NATIONAL ECONOMIC AND SOCIAL COUNCIL

Economic and Social Policy 1980–83: Aims and Recommendations

No. 53

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 Taoiseach 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, Industry, Commerce and Tourism, Labour and Environment 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 Taoiseach in regard to numbers, remuneration and conditions of service.

7. The Council shall regulate its own procedure.

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Economic and Social Policy 1980–83: Aims and Recommendations

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NATIONAL ECONOMIC AND SOCIAL COUNCIL MEMBERS

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SUMMARY

Chapter 1: Introduction

An Taoiseach, on behalf of the Government, requested the National Economic and Social Council to review and to make proposals on the Government's short to medium term policy. The Council responds to the Taoiseach's request through this report, *Economic and Social Policy 1980-83: Aims and Recommendations.*

Chapter 2: Irish Economic Trends 1970-79

A marked reduction in the growth rate of aggregate output occurred in 1979; the downturn started in the second half of the year. The slower rate of growth reflected a decline in the volume of agricultural exports and the effects of the sharp increase in oil prices. The terms of trade declined. Thus, Gross National Product at constant prices, adjusted for changes in the terms of trade, declined. While living standards increased in 1979, this was made possible by the serious deterioration which occurred in the current balance of payments. The increased balance of payments deficit was financed largely by substantial borrowing abroad and by a decline in the official external reserves. Ireland's rate of price inflation has not yet moved down to the lower rate of EMS countries as a whole.

In agriculture, following on four years of growth, there was a considerable fall in the volume of net output in 1979. Nominal incomes in agriculture are estimated to have fallen by 12 per cent during 1979. The price of agricultural inputs rose much more sharply than did the price of agricultural output. In manufacturing industry, the volume of output grew steadily between the second half of 1975 and the first half of 1979, and then levelled out.

Employment growth in the three-year period April 1977—April 1980 was well above average. However, most of the net increase in employment in recent years occurred in the public sector. Unemployment fell steadily between the third quarter of 1976 and the fourth quarter of 1979, then increased in the first two quarters of 1980.

Data on unit labour costs show that it was exchange rate depreciation which enabled Ireland to maintain competitiveness in manufacturing industry in the period 1975-77. In the two-year period between 1977 and 1979, competitiveness declined against the principal competitor countries, with the exception of the UK.

Chapter 3: The Prospects for 1980

A notable slowdown in the growth of output in OECD countries as a whole, of the volume of world trade, of the volume of intra-OECD trade, and of the volume of UK imports, is forecast for 1980. The poorer external prospects are compounded by domestic factors which will give little or no stimulus to output increase. The volume of gross output in agriculture is expected to increase very slightly in 1980, with an increase in the volume of net output of a little over 7 per cent (which would, however, reflect a reduced use of inputs). As in 1979, the price of agricultural output will rise at a much lower rate than the price of agricultural inputs. In nominal terms, family farm income is expected to decline slightly. A small increase in the volume of industrial output could occur in 1980.

Unless offsetting measures are taken, the outcome for the public sector borrowing requirement in 1980 is likely to be somewhat greater than the estimate in the 1980 Budget, partly because of a divergence with regard to public sector pay.

Both private consumption and public consumption are expected to fall in volume in 1980, as is fixed investment. The increase in Gross National Product could be about $\frac{1}{2}$ to 1 per cent. Since the terms of trade will deteriorate further—possibly by about 4 per cent—a decline in the volume of resources available to the community is expected.

The rate of price inflation is expected to be about 19 per cent in 1980 over 1979. The balance of payments deficit on current account is expected to be almost as high as in 1979. Aggregate employment is

expected to decline between mid-April 1980 and mid-April 1981; taking account of the likely increase in the labour force, there is expected to be an increase in unemployment in the same period.

Chapter 4: The Prospects for 1981

The outlook for 1981 is explored on the assumptions of no change in Government expenditure programmes, of indexation of income tax allowances, and of specific rates of indirect taxation increasing in line with the rate of price inflation.

The growth in real output in OECD countries as a whole is expected to be at the same low rate as is forecast for 1980. The growth of world trade is expected to be lower than the rate which is forecast for 1980. Little growth or even a decline is expected in the volume of UK imports.

In agriculture, the volume of gross output is expected to rise by a little less than 2 per cent, and little or no growth is expected in the volume of net output. Nominal incomes in agriculture are not expected to be much above their 1980 level.

In real terms, the increase in GNP in 1981 could be of the order of 1 per cent. The rate of price inflation should moderate, and a slight reduction in the balance of payments deficit can be anticipated.

Chapter 5: Social Services: Review, and Prospects for 1980

In relation to recent developments in the principal social services, the reduction in real expenditure on most of these services could result in a reduction in their availability to those who most need them. There is likely to be a significant reduction in public capital expenditure on education, health and local authority housing in 1980. The impact of this reduction can only be measured in the light of provision for subsequent years in view of the time lags which affect capital projects.

Insofar as increased expenditure on education is concerned, priority should be given to the compulsory education age groups as this would do most to promote equality of opportunity in education.

In view of the rapid rise in health expenditure, there is a need to determine priorities for these services. Community and preventive services should be of continuing priority. There is a need for increased expenditure to improve the present living conditions in district mental hospitals.

The first-time house purchaser is faced with difficulties, despite recent measures to assist house purchase. For this and other reasons, the need for local authority dwellings will not decline in the immediate future. A number of possible initiatives regarding public housing policy are outlined in paragraph 5.27.

The Council is concerned that moves to integrate children's allowances and child tax allowances might result in erosion of the net value of child support to the standard rate taxpayer, as a result of inflation. It recommends that the tax treatment of single parent families should be examined in the light of income-splitting for married couples.

Public spending on social services has been rising at a time when the current budget deficit has been increasing as a percentage of GNP. Public social expenditure benefits the whole community. It is to be expected that a country such as Ireland, with a high dependency ratio and a fast-growing population, will pay relatively more per gainfully occupied person to finance social services. To the extent that the current budget deficit is not eliminated by increases in taxation, the burden must fall on current Government expenditure. In pruning expenditure regard must be had to the importance to the community's welfare of current expenditure on health, education, housing and social welfare.

The distributive consequences of the way in which revenue is raised are as important as the effects of public expenditure programmes. In general, indirect taxation is regressive (although it need not be so) and direct taxation is progressive. The question of equity should be considered fully if it is proposed to increase the level of taxation in real terms.

