



THE ECONOMIC AND SOCIAL RESEARCH INSTITUTE



ANNUAL REPORT
2011



THE ECONOMIC AND SOCIAL RESEARCH INSTITUTE

The Economic and Social Research Institute was founded in 1960, as The Economic Research Institute, with the assistance of a grant from the Ford Foundation of New York. In 1966 the Institute assumed responsibility for social research and extended its title to The Economic and Social Research Institute.

The mission of the ESRI is to produce research that contributes to understanding economic and social change in the new international context and that informs public policymaking and civil society in Ireland. The Institute's research has been a vital constituent in national debates on economic and social issues for more than 50 years. Its primary goal is to develop and implement a sustainable research agenda that matches closely the current economic and social challenges facing Ireland.

The Institute is a not-for-profit organisation with charitable status, registered as a company limited by guarantee. The ESRI is governed by a Council consisting of up to 12 members, in addition to the President and the Director. Members of the Council are appointed from amongst the general members of the Institute, broadly representing the social partners, Government Departments, State Agencies, universities and other research institutes. The Institute receives an annual grant-in-aid from the Irish Government, which covers approximately 24 per cent of total expenditure (average over 3 years). The remainder of the Institute's income comes from funded research programmes, commissioned research projects, EU and Irish research grants, sponsorship of Institute activities by Irish business, and membership subscriptions.

The ESRI's most important resource is its research staff, whose high levels of expertise allow them to work to international standards of excellence. The results of the Institute's research have been included in hundreds of reports published by the ESRI, including the *Quarterly Economic Commentary* and the *Medium-Term Review of the Irish Economy*, as well as in numerous books and articles in academic journals, published in Ireland and abroad.

Further information is available at www.esri.ie



The Council is the Institute's overall governing body and acts as its Board of Directors. In association with the Director and staff, it develops the Institute's programme of research. It meets quarterly.

The Council

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Annual Report

for the year ended 31 December 2011

Contents

COUNCIL MEMBERSHIP	i
1. INTRODUCTION	1
2. OVERVIEW OF ESRI RESEARCH PROGRAMMES	4
(I) ECONOMIC GROWTH	5
Macroeconomics	5
Internationalisation and Competitiveness	6
(II) SOCIAL PROGRESS	8
Equality and Integration	8
Health	9
(III) ECONOMIC GROWTH AND SOCIAL PROGRESS.....	11
Education.....	11
Labour Market	12
Demography and Migration	13
Social Inclusion and Quality of Life.....	14
Taxation, Welfare and Pensions	15
(IV) ECONOMIC GROWTH AND ENVIRONMENTAL SUSTAINABILITY	17
Energy.....	17
Environment and Natural Resources.....	18
Transport and Infrastructure.....	19
Competition and Regulation.....	20
3. ESRI SURVEY AND DATA ANALYSIS	22
4. STAFF AT 31/12/2011	24

1. INTRODUCTION

In this Introduction the Council provides a brief overview of the Institute in 2011. A summary of the research undertaken in 2011 in each programme area is provided in Section 2 and further details are published on the website in the *Review of Research 2011*. An overview of ESRI current survey and data analysis activities is set out in Section 3 and Section 4 lists staff members at year end.

The Institute's mission is to produce research that contributes to understanding economic and social change and that informs public policymakers and civil society in Ireland. The Council oversees the strategic direction of the Institute's activities and seeks to ensure that its research agenda is appropriate to current economic and social issues.

Within that strategic direction, the actual research carried out in any year reflects the Institute's ability to tender successfully for projects commissioned by government departments and agencies and to have research proposals accepted for funding by national and international agencies. The Council is very aware of the challenges experienced by the Institute in obtaining funding in some key policy areas, most notably demography, emigration, labour markets, income distribution, social inclusion and equality. The absence of such funding has limited the research that can be undertaken in these areas, where evidence for policy is critical at a time of austerity.

Not surprisingly, economic renewal and the impact of austerity featured strongly in ESRI research in 2011. The year saw some improvement in Ireland's economy, but uncertainty on European and global markets weakened export recovery, notwithstanding the significant improvements in competitiveness. The developments in the economy throughout the year were monitored and discussed in the *Quarterly Economic Commentary*.

During the year, the Institute's *Economic Renewal* series explored the lessons that Ireland can learn, from international and national evidence, to address a number of major policy questions. The series covered innovation, public infrastructure, labour market, public services, healthcare, second level education, financial regulation, competition and regulation and property taxation. The papers were launched at a series of conferences where key policymakers responded to the new evidence and an open discussion followed under the Chatham House rule. In addition to the many specific findings from the individual research projects, there were two general results that emerged from the whole series. First, there is a need for high-quality evidence to underpin policymaking – the selective use of evidence to support a particular policy position does not constitute evidence-based policy. Second, there is a danger to Ireland of emulating policies used in other jurisdictions where

underlying conditions are different to those in Ireland or where these policies have not been subject to rigorous evaluation.

Overall, ESRI researchers produced a wide range of papers and reports across all its research domains in 2011: 54 journal articles, 37 reports, 19 book chapters, 17 research bulletins and 6 Renewal papers, in addition to the *Quarterly Economic Commentaries*. Some 52 ESRI working papers provided access to some of the work-in-progress during the year. This represented a broadly similar output to 2010.

In addition to producing reports to inform policy, many ESRI researchers engaged directly in providing expertise to national groups engaged in policy development and problem solving during 2011. They also contributed to discussions and debates by participating in a range of public meetings and media events, preparing newspaper articles and summaries of their research, and making submissions to public bodies. These submissions are now published on the ESRI website.

