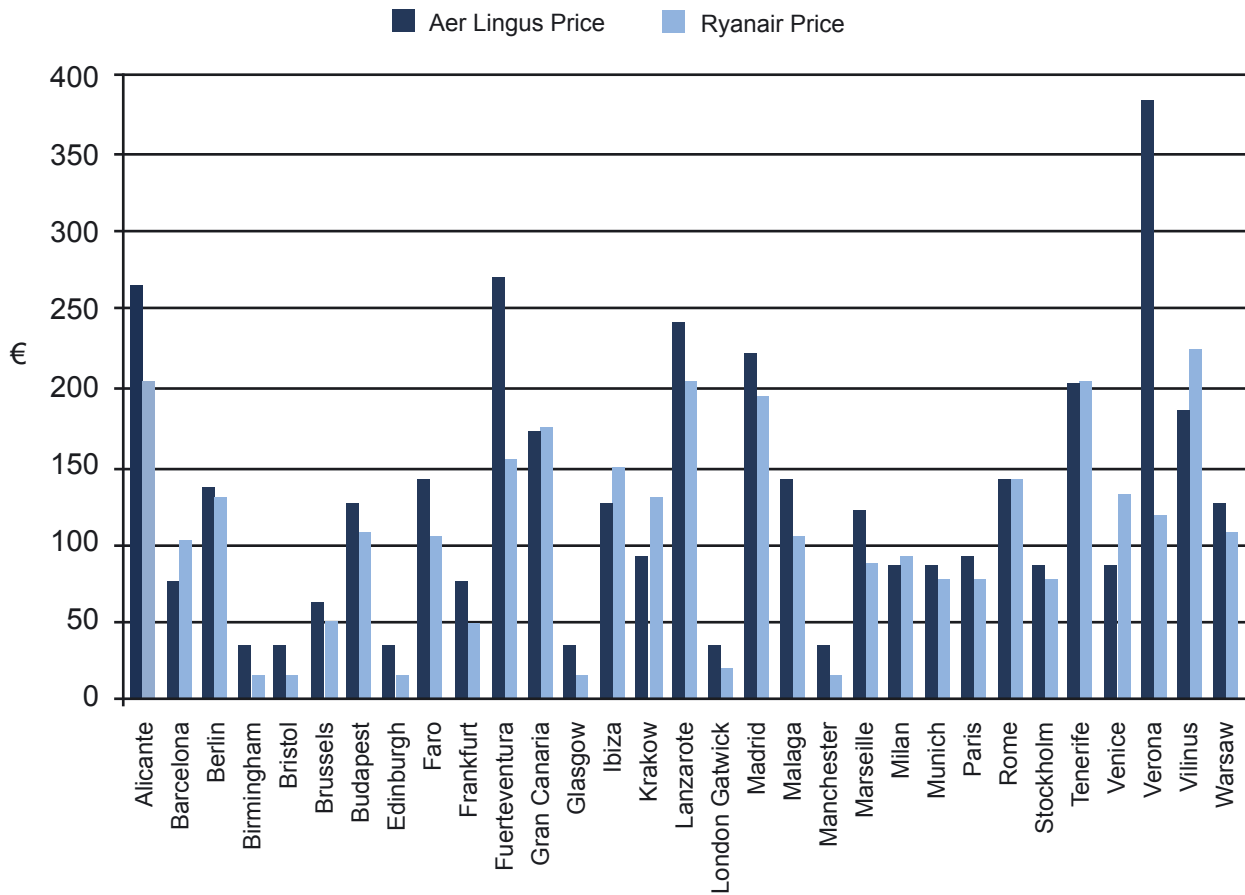
2. The prices used here refer to the cost of a one-way ticket from Dublin airport on Tuesday, 24 July 2012 or the closest available flight if there were no flights on the 24th. Where there were multiple flights on the same day, the cheapest flight was chosen. The price data was taken from <http://www.aerlingus.com> and <http://www.ryanair.com> on 2nd and 3rd of July. Prices are inclusive of taxes but do not include opt-in fees such as charges for luggage. The routes were deemed to be competing if they serviced the same area e.g. Aer Lingus flights to Brussels National Airport compete with Ryanair flights to Charleroi Airfield.



# Airline Competition In Ireland – Back To Monopoly?

*continued*

**Figure 1: Price Comparison on Contested Routes**



The data are shown graphically in Figure 1 (all numbers are shown in the Annex). On six of the contested routes – Gran Canarias, Ibiza, Krakpw, Tenerife, Venice, and Vilnius - the fare charged by Ryanair exceeds that of Aer Lingus; for the remaining 25 flights, the converse is the case. In both cases, where flights are uncontested, fares tend to be higher (Figures 2 and 3)