Chapter 6: Policy Aims and Recommendations

Priority should be given to strengthening the capacity of the Irish economy to take advantage of increased world economic activity when it develops. The size of the current balance of payments deficit imposes a fundamental constraint on policies to promote the growth of output and employment. There is no prospect of sustained increases in productive capacity, output and employment, so long as the current high rates of inflation, and the high levels of current external deficit and current budget deficit continue.

The prime short-term aims of economic policy are as follows. Priority

should be given to safeguarding and improving economic competitiveness. The current balance of payments deficit needs to be reduced to a supportable level. The progressive elimination over a fixed period of the current budget deficit is a key issue facing the Govemment. Its elimination would make a major contribution to reducing the overall borrowing requirement—which is itself very high. The current budget deficit represents consumption which is financed by borrowing. Much of the Exchequer borrowing is foreign borrowing. In an economy faced with serious and growing problems of unemployment and where the external deficit poses a significant constraint, public sector borrowing must be concentrated on financing productive investment (including infrastructural and building and construction projects which are a necessary underpinning of such investment).

The Council considers that the current budget deficit should be eliminated over the three years 1981 to 1983 inclusive. This could be accomplished through a combination of increased tax receipts and reductions in the rate of growth in Government expenditure. For this approach, it would be essential that the Budget forecast for the current deficit in 1980 should not be exceeded, and that significant progress be made in the 1981 Budget towards reducing the deficit in that year.

Depending on the progress made in achieving policy aims of eliminating the current budget deficit and of reducing the current balance of payments deficit to a supportable level, productive public expenditure might be allowed to increase in real terms on a selective basis and private productive expenditure might be encouraged. In this connection, the Public Capital Programme should be urgently reviewed with the objective of giving greater weight to productive capital projects including related infrastructural projects.

The Council reviews various policy possibilities in relation to the above aims. Domestic policy, designed in its overall effects to be expansionary, was possible in the early 1970s, but this possibility no longer exists because of budgetary and balance of payments constraints.

Devaluation would not be an appropriate policy, neither would import controls or direct action on consumer prices. Incomes policy has an important part to play in achieving the policy aims. To avoid further deterioration in the balance of payments on current account, the growth of real incomes per person employed should reflect more closely the growth in output per head (corrected for changes in the terms of trade). Nominal incomes should not increase as fast as prices in the immediate future. If further significant increases in unemployment are to be avoided, the recent loss of competitiveness (in terms of relative unit costs) must be made good. Increases in public sector pay must be related to the Government's capacity to pay, which will be limited by the need to reduce the current budget deficit. Unless the growth in public sector pay is kept within limits, set by capacity to pay, the growth in the public sector pay bill will have to be contained by adjustments to public sector employment.

The recommendations put forward by the Council form a set of policies which are intended to complement one another. They should be viewed as an integrated policy package which has been framed with the aim of:

(i) achieving the needed adjustment in relation to the current budget deficit and the current balance of payments deficit, thus putting the Irish economy in a position to take advantage of increased world economic activity when it develops;

(ii) enabling sustained increases in real output to occur when the world economy moves out of the recession, and

(iii) achieving beneficial effects on real output and employment over a period extending beyond the next year or two.

CHAPTER 1

INTRODUCTION[1]

1.1 In January 1980 An Taoiseach, on behalf of the Government, asked the Council to review and to make proposals on Government short to medium term economic policy. At its meeting on 17 January 1980, the Council decided that this request should be followed up in the context of a report which the Council had intended to submit to Government during 1980 on economic and social policy. The report was approved at the Council meeting on 11 August 1980[2].

1.2 Chapter 2 summarises the economic trends in the period 1970-79, paying special attention to the trends in the period since the last report of the Council on the economic situation—NESC Report No. 13, *Economy in 1975 and Prospects for 1976*. Chapters 3 and 4 consider the prospects for 1980 and for 1981, respectively. In Chapter 5 there is a review of social services and of their prospects for 1980. Chapter 6 discusses policy aims and contains the policy recommendations of the Council.

1.3 The cut-off point for the data which are used is 31 July 1980. Hence, the various estimates and forecasts are current as at July 1980.

[1]Following discussions in the Economic Policy Committee, in the Social Policy Committee and in the Council, the succesive drafts of Chapters 1 to 4 and of Chapter 6 were prepared by John Blackwell of the Council secretariat; and the successive drafts of Chapter 5 were prepared by Dermot McCarthy and Paul Turpin of the Council secretariat. Background papers were provided by Brendan Kearney of the Agricultural Institute and by Eithne Fitzgerald.

[2]See Note on pages 80-81.

CHAPTER 2

IRISH ECONOMIC TRENDS 1970-1979

Output

2.1 In the 1970-76 period[1], the growth rate in output in Ireland was slightly higher than the average for EEC countries taken together (Table 1). In the years 1977 and 1978 the growth rates were far higher than those in the EEC. A marked reduction in the growth rate occurred in 1979, when the growth rate of 1.8% was lower than the average for the EEC.

2.2 There were two principal contributions to the growth in output in the three-year period 1976-79 (Table 2). First, there was the growth in private consumption. In the three-year period 1976-79, the volume of private consumption increased by 5.4% per annum, on average, which was exceptionally high compared with the average annual increase of 2.2% in the period 1970-76 (Table 1). These increases in personal consumption were, in turn, a reflection of increases in real disposable incomes. In the period 1976-79, the average annual increase in disposable personal incomes in real terms was 6.3% per annum, compared to 4.1% per annum in the earlier period 1970-76 (Table 3).

2.3 Second, the contribution of gross investment to growth in the 1976-79 period was markedly higher than in the earlier period. Indeed, the ratio of fixed investment to domestic output in Ireland in 1978 was the highest in the EEC[2], and this ratio has increased further since 1978[3]. The main underlying reasons for the increase in the investment

[1]Throughout this report, all references to growth rates and to changes which occurred in the "period 1970-76" (for example) use 1970 as the base upon which to calculate the change.

[2]Source: OECD, *Economic Surveys*.

[3]The ratio has increased from 28.2% of output in 1978 to 32.2% of Gross National Product in 1979.

ratio have been the new overseas investment in manufacturing in Ireland and the sustained high rate of growth in real expenditure on the Public Capital Programme.

2.4 Ireland's share of world and of OECD manufactured goods exports has increased steadily since 1970 (Table 4). But there was a marked decline in the growth rate of exports of goods in 1979, which reflects a decline in the volume of agricultural exports (allowing for changes in intervention stocks) of about 3%. The volume of industrial exports increased by 12% in 1979.