The Institute's contribution to providing evidence for policy is informed by its engagement with the Irish and European policy communities. This engagement makes sure that the research is relevant and that knowledge is transferred from the research into the policy community. It also ensures that ESRI research impacts on policy. There were several instances of such impacts in 2011: for example, the second level school longitudinal study has informed the major reform of the Junior Certificate curriculum; labour market research is informing the improvement of labour market activation policies; and new studies based on the *Growing up in Ireland* study data are feeding directly into health and educational policies being developed for children.

The Institute's research collaboration with Trinity College continues to develop following the signing of a *Memorandum of Understanding* in 2010. The main focus of collaboration has been on the two major longitudinal projects, the *Growing Up in Ireland* study on children being led by the ESRI and TCD, and the *TILDA* project on ageing being led by TCD. Other areas of research collaboration include health, education, migration and internationalisation. At the same time, researchers continue to work with colleagues in other Irish universities, e.g., on energy (UCD, UCC, UL and NUIM), social inclusion (UCD), health (QUB), and education (NUIM), and in a range of European institutes and universities (labour economics, international economics, and equality).

Throughout 2011 there were substantial research outputs from the *Growing Up in Ireland* project across a range of areas, including health and education. As the full range of cross-sectional and longitudinal data from the project is increasingly exploited, its potential to develop and expand the Institute's research focus will increase. Data from the project are relevant both to research on child

development and childhood and to projects in many of the Institute's key research domains, such as education, health, social inclusion & quality of life, equality & integration, and labour market policy.

The Council is very aware of the strong commitment of the Institute to providing independent research to support Ireland's economic recovery. Notwithstanding the fact that most of the Institute's funding comes from government departments and agencies, the research is fully independent of government – indeed this independence is central to the role played by the Institute in the Irish policy landscape. Consequently, when the research evidence indicates that government policies are inappropriate, these findings are always placed in the public arena.

The Council acknowledges the contribution of those who support the Institute's research programmes. This includes income to support independent research from research funding bodies, international agencies and philanthropic bodies. Through the funding of these programmes, and with internal reorganisation, the Institute has been able to cope with the grant-in-aid from the government being reduced by almost a quarter since 2008. This funding was crucial to the Institute's achievement of an approximate breakeven financial outturn for 2011. The Council recognises that the funding environment will continue to be challenging in the coming years but it is committed to ensuring that the Institute continues to deliver research that can provide an evidential basis for policy development and evaluation.

The Council extends its thanks for their continued support to the individuals and companies that are subscribing ESRI members and to FBD Trust for its support of the *Renewal Project*. These funds complement those of the government departments and agencies who provide funds for research projects and programmes in the Institute. It also thanks the staff for its commitment to ensuring the continued relevance and quality of its work.

In December 2011, the Chairman, Mary Finan, stepped down from the Chair and from the Council. The Council is particularly appreciative of the very significant contribution she made as Chair over 9 years.

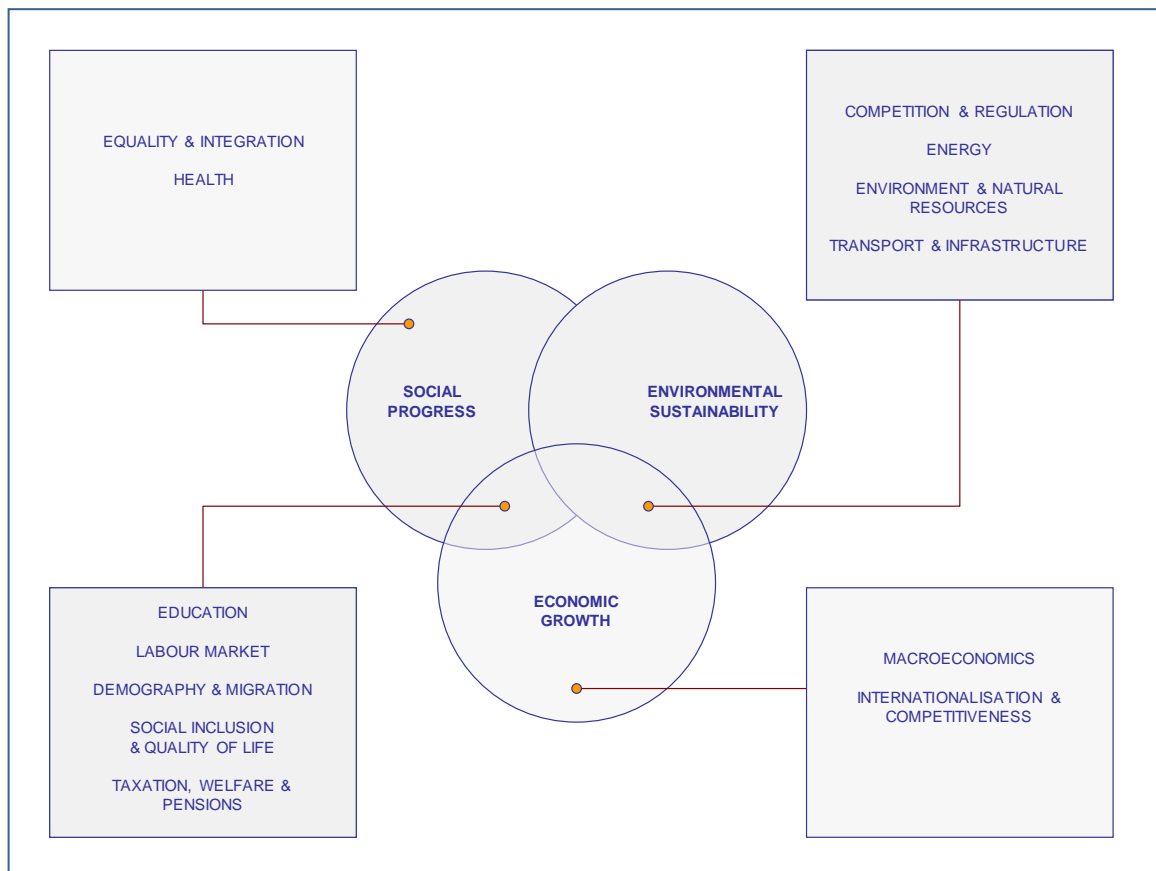
Laurence Crowley
Chairman

Frances Ruane
Director

2. OVERVIEW OF ESRI RESEARCH PROGRAMMES

The ESRI's 13 research programmes are grouped under four general headings:

- Research which is focused on informing policies related to Economic Growth.
- Research which seeks to inform policies relating to Social Progress.
- Research at the interface between Economic Growth and Social Progress.
- Research at the interface between Economic Growth and Environmental Sustainability.



(I) ECONOMIC GROWTH

There are two programmes of research: **Macroeconomics** (coordinated by Professor John FitzGerald) and **Internationalisation and Competitiveness** (coordinated by Dr Iulia Siedschlag).

Macroeconomics

A major feature of the work of the macroeconomic division in the ESRI over many years has been the development and maintenance of a suite of economic models. These models are used extensively in a range of studies on medium-term macroeconomic forecasting and policy analysis. They have also been used to inform studies of other aspects of the economy such as energy demand, environmental impact, skills needs and housing demand. The results of this modelling work are also used to inform the short-term forecasting work underlying the *Quarterly Economic Commentary (QEC)*.

One of the key tools used for this purpose is the ESRI's *HERMES* macroeconomic model, which is undergoing continual development and is the only complete structural model of the Irish economy in regular use today. The Institute also has developed a smaller model of the labour market, and a detailed demographic model which are used extensively in policy analysis.

Over the past number of years the research of the division has focused on the macroeconomic consequences of the crisis on the Irish economy. The results of this research are published on a regular basis in the *QEC*. During 2011 a review of the origins and characteristics of the current economic crisis in Ireland examined how fiscal policy contributed to the crisis rather than preventing it. A detailed study was undertaken of the composition of Irish government debt, and its likely evolution out to 2015. A study of the relationship between rents and the user cost of housing found that the ratio of these two measures remained above the equilibrium value in 2011.

Research on the broader EU Economy and its implications for Ireland explored the effects on the EU economy of the increased migration resulting from EU enlargement; how the Spanish and Irish economies were affected by EMU membership, in particular how the housing markets were affected; the EU banking sector and recovery in the EU economy. Researchers were also involved, along with colleagues in *EUROFRAME*, in preparing a forecast for the euro zone economy which was published in January 2012.

The current crisis has thrown up new challenges for macroeconomic modelling with the focus of attention shifting to the interaction of the real economy with the financial sector. This new focus is

mirrored in developments internationally. During 2011, the ESRI macro team began a new programme of research designed to develop the suite of macroeconomic modelling tools that can be used to explore the likely medium-term impact of the crisis on the Irish economy.

Internationalisation and Competitiveness

This research programme focuses on the links between international integration and technological change and their effects on productivity, competitiveness and economic growth. Research in 2011 was organised along the following three themes:

(a) Internationalisation of Services, Productivity and Growth. This research is part of an international project (SERVICEGAP) funded under the **EU RTD 7th Framework Programme**. It focuses on the analysis of international trade and investment in services in European Union countries. One strand of this project highlighted the importance of trade in services, which firms trade, what and how much they trade. Further, it examined the extent to which exporters and importers in the services sectors had higher productivity and wage premia compared to non-traders and whether changing trading status was associated with increases in employment, wages and productivity. A second strand analysed the extent and characteristics of foreign mergers and acquisitions in services and their effects on firm productivity and employment growth. A third strand of research examined the relationship between the internationalisation of firms in services and their innovation performance. This research showed that domestic exporters in Ireland were more likely than non-exporters to engage in R&D and innovation and were more likely to be successful in terms of innovation output, even when accounting for individual firm characteristics. Further, it found that co-operation with suppliers was positively associated with all innovation types, while knowledge flows from customers and from the government or public research institutes were positively linked to product innovation. Co-operation with universities was positively linked to innovation measured by patents; this is an important issue in terms of building the knowledge base of the economy.

(b) International Competitiveness and Productivity. This research, which was part of a project funded by a grant from the **Irish Research Council for the Humanities and Social Sciences (IRCHSS)**, examined the effect of changes in the real exchange rate on firms' labour productivity growth in Ireland. It found that a reduction in international competitive pressure due to a real exchange rate depreciation (appreciation) through exports (import costs) led to an increase in labour productivity growth once the respective exposure levels were sufficiently high. Further, this research found that the higher the level of import competition in a sector, the stronger was a firm's labour productivity growth response to a real exchange rate appreciation.

(c) *Internationalisation, Innovation and Productivity*. This research, funded by a grant from the **FBD Trust**, analysed the innovation performance of enterprises in Ireland which have global linkages compared with those that do not. This research found that in foreign-owned enterprises higher productivity was generated by the introduction of new and improved products, while in Irish-owned enterprises, higher productivity was generated more by improvements in the efficiency of production through process and organisational innovation.

(II) SOCIAL PROGRESS

*There are two programmes of research: **Equality and Integration** (coordinated by Dr Helen Russell and Dr Frances McGinnity) and **Health** (coordinated by Professor Richard Layte and Professor Miriam Wiley).*

Equality and Integration

ESRI research on Equality investigates inequalities in opportunities and in outcomes, exploring the processes that led to inequality. The research focuses particularly on assessing the role of public policies in underpinning or reducing inequalities.