# Airline Competition In Ireland – Back To Monopoly?

continued

Figure 2: Price of Flying with Aer Lingus on Uncontested Routes

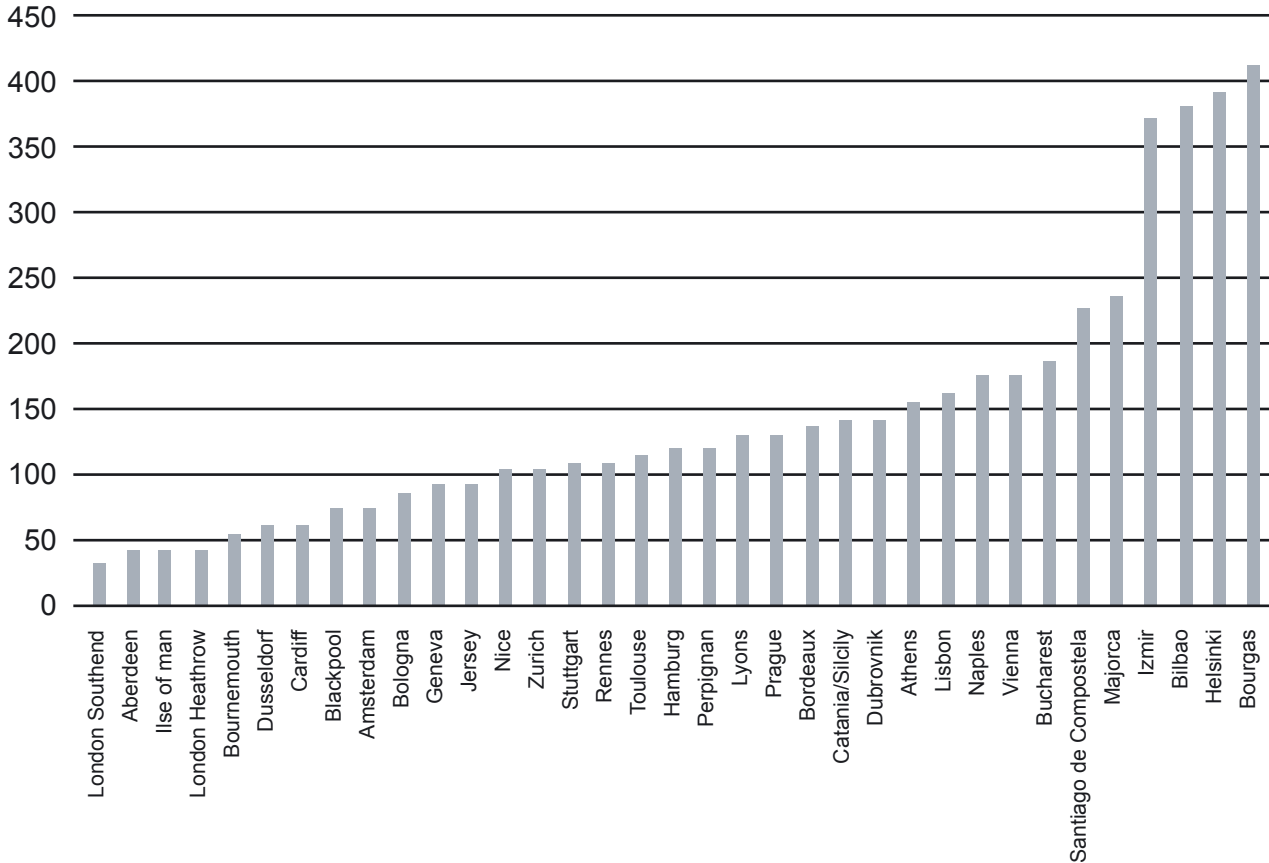
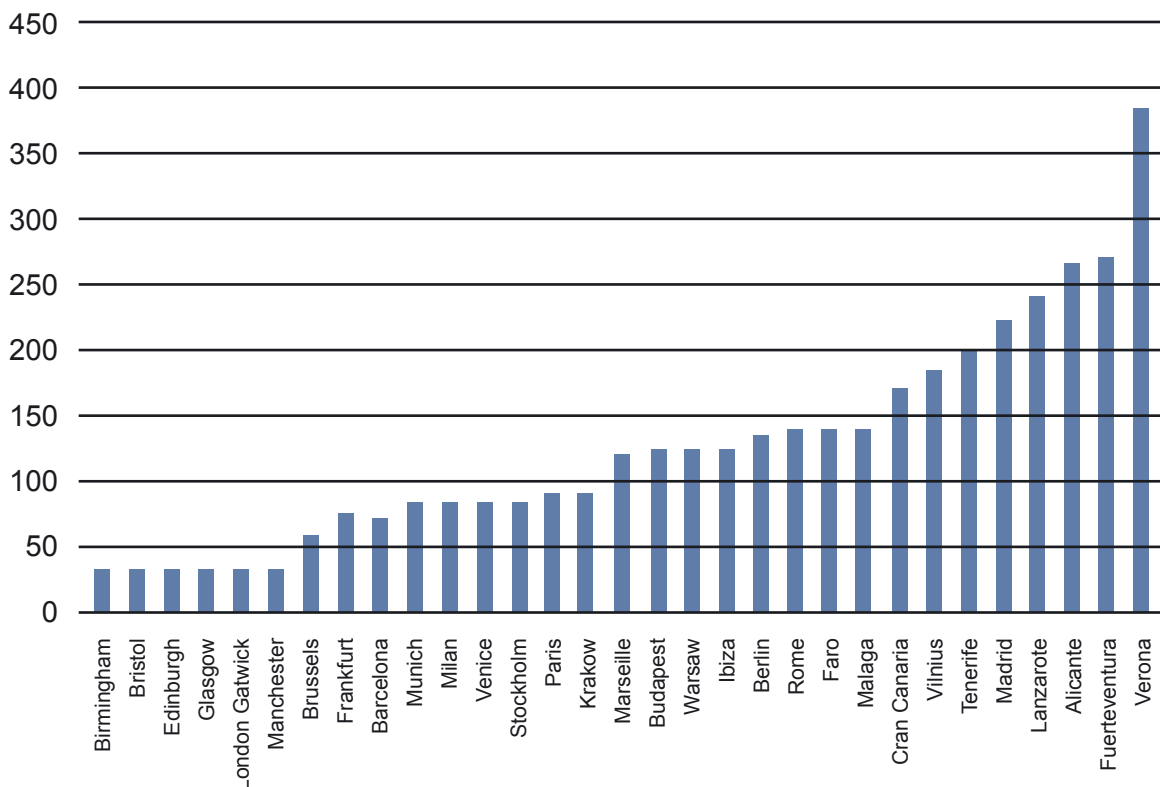


Figure 3: Price of Flying with Aer Lingus on Contested Routes



# Airline Competition In Ireland – Back To Monopoly?

*continued*

Ryanair has purchased shares in Aer Lingus, now amounting to 29.8% of the total, and has made successive efforts to buy the airline outright, the latest announced on June 19, 2012. In this commentary, we review the earlier refusal by the European Commission to allow the earlier bid to proceed, and then examine the latest proposal. The stakes here for Ireland are very high; any decision that results in increasing cost or reduction in quality of access would have hugely negative effects on economic performance and quality of life.

## **THE EUROPEAN COMMISSION DECISION IN 2007**

In rejecting the earlier bid in 2007, the European Commission argued that the acquisition of Aer Lingus would have eliminated Ryanair's main competitor in Ireland.

To address the EU's antitrust concerns, Ryanair offered to sell as many as two-thirds of Aer Lingus's landing slots at Heathrow and provide space for new entrants at the London airport, Europe's busiest. It also offered slots at London's Stansted Airport and airports serving Frankfurt, Paris, Milan, Rome, Barcelona and Bratislava, Slovakia. The Commission rejected the offers.

Nelli Kroes, the Commissioner for Competition argued that

- The slots were not enough. The airline would have about 80% of the market at Dublin's airport. That is such a dominant position that a newcomer is not interested in joining that play.
- The Commission said the Ryanair case was the first time the regulator reviewed a proposed merger of two primary airlines operating from the same airport in one country.
- The number of overlapping routes is unprecedented compared with previous airline cases.
- The Commissioner pointed out that the combined airline would have had a near monopoly at Dublin, with no competition on 22 out of 35 routes.
- Ryanair has provided customers with more competition and more choice. But it cannot now take away that choice.

## **THE 2012 BID**

The Ryanair case for acquisition is based on the following propositions:

- In an era when airlines are merging and becoming bigger, Aer Lingus, as a small standalone airline –the Ryanair CEO Michael O'Leary calls it 'a small regional airline' and in the Ryanair bid document it is called 'a sub-scale peripheral EU flag carrier which has been bypassed by ongoing EU-wide flag carrier consolidation' – will not be able to compete. He highlights industry consolidation that is leaving Europe with five big airline groups – Air France-KLM, Easyjet, International Airlines Group, Lufthansa, and Ryanair.

# Airline Competition In Ireland – Back To Monopoly?

*continued*

## THE FINANCIAL TIMES NOTES

Apart from Ryanair, it is difficult to see who would pursue a takeover of Aer Lingus. Air France-KLM, IAG and Lufthansa are seen as unlikely suitors. Etihad, the fast-growing Abu Dhabi-based carrier that announced last month it had bought a 3% stake in Aer Lingus, has held talks about buying the Irish government's shareholding. But foreign ownership rules are likely to prevent Etihad from having a controlling stake in Aer Lingus.

- Since their last failed bid, the world has changed in terms of competition – “The most significant of these consolidations is the recent IAG (BA and Iberia) takeover of BMI, where the No.1 airline at Heathrow was allowed to acquire the No.2” and there are no barriers to new entrants at Dublin airport, which is operating at only 50% capacity. Ryanair would keep the two airlines separate and competing subsidiaries of Ryanair Holdings.
- By lowering Aer Lingus unit costs and fares, growing its fleet and traffic at some of Europe's major airports, and competing with high fare incumbents, Ryanair can significantly increase Aer Lingus' profitability, and boost Aer Lingus passenger numbers from 9.5 million to 14 million over the next 5 years.
- Sale to a non-Irish investor would ‘lead to the inevitable break up of Aer Lingus on the basis that they are only interested in the Heathrow slots and the profitable US routes.
- Competition concerns can be addressed.

Ryanair believes that any competition concerns which the European Commission may have can be addressed by Ryanair making appropriate remedies prior to the completion of this Offer and by significant synergies and cost efficiencies resulting from this combination.