2.5 Notwithstanding this export growth, there has been a sharp decline in the contribution of the net foreign balance (exports less imports) to GNP since 1976. This is largely due to the increase in the average price of imports relative to the price of exports, the increased penetration of imports[4], and a decline in the relative contribution of invisible earnings due to a decline in tourism. With regard to the increased penetration of imports, two underlying factors are at work. One is the income effect—increases in Irish domestic income lead to marked increases in the demand for imports. In particular, the rapid increase in real consumption has undoubtedly led to a significant increase in imports. The second factor is a price, or competitiveness effect, whereby keener priced imports (holding quality constant) replace Irish commodities. While it is difficult to separate out these factors, a rough indication of the income effect can be had by examining the growth of imports in response to the growth in final demand[5]. In the period 1970-76, the growth rate of the volume of imports of goods and services was 1.19 times the growth rate of the volume of final demand. Since then, the ratio has grown markedly—to 1.74 average in the three-year period 1976-79 (although the figure in 1979 was swollen by relatively high stock-building). This increase in import propensity is partly due to the freeing of trade. It was not until the early 1970s that the Anglo-Irish Free Trade Area began to have an effect, and industrial tariffs were reduced against other EEC countries in the five years beginning in 1973.

[4]Strictly speaking, this occurs when either the ratio of imports to Gross Domestic Product increases or when, for any industry group, the ratio of imports to home consumption goes up. Data on the latter ratio are not available for the period since 1973.

[5]Consumption, both personal and public, plus gross investment plus exports.

2.6 The terms of trade, i.e., the ratio between an index of export prices and an index of import prices, declined sharply by 4 per cent in 1979. Of this decrease, an estimated two thirds is attributable to the increase in fuel prices (mainly oil prices). Between 1970 and 1973, the terms of trade rose by 19%; this partly reflects the fact that in 1973, relatively high agricultural prices boosted the terms of trade. Then between 1973 and 1979, the terms of trade fell by 17% (Table 5).

2.7 When the price of imports rises relative to the price of exports in a period such as 1973-79, then the change in Gross National Product is no longer a good indicator of the change in the volume of resources which are available for domestic spending in the form of domestic consumption (both private and public) and domestic investment. This is because a greater proportion of output must be exported in order to purchase the same quantity of imports. In other words, the deterioration in the terms of trade means that, for a given balance of payments position, the living standards of the community will decline. But if the balance of payments deficit increases, as occurred in Ireland, the import excess allows for an increase in the quantity of commodities available in Ireland.

2.8 While Gross National Product increased by 1.8 per cent in real terms in 1979, the GNP at constant prices, adjusted for changes in the terms of trade, was static. Making further allowance for the population increase of 1.6% which occurred, there was a fall of about 2% in resources *per capita*. By contrast, living standards, as measured by real personal consumption *per capita,* actually increased by 2% in 1979. This increase in living standards could not normally be expected in a year when not only the terms of trade declined but when the ratio of investment to GNP increased (which would usually imply that a lower proportion of the increase in domestic output was being devoted to consumption than to investment). The increase in living standards in 1979 was made possible only by the massive deterioration which occurred in the current balance of payments. The increased balance of payments deficit was in turn financed largely by substantial borrowing abroad and by a decline in the official external reserves. This borrowing has to be serviced and ultimately repaid, and a fall in the reserves on the scale which occurred in 1979 could not be sustained for long. The

improvement in living standards was, therefore, at the expense of living standards in later years. Such an increase in consumption per head can only be temporarily achieved.

2.9 The use of annual data can conceal the timing of turning points in economic activity. There was a carry-over effect from the growth of 1978 into the first half of 1979. Table 6 shows that the downturn in the growth of economic activity started in the second half of 1979. Thus, much of the growth which is recorded for calendar year 1979 took place in the second half of 1978 and in the first half of 1979.

Living standards

2.10 The increase in living standards which has occurred since 1970 is put in perspective in Tables 3 and 7. In the period 1970-79, disposable personal income *per capita,* in real terms, increased by 33% or by 3.2% per annum, on average. This is likely to under-estimate the "true" increase in living standards which occurred. This is because the proportion of output devoted to education and health expenditure, at least, has been increasing over time. Services such as these are not paid for fully at the point of use but are funded partly out of taxation on personal income and wealth, which in turn affects disposable personal income. For those engaged in agriculture, living standards in the 1970s fluctuated notably from year to year.

Price inflation

2.11 Throughout the period since 1971, price inflation in Ireland has exceeded that of the EEC (Table 8). While there was a close correspondence between the inflation rates in Ireland and in the EEC in 1978, the divergence between the respective inflation rates has increased markedly since then. In 1979, for instance, the inflation rate in Ireland was 13.2%, compared with 9.1% in the EEC.

2.12 It was expected that following entry to the EMS the inflation rate in Ireland would, in due course, converge towards the average of Ireland's EMS partners[6]. This convergence has not yet materialised for

[6]For example, if fixed exchange rates hold and product prices in other EMS countries increase, then domestic suppliers will not supply a good unless the increased price is obtained; alternatively, a relative reduction in price means that the Irish product will lose its share of the market unless it is sold at the new, relatively lower price.

a number of reasons. An adjustment period is required before the unwinding of inflationary expectations occurs; price inflation can differ substantially between one country and another in the non-traded goods sector which includes services where there are local monopolies; and almost half of Ireland's trade is still with the UK whose currency, which is outside the EMS, appreciated strongly in 1979 and in 1980 to date against the EMS currencies, including the Irish pound.

2.13 Of the increase of 15.5 per cent in consumer prices which occurred in the twelve months ending in the first quarter of 1980, about 3.5 percentage points can be *directly* attributed to energy (fuel and light, petrol and motor oil). But this estimate is only of the *direct* effects. The *indirect* effects are the effects of fuel price increases on the price of other goods and services, and on wage bargaining with subsequent implications for prices. The increase in indirect taxation in the Budget of February 1979 (less the small reduction in VAT) would have contributed about 0.8 to 1.1 percentage points of the rise in the Consumer Price Index in this period. This is on the assumption that all the indirect taxes would have been passed on fully in prices—hence it includes the indirect effects on prices of other products. Taking account of the inter-relations between different industries, it is estimated that about 4.1 percentage points of the increase of 13.2% in consumer prices in calendar year 1979 was contributed by imports[7].

