

NESC REPORT NO. 32

THE WORK OF THE NESC: 1974-76

**NATIONAL ECONOMIC AND SOCIAL COUNCIL
CONSTITUTION AND TERMS OF REFERENCE**

1. The main task of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government through the Minister for Finance on their application. The Council shall have regard, *inter alia*, to:

- (I) the realisation of the highest possible levels of employment at adequate reward,
- (II) the attainment of the highest sustainable rate of economic growth,
- (III) the fair and equitable distribution of the income and wealth of the nation,
- (IV) reasonable price stability and long-term equilibrium in the balance of payments,
- (V) the balanced development of all regions in the country, and
- (VI) the social implications of economic growth, including the need to protect the environment.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Members of the Government shall be entitled to attend the Council's meetings. The Council may at any time present its views to the Government, on matters within its terms of reference. Any reports which the Council may produce shall be submitted to the Government and, together with any comments which the Government may then make thereon, shall be laid before each House of the Oireachtas and published.

4. The membership of the Council shall comprise a Chairman appointed by the Government in consultation with the interests represented on the Council

Ten persons nominated by agricultural organisations,
Ten persons nominated by the Confederation of Irish Industry and the Irish Employers' Confederation,
Ten persons nominated by the Irish Congress of Trade Unions,
Ten other persons appointed by the Government, and
Six persons representing Government Departments comprising one representative each from the Departments of Finance, Agriculture and Fisheries, Industry and Commerce, Labour and Local Government and one person representing the Departments of Health and Social Welfare.

Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairman to regulate the numbers attending.

5. The term of office of members shall be for three years renewable. Casual vacancies shall be filled by the Government or by the nominating body as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office and their membership shall then be renewable on the same basis as that of other members.

6. The Council shall have its own Secretariat, subject to the approval of the Minister for Finance in regard to numbers, remuneration and conditions of service.

7. The Council shall regulate its own procedure.

NATIONAL ECONOMIC AND SOCIAL COUNCIL

The Work of the NESc: 1974-76

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No. 32

**NATIONAL ECONOMIC AND SOCIAL COUNCIL
MEMBERS**

Chairman: Prof. W. J. L. Ryan

Nominated by the Government:

Dr. H. Burke	Mr. A. N. O'Brien	Mr. G. A. Meagher
Prof. N. J. Gibson	Mr. P. Rock	Mr. C. H. Murray
Prof. D. Hannan	Mr. J. Walsh	Mr. T. O'Ceirbhail
Dr. K. Kennedy	Dr. T. K. Whitaker	Mr. J. Holloway
Mr. C. Mac Gabhann	Mr. M. J. Barry	Mr. M. Ó Murchú
	Dr. B. Hensey	

Nominated by the Confederation of Irish Industry:

Mr. F. A. Casey	Mr. J. H. Donovan	Mr. J. H. D. Ryan
Mr. L. Connellan	Mr. R. I. Morrison	

Nominated by the Irish Agricultural Organisation Society:

Mr. J. Buttimer	Mr. P. Kelly	Mr. P. Raftery
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Nominated by the Irish Congress of Trade Unions:

Mr. A. Barr	Mr. H. O'Sullivan	Mr. D. Nevin
Mr. J. Carroll	Mr. D. Larkin	Mr. R. Roberts
Mr. W. J. Fitzpatrick	Mr. D. Murphy	
Senator M. Mullen	Mr. P. Murphy	

Nominated by the Irish Creamery Milk Suppliers' Association:

Mr. P. Hourigan	Mr. D. Murphy	Mr. T. J. O'Callaghan
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Nominated by the Irish Employers' Confederation:

Mr. M. Greene	Mr. A. Shiel	Mr. J. J. O'Reilly
Mr. D. J. McAuley	Mr. P. Murphy	

Nominated by the Irish Farmers' Association:

Mr. D. Cashman	Mr. P. Lane
Mr. S. Healy	Mr. J. Richards-Orpen

CONTENTS

I	The Establishment of the NESC	5
II	Inaugural Meeting of the NESC	9
III	Council Procedures	11
IV	Finance	14
V	Publications	16
VI	The Issue of Consensus	22
VII	Use of Consultants	24
VIII	Acknowledgements	25

APPENDICES

Appendix 1	National Economic and Social Council: Constitution and Terms of Reference	29
Appendix 2	Membership of the Council: November 1973	31
Appendix 3	Changes in Council Membership: 1974-76	33
Appendix 4	Secretariat	34
Appendix 5	Government Statements issued when Reports were published	36
Appendix 6	Summaries of Council Reports	45

NATIONAL ECONOMIC AND SOCIAL COUNCIL

THE WORK OF THE NESC: 1974-76

I. The Establishment of the NESC¹

1. In June 1973, the Minister for Labour, Mr. Michael O'Leary, T.D., announced² that the Government had decided to proceed with the formation of a National Economic Council. In the course of his speech the Minister stated that:

"The Council will be representative of the three great economic interests, the employers, the organised workers and the farmers. The organisations will be free to elect their particular nominees to the Council.

"The decision to proceed with the establishment of the National Economic Council is, of course, in line with the commitment of the National Coalition partners that development of the economy should be planned on the basis of genuine participation and consultation.

"The proposed National Economic Council will provide the permanent and powerful interests . . . with a forum in which they may meet with one another and with the Government to study and discuss the major social and economic issues of the day and so evolve agreement between the interests on the policies required in pursuit of the national interest.

¹Successive drafts of this report were discussed at meetings of the Council on 18 November and 21 December 1976. These drafts were prepared by Tom Ferris in the Council's Secretariat.

²Speech by Mr. Michael O'Leary, T.D., Minister for Labour at the Annual Conference of the Irish Transport and General Workers' Union, Ballybunion, 7 June 1973.

"Social needs such as housing, education and hospital services—all of these social priorities might come within the purview of a National Economic Council.

"Indeed one might hope that all of the economic policies to be pursued by the Council in concert with Government would be influenced by a consciousness of the need for a social development which would require that increased wealth is distributed in a socially just way throughout our community so that inequalities are progressively removed.

"If . . . the Council will insist on maintaining a close connection between economic and social affairs, then the planned development of all incomes must come up for consideration."

2. On 5 November 1973, the Minister for Finance, Mr. Richie Ryan, T.D., issued the following statement regarding the formation of the National Economic and Social Council:—

"The National Economic and Social Council will hold its first meeting later this month.

"The primary function of the Council will be to advise the Government on the development of the national economy and the achievement of social justice.

"The Council will be representative of the three great economic interests, the employers, organised workers and the farmers. These groups have now all nominated their representatives, and the Government has completed its nominations.

"The Government attaches great importance to the National Economic and Social Council as a forum in which views can be exchanged between people who have a common interest in the development of our economy and in the pursuit of social justice.

"The following organisations are to be represented on the Council:—

The Confederation of Irish Industry
The Irish Agricultural Organisation Society
The Irish Creamery Milk Suppliers' Association
The Irish Congress of Trade Unions
The Irish Employers' Confederation
The Irish Farmers' Association.

"The Government has appointed a number of persons to the Council with special qualifications or experience in economic and social affairs. A number of Government Departments will also be represented.

"The Government, after consultation with all the interests represented on the Council, has appointed Dr. W. J. L. Ryan, Professor of Political Economy, in Trinity College, Dublin and Chairman of the National Prices Commission to act as Chairman of the Council. Professor Ryan is being granted leave of absence for one year from his post in Trinity College to take up his appointment. This will allow the Chairman to act in a full time capacity.¹

"The Terms of Reference and Constitution as set out in Appendix 1 were agreed between the interests represented on the Council and the Government. The Council will have its own Secretariat."

3. The Constitution and Terms of Reference of the Council are set out in Appendix 1 to this report. Appendix 2 gives the original members and the positions they held at the time of their appointment to the Council. Appendix 3 lists the changes that occurred in membership during the three-year term of office of the Council.

4. In June 1976, the Chairman on behalf of the Council wrote to the Minister for Finance stating that it would be desirable that the present membership should complete the work which it had initiated, but that this could be done only if the term of office of members were extended until 31 December 1976. In his reply the Minister stated that he was prepared "to accept that a December meeting of the Council would be in order—on the understanding that this will enable the Council to complete all the work in progress which it has initiated." During the autumn of 1976 there were persistent press reports that the Council would be abolished at the end of the year.

5. On 26 November 1976, the Government Information Services issued the following statement on behalf of the Minister for Finance:

¹In practice, this was not possible. While acting as Chairman of the Council, Professor Ryan remained as Chairman of the National Prices Commission until 30 April 1975 and then resumed his duties in Trinity College.

"In accordance with the constitution of the National Economic and Social Council the term of office of its members expires this month. In view of their desire as expressed in the Green Paper 'Economic and Social Development 1976-80' to have discussions with the social partners as part of the process of formulating an economic plan, the Government have decided that the Council, as now constituted, should continue in existence for another year. The Chairman, Government nominees and organisations represented on the Council have been informed of the Government's decision."

6. The organisations represented on the Council wish to state that they consider that the Council has a continuing existence and that only the members are appointed for a fixed period. This does not preclude changes in the structure or composition of the Council, subject to the agreement of the organisations represented on it.

II. Inaugural Meeting of the NESC

7. The inaugural meeting of the Council, which took place on 28 November 1973, was addressed by the Minister for Finance, Mr. Richie Ryan, T.D. In the course of his speech the Minister stated:

"This new National Economic and Social Council is founded upon the simple truth that all the people of this island have more interests in common with each other than those which divide them. The Council's objective will be to identify common interests and to agree on the best means of promoting them. . . . A breath of fresh air would do us all a world of good. NESC can open the windows to new ideas to dispel past illusions. . . . I would hope to see it become a forum in which each interest will endeavour to understand and see the other sectors' points of view rather than concentrate on enforcing its own.

"Today, Government must increasingly listen if it is to be effective in the complex conditions of modern life.

"In giving leadership, we must make sure that we are not being constrained by obsolete ideas, criteria and values. . . . The existence of your Council will enable the Government to consult a wide range of community interests at one time and such joint consultation may reveal factors and considerations which do not appear in the normal process of consultation between Government and each sectional interest.

"The emphasis which this Government places on the consultative process does not of course detract from the rights and duties of members of the Oireachtas. Moreover it does not represent any diminution in the responsibility which in a democracy must properly be borne by the Government alone.

"The main task of NESC will be to provide a forum for discussion to determine and establish the principles which are applicable to the

efficient development of the national economy and the achievement of social justice. The Council will advise the Government on the practical application of these principles. I need hardly emphasise the desirability of examining the long-term aspects of these issues.

"These social and economic needs represent a complexity of objectives which is amply illustrated by the terms of reference. For example, you were asked to have regard to 'the realisation of the highest possible level of employment at adequate regard'. At the same time you are to consider 'the fair and equitable distribution of the income and wealth of the nation'. The harmonisation of these two objectives will involve a whole range of implications for our economic and social policy. Again you are to have regard to 'attainment of the highest sustainable rate of economic growth'. You will have to determine what are the relevant and acceptable constraints. This opens a Pandora's box—the abatement of inflation, job creation, the reduction of regional disparities, the rate of social improvements, and the conservation of the environment are but a few.

"The Government is considering the evolution of medium-term economic and social policy which will combine national and EEC objectives, especially in the context of progress towards Economic and Monetary Union. You will be asked to participate in its formulation because such a task cannot be undertaken without consultation with the social partners and the Council is an appropriate forum for this purpose.

"NESC will now have an opportunity of making an important contribution to community welfare both in relation to the formation of public attitudes and the influencing of Government decisions. The Government on their part will assist the Council's work and listen to its advice."

8. All the Council's work has been within its terms of reference as amplified in the Statement by the Minister for Finance at its inaugural meeting.

III. Council Procedures

9. At the Council's inaugural meeting, a Working Party¹ was set up to recommend procedures for the operation of the Council. The Council adopted the recommendations of the Working Party and agreed that three Committees of the Council should be established—the Economic, Social and Regional Policy Committees. Each Committee consisted of fifteen members, chosen for their interest and expertise in the particular field of policy, and the composition of each Committee reflected that of the full Council.² The Council decided that Professor Ryan should chair the Economic Policy Committee, Dr. H. Burke the Social Policy Committee and Professor N. Gibson the Regional Policy Committee.³

10. The Council decided that it would best be served by a small secretariat recruited on secondment from other organisations. The Department of Finance seconded a junior officer and two typists. In addition, there have never been more than four full-time members of the secretariat,⁴ whose duties included serving the Council's Committees, working with consultants, drafting reports (or Council comments on work done by consultants), and preparing the final drafts of reports (following meetings of the Council) for submission to the Government.

¹The Working Party consisted of Council members representing the Government and the different interest groups.

²In the initial period alternates for the Committees had also to be Council members. However, in January 1975 a more flexible system was adopted, whereby alternates, who were not Council members, were free to represent their organisations at Committee meetings but not at meetings of the Council.

³In July 1975, on his appointment as Pro-Vice-Chancellor of the New University of Ulster, Professor Gibson resigned from the Chairmanship of the Regional Policy Committee and was replaced by Mr. J. J. Walsh.

⁴Appendix 4 sets out the names of those who worked either part-time or full-time with the secretariat, including the civil service staff on the secretariat.

11. The detailed work of the Council took place in its Committees. With three exceptions,¹ all the work which resulted in Reports was initiated at one or other of the Council's three Committees. When the subject or topic had been approved by the Council, the relevant Committee decided how the work should be organised. When drafts had been prepared by the secretariat or consultants, they were discussed in detail in the relevant Committee. When a Committee had agreed on a draft, this was considered by the full Council. The final draft emerging from the Council's deliberations was forwarded to the Government through the Minister for Finance.

12. At the beginning of its work, the Council planned to meet every two months. It was envisaged that each of the three Committees would meet monthly. However, the volume of work initiated in the Committees meant that more frequent meetings were required. The number of documents that had to be studied required a large number of meetings. The number of meetings of the Council and its Committees, together with the average number of members attending, were as follows:—

	No. of meetings	Average attendance
Council	38	23
Economic Policy Committee	31	10
Social Policy Committee	29	9
Regional Policy Committee ²	24	8

13. Under the Constitution and Terms of Reference, members of the Government are entitled to attend the Council's meetings. On four

¹See paragraph 19 below.

²In addition, the Regional Policy Committee set up a sub-committee on institutional arrangements for regional economic development which met on four occasions between January 1975 and July 1975. This sub-committee was chaired by Mr. J. J. Walsh. Another sub-committee was established in June 1976 (see para. 24) to prepare a preliminary draft of a general report on regional policy. This sub-committee met on nine occasions between July 1976 and November 1976. It was chaired by Mr. C. MacGabhann, with Mr. T. Bairead of Gaeltarra Éireann acting as secretary.

occasions the Minister for Finance, Mr. Richie Ryan, T.D., attended and addressed meetings of the Council.¹ On a number of occasions, senior civil servants, other than those who were members of the Council, attended Council meetings when matters relating to their Departments were being discussed.²

¹The Minister for Finance addressed the inaugural meeting of the Council on 28 November 1973, and attended Council meetings on 24 October 1974, 27 May 1976 and 21 December 1976.

²As permitted by Article 4 of the Council's Constitution and Terms of Reference.

Table 1:

NESC Budget

NESC Grant: Requests, Allocations and Expenditures¹

Year	Grant Requested by Council	Actual Grant Allocation ³	Actual Expenditure
	£	£	£
1974 ²	—	100,000	41,853
1975	130,000	60,000	59,159
1976	68,000	68,000	54,000 ⁴

¹As explained in paragraph 14 above, the Department of Finance grant is not intended to cover all Expenditures related to NESC.

²9 month figure annualised.

³Allocation under NESC sub-head of the estimate for the Office of the Minister for Finance.

⁴Preliminary Estimate.

IV. Finance

14. The Council's activities were financed in two ways. First, a grant was made available each year by the Department of Finance to cover the salaries of the non-Civil Service members of the secretariat, fees payable to consultants, expenses incurred by members, rent of rooms for Council meetings and other items arising from the day-to-day working of the Council and its secretariat. Second, the Department of Finance paid the salaries of the Civil Service members of the secretariat and the rent for offices occupied by the secretariat, and met the cost of telephone accounts, postage, stationery and the printing of reports.

15. The sums sought, allocated and spent under the first heading for the years 1974, 1975 and 1976 are given in Table 1. The table shows that the Council sought £130,000 for 1975 but found that it had been granted £60,000.¹

16. During 1974 and 1975, the Council could not engage consultants without the express approval of the Department of Finance. At the beginning of 1976, greater freedom was given to the Council. From that time, consultants could be engaged subject to their fees not exceeding limits set by the Department of the Public Service and the submission of a quarterly report by the Chairman to that Department and the Department of Finance indicating all payments approved and all commitments entered into.

17. The provision of the grant on an annual basis posed problems for the Council. These arose mainly because projects initiated in one

¹The Council received a written request from the Department of Finance to submit a budget for 1975 in a letter dated 8 October 1974. The Council submitted its budget for £130,000 on 23 October 1974. The Council was informed by the Department of Finance in a letter dated 5 November 1974 that £60,000 had been granted. The Council has been informed that the decision on the Council's budget for 1974 was made before its submission had been received.

financial year were not generally completed until the next, but the Council knew only what was available in the year in which the project started and could not obtain any indication of how much would be made available in the following year. These problems would have been eased considerably if the Council had been told in advance the minimum sum that would be made available to it in each year. However, the Council has been informed by the Department of Finance that this would not be possible, because at present no State body or Government Department is advised of the sums that will be made available to it for more than one year in advance. This follows from the voting of monies on an annual basis by the Dail. In the view of the Council, if an independent body must submit the individual projects for which funds are sought, and if money is not provided to finance all of them, there is the danger that the Government may seem to be influencing the work that the Council can do. The Department of Finance, however, has pointed out that it would be an unusual derogation from financial control as exercised by the Department if funds were made available without reference to the projects for which they had been sought.

V. Publications

18. By 31 December 1976, the Council had completed 32 reports. Of these 24 had been published, 4 had been approved by the Council and submitted to the Government, and 4 were in process of being printed for submission to the Government. The titles of all Council documents are set out in Table 2.

19. The Council's publications (excluding this summary report) can be classified under six main headings:

(a) Reports prepared at the request of Government or Ministers

Comments on Capital Taxation Proposals, No. 2, July 1974, prepared in response to a request from the Minister for Finance for the Council's views on the Government's Proposals on Capital Taxation.

Comments on the OECD Report on Manpower Policy in Ireland, No. 6, July 1975, prepared following a request from the Minister for Labour.

The Taxation of Farming Profits, No. 15, February 1976, prepared in response to the Government's request to undertake a study on the taxation of farming profits.

(b) Reports on the Economic Situation

The Economy in 1973 and Prospects for 1974, No. 1, April 1974.

The Economy in 1974 and Outlook for 1975¹, No. 3, November 1974.

¹This was not published as a Council report but as "a document prepared by the Council's secretariat". However, it was prepared in the same way as all other Council reports, namely, following discussion in the relevant Committee of the Council (in this case, the Economic Policy Committee) a draft was prepared by the secretariat; this draft was discussed and amended at a further meeting of the Committee, and substantially amended at two meetings of the Council.

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document
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Report on Inflation, No. 9, June 1975.
*The Causes and Effects of Inflation in Ireland*¹, No. 10,
October 1975.
Economy in 1975 and Prospects for 1976, No. 13, October
1975.
Some Aspects of Finance for Owner-Occupied Housing, No.
16, June 1976.

(c) **Reports on longer term problems of Economic and
Social Development**²

Population and Employment Projections: 1971-86, No. 5,
February 1975.
Jobs and Living Standards: Projections and Implications, No.
7, June 1975.
*Population Projections 1971-86: The Implications for Social
Planning—Dwelling Needs*, No. 14, February 1976.
*Population Projections 1971-86: The Implications for Educa-
tion*, No. 18, July 1976.
Rural Areas: Social Planning Problems, No. 19, July 1976.
The Future of Public Expenditures in Ireland, No. 20, July 1976.
Report on the Public Expenditure, No. 21, July 1976.
Prelude to Planning, No. 26, October 1976.
The Potential for Growth in Irish Tax Revenues, No. 31
(forthcoming).

(d) **Reports on Social Policy**

An Approach to Social Policy, No. 8, June 1975.
Income Distribution: A Preliminary Report, No. 11, September
1975.

¹This Report was prepared for the Council by Professor E. V. Morgan.

²These reports can be seen as an attempt to up-date and expand the National Industrial Economic Council's *Report on Full Employment* which was published in March 1967. That report stated the problems, assessed their dimensions, suggested some of the main elements of a broad strategy by which full employment might be pursued, examined some of the main obstacles which then lay in the way of its achievement, and generally posed the choices which the community, if it wanted full employment, would have to face and make. The Third Programme for Economic and Social Development 1969-72 was drawn up against the background of the NIEC's *Report on Full Employment* and was presented as a step on the road to that goal.

Educational Expenditure in Ireland, No. 12, January 1976.
Statistics for Social Policy, No. 17, September 1976.
Report on Housing Subsidies, No. 23, February 1977.
Towards A Social Report, No. 25 (forthcoming).
Some Major Issues in Health Policy, No. 29 (forthcoming).

(e) Reports on Regional Policy

Regional Policy in Ireland: A Review, No. 4, January 1975.
Institutional Arrangements for Regional Economic Development, No. 22, July 1976.
Service-type Employment and Regional Development, No. 28 (forthcoming).
Personal Incomes by County in 1973, No. 30 (forthcoming).

(f) Reports on Agricultural Development

A Comparative Study of Output, Value-Added and Growth in Irish and Dutch Agriculture, No. 24, December 1976.
New Farm Operators, 1971 to 1975, No. 27 (forthcoming).

20. It takes time to prepare reports. Relatively few reports were therefore presented in 1974. However, as can be seen from Table 2 above, the Council's work gained momentum through 1975 and 1976. The statements issued by the Government on the occasion of the publication of some reports are set out in Appendix 5. A brief summary of each report is given in Appendix 6.

21. In its work, the Council has tried to achieve a balance between reports dealing with short-term issues in economic and social policy and reports aimed at creating a framework for economic and social development in the longer-term. These latter reports were prepared as a result of the emphasis placed by the Minister for Finance, in his statement at the inaugural meeting, on the desirability of examining the long-term aspects of the principles applicable to the efficient development of the national economy and the achievement of social justice.

22. The terms of reference were wider than those of the NIEC in that they included agricultural, social and regional development. These are

areas of critical importance to the future welfare of the Irish community. Unfortunately, in the time and with the data available, the Council has not been able to do as much work in these fields as it would have wished. In particular, it has not yet been possible to prepare the general report on the potential for development in Irish agriculture and the strategies and policies by which this potential might best be realised.

23. The Council would regard the eleven reports which it has prepared on various aspects of social policy as representing little more than a first step into an area which has received too little attention. The fact that the need to control the growth in public expenditure may, for a time, limit the pace of social development is *not* an argument against studying social problems and issues now. Indeed, it is the Council's view that the best time to think about social development is when funds are scarce, because this will ensure that the funds available are more likely to be wisely and effectively spent.

24. The Council has prepared five reports on various important aspects of regional policy. The Council plans to prepare a general report defining the aims of regional policy and assessing the measures by which they could more effectively be realised. As a first step, the Regional Policy Committee set up a sub-committee in the middle of 1976 to prepare a preliminary draft of a general report, but it was not possible to complete this work for discussion in the Regional Policy Committee in 1976. This general report will be completed during 1977.

25. It is not the intention of the Council to attempt any detailed evaluation of the impact of its reports on Government policy and public opinion. It is particularly difficult to assess the effects on policy, because no Government statements were issued on the occasion of the publication of many of the Council's reports. It is therefore impossible to know whether the analysis and advice were accepted, rejected or merely ignored. Nevertheless, the Council believes that the reports it has submitted to the Government have contributed to a clearer understanding of basic economic and social problems and have helped to create the framework within which economic and social planning could be reintroduced. It will continue to be the Council's concern to achieve a fuller understanding of Irish economic and social problems

and of how they could be resolved or eased, and to develop the framework within which a new economic and social plan could be formulated.

26. There are some indications that some of the reports may have influenced Government thinking and policy. Most of the detailed measures put forward in the *Report on Inflation* were incorporated in the June 1975 Budget; the main exception was that relating to the payment of no increase in the second phase of the 1975 National Agreement. The policy options for 1976 were examined in the *Economy in 1975 and Prospects for 1976*. During the past year, Government objectives seem to have corresponded closely to the main conclusions of that report:

"If nothing is done (i.e., if pay continues to be fully linked to prices and Government policies remain unchanged) the situation will deteriorate further. The main symptoms of the deterioration will be higher unemployment and greater inequities within the labour force, with those in secure employment doing well relative to those in activities subject to external competition and relative to the unemployed.

"This prospect is clearly unsatisfactory. Other policy options must therefore be examined. In our view, import controls, devaluation and deflation would not be satisfactory policies. The only alternative is income restraint. If competitiveness is to be restored, pay restraint means increases in the average incomes of those in employment that are smaller than those occurring in other countries"¹

In a recent speech, the Minister for Finance stated:—

"The recent report of the National Economic and Social Council on Public Expenditure should be read by everyone interested in the welfare of Ireland. If I had my way, I would make it compulsory reading for every voting citizen. It is the best 45p worth in the bookshops today"².

¹*Economy in 1975 and Prospects for 1976*, NESC, No. 13, page 40, paragraphs 79 and 80.

²Speech by Mr. Richie Ryan, T.D., Minister for Finance, to the Kimmage Branch of Fine Gael, Crumlin Cross, 13 September 1976.

27. Experience would suggest, however, that some time could elapse before a report has its full impact on opinion and policy. This happened, for example, with *Population and Employment Projections: 1971–86* (NESC, No. 5, February 1975), a report which set the context and goals for any new economic and social plan. Other reports which could fall into this category are: *Jobs and Living Standards* (No. 7, June 1975), *An Approach to Social Policy* (No. 8, June 1975), *Rural Areas: Social Planning Problems* (No. 19, July 1976), *Report on Public Expenditure*, (No. 21, July 1976), *Report on Housing Subsidies* (No. 23, February 1977), *A Comparative Study of Output, Value-Added and Growth in Irish and Dutch Agriculture* (No. 24, December 1976), *Prelude to Planning* (No. 26, October 1976) and *Some Major Issues in Health Policy* (No. 29).

28. The Council would wish to emphasise one problem which has made its work more onerous. In almost every field identified by its Committees for study, either background studies were not available, or if they had been prepared in Government Departments, were not made available to the Council. The Council had therefore to make arrangements for such studies to be made, since analysis cannot be done nor advice given in a vacuum. The exceptions were *Comments on Capital Taxation Proposals* and *Comments on the OECD Report on Manpower Policy in Ireland* (Nos. 2 and 6 respectively). For the study that the Council was requested to make on the taxation on farming profits, the report of an interdepartmental committee was made available on the strict understanding that it should be available only to the consultants employed by the Council, and that it could not be quoted in their study. For the study of the future of tax revenues, a study made in the Department of Finance was made available on similar conditions to the consultants engaged by the Council.

29. The Council feels it necessary to comment on two issues relating to its work which have been raised mainly in Government statements on the occasion of the publication of Council reports or in statements by Ministers. These issues are the fact that not all reports presented by the Council have been unanimous, and the use which the Council has made of "outside" consultants. These are discussed in the following two sections.

VI. The Issue of Consensus

30. The Council's predecessor—the National Industrial Economic Council—was frequently criticised, both during its life and after it had ended, because all its reports were unanimous. The Council's function is to advise the Government on major social and economic issues, and the Council accepts that this places upon it the obligation to strive towards agreement on any advice which it gives to the Government. All but seven of the reports prepared by the Council have been unanimous. These seven reports dealt with issues of major and immediate importance.¹ In the statements issued by the Government Information Services on the occasion of the publication of three of these reports, the fact that no unanimous recommendations were made was noted.² The difficulties in reaching consensus are not, of course, peculiar to the Council.

31. It is the view of the Council that if consensus is treated as a dominant requirement, the unanimous recommendation to which representatives of major interests can all subscribe may at times be so

¹In the case of five of these reports—*Comments on Capital Taxation Proposals*, NESC, No. 2, July 1974; *Report on Inflation*, NESC, No. 9, June 1975; *Economy in 1975 and Prospects for 1976*, NESC, No. 13, October 1975; *The Taxation of Farming Profits*, NESC, No. 15, February 1976 and *Prelude to Planning*, NESC, No. 26, October 1976—reservations were entered by representatives of specific economic interests. The sixth report—*The Causes and Effects of Inflation in Ireland*, NESC, No. 10, October 1975, contains a preface which states that the publication of the report did not mean "that the Council accepts all of Professor Morgan's analyses and conclusions—indeed, some members are in fundamental disagreement with parts of the report." In the seventh report—*Service-type Employment and Regional Development*, NESC, No. 28—the reservations of the Departments of Finance and Industry and Commerce about certain recommendations made in *Institutional Arrangements for Regional Economic Development*, NESC, No. 22 July, 1976 were recorded.

²Appendix 5 sets out the occasions on which the Government made statements on the reports of the Council.

general and vague as to give Government no clear guide to action, or civil servants no precise statements by reference to which the advice they could give to their Ministers should be formulated. When real and immediate issues (such as capital taxation, the taxation of farming profits, the control of incomes, inflation, or which particular public expenditure should be cut or curbed) are faced and discussed in depth, there will not generally be consensus but rather a clearer statement of the differences.¹

32. It could be argued that the differences of view on major issues within the Council reflect those in Irish society. But it would be too simplistic to expect that such differences might be resolved by the use of technical expertise of an economic and quantitative kind. What such technical analysis can do, and what it has tried to do, is to inform different interest groups and attempt to help them to evaluate what the long-term consequences of particular policy measures might be, so that choices might be more rationally made between the long-term interests and short-term gains of particular strategies. Moreover, it is not by any means clear that differences in beliefs, ideologies and interests can be resolved and consensus reached by discussion in representative bodies such as the Council. To the extent that such discussions succeed in getting to grips with the basic issues, differences and divisions are exposed, articulated and possibly re-inforced rather than reconciled. While the exposures and articulation of unreasonable viewpoints may not change them it could detract from their support. However, in the last resort such differences may be resolved, or the action that is appropriate to the circumstances taken despite them, only by a political process or procedure. This is a responsibility which in democracy must properly be borne by the Government alone.