During 2011 the ESRI conducted an analysis of workplace equality policies, flexible working arrangements and their impact using the NCPP/ESRI 2009 National Workplace Survey, comparing this to an earlier Survey in 2003. This project, co-funded by the **Equality Authority** and by the **European Union Programme for Employment and Social Solidarity – PROGRESS (2007-2013)**, found a clear rise in the coverage of equality policies and flexible working arrangements between 2003 and 2009, in spite of the recession. In terms of employee well-being, a striking finding was that while part-time work is associated with lower work pressure and work-life conflict for employees, the opposite is true for working from home.

Research commissioned by the **Crisis Pregnancy Agency** and the **Equality Authority** found that although employment during pregnancy was a positive experience for most women, there is evidence that a significant minority face unfavourable treatment. This ranges from inappropriate workloads, loss of salary/bonuses, denial of promotion through to dismissal. Such experiences can have significant financial, emotional and health costs for these women.

2011 saw completion of the Research Programme on Equality and Discrimination, funded by the **Equality Authority**. The final study used the full *2006 Census* micro-data file to examine the effect of belonging to groups identified by all nine grounds in the Equality legislation – gender; civil status; family status; sexual orientation; religion; age; disability; race and membership of the Traveller community. The research highlighted the disadvantage experienced by Travellers and people with a disability across all or most outcomes. The research also examined the implications of belonging to more than one disadvantaged group, such as being a woman and having a disability. The findings indicated that the impact is complex, and does not necessarily lead to ‘double disadvantage’.

Work progressed on monitoring migrant integration in Ireland. Having developed the methodology to monitor integration, the first of four annual monitoring reports funded by **The Integration Centre** was published. This report compared Irish and non-Irish nationals in terms of employment, education, social inclusion and active citizenship. It also presented a special theme on immigrants in the workplace. A new cross-national European project with colleagues from TCD, funded under the **NORFACE** programme, investigates socio-cultural integration of new immigrants in Germany, the Netherlands, Ireland and Great Britain. In Ireland this project uses a pioneering method for surveying hard-to-reach population – Respondent Driven Sampling. Fieldwork in Ireland for the first wave was completed in December 2011.¹

Health

The health research programme has two overall objectives: (1) to examine the pattern of variation in health and well-being across the population and in particular, the manner in which this is related to socio-economic position and (2) to analyse the structure and functioning of the Irish healthcare system and its implications for the quality of individual care, economic efficiency and sustainability and the equity of healthcare utilisation.

Children: Health Research Board (HRB) funded research examined the process of ‘health selection’ linking a child’s social background, health and educational development. Results show that being breastfed is significantly associated with improved reading and maths scores at age nine and that longer durations of breastfeeding are more beneficial.

Other research, using the National Perinatal Information System (NPRS) and Hospital In-Patient Enquiry (HIPE) data, showed a steady increase in Caesarean Section rates since 1999, only half of which was explained by the changing characteristics of mothers and the clinical complications that this brings. Further research is planned using data from *Growing Up in Ireland* as well as from NPRS and HIPE.

Older people: Research has shown that increased use of GPs since 2000, partly due to the over 70s medical card, has contributed to lower mortality rates and decreased levels of hospitalisation among older people. However, research also shows that changed cardiovascular prescribing practices among Irish GPs played a more significant role.

¹ Respondent-driven sampling (RDS), combines referral methods (getting individuals to refer those they know, these individuals in turn refer those they know and so on) with a mathematical model that weights the sample to compensate for the fact that the sample was collected in a non-random way.

Palliative Care: In joint research with Trinity College, and funded by **The Atlantic Philanthropies**, researchers are undertaking an economic evaluation of palliative care services in Ireland. The systematic literature review shows that palliative care is often found to be less costly relative to care in acute hospitals although there may be complex interactions with diagnosis, age groups, etc.

Stroke: Preliminary findings from a project, supported by the **Irish Heart Foundation**, on the benefits of access to enhanced stroke services show that such services can yield substantial savings by reducing the nursing home care needs of stroke survivors. Related research is now exploring how this improved access impacts on length of hospital stay using HIPE data.

Efficiency and Quality: 2011 saw completion of the study of *Diagnosis-Related Groups (DRGs)*, funded under the **European Commission Seventh Framework Programme (FP7)**. It produced a comprehensive analysis of DRG systems adopted in the 12 participating countries, from the perspective of provider efficiency, quality of care and technological innovation. Other research concluded that pay for performance schemes should not be introduced into the Irish healthcare system until the many complexities, e.g. public/private interaction, are resolved.

Equality: A study of the relationship between national income, inequality and mental well-being in 27 European countries (adjusting for individual demographics, employment and education) found evidence that increasing inequality has a corrosive impact on mental well-being. Research on nutrition showed that the combination of being socially disadvantaged and living in a poor area significantly decreases dietary quality and is likely to contribute to socio-economic inequalities in health and life expectancy.

(III) ECONOMIC GROWTH AND SOCIAL PROGRESS

*There are five programmes of research: **Education** (coordinated by Professor Emer Smyth and Dr Selina McCoy); **Labour Market** (coordinated by Professor Philip O’Connell and Dr Seamus McGuinness); **Demography and Migration** (coordinated by Professor Philip O’Connell); **Social Inclusion and Quality of Life** (coordinated by Dr Dorothy Watson and Dr Helen Russell); and **Taxation, Welfare and Pensions** (coordinated by Professor Tim Callan).*

Education

The ESRI education research programme covers all levels of the Irish educational system, including early childhood education, the primary, second-level and higher education sectors, and continuing education and training. Informing policy development through engagement with stakeholders in the education sphere is of fundamental importance to the research agenda.