The balance of payments

2.14 A sharp deterioration in the balance of payments deficit on current account occurred between 1978 and 1979—the deficit increased from £149 million in 1978 to £730 million in 1979, when the deficit was 10% of GNP and 66% of the average level of reserves (Table 5). In most years since 1970, balance of payments deficits on current account have been more than matched by a net capital inflow (Table 5) and the external reserves have risen. But this did not happen in 1979. In 1978 and in 1979 there was a net private capital outflow, although this was marginal in 1979. Most of the financing of the

[7]This is based on input/output analysis. It should be emphasised that this does *not* indicate causality. Furthermore, the input/output table on which the calculations are based refers to 1969, and computes contributions to inflation at producer prices rather than at retail prices.

balance of payments deficit in 1979 occurred through Government foreign borrowing and a decline in the official foreign exchange reserves (Table 9).

Agriculture

2.15 After four years of considerable growth in output and incomes in agriculture since the recession of 1974, growth in 1979 slackened off considerably. There were particularly unfavourable production conditions, a significant fall in cattle prices in the autumn, a rapid rise in interest rates and the introduction of credit restrictions which may temporarily have dampened or postponed productive investment, the repercussions of which will be felt in the short term. The output of cattle (including inventory change) declined by 3% in 1979 (Table 10). In 1979 there was a slight decline in the volume of gross output in agriculture and a considerable fall in volume of net output over 1978, while agricultural incomes in money terms are estimated to have declined by 12% (Table 11). The price of agricultural inputs rose much more sharply in 1979 than did the price of agricultural output.

Industry

2.16 In the post-1973 cycle, the trough in output in manufacturing industries occurred in the second quarter of 1975 (Chart I). In the period between that trough and the end of 1979, output increased by 42%, to stand 26% above the previous peak (of the first quarter of 1974). Between the last trough (which occurred in the first quarter of 1976) and the last quarter of 1979, employment increased by 13.3% and by the end of 1979 was 4.1% above the previous peak of the second quarter of 1974 (using seasonally adjusted data).

2.17 This indicates that, in recent years in the period up to 1978, productivity increases have played a *relatively* bigger part in increases in output than was the case in the past. (The rates of growth of productivity and of employment in industry as a whole over 1970-79 are in Table 12). The negligible increase in productivity in 1974, actual decline in 1975, and sharp increase in the subsequent three years, are symptomatic of an economy in recession, when employees are retained, followed by a recovery phase. The estimated productivity increase of

2.7% in manufacturing industry (as measured by output per man-hour) in 1979—well below the trend of 4.3% for 1970-78—is symptomatic of a recessionary phase.

2.18 It is, however, difficult to disentangle cyclical from structural elements in productivity change. The productivity trends have reflected the structural changes which have occurred within industry, whereby new overseas firms have been established which tend to embody the "best practice" in their respective sectors and which are more capital-intensive. One of the fundamental causes of the productivity increase is likely to have been the abolition of tariffs. This meant that firms had to increase productivity in order to compete in world markets, or else give way to firms which were themselves more efficient. This underlay much of the large structural adjustment which occurred in Irish industry.

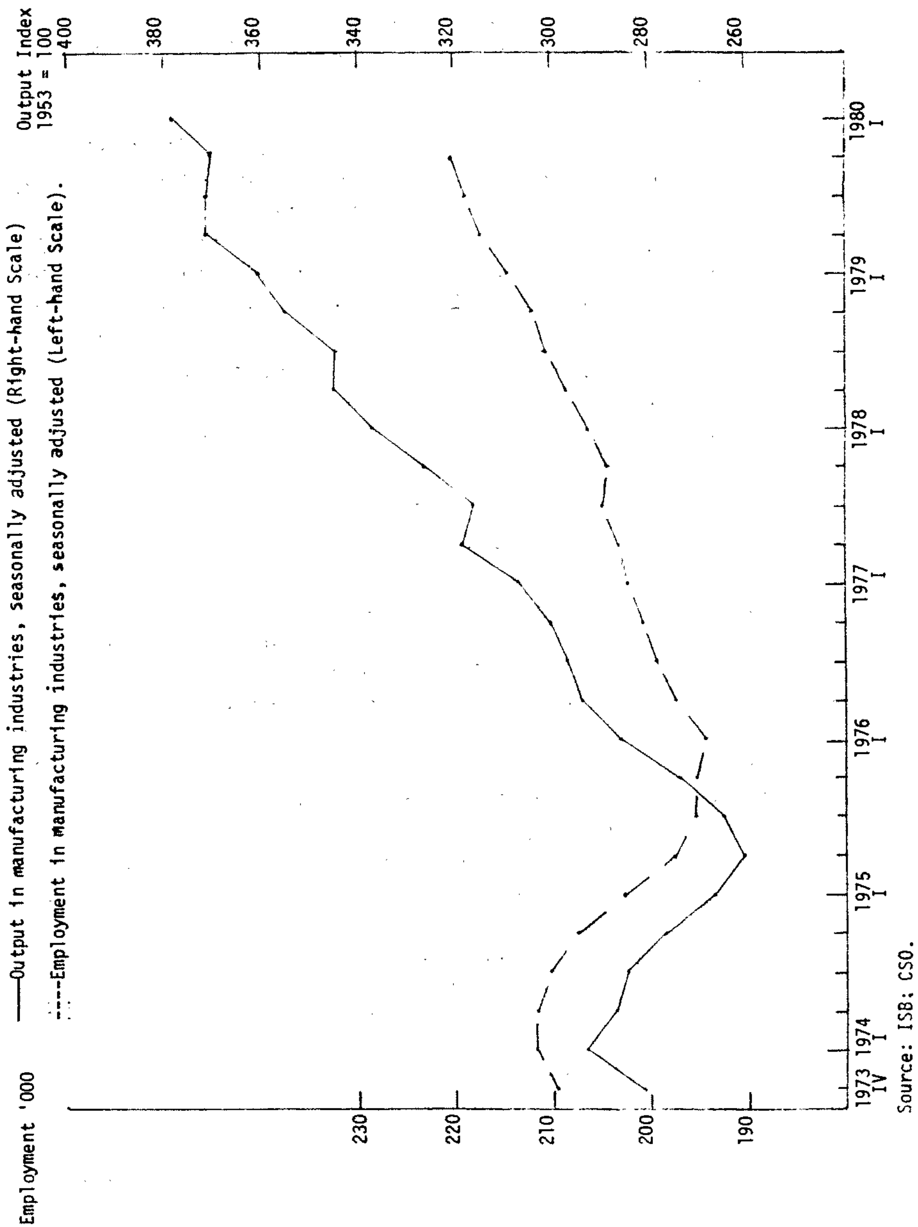
Employment and unemployment

2.19 The average annual employment increase of 11,000 in the three-year period from April 1977 to April 1980 was well above the average (Table 13). In this period, employment in manufacturing increased by an average of 6,000 per annum and employment in services by an average of 8,000 per annum. However, most of the employment increase in recent years occurred in the public sector[8] (Table 14). (The most recent data on public sector employment relate to 1979.) Taking the period 1975-79, there was an increase of 12,000 in total employment, employment in public sector services increased by 22,000 and employment in private services increased by 5,000. If the employment in *non-industrial* State-sponsored Bodies[9] is included in public services, then the imbalance in the growth of the two sub-sectors is even more pronounced. Employment in non-industrial State-sponsored bodies increased by 1,400 to 38,400 in the calendar year 1979 alone.

