

## Accountability and Performance: Challenges to Ireland

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### Introduction

Ireland has experienced three serious episodes of economic and societal challenge in my lifetime; the mid-to late 1950s which were characterized by economic stasis and a flight of people; the 1980s when Ireland either was the worst or second worst in the EU on a whole range of economic indicators, such as budget deficits, debt, inflation and unemployment and again since 2008 with the five crises identified by NESC, a banking crisis, a fiscal crisis, an economic crisis, a social crisis and a reputational crisis. The multiple crises were caused by a combination of international events and governance failures both in the public and private sectors in Ireland. Policy and institutional failure left Ireland ill-equipped to deal with the international financial crisis which has had a more pronounced impact on Ireland than on many comparator countries. The theme of this year's Magill conference **REFORMING THE REPUBLIC—ISSUES OF POLITICS, ECONOMICS AND ACCOUNTABILITY** underlines the multifaceted nature of the challenges facing Ireland. The fact that 'Accountability' joins politics and the economics in the title of the summer school is suggestive of its significance in the present crisis.

### Accountability

I wish to focus on the question of accountability and performance of the Irish system of public policy making. Accountability, although it lies at the heart of democratic governance and government, is difficult to pin down as a concept. It has 'turned into a garbage can filled with good intentions, loosely defined concepts, and vague images of good governance' according to Bovens (2005). However elusive, it is normatively something that we all subscribe to and is a bedrock of democratic government. The tribunals of enquiry, the excess of expenses claims, and the treatment of expenses regimes all point to weaknesses of accountability notwithstanding the establishment of a legal framework beginning with the Public Office Act in 1995 to regulate the behavior of public representatives. The failures of accountability go far beyond unethical behavior to the performance of our public institutions and those holding positions of responsibility within them. Perhaps the most telling symbol of the recklessness towards good governance and quality public institutions was the decentralization project, launched in 2003. There is no other modern developed state that would have embarked on this project. It was costly, increased the fragmentation of Irish public administration, is a charter for millage claims and rewards to property owners in many towns in Ireland, all at a high cost to the Irish public and taxpayers. There were no veto players or institutional checks and balances capable of stopping it.

Failures of accountability and responsibility lie at the heart of the present crisis. There is frequently a conflation of accountability and responsibility. Accountability is essentially about answerability, being held to account whereas responsibility relates to duty and the requirements of a role. However, accountability without responsibility is an empty shell as is responsibility without accountability. I would argue that they are two sides of the same coin. There are many facets of accountability, notably, political accountability, legal accountability, professional accountability, and organizational accountability (Bovens 2005). The failures of accountability and responsibility that Ireland experienced in the first decade of the 21<sup>st</sup> century encompass all dimensions. Systemic accountability is too large a canvas to treat in 15 minutes. I will limit myself to exploring two reasons why enhancing accountability and responsibility matters. These are the role of accountability in public catharsis and the importance of accountability in improving performance (Bovens 2005).

The seeds of Ireland's accountability challenges were laid in well established political, governance and institutional practices in the Irish state, economy and society. Dick Walsh writing in the 1990s, suggested that:

But cutting corners, as we've seen, leads to some riding roughshod over the planning laws, company laws, financial regulations and other controls designed to ensure that in this Republic every citizen is bound by the same code (Quoted in McGahern, 2009, 80).

Notwithstanding a significant development of regulatory institutions and frameworks in Ireland over the last fifteen years, there was an abject failure of the regulatory system. Boom driven fiscal policies left the country without the resources to address the impact of the real economy crisis. Representative politics did not deliver good governance. Change programmes in the public service, such as the Strategic Management Initiative (SMI), did not equip the system of public administration nor the senior public servants with the capacity to identify or to guard against the risks to Ireland from the vicious circle of damaging public and private practices and policies. Unless the failures of accountability and responsibility are addressed the cycle of crises will continue as a very high cost to Irish society.