At primary level, the availability of the *Growing Up in Ireland (GUI)* survey data allowed valuable insights into primary education. Research for the **Teaching Council** highlighted important issues relating to teacher professional development and occupational stress levels. Research for the **National Council for Curriculum and Assessment** showed how children’s experiences vary quite dramatically depending on the school they attend and the teacher they have – with particular variation apparent in the amount of time spent on different subjects and in the teaching methodologies their teachers adopt. For the first time, the *GUI* data allowed an estimation of the prevalence of special educational needs among primary level students, thereby overcoming a major limitation on the planning and provision of effective services by bodies such as the **Department of Education and Skills** and the **National Council for Special Education**. Finally, research for the **Department of Children and Youth Affairs** started to examine the way in which children’s out-of-school activities provide different opportunities for informal learning, with implications for equality of access to publicly funded play and leisure facilities.

School organisation and process continued to be a key focus of the research – specifically research on the senior cycle component of the Post-Primary Longitudinal Study (PPLS). This yielded important insights into the way in which the current Leaving Certificate model influences teaching and learning and will play an important role in reform of both the junior and senior cycles. A large-scale multi-method longitudinal study of special classes in Irish primary and post-primary schools, also funded by the **NCSE**, began in 2011. This research will assess the effectiveness of the special class model in primary and second-level schools, with implications for the nature of supports for students with special educational needs.

Research on young people's post-school transitions was also ongoing during 2011. The *Leaving School in Ireland* study, building on the PPLS, and overseen by a consortium of funders, is examining the post-school outcomes of young people who left school in 2007 and 2008, assessing the factors influencing their decision-making, their skills and competencies and their post-school pathways. Finally, ESRI educational researchers worked with the **Higher Education Authority** to examine the individual level factors shaping student success in higher education. In examining institutional variation in student progression and retention, the study also demonstrated the importance of taking account of differences in the composition of student intakes in assessing the effectiveness of institutions.

Labour Market

Over the course of 2011 the labour market research group continued to focus attention on key issues such as unemployment, labour market activation and migration. In addition, projects also explored the areas of skill mismatch, workplace relations, labour market participation, industrial relations, the economics of education and the gender pay gap.

The high level of unemployment, and particularly the increase in long-term unemployment, is a major issue for policymakers in Ireland. Drawing on evidence from both primary evaluations and international best practice, ESRI research projects have highlighted potential areas for improvements in Ireland's current arrangements for job search assistance and training provision to the unemployed. In particular, the evaluation of the National Employment Activation Plan (NEAP), commissioned by the **Department of Social Protection (DSP)**, reported that attendance by claimants at FÁS interviews actually lessened their likelihood of a successful exit from unemployment, a finding largely attributed to the lack of effective monitoring and sanctions within the Irish activation system. With regards to training, researchers were involved in an **IZA** funded project designed to bring together international evidence on the relative effectiveness of various types of training measures targeted towards the unemployed. This research showed that individuals tended to benefit more from training programmes with strong linkages to the labour market, as opposed to those that provide more general skills. Finally, work commenced on a study, commissioned by the **National Adult Literacy Agency (NALA)**, to examine the impact of both job search advice and training programmes among unemployment claimants with literacy and numeracy difficulties.

Projects aimed at examining the connections between educational attainment and the labour market continued during 2011. A collaborative study examining data for 15 European countries, commissioned and published by **CEDEFOP**, assessed the extent to which individuals from immigrant or ethnic minority backgrounds had a higher probability of being in jobs that poorly matched their

levels of education and skills. The analysis demonstrated that migrants from outside the EU are more susceptible to being mismatched, particularly when educated abroad; however, evidence for higher levels of mismatch among ethnic minorities was more mixed and tended to vary from country to country.

Demography and Migration

One-third of all families in Ireland do not fit the traditional model of a married couple, i.e., with both in their first marriage. This and other new insights into Ireland's families come from an analysis of *Census 2006* micro-data, access to which was granted through a formal agreement with the **Central Statistics Office**. Research based on these data and funded by the **Family Support Agency** have addressed questions that were previously beyond quantitative investigation, producing new findings relating to couples, cohabitation, the family circumstances of children, and fertility patterns in Ireland. The research shows that childless couples with a mean age of less than 45 years are more likely to cohabit than be married, while the vast majority who have children are married. In one-quarter of cohabiting couples at least one partner was previously married. The mean age of such couples is over 40 years, suggesting that it is not only the recent cohort of younger adults that is taking advantage of the acceptability of cohabitation. Research in the ESRI on demographic matters will be facilitated in the coming years through the development of close ties with the *Growing up in Ireland* study, led by the ESRI in collaboration with Trinity College and with *The Irish Longitudinal Study on Ageing* (TILDA), being led by Trinity College.

Research continued in 2011 on a study of integration trajectories of new immigrants in four European countries: Germany, the Netherlands, Ireland and Great Britain in collaboration with an international team of researchers from the Netherlands, UK and Trinity College Dublin. Work also progressed on a study, in collaboration with the Bonn based Institute for the Study of Labour (IZA), of migrants' use of social assistance and access to social services. The study found no a priori evidence that migration would pose a burden on welfare systems. The report was published in 2012.