## ISSUES & CONCLUSIONS

Since the late 1908's, consumers in Ireland, and especially in Dublin, have experienced a golden age of air travel, with expanding services and low prices, attributable mainly to competition.

Maintaining this competitive environment is critically important, and we should not take it for granted. (Access costs by air do not feature in the National Competitiveness Council's otherwise very comprehensive *Ireland's Competitiveness Scorecard 2011*.)

No definitive conclusions can be drawn from the data on all flights out of Dublin on one day. But it does not allow us to reject the hypothesis that competition is good for consumers, and reduced competition would be bad.

There are some issues arising from the most recent bid by Ryanair for Aer Lingus which require clarity and verification.

- As mentioned by the Financial Times, “foreign ownership rules are likely to prevent Etihad from having a controlling stake in Aer Lingus”. These rules are based on European regulations and are a hindrance to competition. That the airline business should be run on the basis of nationality runs contra to its international nature.

## Airline Competition In Ireland – Back To Monopoly?

*continued*

- It is argued that there are now large economies of scale in airlines, hence the emergence of the 'big 5'. What has changed since Ryanair started out with one plane in 1985? In what elements of the cost base – costs of capital, planes, fuel, people, marketing, access – are there significant disadvantages, and is the only solution a merger? This has now become part of the conventional wisdom, but Ryanair has demonstrated that the conventional wisdom is often wrong. Are there other means of driving down costs in some or all of these areas that would retain autonomy?
- Michael O'Leary argues that the European routes flown by Aer Lingus are unprofitable, that the main interest by prospective purchasers are the Heathrow slots and the US routes, and that the airline would be broken up by any purchaser.

### **EVIDENCE?**

- If Ryanair take over Aer Lingus, will contestability problems arise? In her 2007 judgment, Nelli Kroes thinks so: "That (80% of the Dublin market) is such a dominant position that a newcomer is not interested in joining that play".

**Whatever the choice that is made, we must not return to the monopoly that prevailed before 1986.**

To quote Commission Kroes again

"Ryanair has provided customers with more competition and more choice. But it cannot now take away that choice."

### **AIR TRAVEL AND MANAGING CLIMATE CHANGE**

With the rapid expansion of air travel, flying has accounted for an increasing share of greenhouse gas emissions. However, since 2012, air transport has been included in the European Union Emissions Trading Scheme, which sets a declining cap on emissions up to 2020 and thereafter. This produces a price for CO<sub>2</sub> which will be passed through to travellers, with the extent of the pass through depending on the cost of CO<sub>2</sub> allowances, the load factor, and the efficiency of planes and how they are flown. This will penalise those airlines that use relatively fuel inefficient planes, fly them inefficiently, and have low load factors.

## Airline Competition In Ireland – Back To Monopoly?

*continued*

### Annex 1 – Aer Lingus Prices

Country	Airport	Contested	€ Price
Austria	Vienna	No	175.99
Belgium	Brussels	Yes	61.99
Bulgaria	Bourgas	No	411.99
Croatia	Dubrovnik	No	141.99
Czech Republic	Prague	No	131.99
Finland	Helsinki	No	391.99
France	Nice	No	101.99
France	Rennes	No	107.98
France	Toulouse	No	115.99
France	Perpignan	No	121.99
France	Lyons	No	131.99
France	Bordeaux	No	135.99
France	Paris	Yes	91.99
France	Marseille	Yes	121.99
Germany	Dusseldorf	No	61.99
Germany	Stuttgart	No	106.99
Germany	Hamburg	No	121.99
Germany	Frankfurt	Yes	75.99
Germany	Munich	Yes	85.99
Germany	Berlin	Yes	135.99
Greece	Athens	No	155.99
Hungary	Budapest	Yes	125.99
Italy	Bologna	No	85.99
Italy	Catania/Sicily	No	141.99
Italy	Naples	No	175.99
Italy	Milan	Yes	85.99
Italy	Venice	Yes	85.99
Italy	Rome	Yes	141.99
Italy	Verona	Yes	385.99
Lithuania	Vilnius	Yes	185.99
Netherlands	Amsterdam	No	75.99
Poland	Krakow	Yes	91.99
Poland	Warsaw	Yes	125.99
Portugal	Lisbon	No	161.99
Portugal	Faro	Yes	141.99
Romania	Bucharest	No	185.99

## Airline Competition In Ireland – Back To Monopoly?

*continued*

### Annex 1 – Aer Lingus Prices *continued*

Country	Airport	Contested	€ Price
Spain	Santiago de Compostela	No	225.99
Spain	Majorca	No	235.99
Spain	Bilbao	No	381.99
Spain	Barcelona	Yes	75.99
Spain	Ibiza	Yes	125.99
Spain	Malaga	Yes	141.99
Spain	Gran Canaria	Yes	171.99
Spain	Tenerife	Yes	201.99
Spain	Madrid	Yes	221.99
Spain	Lanzarote	Yes	241.99
Spain	Alicante	Yes	265.99
Spain	Fuerteventura	Yes	271.99
Sweden	Stockholm	Yes	85.99
Switzerland	Geneva	No	91.99
Switzerland	Zurich	No	105.99
Turkey	Izmir	No	371.99
UK	London Southend	No	31.99
UK	Aberdeen	No	41.99
UK	Ilse of man	No	41.99
UK	London Heathrow	No	41.99
UK	Bournemouth	No	53.99
UK	Cardiff	No	63.99
UK	Blackpool	No	73.99
UK	Jersey	No	92.99
UK	Birmingham	Yes	35.99
UK	Bristol	Yes	35.99
UK	Edinburgh	Yes	35.99
UK	Glasgow	Yes	35.99
UK	London Gatwick	Yes	35.99
UK	Manchester	Yes	35.99

## Airline Competition In Ireland – Back To Monopoly? *continued*

### Annex 2 – Ryanair Prices

Country	Airport	Contested	€ Price
Belgium	Brussels Charleroi	Yes	49.99
Estonia	Tallinn	No	131.24
France	Biarritz	No	141.24
France	Carcassonne	No	117.24
France	La Rochelle	No	101.24
France	Nantes	No	58.99
France	Rodez	No	41.99
France	Tours	No	131.24
France	Marseille	Yes	87.24
France Paris	Paris	Yes	77.24
Germany	Berlin	Yes	131.24
Germany	Frankfurt	Yes	49.99
Germany	Munich	Yes	77.24
Hungary	Budapest	Yes	107.24
Italy	Alghero	No	142.24
Italy	Palermo	No	150.24
Italy	Pisa	No	117.24
Italy	Milan	Yes	89.24
Italy	Rome	Yes	141.24
Italy	Venice	Yes	131.24
Italy	Verona	Yes	117.24
Latvia	Riga	No	194.24
Lithuania	Kaunas	No	169.24
Lithuania	Vilnius	Yes	224.24
Malta	Malta	No	154.24
Netherlands	Eindhoven	No	49.99
Norway	Oslo	No	45.99
Poland	Gdansk	No	131.24
Poland	Krakow	Yes	131.24
Poland	Vilnius	Yes	185.99
Portugal	Porto	No	107.24
Portuga	Faro	Yes	104.24
Slovakia	Bratislava	No	131.24
Spain	Murcia	No	104.24
Spain	Palma	No	154.24
Spain	Santander	No	175.24
Spain	Seville	No	176.24
Spain	Valencia	No	154.24
Spain	Alicante	Yes	204.24