[8]The data in the Tables may lead to an over-estimate of the relative employment increase in public sector services, since the revision to the data which is possible may well include an increase in the estimates for employment in the service sector and in industry outside manufacturing. (See footnote (a) to Table 13.)

[9]That is, excluding ESB, Comhlucht Siúicre Éireann Teo., Nitrigin Éireann Teo., Bord na Móna, Irish Steel and a few smaller bodies.

CHART I



2.20 Employment in agriculture (including forestry and fishing) declined by 7,000 per annum, on average in the 1970-79 period, or by 2.8% per annum, on average. The 1979 estimate (for mid-April) shows a fall of 9,000 compared with 1978. This decline is greater than in any of the earlier years of the decade (except 1971). The contributory factors to the decline in 1979 include the relative decline in farm incomes and employment opportunities outside agriculture.

2.21 In the period 1975-79, the volume of output in building and construction increased by 47 per cent (Table 15), while employment in the sector in the period April 1976 to April 1980 (using this period to allow for lags in adjusting employment to output) increased by 11.8%[10].

2.22 Table 16 shows one of the disquieting features of recent industrial performance—the relatively high rate of job loss in manufacturing. However, an unknown proportion of these jobs is subsequently regained, as firms resume operations[11]. But even after allowing for this, the scale of the job losses, 15,000 per annum on average in the three-year period 1976-79, when the external environment was not altogether unfavourable, is significant.

2.23 The numbers unemployed (as measured by the Live Register, seasonally corrected) fell from the last peak of 109,500 in the third quarter of 1976 to 86,200 in the fourth quarter of 1979. Since January 1980 inclusive, the numbers unemployed have begun to increase and were 99,600 (seasonally adjusted) in June 1980.

[10]There may be some measurement problems here since some of the increase in building and construction in this period was on farm buildings, and in many instances the associated labour content would have gone unrecorded. Furthermore, there are a number of instances where, due to technological change, building-related employment now occurs in the manufacturing sector, and was formerly counted under building and construction.

[11]Data on job losses from the IDA Employment Survey a re derived by comparing each firm's employment in one year with employment in the same period of the previous year. Statistics of gross job losses include not only permanent redundancies but also:

(i) frictional job losses, i.e., where workers have left voluntarily and have not been replaced at the time of the survey;

(ii) temporary losses due to a drop in demand.

When frictional job vacancies are filled and temporary job losses restored, these numbers appear in the following year's survey as job gains. Both the job losses and subsequent job gains of this type distort the statistics of "real" losses and "real" gains, and the longer the period of years taken, the greater is the distortion.

Competitiveness

2.24 Data on unit wage costs give an indication of the relative competitiveness of Irish industry. By their nature, these data can only convey general trends, since they are at an aggregate level and do not distinguish between one market and another[12]. Between 1975 and 1979, the increase in Irish unit wage costs in *national* currency terms was substantially higher than in any of the principal competitor countries (which together account for about 75% of Ireland's trade) contained in Table 17, with the exception of Italy and the UK. In broad terms, it was only exchange rate depreciation which enabled Ireland to maintain competitiveness in manufacturing industry in the period between 1975 and 1977 inclusive. Employing unit wage costs corrected for exchange rate changes as the measure, in the two-year period between 1977 and 1979, competitiveness declined against all the countries listed, with the exception of the UK. In most cases this decline was quite marked.

2.25 The extent of the job losses in Irish industry in recent years must be due, in some measure, to these trends. There is already evidence that other EEC countries are obtaining a higher share of British imports of manufactured goods than is Ireland[13]. This may be due to the increased competition from countries which have gained a competitive edge over Ireland, as shown in Table 17.

[12]Comparisons of this nature must be qualified. For instance, the data on Table 17 include only earnings in the cost data, thus there are other costs of production which are excluded. But it can be argued that, in the case of production by multinational firms, data on unit wage costs provide a good indication of competitiveness, since an important reason why costs vary between countries will tend to be wage costs. A careful study for the United Kingdom has concluded that the unit labour cost (including non-wage costs) indices perform best, by comparison with other indicators of competitiveness, at explaining the volume of manufactured exports. ("Measures of competitiveness in international trade", *Bank of England Quarterly Bulletin*, June 1978).

[13]In 1979, the growth of the value of UK manufactured imports was 18%; the growth of UK manufactured imports from the EEC was 26%, and the growth of UK manufactured imports from Ireland was 13%. (Source: *CII Newsletter*, 17 June 1980).

Fiscal and monetary policy

2.26 While most European countries constricted demand in the wake of the first "oil crisis" in 1973-75, it was possible for fiscal policy in Ireland to be expansionary in order to counter the externally-induced deflationary impact of the oil price increase (Tables 18, 19). This fiscal policy stimulus was achieved by current public expenditure on goods and services, public investment, and increased transfer payments. But in the years immediately following 1975, when world trade increased markedly, there continued to be a large fiscal stimulus—as indicated by the relative *change* in the public sector borrowing requirement—with the exception of 1976.

2.27 In 1979, almost half of the Exchequer borrowing[14] consisted of foreign borrowing, to which must be added the borrowing abroad which was done by State-sponsored bodies (Table 20). As a result of foreign borrowing, the public external debt increased by 47% in 1979 (Table 21). (It should be noted that the concept of public sector debt used in this paragraph excludes Government securities held by non-residents). The ratio of official debt (external Government debt plus external debt of State-sponsored bodies) to official reserves almost doubled between 1978 and 1979, from 1.1 to 2.1 (Table 21).

2.28 The financing of Government expenditure has implications for tax rates. While the tax "burden" (taxes as a proportion of GNP) increased between 1970 and 1976, Table 22 shows that it was about the same in 1979 as in 1976.[15] In the same period, taxes on income (including social security contributions) as a proportion of GNP declined slightly, as did taxes on income expressed as a proportion of personal income. The tax burden in Ireland is relatively low by EEC standards; in 1977, for instance, it was 35% of GDP compared with an average of 41% for the EEC.[16] However, the felt burden of income

[14]This includes the effects of net sales of securities to non-residents, which were negative to the amount of £50 million in 1979.