### **Why is there a need for Public Catharsis?**

The Irish boom and related bubble brought the best of times to a country that had a history of relative underdevelopment, poverty, emigration and a general sense of underperformance. The speed and nature of the transition is powerfully captured by the changing image of Ireland on the covers of the Economist. The 1988 country report on Ireland depicted a mother and young child on her lap begging on O'Connell Bridge under the caption *Poorest of the rich*. The association of Ireland with poverty was replaced less than 10 years later with a front cover that depicted Ireland on a map of Europe as *Europe's shining light*. As late as 2006, Le Monde portrayed Ireland as 'le meilleur eleve de l'economie europeenne'. Having flown so close to the sun, the subsequent collapse of the banking system and the real economy crisis happened with such speed and had such consequences that there is a need to understand what went wrong and why the systems of risk management were so deficient that no one cried stop. Why was it when the OECD stated baldly in 2003 that 'The era of the tiger is over' did the Government, the banking system, the regulatory system and the overall system of public policy making proceed on such a reckless course?

The first decade of the 21<sup>st</sup> century in Ireland will be remembered as the 'decade of excess'. As a society, it is important that all of the issues, deficiencies, acts of commission and omission that led to the crisis are the subject of deliberation and exploration. This is not an easy task as the myriad of public and private decisions that led to the current crisis suffer from what is known in the literature as the 'problem of many hands' (Thompson, 1987). Who did what when and how and who failed to act are notoriously difficult to pin down. However it is possible to establish what the proximate causes of the crisis were and the extent to which the failures of accountability were organizational and individual. Inevitably, in an environment of crisis, there is a desire to spread the blame and 'pass the hot potato' in the hope that blame falls somewhere else. This is already beginning to happen with the Taoiseach's address to the North Dublin Chamber of Commerce in May 2010 when he acknowledged that mistakes had been made but said that the Government had done four things that ensured that things were not worse. The speech was a very deliberate attempt to frame the

agenda given the impending release of the banking reports. According to the Taoiseach, the government had ensured that things were not worse by:

- A) The decision in December 2005 to abolish a very wide range of property based tax incentives.
- B) The refusal by the Government to abolish or dramatically reduce stamp duty.
- C) The decision of the Regulator at the start of 2007 to increase the capital requirements on banks for speculative property lending from 100% to 150%.
- D) The decision by the Government to allocate every year 1 per cent of GNP into a National Pensions Reserve Fund (Taoiseach's Speech, 13 May, 2010).

Nowhere in the speech is there acknowledgement of the recklessness of macro-economic and fiscal management during the first decade of the 21<sup>st</sup> century. The Taoiseach was a member of the Cabinet throughout this period and the Minister for Finance for the period when the conduct of the financial institutions was at its most dangerous. Fianna Fáil, in particular, carries major responsibility for state we are in as it governed throughout this period. If regulatory capture characterised the relationship between the financial regulator and the banks, political capture characterized the relationship between FF led governments and the construction sector.

The decision by the Government to institute an investigation into the banking crisis constitutes only the first step on the road to public catharsis. It is an important step and the recently published scoping reports are to be commended for their clarity and accessibility to a non-specialist reader (Regling and Watson, 2010, Governor of the Central Bank Report, 31 May 2010). Although the banks bear primary responsibility for the depth and the extent of the financial crisis, public institutions and public actors who were custodians of the public good failed utterly in their responsibilities. Four conclusions of the Banking reports stand out in particular:

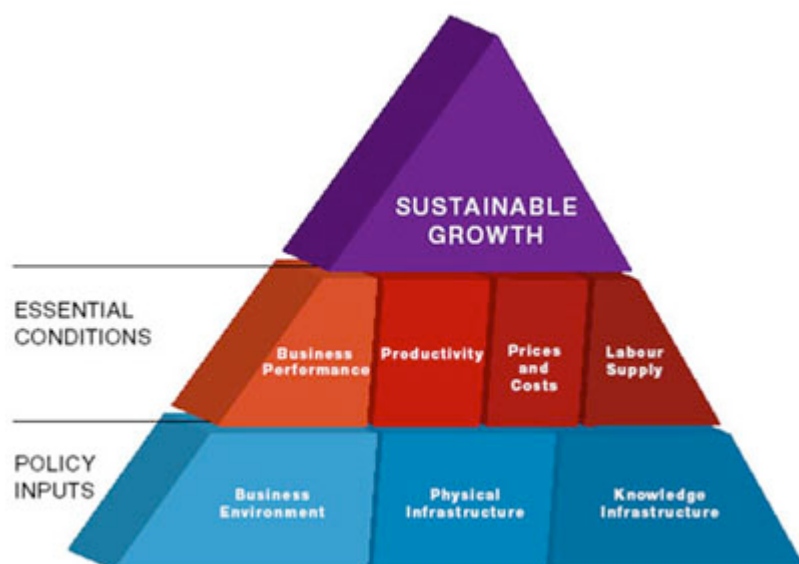
1. The extent to which the fiscal policies pursued by successive FF led Governments were inappropriate, in fact reckless. Macro-economic policy fuelled the boom and left the country without the resources to cushion the recession when it came.
2. Financial regulation failed; the regulators failed to respond to the build up of risks in the banking system. Nor was the problem they faced technically complex. It was according to the Regling and Watson report 'a plain vanilla property bubble, compounded by exceptional concentrations of lending for purposes related to property-and notably commercial property' (Regling and Watson, 2010, 6).
3. The reliance on a regulatory philosophy 'emphasising process over outcomes' meant that the financial regulator did not engage in independent assessment of risk (Honohan Report, 2010, 8). The tick box approach to regulation left the country exposed to serious risk. An emphasis on process not outcomes is a feature of contemporary Irish governance.
4. The Central Bank failed in its duty to assess and to warn of the underlying risks that were developing in the financial sector and macro-economic policy.

The two scoping reports are a prelude to the Banking Commission which is still the subject of contention concerning the terms of reference. A marked feature of the analysis of the crisis to-date is the reliance on 'outsiders' to conduct the investigations. Dr. Patrick Honohan would not have

been give the post as Governor of the Central Bank without the crisis notwithstanding his expertise in the field. The scoping exercise and the Banking Commission will be conducted by non-Irish experts.

### Walking Blindly Over the Cliff

The failures of the financial regulator and the Central Bank were reinforced by the incapacity of other parts of the public policy system to raise the alarm bells. There were other institutions with responsibility to monitor and give advice concerning Ireland's public policy and fiscal mix. The *National Competitiveness Council* was established in 1997 to advise the Taoiseach on competitiveness matters. It produces an annual report on Ireland's competitiveness standing, performance and challenges. The report is accompanied by a benchmarking exercise that benchmarks Ireland's competitiveness against its peers. It has a large board, an advisory council consisting of senior civil servants and the secretariat is provided by Forfas. The Competitiveness Pyramid illustrates the framework model used by the National Competitiveness Council.



The Council's reports began to provide stark warnings about Ireland's competitiveness from the early years of the decade. In 2002, it concluded:

Firstly the rise in wage costs evident in this Report has seen Irish wage levels now rise above major competitors, with the risk of further divergence over the coming years. EU data now estimates average Irish nominal wages per full-time employee was 3.6% above the EMU-12 average in 2001, with average wage levels forecast to rise to 13% above the EMU average by 2003.

Secondly, an easing of wage growth must be accompanied equally, and in parallel, by reductions in consumer price inflation, thus allowing real wage gains to match productivity gains. This will limit the risks of embedded cost inflation and the development of a competitiveness damaging price-wage spiral. Recent price and cost developments highlighted in this report, confirm a number of worrying trends with

consumer price inflation running at more than twice the EU average.