¹This follows from the composition of the Council: the Council consists of representatives of the main economic interests in the economy (the Irish Congress of Trade Unions, the Confederation of Irish Industry, the Irish Employers' Confederation, the Irish Farmers Association, the Irish Creamery Milk Suppliers' Association and the Irish Agricultural Organisation Society), Government nominees with individual expertise but diverse values, and the secretaries of six Government Departments.

VII. Use of Consultants

33. The number of full-time staff in the Council's secretariat was kept small. At no time were there more than four people engaged in drafting reports—indeed, for most of the three years 1974–76, there were only three. In almost every field studied by the Council, no published background studies were available. The Council had therefore to make arrangements, within the limits of the funds available to it, for such studies to be made, since advice cannot be given in a vacuum.

34. In many cases the work of the secretariat was supplemented by the use of persons with special knowledge of particular fields. These generally worked on a part-time basis in and with the secretariat.

35. Consultants were used in the preparation of twelve of the thirty-two reports prepared by the Council during 1974–76; in six of these twelve cases the consultants came from outside Ireland. When consultants were used, they were in most cases assisted by the secretariat. The Council wishes to acknowledge the assistance given to consultants by Government Departments and other agencies.

36. The Council has been criticised for using consultants—especially for using consultants residing outside Ireland. The use of consultants meant that first-rate expertise could be brought to bear on specialised problems, and this enabled the Council and its very small secretariat to accomplish a vast amount of work at minimal cost to the Exchequer. The alternative would have been to employ a much larger secretariat—large enough to include persons with specialised knowledge in all the fields covered by the Council's work. This would not have been practicable, nor would it have been economic.

VIII. Acknowledgements

37. The Council wishes to acknowledge its gratitude to the Chairman and the members of its secretariat. They have discharged their duties with outstanding skill, efficiency, energy and courtesy. Without their dedicated and enthusiastic support, the Council would not have been able to accomplish such a large volume of work, covering a very wide range of important and complex issues in such a short period of time. The Council also acknowledges the special contribution made to its work by the Chairmen of the Council's Committees.

APPENDICES

APPENDIX 1

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Constitution and Terms of Reference

1. The main task of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government, through the Minister for Finance, on their application. The Council shall have regard, *inter alia*, to:—

- (i) the realisation of the highest possible levels of employment at adequate reward,
- (ii) the attainment of the highest sustainable rate of economic growth,
- (iii) the fair and equitable distribution of the income and wealth of the nation,
- (iv) reasonable price stability and long-term equilibrium in the balance of payments,
- (v) the balanced development of all regions in the country and
- (vi) the social implications of economic growth, including the need to protect the environment.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Members of the Government shall be entitled to attend the Council's meetings. The Council may at any time present its views to the Government, on matter within its terms of reference. Any reports which the Council may produce shall be submitted to the Government and, together with any comments which the Government may then make thereon, shall be laid before each House of the Oireachtas and published.

4. The membership of the Council shall comprise a Chairman appointed by the Government in consultation with the interests represented on the Council:

Ten persons nominated by agricultural organisations,

Ten persons nominated by the Confederation of Irish Industry and the Irish Employers' Confederation,

Ten persons nominated by the Irish Congress of Trade Unions,

Ten other persons appointed by the Government,

Six persons representing Government Departments, comprising one representative each from the Departments of Finance, Agriculture and Fisheries, Industry and Commerce, Labour and Local Government and one person representing the Departments of Health and Social Welfare.

Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairman to regulate the numbers attending.

5. The term of office of members shall be for three years renewable. Casual vacancies shall be filled by the Government or by the nominating body, as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office and their membership shall then be renewable on the same basis as that of other members.

6. The Council shall have its own Secretariat, subject to the approval of the Minister for Finance in regard to numbers, remuneration and conditions of service.

7. The Council shall regulate its own procedure.

APPENDIX 2

MEMBERSHIP OF THE COUNCIL: NOVEMBER 1973¹

Chairman

Professor W. J. L. Ryan, Professor of Political Economy, University of Dublin, Chairman, National Prices Commission.

Nominated by the Government

Dr. T. K. Whitaker, Governor of the Central Bank, former Secretary of the Department of Finance.

Professor P. Lynch, Associate Professor of Economics, University College, Dublin, Chairman of Aer Lingus/Aerlinte.

Professor N. J. Gibson, Professor of Economics, New University of Ulster, member of the Whitelaw Advisory Commission.

Dr. K. Kennedy, Director, Economic and Social Research Institute.

Mrs. H. Burke, Lecturer in Social Science, University College, Dublin.

Professor D. Hannan, Professor of Social Theory and Institutions, University College, Cork.

Mr. J. Walsh, Chairman, Restrictive Practices Commission.

Mr. C. MacGabhann, Bainisteóir Ginearálta, Gaeltarra Éireann Teoranta.

Mr. P. Rock, Senior specialist, Irish Management Institute.

Mr. A. N. O'Brien, Chief executive, Institute of Engineers of Ireland, former executive Shell Cambodia and Shell Congo Limited.

Mr. C. H. Murray, Secretary, Department of Finance.

Mr. T. O'Cearbhaill, Secretary, Department of Labour.

Mr. P. O'Slatarra, Secretary, Department of Industry and Commerce.

Mr. M. J. Barry, Secretary, Department of Agriculture and Fisheries.

Mr. M. B. Lawless, Secretary, Department of Local Government.

Dr. B. Hensey, Secretary, Department of Health, representing the Departments of Health and Social Welfare.

¹Members' positions are those held by them on their appointment to the Council in November 1973.

Nominated by the Confederation of Irish Industry
 Mr. P. J. Keehan, President, CII.
 Mr. J. H. D. Ryan, Vice-President, CII.
 Mr. F. A. Casey, Member of Executive, CII.
 Mr. R. I. Morrison, Member of Executive, CII.
 Mr. L. Connellan, Director-General, CII.

Nominated by the Irish Agricultural Organisation Society
 Mr. J. Buttimer, President, IAOS.
 Mr. P. Raftery, Vice-President, IAOS.
 Mr. P. Kelly, Secretary, IAOS.

Nominated by the Irish Congress of Trade Unions
 Mr. D. Larkin, President, ICTU.
 Mr. A. Barr, Vice-President, ICTU.
 Senator Fintan Kennedy, Treasurer, ICTU.
 Mr. J. Carroll, Member, ICTU Executive.
 Mr. W. J. Fitzpatrick, Member, ICTU Executive.
 Mr. B. G. Harkin, Member, ICTU Executive.
 Mr. D. Murphy, Member, ICTU Executive.
 Mr. P. Murphy, Member, ICTU Executive.
 Mr. R. Roberts, General Secretary, ICTU.
 Mr. D. Nevin, Assistant General Secretary, ICTU.

Nominated by the Irish Creamery Milk Suppliers' Association
 Mr. P. Hourigan, Council Member, ICMSA.
 Mr. T. J. O'Callaghan, Council Member, ICMSA.
 Mr. D. Murphy, General Secretary, ICMSA.

Nominated by the Irish Employers' Confederation
 Mr. J. Jennings, Chairman, IEC.
 Mr. D. S. McAleese, Member of Council, IEC.
 Mr. D. J. McAuley, Member of Council, IEC.
 Mr. P. Murphy, Vice-Chairman, IEC.
 Mr. J. J. O'Reilly, Member of Council, IEC.

Nominated by the Irish Farmers' Association
 Mr. S. Healy, Secretary General, IFA.
 Mr. D. Cashman, Deputy President, IFA.
 Mr. P. Lane, Vice-President, IFA.
 Mr. J. Richards-Orpen, Economics Committee, IFA.

APPENDIX 3

CHANGES IN COUNCIL MEMBERSHIP: 1974-76

Date of change	Members resigning	Members filling vacancies
10 June 1974	Mr. J. Jennings (IEC)	Mr. M. Greene (IEC)
9 July 1974	Mr. M. B. Lawless (Department of Local Government)	Mr. G. A. Meagher (Department of Local Government)
11 November 1974	Mr. P. J. Keehan (CII)	—
24 January 1975	—	Mr. J. P. Culliton (CII)
30 September 1975	Mr. D. S. McAleese (IEC)	Mr. A. Shiel (IEC)
27 February 1976	Mr. J. P. Culliton (CII)	Mr. J. H. Donovan (CII)
1 March 1976	—	Mr. M. Murphy (Department of Finance)
15 April 1976	Mr. P. O'Slatarra (Department of Industry and Commerce)	Mr. J. Holloway (Department of Industry and Commerce)
7 May 1976	Mr. B. G. Harkin (ICTU)	Senator M. Mullen (ICTU)
7 May 1976	Senator F. Kennedy (ICTU)	Mr. H. O'Sullivan (ICTU)
3 August 1976	Mr. P. Lane (IFA)	Mr. P. Dunne (IFA)
13 August 1976	Professor P. Lynch	

APPENDIX 4
SECRETARIAT

Non-Civil Service: Full Time Members of Secretariat

- Mr. T. P. Ferris, Secretary, Economic Policy Committee, February 1974–December 1976.
Ms. C. Keehan, Secretary, Social Policy Committee, February 1974–December 1976.
Mr. J. G. Hughes, Secretary, Regional Policy Committee, February 1974–April 1975
Mr. D. Brennan, Secretary, Regional Policy Committee, June 1975–March 1976.
Mr. J. Blackwell¹, Secretary, Regional Policy Committee, March 1976–December 1976.
Mr. D. Chambers, August 1974–September 1975.

Non-Civil Service: Occasional/Part-time Members of Secretariat

- Ms. E. Fitzgerald²,
Mr. R. Jones, April 1976–August 1976.
Mr. A. Matthews, June 1975–August 1975.
Mr. A. Somerville³,
Mr. B. Stephens, September 1976–October 1976.

¹Mr. Blackwell worked in the Secretariat from July 1975 before becoming Secretary to the Regional Policy Committee in March 1976.

²Ms. Fitzgerald was a part-time member of the Secretariat at various stages of 1975 and 1976.

³Mr. Somerville was a part-time member of the Secretariat at various stages of 1974, 1975 and 1976.

Civil Service Members of the Secretariat

- Mr. R. Bradshaw (Administrative Officer), November 1973–February 1974.
Mr. J. Lyons (Executive Officer), February 1974–December 1975.
Mr. J. P. Franklin (Executive Officer), January 1976–December 1976.
Ms. P. Grace (Clerical Assistant), March 1974–December 1976.
Ms. M. Hanway (Clerical Assistant), April 1974–June 1974.
Ms. M. Ryan (Clerical Assistant), June 1974–December 1976.

Appendix 5.1

Statement issued on behalf of the Department of Labour: 2 July 1975

OECD Report on Manpower Policy in Ireland and Comments on that Report by the National Economic and Social Council

"The OECD Report, which was published in 1974, is very wide-ranging in character and, in the process of examining Irish manpower policy, comments on many related issues including economic policy, industrial development, regional policy and so on. The OECD team considered manpower policy in Ireland in a very wide context and this added considerably to the value of their report.

"The Minister for Labour decided to refer the OECD report to the National Economic and Social Council for examination. The recommendations and comments of the NESC in their report are being considered by the Government following examination by the Department of Labour in consultation with the other Departments and agencies involved. Some of the recommendations in the reports are of a long-term character and others affect the work of a number of Government Departments and State bodies.

"The Minister for Labour, commenting on the reports, pointed out that since they were based on information supplied to the OECD Experts relating to the period before 1973 and since he had been keeping in close touch with drafts of these reports, he has been in a position to implement their recommendations speedily. For example, action has already been taken or initiated in line with many of the recommendations in the reports. Among these matters are:—

- (a) the setting up of a specialist planning unit in the Department of Labour;
- (b) the recruitment of a basic cadre of Vocational Guidance Officers in the National Manpower Service;
- (c) the expansion of the numbers employed on placement work in the National Manpower Service;

APPENDIX 5

GOVERNMENT STATEMENTS ISSUED WHEN REPORTS WERE PUBLISHED¹

- 5.1. Department of Labour Statement on "Comments on the OECD Report on Manpower Policy in Ireland", NESC, No. 6, July 1975.
- 5.2. Government Statement on "Jobs and Living Standards: Projections and Implications", NESC, No. 7, June 1975.
- 5.3. Government Statement on "Report on Inflation", NESC, No. 9, June 1975.
- 5.4. Government Statement on "Causes and Effects of Inflation in Ireland", NESC, No. 10, October 1975.
- 5.5. Government Statement on "Income Distribution: A Preliminary Report", NESC, No. 11, September 1975.
- 5.6. Government Statement on "Economy in 1975 and Prospects for 1976", NESC, No. 13, October 1975.
- 5.7. Government Statement on "The Taxation of Farming Profits", NESC, No. 15, February 1976.
- 5.8. Government Statement on "The Future of Public Expenditures in Ireland", NESC, No. 20, July 1976 and "Report on Public Expenditure", NESC, No. 21, July 1976.

¹The statements are re-produced in full in the accompanying appendices.

- (d) the increased use of advertising by the National Manpower Service;
- (e) the institution of a National Labour market sample survey and the introduction of a pilot scheme for provision of local labour market supply and demand information through the National Manpower Service regional offices;
- (f) the institution of a programme to expand facilities for adult retraining to a target figure of 1% of the labour force;
- (g) substantial increases in allowances payable to persons undertaking retraining;
- (h) promulgation of proposals for reform of apprenticeship;
- (i) extension of the functions of CERT to cover restaurants and institutional catering and a closer association between AnCO and CERT.

"The main recommendations in the report are aimed at giving the Department of Labour and its agencies a more positive role in relation to the formulation of economic, social, industrial and regional policy.

"Since the change of Government, the Minister for Labour points out that a role for the Department along the lines indicated has been developed. The Department is now recognised as one of the four main economic Ministries with Finance, Agriculture and Industry and Commerce. The Minister has been anxious to provide the Department with a role in job creation. The Premium Employment Programme, PEP, drawn up by Departmental officials in consultation with other Department gives the Department this function for the first time.

"The Minister for Labour welcomes the comments of the NESC about the need for expansion of industrial training including the recommendations dealing with skill shortages, training for women and training for the services. In this connection the Minister said that AnCO has been allocated for 1975 the greatest resources to date for industrial training in any one year—£9 million in fact—for the training of 7,000 adults and apprentices as against 4,500 in 1974. The Minister said that it was important that the period of enforced unemploy-

ment for the workers involved be utilised through the provision of increased industrial training for as many of those workers as possible.

"As regards the proposals for dealing with skill shortages, the discussions relating to the proposals for reform of apprenticeship have been concluded and it is anticipated that firm decisions about the new apprenticeship arrangements will be announced in the near future. The new apprenticeship system will involve a high level of co-operation between educational and training bodies which will represent a substantial step in the direction of the closer co-operation between education and training which is advocated in these reports.

"The NESC stresses the necessity for action to improve the situation about training of women. A working party set up by AnCO drew up a report on the question of access of women to apprenticeships and following consideration of that report the Council of AnCO have decided to initiate a pilot project in this area. The Minister will be introducing legislation in the current session of the Dáil relating to the recruitment, training and advancement of women which will provide a statutory basis for the removal of discrimination against women in the matter of access to training.

"The two Reports discuss the future status of AnCO and the National Manpower Service and, in particular, raise the question as to whether the National Manpower Service should be given a separate status outside the Department of Labour. This is at present being examined by the Minister."

Appendix 5.2

Statement issued on behalf of the Government

NESC Report—*Jobs and Living Standards: Projections and Implications*; 25 June 1975

1. "The Government welcome the report of the National Economic and Social Council, entitled 'Jobs and Living Standards: Projections and Implications', published today, as a useful contribution to public debate and understanding in this area.

2. The Council report points to the existing gaps in living standards (output per head) and in levels of productivity (output per person at work) between Ireland and selected European countries and the difficulty of closing these gaps in the medium-term future in view of the imminent rise in the Irish population. The Council suggests that this raises difficult questions for the distribution of income within Ireland. It also, of course, raises major questions as to the public and private investment needed if the gap is to be narrowed and as to the means of financing that investment.

3. Previous reports of the Council have dealt with population and employment projections to 1986, and with regional policy, while the Council's report on inflation has recently been published. All these documents provide the quantitative and analytical background necessary for the formulation of policy in these areas.

4. The Government understand that the Council is proceeding to consideration of the policy issues inherent in the analysis of the problems presented so far and looks forward to receiving the Council's advice and recommendations in due course."

Appendix 5.3

Statement issued on behalf of the Government

NESC Document on Inflation: 20 June 1975

"The Government consider the document of the National Economic and Social Council, entitled "Inflation", published today, to be a most useful contribution to public debate and understanding in this area.

They will take the proposals made into account in their current review of the economic situation, the results of which, as the Taoiseach announced on 17 June, will be presented by the Minister for Finance in the Dail on Thursday 26 June. They note with regret, however, that it has not been possible for the Council to produce an agreed report and that a number of reservations, some of a comprehensive nature, have been entered by interests represented on the Council."

Appendix 5.4

NESC Report, Causes and Effects of Inflation in Ireland

Comment by the Government: 22 October 1975

1. "The Government have considered this report, and have noted that some members of the Council are in fundamental disagreement with parts of it. They wish to make the following brief comments.

2. The main conclusion of the Report that excess demand was mainly responsible for inflationary developments in the period 1953-73 is not convincingly supported by the analysis presented and runs contrary to the findings of other recent studies relating to Ireland and elsewhere. It is, of course, well known that professional economists are widely divided on the causes of and remedies for recent inflationary tendencies.

3. In examining the causes of excess demand in Ireland, the report gives primacy to increases in public expenditure and the method of financing it, rather than to other factors affecting demand such as increases in income and import prices. However, the public funds raised through borrowing have largely been directed towards new investment and increases in productive capacity through the Public Capital Programme, which have had the effect of increasing employment and inducing private investment, especially industrial investment through grants and infrastructural support schemes. In effect, then, the Report fails to give adequate weight to the impact of Government action through public expenditure programmes to promote investment and competitiveness. The alternative to public sector borrowing is heavier direct and indirect taxation which would aggravate inflationary tendencies and cause unemployment.

4. The prescription for curbing inflation which emerges from the report, namely, a reduction in demand through a cutback in public expenditure and, therefore, public borrowing, would aggravate rather than cure the present ills of unemployment and inflation. The situation calls for a combination of measures aimed at increasing investment and improving cost competitiveness to take advantage of the expected

recovery of world trade on which our economy so much depends. These measures could be frustrated if public sector spending were reduced to the extent implied in the Report's conclusions."

Appendix 5.5

Statement issued on behalf of the Government

NESC Report on Income Distribution: 11 September 1975

1. "The report from the National Economic and Social Council entitled 'Income Distribution: a preliminary report' is a useful contribution to the study of the issues which arise in this area. Although hampered by data deficiencies, the report provides a measure of insight into the re-distribution of income, brought about through fiscal policy and Social Welfare benefits over the last few years. The Government accept the Councils' recommendation, made in paragraph 31, that the Department of Finance should continue this research in the area of income distribution through further studies at periodic intervals."

Appendix 5.6

NESC Report—Economy in 1975 and Prospects for 1976, 23 October 1975

Comment by the Government

"The Government consider the report of the National Economic and Social Council on 'The Economy in 1975 and Prospects for 1976', published today, to be a timely and valuable analysis of the current position of, and outlook for, the economy. In particular, they note and agree with the emphasis in the report on the vital need in 1976 to improve the competitiveness of Irish goods and services, especially through a lower rise in incomes than the prospective increase in prices.

"The report identifies how the different timing of the national budgetary process and the date of renewal of the National Pay Agreements can lead to harmful divergences in economic, incomes, fiscal and monetary

policies. The views in the report will be discussed in the Working Group on the Economy and will be taken into consideration in the formulation of Government economic policy for 1976."

Appendix 5.7

Statement issued on behalf of the Government

NESC Report—The Taxation of Farming Profits: 11 February 1976

"The Government consider that the report of the National Economic and Social Council, entitled 'The Taxation of Farming Profits', published today, is a valuable contribution towards greater public understanding of this matter. They note that the Council has not produced an agreed document and that a number of important reservations have been made by interests represented on the Council. The Report is being examined by the Departments concerned."

Appendix 5.8

Statement issued on behalf of the Government

NESC Report No. 20: The future of public expenditures in Ireland; NESC Report No. 21: Report on public expenditure, 29 June 1976

"The Government welcome the reports prepared by the National Economic and Social Council on the pattern of public expenditure in Ireland. In particular, the Government endorse the Council's views on the need for immediate and effective curbs on the rate of growth of public expenditure. The Government note, however, that the Council felt itself unable at this stage to specify any particular area in which these curbs should be applied.

"The reports underline the difficulties which face the Government in controlling public expenditure. Indeed, they largely support what has been said on this subject by the Taoiseach and other Government Ministers in the past. These reports will, undoubtedly, be of assistance in promoting a clearer public appreciation of the need to restrict the

growth of public expenditure. The Council's stated intention of becoming directly involved in future in identifying specific expenditures which may be either reduced in scale or eliminated is particularly welcome.

"The reports are being given further and more detailed consideration by the Government."

APPENDIX 6

SUMMARIES OF COUNCIL REPORTS

This appendix contains summaries of the Council's reports. The summaries are presented in the sequence in which the reports were prepared.

with low living standards. In conclusion, the Council states that there is a need for a programme or plan for economic growth and development extending over three to four years ahead.

APPENDIX 6.1

THE ECONOMY IN 1973 AND THE PROSPECTS FOR 1974

(NESC, No. 1, Prt. 3775, April 1974)

6.1.1. The report comments on the current economic situation, the outlook for 1974 (assuming that present policies are maintained), and the implications of the forecasts for 1974. The main features of the economy in 1973 are summarised in the light of information available on 22 March 1974. The reason why earlier forecasts for 1973 differed from the latest estimates of what happened in that year are also examined.

6.1.2. The forecasts for 1974 are based on discussions which the Council secretariat had with the staff engaged in forecasting in the Central Bank, the Department of Finance and the Economic and Social Research Institute. In addition, the Department of Finance gave its views on the likely economic trends in 1974.

6.1.3. As regards the policy implications of the 1974 forecasts, the Council stresses the need to forecast ahead despite the uncertainties. The Council believes that the forecasts for 1974 do not warrant the application of restrictive monetary and fiscal policies aimed at dampening the development of the economy. Rather, the Council believes that the aim of budgetary and monetary policies in 1974 should be to add about 1% to the forecast growth in output. The necessary measures should be taken, within the context of policies which give this modest further stimulus to the economy, to ensure that special attention is paid to those

APPENDIX 6.2

COMMENTS ON CAPITAL TAXATION PROPOSALS

(NESC, No. 2, Prt. 3943, July 1974)

6.2.1. In his Financial Statement on 3 April 1974, the Minister for Finance stated that consultations would be held with the National Economic and Social Council regarding the taxation of farm profits and capital taxation. *Part II* of the report contains the Council's comments on the taxation of farm income, which were sent to the Minister for Finance on 17 May 1974. *Part I* of the report sets out the comments of the Council on the capital taxation proposals. The comments command the general support of the Council, except in so far as is specifically indicated in the addendum by representatives of the Irish Congress of Trade Unions on the Council.

Part I

6.2.2. The Council's comments on the capital taxation proposals relate to the White Paper's proposals, as modified by the Minister for Finance in his speech to the CII on 15 May 1974. The Council agrees in principle to the introduction of a *capital gains tax*, but believes that the manner in which the taxable gain is calculated should take account of changes in the value of money. While the Council accepts in principle the proposed tax on *realised* capital gains, the majority of the Council does not favour its extension to *unrealised* capital gains. As regards the modified exemptions for capital gains tax, the Council believes that they constitute a balance between minimising compliance costs and ensuring a yield from capital gains tax.

6.2.3. The Council accepts in principle the desirability of introducing a *capital acquisitions tax* on inheritances and gifts, as an alternative to

death duties. However, the Council believes that three consanguinity categories would be sufficient in Irish circumstances:—

Class A: spouse and children (including adopted children)

Class B: lineal issue, lineal ancestors, brothers, sisters, nephews, nieces, uncles and aunts

Class C: All others

The thresholds of exemption for Class A should be £100,000, for Class B £10,000 and for Class C £2,000.

6.2.4. The Council feels that it would be necessary to have the scale of rates for Class B adjusted to eliminate any incentive for "generation skipping" i.e., to pass inheritances to grandchildren to reduce the tax liability, rather than to the spouse or child. In the Council's view it would be desirable, in the case of trade, business or professional assets which are passed to one individual in Class B as the sole donee/legatee, that that person should be treated as if he were in Class A, if he or she had been involved in the working of the farm, business or profession for a reasonable number of years preceding the date of acquisition. There was a division of opinion in the Council about whether this concession should apply only to cases in which there was no surviving relative in Class A, or to cases in which there was no donee/legatee in Class A. The Council believes that consideration should be given to relating the exemption threshold for Class A beneficiaries to the size of the estate being distributed at death.

6.2.5. The proposals in the White Paper, whereby the rate of capital acquisitions tax applicable to gifts would be 25% below the rate for inheritances, are acceptable to the Council. It is the belief of the Council that steps should be taken to introduce an *accessions tax* as soon as feasible, whereby gifts and inheritances would be aggregated from *all* sources (and not merely from one donor/testator).

6.2.6. Before the Council could comment on the *wealth tax* in the broader context of the proposed tax changes as a whole, it would be necessary to have clarification of such matters as the forms of relief appropriate for productive capital used in business and the possibility

of fixing an overall limit to the percentage of income that would be taken by income tax and wealth tax. As regards exemption thresholds for wealth tax, the Council believes that, on the grounds of equity, the exemption threshold for a married couple should be twice that for a single person. In so far as the taxpayer would of necessity incur compliance costs in meeting the requirements of the tax system, a case can be made for allowing such costs (subject to some limit) as an expense against tax.

6.2.7. As regards the capital taxation proposals as a whole, the Council feels that the administrative difficulties of introducing three new taxes would be eased if their introduction was phased over a greater number of years than proposed in the White Paper. While accepting that the Minister for Finance's proposals will help make the tax system more equitable, the Council is concerned about the balance between equality and economic efficiency and growth.

Part II

6.2.8. In his Financial Statement of 3 April 1974, the Minister for Finance stated that consultations would be held with the National Economic and Social Council on considerations to be borne in mind in the taxation of farm profits. The Council's comments as agreed at its meeting on 16 May 1974 were as follows:

- (a) In principle, all sections of the community (including farmers) should make their fair contribution to tax revenue. There was, however, no agreement on whether £100 or a lower poor-law valuation should be the starting point for the detailed application of the Minister's proposals.
- (b) As regards the proposed notional basis of assessment, there was general agreement that rateable valuation of farm land was not necessarily correlated with farm income. The argument in favour of using rateable valuation was that all land had a rateable valuation, and that at present it was the only basis for a rough and ready measure of income. Actual farm accounts would be more equitable and relevant. If actual accounts were to be used, some time could elapse before they were generally available. In essence, income tax is a tax based on capacity to pay as measured by income.

- (c) Where actual accounts were used as the basis for assessment, there might be a case for some relief from income tax in respect of rates on agricultural land. This is based on the assumption that for larger farmers rates constitute a significantly larger proportion of income than is the case in other business enterprises.
- (d) If actual farm accounts were used as the basis for assessment, some adaptation of the present system of tax reliefs, which were primarily geared towards non-agricultural activities, would be required. Allowances could be determined or adjusted to encourage investment in sound agricultural development.
- (e) There was disagreement on the "multiplier" of 40 mentioned in the Minister for Finance's proposals. If this notional basis is to be maintained for other than a transitional period, the Council would welcome the opportunity of examining the basis on which a more equitable notional assessment might best be made.
- (f) There was general agreement that, where farmers were assessed on the basis of actual accounts, some provision would be desirable whereby the average income over a number of years could be taken for assessment rather than the income in a single tax year.
- (g) There was general agreement that, where income from agriculture was not assessable for tax, it should not be permissible to offset losses arising from agriculture for tax purposes against income arising from outside agriculture.

APPENDIX 6.3

THE ECONOMY IN 1974 AND OUTLOOK FOR 1975¹

(NESC, No. 3, Prl. 4146, November 1974)

I International Developments

6.3.1. In 1974 there have been rapid and disturbing changes in the

¹A document prepared by the Council's secretariat.

world economy. The year has been marked by the aftermath of the oil crisis, by accelerating inflation (now running well into double figures), by a sharp slowdown in economic activity, by increases in unemployment, and by the emergence of fundamental disequilibria in international payments of unprecedented magnitudes. Only a moderate deceleration in inflation can be expected in the short term because past increases in oil and commodity prices and recent and current increases in money incomes are still working through to consumer prices.

II UK Economy

6.3.2. Developments in the United Kingdom are of particular importance to the Irish economy. Most forecasts for the UK economy suggest that by the close of 1975 output will be little different from 1973 and unemployment will have risen sharply. While the balance of payments picture is expected to improve as demand slackens, the rate of inflation still looks disquietingly high. Wage and cost inflation could erode UK competitiveness through 1975. At the same time reflationary action and its balance of payments implications might cause a further depreciation in the external value of sterling through 1975.

III Domestic Economy

6.3.3. The Irish economy has to operate against this background of adverse international developments. The implications for Irish prices of the increase commodity prices (including oil) since September 1973 are disquieting. The picture for 1974 is one of very weak growth and increasing unemployment. Real output may have risen only marginally in 1974 (by about 1 per cent) and the average unemployment rate was probably the equivalent of 6.3 per cent of the labour force, compared with 5.9 per cent in 1973. The money incomes of farmers probably fell by about 15 per cent during 1974. There are prospects for a recovery in farm incomes in 1975 and beyond as the EEC transition period proceeds.

6.3.4. An important influence on total money income outside agriculture in 1974 was the 1974 National Agreement. Before allowing for any addition through a "16th round" in 1975, average earnings are likely to be about a quarter higher than in 1974. The position in industry could become critical. There is a danger of a substantial

"shake-out" of labour, which would be all the greater if demand remains weak. There was a sharp deterioration in the trade balance in the first half of 1974. The estimated outturn for 1974 is a current external deficit which is one of the largest in relation to national output within the EEC.