[15]Source for 1970-76: OECD, *Revenue Statistics of OECD Member Countries 1965-1978*, Paris 1979. These data are tax revenue, including social security contributions, as percentage of GDP. They cover a wider range of taxes than the figures set out in Table 22; for example, they include rates.

[16]*Source:* OECD, *Op.cit.*

taxes is likely to have been increasing over time, as *marginal tax rates* (on the average earnings level of production workers) rose over time. For example, for a one-earner family with two children at the income level of the average production worker, the marginal rate of income tax (including social security contributions) increased from 26 per cent in 1972 to 39 per cent in 1976[17].

2.29 Prior to entry into the EMS in 1979, the fact that capital could flow free of exchange risk between Ireland and the UK limited the control of monetary policy over the money supply and interest rates. Thus, while the rapid growth of aggregate demand during the 1970s was broadly reflected in a corresponding expansion of domestic credit, the contractionary effect of this on bank liquidity by way of leakage through the balance of payments was avoided by external borrowing by the banks directly from the London market, subject to such constraints as were imposed by the Central Bank from time to time. External borrowing by the Government in other markets was also significant. Such direct recourse to London was, within limits, sustainable as long as the financial markets remained fully integrated and there was no question of exchange risk. The ending of the sterling link which followed shortly after Ireland's entry into the EMS, and the introduction of exchange controls with the UK, brought an end to the riskless mobility of funds between the UK and Ireland. While these developments enhanced somewhat the role of monetary policy, they did not shield interest rate policy from external influences, partly because of the substantial "over-hang" of non-resident deposits. The need to maintain the exchange value of the Irish pound within the EMS has given further emphasis to the need to maintain an adequate level of external reserves. Given the size of prospective current balance of payments deficits and the financing requirement of the Government, the Central Bank currently aims to achieve its external reserves target by limiting the growth of bank credit in Irish pounds to the private sector. Its quantitative credit guidelines permitted an 18% growth in private sector credit in Irish pounds in the year to February 1980.

[17]The marginal rate is the change in payments as a result of a 10% increase in gross earnings, as a percentage of the change in gross earnings. Source: *The Tax/Benefit Position of Selected Income Groups in OECD Member Countries 1972-1976*, OECD, Paris, 1978.

2.30 The financing of the Exchequer borrowing requirement has implications for monetary policy. One of the features of the Exchequer borrowing in 1979 was the relatively high component of monetary financing, i.e., about £700 million of the Exchequer borrowing requirement was financed by means other than sales of securities to the domestic non-bank public and small savings (Table 20). This was due more to the size of the Exchequer borrowing requirement than to the level of receipts from the domestic non-bank public. In 1979, the Government, through the financing of the Exchequer Borrowing Requirement, contributed about a half of the domestic credit expansion. If the financing of the State-sponsored bodies and local authorities is added to this, then the public sector contributed more than did the private sector to domestic credit expansion in 1979.

CHAPTER 3

THE PROSPECTS FOR 1980

World output and world trade

3.1 The prospects for the Irish economy in 1980 will partly depend on the growth in world output and in world trade. For OECD countries as a whole, it is expected that the growth in their volume of output in 1980 will be about 1 per cent, compared with a growth of 3.4 per cent in 1979[1]. This is partly because the larger countries have adopted restrictive policies towards the stimulation of aggregate demand in order to counter inflation in the light of experience over 1973-75, and to counter the possibility of currency depreciation. The larger OECD countries have adopted targets for the money supply, and this has led to higher nominal interest rates.

3.2 Moreover, the disimprovement in the terms of trade of OECD countries, as a result of the increase in the price of oil (of 140 per cent between the end of 1978 and May 1980), of itself has a deflationary impact on demand and on output. It is expected that between 1978 and 1980 the current balance of payments of OECD countries as a whole will worsen by $90 billion. The swing of the OECD area current balance relative to GNP, between 1978 and 1980, is expected to be almost identical to that which occurred between 1972 and 1974. The effects of restrictive policy measures by the larger countries, together with the terms of trade effects, are likely to restrict the growth of world trade. World trade is expected to grow at a rate of 4 per cent in 1980, lower than the estimated rate of growth of 5 per cent in 1979; and world trade in manufactures is expected to grow by 5.5 per cent, compared to a rate of growth of about 5 per cent which occurred in 1979[3]. This may be optimistic: a recent forecast for the growth of

[1] OECD, *Economic Outlook*, July 1980.
[2] *Ibid.*, p. 60.
[3] *National Institute Economic Review* (NIER), May 1980.

world trade in 1980 is of 2.5 per cent in volume[4]. However, even this conveys too optimistic a picture for Ireland, for the following reasons.

3.3 First, intra-OECD trade is forecast to grow by only 3 to 5 per cent in 1980, compared with 8 to 10 per cent in 1979[5]. This intra-OECD trade is especially important for Ireland, and includes EEC trade. Second, the UK market remains an important destination for Irish exports, accounting for 47 per cent of the exports of the Republic in 1979. Forecasts for the UK for 1980 are of a decline in real output of 1 to 2 per cent[6]. This will affect the demand for Irish products. With regard to the volume of UK imports, between 1977 and 1979 there was an exceptional increase of 9 per cent per annum, on average, compared to a static volume in the earlier 1972-77 period. It is expected that the change in import volume in 1980 will contrast sharply with that in 1977-79, i.e., that it could range between an increase of 1 per cent and a decline of 1 per cent[7].

Agriculture

3.4 While farm price variations for some commodities can be considerably influenced by market forces in the short term, nevertheless price increases granted through the EEC Common Agricultural Policy generally set the price level for the main commodities. The final weighted price increase granted for the 1979-80 marketing season was about 1.5 per cent, the increase in intervention prices for Ireland being 1.5 per cent., zero and 1.5 per cent for cattle, milk and feed barley respectively. For the 1980-81 marketing season, the outcome of the price review for certain products was as follows:

% increase in intervention prices

Beef and Veal	Butter	Skim powder	Feed barley
4.0	2.3	4.9	4.5

[4]Independent Treasury Economic Model Club.

[5]OECD, *Economic Outlook*, July 1980.

[6]For example: NIER, May 1980; The London Business School Centre for Economic Forecasting, *Economic Outlook 1979-1983*, June 1980.

[7]NIER, May 1980; The London Business School Centre for Economic Forecasting, *Economic Outlook 1979-1983*, June 1980.