## Airline Competition In Ireland – Back To Monopoly?*continued*

### Annex 2 – Ryanair Prices *continued*

Country	Airport	Contested	€ Price
Spain	Barcelona	Yes	101.24
Spain	Fuerteventura	Yes	154.24
Spain	Gan Canaria	Yes	174.24
Spain	Ibiza	Yes	150.24
Spain	Lanzarote	Yes	204.24
Spain	Madrid	Yes	194.24
Spain	Malaga	Yes	104.24
Spain	Tenerife	Yes	204.24
Sweden	Stockholm	Yes	77.24
UK	Birmingham	Yes	15.99
UK	Bristol	Yes	15.99
UK	East Midlands	No	15.99
UK	Edinburgh	Yes	15.99
UK	Glasgow	Yes	15.99
UK	Leeds Bradford	No	15.99
UK	Liverpool	No	15.99
UK	London Gatwick	Yes	19.99
UK	London Luton	No	15.99
UK	London Stansted	No	15.99
UK	Manchester	Yes	15.99
UK	Newcastle	No	15.99

# Water For Poor People – The Case For Affordable Water

*Published: Monday 25 June 12*

**Henri Smets** sets the international context for water pricing: “In all countries, it is now accepted that water users should pay to a very large extent for the water they use, and the amount of payment be proportionate to water consumption. The Irish model of free water for domestic users was hardly known to the rest of Europe, and did not inspire the policy of any country in Western Europe.”

## THE HUMAN RIGHTS IMPERATIVE

But he goes on to argue that there is a basic human right to have access to clean water at an affordable price. “Tariffs must be designed to finance water and sanitation services, but also to ensure social solidarity with the poor.” Accessibility is a core requirement under the Aarhus Convention which has been transposed into EU law. The Rapporteur on the Human Rights to Water stated that water should be free only when users were incapable of paying for it. Under French Law, any person experiencing difficulties in regard to ensuring a continuing supply of water, energy and telephone services is entitled to assistance from public authorities.

## DEFINING WHO IS POOR

The first step in ensuring that water is affordable is to identify those for whom affordability is likely to be a problem.

Drawing on data in other countries, we can see who these might be. From Table 1, we can see the extremes, with Poland with the lowest 10% of the population by income paying almost 8% of their net disposable income for water, while the equivalent cohort in Italy pays 1.4%.

**Table 1. Water Supply and sanitation Bills as % of average net disposable income, 2008.**

Country	Average	Lowest 10%
Italy	0.3	1.4
Spain	0.4	2.2
New Zealand	0.5	1.6
Sweden	0.5	1.8
England and Wales	0.6	2.0
Scotland	0.9	2.8
Denmark	0.9	2.5
Poland	1.2	7.9

Source: OECD, 2010. Pricing Water Resources and Water Sanitation Services, Paris, p. 74

## Water For Poor People – The Case For Affordable Water

*continued*

A workable definition of the water poor would be those of us who would have to pay more than 3% of our income for water if we paid the full price. And the lowest 10% in terms of disposable income would capture most of those; to the extent that incomes and water bills in Scotland and England are comparable with Ireland, we can see from table 1 that the poorest 10% would be paying between 2 and 2.8 per cent of their disposable income for water.

### HOW IS WATER CHARGED FOR, AND WHY?

Water to households typically comprises three elements – a fixed fee, an amount for water supply per cubic metre, and an amount per cubic metre to dispose of wastewater, called sanitation services. As environmental standards have been tightened, the cost of sanitation services has increased, to the point where in most countries they exceed the cost of water supply (Table 3). Increasingly, the costs per cubic metre increase in steps, called an increasing block pricing.

The approach of charging per unit of use on an increasing block basis provides three incentives:

- Reduces leaks
- Invests in conservation measures
- Increases use of water in ways that conserve.

Consumption per household in Ireland is over twice that of Belgium (Table 2). These data are so striking that one wonders about their accuracy, but undoubtedly part of the explanation lies in the fact that Irish consumers have no incentive to identify leaks on their property and fix them, or to invest in low water consuming devices (showers, toilets, washing machines, etc.) and to change behaviour.

**Table 2. Average Consumption per household, M<sup>3</sup>**

Country	Average Annual Household Consumption in M <sup>3</sup>
Belgium	68
France	91
Ireland	141

Source: Smets (2012) Table 1

# Water For Poor People – The Case For Affordable Water

*continued*

## HOW MUCH IS CHARGED?

The amount charged typically comprises a fixed or standing charge, and an amount per cubic metre (M3). There is a considerable range across countries as regards the amount charged:

**Table 3. Unit Price<sup>4</sup> in US\$ of Water Supply and Sanitation Services to Households, 2008, per M<sup>3</sup>**

Country	Water Supply	Sanitation	Total <sup>5</sup>
New Zealand	0.7	1.2	1.98
Italy	0.8	0.7	1.45
Spain	0.9	0.5	1.92
Finland	1.7	2.7	4.41
England and Wales	1.8	2.0	3.82
France	1.9	2.0	3.74
Germany	2.5	NA	NA
Scotland	2.6	3.1	5.7
Denmark	NA	NA	6.7

Source: OECD, 2010. *Pricing water Resources and Water Sanitation Services*, Paris, p.45

The average annual water bill for households in France at present is €434.

## HOW TO MEET THE NEEDS OF THE WATER POOR?

There are a number of approaches:

- Charge everyone the full price, but make direct payments to the poor to compensate them for the costs. In Ireland, we use the fuel allowance to compensate the fuel poor for their energy costs. In Paris, in 2010, direct payments for water amounting to €70 each were made to over 40,000 households. ***Direct payments are efficient in the sense that it maintains the full incentive to conserve water.***
- Provide a certain amount of water to poor people at low cost. This is the approach adopted in Flanders, Belgium and Malta. In one part of Flanders, water is free below 30M3 for a couple on social benefits, and half price for consumption above 30M3. The Flemish system provides support to 7.6% of the population, at a total cost amounting to 3.8% of water sales. In Malta, there is standing charge of €59; the first block is sold at €1.5 per M3, and the second block at €5.4 per M3. The tariff for the vulnerable group (16% of the total population) involves removing the standing charge and reducing the unit cost by 30%. ***It has been proposed for Ireland that everyone get some water for free; South Africa provides 70M3 free annually to each household. The consequence is that the charges for water above the free quota are very high.***
- Because minimum basic household water needs are directly related to number of family members, family size is also an equity issue. Spain provides bigger blocks of water at low cost to households with large families.

# Water For Poor People – The Case For Affordable Water

*continued*

In France, there is a special office that deals with unpaid bills.

## ENSURING PAYMENT BY USERS WHO CAN AFFORD TO PAY

When people struggle to pay, most jurisdictions make provision to defer payment, in addition to the arrangements noted above for the poor. But what of those who can pay, but refuse? Most jurisdictions have legal authority to cut off water, but are very reluctant to do so. **An effective option is to reduce the water pressure.** This ensures that there is sufficient water for drinking, cooking and washing, but washing machines and dishwashers etc. will not work.

## CONCLUSIONS

- There is a compelling case for ensuring that everyone has access to affordable water to meet their minimum needs.
- There is an equally compelling case, in justice and affordability, not to give everyone ‘free’ water. Giving the richest 10 per cent water for nothing as a way of helping the poorest is neither fair nor efficient.
- Policy needs to be designed and implemented in ways that ensures that those who cannot afford to pay are enabled to secure what they need. The provisions need to be explicit in the legislation, so that the regulator can make decisions accordingly. There may be a case for an independent water arbitrator.
- The system needs to be flexible, and reflect reality as experienced today. Those of us who are lucky enough to be able to afford to pay today, may not be able to do so tomorrow, while the converse will also apply.
- There is plenty of experience in other countries from which to draw, and practice evolves over time. For example, François Hollande, the recently elected President of France, favours something along the lines of the Flemish approach, and French policy therefore is likely to move towards and increasing block pricing of water to households.
- There is a strong case for having an informed debate as to how best to protect the human right to affordable water, drawing on international evidence. We hope that this commentary is a useful contribution.