EMN Ireland, the Irish national contact point of the European Commission coordinated European Migration Network (EMN), is based at the ESRI. EMN Ireland published five reports during 2011. The report on irregular migration noted that the EU Free Movement Directive has had a significant impact on applications for residency in Ireland. Non-EU family members of EU citizens resident in Ireland may submit an application for residency on the basis of EU Treaty Rights and there is concern that some applications for residency are based on suspected "marriages of convenience". The fifth report provided an overview of migration and international protection trends and policy development in Ireland in 2010. The EMN *Annual Policy Report on Migration and Asylum 2010*

provides an overview of significant political and legislative developments, public debates and statistical trends relating to migration and asylum and is a key input to the European Commission's Annual Report on the Implementation of the European Pact on Immigration and Asylum.

The ESRI also continues to be responsible for the Irish reports to SOPEMI, the OECD Continuous Reporting System on Migration.

Social Inclusion and Quality of Life

Social inclusion refers to the reduced capacity of individuals and households to participate in economic and social life, due to a lack of material resources. Quality of life is concerned with the balance between material well-being, physical and mental health, family life, labour market participation and social participation.

During 2011, research projects in the social inclusion area funded by the **Department of Social Protection** examined the impact of debt and financial exclusion on people's ability to participate in society; the extent to which poverty persists; the social and economic situation of people with disabilities; the adequacy of national poverty measures since the start of the recession; and the extent to which children are exposed to deprivation. Key research findings were that:

- 20 per cent of Irish households did not have a bank current account in 2008 – almost three times higher than the EU15 average. Some 5.4 per cent of households were considered over-indebted in 2008, rising to 12 per cent of those in the bottom income decile.
- Despite the booming economy, almost 10 per cent of the Irish population was persistently income poor during the four-year period 2005 to 2008 – a high level by EU standards.
- Just over one-third of adults with a disability of working age are in employment, and a further one-third of those unemployed would like to work if the circumstances were right. The structure of jobs (such as flexible working times and modified job tasks) is particularly important in enabling people with a disability to take up employment.

Research on quality of life, funded by the **Irish Sports Council**, examined participation in sport from the perspective of its contributions to physical health, mental well-being and social engagement. Other projects examined the perceived quality of public services in Ireland and the influence of family on the sense of control of young adults. The findings included:

- Between 2008 and 2009 the proportion of adults who actively participated in sport rose from 30.8% to 33.5%, and the proportion who walked regularly went up from 57.5% to 60.5%.

- Those who are economically vulnerable, and thus rely most on public services, rate the quality of those services below the rest of Irish society. This pattern was particularly strong for health services.

The sense of control of young adults is strongly influenced by their parents, but the pathways of influence differ for sons and daughters. Daughters are influenced by the sense of control of both parents. Sons are influenced by fathers' sense of control, but are not influenced by the sense of control of the mother, *unless* the mother has a high sense of control.

Taxation, Welfare and Pensions

The fiscal response to the economic crisis was the dominant theme of research in this area throughout the year. Analysis focused on both the distributive implications of policy responses and on the implications for financial incentives to work.

Looking first at distributive issues, the scope of the analysis was broadened in two ways beyond the traditional focus on direct tax increases and welfare expenditure reductions. First, changes to public sector pay (directly and via the public service pension levy) were modelled and included in the analysis. Second, in collaboration with colleagues working on energy-related issues, the impact of changes to VAT and carbon tax were also taken into account.

A key finding was that the policy response to the crisis has, over the full period since Budget 2009, given rise to a greater proportionate fall on those with high incomes than on those at middle or low incomes. Comparative work with European partners suggests that the distributive impact in Ireland has been among the most progressive. A further finding is that the impact on elderly persons has tended to be less severe than on those of working age, for any given level of income.

Turning to the impact on financial incentives to work, the research shows that calculations based on selected examples can be severely misleading. For example, most unemployed people are young and single; and many of those who are married do not have children. Thus, a picture of incentives facing the unemployed which focuses on the situation of a married man with children is unrepresentative. The picture provided by research based on *SWITCH*, the ESRI tax-benefit model, provides a much better representation of the national situation. This research has shown that the vast majority of the unemployed population receive a substantially higher cash income when in work, rather than when unemployed. This finding contrasts with some other analyses (including a recent OECD report) which fail to take into account that the unemployed population is predominantly young, single and childless.

Longer-term issues concerning pension policy were also addressed in a project funded by the **EU Directorate General for Employment, Social Affairs and Inclusion**. A key theme was the need for analysis of pension issues to take into account the interplay of decisions on labour supply, savings and pensions over the life cycle. A new Irish model was developed, in collaboration with Justin van de Ven of the National Institute of Economic and Social Research (NIESR). Initial work focused on the trade-off between the level of the State Pension and the age at which the pension becomes payable. The groundwork was also laid for further work on alternative tax treatments of pension contributions.

(IV) ECONOMIC GROWTH AND ENVIRONMENTAL SUSTAINABILITY

*There are four programmes of research: **Energy** (coordinated by Professor John FitzGerald and Dr Seán Lyons); **Environment and Natural Resources** (coordinated by Dr Seán Lyons and Dr Edgar Morgenroth); **Transport and Infrastructure** (coordinated by Dr Edgar Morgenroth); and **Competition and Regulation** (coordinated by Professor Paul Gorecki).*

Energy

A major feature of the work of the Energy Policy Research Centre (EPRC) has been the development of key research infrastructure in the form of economic models for research, specifically the *IDEM* electricity model covering the all-island electricity sector and the energy sector of the *HERMES* macroeconomic model. These models are used as the basic tool in much of the work undertaken by the EPRC, which is funded by the **Department of Communications Energy and Natural Resources**, the **ESB**, **BGE**, **Eirgrid**, **Viridian** and the **Commission for Energy Regulation** (CER). The research agenda in 2011 included:

Energy Demand: A cost benefit analysis of Smart Electricity Metering was undertaken in conjunction with the CER. As well as contributing evidence on which policy on smart metering can be developed, this study also examined the responsiveness of domestic electricity demand to different pricing regimes.