However, EEC policies and certain features of the market, particularly in relation to supply-demand balances, suggest that the actual increase in intervention prices may not be reflected in the prices paid to the producer.[8]

3.5 In 1980, little overall change is expected in the level of cattle output including inventory change (Table 10), but disposals may be up by about 20 per cent in 1979. The seasonal pattern of disposals suggests that relatively fewer cattle will be available in the autumn of 1980 with the possibility of higher prices. Average unit output prices for cattle are not likely to change significantly in relation to 1979 for the year as a whole. After an average annual growth rate in milk output of about 9 per cent in the period 1974-78, the rate of growth in 1979 fell to slightly over 2 per cent (Table 23).[9] At best, the level of milk output in 1980 may not greatly exceed that of 1979.[10] It is considered that, because of higher processing costs and the payment of the increase in the co-responsibility levy in 1980, milk prices will be somewhat below their 1979 level. Sheep output in 1980 should be about the same as in 1979. The reduction in pig disposals will be of the order of 3 to 5 per cent for 1980 as a whole. Pig prices should be noticeably higher in 1980. This development, together with moderation in feed prices, should have a stabilising influence on the pig industry as the year progresses.

3.6 In the case of cereals, and feed barley in particular, the market price in Ireland was about 10 per cent above the intervention level in 1979. There could be a significant increase in production of feed barley

[8]In the case of dairy products, for instance, the increase granted in the prices for intervention products would suggest that the gross increase implied would be of the order of 2.3p per gallon of whole milk. However, because of the proposed increase in the co-responsibility levy from 0.5 to 2 per cent there would be a claw-back of about 1p from the gross price increase.

[9]Production conditions were as responsible for this disappointing performance in 1979 as much as they contributed to the remarkably good growth rate achieved in 1978. The major factor contributing to the variation in milk output has been milk yield per cow rather than cow numbers. However, the scope for expansion in milk yield per cow, arising from higher levels of concentrate feeding, is now rather limited due to a deterioration in the milk/feed price ratio.

[10]In general, supplies are being curtailed because of a significant reduction in the rate of concentrate feeding to dairy cows to approximately its 1978 level.

in 1980, even if only 1978 yields are achieved. The decline in the demand for feed, together with increased supplies, will exert downward pressure on feed prices which may not reach their 1979 level, despite an increase of 4.5 per cent in the intervention price level. However, the total volume of grain production is not likely to be greatly different from that of 1979, with the overall decline in area largely cancelling out the effect of increased yields.

3.7 Having regard to expected movements in the price and volume components of output, farm materials and expenses, it is expected that the *volume of gross agricultural output* will show little change in 1980. The expected rise in the value of net output after deducting expenditure on farm materials is 4 per cent. When other items of expenditure including rates, depreciation, fuel and wages are deducted from net output, *income from self-employment* is expected to show no increase in money terms from the level of 1979. This implies a fall in real earnings in the farming sector in 1980 of about 19 per cent following on a decline of about 23 per cent in 1979. The *volume of gross output* is expected to show no increase in 1980, leaving the level of agricultural output in real terms about 10 per cent greater than in 1975 (Table 11). Following on the fall in the consumption of farm materials, it is expected that the *volume of net output* will increase by 8 per cent in 1980, leaving it some 2 per cent less than in 1975.[11] Between 1975 and 1978, the price of agricultural output rose much more rapidly than did unit costs, but by 1979 the percentage increase in unit costs since 1975 had almost overtaken the increase in product prices. This is a major contributory factor to the current lack of activity in agriculture, especially when allied to high interest rates.

[11]In deriving estimates of change in gross and net output, the agricultural output and input price indices are assumed to change by 0 and 15.5%, respectively. Due to a decline in the milk/concentrate price ratio and the decline in incomes in 1979, the volume of consumption of feed will fall substantially in 1980, probably by 15 to 20%. Expenditure on feedingstuffs in 1980 is likely to fall somewhat. Despite a reduction of about 13% in volume, expenditure on fertiliser in the 1980 season, i.e., the twelve months ending in June, may increase by about 3% due to higher unit costs. There is likely to be a further significant increase in energy costs but volume may stabilise or decline; agri-chemicals and transport and hire charges are likely to increase in cost; depreciation charges for farm machinery are likely to increase significantly; it is estimated that the rates bill on agricultural land will increase from £35.6m in 1979 to about £45m. in 1980; while unit wage costs may be nearly 20% greater.

3.8 There is little chance that agricultural output and income can recover rapidly as occurred after a similar reversal of 1974. In the earlier period, product price levels were increasing much more rapidly and there were strong expectations that this pattern would continue due to a combination of the EEC transitional arrangement, monetary adjustments and relatively large increases being granted in Community price levels. On this occasion there is no such favourable outlook for prices, and input costs are rising more rapidly than in the earlier period.

Industry

3.9 The immediate prospects for industry will reflect the impact of past investment decisions. There are lags between the decision to invest, the installation of capacity and the achievement of desired production. The flow of projects which are processed by the Industrial Development Authority has been such that they should make a material contribution to output in the foreseeable future. This is confirmed by the growth in the volume of industrial exports in the first six months of 1980 compared with the same period in 1979. But there is likely to be considerable variation in output growth between the sectors of manufacturing industry. Certain labour-intensive sectors such as textiles are likely to be hit by a combination of a static market in Britain together with a decline in competitiveness compared to competitors. In the last recession, of 1973-75, the volume of gross output of manufacturing industries in Ireland declined by 6.7 per cent in 1975. However, that was a year when the volume of world trade in manufactures declined (the only year in the past decade when this occurred, see Table 24) and such a decline in Irish output is not an immediate prospect. It is considered that the volume of output in all industry (including building and construction) could increase by about 1 to 2 per cent in 1980, compared with an estimated increase of 8 per cent in 1979. The structural change in industry in Ireland is expected to continue.

Fiscal and monetary policy in 1980

3.10 Before the likely outlook for the elements of aggregate demand is examined, the likely impact of fiscal and monetary policy on these components is examined. The Budget of February 1980 expected that current Government expenditure would increase by 21.2 per cent in

1980 (Table 19), which would imply about the same volume of current Government expenditure as in 1979. There is likely to be a fall in the volume of expenditure on the Public Capital Programme of some 2 per cent. With regard to monetary policy, the quantitative credit guidelines of the Central Bank permitted a 13 per cent growth in private sector credit in Irish pounds in the year to February 1981.