*This paper draws heavily on “Charging the Poor for Drinking Water – the experience of continental European countries concerning the supply of drinking water to poor users” by Henri Smets, Water Academy France, presented at a workshop hosted by publicpolicy.ie on June 19 2012. The full paper is available by clicking [here](#). Data not otherwise referenced is taken from this paper.*

# Bogs<sup>1</sup> – When They're Gone, They're Gone

*Published: Sunday 10 June 12*

Since we first colonized this island about 10,000 years ago, we have engaged in two huge clearances of nature. The first was the elimination of the native woodlands; we cleared our natural endowment to such an extent that only a few solitary and meager residues remain. This loss only becomes apparent when one visits countries like the US and parts of Europe, where, by a combination of wisdom, courage and good fortune, they have conserved for their posterity great swathes of what nature created for them in their National Parks and Wilderness areas.

The second Irish clearance is now almost complete – the harvest of the great wilderness we inherited from nature after the ice age – the raised bogs of the Midlands. The major industrial use has been peat for fuel, with peat moss for garden use a subsidiary product. Extraction at scale to feed power stations has been the work of Bord na Móna (Turf Development Board) a state company, established in 1934, which focused on developing the large raised bogs. Its turf extraction will wind down over the next two decades, leaving about 100,000 hectares where the peat has been cut away. The other developers are land owners, mostly farmers, many of whom have the right to extract peat from bogs. I spent many happy hours as a child on the Holly Hill moss near Gulladuff, County Derry, where my father's family had turbary rights. The turf was harvested by hand, and neighbours worked together saving the turf, in an atmosphere that combined hard work with great humour and sociability. And of course, in my memory, the sun always shone. Many have these sepia-tinted memories, which go some distance to explain why turf cutting and turf cutters continue to command affection.

But there is a compelling case in the public interest to conserve the last remaining 1 per cent of so of raised bog that has not been significantly developed. Reasons include<sup>2</sup>:

- Learning from those who did not conserve any of their endowment and have regretted it; the Dutch are spending millions of Euros trying to recreate a plausible facsimile of what they have lost. A visit to the Netherlands sponsored by the Dutch Foundation for the Protection of Irish Bogs involved going to a tiny patch of 'new' embryonic bog costing huge amounts of money; one of the Irish party went under the rope to examine it more closely, and was almost arrested for despoiling such a precious and scarce asset – 'like scratching the Mona Lisa to assess its qualities', a Dutch observer opined.
- Pride, the ability to show our children this is what our earliest ancestors confronted, and lived and worked with. The 'Green Schools' programme is creating a rising generation that will not understand how their forebears could have been so feckless as to destroy the last remaining evidences of their inheritance.
- Presenting unique combinations of plants and animal life. In their definitive book on Irish Bogs<sup>3</sup>, John Feehan and Grace O'Donovan devote detailed chapters to plant life, trees, mosses and fungi, animal and insect life on the bog. When most of us look at an undeveloped bog, we see a brown desert. But to the trained eye, there is incredible richness, which they capture, and which is almost infinitely expandable as our ability to see what is worth seeing improves.

---

1. 'Bog' is derived from the Irish word for 'soft' – 'bogach', soft ground. The fuel which comes from a bog is called 'peat' in England, and 'turf' in Ireland.

2. The science underlying these points is available in: *Bogland; Protocol for sustainable peatland management in Ireland*, funded by EPA, and available at: <http://www.ucd.ie/bogland/FinalReports.html>

3. Feehan, John and Grace O'Donovan, 1996. *The Bogs of Ireland – an introduction to the natural, cultural and industrial heritage of Irish peatlands*, Environmental Institute, University College, Dublin, pp. 518

## Bogs – When They’re Gone, They’re Gone *continued*

- Protecting the quality of water, and (in some cases) mitigating flooding
- Storing carbon and reducing greenhouse gas emissions. The global stock of carbon in peatlands is estimated to be twice that which is held in forests. Emissions occur when the land is drained, and the carbon oxidizes. Managing the global stock of carbon to ensure that releases are at a sustainable level is a huge challenge, especially because oxidation is likely to accelerate as global temperatures rises. But emissions from peatlands are not yet measured under international and European rules, which is just as well; our emissions from bogs exceed the total emissions from residential, commercial and industry.

**Table 1. Area of Peatland and Stock of Carbon (expressed in terms of CO<sub>2</sub>), by Country**

Country	Area (km <sup>2</sup> )	Stock (billion tonnes of CO <sub>2</sub> )	Ranking in terms of stock	Emissions Million tonnes of CO <sub>2</sub> per an
Russia	1,390,000	417	2	100
Canada	1,136,000	569	1	N/A
US	1,127,000	239	3	70
Indonesia	270,000	202	4	>500
Finland	85,000	5.3	8	N/A
Sweden	66,680	18.3	9	N/A
UK	17,100	6.6	13	N/A
Ireland	11,500	4.2	17	22
Total	4,155,459	2018		

Note 1: Health warning – data for peatland – especially stocks and emissions, are indicative only, being less well measured than are the equivalent for forestry.

Note 2: tonnes of C are from the source below; they are converted to tonnes of CO<sub>2</sub> by multiplying by 3.67.

Source: Kaat, Alex, and Joosteen, Hans, 2008. 'Factbook for UNFCCC Policies on peat carbon emissions', Wetlands International and University of Greifswald, available at: <http://www.wetlands.org/LinkClick.aspx?fileticket=Dg7X8al83q4%3d&tabid=56>

## **Bogs – When They’re Gone, They’re Gone** *continued*

If the public interest in conservation is so clear, why have we such difficulty in protecting what remains? A very interesting window on the causes can be discerned from the Quirke Report on the Peatlands Forum 2012, which met 28th February – 2nd March 2012<sup>4</sup>. This was convened to bring landowners – about 240 contributed - whose bogs are to be conserved, which will involve prohibition of turf cutting, to a public forum where officials could respond to their points and complaints. This was animated by the need to comply with the requirements of the EU’s Habitat Directive<sup>5</sup>, which requires that habitats of uniqueness and scarcity which are of European importance be protected. It is a source of embarrassment that we have to be corralled by the EU into doing what is so manifestly in our own national interest. Owners have been offered compensation, but the general feedback from those present at the meetings was very negative - concerns included uncertainty about property rights, turbary rights, access to alternative fuel and its quality (10 tonnes of cut turf to be given to each family), lack of consultation on designation, flooding, fear of not getting paid, risk of fire, not enough compensation, breakdown in trust with the Parks and Wildlife Service. And there was emotional language ‘Don’t want to betray our memories for 36 pieces of silver’ and a generalized preference for ‘de-designation’ that would allow them to continue to cut turf.

The fundamental problem is that the public good benefits – carbon sequestration, water quality enhancement and storage, conservation of plant and animal life and associated landscape quality etc. - cannot be ‘captured’ by the land owner. And there is so little left, that we have no choice as to what to conserve.

It is interesting to note what was missing from the discussions. There is no recognition that turf is a wasting asset and the ability to cut it will disappear some time in the future in any event. When it’s gone, it’s gone forever. Instead of sourcing turf outside the protected zones, why not have a dramatic upgrade in the energy efficiency of the home as an option? Comfort levels rise, and costs fall. Or replace turf with wood, which grows in hedgerows and can be burned in the latest stoves, which are very efficient? There is no pride or excitement evident at the prospect of conserving a unique world – the last Irish wilderness. And no public recognition for doing so. It is clear that some turf cutters have a detailed knowledge of their bog, and could play a valuable role in managing and interpreting it in its conserved state.