6.3.5. On the basis of present policies, 1975 could be another year of poor growth and unemployment could rise well above the present levels. The current external deficit could remain very large and the rate of price increases could be at least as fast as in 1974. There are major problems to be faced in each of the main areas of concern for short-term economic policy, namely, output, employment, prices and the balance of payments. The short-term demand management problem becomes, in its simplest terms, one of deciding on the degree to which demand can be increased, in order to expand output and reduce unemployment, within the constraints imposed by the balance of payments.

6.3.6. It is not inappropriate for a small country that is building up its industry to run a current external deficit financed by net long-term capital inflows. Nor would it be appropriate to try to eliminate within a very short period that part of the deficit that is due to higher energy prices, because the necessary structural adjustments could be effected without serious economic disruption only over a number of years. When allowance is made for reducing the oil deficit over six to seven years, for a continuing net capital inflow and for the reversal of temporary influences now having an adverse effect on the external balance, the underlying balance of payments deficit is less serious than crude forecasts suggest. When these allowances are made there is some scope for domestic action to curb the growth in unemployment in 1975. It is now too late to do very much about the year to year growth rate between 1974 and 1975, but action could be taken that would make considerable difference to unemployment levels by the end of 1975. The size of the expansionary stimulus that could be given in 1975 must depend on the availability of external funds to finance the balance of payments deficit.

6.3.7. The effectiveness of any expansionary stimulus in 1975 in raising output and reducing unemployment would be much reduced by

excessive increases in money incomes under a "16th round". If a "16th round" related changes in money incomes to changes in prices through 1975, an expansionary stimulus which included reductions in indirect taxes would be particularly effective in moderating the rate of inflation, and hence minimising its adverse effects on the external deficit and the domestic economy.

6.3.8. One of the main objectives for the next few years must be to reduce the rate of inflation. There can be no doubt that this country is vulnerable to external price increases. However, even after full allowance is made for external factors a substantial part can be explained only by domestic behaviour. A major underlying cause of the inflation that is generated domestically is the attempt by members of the community to achieve real incomes that when added together exceed the real output of the community. Inflation can therefore be curbed only to the extent that aspirations and realities are brought into line with each other. This will be more easily achieved if the national output is growing, because all can enjoy some improvement in living standards.

6.3.9. The domestic inflationary pressures that are generated by demands that cannot simultaneously be met can be defused only by greater understanding of these causes of inflation that operate within the community. Progress towards reducing the domestic element in inflation will not be easy and cannot be achieved instantaneously. It will be achieved only by wider and fuller understanding of the basic domestic causes of inflation among all sectors of the community. It will be achieved more easily if the economy is expanding, and if policy instruments are refined or developed to ensure that expansion is achieved and its fruits distributed in an equitable manner.

APPENDIX 6.4

REGIONAL POLICY IN IRELAND: A REVIEW

(NESC, No. 4, Pri. 4147, January 1975)

6.4.1. The report is divided into two parts. *Part I* poses and discusses major questions about the application of regional policy to the existing

situation in Ireland in order to clarify the issues which have to be dealt with before a regional development policy can be formulated. *Part II* presents detailed information on the development of regional policy in Ireland since 1950.

Part I

6.4.2. The first question which is posed is, why is a regional policy necessary? It is noted that the case for a regional policy is based on the view that market processes, in terms of the determination of prices, wages, location of industry and the like, do not seem able, if left to themselves, to bring about a socially and politically acceptable regional distribution of income and employment.

6.4.3. Given that a regional policy is necessary the most important questions to be answered are what should be the objectives of regional policy and how are consistent objectives to be defined when non-economic objectives are included? Should the objectives, as far as possible, be quantified for each region or other appropriate area? What are some of the implications of pursuing the balanced development of all regions? Is the emphasis on the subsidisation of fixed capital, which has been the main instrument of regional policy in the past, appropriate in view of the fact that industrial investment may also be determined by non-economic factors? How may regions should there be for economic planning purposes and finally, should the many organisations now involved in regional policy be reduced in number and their different activities co-ordinated by one Government Department?

6.4.4. While not all of the questions posed in Part I are capable of definitive answers an attempt can certainly be made to answer some of them. To help in this task the Council's Regional Policy Committee has drawn up a work programme consisting of the most important questions upon which work needs to be done and it is hoped that the Council will commission research into these questions in the future.

Part II

6.4.5. In the approach to regional policy in the last twenty years or so, emphasis was placed initially on the problems of the Undeveloped

Areas. Later, in the face of a decline in the number of industrial jobs in all regions and strong competition from other countries on the inducements offered to attract foreign enterprises, attention was concentrated on encouraging development generally throughout the State. This change in emphasis emerges clearly in the industrial grants legislation which was passed in the 1950s and the 1960s. In addition to the offer of cash grants to industry, private investment was also encouraged, especially in the later part of the period, by the provision of advance factories, serviced sites and through the services generally provided by the Industrial Development Authority (IDA), an Chomhairle Oiliúna—the Industrial Training Authority (AnCO), and other bodies.

6.4.6. The Industrial Development Authority was given statutory responsibility for the promotion and development of Irish industry in 1950. In addition to this function it now has the responsibility of administering the industrial grants scheme over most of the country. Gaeltarra Éireann was established in 1958 to provide gainful employment for native Irish speakers in the Gaeltacht, and its powers were subsequently extended by a number of Acts. In 1958 the Shannon Free Airport Development Company (SFADCO) was set up to promote industrial development at the airport; since 1970 the company has acted as agent for the IDA in the Mid-West region. Both Gaeltarra Éireann and SFADCO are able to give grants to enterprises establishing in the areas for which they have grant giving powers, i.e., the Gaeltacht and the Shannon airport zone respectively.

6.4.7. The Local Government (Planning and Development) Act was passed in 1963. This provided a legal framework within which the physical development of the country could take place. In the same year the Government defined nine regions for physical planning purposes. As originally defined the regional boundaries did not follow county boundaries in all cases. The Government redefined the boundaries in 1969 so that, with the exception of Tipperary, regional and county boundaries coincided. In 1964 the Government commissioned consultants to prepare economic and physical development plans for the Limerick Region (the Lichfield Report) and the Dublin Region (the Wright Report) and in 1966 it requested the United Nations to com-

mission consultants to undertake regional studies for the remaining seven regions. The Consultants were asked to take full account of the other two regions in their analysis and recommendations. The result of this commission (the Buchanan Report) was a recommended regional strategy for the entire country.

6.4.8. Since the publication of *Economic Development* in 1958 there has been much discussion about the kind of industrial location policy which is most suitable for Ireland. Two approaches have been suggested:

- (i) concentration of resources on the development of a few growth centres, and
- (ii) dispersion of resources so that a large number of small centres can participate in the industrial development of the regions.

The Government has opted for a combination of the two approaches.

6.4.9. For the most part the objectives of regional policy, as described in various Government reports and in Government statements, have been expressed in general terms such as checking "the tendency towards unbalanced regional development". Such an approach is understandable because of the inherent difficulties involved in specifying precise regional objectives in operational terms.

6.4.10. There is a large number of organisations involved in the regional development of the country. Arrangements have been made for the co-ordination of the activities of the most important of these organisations at regional level. Thus, the activities of the County Development Teams are co-ordinated by the Central Development Committee while the Regional Development Committee has performed a co-ordinating role in relation to the reports of the Regional Development Organisations. Informal co-ordination has grown up over the years between Government Departments and Agencies, Local Authorities, Trade Unions, Voluntary Organisations etc.

6.4.11. A statistical analysis of the regions shows that there are significant differences in the economic and demographic character-

istics of the regions. The more prosperous regions exhibit the following characteristics: a significant increase in total population over the period 1966-71; a high rate of natural increase and a low rate of emigration over the same period; a large percentage of their population in towns in 1971 and a small proportion of their labour force in agriculture; above average employment in sectors whose rate of employment growth is higher than the national average; unemployment rates below the national average; a strong concentration of manufacturing establishments and relatively high personal income per head. The converse holds for the poorer regions.

APPENDIX 6.5

POPULATION AND EMPLOYMENT PROJECTIONS: 1971-86

(NESC, No 5, Pri. 4193, February 1975)

6.5.1. The report is presented in two parts. *Part I* of the report contains the comments of the Council on the population and employment projections for the period 1971-86. In *Part II* of the report the projections prepared by Professor Brendan Walsh are set out in full.

Part I

6.5.2. Since the NIEC *Report on Full Employment* was published in 1967, the achievement in providing new industrial and service employment has been significant. Despite this, much is still required if the goal of full employment is to be reached. The National Economic and Social Council, therefore, decided that the whole question of the achievement of full employment should be re-examined. As a first step in identifying the magnitude of the problem, the Council asked Professor Brendan Walsh to make population projections for the period 1971-86, and to calculate the net increase in total employment that would have to be achieved if full employment were to be reached by 1986, on certain assumptions about the possible behaviour of emigration, fertility, marriage and participation rates. The resultant projections can be seen as providing a broad indication of the magnitude of the problem of achieving full employment, on the assumptions

underlying the study. Whether or not the projections turn out to be true depends on the actions of individuals and organised groups, and on the effectiveness of the economic and social policies that are applied, over the next fifteen years or so.

6.5.3. The Council recognises that the projections contained in Professor Walsh's report show only what *could* happen between now and 1986 to the numbers who might be seeking work and to the number of dependants, on the basis of specified assumptions. If the projections could be realised then there would be significant social, regional and economic implications for the community. The present projections reveal a picture of change at an overall national level. The changes in individual regions could vary significantly from the national pattern projected by Professor Walsh. An attempt to break down the projections at a regional level cannot be made until the overall economic implications have been spelt out. If the projections were realised, there would be important social implications. Changes in employment structure, from family farm to non-family farm employment, could result in increased urbanisation of the population. Investment in social infrastructure—houses, schools and public utilities could have to accord with new patterns of population location. Moreover, with a continuing high dependency ratio, social expenditure on education, health and other social services would have to be maintained at a high level.

6.5.4. The Council believes that the aim should be to achieve full employment as soon as possible. Full employment does not mean the provision of work for its own sake. The jobs created must be regarded as satisfactory by those who need them and the rewards must be regarded as adequate. If the new employment is to be sustainable, the products and services produced must be competitive. If the progress towards full employment is not to be hindered by external constraints or internal conflicts, the balance of payments position must be sustainable, and the fruits of the economic expansion must be equitably distributed amongst individuals, social groups and the different regions. The rate of progress towards full employment will ultimately depend on the rate of growth in real incomes that the community finds acceptable. The faster the rise in living standards that is demanded, the longer it will take to attain full employment.

Part II

6.5.5. The main results of Professor Walsh's projections are summarised in Table 6.5.A. The range of figures shown for 1986 mainly reflects variations in the assumptions made about emigration (for example, zero or 5,000 p.a. in 1986), female participation rates, and participation rates for both males and females in the age group 15–19 years. In his assumptions relating to emigration, he took zero net emigration in all age-groups for his lower figure, and for the higher net emigration figure (of 5,000 p.a.) he projected forward the average age/sex distribution that existed during 1966–71.

6.5.6. Professor Walsh's projections indicate that the total population in 1986 could be between 18% and 27% higher than in 1971. The growth could be very different for different age-groups—the numbers aged 15 to 44 years could grow very much more rapidly than the number aged 65 years and over. The projections indicate the possibility of a doubling in the numbers of young married couples over the years to 1986. The numbers in the age-group 0–14 years could grow significantly as a proportion of the total population.

6.5.7. The projected growth in the numbers that could be available for work depends not only on the numbers in the working age groups (15–64 years), but also on the proportion of these that might seek work. As far as the latter is concerned, the participation rates vary according to age-group, sex and marital status. It is assumed in the projections that the participation rate for the age-group 15–19 years will not rise above its level in 1971. It is also assumed in the projections that the participation rates for males will remain at their 1971 levels, for the age-group 25–64 years. As regards projections of what could happen to the numbers of females in the non-family farm labour force, Professor Walsh prepared two projections. The first applied projected female labour participation rates to the projected labour force, and suggested the possibility of a decline in the proportion of women in non-family farm employment from 29.6% in 1971 to 27.6% in 1986. The second allowed for the possibility of the female share remaining constant at its 1971 level. This suggested a more rapid expansion of female employment and a higher female participation rate.

TABLE 6.5.A
A Summary of Projections

	1971 (Actual in Millions)	1986 (Projected)			
		"Low" Estimates*		"High" Estimates*	
		Projection in Millions	Annual Average % Growth	Projection in Millions	Annual Average % Growth
Total Population	2.98	3.51	1.1%	3.78	1.6%
Age structure of population:					
0-14 years	0.93	1.08	1.0%	1.28	2.1%
15-19 years	0.27	0.31	0.9%	0.31	1.1%
20-24 years	0.22	0.29	1.9%	0.32	2.6%
25-44 years	0.63	0.92	2.6%	0.94	2.8%
45-64 years	0.61	0.56	-0.6%	0.56	-0.5%
65 years and over	0.33	0.36	0.7%	0.36	0.6%
Numbers seeking work:					
Males	0.83	0.97	1.1%	1.00	1.2%
Females	0.29	0.33	1.0%	0.35	1.3%
Total	1.12	1.30	1.1%	1.35	1.3%
Occupational distribution:					
Family farm (both sexes)	0.23	0.14	-3.5%	0.15	-3.2%
Non-family farm (both sexes)	0.88	1.16	1.9%	1.20	2.1%
Total (both sexes)	1.12	1.30	1.1%	1.35	1.3%
Non-family farm employ- ment†:					
Total employment (both sexes)	0.82	1.12	2.1%	1.16	2.4%
Total unemployment (both sexes)	0.06	0.05	-2.5%	0.05	-2.2%
Total non-family farm labour force	0.88	1.16	1.9%	1.20	2.1%

*The "high" and "low" estimates are the upper and lower bounds of the possible range of change based on the assumptions used in the projections by Professor Walsh.

†Non-family farm employment relates to the level of employment (and hence unemployment) required to reach Full Employment on Professor Walsh's assumptions by 1986.

6.5.8. On the basis of his assumptions, Professor Walsh projected an increase of 200,000 from 1.1 million to 1.3 million in the number of men and women seeking work over the period from 1971 to 1986—an annual average increase of 13,000 to 15,000. Professor Walsh estimated the possible loss in employment in family farming. He projected a continued downward trend in the family farm labour force, with the share of the total labour force declining from 21% in 1971 to under 11% in 1986. As a result of the assumptions relating to emigration, participation rates and the decline in numbers engaged in agriculture, he projected that the numbers seeking employment outside agriculture would grow by 300,000 from 0.9 million to 1.2 million. When allowance is made for the reduction in unemployment from 7.3% in 1971 to 4% in 1986, the number of additional new jobs required during 1971 to 1986 could be in the range 300,000 to 340,000. This would require an annual average growth in total non-family farm employment of between 2.1% and 2.4% depending on the precise assumptions that are made.

APPENDIX 6.6

COMMENTS ON THE OECD REPORT ON MANPOWER POLICY IN IRELAND

(NESC, No. 6, Pri. 4318, July 1975)

I. Introduction

6.6.1. Since the publication of the NIEC *Report on Manpower Policy* in 1964 there have been a number of major developments with regard to that area of policy, culminating in the OECD report on manpower policy in Ireland published in October 1974. In commenting on the OECD Report the Council examines the concept and role of manpower policy within the total framework of economic and social policy, discusses a number of aspects of industrial training, suggests some changes in the structure of existing institutions used to implement manpower policy and finally focuses on some detailed aspects of the OECD report.

II. The Role of Manpower Policy

6.6.2. Manpower policies can be seen as a collection of instruments by which certain targets set by other policies can be reached, or can

be regarded as an integral element in the mix of policies needed to achieve economic and social development. Manpower policy in this country has been seen mainly in the former context. It has reacted to policies of job creation formulated elsewhere, and has too often been used to deal with the consequences of employment policies formulated and implemented without either adequate manpower information or sufficient examination of their manpower implications. Furthermore, manpower policy has been viewed to date from a purely economic point of view.

6.6.3. The Council does not believe that this concept of manpower policy is adequate. Manpower policy must be re-defined to give equal importance to both its social and economic dimensions and objectives. This definition raises basic questions about the role of the institutions through which it is implemented, and in particular the role of the Department of Labour. If manpower implications are to be given due weight in general policy-making, then the Department of Labour must be fully involved in all aspects of policy-making which impinge on job creation.

III. Industrial Training

6.6.4. Industrial, or more properly vocational training, has both an economic and a human aspect. Its elements should include:

- basic training for those entering the labour force or re-entering it after a period away from work;
- on-going training to ensure that the skills of those in employment keep pace with changing technology and the changing needs of the economy;
- retraining for those who for any reason find themselves unemployed; and
- life-long education for the development of the person.

There are four particular aspects of training which merit comment:—

(a) *Training for Agriculture*

6.6.5. In the Council's view the importance of agriculture to the economic and social development of the country requires that adequate training be provided for farmers and their families and employees. Serious efforts should also be made to improve the attitude of the farm-

ing community towards training. Given the importance of "agri-business", the Council believes that the same encouragement should be given to farmers involved in the management committees of co-operatives to attend training courses as is given to people holding similar positions in industrial companies. The importance of agricultural training necessitates that serious consideration be given to the establishment of a national Agricultural Training Agency with responsibility for advising on the development and implementation of training for all aspects of agriculture, responsible to the Minister for Agriculture and Fisheries, and directed by a board consisting of representatives of farming organisations, farm employees, the IOAS, AnCO, the Agriculture Institute, Universities, and the Department. Consideration should also be given to developing incentives for these engaged in agriculture to encourage them to undergo training.

(b) *Skill Shortages*

6.6.6. There is evidence of shortages of skilled workers in a number of trades, and it is clear that if present trends continue over the next few years, these shortages will become so acute as to threaten the economic expansion which the country needs. The current shortage of skilled labour is at least partly explained by lack of information concerning the manpower requirements of new and expanding industry, and a lack of training facilities to cope with such shortages when they do come to light. Another of the problems associated with skill shortages is the system and duration of apprenticeship training. The length of apprenticeship training is an associated problem. The Council is aware of the fact that AnCO is studying the question of skill shortages, and that it is also reviewing the apprenticeship system. However, serious skill shortages will halt economic expansion, and the measures currently being taken by AnCO may not be sufficient to solve the problem. Skill shortages might also be eased if women were acceptable as eligible for training in skills from which they are now effectively excluded.

(c) *Training for Women*

6.6.7. Relative to other European countries, female participation rates in the labour force are low in this country. In the Council's view it does not make either economic or social sense to limit the crafts and skills for which women can be trained. The Council fully endorses the recommendation of the Commission on the Status of Women that the

existing restrictions on the entry of women to skilled occupations which are exclusively male at present be removed. However, to discuss training for women in these terms is to approach the problem on what appears to be the traditional implicit assumption—namely, that women are different from men in the economic and social roles which they can play. The only approach that is ultimately acceptable is one which accepts that in all matters women should have identical opportunities with those open to men and that any provisions for vocational training should apply equally to both men and women. To move from the present situation in which women are discriminated against would require a period in which they receive especially favourable treatment.

(d) Training for Service Industries

6.6.8. The OECD Report on Manpower Policy states that 44.5% of the work force is engaged in service industries, and that this proportion is increasing by 1% per annum. However, training for service industries was dealt with very briefly by the OECD examiners. This may have reflected the difficulty in dealing with training for these jobs as a unit, because of the wide variety of occupations involved. The Council believes, however, that a review of training for non-professional service occupations, and more particularly for the distributive industries, should be undertaken by AnCO.

IV. Institutions for the Implementation of Manpower Policy

6.6.9. The NIEC suggested that manpower policy should have four major components:

- Employment forecasts
- An efficient employment service
- Retraining and resettlement
- Location of industry

The Council believes a fifth should be added: close, continuing and effective co-operation between all those concerned with the formulation and implementation of manpower policy.

6.6.10. The Council believes that one of the major problems facing the implementation of an effective manpower policy in Ireland is the number and diversity of the institutions and procedures involved. The Council endorses the recommendation of the OECD Report that the

Department of Labour play a more central role in the formulation of economic and social policy, and that it be strengthened by the establishment of a specialist planning unit, which would act as a clearing house for all information, and which would be capable of taking an overview of policy-making in the area. At present the National Manpower Service is an integral part of the Department of Labour, while AnCO is a semi-independent agency with its own council. In the Council's view, these may not be the best arrangements for implementing manpower policy.

6.6.11. There are two alternatives to the present structure. The NMS might be left with its present status and structure, and AnCO brought into the realm of responsibility of the Department of Labour, thus giving it the same standing as the NMS. Alternatively a National Manpower Commission might be established, with a council which would consist of representatives of Government Departments, employers and trade unions, and responsible to the Minister for Labour; AnCO and the NMS would then become executive agencies of this commission. Such a suggestion would require a radical change in the present structure. However, it should be given serious consideration by all those concerned including the Departments of Labour and the Public Service.

6.6.12. Finally, the Council believes that consideration should be given to the establishment of machinery at regional level whereby those agencies closely involved in manpower and regional policy can work more efficiently together.

V. Comments on the OECD Report

(a) The Report as a whole

6.6.13. While it is very useful to have a group of international experts review our manpower policy, the Council would question the validity of some of the conclusions of the report. The Council would not agree for instance, with their comments on emigration trends, nor those on the effectiveness of current Irish development strategy. The Council was disappointed to note that the OECD Examiners did not examine in greater depth some aspects of manpower policy to which the Council attaches importance.

(b) Conclusions of the Manpower and Social Affairs Committee

6.6.14. The OECD Committee makes a number of suggestions concerning manpower policy in Ireland, which the NESC endorses. They suggest:

- (i) that the Department of Labour should have a much greater say in job creation policies, and the executive agencies involved in the implementation of manpower policies need to be strengthened and rationalised at national and regional level;
- (ii) that there should be much closer co-operation between training and education;
- (iii) that the AnCO levy/grant scheme should be reviewed and possibly modified, and that the duration of apprenticeship is too long for the level of skill aimed at;
- (iv) that the most pressing need of manpower policy-making is sufficient and properly processed information.

VI. Conclusion

6.6.15. There are four main themes running through this document—the importance of manpower policy in relation to social and economic progress; the need for co-operation by all parties concerned; the need for sufficient resources, in terms of money, people and structures; and the vital necessity for information. The Council is not satisfied that enough attention is paid to any of these factors. Manpower policy is regarded almost as an afterthought relative to other policies. The consultation process, where it does exist, is slow and cumbersome. Such resources as are devoted to the implementation of manpower policy are not used in the most efficient way, because of the diversity of structures and institutions used to that end. Finally, information gathering techniques require reform and rationalisation.

APPENDIX 6.7

JOBS AND LIVING STANDARDS: PROJECTIONS AND IMPLICATIONS

(NESC, No. 7, Prl. 4402, June 1975)

6.7.1. The report is presented in two parts. Part 1 of the report contains the views of the Council. In Part II, the report explores the

arithmetic of providing the additional jobs for those who could be seeking employment between now and 1986, on various assumptions about the growth in living standards, given the population projections for the period 1971 to 1986.

Part I

6.7.2. In examining the implications for employment and living standards, the Council emphasised that the report is not a plan for achieving full employment. Professor Walsh estimated in an earlier Council report that there could be an increase of some 200,000 in the number of men and women seeking work over the period 1971 to 1986. If account is taken of the continued downward trend in the family-farm labour force, the numbers seeking employment outside agriculture could grow by about 300,000. In addition new jobs will be required for those who become redundant.

6.7.3. The problem of providing the new jobs that will be needed and of raising living standards are inextricably interlinked. The output of material goods provides only a very approximate measure of human well-being. However, if human well-being is to be improved, basic needs must be satisfied, and this can be achieved only by economic growth. But in a democratic society, it is not mere basic needs but what the people want that will determine its economic objectives. In recent years, there can be no doubt that what people want is more and better goods and services. Progress towards satisfying these aspirations cannot be made except by an increase in the volume of goods and services per head of population—that is, by economic growth.

Part II

6.7.4. Part II of the report explores the gap in living standards between Ireland and other selected European countries. Comparisons are made with the United Kingdom (distinguishing between Britain and Northern Ireland where possible) and a number of small EEC countries (Belgium, Luxembourg, Denmark and the Netherlands). In examining some of the reasons for the shortfall in Irish achievement, a broad distinction is made between the differences in productivity levels (output per person at work), and the number of dependants to be supported by those at work. In both cases Ireland is worse off than her neighbours.

6.7.5. It appears that in 1971 output per head of population (i.e. the approximate measure of average living standards) in Northern Ireland was about 15% above that in the Republic. British levels were about 60% higher than those in Ireland, and the corresponding calculations for the "Benelux"¹ group show average living standards 70 to 100% above those in Ireland. Only a small proportion of the differences in output per head of population between the Republic and those in either Northern Ireland or Britain is accounted for by differences in output per person engaged in work (i.e. productivity) in individual sectors of economic activity. Indeed, by 1971 broad sectors of Irish industry were as efficient by this latter measure as their British counterparts. The gap between Irish and British levels of productivity would be about halved if labour continued to move from agriculture to industry and if the employment of those in the working age groups approached the UK proportion. But if Irish output per head of population were to be brought up to European levels, then not only would employment have to be expanded and concentrated to a greater extent in the higher productivity sectors, but there would also have to be generalised and substantial increases in productivity.

6.7.6. Ireland's ability to close the gap in living standards will depend on the rate of growth of Irish output and population relative to those in the other countries. The more rapid prospective growth of population in Ireland than elsewhere means that output will have to grow that much faster here if output per head is to catch up with levels elsewhere. Faster population growth could encourage faster growth of output and productivity. More disturbing is the structure of Professor Walsh's projections which, despite their assumed reductions in unemployment, foresee slower growth in employment than in population. This implies that the Irish dependency rate, already very high, is likely to increase. If any gap (measured in terms of output per head of population) is to be completely closed, then Irish productivity would have to be higher than productivity elsewhere.

6.7.7. If the fifteen year period to 1986 and a single (and reasonably realistic) growth rate for countries other than Ireland, are taken, the

¹"Benelux" comprises Belgium, Luxembourg, the Netherlands and Denmark.

Irish growth rates required to close the gap in output per head of population (i.e. living standards) lie in the range 6½–9½%. However, all of these growth rates imply Irish levels of output per person engaged in work (i.e. productivity) by 1986 in excess of those in neighbouring countries. If Irish productivity does not exceed that elsewhere, then the gap in output per head of population will not be closed.

6.7.8. Since the population and employment projections imply a continuing large proportion of dependants in Ireland, and since it is unlikely that Irish productivity could be raised above European levels, the gap in living standards is unlikely to be closed in the foreseeable future. This raises difficult questions for the distribution of income within Ireland. For example, if there were limits set to the rate of growth of output (for instance, by the growth of domestic savings and capital inflows for investment purposes), then if the Irish community were to insist on the same living standards as those enjoyed elsewhere, employment opportunities would suffer—the strong may achieve these standards and the weak will not be able to find work or will be forced to emigrate. This would happen because sustainable employment at the higher income levels would require higher productivity, which could not be achieved for all because of the constraint on the funds available for investment. If Ireland were to grow at an annual rate of 5½% (that is, the historic rate of productivity growth plus the more rapid employment growth assumed in Professor Walsh's projections), this would allow Irish productivity to reach British levels by 1986 (assuming 3% growth there) but would leave Irish living standards some way behind those in Britain. However, if those in employment were to demand living standards at European levels, their productivity would have to be higher and (given the constraints on output assumed in this example) employment would in all likelihood be considerably lower in 1986 than it is now.

6.7.9. If past performance is a guide to the future, then full employment (on Professor Walsh's projections) by 1986, at living standards obtaining in that year in the small EEC countries, is an unattainable objective. But if past performance cannot be improved upon in the future, then either full employment is achieved while the gap in living standards remains (or grows), or the gap in material standards is

narrowed for those in employment but total employment falls below present levels. The major objective of the Irish community must therefore be to improve on past performance. This improvement will not occur spontaneously. It will be achieved only if there is a wholehearted commitment to improving living standards, if this is accompanied by a full acceptance of the necessary policies, and if these policies are shaped by the right kind of economic and social planning. Professor Walsh's projections, and the study in Part II of the report attempt to quantify the growth in population, the increase in the numbers seeking employment, the size of the gap in living standards, and the growth rates in national output, employment and productivity that could be required if full employment is to be achieved and the gap narrowed. These are necessary "pre-policy" exercises. And more such exercises are required. The limited resources made available to the Council in 1975 mean that it will be able to do relatively little work this year in these "pre-policy" areas. These "pre-policy" exercises are urgent and they should already have been undertaken and published by the relevant Government Departments.

APPENDIX 6.8

AN APPROACH TO SOCIAL POLICY (NESC, No. 8, Prl. 4438, June 1975)

6.8.1. The Report is presented in two parts. Part I contains the Council's report. Part II contains Professor Donnison's paper on social policy.

Part I

6.8.2. In past discussion in Ireland, the impression may sometimes have been given that economic and social policies could often be in conflict with each other. Consequently, economic policies tended to be distinguished from social policies. It may, however, be more realistic to think of Government policies as having economic, social or regional implications rather than to attempt to identify policies as being specifically economic, social or regional.

6.8.3. The Council agrees with Professor Donnison's view that policies have social implications "to the extent that they influence the

distribution of resources and opportunities between different groups and categories of people". In Ireland, virtually all policies implemented by Government have social implications in this sense. The Council must therefore be concerned with the distributional (i.e. the social) consequences of *all* policies, and not merely with those which are specifically labelled social. The Council also believes that attention should not be limited to the distribution of money incomes and material wealth.

6.8.4. There are no objective criteria by which any change in the pattern of distribution can be judged "good" or "bad". Thus, consensus may not easily be reached. However, what is of basic importance is that the relevant issues are raised and debated. The Council believes that any change is desirable which brings nearer a situation in which the disadvantaged are brought nearer to the level that assures them self-respect and the respect of others, in which all are assured of equal access to education, medical care, satisfactory housing and satisfying jobs, in which opportunities for improving their living standards are as nearly as possible equalised, and in which the human dignity of all individuals is respected.