Finally infrastructure bottlenecks are still severe and adding to business costs. (Annual Competitiveness Report 2002, V)

The 2007 Report makes interesting reading as it was the last before boom became bust. It includes a table that shows that Ireland's competitiveness had declined significantly since 2000. Of the 55 countries benchmarked by the IMD, Ireland ranks 14th overall in 2007, a fall of 10 places since 2000. In the World Economic Forum (WEF) report, Ireland ranks in the top quartile (22nd of 131 countries), but has fallen 17 places since 2000. How was it that given the open nature of the Irish economy, the competitiveness warnings went unheeded? On the eve of the bust, Ireland's cost base was rising, productivity gains were slowing, the contribution of trade to growth was either small or declining (NCC, Annual Report 2007). The 2007 Report concluded that 'Since 2000, the bulk of new jobs created in Ireland have been in domestically trading sectors, with 65 percent of new jobs created in public services and construction. Manufacturing, both traditional and modern, and agriculture lost jobs over the same period' (NCC, Annual report 2007).

During the decade, Ireland had turned away from trade in manufactured goods to trade in services, and from job creation in the private traded sector to employment creation in construction and in the public sector. The Redling and Watson report underlines (a)the extent to which wage settlements accelerated during the decade in question with a concomitant loss of competitiveness, (b) that growth rates in public expenditures accelerated to the highest pace among the OECD countries, (c)that this growth was fuelled by public sector pay and the growing size of the public service. According to OECD statistics, the number of people working in the public sector grew by 15.5 per cent from 2001-2008 (page26). How was it that an institution set up to monitor and advise about competitiveness had such little impact during this period? How was it in the face of political and public policy actions that continued to erode Ireland's competitiveness, no one resigned from the NCC? The annual report became part of a ritual, paid lip-service to competitiveness, but was utterly without teeth.

There are a range of other publically funded bodies set up to provide policy advice to the Government and to support the process of social partnership. The oldest of these is the National Economic and Social Council (NESC) founded in 1973, the National Economic and Social Forum established in 1993(NESF) the National Centre for Partnership and Performance (NCPP) established in 2001, and the National Economic and Social Development Office (NESDO). Of these the NCPP and NESDO were abolished in April 2010. NESDO continues to exist but in essence the NESC is the most significant of the advisory and social partnership bodies that exists. The NESC exercises an important role in seeking to develop shared understandings of particular issues including the fivefold crisis facing Ireland. Its methodology is to link vision, principles, challenges and solutions to problems. Since the 1980s, NESC has played a central role in social partnership; its scoping reports were crucial to social partnership negotiations. The 2006 NESC Report that framed the latest partnership agreement said on the economy:

The economic outlook is positive. There are, however, a number of risks to a favourable outlook. There is a risk of a continuing loss of competitiveness, weakening export growth and sustainable prosperity. Second, there is a risk of a large fall in housing output or house prices. A final risk is a large correction of the imbalances in the global economy leading to a global recession. Notwithstanding these risks, the Council considers that the most likely outcome is a continuation of strong economic growth over the next few years (NESC Strategy, 2006, December 2005, xiii).

The risks were recognised but essentially dismissed. The Report goes on to focus on the key public policy challenges, particularly in the social sphere but does not treat as sufficiently serious, the risks to the economy that were identified in the analysis. The report says on page 27, 'The risks that exist, however, should not be ignored and the possibility of more adverse economic circumstances needs to be taken into account' but does not appear to do so in its deliberations. Nor did the risks impinge on the partnership negotiations of that period.