The logic of involving bog land owners is clear. It is not clear why those third parties doing contract cutting should be involved. The great redwood groves we enjoy today in John Muir wood in California would not exist today if we had asked the loggers of the 19th century to decide their future.

### **WHAT TO DO?**

1. Learn the lessons for future EU Directives. Signing up to a directive should by Irish law be accompanied by an implementation plan, where the key elements needed to deliver - the who, what, where, when and how - are addressed unambiguously. (Non) communication was a big weakness in the implementation of the Habitats Directive and we need to learn the lessons, which include the fact that the skill set needed to deliver a demanding outcome is likely to be much wider than that to be found in a single agency; in this case, talents in ecology, law, economics, alternative energy, agriculture were a minimum requirement. The pattern of drifting into non-compliance and legal proceedings at EU level undermines our standing in Europe and conveys an impression of amateurism, it imposes excessive costs and stresses and in the end creates disillusion by citizens with Europe which is entirely undeserved.

---

4. Chaired by retired High Court Justice John Quirke, available at:

<http://www.ahg.gov.ie/en/Publications/HeritagePublications/NatureConservationPublications/QUIRKE%20REPORT.pdf>

5. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1992L0043:20070101:EN:PDF>



## Bogs – When They’re Gone, They’re Gone *continued*

Responsibility for the lead in European Affairs is now with the Taoiseach’s (Prime Minister) department. Ensuring that full professionalism is brought to bear in good time<sup>6</sup> should be at the top of the priority list. Quirke’s recommendation (number 10) that ‘a national plan....should be prepared’ captures an idea which should apply to the implementation of all future directives, and be imbedded in the Irish policy system.

2. Put a team together focused on getting property rights defined as accurately as possible. To the extent the confusion over property rights exists, a fundamental building block in implementing policy is lacking.
3. Appoint a mentor (one dedicated to each of the 33 or so bogs where contention is rife) to work with each landowner, whose job it is to help them take full advantage of the options they face (see below) and to recognize their contribution, including providing a customized information pack on their own property which documents its main features, ecological, cultural and historical, including the family history of the bog where cutters are interested in providing same. Where they are interested in playing a role as custodians and interpreters, this should be encouraged and facilitated. This will help repair the breakdown in communication.
4. Widen the choices available to include outright purchase, investment in energy efficiency and renewables, especially wood. Turf cutters with very low incomes should receive special attention and support.
5. The remuneration package should apply to all who conserve, but in particular to those who have acted responsibly and stopped cutting early on.
6. The carbon tax which applies to all other fuels should be extended to include solid fuels (coal and commercial peat). Not doing so reduces the revenue available to government to compensate turf cutters, and it also removes the price advantage that wood should have over peat and coal<sup>7</sup>.
7. Recognise the contribution made, and especially the values to the community.

Feehan and O’Donovan (p. 481) make the case: “The fact that many of those who are most ardently concerned about the conservation of bogs are ‘outsiders’ in some sense or other is exploited by some of those who stand to gain more from development: rekindling the suspicion, for so long prevalent in rural Ireland, that heritage is for those elite few who have nothing better to do than study flowers and old ruins, and is no concern of ours. It is a suspicion which seriously damages the growth of an awareness that the heritage of the bogs is the heritage of all: and indeed primarily the heritage of those who live and work among them.”

---

6. The Habitats Directive – available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1992:206:0007:0050:EN:PDF> was enacted into law in 1992. We are now 20 years into the implementation phase....

7. There was a potential problem of coal with a higher sulphur content entering the Irish market, but this has been now been removed by the introduction of a new specification for the sulphur content of bituminous coal placed on the market for residential use in Ireland.

# Dragon O'Sullivan Identifies Ireland's Critical Constraint

*Published: Friday 25 May 12*

## THE CRITICAL CONSTRAINT

Living is about dealing with constraints – physical, economic, social, emotional, psychological and environmental. And a successful life is about knowing which constraints are critical, which are the ones we can do something about, and acting accordingly.

Justus von Liebig (1803-1873) was a German chemist who created the modern laboratory. He was recognised as the greatest chemistry teacher of his and perhaps all time, and the father of the fertiliser industry. His Law of the Minimum – “by the deficiency or absence of one necessary constituent, all others being present, the soil is rendered barren for all those crops to the life of which that one constituent is indispensable,” is a fundamental insight of huge and continuing import. By identifying the constraining nutrient and then applying it, we can release the heretofore dormant productivity in the soil, and thereby undermine the gloomy forecasts of Malthus (1766-1834) – “The power of population is indefinitely greater than the power in the earth to produce subsistence for man.” Von Liebig epitomised the best that the academy has to offer. A focus on the essential, married to great insight, theory verified by careful scrutiny of evidence, carried forward in application and through his teaching.

In Ireland, we face many constraints, but the debate is largely uninfluenced by Von Liebig's thinking. Little effort is made to identify key constraints that we control; we debate endlessly choices that are not relevant in terms of what we can do, we make propositions largely uninformed by evidence, and generally lack focus on what is possible that would make a real difference.

**But there is one exception – Sean O'Sullivan;** he is an American of Irish parents who founded many successful technology companies, including MapInfo; he now bases himself in Kinsale, County Cork, managing his venture capital company and leading his company Avego, a web based system aimed at revolutionising personal transport: “Anyone can turn their car into a bus, saving time and money by picking up passengers along their route”.

He sees Ireland becoming the technical hub for the ICT business in Europe, the continent's Silicon Valley, on the basis that Ireland is very attractive as a place to do business, work and live – English speaking (the international language of the ICT world), peaceful, sociable, mild weather, good infrastructure, connectivity and education, high quality environment and culture, low corporation tax and favourable taxation of R&D. And we have made a great start. Ireland has a leadership position in Europe in IT, evidence being the fact that Microsoft, Facebook, Google, Intel, Apple and EMC have chosen Ireland as their European headquarters, all with very substantial numbers employed, and billions of exports, which contribute to the substantial trade surplus Ireland enjoys with the rest of the world. He argues that every job in industry generates 5-6 jobs in the local community.

But, in terms of maximising the potential of his company, and that of his fellow leaders in new enterprise development in software and information technology, he has identified a key constraint and a solution. His argument on constraint is elaborated in Open Ireland and it goes as follows:

- Growth is now critically constrained by shortage of appropriately qualified design engineers who create the software and hardware products for export. Companies like Google import up to 80% of their talent from abroad. These are ‘uncommon’ talents, only available in the top 1-3% of any graduating class. They are the ‘oxygen’ essential to continuing survival; there are approximately 20,000 unfilled positions in ICT in Ireland.
- Ireland on its own cannot supply the talent needed if we are to become the Silicon Valley of Europe.

## Dragon O'Sullivan Identifies Ireland's Critical Constraint

*continued*

1. Ireland's top 1-3% of graduates number 2000-3000; most of these go into medicine, law, and accountancy, and not every engineering graduate has the uncommon design engineering talent needed. It takes 'years of effort and some innate preference and talent for someone to become a great technical talent'.
  2. The same people behind Open Ireland are behind the CoderDojo programme; over 2000 children (2nd level) meet weekly in over 2 dozen locations to learn programming and design. This will take 10 years to bear fruit, and the need is now.
  3. Retraining could supply about 10-15% of the (very specialised) skills required.
  4. Irish tech companies are increasingly outsourcing, but this is expensive, cumbersome and limits the benefits of expansion accruing to Ireland.
- The system of giving work permits allowing the hiring of technical talent from outside the EU is "flawed and bureaucratic, especially for Ireland's own companies....involves running advertisements in national newspapers, posting job openings to government web sites that don't actually result in qualified applicants applying..smaller companies cannot navigate this labyrinth well, and no company can do it in an agile or inexpensive way."