6.8.5. Initially the Council will try to help the public to recognise that the concept of greater equality means many different things in practice, each of which calls for different policies which can often conflict with each other. But the Council cannot do this job unless estimates and forecasts of the likely effects of proposed changes in policies, programmes and procedures are made, and in the more important cases, publicly discussed.

6.8.6. The Government should also publish estimates of the amount and distribution of the costs of change. The Council's task will be to try to ensure that the distribution, and not only the totals, of costs and benefits are considered.

6.8.7. It may be very difficult to produce comprehensive and consistent social priorities. Because policies deal with questions of distribution and equity, they call repeatedly for choices between conflicting interests which only the Oireachtas has the authority to make.

The Council can, however, help to formulate the issues at stake, and promote more widespread, more rational and better-informed debate about them.

6.8.8. In its comments, the Council was concerned with the concept of social policy that should guide its thinking and its future work. Narrow definitions of social policy that limit it to social services must be rejected. In its work, the Council will be concerned with the social (i.e., the distributional) effects and implications of all major policies.

Part II: Summary of Professor Donnison's Paper

6.8.9. In Professor Donnison's view:

"the social policies of Government are those of their actions which deliberately or accidentally affect the distribution of resources, status, opportunities, and life chances among social groups and categories within the country, and thus help to shape the general character and equity of its social relations. Social policies are thus concerned with fairness. They can be roughly distinguished from policies primarily concerned with the economy, social control, public utilities, medical care, agriculture and other functions".

Professor Donnison points out that it is too readily assumed that social services will have equalising results: this assumption should not be made unless there is evidence to support it.

6.8.10. In relation to the cost of social policies, Professor Donnison makes the following points:

- (a) "We should beware of the assumption that at times of crisis economic rectitude demands reductions in the real value of provisions such as family allowances and pensions which are regarded as social, while the total value of tax reliefs on private pension schemes and medical expenses continues to rise, because they are regarded merely as an incidental aspect of the fiscal system".
- (b) "We should not assume that in times of inflation the nation cannot 'afford' equalising social policies".
- (c) "We should not assume that equalising policies must necessarily be expensive".

6.8.11. Professor Donnison believes that social policy must be concerned with the distribution of the following within the community:

- (a) command over resources—of which income and wealth are usually the best, but never the only, indicators;
- (b) social status—the way in which people are treated by others, particularly by those upon whom they are dependent for the resources for living;
- (c) the power that people have to control their environment and to contribute to the development of the society in which they live;
- (d) the security of all these and the extent to which potentially harmful changes can be predicted, avoided or made good.

6.8.12. Professor Donnison points out that no one seriously advocates the uniformity of complete inter-personal equality. The equality to which it may be rational to aspire is not uniformity but a state of affairs in which differences due to taste, talent or luck are as nearly as possible randomly distributed.

6.8.13. In Professor Donnison's view, the five main causes of inequality are:

- (a) the life-time cycle of income: families tend to be least well off when the children are young and during old age (periods when family unit has a relatively high proportion of dependants or non-earning members). The social services, taken together, have been devised mainly to help people in the trough of this cycle.
- (b) social stratification in urban industrial societies: the development of an urban industrial society has created new and more clearly marked patterns of social class. By recruiting abler people to higher classes and shedding the less able to lower classes, social mobility for the individual strengthens the rigidity of the class system as a whole. Position in the class structure will significantly determine access to education, jobs and houses, and credit ratings. Access to these can be regarded as a new form of property, and one which may be of more value to many people than property as conventionally defined. These new forms of property may now be allocated

to a greater or lesser extent by the State, but this is no guarantee than they will be more equally distributed than material wealth;

- (c) urban-rural and interregional inequalities: economic development is never evenly distributed throughout a country. This may mean that the more prosperous regions are the ones which attract young people, new industries—and therefore new sources of employment—and better services;
- (d) intra-urban inequalities: other inequalities are to be found on a smaller intra-urban scale afflicting particular areas within large cities. These areas have high unemployment rates, inferior services such as housing and education, and poor job opportunities. While many of these areas are within the "inner-city" these problems also occur in new housing developments in the suburbs. It should not be assumed, however, that all of the poorest people will be found in these areas, nor that bringing social segregation to an end by moving the poor out or others in, will necessarily make things better, or that deprived urban areas are necessarily worse off than deprived rural areas;
- (e) discrimination: in Professor Donnison's view, there can be systematic discrimination against categories of people—on the basis of, for example, job opportunities, pay, conditions and status—people similar to their fellow citizens in every respect save their race, religion, sex or some other characteristic. At the core of such problems lies the fact that in the course of generations in which its opportunities have been restricted, the group discriminated against may have become less well-equipped to compete in urban industrial society.

6.8.14. Professor Donnison believes that searching for equality poses many problems and causes conflicts. Policies designed to solve one may conflict with those appropriate to another. An understanding of such dilemmas, however, need not inhibit action. It may show which inequalities are most severe, and suggest ways of resolving them which will not exacerbate other inequalities.

6.8.15. Having examined social policies in Ireland, Professor Donnison concludes that:

- (a) More and better information is needed about the degrees of inequality and the redistributive effects of any policies proposed to reduce them;
- (b) more and better informed public discussion is required about inequality and the steps necessary to move towards a more egalitarian society;
- (c) there should be consultation with those who will use the social services provided, so that these will be moulded to their needs and used effectively.

APPENDIX 6.9

REPORT ON INFLATION

(NESC, No. 9, Prl. 4576, June 1975)

I Introduction

6.9.1. The principal objectives of policy in the medium term are to provide increased employment at increasing real living standards. It is clear that something has gone amiss in the progress towards these objectives over the last few years. Prices have been rising faster here than overseas, the competitiveness of Irish products has been eroded, investment has not grown sufficiently, and unemployment remains a serious and growing economic and social problem. In Ireland, inflation has accelerated at a time when other countries have already gone a long way towards reducing their inflation rates. Ireland is therefore approaching 1976 with poorer prospects of being able to benefit from the upswing in world economic activity that is expected next year.

6.9.2. The immediate concern must be inflation. The most serious effects of inflation under present circumstances are the threat to output and employment through loss of competitiveness in export markets, the cash crisis in industry, social hardship and general loss of confidence.

II The Inflation Trap

6.9.3. If inflation continues to accelerate and if the competitive position continues to deteriorate, then there will be a reduction in the

demand for Irish goods and more increases in unemployment in Ireland. If the Government, in the interests of preserving employment, were to increase the level of total demand in order to raise the demand for Irish goods, the balance of payments position would deteriorate further. A steadily increasing deficit in the Irish balance of payments would eventually lead to a loss of confidence in Ireland's ability to repay the money it has been borrowing overseas.

6.9.4. These developments could force the Irish Government into one or other or both of two policies—first, deflation; second, devaluation. Deflation means cutting demand and therefore expenditure by cutting government expenditure or raising taxes. The inevitable result would be more unemployment. Devaluation would merely recognise the fact that real incomes were higher than could be sustained by domestic output. A devaluation would succeed only if average real incomes were reduced. Any beneficial effects that might follow devaluation would not occur immediately. Furthermore, if devaluation were the only measure used to combat the combination of inflation, balance of payments deficit and unemployment the economy would get into a 'vicious circle' of accelerating inflation and a depreciating exchange rate, both being continuously aggravated by erosion of confidence in the country's ability to solve its problems and in its currency. Sooner or later severe deflation would become the only way out. *This would imply a prolonged period of greatly increased unemployment, perhaps even major social or political crises.*

6.9.5. The easiest course is to convince ourselves that what has been happening is inevitable. The hardest course is to face the logic of a continuation of past trends and to take steps that will re-establish the conditions in which significant progress can again be achieved towards increasing employment and raising living standards. *The most important single step is to slow down the rate of inflation.*

6.9.6. There has been controversy about the relative importance of the various causes of inflation in this country. There is general agreement that in recent years a significant part of Irish inflation has been "imported"—that is, caused by price increases that have occurred outside this country. This imported inflation was particularly important

between 1972 and early 1974, but is relatively much less important in 1975. Some part of Irish inflation has been the result of domestic causes. The strength of these has varied from one year to another, but they have become relatively more important in 1975.

6.9.7. Since the general price level in Ireland has risen faster than in Britain, it would be difficult to sustain any argument that imported inflation by itself is a sufficient explanation of what has happened here. To argue that, given the relationship between the Irish pound and sterling, Irish prices must necessarily rise at the same rate as in Britain would mean accepting that Government, trade unions and employers in Ireland are powerless to affect the behaviour of any prices in this country. This argument cannot be sustained. The Government, trade unions and employers can, and do, affect prices and pay in Ireland, and believe that they have the power to affect them.

6.9.8. The reactions by Government, trade unions and employers have magnified the effects of imported inflation on the Irish price level. Increases in money incomes have been sought to compensate for these price increases. The consequence of the compensating increase in money incomes is a price rise, leading to further income and price increases. This incomes/price spiral has been an important domestic source of inflation. In recent years the spiral has received institutional support from the National Pay Agreements. The pay increases can be passed on in higher prices by firms whose activities are sheltered from external competition. Exporters or firms subject to competition from abroad may not be able to raise their prices, so that profits are reduced (or in the case of farmers, net incomes are lowered).

6.9.9. The National Agreements have had important implications for public expenditure. Anomaly settlements for public servants, negotiated under the National Agreements, have further increased public spending. As well as the National Agreements, there has been continuing pressure to raise social welfare payments (such as old age pensions, children's allowances and unemployment benefit and assistance) in line with pay increases, if not faster. This increased expenditure has been needed merely to maintain the level of public spending in real terms. In addition, there have been pressures to improve existing services (such

as education and health) and to introduce new policies. Moreover, there have been substantial increases in the cost of servicing Government borrowing undertaken to finance spending in previous and current years. The net result has been that public expenditure has risen faster than the value of national output.

6.9.10. Despite the rise in prices and in money incomes, the revenue from direct and indirect taxes (at the existing rates) has not risen fast enough to match the growth in public spending. In their attempt to bridge the growing gap between revenue and expenditure by increases in tax rates, Governments have faced real constraints. If tax rates are raised, further increases in money incomes may be demanded to escape the cut in real incomes, thus adding to the inflationary pressures and (when facilitated by monetary and credit policies) sparking off a spiral of tax rise, money income rise, price and tax rise again.

6.9.11. The net result has been that public expenditure has risen much faster than tax revenues. As a consequence, the net borrowing requirement of the Government has risen dramatically. These requirements have been met from a net expansion of bank credit and from State and State-guaranteed external borrowing. The increased level of national spending that results creates an environment that is favourable to inflation.

III. The Immediate Requirements

6.9.12. Revaluation of the currency could be a very powerful once-for-all means of moderating the effect on the economy of price increases emanating from abroad. However, revaluation could not be contemplated in present circumstances. The immediate aim must be to avoid devaluation and to create the conditions in which the Irish pound could be revalued if strong inflationary trends continue outside Ireland (notably in the United Kingdom). The only way to do this is to bring the rate of inflation in Ireland down below that obtaining in the United Kingdom. This would restore the competitive advantage of Irish goods, making revaluation (and therefore better insulation of the economy against external inflationary pressures) a feasible step.

IV. Policy Options for 1975

6.9.13. Given the terms of the 1975 National Agreement, existing

policies and likely developments in the world economy, the prospects for 1975 are as follows:—

- (i) A fall in national output (1% to 2%) and a further rise in unemployment of 20,000 to 30,000 during the year.
- (ii) A rise in the consumer price index of 25% or more.
- (iii) A public sector borrowing requirement much larger than expected at the time of the budget and which may be difficult to finance.
- (iv) The current external deficit considerably lower in 1975 than in 1974.¹
- (v) Inequality and inequity in the distribution of job-security and rewards.

6.9.14. If the growth in money incomes in 1975 cannot be reduced, there is little or no prospect of any improvement in the economic situation in 1976. Competitiveness will probably have deteriorated to an extent that will inhibit the growth in industrial exports as the world economy starts improving in 1976. It would be very difficult to avoid a deflationary budget in 1976, and it is likely that there would be a further reduction in output and a further rise in unemployment.

6.9.15. Corrective action is urgently required, but the options are limited. If the rate of growth in money incomes cannot be reduced, then deflation is inescapable and devaluation may become unavoidable. If the rate of growth in money incomes can be reduced, then deflation can be largely avoidable and growth in output and employment restored as world trade starts expanding (as is generally expected) during 1976.

6.9.16. If the detailed terms of the 1975 Agreement can be modified (while safe-guarding its spirit and objectives), the following steps could be taken:—

¹However, the current external deficit will only be lower as a result of the low levels of demand, output and employment. The erosion of the competitiveness of Irish goods means that any attempt to expand output and employment would cause a large increase in the external deficit—so large that the attempts to correct it would force the application of deflationary policies.

June 1975

- (i) measures to cut prices by 4½%;
- (ii) no payments under Phase II of the 1975 National Agreement;
- (iii) indexation of pay to prices thereafter;
- (iv) progressive increase in road tax on larger more expensive cars;
- (v) increase of £50 million p.a. in public capital expenditure on construction;
- (vi) 10% surcharge in personal income tax liabilities in 35% and higher bands;
- (vii) import licences for textiles, clothing and footwear;
- (viii) adoption of the NPC's recommendations on depreciation;
- (ix) dividend limitation;
- (x) professional fees to rise in line with revised National Agreement provisions;

End 1975

- (xi) increase personal and children's allowances for income tax as in 1975 budget;
- (xii) reduction of 2 percentage points in pay increases due in first quarter of 1976, based on the rise in the CPI between August and November 1975;
- (xiii) 10% surcharge on income tax liabilities in the 26% band.

6.9.17. If the steps were taken the following changes in the economic situation could be achieved by the middle of 1976:—

consumer prices	—7%
real post-tax income (income of £3,000 p.a.)	No change
(income less than £3,000 p.a.)	Increased
(income over £3,000 p.a.)	Reduced
unemployment	—25,000
GNP	+2½%
foreign balance	—£25 million
public sector deficit	Little change

6.9.18. If the measures proposed are applied now, the economy will be in a position to benefit from the upturn in world economic activity

that is expected in 1976 and 1977. The extent to which the Irish economy will actually benefit will also depend on what happens in Ireland in 1976. Next year, the aims must be to maintain the improvement in competitiveness achieved in 1975 and to make significant progress towards reducing the rate of increase in public expenditure and lowering the public sector deficit. If these aims are achieved, then the necessary conditions for faster growth would have been re-established (indeed, this will be happening in 1976) and revaluation would then be a step which should seriously be considered.

6.9.19. The time to influence events is before they happen. If employment and output are to grow through 1976 and 1977, and if inflation is to be kept down to a rate that would make possible a revaluation of the Irish pound, then the policies and actions that will be required in 1975 must be agreed during the second half of this year. In particular, there should be detailed consultations between Government and trade unions and employers in the early autumn of 1975 to bring the development of income, employment, output, and fiscal and monetary policies into a consistent framework for 1976. In addition, plans must be made now to reduce significantly the rate of growth in public expenditure in 1976 and later years.

APPENDIX 6.10

CAUSES AND EFFECTS OF INFLATION IN IRELAND

(NESC, No. 10, Pri. 4345, October 1975)

6.10.1. The Council commissioned Professor E. V. Morgan to undertake a study of the causes and effects of inflation in Ireland, because no comprehensive study was available in this field.

6.10.2. Professor Morgan examines the main hypotheses that have been put forward by economists to explain inflation. He examines the relationships between them and discusses the degree to which they have helped to explain inflation in other countries. He then tests each

hypothesis against Irish data in order to determine the extent to which it seems to explain the inflation which has occurred here.

6.10.3. Professor Morgan found that inflationary pressures were strongest during 1956-58, 1962, 1964-65 and 1968-73 and devoted special attention to these years. Having tested the various theories in an Irish context, he concludes that:

- (a) the balance of probabilities favours excess demand as the main cause of inflation in this country;
- (b) the main cause of excess demand, when it existed, was the rise in public spending and the way in which it was financed;
- (c) monetary policy generally played a permissive role;
- (d) trade unions went along with market forces and the evidence did not suggest that they were independent engines of inflation;
- (e) a small country operating a fixed exchange rate is subject to strong external influences;
- (f) domestic policies were generating price increases at a rate rather faster than those in neighbouring countries;
- (g) if domestic policies had been less inflationary, however, there is no doubt that evidence of imported inflation would have been stronger.

6.10.4. Ireland has been largely sheltered from the external consequences of its own inflation by the inflation of others, but no such shelter is possible from the domestic consequences, and these are very serious. The real evils of inflation are its arbitrary effect on the distribution of income; the difficulties that it creates for business finance; the discouragement of saving; and the incentive to those who do save to put their money to socially less desirable uses. All these effects increase in severity more than in proportion to the rate of inflation; if prices continue to rise at the pace of 1972/74 it is no exaggeration to say that they would within a few years become so serious as to threaten the very fabric of a democratic economic system.

6.10.5. The damage done by these side effects of inflation could be greatly reduced by linking the amount of money payments due both between government and the private sector and under private contracts

to a price index number. "Indexation" would not only make it easier to live with inflation but would also greatly reduce the risk that effective anti-inflationary policies would generate a depression. However, indexation cannot cure inflation. The nature of the ultimate cure depends upon the diagnosis. Those who believe that inflation is caused by union militancy believe, quite logically, that the remedy lies in prices and incomes policies. Professor Morgan's report argues that the balance of probability is heavily against this hypothesis and in favour of the one that explains inflation by a combination of excess demand and expectations. The only logical conclusion from this is that any policies likely to succeed must involve elimination of excess demand and the modification of expectations.

6.10.6. Whatever domestic policies the Irish government were to pursue, it could not expect to maintain an inflation rate much lower than that of other European countries, and especially the UK, so long as there is a fixed exchange rate with sterling. If the Irish pound were allowed to float, and if Ireland were more successful in fighting inflation than other countries, the pound would tend to appreciate against other currencies. This would not be harmful and would have some beneficial effects, but the breaking of the link with sterling would impose additional costs and create additional uncertainties in transactions between the two countries. There seems to be no case for doing this unless the Irish inflation rate falls below that of the UK and there is evidence that a further fall is being impeded by external pressures. In case such a situation should arise, however, it would be desirable that the technical problems of a floating Irish pound should be thoroughly explored.

6.10.7. If an excess demand/expectations explanation of inflation is accepted, it follows that prices and incomes policies cannot be expected to play a major role. Some degree of supervision over prices is desirable to protect the public interest in areas, including the activities of state and semi-state bodies, that are sheltered from competition. The usefulness of incomes policies and "social contracts" is much more doubtful. They cannot influence the natural rate of unemployment, and any effect they may achieve through expectations could probably be better done by indexation. It can be argued that continued experiment

with such policies is worth while in case the cost-push hypothesis turned out to be right, even if the chance of this is regarded as remote. Such policies can do no harm if pursued along with appropriate monetary and fiscal policies, but they are likely to do grave harm if they continue to be regarded as substitutes for such policies.

6.10.8. The Council recommends that Professor Morgan's report should be published. This does not mean that the Council accepts all of Professor Morgan's analyses and conclusions—indeed, some members are in fundamental disagreement with parts of the report.

6.10.9. The report was discussed on 18 April at a one-day seminar attended by academic economists, research workers and other experts. The Council agreed to prepare a report on inflation following the seminar. At its meeting on 5 June 1975 the Council completed its discussions on a report on inflation. That report was submitted to the Minister for Finance on 11 June 1975 with a recommendation that it should be published as Report No. 9.

APPENDIX 6.11

INCOME DISTRIBUTION: A PRELIMINARY REPORT

(NESC, No. 11, Prl. 4575, October 1975)

6.11.1. The Council is concerned with the distribution of income between individuals and households and the extent to which this distribution is changed by Government policies. After the completion of Report No. 8, the Social Policy Committee undertook to investigate, in the light of this concern, the effect which payments to, and benefits in cash and in kind from, the State have on income distribution.

6.11.2. The initial distribution of national income is determined by the market value placed on the services rendered by different individuals and households in the production of the national output, and on the distribution of skills, talents and wealth within the community. This initial distribution of income may not be the distribution which society

wants. Government intervention in the economy changes the pattern of income distribution as determined by market forces, and this intervention is used to achieve a more equitable and fairer distribution. If the policy goals on income distribution are to be clearly defined and if the policies to achieve these goals are to be quantified a comprehensive picture of the distribution of income is necessary.

6.11.3. The need for information on income distribution has long been recognised. Nevertheless, only very limited statistical information on income distribution is yet available. What is available is restricted in scope and diverse in definition. The range of data is confined to two Household Budget Inquiries, a discontinued series on earnings from the Census of Industrial Production, farm income surveys since 1955 and some unpublished distributions of taxable income prepared by the Revenue Commissioners. In none of these sources is the population as a whole surveyed. What information is available on income distribution was produced as a by-product of work done for other reasons.

6.11.4. However, even if all relevant data were available, problems of interpretation would remain. The data will show that incomes are distributed unequally. But it is important to identify how much of the inequality shown by the statistics constitutes inequality which requires policy action to reduce it. Before policy action is taken to reduce the degree of inequality (as shown by any measure of it), an attempt has to be made to distinguish that part of the inequality which is acceptable in the sense that it may be self-correcting, from the part which requires policy action.

6.11.5. Without adequate data, it is not possible to measure the degree of inequality in the distribution of income as it accrues in the form of wages and salaries, rents, interest and profits, or to quantify the extent to which any initial distribution of income is altered by the tax system and the pattern of Government expenditure.

6.11.6. The extent of inequality in income distribution can be measured in a number of ways, but basically they fall into two main categories. First, there are the partial measures of inequality which show the income share of different groups of income-recipients. For example, a

partial measurement might show the percentage share of aggregate income received by the "top five per cent" of income-recipients. Second, there are the total measures of inequality which relate to the whole distribution of income. These are concerned with the relative inequality of income.

6.11.7. These measures cannot be applied in Ireland because (as we have already indicated) the relevant data are not yet available. No conclusion can therefore be drawn (other than one based on intuition or casual and partial observation) about the degree of inequality (whether in absolute or relative terms) that now exists, or how this has been altered by changes in Government policies. In Report No. 8: *An Approach to Social Policy* the Council emphasised the importance of the distributional aspects and implications of Government policies and programmes. Some time will elapse before all the relevant data are collected that would enable the degree of inequality (or changes in it) to be precisely analysed. In the meantime, given the importance of the issues involved, some preliminary and partial measures of the distributional effect of public policies must be attempted. Such an attempt is made in this report by means of a pilot study. It must be emphasised, however, that this pilot study is not based on a survey of actual families, but rather on hypothetical characteristics of prototype families.

6.11.8. In the pilot study, we took some prototype families at different income levels and made certain assumptions about their size, direct tax liabilities, expenditure patterns, etc. The occupations of the heads of these families may be roughly categorised as follows: senior administrator, middle manager, executive, clerk, skilled worker, unskilled worker, agricultural worker, contributory old age pensioner and a widow. We analysed their payments to and benefits in cash and in kind from, the State over a ten-year period (1965-'75) in an attempt to establish what redistributive effect these payments and benefits had.

6.11.9. It must be emphasised that this was merely a pilot study. Thus its conclusions are very tentative and must be interpreted with great caution. Tables 6.11.A and 6.11.B summarise the main results of the study.

TABLE 6.11.A

Changes in income for each family (after all benefits and taxes)

(Earned income = 100 for each family in each year)

Income after all benefits and taxes	1965-66	1972-73	1973-74	1974-75
A Senior Administrator	74.9	76.6	80.0	79.7
B Middle Manager	82.8	77.8	77.6	81.3
C Executive	96.1	91.1	92.6	94.3
D Clerk	110.4	109.6	113.8	115.4
E Skilled worker	135.4	124.8	135.4	131.1
F Unskilled worker	145.6	135.8	150.1	141.4
G Agricultural worker	192.4	171.8	189.2	182.6
H Contributory Old age pensioner	127.0	141.2	147.6	159.0
I Widow with Contributory pension and part-time job	320.5	272.3	305.9	309.4

6.11.10. It is clear from these results that there has been a narrowing of the spread in terms of "income after all benefits and taxes" between the families at the top of the range and those at the bottom. Thus the main conclusion emerging from the analysis of these prototype families is that there has been re-distribution of income after all benefits and taxes over the period 1965-66 to 1974-75. One of the major reasons for this is that the earned income of the lower paid families has increased to a significantly greater extent than that of the higher paid families during the period in question. It should be noted, however, that income tax payments by the end of the period had become more significant for families at the lower end of the scale. Nevertheless, these families remained net recipients in their relationship with the State.

6.11.11. The study suggests that payments to and benefits received from the State helped to narrow the spread in the command over resources enjoyed by the prototype families included in this study. The full extent of this influence can only be measured by a more comprehensive study than the one described here.

6.11.12. The Council believes that this pilot study should be taken over and expanded by the Department of Finance, and that it should be up-dated either annually or on the occasion of major changes in tax rates or social payments.

TABLE 6.11B

Each Family's income after all benefits and taxes expressed as an index based on income of family E*

Families	A	B	C	D	E	F	G	H	I
Income after all benefit and taxes					100	87.0	75.9	24.5	47.6
1965-66	285.4	202.2	123.3	99.1	100	87.0	75.9	24.5	47.6
1972-73	245.8	162.8	104.2	93.4	100	90.5	75.1	32.5	48.6
1973-74	266.1	144.3	95.7	88.8	100	93.8	78.8	33.3	53.6
1974-75	235.3	153.9	98.4	92.0	100	93.9	80.9	38.8	55.2

88

* i.e. income after all benefits and taxes of family E = 100

APPENDIX 6.12

EDUCATIONAL EXPENDITURE IN IRELAND

(NESC, No. 12, Pri. 4730, January 1976)

6.12.1. The Report contains two parts: Part I sets out the Council's views, and Part II contains Mr. Sheehan's Report.

Part I: The Council's Comments

6.12.2. The Council stated in an earlier report* that its attention would not be limited to the distribution of money incomes, but that it would also be concerned with those public policies which affect peoples' access to a wide range of services. It is in the light of this concern that the Council commissioned Mr. Sheehan's paper.

6.12.3. Having considered his study, the Council reached the following main conclusions:

- (i) Increased expenditure on the compulsory education age-group would do most to promote equality of opportunity in education.
- (ii) A more rational approach needs to be taken towards second level education. There are two aspects of particular importance here. First, secondary schools have, on a per-pupil basis, been getting a decreasing level of non-teacher current resources in recent years. This could have educational consequences which are undesirable from both a social and manpower policy point of view. Second, vocational schools, although getting relatively more public resources than secondary schools, face particular problems. There is some evidence that the vocational schools may have to deal with more than their fair share of those students who have suffered from educational disadvantages in primary schools. This problem needs to be investigated further, in particular with regard to the need for special teachers and curricula to deal with such problems.

*Report No. 8: An Approach to Social Policy.

89

- (iii) Under present arrangements, many parents may find it difficult to keep their children at school after the compulsory school leaving age of 15 years. This means that these children are effectively denied access to third level education. It also works in the same direction as other forces in perpetuating inequalities.
- (iv) At the third level, the cost to its participants does not seem to be closely related to either equity or manpower criteria.

6.12.4. The Council makes the following recommendations:

- (i) Increased expenditure is needed on education for compulsory age-groups.
- (ii) Long-term decisions relating to the development of third level education need to be taken urgently.
- (iii) A significantly greater flow of information relating to all levels of education is needed to inform both policy makers, and educationalists, and so make possible coherent and comprehensive educational planning.
- (iv) Education is important in contributing towards the redistribution of both incomes and opportunities. Arrangements should thus be made to assess the impact of present policies on the redistribution of income and life chances.
- (v) A mixed system of loans and grants for student support at senior second level and third level should be examined, as should the possibility of a graduated fee system where the payment of fees is related to the ability of a student's family to pay.
- (vi) Adequate provision should be made for remedial teachers, so that children who are educationally disadvantaged will be able to gain full benefit from education.
- (vii) Consideration should be given to the possibility of extending the present free books scheme at primary school level.

6.12.5. The Council states that it could not give priorities for different categories of public expenditure until its study of public expenditure

as a whole is completed. Its recommendations therefore do not mean that additional expenditure on education is being recommended. Some of its recommendations which would require additional expenditure might be financed by a reallocation within the existing expenditure on education. If it should happen that funds were made available for education over and above what would be required to maintain standards as the number of pupils grows, than its recommendations indicate the areas which should be given priority.

Part II: Summary of Mr. Sheehan's Report

6.12.6. In Chapter 1, Mr. Sheehan outlines the importance of the Report on Investment in Education, which was published jointly by the Irish Government and the OECD in 1964, and summarises the main policy developments in education since then. *Investment in Education* provided the basis for subsequent developments in educational policy. It emphasised the importance of expansion and development in education for both social and economic reasons, and gave a great deal of new information on the Irish educational system. Its publication was followed by a considerable amount of both official and private comment and debate.

6.12.7. The following were the main policy trends and developments between 1964 and 1974:

- (i) At the first level, emphasis was placed on the rationalisation and improvement of facilities.
- (ii) At the second level, the increase in demand for places following the abolition of fees resulted in rapid enrolment growth and significant institutional development, notably comprehensive and community schools.
- (iii) At the third level, there was increasing emphasis on technological education. Much of the growth to date has been in response to rising demand, although the Regional Technical Colleges were established as much to stimulate demand as to provide the technical skills immediately needed by the economy.

6.12.8. Public expenditure on education rose from £19.5 million in 1961-62 to £144.7 million in 1973-74 and its share of GNP from

3.05% in 1961-62 to 6.29% in 1973-74. First and second level education accounted between them over 80% of current and capital expenditure on education. This trend may be attributed in large part to inflation. There was, however, an increase in expenditure in real terms—in part as a result of the policy developments outlined in Paragraph 6.12.4. The increase in education expenditure as a proportion of GNP overstates the increase in real terms because the labour intensive nature of education means that its "price" rises faster than prices in general.

6.12.9. In Chapters 2 and 3, Mr. Sheehan details the pattern of current and capital expenditure on first and second level education between 1961-62 and 1973-74. The results of his analysis are summarised in the following table.