From the late 1980s, social partnership became institutionalised with inbuilt pressures towards agreement. High visibility negotiations characterised by the heads of the peak organizations going in and out of Government Buildings placed a premium on agreement not just on the agreement that was in the public interest. The state played a major catalysing role in the partnership negotiations but also had a role as the employer of those working in publically funded institutions. Trade Unions in Ireland have become increasingly dependent on workers in the public sector; in 2006 76% of workers in public administration, 60% in education and 47% in health had union membership in contrast to 33% in financial institutions, 30% in manufacturing, 13% in real estate and 9% in hotels and restaurants (Walsh and Strobl, 2009, 120). Declining membership and a significant reliance on the public sector has made unions more narrowly representative than they used be. This explains why social partnership delivered major benefits to those in the public sector. Benchmarking coupled with Review Reports 40/41 and national pay deals had a major impact on the public-private sector wage differential in Ireland between 2003-2006 (Kelly et al, 2008, 2-15) Between 2003 and 2006 the overall public sector 'premium increased dramatically from 7.7% to 23.5% between these years. During this period the position of those in the public sector improved relative to those in the private sector. This data also discounts public sector pensions which are higher in value than public sector pensions nor does it account for the value of job security. The partnership model, as it developed in Ireland delivered benefits in terms of industrial peace, but was flawed in a number of important aspects. First, it did not deliver the depth of public sector reform that was warranted by the significant increases in public sector pay. Second, it did not sufficiently tackle the restrictive practices that characterised parts of the public sector. Third, the state did not exercise its role as protector of the public interest and public purse sufficiently. A premium was placed by those representing the state on mediation and agreement. As a process, it lacked the robust accountability structures required to ensure that all of society was served not just those at the table. The Oireachtas was further weakened and sidelined by the process.

### **Improving Performance**

Faced with the depth of the economic and public finance crisis, the focus is once again on the performance of the public service. Accountability plays a key role in improving performance at many levels, institutions, organizations, and individual. Improving the performance of the public service has long been a concern in all states but it is particularly acute in Ireland today given the failures identified above. The Irish civil service embarked on a reform process in the mid-1990s. The process emerged from a group of senior civil servants who made proposals about strategic management. The reform was outlined in the Delivering Better Government proposals in 1996. This was followed by legislative changes, codes of practice, changes to the budgeting system, regulatory reform and PMDS in 2000. SMI consisted of a range of programmes, new processes and changes to the legal and regulatory environment. Considerable time and energy went into the processes associated with SMI but none of it made any difference to the identification of risk or its management as the country became increasingly vulnerable to the conduct of the financial and regulatory institutions. A review of the Strategy Statements of Government Departments, particularly those emanating from the Department of Finance, underline the extraordinary gap between the then 'departmental view' and the approaching storm clouds. The 2008 Strategy Statement on the eve of the calamity outline the department's mission statement in the following terms:

To support the achievement of the Government's economic and social objectives by promoting a sound, sustainable economic and budgetary environment, continuing improvements in the efficiency of public services, and an effective framework for financial services. (Department of Finance, 2008).

The Strategy Statement went on to say:

The continued success of our economy rests primarily on our competitiveness and rising levels of educational attainment. This requires that pay levels across all sectors develop in accordance with the needs of the

economy as a whole, that public expenditure and taxation develop at a sustainable rate, and that inflation is kept at a level close to the EU average (Department of Finance, 2008).

When that was written, Ireland had lost significant competitiveness, the tax base had been eroded and the public finances were on an unsustainable track. The OECD's review of the Irish public service, published in April 2008, concluded that 'the reforms introduced to date under DBG/SMI have primarily focused on putting processes in place' (OECD, 2008, 23). These processes became ritualistic rather than robust exercises in setting appropriate strategies and interrogating the policy mix. The crisis has provided new impetus to public sector reform because of the inevitable tightening of the public finances and a renewed focus on outcomes and outputs. According to the OECD, the 'focus to date in Ireland has been on performance reporting, rather than managing for performance' (OECD, 2008, 13). The challenge is to embed a performance culture and a culture that interrogates received wisdom throughout the Irish public service. The weakness of dissident and discordant voices and the failure to join up the dots given the excessive zoning of land, the explosion of hotels and retail parks, the expansion of credit, and the health of the banking system was a colossal intellectual and institutional failure. Neither ministers nor mandarins, generalists or experts served Irish society well.