### HOW VALID IS HIS CASE?

When you have the privilege of meeting with the business community in Silicon Valley, California you are struck immediately by how many foreigners of great energy, talent, entrepreneurial ambition and occasional charm are involved and leading the charge, often having entered the US initially as students at the adjacent universities (Stanford and Berkeley). O'Sullivan notes that 40% of San Jose's population are immigrants, but the US is now so obsessed with securing the homeland militarily that it is making it more and more difficult to hire people of talent, creating thereby a gap in the market. And many of our European neighbours are also busy making sure that they too are uncongenial to 'outsiders' of talent, energy and ambition.

His argument in one respect strikes me as over-blown. A small open economy, where most of what we buy is imported, has low multipliers, more like 1 rather than 5-6. But the big payoff in any event is likely to be the entrepreneurial dividend – those who come as employees, but evolve into entrepreneurs.

And he does not address the puzzle of European capacity – in a population of 500 million, all of whom do have access to Ireland without needing work permits, are there not exceptional talents we could find ways of attracting and keeping here?

### WHAT NEXT?

Overall, I find the case he makes compelling. Our strategy should have the following features, undertaken in parallel.

- Foster CoderJojo by giving recognition to those of the 2000 second level students who participate with distinction, giving them special recognition and status, helping them to go to university, work as company interns, and fulfil to the maximum their talents and ambitions. The fact that this is a bottom up initiative, untrammelled by bureaucracy means that a 'light tiller' in this regard is essential.

## Dragon O'Sullivan Identifies Ireland's Critical Constraint

*continued*

- Recognizing that the pool that can be re-trained successfully in this niche is limited, we must do what can be done to make sure that this transition is available to those with the capacity and the inclination to do so.
- Examine the characteristics of the EU talent pool, and how to better access what our neighbours have to offer.
- Finally, use the IT sector as a pilot to find a way to make it easy to bring the best and the brightest to our shores, in ways that make them feel valued and wanted. [I worked at different stages in France, Germany, Switzerland, the UK and the US. I still cherish those moments when my presence and contribution were recognised and affirmed.] A specialist team anchoring the assessment process, with relevant technical skills in advanced software and design, that makes decisions quickly, is probably the most essential requirement. This will be a 'learning by doing' exercise that can be incrementally extended to other sectors if an equally compelling case can be made. And we should call the work permits 'von Liebig Visas'.

## Fracking And Local Credibility In Ireland

*Published: Tuesday 8 May 12*

When elected members of local authorities are faced with the possibility of a transformative development in their areas, they have two choices. They can initiate a process of becoming seriously informed of the technical, economic, social and environmental implications, engage on the basis of such information with key stakeholders and the general public, and then arrive at conclusions as to what the best way forward for their area is or they can grandstand with a rush to judgement.

The serious approach would require that they have their Executive produce a briefing note (about 10,000 words) that outlines the technical, economic (including enterprise) social and environmental issues that arise for a host community, and the real choices that arise. The elected members supported by the Executive could then take this and engage with communities, enterprise leaders, experts – including personnel at EPA, Geological Survey of Ireland, and other agencies – and the general public via hearings, written submissions, interactive media, and use this combination of expertise and feedback to arrive at a well judged understanding of the issues, the choices faced, and likely social, economic and environmental implications and choices for their area.

Unfortunately, this is not how some local authorities act...

... as exemplified by **the potential of fracking** – where a wellbore is drilled into reservoir rock formations, and the energy from the injection of a highly-pressurised fracking fluid creates new channels in the rock which can increase the extraction rates and ultimate recovery of fossil fuels. Find out more about fracking here [http://en.wikipedia.org/wiki/Hydraulic\\_fracturing](http://en.wikipedia.org/wiki/Hydraulic_fracturing)

Instead of doing the serious effort we have a right to expect, we observe grandstanding – behaviour that is intended to get public attention and approval which is typically informed more by anecdote than by serious analysis, or willingness to listen. It can entertain and is often harmless. **But when it is becomes a habit of politicians, it can be destructive.**

In recent weeks elected members of three local authorities – Leitrim, Roscommon, Clare – have been seeking to ban fracking by inserting provisions in development plans doing so. There are fundamental reasons why this should not happen.

- Firstly, it is very probably illegal. When elected members in Mayo banned mining in Mayo in 1992, the provision in their development plan purporting to do so was declared illegal.
- Secondly, exploration for sources of energy is supported by all political parties and is vitally necessary if Ireland is ever going to reduce its 86% dependence on imported sources of energy.
- Thirdly, it is not the function of elected members to make decisions of this nature. Our democratically elected parliaments have enacted a complicated and stringent code of environmental laws which provides that decisions on any project of potential environmental significance should be made by persons qualified to make them. In Ireland that is the EPA and An Bord Pleanála – both of which have a very good record in this respect. In the 20 years since the EPA was established, there are few if any authorised projects that are causing serious pollution or public health problems.

**By banning fracking, elected members are prejudging the issue – they may be correct, but there is little evidence that they have listened to both sides of the story.**

## Fracking And Local Credibility In Ireland

*continued*

If the Government wants to ban fracking, it should. And it is entitled to make a law doing so. But until it does, those exploring for energy are entitled to have their cases heard impartially by professionally qualified persons in State bodies whose function it is to decide on their applications. If they decide that fracking is unacceptable for environmental or any other legally permissible reasons, they have power to refuse permission for it.

Does it matter that local authorities behave this way?

Yes. It does for the following reasons:

- Grandstanding explains in part why local authorities in Ireland lose, and continue to lose, responsibilities and powers in many areas. Some of this leakage has to do with achieving economies of scale and scope, but a lot has to do with lack of credibility. Local authorities – and especially their elected members as a group – are not seen to behave in ways that informed citizens would regard as reasonable. **Behaviour that goes down well in a partisan crowd in the local hall is not seen by the generality of citizens as thoughtful or responsible.** The inevitable reaction is to move powers to the centre. This pattern, soon to be extended to water, damages local democracy, and it can also damage performance, in that the intimate local knowledge which can improve decisions and their implementation, gets lost. And areas of real achievement, such as vocational education, get damaged in the fall out.
- The ability of elected members to make impartial decisions that are legally robust on matters which may arise in connection with the consideration of any application for permission for a project involving fracking (for example, a variation of a development plan) can be compromised.
- And it discourages from public service those existing and prospective elected members who have an interest in evidence, the strategic issues, and listening to all sides.

Find out more about fracking at <http://www.epa.ie/news/pr/2012/name,33317,en.html>

*This blog post was written in conjunction with Yvonne Scannell, School of Law, TCD and and fellow Board Member of Publicpolicy.ie.*

## Making Sure Economists Do More Good Than Harm

*Published: Monday 30 April 12*

Economics is the science of choice. The job of economists is to take away the punch bowl just when the party gets going. It's perhaps the only field where, the more they get it wrong, the more their services are in demand – perverse incentives on a grand scale.

In Ireland, the Minister for Public Expenditure has announced that his department will be hiring economists to support its work. Around the same time, Richard Tol resigned from the Economic and Social Research Institute (ESRI) to take a post at the University of Sussex. As he packed his bags, with a series of interviews and tweets, he left a characteristic trail of trenchant and indiscriminate criticism of the ESRI and how it works. This conjunction of events raises the question: what qualities should the department look for?