6.12.10. In Chapter 4, Mr. Sheehan analyses State expenditure on third level education between 1961-62 and 1973-74. Current expenditure increased rapidly in that period, and accounted for a progressively greater share of total current expenditure on education—7% in 1961-62 as compared with 13% in 1973-74. This is accounted for by the very large increase in the number of students. There was also an increase in public capital expenditure on 3rd level education, from 7% of total capital expenditure on education in 1951-63 to 21% in 1969-73.

6.12.11. In Chapter 5, Mr. Sheehan compares State expenditure on education in the Republic with that in Northern Ireland and England and Wales. Public expenditure on education in the Republic is significantly lower than that in Northern Ireland. There has been a closing of the gap in recent years, but this is partly offset by the displacement of private fee expenditure in the Republic. This lower level of public expenditure is reflected in significantly larger primary school classes, and less provision for meals, milk and health services in the Republic. The gap would seem to be larger than for some other social-service type expenditure—especially direct personal transfer payments which are often the focus of public comment. In certain areas the difference in level of provision is very large—notably in primary schools, where Northern Ireland spends eighteen times as much per pupil from public funds as the Republic on non-teacher items, and where any reasonable allowance for privately financed expenditure comes nowhere near

TABLE 6.12.A

Public Expenditure on First and Second Level Education

	Primary		Secondary		Vocational		Comprehensive/ Community	
	1961-62	1973-74	1961-62	1973-74	1961-62	1973-74	1961-62	1973-74
Total Annual Public Expenditure (£m)	11.05	46.92	3.02	27.40	2.51	18.37	—	1.65
Expenditure per enrolled pupil at current prices (£)	22.97	90.86	37.55	160.04	71.33	255.75	—	320.00
Expenditure per enrolled pupil at 1961-62 input prices (£)	22.97	27.24	37.55	45.31	71.33	92.27	—	N.A.
Real Expenditure Indices 1961-62 = 100	100.00	118.59	100.00	120.67	100.00	129.36	—	N.A.
Public Capital Expenditure at current prices (£m)	1.75	6.19	—	1.21	0.41	1.41	—	5.50

closing the gap. At the second level the differences while large are not nearly as great as the first level, except in the case of "non-educational" items such as school meals, milk and health services where publicly financed provision is virtually absent in the Republic.

6.12.12. In Chapter 6, Mr. Sheehan discusses the relationship between educational planning and manpower policy, and the relevance of that relationship to the present educational system in this country. He concludes that manpower forecasting and planning should be principally concerned with relatively short-term "active manpower policy" instruments rather than with long-term targets for the development of the educational system. He states that if any medium to long-term plans are to be developed for the educational system, then the planning process must be developed in such a way as to make the best use of information in a changing and uncertain environment.

APPENDIX 6.13

ECONOMY IN 1975 AND PROSPECTS FOR 1976

(NESc, No. 13, Pri. 4820, October 1975)

6.13.1. The report is presented in three chapters. Chapter One discusses developments in the world economy and their influence on Ireland. Chapter Two deals with the Irish economy in 1975. Chapter Three looks at the prospects for the Irish economy in 1976.

I The World Economy

6.13.2. The developed nations will probably emerge gradually from the depression over the next couple of years. The recovery will be led by the United States, Germany and the other countries which, since the oil crisis, sacrificed employment in order to control inflation. Other countries which attempted to maintain employment (especially the smaller countries) will have to bring their rates of inflation down to those now being achieved by the largest economies—probably at the cost of further increases in unemployment. Countries still with inflation

problems (e.g. the United Kingdom) may have to maintain or introduce restrictive policies, with considerable further loss of employment.

6.13.3. These prospects are by no means favourable to Ireland. At best, the outlook is for weak growth of export markets, and a sluggish inflow of new industrial projects from overseas.

II The Irish Economy in 1975

6.13.4. Output will probably fall by at least 3 per cent in 1975. Unemployment has risen in response and will rise further to 130,000 or more by March 1976. The foreign deficit has improved significantly but the public sector deficit has risen very substantially. The world recession was partly to blame, but the situation was made even worse by allowing Irish products to become uncompetitive on world markets. The size of the increases in pay contributed to the uncompetitiveness, and therefore to the fall in output and the increase in unemployment. Domestic demand was substituted for falling foreign demand without enough being done, and done in enough time, to restore competitiveness.

6.13.5. In 1975, the world recession reduced Irish exports, output and employment. Pay increases were so large as compared to those in other countries, that without offsetting improvements in marketing, management and productivity, the economy became uncompetitive on world markets. Unless competitiveness is restored, it will not be possible to maintain employment and there will be no hope of creating the new jobs required by a growing population.

III The Irish Economy in 1976

6.13.6. If nothing is done (i.e. if pay continues to be fully linked to prices and government policies remain unchanged) the situation will deteriorate further. The main symptoms of the deterioration will be higher unemployment and greater inequities within the labour force, with those in secure employment doing well relative to those in activities subject to external competition and relative to the unemployed.

6.13.7. This prospect is clearly unsatisfactory. Other policy options must therefore be examined. In our view, import controls, devaluation and deflation would not be satisfactory policies. The only alternative is

income restraint. If competitiveness is to be restored, pay restraint means increases in the average income of those in employment that are smaller than those occurring in other countries, and this in turn means pay increases that are less than the anticipated percentage increase in prices. Voluntary income restraint in the form of a new National Pay Agreement would be preferable to statutory measures. The kind of new Agreement which is required must not be divorced from the general economic situation or, more specifically, from decisions on fiscal and monetary policy.

6.13.8. Restraint of incomes in order to improve competitiveness would raise industrial profits, and this may not have widespread appeal. But industrial profits must be earned in sufficient quantity to ensure future investment and jobs. These profits are not generally earned at present in the sectors of Irish industry which are exposed to external competition from imports or which rely on exports, nor will they be earned unless there is pay restraint.

6.13.9. One reason why many find it difficult to accept the need for higher industrial profits may be that the distinction between the need for these profits and the ownership control and use of them is often not drawn sufficiently clearly. This distinction will not be clear until there is a broader measure of agreement about such things as:

- (a) the extent to which workers should be involved in management;
- (b) the degree to which profits in the private non-industrial sector should be taxed;
- (c) the degree to which the state might participate in the generation and ownership of profits, either as a shareholder or as an entrepreneur.

6.13.10. If suitable arrangements can be made, the distribution between wages and profits need not be the source of the severe conflict which tradition might suggest. It must be remembered that there are other and growing sources of strain—between employed and unemployed, and between industry and the rest of the economy.

Proposals for pay restraint cannot ignore the conflicting interests of these groups.

6.13.11. The greater the restraint on pay, the greater the positive effects on employment over the longer run. However, there could be temporary short-run deflationary effects. If pay is restrained, these effects must be examined closely, along with the role which fiscal policy can play in countering the deflationary effects on aggregate real incomes and employment within the constraints of the public sector borrowing and balance of payments position. In any reflationary action which is taken, the emphasis should be on raising productive capital expenditures rather than current expenditures.

APPENDIX 6.14

POPULATION PROJECTIONS 1971-86: THE IMPLICATIONS FOR SOCIAL PLANNING — DWELLING NEEDS

(NESC, No. 14, Pri. 4928, February 1976)

6.14.1. This is the first of a series of studies which will examine the implications for social planning, based on the population projections for the period 1971-86, published in February 1975. The studies are aimed at establishing the degree of expansion which would be required in the social service in order to ensure that the population in 1986 will enjoy at least the same standard of service as in 1971, should the projections be realized. These projections, therefore, and the assumptions on which they are based, have been taken as data in this and the other studies.

6.14.2. The report is divided into eight sections. The first section details the sources of need which are taken into account when estimating the number of dwellings which would be required by 1986. These are needs arising from:

- (a) The projected population change as outlined in NESC Report No. 5.

- (b) The elimination of overcrowding and of the involuntary sharing of dwellings by families.
- (c) The unfitness of the present dwelling stock as defined by current standards.
- (d) Future obsolescence.

The second and third sections deal with recent trends in household formation and projections of household formation, 1971–86, respectively. The fourth, fifth, sixth and seventh sections comment in detail on the needs likely to arise from the causes set out in Section I.

6.14.3. The eighth and final section draws all these elements together, and gives two estimates of dwelling needs. The estimates are based on two different sets of assumptions:

Assumption A assumes net emigration of 5,000 per annum between 1976 and 1986, and the high nuptiality assumption used by Professor Walsh. It also assumes the following:

- (i) dwelling needs in order to eliminate involuntary sharing existing in 1971—10,000.
- (ii) dwelling needs in order to eliminate the overcrowding in 1971—20,000.
- (iii) dwelling needs due to unfitness in 1971—30,000.
- (iv) dwellings needs due to obsolescence—90,000.
- (v) allowance for the 4,200 households who lived in mobile homes in 1971—4,000.

These allowances are spread over the whole period 1971–86. The allowance in *Assumption B* for the elimination of overcrowding is higher, at 30,000 dwellings. The needs due to unfitness in 1971 are assumed to be 50,000 dwellings. The needs due to obsolescence are assumed to be 105,000 dwellings over the period 1971–86. All the other needs are the same as in *Assumption A*.

6.14.4. Table 6.14.A shows that the projected total dwelling needs over the period 1971–86 are in a range between 314,000 and 372,000. The increase in household formation is the dominant influence on projected dwelling needs.

TABLE 6.14.A

Projected Dwelling Needs over fifteen years 1971-86

Component	Additional dwellings needed			
	Assumption A		Assumption B	
	Variant B on headship	Variant A on headship	Variant B on headship	Variant A on headship
Net increase in household formation 1971–86	'000 160	'000 173	'000 160	'000 173
Elimination of sharing of dwellings in 1971	10	10	10	10
Elimination of overcrowding in 1971	20	20	30	30
Replacement of unfit houses in 1971	30	30	50	50
Obsolescence (incl. national needs due to internal migration) 1971–86	90	90	105	105
Households in mobile homes in 1971	4	4	4	4
Total	314	327	359	372

6.14.5. These calculations of need cannot be precise for a number of reasons. For example:—

- (i) The allowance for the elimination of overcrowding cannot be precise since there are ways of tackling this problem other than by new construction.
- (ii) The estimate of needs due to unfitness and obsolescence are approximate.
- (iii) The pattern of needs over time will not be constant.

For these and other reasons detailed elsewhere in the report, an annual average figure of dwelling needs over the period 1971–86 cannot be

indicated. Any annual figure is dependent on the speed with which sharing of dwellings, overcrowding and unfitness are tackled. It will be necessary to monitor needs continually, and to test the outcome of the household projections, in future years.

APPENDIX 6.15

THE TAXATION OF FARMING PROFITS

(NESC, No. 15, Pri. 4912, February 1976)

6.15.1. This document is presented in two parts. Part I of the document contains the Council's conclusions and recommendations. Part II sets out the consultants' report.

Part I

6.15.2. In order to respond at an early date to the Government's request of 24th February 1975 for the Council's views on the taxation of farming profits, the Council had no alternative but to take the existing overall tax system as a datum. The equity and efficiency of the present overall system of central and local taxation (including capital taxation) have not, therefore, been examined. The Council has attempted to fit farmers into the taxation system as it now exists, taking into account the special problems of farming and the contribution which it makes to the economy.

6.15.3. Having considered the consultants' report, and submissions from the IAOS, the ICMSA and the IFA, the Council recommends as follows:—

(i) Tax Base

- (a) The objective should be to determine the income tax liability of farmers on the basis of actual accounts. Since farmers must be given reasonable time in which to develop accounts for income tax purposes, this objective cannot be attained immediately.

- (b) The notional income option for farmers with a rateable valuation of £100 or more should be allowed for 4 years. Since the option is already available for the 1974–75 and 1975–76 years of assessment, this recommendation means that it should be made available for the 1976–77 and 1977–78 years of assessment.
- (c) The notional income option should be allowed for a 4 year period to each group of farmers who became subject to income tax as the valuation threshold is lowered.

These recommendations are not supported by the representatives of the IAOS, the ICMSA and the IFA. In their view, the the notional income option should be allowed for at least 10 years, after which there should be a review to assess its effectiveness in promoting agricultural expansion and development. If it were allowed only for a shorter period, its effectiveness in encouraging agricultural expansion and development would be seriously reduced because of the length of the productive cycle in agriculture.

(ii) Tax Threshold

- (a) The valuation threshold for assessing income tax should be lowered to £75 for the 1978–79 year of assessment and to £50 for the 1980–81 year of assessment. The desirability and practicability of further reductions in the valuation threshold for assessing income tax below £50 should be reviewed during 1979.¹

The representatives of the three farming organisations do not accept that the threshold should be reduced below £100 rateable valuation. It is their considered view that any such reduction in the threshold would seriously inhibit agricultural development and expansion.

¹The pace at which the valuation threshold for liability to income tax will be lowered will doubtless be decided by reference to general budgetary policy from year to year—thus, if budgetary policy in a particular year requires an increase in tax revenues, the Minister for Finance may consider raising some of the additional revenues by accelerating the process of lowering the threshold.

- (b) In future, a farmer who has once opted to use his actual accounts for the assessment of his taxable income must remain with that system. (Under the present arrangements, a farmer may opt for actual income (or notional income) and change to notional income (or actual income) between one year of assessment and the next).

It is the view of the representatives of the three farming organisations that farmers who had exercised an option (e.g. for actual or notional income) should be required to remain with that option for at least three years, after which they should be allowed to change their option.

(iii) *Calculation of Notional Income*

- (a) The multiplier (which is applied to the valuation of land in order to determine notional income) should be adjusted over three years to reach its "full value" in the 1978-79 year of assessment. The multiplier should be modified annually thereafter to reflect the fortunes of agriculture.
- (b) The "full value" of the multiplier should be calculated by dividing Adjusted Family Farm Income by Total Land Valuation.¹ There should be consultations between farming organisations and the relevant Government Departments to determine the precise method of calculation.
- (c) Once the multiplier has reached its "full value" (for example, as calculated in the footnote), farmers who have opted for assessment on the basis of notional income should be allowed deductions in respect of those farm expenses, that had been

added back in arriving at adjusted family farm income, on the same basis as farmers who are being taxed on actual income.

- (d) There should be discussions each year between Government Departments responsible for adjusting the multiplier towards its "full value" (over the 1976-77 to 1978-79 years of assessment) and modifying it annually thereafter, and farmers' organisations. No adjustment or modification in the multiplier should be determined until these consultations have taken place.

(iv) *Rates on Agricultural Land*

- (a) Farmers (who are being taxed on the basis of actual or of notional income calculated on the basis of a "full value" multiplier) should be allowed to deduct some appropriate percentage of the rates actually paid in determining taxable profits. The consultants' report suggests that this percentage might be of the order of 150%. However, more detailed figures and further analysis are required to establish the correct order of magnitude.
- (b) Farmers who pay income tax on their actual income, and who pay rates on their land which exceed 10%¹ of their farm profit for tax purposes (before deduction of capital allowances), should be allowed to deduct the amount by which the rates actually paid on land exceed 10% of farm profit for tax purposes (before deduction of capital allowances) from their income tax liability. In administering this recommendation, any consequential element of double allowance in respect of rates should be eliminated.

It is the view of the representatives of the three farming organisations that, since rates bear more heavily on the farmers who pay them than on business and professional rate-payers in general, the rates paid by farmers on agricultural land should be allowed as a tax credit—i.e. should be deducted from the

¹The figure of 10% would be subject to change in the light of the further analysis suggested at the end of (iv) (a) above.

¹For example, it was the view of the consultants that the adjustment to Family Farm Income should consist of additions for the total of rates paid on land, depreciation of machinery and remuneration of employees. The multiplier computed in this way for 1973 would be 62 derived as follows:—

	(i)	Family Farm Income	£365.0 million
	(ii)	Adjustments (as listed above)	£ 71.9 million
(iii) = (i) +	(ii)	Adjusted Family Farm Income	£436.9 million
	(iv)	Total Land Valuation	£ 7.0 million
(v) = (iii) ÷ (iv)	(iv)	Multiplier	62

income tax liability—until such time as rates on agricultural land are phased out.

(v) *Part-time Farmers*

- (a) The earnings of part-time farmers for tax purposes should continue to be treated as set out in the Finance Act, 1974. This means that there would be no change in the treatment of part-time farmers with valuations between £20 and £50. As the threshold valuation is reduced (see (ii) (a) above), part-time farmers¹ with valuations above the threshold would be assessable on their earnings outside agriculture plus their actual or notional farming profits.
- (b) The reduction of the present land valuation threshold of £50 (applicable to persons with land who also carry on another trade or profession) according as the general valuation threshold is reduced (see recommendation (ii) (a) above), should be considered.

It is the view of the representatives of the three farming organisations that part-time farmers (under (v) (a) above) who are eligible to participate in the Farm Modernisation Scheme should be treated for tax purposes as if they were whole time farmers—i.e. as if they had no earned income from outside agriculture.

(vi) *Allowances and Deductions*

- (a) Free depreciation should be allowed for the developmental capital costs of fences, roadways, holding yards, drainage and land reclamation.
- (b) In valuing breeding livestock for tax purposes, farmers should be given the option of using the UK "Herd Basis" scheme or the New Zealand "Nil Standard value" scheme. The choice

¹Part-time farmers in this paragraph refer to farmers with other income (from employment or investment arising to the farmer or his spouse). It does not include persons (or their spouses) carrying on another trade or profession.

of which of these schemes could be made available as an option, and to what extent it should be modified to suit Irish circumstances, should be made after consultation with farming organisations. In making the choice, importance should be given to administrative simplicity and the strength of the incentive given for the development of farming.

- (c) Farmers should have the option of basing their tax for the current year of assessment on the average income actually earned from the farm over the previous three years. This option would improve the cash flow of farmers who are expanding their incomes by the development of their farms and improvements in efficiency.

It is the view of the representatives of the three farming organisations that:—

- in order to encourage agricultural expansion and development, farmers should be permitted to deduct 150% of their actual capital and depreciation allowances;*
- full-time farmers who borrow to maintain or acquire viable holdings should be given some tax remission while they are repaying their borrowing;*
- special consideration should be given to farmers who entered into capital commitments before 6 April 1974 in order to develop their farms but who find their cash flow reduced after payment of income tax;*
- farmers should have the option of basing their tax for the current year of assessment on the average income actually earned over the previous five years, and not merely over the previous three as recommended above.*

6.15.4. The recommendations set out in paragraph 6.15.3. are inter-dependent and must be treated as a package. It is the view of the Council, with the exception of the representatives of the three farming organisations, that this package of recommendations takes account of equity (both within the farming community and as between farmers and

other productive sectors) and of the vital importance of accelerating the pace of agricultural development.

6.15.5. If any consideration of the situation that would result from the acceptance of the package of inter-related recommendations set out in paragraph 6.15.3 above, the relevant comparison must be with the situation that exists now under the 1974 and 1975 Finance Acts with respect to the taxation of farming profits, and not with the situation that existed before the 1974 Finance Act.

Part II

(a) Introduction

6.15.6. In their report the consultants argue that, a good taxation system must meet four criteria. First it must seem fair and equitable to all taxpayers to be accepted politically. A second criterion should be that the tax system ought to provide farmers with an incentive to develop and improve their farms. A third criterion concerns the cost of collecting tax from farmers. This should represent only a small fraction of the revenue extracted. A fourth criterion should be that any change in the present income tax should bring in at least the same tax revenue as at present. In addition to the four criteria mentioned above the consultants also bore in mind the eventual aim of harmonising the Irish tax system with the systems used by other EEC countries.

(b) Rigorous Notional Tax System

6.15.7. Following their analysis of advantages and disadvantages of a rigorous notional income tax system, the consultants rather reluctantly abandoned the idea of this tax system, and recommended:

"That the system of income tax for farmers, introduced in 1974, whereby they are taxed on actual income, be continued".

They made their recommendation on the basis of the greater acceptability of this system on the grounds of equity to both farmers and non-farmers alike.

(c) Tax Based on Actual Profits

6.15.8. Following their search for ways of bringing more farmers into the income tax net, the consultants recommended:

"That the threshold valuation for assessing income tax be lowered to £50 for the 1977-78 year of assessment and to £20 for the 1980-81 year of assessment".

As a concession for those who do not have the necessary accounts to calculate actual income, the consultants recommended:

"That the notional income option be allowed for farmers with a £100 valuation or more for one additional year and that the notional income option be allowed for a three year period for each group of farmers who become subject to tax as the threshold is lowered".

6.15.9. However, the consultants thought that farmers should be encouraged to use actual income rather than notional income and this can be promoted in two ways. Firstly, they recommended:

"That in future a farmer who has once opted to use his accounts to assess his taxable income must remain with that system".

Secondly, they recommended:

"That the multiplier be adjusted systematically over 3 years to the full objective value but that it should be modified year by year thereafter to reflect the fortunes of agriculture".

This means that notional income levels would be reduced in years of low farming profits and vice versa. As regards the treatment of part-time farmers under the income tax provisions, they recommended:

"That there is no need to change the treatment for tax purposes of the earnings of part-time farmers".

(d) Rates and Income Tax

6.15.10. In the consultants' view the levying of rates on agricultural land is not inequitable between farmers and non-farmers given that adjustment through the Agricultural Grant is adequate. Thus they recommended:

"That the level of the Agricultural Grant be raised so that the proportion of income absorbed by rates is equalised between farming and non-farming businesses and that this level be reviewed regularly".

(e) *The Land Valuation System*

6.15.11 The consultants felt that if rates for farmers are to continue, the system of land valuation must be improved. Accordingly, they recommended:

“That resources be allocated to the Agricultural Institute to complete their detailed soil classification for the 26 Counties, on a farm by farm basis, and that the resulting soil maps be used as the basis for allocating the farmers’ rates burden within each county”.

Because the new system is likely to take at least nine years to implement, it was necessary to recommend:

“That farmers who pay income tax on their actual income, and whose land valuations are greater than £1 per acre, and whose rates payable on land and farm buildings exceed 10% of farm profit for tax purposes (before deduction of capital allowances) should have the option of appealing to the Valuation Office for a revision of valuation. These thresholds of eligibility should be altered if necessary in the light of experience”.

(f) *Income Tax Incentives*

6.15.12. Because the general income tax code needs to be arranged so that it does not discourage those farmers who plan to develop their farms, the consultants recommended three income tax incentives.

Firstly,

“That free depreciation be allowed for developmental capital costs of fences, roadways, holding yards, drainage and land reclamation”.

Secondly,

“That the ‘Herd Basis’ for valuing breeding livestock, as used in the UK, be introduced as an option”.

Thirdly,

“That farmers have the option of basing their tax for the current year on the average income from the farm over the previous three years. Upon the termination of this option, the tax liability will be calculated on the last three years treated on a single year basis”.

While this package of incentives will not restore completely the economic attractiveness of farm development which existed in the era of no income tax, in the consultants’ view they would go a long way towards it. Moreover, they believe the package has a useful psychological value in that the high tax burden associated with farm improvement and development does not catch the farmer at the time he makes the improvements but catches up with him later—rather earlier if he reduced his efforts. The only way to avoid the tax net is to swim harder.

(g) *Capital Taxation*

6.15.13. While capital taxation was outside the terms of reference of the consultants’ report they recognised that it is the burden of all taxes which leaks away cash from the business and hence reduces the ability to finance development. Accordingly they suggested that capital taxation legislation needs further concessions so that it does not penalise the farmer who has increased his capital value by farm improvement. This might be effected by using standard values for land based upon the soil type classification recommended earlier for rating purposes. They suggested that in order to keep the farm assets together in a large enough unit to be economic, the exemption threshold for the capital acquisitions tax should be continually reviewed in the light of inflation and other variables. They also suggested that methods be explored for using the capital acquisitions tax to encourage the transfer of ownership and control of farm businesses to the younger generation at an earlier age.

(h) *Conclusion*

6.15.14. In making their recommendations the consultants attempted to be fair to other taxpayers and at the same time make recommendations that will stimulate the growth and development of Irish agriculture, which can make a great contribution to the economy. The cost of the incentives and concessions suggested should be more than balanced by the recommendations made for spreading the taxation net wider amongst the farming community, and by the increased farm income which should be generated. The consultants hoped that their recommendations concerning the announcement of the details of the transition would stop the uncertainty which is so detrimental to making

positive decisions about investment in farming. Finally, the consultants emphasised the danger of falling between two stools by the one-sided acceptance of some of the recommendations contained in this report. If only those recommendations concerned with equity are accepted, the incentives for Irish farmers to press forward will be lost. If only the tax incentives are selected the patent inequity will remain and Irish agriculture will continue to be a target of criticism instead of being seen as an essential component of a growth economy.

APPENDIX 6.16

SOME ASPECTS OF FINANCE FOR OWNER-OCCUPIED HOUSING

(NESC, No. 16, Pri. 5273, June 1976)

6.16.1. The Council has already completed a report on the implications of the population growth projected over the next 10 years for housing requirements. This report deals with a specific problem—the difficulties posed for first-time purchasers of houses by the size of the deposit required and the heavy incidence of repayments, relative to income, over the earlier years of the loan or mortgage. It concentrates mainly on the purchase of houses through building societies, but the analysis and proposals are also relevant to houses bought with local authority and other loans.

6.16.2. In recent years, the interest rates on mortgage loans have not fully reflected the relatively high rates of inflation. However, nominal interest rates have increased significantly. This fact, combined with increases in house prices and a reduction in the typical term on loans for new houses, have resulted in a marked increase in the initial repayments which are required on a house of average price, since 1968–69. Furthermore, there has been an increase, in real terms, in the average deposit required on houses being purchased, since 1968–69. For those who have obtained loans, the annual repayments as a proportion of income have declined substantially over time.

6.16.3. The net inflow of deposits to building societies is quite sensitive to relative interest rates. In turn, variations in the net inflow

affect the cycle of activity in building. There is a case for measures which would result in less violent cyclical swings in advances, and this topic requires more consideration.

6.16.4. Because of the trends in initial repayments and in the level of deposit there is need to consider ways of helping potential owner-occupiers who have relatively low incomes. The report considers some alternative methods of mortgage finance, in which the initial repayments would be lower than in the present system. These schemes would reduce the impact of high interest rates on loan repayments in the early years of a mortgage. The effects of these alternative schemes on price and output, and on the building societies, are considered.

6.16.5. The report recommends that one of these alternative schemes be considered—this would supplement, rather than supplant the existing repayment methods. Any alternative scheme should be an optional one, available on a limited basis to new mortgagors. It would be desirable that repayments at least cover the interest on the outstanding debt.

6.16.6. There is need to consider other ways of helping potential borrowers who have difficulty in financing debt-service or deposit: for example through a reduction in the down-payment required. Finally, there is a need for more explicit criteria by building societies regarding the granting of loans. These criteria should be solely related to the potential risks of default. This could be combined with a central insurance facility, which would cover any differential risks to the building societies, in giving loans. Such a facility could also cover cases where a low down-payment would be allowed.

APPENDIX 6.17

STATISTICS FOR SOCIAL POLICY

(NESC, No. 17, Pri. 5329, September 1976)

6.17.1. The Council in its work on social policy over the last two years has become increasingly aware of the problems of obtaining adequate data on the social services, and on the social implications of other policies. While the Council and other bodies have commented in a

general way on the inadequacy of available social data, to date no detailed examination has been made of statistical requirements in the social policy area, and how existing data collection is meeting these requirements.

6.17.2. This report concentrates on gaps in social statistics, that is, gaps in information which are best met by the regular collection of numerical data. The statistics are examined from the point of view of the social administrator rather than from a technical viewpoint.

6.17.3. The Council considers that better social statistics are required for a number of reasons. First, they would improve the quality of routine social administration by placing it on a sounder factual basis. Second, they would facilitate the review of existing policies and the planning of new policies. Third, social statistics are essential for social research, which, in turn, is a valuable input into policy-making. Finally, they are necessary to improve the level of public awareness of, and debate on, social issues.

6.17.4. There are a number of problems involved in making use of the statistics which are already collected. The causes of these problems include the way the data are collected, the manner in which they are presented, the inaccessibility of some data, and the delays in publishing statistics once they have been collected.

6.17.5. The report devotes eight chapters to examining in detail statistics from all official sources concerning social policy and the social services, and makes recommendations as to how they might be improved.

6.17.6. The final chapter of the report sets out the Council's main conclusions and general recommendations. The main conclusions of this report are:

- (i) Some major gaps exist in the coverage of social statistics. The most important of these relates to information about income distribution.
- (ii) Improvement of the analysis and presentation of statistics relating to social policies would increase their usefulness. However, not enough consideration appears to be given to

the ultimate purpose of the statistics, when systems for collection are being designed.

- (iii) Availability of, and access to, existing social statistics is not at present adequate. More thought needs to be given to making such data more easily available.

6.17.7. The Council's main recommendations with regard to social statistics are set out below. The more detailed recommendations are italicised in the body of the report, and are indexed in Appendix II:

- (i) The emphasis should be shifted from seeking authorisation to release any unpublished data, to allowing full access to those interested, subject to safeguards for genuine reasons of confidentiality.
- (ii) Each Government department collecting social statistics should issue a bulletin covering the principal series at least annually; such bulletins should be available with minimum delay, if necessary being informal in character and including provisional rather than final figures.
- (iii) A guide to the unpublished statistics which it collects should be prepared by each Government department, and this guide should be kept up to date and made generally available.
- (iv) The main social statistics should be kept on a centralised computer file, which would be regularly up-dated, on which policy-makers and researchers could draw when necessary. Responsibility for the compilation and maintenance of such a data bank should be given to the CSO, which should be provided with adequate funds and staff for the task.
- (v) Responsibility for the co-ordination of social statistics should be vested in the CSO, where a senior official should be assigned to the task. Such a job would not involve the collection of data more appropriately collected by specific departments—for example, the Departments of Education, Local Government and Social Welfare. It would, however, ensure adequate co-operation and co-ordination between the departments concerned and the maintenance of good standards of statistical practice. It would also enable gaps in statistics to be more

readily noticed and filled and should mean that greater attention would be paid to social statistics. The CSO should also be given direct responsibility for social statistics which fall across or outside departmental boundaries.