Performance became one of the buzz words in the world of public management and public sector reform in the 1990s. Just what is meant by performance is hotly contested in the literature. So too is the focus on performance. Bouckaert and Halligan (2008) have produced a volume, *Managing Performance: International Comparisons*, that provides the most comprehensive theoretical, analytical and empirical account of the concept and how it is functioning in a number of jurisdictions. They begin by distinguishing between the span of performance and the depth of performance. The span of performance begins with the quality and quantity of inputs to the policy system that are in turn translated into activities, outputs and outcomes. For them the span of performance should go right to the citizen and their trust in the institutions and outcomes of policy. Three levels, micro, meso and macro are used to distinguish across different levels or depth of performance. The macro relates to the whole of government, the meso to the policy and the micro to individual actions. They then outline the key characteristics of three ideal types of approaches to performance that have been used by a variety of countries, performance administration, managements of performances and performance management. The first is characterised by administrative accountability, the second by managerial accountability, and the third by both managerial and political accountability. Performance administration rests on administrative processes, procedural mechanisms, and due process. The system is more 'input-and process-oriented than output-and effect-focussed' (Bouckaert and Halligan, 2008, 70). The Managements of Performances approach moves well beyond the requirements of the first model by developing systems for different management functions, such as finance, personnel, organisation, strategy and communication' (Bouckaert and Halligan, 77). Performance management is an evolution of the managements of performances system in that it is hierarchically driven, systematically integrated and coherent. The SMI reform brought Ireland into the managements of performances terrain but in a disconnected manner. It did not bring performance management.

The OECD report on the future of the Irish public service makes a series of recommendations on performance in the Irish public service. Its key message is that Ireland needs to think increasingly in terms of the 'Public Service as an integrated 'system' (OECD, 2008, 12). The image of the Irish public service that emerges from the OECD report is that of fragmentation and disconnects between departments, their Offices and agencies, and other public service actors. The report calls for a move towards a performance focus, greater prioritising within budgets and increased flexibility for workers. Motivating performance requires a shift to 'outputs and outcomes rather than compliance with processes' (OECD, 2008, 31), a performance dialogue between departments and agencies, an alignment of performance reporting exercises and an improvement in the quality of performance indicators. The OECD report was published before the collapse of the Irish economy and banking system and hence was developed in the glow of strong economic performance. Its recommendations must now be revisited in the light of subsequent events.

### Conclusions

The accountability challenges facing Irish society and the state are deep but unless addressed, the cycle of internally driven crises will continue. Ireland, as a small very open economy, must manage its domestic institutions and policy mix in such a way that it protects itself from self-inflicted damage that comes at a high cost to society. How do we guard against the dangers of small intimate highly connected elites in politics, administration and business? How do we ensure that discordant voices are heard? How do we avoid the group think that took the economy over the cliff? I suggest the following:

## Accountability and Performance

1. Use the opportunity provided by the Croak Park Agreement to embed a culture of performance, accountability, adaptability and flexibility in the public service. This requires the development of a robust leadership cadre in the public service that has the competencies and calibre to speak truth to power and take responsibility for the functional areas assigned to them.
2. Develop performance information and measurement systems in the public sector that feed back into policymaking. There should be a move from the control of inputs and processes to outcomes and outputs. This implies the development of a distributed leadership model throughout the public sector.
3. Marry the performance based systems with trust based systems that rest on the professionalism of those involved.
4. Create arenas and occasions when all senior leaders are taken out of their comfort zone and challenged.
5. Take benchmarking seriously: I do not mean benchmarking internally in Ireland although it should be used to compare Irish institutions as well. However, the key should be to benchmark Ireland against the 4/5 small European states across a range of indicators including public sector salaries. When Ireland's performance is weaker than other states or if salaries are higher for particular occupations, then this should be explored and justified.
6. Take transparency seriously: the CV's of everyone appointed to a state board or state jobs should be freely available. This will reduce the tendency to regard state appointments as political gifts and not based on competence.
7. Develop a Governance Impact Assessment (GIA) that must be conducted before any new agency, office or role is established.

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