We can learn a lot from a key piece of evidence that appeared recently on the failure of the profession at the highest level in the US. The committee of the Federal Reserve - which consists of the Governors and Presidents of 12 regional banks – meets every six weeks to review economic performance and chart future economic policy. Its deliberations are recorded and transcribed, and these are released after a 5 year delay. In the New York Times, January 13, 2012, Binyamin Appelbaum ('Inside the Fed in '06; Coming Crisis, and Banter' pp. A1, A3) reviewed what committee members said during 2006, and what their remarks implied.

**They all failed to join the dots, to link the performance of the housing market to the financial system.**

A few examples:

Timothy Geitner (then president of the Federal Reserve Bank of New York, now Secretary of the US Treasury) in September 2006:

*"We just don't see troubling signs yet of collateral damage, and we are not expecting much."*

And in December 2006.

*"We think the fundamentals of the expansion going forward still look good."*

Janet Yellen (then President of the Federal Reserve Bank of San Francisco, now Vice Chair of the Federal Reserve) in September:

*"Of course housing is a relatively small sector of the economy, and its decline should be selfcorrecting."*

According to Appelbaum, they also were convinced that financial innovations, by distributing the risk of losses more broadly, had increased the strength and resilience of the system as a whole. This latter proposition - that risk was somehow taken care of – has turned out to be spectacularly wrong, recalling Keynes' insight:

*"The ideas of economists, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else."*

# Making Sure Economists Do More Good Than Harm

*continued*

We had of course our local versions of professional and policy failure, given cover at the time by the complacent choirs of the IMF, ECB, OECD and the ratings agencies. So what does this mean for the government as it sets about hiring economists?

## WHAT QUALITIES SHOULD THEY LOOK FOR?

**Technical expertise is essential, but it is not enough.** The US Federal Reserve team was the best and the brightest; to have them fail so spectacularly means that being smart and trained at the best universities in the world is not enough. Indeed, to the extent that this results in hubris and self-regard, it can be damaging.

**The ability to not only question the conventional wisdom, but to be encouraged to do so, is essential.** The case of Morgan Kelly, a Professor of Economics in University College, Dublin who took his PhD in Yale University, is instructive. He highlighted the likely catastrophe implicit in the Irish housing market, even though, as he put it

‘This isn’t my day job. I was working on medieval population theory’ (to Michael Lewis in ‘Boomerang – travels in the new third world’, WW Norton, 2011, p. 92); the outsider who has the skill, credibility and self-confidence to question insider conventional wisdom can be invaluable.

**Persistence is key.** One of Richard Tol’s criticisms of the ESRI does stand up: even though John Fitzgerald and others had cogently identified the potential for a housing bubble, this message was not prioritised and highlighted with vigour and persistence; it got lost in the sea of other outputs.

## WHAT SHOULD THE ECONOMISTS WHO ARE RECRUITED DO?

- Focus on issues and ways of working that are likely to yield large benefits relative to the costs. Credibly estimate the costs (capital and operating) per unit of output of delivering public goods and services. It’s very hard to have an informed debate about expenditure when we don’t know what things cost.
- Identify incentives, risks and who carries them associated with current policy and new policy choices. Undertake ex post analysis of policies already implemented. Learning from the past is the first step towards good decisions.
- Apply the ‘polluter pays’ principle. This generates income and protects the environment and natural resources.
- Give fairness explicit attention in assessing tax and expenditure options. This will also help to defuse the ‘we are all special cases’ syndrome.

Finally, make all of this information available to the general public.

This will help ensure that the economists we pay for do more good than harm.



## Invest In Cavan

*Published: Thursday 19 April 12*

The late Roy Geary loved to tell the story of the following interaction with his wife when he was director of the Central Statistics Office. She complained to him about the ever rising cost of groceries. He responded that the latest statistics in regard to the Consumer Price Index showed that prices in real terms had not risen at all. She replied:

Roy, I'm not talking about statistics; I'm talking about FACTS.

**Bridging the gap between perception, the reality as experienced by the individual and what the aggregate data are telling us is a challenge.**

But in Ireland we face a more fundamental problem. Very few of our public representatives use facts to argue their case, and when they do use them, most relate them to the case of individual constituents, and hardly ever address the wider public interest.

A telling example of this is the recent controversy on the mandatory inspection of septic tanks, and the charge of €50 per unit for doing so. Such inspection is required by the European Union. If it's not done, we'll be fined a lump sum of €2.6 million, and then a daily charge of €26,000. So the financial costs of noncompliance for tax payers in general would be high.

The opposition to the inspection and the associated charge has focused almost exclusively on:

- Who would pay for the inspection
- The potential costs of repair or replacement in the event that the system is found to be defective
- The proposition that treatment and disposal of waste water from urban households is free, and therefore the inspection scheme is unfair and anti-rural.

**What was missing completely was any consideration of the very considerable benefits that such an inspection regime would provide.**

If your septic tank system is beginning to pond, it poses a direct health threat to your family – especially to young children, and the elderly. Diseases acquired from contact with contaminated water can cause gastrointestinal illness, skin, ear, respiratory, eye, neurologic, and wound infections. The conventional treatment to address E. Coli related contamination is chlorine. However cryptosporidium can occur, and is highly resistant to chlorine disinfection. Galway people know all about it; the outbreak which occurred in the water supply of Galway city in 2007 resulted in 90,000 people being left without a water supply for a 6 month period.

If leaks occur into groundwater or into ditches and streams, it risks damage to not only your family's health, but that of neighbours and the wider community. And there is the economic impact. Property values are likely to reflect concerns about the quality of water supply. And if the water resource in the parish or region gets a bad reputation, then the economic and social life of the area is threatened. Why should anyone invest in areas where water quality is being allowed to degrade, or where ignorance about the efficiency and performance of septic tanks is enthusiastically embraced? The first step in preventing health and economic losses is to know whether there is a problem, its extent, and the remedial action needed.

## Invest In Cavan

*continued*

Also missing was any interrogation by opponents of the data from County Cavan, which has already implemented an inspection scheme, and it didn't bring the world to an end. Hats off to Stephen Collins, who brought this information to the table – I Times, January 7<sup>th</sup>, 2012. It seems strategically unwise to claim rural victimisation where the evidence does not support it. Many urban householders have had to pay very substantive levies to cover the costs of such infrastructure, and will through water and wastewater charges pay to maintain it. It would be foolish indeed to convert the now only semi-serious chant 'come on the tax payers' heard from Dublin's GAA supporters when their county plays, into an 'urban first' movement.

**I am greedy for facts.**

So spoke Alfred Marshall, the leading economist of the Victorian era. In her fine book '*Grand Pursuit – The Story Of Economic Genius*', Sylvia Nasar records how he expressed this passion.

'He records manufacturing techniques and pay scales and layouts. He questions everyone, from the owner to the foremen, to the men on the shop floor..... He observes that most improvements in detail are made by the foremen of the several shops: & improvements on a very large scale are made by a man who does nothing else.'

Nasar contrasts Marshall's findings with those of Marx, whose description of the factory in *Das Kapital* lacks all detail, 'not surprising given that Marx had never been inside a single one.' The late Garret Fitzgerald shared Marshall's passion for facts; in a world where emotion is favoured over evidence, this was seen by some as a defect.

We face serious challenges. Understanding the facts, and how the public interest is or is not served by the choices we face, is the critical first step towards protecting our economy, environment and social cohesion. And if you are looking for a place to invest, put Cavan on your short list.