- (vi) A report should be published annually, containing the main statistics concerned with social development. There are a number of models for this type of report in other countries. Such a report would inevitably be somewhat patchy, at least in the beginning. However, as more information becomes available the initial gaps could be filled. The ultimate aim should be the publication of a report which catalogues in as comprehensive a manner as possible the progress being made by social policies and their cost and which interprets the statistics in a way which is easily understood by non-professionals. In the coming year, the Council proposes to complete such a report on pilot basis: this will cover the last decade and should act as a model for future work. The Council has no doubt that the co-operation of all those responsible for the collection of relevant data will be forthcoming.

6.17.8. The recommendations in this report will cost time, money and manpower to implement. The Council considers, however, that the results obtained would be worthwhile when viewed in the context of central Government spending on the social services of an estimated £720 million in 1976. Indeed, money spent on improving social statistics and disseminating them more widely would increase awareness of social problems, help in establishing greater public acceptability of the need for social expenditure, and should ultimately lead to better and more efficient social policies.

APPENDIX 6.18

POPULATION PROJECTIONS 1971-86: THE IMPLICATIONS FOR EDUCATION

(NESC, No. 18, Prt. 5375, July 1976)

6.18.1. This is one of a series of studies which will examine the implications for social planning, based on the population projections

for the period 1971-86, published by the Council in February 1975. The studies are aimed at establishing the degree of expansion which would be required in the social services in order to ensure that the population in 1986 will enjoy at least the same standard of services as those in 1971, should the projections be realised.

6.18.2. As far as possible, similar assumptions to those used in the population projections have been used in deriving population trends for this report. However, in the course of the work, it became apparent from recent data on enrolments that the initial estimates for 1976 were too low. Further investigations showed that significant net immigration has occurred in the period 1971-76, and that the under 15 age group accounts for a significant proportion of this immigration. As a result, some adjustments have had to be made to the population projections as published.

6.18.3. In working out the implications for education, it has been assumed as far as possible that existing educational policies will be continued, and that any new policies announced will be implemented. There are, however, some areas where past trends are of little use because of recent structural changes. In such cases, assumptions have been made based on such indications as can be found concerning the direction of future policy. Finally, the report goes beyond the scope of the population projections in one respect. The projections cover births up to 1986. They have been supplemented by calculations of births up to 1992, to give sufficient data for the population of school-going age in 1991 and 1996.

6.18.4. The report is divided into six sections. The first deals with population trends for 1971 to 1996. The second deals with participation rates and enrolment. The third deals with the relationship between enrolment projections and the demand for teachers. The fourth deals with schools building needs, and the fifth deals with the third level. The main conclusions which can be drawn from the study are summarised in the final section.

6.18.5. Overall, the 1971-76 period will have been one of rapid growth of first and second-level enrolments compared to subsequent

periods. Depending on population growth, total enrolments should grow at between 2.1% and 2.5% p.a. By comparison total enrolments should grow at between 0.6% and 0.7% per annum in the 1976-86 period, given the Council's low population growth assumptions and low estimates of participation rates for the over 15 age group. Given high population and participation assumptions, total enrolments are projected to grow at 1.2% per annum between 1976 and 1981 and 1.7% per annum between 1981 and 1986. Only after 1986 (and then only on high population projections which continue to use the Council's "high" assumptions) is the enrolment growth rate likely to approach the 2½% annual growth rate of current and recent experience.

6.18.6. This emphasis on overall rates of growth is the easiest way to summarise the projections in a way which is relevant to policy, because it is rates of growth which ultimately dictate the need for expanded teacher-training and school building programmes. Of course, the population and enrolment projections are not complete indicators of need: population movements, changes in educational standards, availability of finance, etc., must all be specified before a complete forecast can be made.

6.18.7. The reasons for the recent high growth rates are not only demographic. They are also due to policy changes such as the abolition of fees at the second level and the raising of the school-leaving age to 15. In addition, there is evidence of considerable net immigration in the under 15 age group. This is not projected beyond 1976, but it will have its effects on the population in various older age groups in the years to 1996.

6.18.8. Given that the rate of growth of enrolments is likely to decrease (on all reasonable assumptions) this means that the demand for additions to the teaching force is likely to fall. This is likely to be an important factor at the second level, and indicates that the present annual enrolment rate of H.Dip. in Ed. students (over 1,500) may be well in excess of the projected recruitment rate for teachers. For the first level the problem is relatively insignificant because it is government policy to make some reductions in class sizes and in the pupil-teacher ratio, and because the transition from high to low enrolment growth rates is likely to be much less severe.

6.18.9. For the school building programme, the strain of providing for rapid enrolment growth has led to a large stock of pre-fabricated temporary classrooms. During the 1976-86 period these will need replacement, and the comparative lull in the need to provide for additional enrolments will give an opportunity which should not be missed. Otherwise, a return to more rapid growth in enrolments after 1986 (if high population projections are verified) will lead to renewed difficulties with school building programmes.

6.18.10. At the third level attention has been confined to the 1976-81 period where the Higher Education Authority's forecasts of university enrolments are combined with various population, participation, and teacher-training projections. The results are incomplete and they need to be supplemented by more information about the effects of policy changes, especially in the technological sector.

6.18.11. Finally, the range of uncertainty is greater when trying to project the implications of Walsh's study for education, than it is for housing, health etc. This is because the population in the young age groups varies very rapidly with different projections of births, and these projections are inherently difficult to make at a time of rapid demographic change such as the present. In addition, accurate information on net migration by age is almost impossible to obtain in the post-1971 period; however, there is little doubt that for the under 15 age group it has been strongly positive.

APPENDIX 6.19

RURAL AREAS: SOCIAL PLANNING PROBLEMS

(NESC, No. 19, Pri. 5376, July 1976)

6.19.1. This is one of a series of reports which explores the implications of the population and employment projections prepared for the Council by Professor Brendan Walsh and published in February 1975. This report discusses social planning problems in rural areas. It is concerned with identifying problems which now exist and those which

will arise in the next decade. It is descriptive and not prescriptive. In a future report the Council will discuss the policies required to deal with the problems identified in this study.

6.19.2. The report contains an analysis of the main demographic features of, and changes occurring in, the rural and farming populations. Demographic trends have, of themselves, implications for the provision of services. In addition to the demographic changes, current policy measures which have implications for living standards in rural areas are also reviewed. The existing pattern of social service provision and the particular problems of rural areas are examined. Where possible, differences in services between urban and rural areas are emphasised. Finally, the main policy issues emerging from the analyses are considered.

6.19.3. The projections indicate a continuing national increase in population which is also likely to be reflected in the stability of regional, county or national rural populations. Nevertheless, there will be many rural areas where population will continue to decline. In the justifiable anxiety to plan for the needs of a growing population, a danger exists that the problems of declining rural areas may receive low priority. While the problems of such areas may differ fundamentally from those of other areas they are no less deserving of attention. In particular, cognisance ought to be taken of the problems of the elderly regarding housing and medical services.

6.19.4. Social policy measures and the provision of social services for rural areas are only part of a comprehensive set of interventions by the State in respect of its citizens. Social and economic policies may have conflicting consequences or may, in certain cases, negate each other. For example, economic policies which provide incentives for farmers may be negated by social policies aimed at a retention of the *status quo*. This points to the need for greater complementarity between economic and social policy and a clearer specification of objectives.

6.19.5. In many respects policy measures have tended to differentiate between sectors of the economy and sections of the population. The rural population and more specifically the farming population have

frequently either received preferential treatment or have been accorded low priority in policy measures. Consequently, situations arise where urban and rural populations make unfavourable comparisons between their respective positions. While it is accepted that in the short-term different problems require different solutions it is also recognised that in the long-term the objective of social policy is to achieve the steady integration of rural and farming populations into a position in which they have the same benefits and obligations as other citizens of the State.

6.19.6. In economic policy, a number of indicators are constantly used to monitor changes. There also exists a need to develop a reliable set of social indicators in social policy areas. Policy changes, whether economic or social, need to be constantly evaluated in respect of their declared objectives or for unintended consequences. Finally, while the need for research and planning at a national or regional level is accepted, there also exists a need for research at local level to monitor changes as they occur and to indicate problems that may require new policies.

APPENDIX 6.20

THE FUTURE OF PUBLIC EXPENDITURES IN IRELAND

(NESC, No. 20, Prl. 5337, July 1976)

6.20.1. In 1974, the Council decided that the growth in public expenditure and its economic implications merited deeper study. The Council, therefore, commissioned Professor J. Wiseman and Dr. B. Stafford to prepare a background study to assist it in its deliberations.

6.20.2. The consultants' terms of reference were "to analyse the development of public expenditures in Ireland, over the last ten years and to use the results to assess and comment upon possible future developments, in a fashion that provides a context for the consideration of evolving public policy". Public sector spending can be broadly

classified into expenditures on the purchase of goods and services and transfer payments. Public expenditures have to be financed. To finance the current purchases of the public sector, the real expenditures of private individuals and firms must be correspondingly reduced. To finance transfer payments, the consumption and/or saving of some must be reduced to make possible the consumption (or increases in the consumption) of others.

6.20.3. The consultants took the years 1963–64 to 1972–73 as their base period. Over this ten year period, real public expenditure on goods, services and transfers grew at a rate substantially above that of the real GNP. As a result, the share of *total* real public expenditure in GNP rose from 34.4% in 1963–64 to almost 44% in 1972–73.

6.20.4. In their forward projections, the consultants concentrated primarily on changes in the claims exercised by public expenditure on the community's real resources and only secondarily on transfer payments. In order to project the growth of public expenditure and its implications, they had to make their own projections for the growth in the economy to 1986. The consultants assumed that Government policy would aim at full employment by 1986, and that this objective would be achieved. If output per person employed grew at the same average annual rate between 1972 and 1986 as during 1963–64 to 1972–73, the achievement of full employment¹ by 1986 would require an average annual growth rate in national output of around 5½%, giving a 1986 GNP of £3,300 million (at 1968 prices).

6.20.5. Their next step was to estimate the growth in private investment needed to generate this growth in GNP. Assuming no current external deficit by 1986, and after making allowances for net factor income from abroad and changes in stocks, the consultants concluded that £2,444 million of the 1986 GNP of £3,300 million (both at 1968 prices) would be available for private consumption and public consumption and investment.

¹The percentage growth in employment over the period 1971 to 1986 was based on Professor B. Walsh's population and employment projections, retaining his assumption of 4 per cent unemployment by 1986. See NES, No. 5, *Population and Employment Projections: 1971–86*, February 1975.

6.20.6. The consultants examined the implications of allocating this "residual" between GNP and private investment, of £2,444 million at 1968 prices, between private consumption and public sector use on the following assumptions:

- (a) that there would be no change in the trend in public expenditure policies;
- (b) that the 1972–73 share of private consumption in national output would be maintained;
- (c) that the 1972–73 ratio between private consumption and public consumption and investment would be maintained.

6.20.7. Under the *first* assumption (the continuation of the historic expenditure trend), of the residual of £2,444 million in 1986, private consumption would account for £1,706 million and net public consumption and public investment for £737 million—or 51.7% and 22.3% of the 1986 GNP respectively. Under the *second* assumption (the maintenance of the 1972–73 share of private consumption in GNP), the allocation would be £2,304 million for private consumption (or almost 70% of GNP) and £140 million for public sector uses (or almost 4½% of GNP). Under the *third* assumption, the allocation would be £1,910 million for private consumption (or almost 58% of the 1986 GNP) and £534 million for public sector uses (or 16% of GNP).

6.20.8. Under the third assumption, there would be £203 million less resources available for public sector use than would be required to maintain the historic policy trend. There are an infinite number of ways in which the different heads of public expenditure on goods and services could be trimmed in order to "save" £203 million on the "constant policy" projection. The consultants give one illustration in their report. In it they apply the "cuts" on a *pro rata* basis over the different programmes. Their exercise is purely illustrative, and the cuts are applied on a *pro rata* basis to enable them to avoid passing any judgement on the relative importance of the different public expenditure programmes. It is their view (and that of the Council) that any such judgements are in essence political and can be made only by the elected representatives of the Irish people. Such judgements can be informed by a clear statement of the economic consequences of alternative courses of action.

6.20.9. The three assumptions set out in paragraph 6.20.6. above were concerned with the allocation of claims on the community's real resources between private consumption and public expenditure on goods and services (both consumption and investment). Transfer payments (such as pensions, unemployment assistance and investment grants) reallocate the *existing* claims of the private sector over real resources as between persons and firms in the private sector. In the "trimming" exercise referred to in paragraph 6.20.8. above, only the rates of growth in public expenditure on goods and services were reduced; the current and capital transfer components of all the expenditure programmes were left untouched, thus allowing existing redistribution policies to be maintained. Maintaining the historic trend in policies on current transfers may benefit deserving groups and individuals; maintaining the historic trend in policies on capital transfers may stimulate investment and growth. Current transfers will not materially affect the proportion of national resources available for private consumption. However, they must be paid for by direct and indirect taxes and weekly social insurance contributions by employers and employees. The current transfers, therefore, reduce the degree to which claims over private consumption are exercised directly out of private earned income and increase the degree to which it is financed by transfers effected through the agency of government.

6.20.10. In 1972-73, 29% of private consumption was financed by current transfers to households. Of the projected private consumption in 1986 (on the assumption that the 1972-73 ratio between private consumption and public expenditure on goods and services would be maintained through 1972 to 1986), about 44% would be financed by current transfers. In the consultants' view, this presented a significant problem for policy-makers. In their report, the consultants give one example of the way in which the growth in current transfers* could be cut in order to keep the proportion of private consumption financed by current transfers in 1986 at its 1972-73 level of 29%. As a result of their "trimming" exercise, the allocation of claims over resource use by private consumption and public consumption and investment is not affected—total private consumption in 1986 is £1,910 million as projected under the third assumption in paragraph 6.20.7. above. The projected increase in capital transfers was not "trimmed"; it was

assumed that these were necessary to achieve the growth in investment required to reach full employment and raise productivity.

6.20.11. Again, it must be emphasised that the consultants' "trimming" exercise is purely illustrative. The exercise carries no implication of any kind that any current transfer should be cut or its growth rate reduced. The transfer elements in the main expenditure programmes are "trimmed"¹ on a *pro rata* basis to avoid any judgement on the relative importance of the different transfer payments. The intention of the exercise is merely to bring out the order of magnitude involved.

6.20.12. No recommendations are made in the consultants' report. Its purpose was not to say what "ought" to be done to influence the growth in public expenditures, but rather "to set out the possibilities in a fashion helpful to those faced with the relevant policy decisions". In the consultants' view:

"... the size and character of government spending is the outcome of political value judgements and related political decisions, and these are matters about which reasonable people can reasonably differ. Thus, there is no reason of *principle* why policy-makers should not accept . . . the results of 'maintaining present policies', and yet see no particular problems or difficulties arising. This would be so if they were politically sympathetic to the large implied growth in the claims on community resources being made by government, if they found politically acceptable the implied discrimination (in terms of reduced rate of growth) against real private consumption . . . , and if they found acceptable the implied discrimination in favour of the public financing of private consumption."

6.20.13. However, there could be others who will see policy problems arising—

"... if only because, in the absence of deliberate decisions by government, they would expect political pressures to result in a reduction of real standards of provision of some services 'by

¹With the exception of interest on public debt.

default' . . . , and would regard this kind of 'inadvertent' policy-making as incompetent. But, of course, such people may also differ with one another about what needs to be done: they will each have their own priorities about programmes. No unanimity is to be expected as to which programme growth rates it would be best to cut . . . There is nothing sacrosanct about the maintenance of the share of private consumption in community resource-use . . . , nor about the maintenance of a particular degree of public support for private consumption. There is no God-given way in which the adjustments needed to reach such positions should be allocated across the (expenditure) programmes."

The consultants regarded their "trimming" exercise, in which *pro rata* cuts were applied to the growth in the spending programmes, as an invitation to others to "do their own crossword", the rules of the game having been explained to them.

APPENDIX 6.21

REPORT ON PUBLIC EXPENDITURE

(NESC, No. 21, Prl. 5479, July 1976)

I Introduction

6.21.1. In 1974, the Council decided that the growth in public expenditure and its economic implications merited deeper study. The Council, therefore, commissioned Professor J. Wiseman and Dr. B. Stafford to prepare a background study to assist the Council in its deliberations. The Council recommended that the consultants' study should be published in full simultaneously with the publication of its report on public expenditure.

6.21.2. The Council reached the following conclusions on the basis of the consultants' analysis:

- (a) The 1972-73 share of private consumption in national output cannot be maintained. Any attempt to maintain the share at that level would require a drastic cut in real terms in public expenditure on goods and services.

- (b) The continuation of the historic public expenditure trend would involve a very severe reduction in the share of private consumption in national output and an unacceptably low rate of increase in *per capita* private consumption.
- (c) Any feasible picture for the next ten years will require significant cuts in the rate of growth in public expenditure below the rate of growth implied by the maintenance of the 1963-64 to 1972-73 upward trend in public expenditure.
- (d) Any modification in the consultants' assumptions in order to make them more "realistic" would on balance strengthen these conclusions. More realistic assumptions would demand larger cuts in the growth rate in public expenditure required to maintain the historic public expenditure trend.

6.21.3. The primary concern of the Council in this report is not with the rapid increases which have occurred in Government expenditure over the last few years. This growth has been influenced by factors, some of which it is hoped are temporary, such as the world recession, the rise in unemployment and rapid inflation. In this report, the main interest of the Council is in the implications for the economy of the continuation of the underlying upward trend in public expenditure. Of course, the rapid growth in total public spending, both in absolute terms and as a proportion of national output, has not been peculiar to Ireland. It has occurred in all EEC member countries, though not to the same extent as in Ireland. It is nevertheless of interest to note the acceleration in the rise in Government expenditures which has occurred in recent years. In the late 1950s, Government current expenditure was just over 20% of national output, but the proportion has risen to around 30% by the early 1970s, and to over 40% by 1976. Public capital expenditure rose from about 7% of GNP in the late 1950s to 11 to 12% in the early 1970s, and 14½% in 1976.

II The Role of Public Expenditure

6.21.4. Ireland has a mixed economy. The greater part of the national output is bought by private households, and by enterprises in the private sector to maintain or increase productive capacity. At the same time, a substantial part of the national output is bought by public

expenditure. These public expenditures may be spent directly on buying goods and services to satisfy "public" wants. These may be social or collective wants (such as defence and law and order) or services (such as education, health and housing) that could be provided through the market.

6.21.5. However, the State must assume wider responsibilities for the efficient working of the economy and the welfare of its citizens. Government action is needed to encourage private investment by such measures as capital grants, tax reliefs or the provision of supporting infrastructure. It is generally accepted in Ireland that the level and composition of public expenditure and the way in which it is financed have major effects on the distribution of national output, on the rate of growth in national output, and on the behaviour of employment, output and prices in the private sector and in the economy as a whole.

6.21.6. This report is not concerned, however, with the importance of the role played by Government in the economy—that is accepted. Rather, the main interest is in the level of public expenditure and its impact on the economy. This report is concerned with the more general issues. If more detailed data on the cost and effectiveness of individual expenditure programmes are made available, it would be the intention of the Council to prepare a further report in which priorities for applying cuts in the growth if public expenditures would be indicated.

III Why the Level of Public Expenditure Matters

6.21.7. Public current and capital expenditure have to be financed. The money to finance them can be obtained from two main sources: direct and indirect taxes, and borrowing. It is accepted that public current and capital expenditure must be financed but again there are differing views about the relative importance that should be given to direct as opposed to indirect taxes, and about the extent to which it is appropriate to use funds borrowed either internally or externally.

6.21.8. If in principle there is no "right" answer to the question: does the level of public expenditure matter?, a clear answer is now emerging in practice. The present level of public expenditure (even when allowance is made for the effects of the world recession) requires

a level of taxation that is very widely (if not universally) felt to be excessive, but which nevertheless still leaves a very large overall budget deficit and a heavy borrowing requirement. The present size of the current budget deficit and the amount and terms of public sector borrowing—the high interest rates and the relatively short periods within which the loans must be repaid—provide no grounds for hope that the tax burden can be lightened in the foreseeable future.

6.21.9. There was a squeeze on real disposable incomes between 1964 and 1974—a squeeze that was progressively tighter for the higher income groups. There is no doubt that the squeeze was further tightened through 1975 and into 1976. One major pressure for increases in money incomes springs from attempts to improve, or at least maintain, the standards of living that employees are currently enjoying. Attempts to maintain real disposable incomes—if not to prevent a reduction in the rate of growth in them to which employees had become accustomed—help to explain at least a part of the pressures for higher money incomes in recent years.

6.21.10. It would appear that the present level of taxation is increasingly felt to be excessive and that any further rise in tax rates would be unacceptable to those that have to pay them. This is happening because of the co-existence of high rates of indirect taxation, the progressive system of direct taxation and a historically high rate of inflation: together, these have meant many people have suffered a significant fall in real disposable income in recent years. At the same time, there has been very little pressure, and very few specific proposals, to reduce any particular items of public expenditure. In attempting to explain these inconsistent attitudes, at least four things are relevant:

- (i) Until very recently the goods and benefits provided by the public sector were widely regarded as "free", and were often presented as such to the electorate.
- (ii) To the extent that the fact was appreciated that public goods and services (such as education and health) had to be paid for, it was assumed that they would (or should) be paid for by people other than those who mainly benefited from them.
- (iii) Direct tax payments that eat into private expenditure that would usually be undertaken by working class families may

have contributed to a wider appreciation of the fact that public goods and services have to be paid for, and

- (iv) It can be argued that many of these problems could have been avoided or eased if taxpayers (and especially those in the middle and lower income groups) had been persuaded to think of the "social wage" accruing to them, rather than of their real disposable incomes¹.

IV Why Government Expenditure has Risen

6.21.11. The four considerations in the paragraph above go some way towards explaining the simultaneous existence of desires or demands for more public expenditure and of an unwillingness to accept the tax rates required to pay for it. However, it is necessary to dig deeper and to examine how public expenditure could have reached such a high level that the community is not prepared to accept the cuts in private expenditures required to keep the overall deficit at a sustainable level. The problem is not a temporary one that can be explained by the world recession.

6.21.12. The pressures favouring higher public expenditures lie in the democratic process, the nature of bureaucracies, the difficulties in resolving conflicts between Departments, the influence of articulate (and inarticulate) interest groups, and the limited opportunities that exist at present for informed public debate on public expenditure and of its growth and effects. All these may help to explain the very large number of decisions to increase individual items of public expenditure which have resulted in the upward trend in the total. It must be emphasised that public expenditures have risen because decisions were made to raise them either explicitly or by default—the expenditure of public funds must be authorised, and does not (and cannot) merely happen. Inherent in all these decisions was a preference (if only implicit) for spending rather than not spending or spending less. This needs to be said because of the tendency to assume that if something can be explained then it must be inevitable.

¹In broad terms, the social wage is the gross income earned *less* direct and indirect taxes paid *plus* all benefits received both in cash and kind.

V How Public Spending can be Curbed: Short-Run

6.21.13. A central argument in this report is that the present level of public expenditure (even when allowance is made for the effects of the world recession) requires a level of taxation that is very widely (if not universally) felt to be excessive, but which nevertheless leaves a very large overall budget deficit and heavy overseas borrowing (which cannot for long be sustained) in order to help finance it. There is ample evidence that increases in tax rates to raise more revenue in order to reduce the overall deficit provoke a defensive reaction by taxpayers, as they attempt to maintain their real disposable incomes (if not to prevent a reduction in the rate of growth in them to which they have become accustomed). When these claims for higher money incomes are pressed, the competitiveness of the private sector is further eroded and private sector employment falls. But public sector spending rises and the overall deficit is not significantly reduced.

6.21.14. The Council does not make any attempt, at this juncture to specify the particular public expenditures which should be cut or curbed. However, on one issue there is general agreement: the main brunt of the adjustment would have to fall on public expenditure, and it is a function of the Government to effect these adjustments. The speed with which the necessary adjustments are effected will have important implications for competitiveness and the future growth of the economy. If details of the amount spent on individual public programmes and their constituents were made available to the Council it (despite the diversity of view among its members) would be in a position to attempt to reach specific recommendations.

6.21.15. In the short-term, there are a number of difficulties in reducing (and arguments strongly pressed against attempting to reduce) Government expenditure. This means that the main emphasis must be on limiting the growth in current expenditures and improving the efficiency with which they are provided. When the growth in total expenditure has to be curbed, productive public capital expenditures should not be made to suffer disproportionately. If the growth in public expenditures has to be curbed because difficulties are being experienced in financing it, there is little alternative in the short-run to the use of rules-of-thumb.

6.21.16. The Government has already indicated its intention of balancing the current budget within three years. It is necessary, therefore, to consider how the rate of growth in public expenditure could be curbed in the years immediately ahead. In the short term, it would be necessary to study how this could be done. Briefly, this amounts to:

- (i) identifying public programmes that could be discontinued or curtailed;
- (ii) identifying political objectives that can be postponed;
- (iii) identifying public services in which standards (and therefore costs) can be reduced;
- (iv) taking action to improve efficiency, and
- (v) ensuring that the net benefit flowing from public expenditure is concentrated to the maximum extent possible, on those most in need.

VI Some Requirements for the Control of Public Expenditure

6.21.17. The Council believes that the suggestions in the above paragraph point in the right direction, but that by themselves they would not be sufficient. If the long-run upward trend in public spending is to be slowed down, the Council believes that further action is required. *First*, a strategy for economic and social development is required in order to create an environment in which agriculture and industry can grow at the fastest feasible rate. Moreover, the environment should be one that can bring about an equitable distribution of income and wealth and greater equality of opportunity. In assessing the extent to which public sector activities on balance promote faster growth and greater equity it is necessary to take the *net* effect of public expenditures and the way in which they are financed into account. *Second*, the Government should have prepared and should publish projections of the growth in public expenditure on the basis of existing policies, and projections of the growth in tax revenues on the assumption of no change in tax rates and structures, each year. In addition, action is required to improve the efficiency of public expenditure by having the objectives of each expenditure specified clearly and explicitly.

6.21.18. In this report, the Council has concentrated on the adverse effects of the present level of public expenditure on the economy. The next step must be for the Council to advise the Government in more specific terms on the particular expenditure programmes whose rate of growth should be curbed and to what degree. Such advice cannot be given merely on the basis of the cost of existing programmes and how this is likely to grow. It must take account also of the return for money which is being obtained for public expenditure on particular programmes and of economic and social priorities. The Council, therefore, requests that more detailed information about the cost of particular programmes and assessments of their effectiveness should be made available to it. When this information has been received, the Council will, as a matter of urgency, identify the expenditure programmes that in its view should bear the brunt of the efforts that must be made to curb the growth in overall public expenditure.

APPENDIX 6.22

INSTITUTIONAL ARRANGEMENTS FOR REGIONAL ECONOMIC DEVELOPMENT

(NESC, No. 22, Prl. 5407, July 1976)

6.22.1 Until a clearly articulated policy for regional economic development is available, it is not possible to devise the full range of institutions that would be needed to implement it. This report is not concerned with these broader issues, but with a more restricted issue: namely, to identify the *minimum* institutional changes that would be required and feasible, to provide a coherent and effective organisational framework for regional economic development.

6.22.2 At present there is a wide range of bodies which have responsibility for various aspects of regional economic development. Some of these bodies have a limited co-ordinating role—for example, the Regional Development Organisations (RDOs) and County Councils.

6.22.3. The report discusses briefly the effectiveness of the existing institutional arrangements. Among the main disadvantages of the

present arrangement are: the lack of a set of integrated regional plans, and the ineffectiveness of the RDOs—with a few exceptions. The RDOs are ineffective mainly because: they have not been adequately supported by all the bodies concerned, they have neither statutory recognition nor powers, they have not been backed up by regional executive agencies, there has not been effective co-ordination of the RDOs from the centre, and they have not been given any specific tasks to perform.

6.22.4. It is the Council's view that, without political involvement, it will be difficult to make progress towards the development and implementation of regional policies. The report recommends, therefore, that a Minister should be given responsibility for regional policy. The selection of a particular Minister is a matter for decision by Government. The Council would see an advantage in also having a Cabinet Committee which would be chaired by the Minister responsible, and which would include other Ministers concerned with regional policy.

6.22.5. The report also recommends that a Central Committee for Regional Economic Development be established. This would report to the Minister with responsibility for regional policy. Members of the staff of the Committee would be provided from the Minister's Department, but staff would also be drawn from other sources as well if required. The main task of this Central Committee should be to articulate regionally the national programme which is to be published in 1976. The Committee should examine the suitability of the existing Physical Planning Regions, and the feasibility of defining uniform regions for all activities. The Committee should also prepare a framework within which the RDOs could prepare more detailed regional plans. Subsequently, the Committee should check the progress which is being made in the preparation of these plans. The Committee should also co-ordinate the work of the RDOs.

6.22.6. The Central Committee should examine whether it is desirable that the RDOs be given statutory recognition, and how the present functions of RDOs might develop in the context of a national economic plan. In any event, the RDOs should be given specific functions, which should include: the up-dating of their reports (prepared in the early

1970s), and the preparation of detailed plans for their regions in consultation with the Regional Development Committee and the local authorities.

6.22.7 The Central Committee should also consider the future position of the County Development Teams and their relationship with other bodies in the regions, and with the Central Development Committee.

APPENDIX 6.23

REPORT ON HOUSING SUBSIDIES

(NESC, No. 23, Pri. 5675, February 1977)

6.23.1. This report is concerned with the effects of the complex of subsidies, now associated with housing, on the distribution of income.

6.23.2. The report is divided into six chapters. Chapter 2 deals with some problems which arise in the measurement of housing subsidies, and in the estimation of their effects on income distribution. Chapter 3 classifies the various housing subsidies. A wide definition of subsidy is used, i.e., a measure which affects the relative prices of goods and services, or which affects relative incomes.

6.23.3. Chapter 4 presents estimates of the aggregate value of housing subsidies to each tenure group, for each year from 1971–72 to 1975. These estimates indicate the cost of subsidisation to the State, and are summarised for the year 1975 in Table 6.23A. There are three broad tenure groups. First, there are local authority tenants, who numbered 113,000 in 1971. In 1975, the total subsidies to these tenants are estimated to have been £26.2 million. Second, there are owner-occupiers, which numbered 500,000 in 1971. A distinction is drawn between explicit subsidies (grants, and subsidisation of loan interest) and implicit subsidies (e.g. exemption from stamp duty, tax relief, rates remission). Total explicit subsidies to owner-occupiers in 1975 were estimated to be £14.8 million, and total implicit subsidies were estimated to be £30.5 million. In addition, one distinct group of owner-occupiers is comprised of local authority tenants who purchase their dwellings, and their subsidies at the point of sale were estimated to be £21.0 million in 1975.