Energy Efficiency: The national and international focus on efficiency of energy use was reflected in several studies including: a cost-benefit analysis of the EU 20/20/2020 Package, an analysis of the economics of the Greener Homes scheme; a study of the values placed on BERs in the house purchase and rental markets. Research in this area also examined the economic implications of options to replace the Moneypoint coal-fired generation station in 2025.

Renewables: The important interplay between energy and environmental issues is reflected in a series of projects on renewables. These included modelling the effects of increased investment in renewable electricity on investment incentives for other forms of generation and developing a range of models/approaches to examine the implications of deploying renewables in the Irish electricity system.

Regulation and Policy: 2011 saw the publication of a review of Irish energy policy, which took into account the wide range of recent EPRC research which addressed important energy issues facing

Ireland over the coming decade. In addition, new research explored the regulatory and related issues that are likely to arise for Ireland with the implementation of the EU Commission “Third Package”, which is designed to create an internal EU electricity market. This EU development is likely to impact on the all-island energy market and alter the future relationship between the energy markets in Great Britain (GB) and the island of Ireland. Research also examined the determinants of electricity prices in Ireland and Great Britain suggesting that over the coming decade GB electricity prices will have to rise significantly to bring them into line with long-run marginal cost, while prices in Ireland are broadly appropriate. In addition, the research suggested that GB households were overpaying for electricity while the retail margin in this market in Ireland is substantially more competitive.

Environment and Natural Resources

Research on environmental and resource economics focused on a range of areas including:

- (i) Extending and improving our forecasting model for Environmental accounts (*ISus*);
- (ii) Household waste management;
- (iii) Examining corporate expenditures on environmental protection in Ireland;
- (iv) Climate policy.

Significant work was carried out on the follow-on study to the development of the *ISus* sustainable development model for the **Environmental Protection Agency** (EPA). New waste scenarios have been generated and energy forecasts were updated. Significant research into the distributional impacts of environmental issues was conducted and the model was enhanced through the incorporation of additional spatial breakdown (regionalisation). For example, it is now possible to analyse key variables at the River Basin Districts and Hydrological Area level. Detailed data on transport infrastructure can now be incorporated into analysis. The existing external agriculture sub-model in *ISus* has been replaced with an integrated module that encompasses more up-to date data.

Analysis of environmental expenditures by Irish manufacturing firms showed that their environmental expenditure and the capital investment in equipment for pollution control are positively related to size, export orientation and energy intensity and to environmental regulation. The results of the analysis suggest that the economic and regulatory incentives in place are such that it is the largest and most polluting firms that do most to reduce pollution.

In the climate policy area, a diverse set of research questions were addressed, such as the impact of climate change on water use and the social cost of climate change. For example, research on the

impact of climate change and trade liberalisation on water use showed that trade liberalisation will reduce (increase) water use in water scarce (abundant) regions.

Research on the impact of energy taxes and the EU Emission Trading System on a large number of firms in Europe between 1996 and 2007 found that energy taxes increased total factor productivity and returns to capital but decreased employment, with a mixed effect on investment, in the sectors included in our analysis. However, large sectoral variation is observed, with some industries losing out in terms of productivity and profitability when faced with increased energy taxes, while others benefit.

Research on household waste management behaviour in Ireland, using a simulation model, showed that increases in the landfill levy are likely to have little effect on household behaviour if pay-by-use tariffs are not fully implemented. The analysis also showed that the introduction of additional bins for segregated compostable waste might divert significant quantities of such waste from landfill.

Transport and Infrastructure

During 2011 the research on transport and infrastructure focused on a range of areas including the determinants of commuting mode of transport, the impact of changes to the taxation of cars on car ownership, some important issues for project evaluation and the benchmarking of the Dublin-Belfast rail service. Significant aspects of the research on transport and infrastructure have been funded by the **Environmental Protection Agency (EPA)** and as part of the **Energy Policy Research Centre (EPRC)**, reflecting the overlap of key research issues between transport, infrastructure, energy and the environment.

The research on mode choice considered the determinants of the transport mode of commuters in the Greater Dublin Region using micro data from the *Census of Population (2006)*. In particular the influence of travel and supply-side characteristics, as well as demographic and socio-economic characteristics, on the choice of mode of transport to work was considered. The results showed that household composition, public transport availability, journey time and work location are particularly significant in explaining the choice of mode of transport to work.

In order to investigate the impact of recent tax changes on the purchase and ownership of cars, a car stock model that distinguishes cars by engine size and fuel type was constructed. The 2009 reform of the vehicle registration and motor tax was found to have led to a dramatic shift from petrol to diesel cars. As a result fuel efficiency has improved and will improve further, but as diesel cars are heavier, carbon dioxide emissions are reduced but not substantially so. The analysis also considered the likely impact if government targets on the share of electric vehicles were to be

realised. It found that given that electric vehicles are likely to replace small fuel efficient vehicles, the impact will be small. Finally, that analysis also found that the impact of the car scrappage scheme has been modest.

The benchmarking analysis of the Dublin-Belfast rail service, which compared that service to 35 similar routes in Europe, found that while the speed on the route was similar to that expected, accounting for the number of stops, the number of connections per day was found to be significantly smaller than expected. Given the implied reduced flexibility, this was shown to impact on the market share (modal share) along the route corridor and in conjunction with the road improvements undermines the potential of the route.

In addition, research on a new four year **EU Framework FP7** project started in 2011. This project, which is in collaboration with 26 other research institutes and universities, is concerned with a range of issues regarding the melting of sea ice in the Arctic. The ESRI research component of this project is concerned with the impact on tourism and shipping. During 2011 research focused on the likely demand for tourism in the Arctic taking into account precipitation and temperature. Furthermore, some initial analysis to project trade flows and shipping patterns was carried out.

Competition and Regulation

This research programme is concerned with the necessity, efficiency and effectiveness of State intervention in the market place. Competition policy addresses economy-wide issues such as merger control, restrictive agreements and the exercise of market power by dominant firms. In contrast, the focus of regulation tends to be on specific sectors such as telecommunications, energy or postal services. Nevertheless, competition issues are often discussed in relation to competition in a specific market.

In relation to the telecommunications sector, research examined how local government planning regulations and charges affected the deployment of telecommunications infrastructure. A wide variation in these regulations across local Councils was found. Such regulatory complexity places extra compliance burdens on private operators, which may in turn distort the level and regional pattern of network investment. The research findings suggested further regional harmonisation of development policy towards telecoms infrastructure to avoid exacerbating regional disparities in the roll-out of services.

A major project for the **Health Service Executive** was completed on the pricing of prescription pharmaceuticals ahead of the expiry of agreements between the HSE and pharmaceutical industry

representative bodies (report published in January 2012). Recommendations were made not only to reduce the price of new pharmaceuticals but also for off-patent products where there was generic competition. The report recommended that patients should be provided with much more information at the pharmacy level, both to incentivise pharmacies to cater to patient needs and for patients to have the information on which to make sensible choices as to which pharmacy to select.

Researchers have also made substantive submissions on competition and regulation issues in response to calls and requests from government departments and agencies as part of national consultation processes. In the area of household waste collection ESRI researchers argued that competition for the market was better than competition in the market. With respect to the proposal for a Statutory Code of Practice for Designated Grocery Undertakings it was argued that the Code was likely to lead to higher prices for consumers, while at the same time damaging the competitiveness of the grocery sector.

3. ESRI SURVEY AND DATA ANALYSIS

Commissioned National Study of Children

During 2011, work continued on the major research programme involving a national longitudinal study of children – the *Growing Up in Ireland* study. This programme is a Government study, funded by the **Department of Children and Youth Affairs** in association with the **Department of Social Protection** and the **Central Statistics Office**. The study is being carried out by a consortium of researchers led jointly by the Economic and Social Research Institute (ESRI) and Trinity College Dublin.

Fieldwork on the second round of the Infant Cohort (at 3 years of age) was carried out between January and July 2011. Just over 10,000 families were interviewed. This phase marked the infant's first direct involvement with the project, in the form of cognitive testing. Only their parents/guardians were interviewed in the first wave of the project, when the infant was 9 months of age.

In addition to work on the Infant Cohort, the fieldwork for the second sweep of the Child Cohort (at 13 years) began in August 2011. The cohort was first interviewed when the Study Children were 9 years of age. The second round of fieldwork involved interviewing the 13-year-old and his/her family in the Study Child's home as well as collecting information from the school attended by the child. Interviewing with this cohort should be completed in early 2012.

Several workshops on *Growing Up in Ireland* data were held throughout 2011. These were attended by researchers, policymakers and other stakeholders from a range of institutions and organisations. These workshops promote and support the use of the data and their potential to a large number of researchers and other users.

The third Annual *Growing Up in Ireland* Research Conference was held on 1 December to launch the first findings from the 3-year cohort. The conference was opened by Minister Frances FitzGerald T.D. (Minister for Children and Youth Affairs). Following the launch of the first results from the 3-year cohort researchers from Ireland and elsewhere read a total of 24 papers based on *Growing Up* data. The presentations are at <http://www.growingup.ie/index.php?id=221>. The Keynote address, entitled *The Early Years and Later Development: Evidence and Social Policy*, was delivered by Professor Ted Melhuish from Birkbeck, University of London.

Commissioned National Health Data Programmes

The **Health Service Executive** funds the ESRI to manage and develop two national data bases collecting health information from administrative records. Reports on the Hospital In-Patient Enquiry (HIPE) and the National Perinatal Information System (NPRS) were published and can be accessed on the ESRI website (www.esri.ie). Increasing recognition of the potential use of these data for a range of applications including planning, evaluation, financing and epidemiological research is indicated by the growth in downloading data directly from the online HIPE Reporter and direct requests for data from the ESRI. The clinical coding education programmes provided courses to over 600 participants using onsite and online training facilities.

A significant milestone for the HIPE system was the completion of the installation in all acute hospitals of the HIPE Portal. The Portal is a web enabled system for collecting and accessing HIPE data which greatly increases the functionality of the system locally and nationally. A direct offshoot of this system has been the creation of condition specific data collection functions in association with the HIPE system to support the work on the HSE Clinical Teams. The HIPE system now directly facilitates the collection of substantially expanded information systems for a number of areas including Stroke and Heart Failure and ongoing expansion of this facility is planned.

Collaboration with colleagues nationally and internationally continued to develop. Early in 2011 the Health Research and Information Group, in association with Patient Classification Systems International, hosted a Winter School with an international faculty and student group on the issue of Casemix-Based Financing of Healthcare. This event was associated with visits and presentations to delegations from a number of countries and resulted in follow-up training being provided by HIPE staff to coding staff in Lithuania. The programme for this event included a national conference on casemix classification, analysis and financing for the acute hospital sector which was attended by over 100 participants from the hospital, academic and policy sectors.

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