TABLE 6.23A

State commitment to Housing Subsidies, 1975

Source	£m
Subsidies to local authority tenants	26.2
Tax foregone on rent of tenants in rent-controlled dwellings (a)	3.5
<i>Subsidies to owner-occupiers</i>	
State and local authority grants for new houses	8.7
State and local authority grants for reconstruction and repairs	4.0
Subsidisation of building society loan interest rates	2.1
Cost to Exchequer of stamp duty exemption	4.3
Tax relief on building society loans	7.9
Tax relief on local authority loans	1.5
Tax relief on life assurance loans	3.5
Effect of fixed interest charges on local authority loans	4.3
Rates remission on new and reconstructed houses	6.0
Tax relief on capital gains	3.0
Total subsidies to owner-occupiers (b)	45.3
Subsidies at point of sale to local authority tenants who purchase	21.0
Total subsidies to all households	96.0

Notes: (a) This shows only the tax foregone by the State. Total subsidies to tenants of rent-controlled dwellings, most of which come from landlords, are estimated at £10 million in 1975.

(b) There is an implicit subsidy to owner-occupiers which does not involve a loss to the Exchequer. This arises from the charging of fixed rates of interest on life assurance loans. The value of this subsidy is estimated at £3.3 million in 1975.

6.23.4. Third, there were 97,000 tenants in the private letting sector in 1971, of whom about 50,000 were in rent-controlled accommodation. The estimated aggregate subsidy to tenants in rent-controlled accommodation in 1975 was £10 million; the immediate burden of this fell on private landlords. However, part of the £10 million represented foregone tax revenue which amounted to approximately £3.5 million in 1975.

6.23.5. Chapter 5 discusses household income and expenditure on housing by tenure group in 1973, and expenditure on rents in 1971. Chapter 6 discusses the impact of subsidies on some typical individuals, and shows the present value of certain subsidies.

6.23.6. Chapter 6 contains a discussion of the distributional effects of the subsidies. The technical term "progressive" is used to denote a case where the lower the income of households, the larger the subsidy as a proportion of income; the term "regressive" is used to denote a case where the higher the income of households, the larger the subsidy as a proportion of income. Among the points made on the distributional effects of housing subsidies are the following. First, tenants in the uncontrolled private sector receive no direct subsidies, and spent a higher proportion of income on housing than householders in any other sector. On the whole the effect of this is probably regressive, since average income in the *uncontrolled* private letting sector is not likely to be significantly higher than that of other sectors. Second, the local authority tenant purchase scheme gives a relatively large subsidy to one particular group of householders. To the extent that the tenants who purchase dwellings are those with relatively higher incomes—and this is likely—then the effects of the sales scheme work in a regressive direction. Third, within the owner-occupied sector, many of the subsidies are regressive. Fourth, the local authority differential rents scheme is designed to distribute subsidies in a progressive manner, and this happens to some extent. However, the somewhat arbitrary manner in which *maximum rents* can vary across different dwellings can limit the progressive effects of the differential rents. (The rent paid on a dwelling cannot exceed this maximum rent.)

6.23.7. The following are some of the principal points made in the discussion of policy options. The present range of subsidies should be critically examined with regard to their distributional effects, to determine what modification would help to ensure that those in greatest need enjoy the greatest benefits. Such an examination would be more feasible at present than a radical change to some different approach, such as the introduction of housing allowances. This examination must encompass *all* subsidies, since a change in an individual subsidy could work perversely. Some of the present subsidies would merit special

attention in any critical reassessment. In the local authority rented sector, maximum rents have tended to lag behind economic rents (defined as loan charges plus maintenance and management expenditure). There are a number of different options regarding the setting of maximum rents. The adequacy of the present allowance for maintenance and management expenses must be queried.

6.23.8. The present policy on sales of local authority houses is discussed. One of the aims of the sales scheme is the stimulation of owner-occupation. Consideration should be given to other means of achieving this aim directly—e.g., through additional incentives when tenants move from the local authority sector into owner-occupation, while at the same time retaining the stock of local authority dwellings for the achievement of the aims of local authority housing policy.

6.23.9. In the owner-occupied sector, certain changes are mentioned, which could move the present system in a less regressive direction. This includes policy on tax relief, on local authority loans, and the building societies' composite rate. Finally, there is a reference to some ways of assisting the private letting sector, and for assisting those on the waiting lists for local authority dwellings.

APPENDIX 6.24

A COMPARATIVE STUDY OF OUTPUT, VALUE-ADDED AND GROWTH IN IRISH AND DUTCH AGRICULTURE

(NESC, No. 24, Pri. 5651, December 1976)

I Introduction

6.24.1. This report is presented in two parts. Part I of the report contains the Council's comments. Part II sets out the consultant's report in full. It was prepared by Dr. John A. Murphy, Department of Applied Agricultural Economics, University College, Dublin.

6.24.2 In February 1975, the Council published projections of the growth in population and the labour force up to 1986. In a subsequent report, some of the implications of the projections for employment and living standards were examined. If employment is to be provided in

Ireland for the projected expansion in the labour force, then considerable growth is required in output, productivity and investment in the agricultural, industrial and services sectors. In order to assess the growth prospect at a sectoral level, the Council decided to begin by examining the potential for development in agriculture. This report is the first stage in the study of the potential for growth in the agricultural sector. It compares agricultural growth in Ireland and the Netherlands.

II Background to the Study

6.24.3. The potential for higher employment and productivity in Irish agriculture has to be assessed, in the first instance, within the context of the level of production and the historic rate of agricultural growth. But international comparisons of agricultural performance are also relevant.

6.24.4. A low rate of growth in Irish agriculture would be undesirable for a number of reasons. First, if the economy is to achieve the rate of growth needed to improve the living standards of the whole community, then the agricultural sector, which is a relatively important sector of the Irish economy, must make a greater contribution to the overall growth. Second, there are implications for the welfare of the farm population. Finally, a lower than average growth rate for Irish agriculture would result in a diminishing share of total EEC agricultural output. Any such reduction in market share would be very disadvantageous, especially for an industry which still has a considerable degree of comparative advantage within the EEC.

6.24.5. It was against this background that the study presented in Part II of the report was prepared. Its overall objective was to analyse selected aspects of agricultural growth in Ireland by comparing them with corresponding developments in a country which has achieved a high agricultural growth rate. It was felt that such comparisons would help to highlight some of those aspects of agriculture which had lagged behind in Ireland and to identify some possible reasons why progress has been constrained.

III The Comparative Study

6.24.6. The country selected for comparison was the Netherlands. This choice was determined mainly by the fact that Dutch agriculture is

widely recognised as a dynamic industry showing a high growth rate. Indeed its growth rate has been the highest in the EEC. In addition, Irish and Dutch agriculture¹ are comparable to the extent that the climatic conditions in both countries are somewhat similar, which in turn results in a similar type and range of crops being produced. At the same time, the balance of production between livestock and agricultural crops is roughly the same in both countries. In general, the analysis which has been carried out has focused on developments from 1956 to 1973.

6.24.7. The consultant's report is arranged in five chapters. The first deals with the relative importance of agriculture in the economies of Ireland and the Netherlands and traces the growth rates achieved in both countries. Chapter 2 seeks to refine the broad inter-country comparison by focusing on the rates of growth in yields and volume of particular agricultural outputs. In Chapter 3 the analysis concentrates on production incentives; the main emphasis is on product prices and the relative costs of feed and fertiliser, but reference is also made to the use and cost of capital. Chapter 4 gives a summary statement of the performance of Dutch and Irish agriculture. The analysis here is confined to the period 1971-73 and deals with aggregate input/output relationships in the two agricultural sectors. Chapter 5 presents the summary and conclusions.

6.24.8. The report isolates those aspects of agriculture which display the greatest differences in performance and growth as between Ireland and the Netherlands. Some of the reasons for the differences are then explored. The general conclusion was that the level of yields in Dutch agriculture seemed to be significantly higher than in Ireland. The greatest differences seemed to occur in the yield of grassland and milk

¹Throughout the study "agriculture" has been taken as corresponding to farm production (including horticulture), so that the report contains no comparisons for either the sectors supplying farm inputs or those processing and distributing farm products. While such comparisons would doubtless have provided useful information, especially with regard to the level and trends in employment, the time limits for the study precluded broadening it to include them. Another area which was not examined because of the time constraints is the differing attitudes of farmers towards expansion in the two countries.

yields per cow. In the agriculture crop sector, Ireland's comparative position with regard to yields appeared to be considerably better than for grassland.

6.24.9. At an overall level, the slower growth in Irish agriculture seemed to stem from the relatively slower rate of improvement in grassland yield and the slower rate of expansion in enterprises which are labour/capital intensive rather than land intensive. Another aspect of the study, which is of interest, is the extent to which Dutch farmers in general received higher value in terms of the prices which they got for their produce. At an overall level, it is relevant to note that to the extent to which Irish agriculture were to progress towards the Dutch system and intensity of agriculture, it might be possible to maintain the Irish agricultural labour force at or close to its current level.

6.24.10 It is accepted that the results of international comparisons must always be treated with caution, especially because of differences in the definitions that are used. Nevertheless, the present exercise does present some interesting pointers for Irish agriculture. In short, the exercise shows how it was possible for an agricultural industry, not too dissimilar to Ireland's, to arrange its resources in such a way as to achieve a rate of agricultural growth which has been the highest in the EEC.

APPENDIX 6.25

TOWARDS A SOCIAL REPORT

(NESC, No. 25, Pri. 5706, 1977)

6.25.1. The Council has been conscious for some time of the need for a document which would chart social change over the last few decades in this country. This report is an attempt to produce such a document on a pilot basis.

6.25.2. The measurement of social change is complex and difficult. Ideally a social report should:

- measure and evaluate the basic social changes which occur over time, notably changes in the demographic and employment structure;
- measure the coverage and extent of social services offered to meet social needs;
- evaluate the effectiveness of the services provided, both in terms of value for money, and their efficiency in meeting the needs they were established to fulfil;
- review the policy objectives on which the services are based, in order to ensure that these objectives and services respond adequately to changing needs;
- evaluate the public expenditure implications of social policies. In particular, an attempt should be made to assess the extent to which public expenditure costs fall on different income categories, and the general re-distributive aspects of fiscal policy and social policy, and should consider the alternative bases for financing social development;
- attempt to evaluate the social consequences of those government policies which are not specifically labelled "social";
- attempt to measure the changes in the quality of life and standards of living enjoyed by the community as a whole and by different social groups within it. This could probably best be done by the development of social indicators, and
- inform the public about the developments in social policies, and in particular in social services.

6.25.3. A social report along these lines could improve public policy making in two ways: it could highlight social problems, and make possible more informed judgements about national priorities. Second, by providing insight into how different measures of national well-being are changing, it might ultimately make possible a better evaluation of what State-sponsored (and financed) programmes are accomplishing.

6.25.4. This report is not a "social report" in this sense. The time, data and resources for such an undertaking are not available to the Council. It attempts only to cover some of the points raised in paragraph

6.25.2. above. Since this is the first attempt at the preparation of a social report in this country, it must be regarded as tentative—as a basis on which future reports might be developed and improved.

6.25.5. The report draws together statistics and policy developments in a number of selected fields. It is divided into 9 sections. The first deals with population trends both nationally, and regionally. The second deals with changes in the structure of employment and related matters. The following six sections examine trends in incomes as well as trends in each of the main social services—health, education, housing and social welfare services. The period covered by these sections varies somewhat, but attention is focused mainly on the last fifteen years or so. The final section gives some indication of developments in crime rates. Each of the sections is limited to an examination of the statistical data and the policy developments underlying them. There is no attempt at policy evaluation, either in economic or in social terms. The Council has already stated elsewhere that the responsibility for the assessment of the efficiency and effectiveness of individual programmes can only be done by the Government Departments concerned, who are the only bodies with all the necessary information.

6.25.6. It is the Council's hope that this report will be of value in enabling some overview to be taken of social policies. It is also hoped that those with an interest in social policies and the measurement of their effectiveness will make suggestions as to how future social reports could be improved and developed.

APPENDIX 6.26

PRELUDE TO PLANNING

(NECS, No. 26, Prl. 5741, October 1976)

I Introduction

6.26.1. This report attempts to draw together the main threads of the Council's work to date on the economy. There is no attempt at a short-term forecast for 1976. The problems now facing the economy cannot be solved by demand management policies.

II Present Problems

6.26.2. There are *two* crucial elements in the present problems facing the Irish economy. *First*, the level of real income demanded by employees in Ireland has always been too high to enable full employment to be approached; and the attempts to achieve the level of real income now demanded by employees will tend to generate rates of increase in costs and prices that are higher than those occurring in Ireland's main export markets and especially in the UK. Given the overall economic situation and the state of the public finances, there can be little scope for raising domestic demand by higher Government expenditure and/or reductions in tax revenue. Even if it were attempted, the growth in output generated by measures aimed at raising domestic demand would be small and short-lived, because of balance of payments constraints. Without significant and sustained growth in output, real income expectations cannot be met. The attempt to realise these by increases in money incomes will accelerate the rate of inflation and increase the already large foreign borrowing. The levels of real income now demanded and expected cannot be achieved in this way.

6.26.3. *Second*, the present level of public expenditure (even when allowance is made for the effects of the world recession) requires a level of taxation that is widely (if not universally) felt to be excessive, but which nevertheless leaves a very large overall budget deficit and heavy overseas borrowing (which cannot for long be sustained) in order to help finance it. The overall deficit must be reduced. But, for reasons discussed in the Council's *Report on Public Expenditure*, reductions in Government spending tend to be strongly resisted. At the same time, there is increasing evidence that increases in tax rates to raise more revenue in order to reduce the overall deficit provoke a defensive reaction by taxpayers, as they attempt to maintain their real disposable income (if not to prevent a reduction in the rate of growth in them to which they have become accustomed). When these claims for higher money incomes are pressed, the competitiveness of Irish products (both in the home and export markets) is further eroded.

6.26.4. The economy can get off the horns of the dilemma on which it is now impaled only through faster economic growth. This growth must be export-led. Export-led growth is possible only if Irish products are competitive. They will be competitive only if the growth in money

incomes relative to the *trend* rate of growth in productivity is more favourable here than in neighbouring countries and especially than in the UK. This is the inescapable pre-condition for faster growth.

6.26.5. It is particularly unfortunate that the country is faced with its present economic problems at a time when the potential for growth is greater than at any time during the history of the State.

III Growth Process

6.26.6 All activities which use economic resources can be classified into two categories. First, the market sector in which sellers obtain revenues as a result of voluntary decisions by buyers about how they will spend the money at their disposal. The market sector consists mainly of the private sector—specifically the goods-producing sectors (agriculture and manufacturing industry). Important publicly-owned trading activities also fall into this sector. These are key sectors because the growth in them will generate growth in the major service activities.

6.26.7. Second, the non-market sector consists mainly of public sector activities. Those who produce non-marketed output receive their reward from net compulsory transfers from those engaged in the market sector of the economy. The market sector can be further subdivided into unsheltered and sheltered activities. All exports and all import substitutes are produced by the unsheltered activities. They have therefore little or no control over their selling prices, and if Irish costs rise faster than those elsewhere their profits are squeezed, investment and employment fall, and firms are forced out of business. The sheltered market activities neither export nor have to meet competition from imports, so that they are not subject to the same tight constraints in passing on cost increases in higher prices. They share this insulation from external constraints with the non-market (mainly public) sector. The economy therefore consists of an unsheltered market and a sheltered market sector (in both of which private enterprise predominates in Ireland) and a non-market sector (which consists mainly of the public sector). The key to faster and sustained economic growth lies in the health of the first of these sectors, namely, in the unsheltered market sector whose main components at this stage in Ireland are agriculture and manufacturing industry.

IV Obstacles to Growth

6.26.8. Increases in money incomes are determined mainly by reference to what the sectors of the economy that are sheltered from external competition can pay. The strong pressures to maintain the existing traditional differentials between different activities and occupations means that these increases tend to be generalised throughout the economy. In the sheltered market sector, employers can generally recoup the higher labour costs through price increases. But in the exposed market sector, selling prices are determined externally. As a result, the profitability of the exposed market sector is reduced, some workers are paid off and some firms are driven out of business, because of the rise in incomes and the higher cost of the services bought from the sheltered market sector. This applies throughout the exposed market sector—both in agriculture and manufacturing industry. This has serious implications for economic growth.

6.26.9. The exposed market sector is the key one in the growth process. If the profitability of the firms and farms in it is reduced, there will be less investment and a slower growth in employment. This means slower growth in the sheltered market activities and therefore in the whole economy. This largely explains the domestic contribution to the problems that the economy now faces. These problems could be made more serious still. To the extent that the rate of growth in public expenditure is not curbed, the rate of growth in tax revenue must be raised. Given the relatively poor prospects for economic growth in the short term, it may not be practicable to avoid increases in taxes. These are likely to precipitate demands for further increases in money incomes as employees attempt to maintain their living standards. These demands will in all probability be granted in the sheltered sectors and similar increases will be expected in the exposed sector. This will exacerbate the problems of the exposed sector and thereby further reduce the prospects for growth in the economy as a whole.

V Policy Options

6.26.10. While there are a number of policy options which might be suggested, the range of choice and room for manoeuvre are limited. Under the different policy options, it is the Council's view that:

—the *continuation of existing policies* would mean that money incomes and prices would rise in 1977 at rates faster than those

- likely to occur in the British economy and so there would be little growth in national output and a further rise in unemployment;
- a return to *protection* might temporarily maintain employment in the protected industries, but it would work towards reducing competitiveness in the activities that remained unprotected, and almost certainly would lower the growth rates in national output and in overall employment in the medium and longer terms;
- in present Irish circumstances there is little or no scope for reflating domestic demand by *fiscal and monetary policies*. Any attempts to curb the growth in money incomes by restrictive monetary and disinflationary fiscal policies would exacerbate the difficulties of the exposed market sector during the period required for such policies to achieve their objectives;
- the economic effects of *devaluation* are uncertain and, if beneficial, would be transient;
- the greater the *restraint in the growth of money incomes* the faster the growth in output and employment that can be achieved: in other words, the quickest way to improve competitiveness is through pay restraint.

6.26.11. The over-riding objective must be to realise the full potential for growth of the Irish economy over the next ten to fifteen years. In realising this potential, the key sectors of the economy are manufacturing industry and agriculture—if they grow, so will national output and employment.¹ The main obstacle to achieving the growth rate that is required in manufacturing industry, if progress is to be made towards full employment, is that rates of pay are too high in relation to the value of output per person employed. As a result, investment is reduced because profitability is squeezed, more firms are finding it difficult to sell in export markets and compete with imports at prices which cover costs, and the prospects for expansion in output and employment have suffered. The inescapable precondition for faster growth is an improvement in industrial competitiveness. This will not be achieved by the maintenance of existing policies, by protection or by monetary and

¹For example, an average increase of about 15,000 new industrial jobs a year would be required if industry was to make its contribution towards achieving full employment. This would require annual average increases in manufacturing output very much higher than any achieved in the past.

fiscal policies. Nor will a permanent improvement in competitiveness be achieved by a devaluation relative to sterling. The quickest and surest way to improve competitiveness is pay restraint.

VI Conclusions

6.26.12. The main aim of the 1977 budget should be to achieve an improvement in the competitiveness of the exposed market sector of the economy, and especially of manufacturing industry. However, this would not necessarily be achieved by a shift from current to capital expenditure: the effect on competitiveness would depend on which current expenditures were reduced and on which capital expenditures were raised.

6.26.13. In 1977 the phased approach towards reducing the borrowing requirement must take the form of moderating the growth in public expenditure or increasing tax rates, or some combination of both. Increases in the rates of direct and indirect taxation should be avoided, because they would make the required degree of pay restraint more difficult to achieve. There is a growing body of evidence that employees are interested mainly in the behaviour of their real disposable incomes—that is, in the quantity of real goods and services they can buy with their earnings after direct taxes have been deducted. An increase in tax rates is therefore likely to provoke a demand for compensating increases in money incomes—or for larger increases than would otherwise have been sought.

6.26.14. It could be argued that employees should think of the "real social wage" accruing to them rather than of their real personal disposable incomes. In broad terms, the social wage is the gross income earned *less* direct and indirect taxes paid *plus* all benefits received both in cash and in kind from social and other public services. However, when measuring their standard of living and how it is changing employees do not identify the social wage, and the concept appears to have had little effect on their pay expectations.

6.26.15. In 1977, the containment of the Central Government borrowing requirement must therefore be achieved by moderating the growth in public expenditure. Unpalatable and unpleasant decisions will be necessary, and the Council does not underestimate the difficul-

ties that will arise in making them. However, to the extent that the community will not accept increases in taxation without seeking compensation in higher money incomes, the burden must fall on the level of public services provided for the community. The choice lies between a reduction in real personal disposable incomes and a reduction in the volume of services provided by the State.

6.26.16. The main aim of the 1977 budget should be to make the maximum contribution towards an increase in industrial competitiveness. This means that increases in tax rates should be avoided, and some reduction in the burden of personal taxation achieved, these being directly related to pay restraint. Further budgetary steps to improve industrial competitiveness by directly reducing industrial costs would indeed be desirable. Given the limit set to the Central Government's borrowing requirement, tax increases can be avoided and any concessions financed only by a larger reduction in the growth of public expenditure than would otherwise have been necessary. To the extent that the growth in current expenditure cannot be sufficiently reduced, the growth of the Public Capital Programme must be curbed. However, it cannot be emphasized too strongly that the scope for using fiscal policy to improve the competitiveness of the exposed sector is very limited. The limit is set by the need to contain (and then significantly reduce) the public sector borrowing requirement, by the extent to which public expenditure can be (further) reduced to make possible at least the avoidance of tax increases and at best some tax concessions, and by the possibility of shifting the emphasis within public expenditures towards those which will improve competitiveness.

6.26.17. Recent experience has shown that attempts to increase domestic demand by fiscal action cannot succeed in filling the gap left by a fall in foreign demand caused by the erosion of competitiveness. Such attempts provide no lasting basis for a sustained expansion in employment. In a small open economy such as Ireland, a precondition for achieving a significant and lasting reduction in unemployment is an improvement in the competitiveness in the exposed market sector of the economy.

6.26.18. In this report, the emphasis has been on the policies available for creating the necessary conditions for faster growth. That

is why the report has been entitled *Prelude to Planning*. If sufficient pay restraint to improve competitiveness is assured, then the first stride towards full employment in ten to fifteen years can be planned. If competitiveness cannot be assured, then the plan must be concerned with how a declining population can learn to live with stagnation and inflation, and with how those who will not be able to find work in Ireland can be trained and helped to find it elsewhere.

6.26.19. When the basic conditions for growth have been established, it will be possible to articulate the structural policies required to facilitate and accelerate it. These policies were described in general terms by the National Industrial Economic Council in its *Report on Full Employment*. If costs and prices are competitive, these policies will have more prospect of success. If costs and prices are not competitive, these policies will be able to contribute little towards growth in the economy, and more will be expected of them than they can possibly achieve.

APPENDIX 6.27

NEW FARM OPERATORS, 1971 TO 1975

(NESC, No. 27, Pri. 5832, 1977)

I Introduction

6.27.1. This report is presented in two parts. Part I of the report contains the Council's comments. Part II sets out the consultants' report in full. It was prepared by Dr. Seamus Sheehy and Mr. Aidan Cotter of the Department of Applied Agricultural Economics, University College, Dublin.

6.27.2. In February 1975, the Council published¹ projections of the growth in population and the labour force up to 1986. In a subsequent report,² some of the implications of the projections for employment and

¹Population and Employment Projections 1971-86, NESC, No. 5, February 1975.

²Jobs and Living Standards, Projections and Implications, NESC, No. 7, June 1975.

living standards were examined. If employment is to be provided in Ireland for the projected expansion in the labour force, then considerable growth is required in output, productivity and investment in the agricultural, industrial and services sectors. In order to assess the growth prospects at a sectoral level, the Council decided to begin by examining the potential for development in agriculture.

6.27.3. This report is the second stage in the study of the potential for growth in the agricultural sector. It provides information about the characteristics of those who are entering farming and of those already in farming who are enlarging their farms. The information is based on the results of a survey of people who assumed or increased management control of land between 1971 and 1975.

II The Study

6.27.4. The purpose of the present study was to assemble information about the characteristics of those who have become farm operators or who have enlarged their farms in recent years. Such information is important, particularly as many of those who are now becoming farm operators will be working and developing the farms of Ireland over the next generation.

6.27.5. The survey undertaken for this study was confined to those who assumed management control of land between 1971 and 1975. Such new farm operators fell into two main categories—the "new operators" who became operators in their own right in the period under review, and "enlarging operators" who were already established in farming but who extended their control over additional land by enlarging their holdings during the period. The sample selected was from within 1½% of all holdings over 5 acres in the State and was based on the location of the enumerators who volunteered to carry out the survey and thus was not a random sample.¹

¹The data sought were such that the enumerators could in general achieve an acceptable degree of accuracy directly from their own or their family's personal knowledge of the townlands being surveyed. The approach adopted was novel insofar as the information collected was provided directly by the enumerators rather than by questioning the new farm operators. The consultants undertook a number of consistency tests to check that the information was reasonably representative and valid.

6.27.6 The survey identified 602 new farm operators among the townlands surveyed. The new farm operators consisted of 423 new operators and 178 enlarging operators. The new operators in turn contain 345 inter-generation operators, such as sons of previous operators and 78 intra-generation operators, such as widows of previous operators. The inter-generation new operators are considered as the portion of the sample representing the new generation of farm operators. Of the enlarging operators, 73 had enlarged their holdings through Land Commission allotments and 105 had expanded their farms by inheritance or open-market purchase.

6.27.7. In the case of inter-generation new operators, inheritance is by far the most important method of acquiring management control with only 1 in every 10 doing so by purchase. As regards enlarging operators, open-market purchase and Land Commission allotments were identified as two main methods of extending management control. The Land Commission is estimated to account for 56% of all enlargements; of the remainder nearly 2 in every 3 are by open-market purchase.

6.27.8 Of the total land purchased on the open market 54% was purchased by people with non-farm occupations (both part-time farmers and non-farmers) and 46% was purchased by full-time farmers. The purchasers who had been farming full-time were mainly farmers enlarging their holdings, but a minority were relatives assisting on farms who were actually establishing themselves as farmers. The proportion of all land in the study acquired by purchase¹ which was acquired by full-time farmers previously having over 100 acres who were enlarging their farms was only 17%. A further 19%, however, was purchased by those new entrants who bought over 100 acres each.

6.27.9. The *average age* of all new operators was 35.7 years. This average age is likely to be lower than the age of succession because it refers to the age of assuming management control rather than the age of acquiring ownership. This average, however, embraces both inter- and intra-generation categories. The inter-generation people are really the new generation and their average age is only 31 years with

¹Other than that bought by people enlarging farms.

57% of them being under 30 years. The age of succession for the new generation of farm operators is not therefore as high as is usually quoted.

6.27.10. Examination of the consultants' results for size of holding indicates a slowing down of the process of enlargement. Data relating to the extent of enlargement by *all* methods show that the smaller holdings have a far higher chance of enlargement than the larger holdings. It must be recognised, however, that an increase in the average size of farms is not in itself a sufficient condition for an increase in farm output.

6.27.11. The consultants found that only half the new operators in the study were farming full time before becoming farm operators in their own right; 26% had not been farming immediately beforehand. The consultants also investigated the *time allocated to farming* of those who had become new operators. Forty-one per cent of the new generation of farm operators in the country are part-time. The figure for those on holdings up to 30 acres is as high as two-thirds. The new generation of farmers is nearly twice as dependent on off-farm employment as the present generation. The consultants highlight the strong tendency for the retention of off-farm employment after acquiring land. Only 20% of those who had off-farm employment before acquiring management control of land relinquished their employment to become full-time farmers. The *educational level* of all new farm operators in general, and of inter-generation new operators in particular, is much higher than that of the present generation of farmers.

6.27.12. The broad change in the use of land associated with the new farm operators was examined omitting the 1975 changes of operator. In general, the change of operator led to improved use, but in about 8% of cases the use actually deteriorated. The use of purchased land and land acquired from the Land Commission improved far more than the use of inherited land; full-time farmers improved more than part-timers; and the better educated farmers improved more than the less well educated farmers.

III Conclusion

6.27.13. The Council in a recent report listed the main reasons why it would be undesirable if there were to be a low rate of growth in

Irish agriculture in the future. Furthermore, in its *Prelude to Planning*, the Council has emphasised the crucial nature of the contribution that agriculture can make to the growth of the economy. The new generation of farm operators are a critical group in helping to achieve a better growth performance. The extent to which faster growth can be achieved ultimately depends on the ability of the people entering and remaining in the industry. Accordingly, the Council would welcome comments from farming organisations and other interested parties on the implications of the consultants' analysis for the choice of policies and measures to accelerate the growth in Irish agricultural output.

APPENDIX 6.28

SERVICE-TYPE EMPLOYMENT AND REGIONAL DEVELOPMENT

(NESC, No. 28, Pri. 5841, 1977)

I Introduction

6.28.1. This report is presented in two parts. Part I of the report contains the Council's comments. Part II sets out the consultants' report in full. It was prepared by Dr. Michael J. Bannon and Mr. James G. Eustace of University College, Dublin and Ms Mary Power of Offaly County Council.

II The Consultants' Report

6.28.2. The focus of the study is service-type employment. This consists of all types of work in the service sector (e.g., in transport, finance, public administration) *together with* the "non-production" occupations within the agricultural and industrial sectors (e.g., transport and financial occupations). While there were 459,000 employed in the Service sector in Ireland in 1971, in the same year there were 491,000 in "Service-type" employment.

6.28.3. *Growth of Service Sector Employment:* in most countries, the service sector (the largest component of service-type employment)

has in recent years accounted for an increasing proportion of total employment. In Ireland, between 1961 and 1971, the service sector share increased from 39.5% to 43.5%. Published estimates indicate a continued increase in the share of the service sector up to 1975.

6.28.4. *Service-type Employment in Ireland:* between 1961 and 1971 there was a total increase of 108,700 in employment outside the agricultural sector. Over 50% of this increase occurred in service-type employment, of which almost one-third was in industrial services. By 1971, service-type employment in all sectors accounted for 491,000 jobs or 47% of total employment compared with 434,000 jobs or 41% of employment in 1961.

6.28.5. Within service-type employment in Ireland, employment growth occurred mainly in the industrial, complementary and new services which tend to expand in step with increases in the volume of production and per capita income.

6.28.6. *Growth in White-Collar Employment:* the term *white-collar* refers to occupations such as those in professional, technical and administrative work. In 1971, white-collar employment was 334,200 or 32% of total employment (compared with 26% in 1961). Most of the increase in service-type employment occurred in white-collar jobs. White-collar employment increased by 60,000 between 1961 and 1971, and accounted for 55% of the 108,700 jobs gained outside agriculture between 1961 and 1971.

6.28.7. *Expansion of Office Employment:* in 1971 there were 170,000 persons in office employment. Most of the growth in white-collar employment in Ireland, as elsewhere, is due to the expansion of office occupations. In the Republic of Ireland, office employment has grown from 12% of the gainfully occupied population in 1961 to 16% in 1971. There was an increase of 46,000 office jobs between 1961 and 1971. Within office occupations, the higher level categories (i.e., broadly the professional and administrative jobs) expanded more rapidly than did the clerical jobs. Most of the growth of office employment occurred outside public administration and defence.

6.28.8. *Location of Occupations:* in the period 1961–71, there was an increasing concentration of white-collar occupations in the East region: in 1971, 49% of the 334,000 white-collar jobs were located there. In the same year, this region accounted for 59% of all office employment. The higher-level (e.g. professional) office occupations have tended increasingly to be located in that region.

6.28.9. *Projected trends, 1974–86:* past trends in white-collar employment, based on the 1961–71 decade, would result in an estimated 118,000 further jobs in 1986, of which about 105,000 or 89% would be in office occupations.

6.28.10. The concentration of white-collar employment in the East region would increase, since its share of the total would rise from 49% in 1971 to 52% in 1986. Within all of the regions, office occupations would increase as a proportion of white-collar occupations between 1971 and 1986. The proportion of professional, technical, administrative and executive occupations in the East region is projected to increase by 1986 to 52%, the proportion in the Mid-West to remain constant at some 8%, and the proportion in the remaining regions is projected to decline.

6.28.11. *Communications and Location:* complex decision-making, which involves interactions between decision-makers, is principally confined to the relatively large urban centres. Smaller urban centres are dominated by routine communications. Many European governments are currently attempting to relocate complex Public Service work in an effort to foster regional development and attract private sector decision-making to regional centres. This work requires a large volume of communications. In Ireland, relocations have tended to involve routine work, while decision-making and higher level jobs have continued to be concentrated in Dublin. The small content of higher-order white-collar work, especially that engaged in decision-making, in centres outside the East region adversely affects the innovative capacity and development potential of the other regions.

6.28.12. *Summary of Consultants' Recommendations:* the consultants list a number of strategies to reduce the degree of concentration of

offices in the East region, and to promote office activities in those regions where there is a dearth of office jobs at present. Any combination of the different strategies could be used. These alternative strategies include the attraction to Ireland of a greater share of the technical and managerial functions of foreign manufacturing concerns which wish to set up in Ireland, and the delegation of authority to regional units of central agencies.

6.28.13. These strategies could be implemented by an agency responsible for the location of office activities. This agency could take a number of different forms: the consultants recommend an Office Executive, which would operate within the Industrial Development Authority. The consultants recommend that, within the context of existing agencies, the Industrial Development Authority have regard to office employment creation (as well as employment in goods production). The Office Executive should have responsibility, among other things, for assisting in, and advising on, public sector office relocation, and attracting, to selected centres within Ireland, part of the white-collar work of overseas organisations.

6.28.14. In the short-term, relatively few office centres could be developed outside Dublin. Widespread dispersal would be very costly and would be unlikely to encourage the transfer and relocation of higher-level work. The consultants suggest that relocation in the public sector might serve to encourage relocation in the private sector. But they emphasise the importance of providing adequate infrastructural services particularly in communications, in any centre to which relocation is envisaged.

6.28.15. In order to stimulate the expansion of office employment in selected centres, the consultants suggest a number of possible incentives.

III Conclusions of the Council

6.28.16. In its conclusions, the Council states that a sustained growth in white-collar employment can be expected only in urban centres which are, by Irish standards, of substantial size. The Council concludes that, while Ireland is a relatively small country, there are a number of reasons why an increase in office work in regional centres

would be desirable. First, it is Government policy to pursue the development of the regions. Second, there is the example of other relatively small countries which have pursued policies of office development in the regions. Third, there is the great urban imbalance between Dublin and other areas. At the same time there is a mismatch between job opportunities and labour availability in the country. Most of the job opportunities in white-collar and in office jobs have been occurring in the East region, but there is a wide gap between job creation in manufacturing industry and the appropriate labour supply in this region, while white-collar job opportunities are limited in other regions.

6.28.17. Despite its importance in the context of regional development, service-type employment cannot be promoted in isolation from other aspects of regional policy. The Council therefore recommends that the study of the role of service-type employment in regional development should be referred to the Central Committee for Regional Economic Development which it had proposed in Report No. 22, for consideration in the context of regional development as a whole.

APPENDIX 6.29

SOME MAJOR ISSUES IN HEALTH POLICY

(NESC, No. 29, Prl. 5821, 1977)

6.29.1. This report was originally planned as part of the series on the social policy implications of the population projections published by the Council in 1975¹. It soon became clear, however, that considerations other than the projected growth in population were more important in determining the future development of health policy and health services. The Council commissioned Mr. A. J. Culyer and Mr. A. K. Maynard of the University of York to examine some of the major issues in health policy in this country. Their study is set out in full in Part II of the report, and the Council comments in Part I.

6.29.2. Expenditure on health constitutes one of the largest components of public spending. In its *Report on Public Expenditure*², the

¹NESC No. 5: Population and Employment Projections 1971-86.

²NESC No. 21.

Council has already set out its views on public expenditure as a whole, and the difficulties of attempting to curb its growth. The discussion of health policy which follows must be seen in the context of those views. In the paragraphs which follow, the Council indicates those questions raised by the consultants to which in its view most attention should be given. These are not set out in any order of priority—indeed, given the links between them, these issues must of necessity be examined together.

I The Main Issues

(i) Planning

6.29.3. The consultants emphasise in their report the need for planning in the health services, so that these will be developed rationally and efficiently. The Council regards planning for the future development of all services as fundamental to ordered progress and to the efficient and equitable use of public resources. The fact that growth in expenditure on health services may have to be constrained over the next few years is not an argument against planning now. Indeed, the best time to plan is when resources are scarce, because this will ensure that when resources become less scarce they will be used more efficiently and effectively.

(ii) Eligibility

6.29.4. At present, about 35% of the population are covered by the General Medical Services Scheme, and about 50% by the limited eligibility scheme, with the remaining 15% of the population responsible for the full cost of most of any medical treatment they require. The main problem with the present system is the complex nature of the limited eligibility scheme. There are eight categories of people who can claim limited eligibility and the complexity of the rules leads to confusion for many people regarding their entitlement. It also seems likely that the rules (because of their complexity) are not administered uniformly throughout the country. The first and most immediate task regarding limited eligibility is the simplification and clarification of its criteria and procedures.

6.29.5. The second and more long-term task is to determine the future nature and coverage of eligibility. There is likely to be an in-

creasing demand over the next decade for health services which are free of charge for everyone at the point of utilization. The extension of the present limited eligibility scheme to the entire population is already the stated aim of the Government. It is desirable that this aim be achieved as soon as feasible, given constraints on the availability of resources.

(iii) *Sources of Finance*

6.29.6. A second major issue which must be resolved about the health services is the method of financing them. This will be a problem for future resolution, regardless of whether the health services are extended or developed in any significant sense. There are a number of alternative methods of financing health care. One is a compulsory system, covering the whole population, which would be financed by special contributions; the other major alternative is finance through general taxation. The Council believes that a combination of both could provide a workable and equitable alternative to either of the above schemes.

6.29.7. The "mixed" method of financing the health services does not preclude the possibility of imposing charges for some services at the point of use. However, the introduction of charges for specific services raises complex issues that merit detailed examination. The Council would have reservations about the introduction of such charges, and recommends full and careful consideration of all the issues prior to any decision being taken to introduce them. Neither should the method of financing outlined above preclude the possibility of voluntary health insurance being continued. However, if progress were made towards making basic health services universally available, it would be desirable to examine whether the subsidisation implicit in allowing premia paid to VHI for additional services to be deductible for income tax purposes would still be justified.

(iv) *Control of Expenditure*

6.29.8. Whatever scheme is adopted for financing the health services in the future, the problem of controlling expenditure on the health services will remain. The continuing constraints on public expenditure will mean that the demand for resources will always be greater than

their supply. If resources are scarce, some form of rationing is unavoidable. It will therefore be necessary to impose some ceilings on expenditure. The fairest and most effective way in which to do this is to have clearly defined priorities which are strictly adhered to.

6.29.9. The medical profession plays a key role in determining the demand for resources for use in the health services, and in rationing whatever volume of resources is available to these services. In considering ways in which health care costs might be contained, attention must therefore be given to the problem of monitoring the methods used by the profession and the demands it makes.

(v) *Community Involvement*

6.29.10. The views of the community at large on social priorities in health care must be taken into account. Some progress has been made already towards this through the establishment of health boards. As these have now been in existence for over five years it would be appropriate to review their operation in order to establish the extent to which they fulfil the role of representing the community within the health service system. The Council also recommends that during the course of the current review of the role and functions of the National Health Council, the ways in which this body could be developed to involve the community in the control and allocation of resources should be considered.

(vi) *Regional Inequity*

6.29.11. The main concern in considering the problem of geographical inequity must be that no-one is denied the health care which he or she needs simply because of their place of residence.

II Conclusion

6.29.12. The issues raised in this report are of great importance in planning the future shape of the health services in this country. Present economic circumstances place severe constraints on the possibility of implementing major changes in the immediate future. Nevertheless, the appropriate discussions and planning should take place now, so that when resources become more readily available, they will be spent in the most effective manner. Finally, it is the Council's hope that the

publication of this report will provoke constructive debate and discussion, and that the required research will be undertaken, so that future decisions about health policy will have a firm and rational foundation.

III Summary of the Consultants' Report

6.29.13. The object of the consultants' study was to review both general international trends in health care delivery and spending, and some of the principal trends in Ireland, in order to identify the kinds of problems which could face Irish health care services in the 1980s.

6.29.14. Estimates of future health needs based solely on demographic forecasts are overlaid by a whole set of other variables of a technical, social and political nature. These cannot be quantified nor accurately predicted but they must at least be identified so that the main issues can be spotted before a crisis develops. The major trends which the consultants identified on an international level, and which increasingly apply in this country, were the growing popular demand for universal services free at the point of use, a desire to experiment with new methods of financing the health services and paying doctors, an increasing concern about the effectiveness of medical treatment, and concern about the cost effectiveness of medical procedures.

6.29.15. The consultants paid particular attention to the role of doctors, not only to the influence on their behaviour of the methods used to remunerate them, but also to their role in determining the supply of and demand for medical services. The study argues that, in essence, the rationing of scarce resources has been left to physicians, who at the same time have no clear mandate from society as to how that rationing function should be discharged. This phenomenon is true on an international scale, and not merely in Ireland.

6.29.16. The second chapter of the study relates the position in Ireland to that in other members of the EEC. Population trends in this country differ from those in the rest of the EEC, although there are some indications that the situation here is changing. In terms of expenditure on health as a percentage of GNP, Ireland probably spent at least as much as the UK in 1971-72. With regard to the provision of

the services, the study shows that this country has a high bed stock, and a low physician stock in comparison with the EEC, and that the coverage provided here appears to be less comprehensive than that provided elsewhere in the Community. The consultants conclude that during the next decade, there is likely to be increasing pressure in Ireland to emulate EEC trends by moving towards more comprehensive coverage.

6.29.17. The third chapter describes the present system of health care in Ireland. The categories of full and limited eligibility are examined. The consultants conclude that the criteria used to determine eligibility are complex and that they may consume considerable resources in their implementation. They also describe the system of expenditure on health and the sources of finance. Finally, they examine the stocks and distribution of hospital beds, doctors and other medical personnel, and conclude that, as in many other European countries, the geographical distribution of health care is somewhat uneven.

6.29.18. The study then examines the problems and pitfalls of forecasting population and the implications for health services. The starting point used was the population projections made by Professor Walsh at the request of the Council. No detailed projections or forecasts are made, because of the "imponderables" which exist, particularly with regard to medical manpower requirements. The main difficulty is that there is a lack of analysis of the cost of medical procedures, and a consequent lack of understanding of the potential for substituting less skilled (and less costly) manpower and capital for physicians. The usual difficulties of forecasting are compounded in this country by a system of care which the consultants think is likely to undergo fundamental and radical change in the 1980s, bringing it more into line with other developed countries in Europe.

6.29.19. The study then discusses the dilemma facing both the Irish community as a whole and policy makers in particular in the evaluation of health services. Increasing public expenditure and greater public awareness will lead to growing public intervention in the planning, regulation and monitoring of the health services. This will involve new

thinking in Ireland, both in terms of financial and organisational arrangements. If the newly emerging relationships between the State, the public and the medical profession are to preserve the best of the present arrangements and provide efficiently and effectively for new needs and attitudes, then joint thinking about the future patterns of health care delivery is urgently required.

6.29.20. The third chapter of the study sets out the choices which must be made in order to cope with the new demands on the health services, which will arise from changing social attitudes, demographic changes, economic growth and advances in medical technology. The choices are presented as a series of questions:

- (a) If a comprehensive system of health care is to be introduced, how should it be financed?
- (b) What range of benefits should be included in a comprehensive system?
- (c) What role will remain for private insurance and private practice in a comprehensive system?
- (d) How will the Government set about allocating resources so that the maximum amount of "need" is met?
- (e) How will equity in the health services be defined?
- (f) How will the technical efficiency of the health service be evaluated on a continuing basis?
- (g) How will the monitoring of the medical profession be carried out?
- (h) How best can the community be involved in the management and monitoring of the health care system?

6.29.21. Answers will be found to none of these questions unless the objectives of the health services are clearly specified. Even then, the answers must be sought through the joint involvement of the State, the public and professions. It is only in this way that solutions which are technically and economically feasible, and which at the same time contribute to the fundamental objective of the health services, can be found.

APPENDIX 6.30

PERSONAL INCOMES BY COUNTY IN 1973

(NESC, No. 30, Pri. 5933, 1977)

I Introduction

6.30.1. This report is presented in two parts. Part I of the report contains the Council's comments. Part II sets out, in full, the report prepared by Dr. Michael Ross and Mr. Roderick Jones assisted by Mr. Eoin O'Malley, of The Economic and Social Research Institute, Dublin.

6.30.2. The data on county incomes show a steady growth in real income per head between 1960 and 1973. The recession of 1974-75 will have had a different impact as between counties. For example, all the indications are that, in the manufacturing sector, the East and North-East regions have been more affected by the downturn in activity than have other regions. Furthermore, much of the increase in agricultural incomes in 1973 is attributable to high cattle prices; cattle prices fell sharply in 1974 but recovered in 1975. The income data for 1973 cannot therefore be taken as giving an accurate picture of the relationship between the incomes in different counties at the present time. In 1973 there was a relatively high level of activity, and that year represents a peak in the most recent economic cycle.

II The Authors' Report

6.30.3. Chapter 1 discusses the nature of county income estimates. The *personal income* of a county gives an approximate measure of the purchasing power of those residing in it. It includes payments received from outside the county for services which are provided by residents of that county but which are used elsewhere, and it includes transfers from the Central Government.

6.30.4. Chapter 2 summarises the trends in incomes since 1960, shows the rankings of counties by per capita income, and mentions some of the underlying forces behind the shifts of income which have occurred.

6.30.5. Chapter 3 contains the estimates of personal income by county for 1973, together with revised data for personal incomes in 1969. The estimates are given in some detail, including a breakdown of

income by source. There is a discussion of the trends in the share of income accounted for by incomes in agriculture, industry and other sectors.

6.30.6. Based on population data, there are estimates of per capita income of the counties in 1973. In order to compare incomes in 1973 with those of other years, the estimates of income per capita are deflated by the rise in the Consumer Price Index in order to express them at 1969 prices. These estimates are given together with revised estimates for 1969 and estimates for 1960 and 1965, all at 1969 prices.

6.30.7. Chapters 3 and 4 analyse the changes in real income by source since 1960—income from agriculture, from industry, from other non-agricultural sources and from transfers. Data on the remuneration of employees in industry and on remuneration in other sectors are then discussed. This is followed by a comparison between data on employee income from the Household Budget Survey 1973, and on income from Revenue Commissioners' data. Finally, the authors examine transfers and other income.

III Council's Conclusions

6.30.8. The estimates show that personal incomes per capita increased significantly in all counties, in real terms, between 1969 and 1973. The growth rate over 1969–73 was significantly higher than that recorded for 1965–69 or for 1960–65.

6.30.9. There is a persuasive case that the rise in agricultural incomes resulted in some lessening in relative disparities in incomes per head between counties up to 1973.

6.30.10. There is great variability among counties with regard to the proportion of income obtained from current transfers.

6.30.11. If the ranking of counties by income per capita in 1973 is compared with that in 1960, one feature is the extent to which the ranking of most counties remains relatively unchanged.

6.30.12. *Spread of income between counties*: the highest income per capita in 1973 was in Dublin, namely, £976, and the lowest was in Leitrim with £584. Over 1969–73, the *absolute* increase in income per head in Dublin was less in most other counties, and the *proportionate*

increase in income in Dublin in 1969–73 was lower than in any other county. This is in contrast to the experience of the preceding period 1965–69. To some extent, the trend over 1960–73 has been that counties with the highest levels of real income had percentage increases in income which were lower than in other counties. The tentative conclusion is that there has been a tendency for the relative spread of incomes among counties to become narrower between 1969 and 1973.

6.30.13. *Income by region*: the ranking of income per capita by region has not changed between 1960 and 1973. The highest per capita income remains in the East region, and the two lowest in the Donegal and the North West regions. For all regions, there was about the same rate of increase in real personal income per head between 1960 and 1965 as there was between 1965 and 1969, and subsequently this rate of growth increased noticeably between 1969 and 1973. However, in the East region the growth rate between 1969 and 1973 was only fractionally above that in 1965–69. Between 1969 and 1973 there was a reduction in the *relative* disparities in real income per head between the East region and the other regions.

APPENDIX 6.31

THE POTENTIAL FOR GROWTH IN IRISH TAX REVENUES

(NESC, No. 31, Pri. 5840, 1977)

I Introduction

6.31.1. In 1974, the Council decided that the potential for growth in tax revenues merited deeper study. The Council therefore commissioned Dr. G. E. J. Llewellyn, Assistant Director of Research, Faculty of Economics, University of Cambridge, to prepare a background study to assist the Council in its deliberations.

6.31.2. The Council's report entitled *Prelude to Planning*, which has already been published, draws on Dr. Llewellyn's analysis and conclusions in its discussion of the potential for growth in the Irish economy and of the structural changes that are likely to accompany faster economic growth.

6.31.3. In accordance with its normal practice, the Council, having examined Dr. Llewellyn's study, would have drawn conclusions and made recommendations on the scope for increasing tax revenues by raising tax rates and/or widening the tax base. However, the Council will not be able to do so, given the pressure of other work during the short time available between now and the expiration of the term of office of its members on 31 December 1976.

II Background to the Study

6.31.4. The question of the potential for growth in tax revenues is an issue which is of general concern to the majority of Western Governments. The pressure on Governments rapidly to increase expenditure on the provision of goods and services has resulted in the growth in the proportion of the total supply of goods and services, measured in *constant* prices, that has been pre-empted by Government in about half of the OECD countries. The increasing relative price of most items of Government expenditure has meant that when Government expenditure in *current* prices is considered, the share in GNP rose in *all* of the OECD countries, so that a secularly-increasing proportion of all incomes had to be taken by Governments as tax—whether by social security taxes, personal income taxes, direct taxes on corporations, indirect taxes or whatever. While the proportion of Irish GNP that has been taken as tax has risen over time, the proportion is not particularly high, judged by the standards of other OECD countries.

6.31.5. In addition to the secular influences that in all OECD countries have increased the *current* price share of GNP that has been taken in tax, two essentially short or medium term phenomena have recently been responsible in most OECD countries for a sharp increase in Government expenditure. This increase has not, for the most part, been accompanied by a corresponding increase in tax revenues. The influences are (a) the increase in oil prices and (b) the increase in payments to the unemployed.

6.31.6. The consultant's examination of the likely evolution of the main components of Irish tax revenues is undertaken against the background of the existing tax base and tax rates, and on the assumption that GNP continues to grow in the future at a rate fairly close to that

achieved in the past. The examination was undertaken with a number of caveats in mind: *first*, that any definition of what constitutes public expenditure or public sector receipts is necessarily arbitrary and, because of that, is likely to be ambiguous; *second*, policy decisions should be taken with reference to both sides of the public sector accounts; and *third*, the principal concern of the policy-maker in Government should be the net effect of his actions on the economy—whether they impinge directly on taxation or expenditure should in general be a matter of subsidiary interest.

III The Study

6.31.7. There are three distinct ways in which real tax revenues can increase over time. The first two assume (given real income per head) that real tax revenue can be increased either by increasing tax rates on the existing tax base, or by widening the tax base to include additional items. The first two ways of increasing real tax revenues are considered in Chapters 2 and 3. The third way in which real tax revenue can increase is through an increase in the size of the real tax base—in short, through economic growth. The prospects for economic growth in Ireland are therefore considered in Chapters 4, 5 and 6.

6.31.8. Chapter 2 examines the evolution of the Irish tax system over the post-war period. It shows that while the dependence on specific duties on the four "old faithfuls" (tobacco, beer, spirits and oil) has been much reduced, nevertheless the dependence is still fairly substantial. The other taxes which are shown to be quantitatively important are income tax, VAT and Rates. As regards the elasticity of tax revenue with regard to real income, the consultant estimated that total public sector receipts are likely to increase secularly more than in proportion to the growth in national income, with indexed tax rates and unchanged coverage.¹ While there will inevitably be some error in each of the individual elasticities² estimated, there is a

¹The elasticity being approximately 1.10.

²The individual elasticities (income tax, social security contributions, corporation tax, beer, oil, spirits, tobacco, motor vehicles licences, VAT, rates, stamp duty, estate duty and other) were estimated on the assumption that nominal tax rates on specific duty items are increased in line with the average rate of inflation (as measured by, for example, the domestic expenditure deflator) and that tax allowances and the higher income tax rate bands are similarly varied.

high probability that these errors will at least in part cancel one another out. On the basis of the evidence of Chapter 2, it would seem that given indexed tax rates and the present coverage, tax revenues are most unlikely to increase substantially faster than national income. This conclusion is somewhat sensitive to the assumption made about the growth of oil consumption in relation to national income.

6.31.9. Chapter 3 considers the ways in which the tax revenues could be increased by increasing the rates on the existing tax base, or widening the tax base to take in more items of expenditure. It is argued that to increase the rates of the specific duties relative to other duties would be to increase the relative dependence of the tax system on the four "old faithfuls" which, representing as it does a substantial narrowing of the tax base would almost certainly be a retrograde step. In the consultant's view, a better, more general, proposition would be to increase income tax rates, or to increase the VAT rate. The tax base could be widened in a number of ways, but quantitatively the most important would appear to be a payroll tax, or a decrease in the number of items exempt from VAT. He emphasised, however, that neither increasing tax rates nor widening the tax base represents a painless way of increasing real tax revenue. For a given level of national income, each represents an absolute reduction in the real post-tax income of the private sector, and may well meet with resistance. Any Government wishing to increase its real expenditure, and hence to increase its real taxation revenues, may therefore seek to do this by increasing the size of the tax base through economic growth. The second part of the report considers the potential that the Irish economy has for economic growth in the future: this turns out to be immense.

6.31.10. Chapter 4 examines the way in which the various sectors of the Irish economy are likely, on international evidence, to evolve relative to one another, and hence affect the evolution of the various tax bases. The policies that could accelerate the Irish growth rates, and the changes that are likely to be associated with the higher growth rate that is required, are more likely to be found in the experience of other countries which have grown faster than Ireland or which have reached a higher stage of development. In the OECD countries, almost all of the output of physical goods is produced by agriculture and

manufacturing industry. In the post-war period in these countries agricultural output has grown relatively slowly, and the Irish growth rate was somewhat below the average. In the post-war period the output of manufacturing industry grew at a much higher rate than that of agriculture in all OECD countries, including Ireland.

6.31.11. Dr. Llewellyn's study shows that in other OECD countries there has been a close correspondence between the growth of goods output (that is, of agricultural and manufacturing output) and the growth in the major components of the services sector;¹ good indicators exist for measuring the rate of growth of output in commerce, transport and communication, and construction in most OECD countries², and reasonably satisfactory data exist for Ireland³. The Irish pattern of structural change has been substantially in line with what would have been expected on the basis of the behaviour of the other OECD countries, when taken in conjunction with the rate of growth of the Irish economy, and the consultant concludes that it would seem reasonable to expect that the Irish economy will continue to conform quite closely with the growth patterns exhibited by itself and other OECD countries as it grows in the future. Any projection or growth stratagem which presupposed a substantially different structural evolution would, in the light of this argument, need to be subjected to some scrutiny.

6.31.12. Chapter 5 considers the relative contributions to the growth in output in the different sectors that might be expected from increased employment and rising productivity. In particular, the labour requirement that the various major sectors are likely to experience if rapid growth is achieved is considered. This is clearly a matter for specula-

¹The output of the services sector is usually classified into commerce, transport and communication, construction, public utilities, private services and public services.

²In almost all OECD countries, agriculture, manufacturing industry, commerce, transport and communication and construction account for 75% or more of total civilian employment. The remaining sectors are private and public services. The sub-sectors cover a very wide variety of different activities and this makes it very difficult to measure their output and the rate at which it has grown. In practice, as Dr. Llewellyn states, the measurement of the growth in output is inextricably mixed up with the concept and measurement of productivity.

³Interestingly these indicators have never been used to compile a set of accounts for GDP by sector of origin in constant prices. This exercise has been undertaken by the Consultant, in Appendix Table 2 of the Report.

tion, particularly to the extent that the concern is to achieve rates of growth that the Irish economy has not experienced in the past. Nevertheless, it would appear that, on the basis of a plausible set of relationships between output and employment that were derived from cross-country relationships, there is enormous scope for growth in the Irish economy as far as the labour supply side is concerned. Indeed it would appear that only in Japan, of all the OECD countries, was there greater potential on the supply side over the post-war period to date, and the position looks as if it will be similar over the next decade at least.

6.31.13. The evidence of the cross-country data, presented in Chapter 5, suggests that some sectors may well need employment growth if they are to achieve rapid output growth: this would seem to apply to manufacturing and transport and communication, where given normal investment levels employment typically grows at about six tenths of the rate of growth of output. In commerce, output generally grows at about the same rate as manufacturing, and so does productivity, implying in turn that employment needs to grow at about the same rate in commerce as in manufacturing. In "Other Services", both public and private, the rate of output growth cannot be measured with much meaning, and so it is not possible to talk of employment growth in relation to output growth. But typically this sector expands employment, at something like 2½% per year on average, in most OECD countries. In Ireland, the rate has in the past been somewhat more modest. Agriculture, however, typically loses labour, and this is as true of Ireland as of any other OECD country—employment declined in Agriculture in Ireland at 2.5% per year in the first part of the post-war period, and even faster, at 3.2% per year, in the second part. The relationship between output and employment in the remaining sectors (Construction, the Public Utilities and Mining and Quarrying) is less clear, but these sectors are relatively small employers: in Ireland in 1973 they accounted for less than 9% of total employment.

6.31.14. The employment-output relationships for manufacturing, transport and communication, and commerce sectors, which together accounted for 40% of total employment and 36% of total GDP in Ireland in 1973, suggest that typically employment grows at about

six tenths of the rate of growth of output, given customary investment levels. In turn, this implies that typically productivity in these sectors grows at about four tenths of the rate of growth of output. According to Dr. Llewellyn, it is not possible to be sure, and therefore not wise to assert, that these relationships will persist into the future, but they may, and to the extent that they do the implication is that in Ireland, as in other countries, the faster output grows in these sectors, the faster too will productivity grow. This in turn implies an increase in the tax base *per capita*, and as such represents the one painless way by which a Government can increase its tax revenue *per capita*.

6.31.15. Dr. Llewellyn emphasises that there are more necessary conditions for growth than a ready supply of labour. In particular, he emphasises the importance of capital in general, and technology embodied in necessarily-imported capital in particular, as well as such requirements as entrepreneurship, educational standards, adaptiveness and knowledge of markets. Further, there is strong evidence that a rapid growth of exports has to accompany rapid economic growth, if only to finance the imports that necessarily grow rapidly in a quickly-growing economy. For all these reasons, overseas investment in Ireland looks to be an extremely attractive proposition. In Dr. Llewellyn's view, such investment supplying simultaneously capital goods and technology, plus knowledge of and access to vital overseas markets could, if it were forthcoming in sufficient quantity for long enough set Ireland off on a rate of economic growth that could be towards the top of the international league. This ought to be easier to achieve than in large countries, which in order to grow fast generally have to establish, or increase the size of, their capital goods industries. Dr. Llewellyn emphasises that all this is speculative. It is necessarily so, if only because what is being discussed is the possibility of a more rapid rate of economic growth than Ireland has ever seen. Further, it is speculative because Ireland is virtually unique in the OECD world in being a small country with an apparently enormous supply-side potential for growth; there is therefore no appropriate parallel case to which to appeal.

6.31.16. The main conclusions of Dr. Llewellyn's study are that there is only limited scope for increasing tax revenues by raising tax revenues and by widening the existing tax base; any substantial growth in tax revenue is dependent on faster growth in national income and output.