3.11 As a rough measure of fiscal impact, the relative change in the public sector borrowing requirement needs to be qualified in two respects. First, it is not independent of the level of activity in the economy: other things equal, the higher the level of economic activity, the lower the Exchequer outgoings on social welfare benefits and the higher the revenue from taxation and thus the lower the borrowing requirement. Second, other things equal, if the borrowing requirement is financed by monetary means—i.e., by borrowing from Commercial Banks, from the Central Bank or by external borrowing, then the net impact of fiscal expansion is likely to be greater than in the case where a portion of the borrowing requirement is financed by sales of Government bonds to the non-bank public. In the former case, in an open economy such as that of Ireland, fiscal expansion with monetary financing leads to both inflationary pressures and to an increase in the current balance of payments deficit (depending on the degree of utilisation of resources). In the latter case, there is less credit available to the private sector and personal consumption is lower than it otherwise would be, thus the net impact of fiscal expansion is dampened.

3.12 The budgeted public sector borrowing requirement in 1980 is £1,201 million, compared with £1,258 million in 1979, and the Budget estimate is that it would fall from 17.5 per cent of GNP in 1979 to 13.9 per cent in 1980. However, unless offsetting measures are taken, the outcome for the borrowing requirement in 1980 is likely to be somewhat greater than the estimate in the Budget of 1980, for the following reasons.

3.13 First, given the outlook for unemployment, Government expenditure on social welfare payments is likely to be higher than was estimated. Second, a divergence is likely to occur with regard to public

sector pay. In the Budget of 1980, a sum of £100 million was set aside to cover increases in pay and pensions over and above the provision for the second phase of the 1979 pay agreement and for the carry-over effects of other increases which were granted in 1979. But the likely pay increases which will arise for the nurses, and from the Review Body on teachers' pay, and other special increases incurred or under negotiation, not to speak of any increases which may arise on expiry of the 1979 pay agreement, are likely to exceed the above allowance in the Budget. For example, the total cost in 1980 of the increases in nurses' pay which were accepted in May 1980 would be about £80 million, and pay increases which are expected as a consequence, under relativity claims, should total over £40 million in 1980. The net cost to the Exchequer will, of course, be reduced by the fact that pay increases lead to additional tax receipts. Taking account of the above influences, it is likely that the Budget 1980 target for the public sector borrowing requirement will not be met, unless offsetting measures are taken.

3.14 The estimate of the method of financing the Exchequer borrowing requirement in 1980 is that the contribution of the Government to domestic credit expansion is likely to be somewhat less in absolute terms than in 1979, but hardly significantly less (Table 20). Taking account of this, of the likelihood that the Budget estimate for the borrowing requirement will come under strain, and of the likely decline in the rate of growth of real output in 1980 compared with 1979, fiscal policy is likely to have a mildly constricting effect on economic activity.[12]

3.15 While tax revenue (including social security contributions) as a proportion of GNP is expected to increase from 32.3% in 1979 to an estimated 34.5% in 1980 (Table 22), about 1 percentage point of the 2.2 percentage point increase is due to the expected effects of the postal strike in 1979. Allowing for the effects of the postal strike,

[12]The change in the borrowing requirement is influenced by the effects of the postal strike on Post Office revenue and on tax revenue. There was an under-collection of some £100 million in 1979, and Exchequer revenue should benefit by some £82 million, over and above what would otherwise be expected, in 1980. The net effect of this could be expected to be a small boost to aggregate demand in 1980 compared with 1979.

income tax revenue (including social security contributions) as a proportion of GNP is expected to increase slightly. The trend whereby marginal tax rates have been increasing is likely to have been reversed through the impact of the 1980 Budget, through widening of the tax bands and through income splitting; the new tax structure announced in the Budget will have the effect of bringing over 180,000 taxpayers, or nearly two thirds of those currently liable at higher rates, down to the lower standard rate band.

Components of demand and GNP

3.16 The outlook for 1980 can be summed up by considering briefly each of the components of aggregate demand[13]. The level of private consumption will depend on the level of real personal incomes after direct taxes (and transfers) and the motivation to save. The former determinant will clearly be affected by the scale of any further pay increases in 1980, and their timing. Earnings per head outside agriculture are likely to be 15% higher, and average earnings in the public sector at least 20% higher in 1980 than in 1979, before allowing for any further increases on the expiry of the current national provisions. The direct tax concessions and social welfare payment increases which were announced in the 1980 Budget will boost disposable incomes, but this effect will, to some extent, be offset in its impact on consumption by the price rises generated by increased indirect taxation. The decline in real incomes in agriculture is likely to have induced effects on incomes in other sectors. Thus, in real terms, personal incomes after taxes (and transfers) are likely to decline by 1% to 2% in 1980. The second element which determines consumption, the ratio of private savings to after-tax personal income, has behaved erratically in recent years and is difficult to forecast, but has tended to rise, the poorer the prospects for output and employment. Given the renewed uncertainty on these fronts, a rise in the saving rate could be expected, but the shift of relative incomes from agriculture should lead to a lower savings rate, and there has already been an unexpected decline in the savings ratio in 1979. On the assumption of little change in the savings ratio, and

[13]The following paragraphs take account of the forecasts in *Quarterly Economic Commentary* (The Economic and Social Research Institute) April 1980, and in Central Bank, *Quarterly Bulletin*, Summer, 1980.

given the prospects for real disposable personal incomes, the volume of personal consumption could fall by up to 2% compared with 1979.

3.17 With regard to public consumption, the increase in current public expenditure on goods and services is expected to be about 18%, on the basis of the estimates in the 1980 Budget. There is a very large pay element in public consumption and this average level of pay is forecast to rise considerably faster than the general price level. Consequently, a decline in the volume of public consumption of about 2% to 3% is expected.

3.18 The growth of fixed investment will again reflect past location decisions by overseas firms. To a considerable extent, these decisions have already been taken and private investment in manufacturing is likely to increase in real terms. However, it is likely that some projects which were approved earlier by overseas firms may be delayed due to the current recession in the United States. Much of the investment of domestic firms is likely to have been 'cost-reducing' rather than capacity-expanding investment, with the intention not so much of increasing capacity as of achieving higher productivity and reducing unit costs, although precise information on this is lacking. Such investment is likely to persist—that is, it is unlikely that it has been simply a "once for all" adjustment in order to re-equip. However, the CII/ESRI industrial survey[14] and trends in imports of capital goods suggest that domestic private investment in manufacturing industry in many sectors may be declining. Diminished activity is likely in building and construction and is already indicated by trends in cement sales; public sector direct output at best is likely to show no change and private sector output is likely to decline. This is likely to depress the total level of fixed investment. Investment in agriculture is unlikely to show any real growth. A further indication of investment trends is the expected decline in the volume of expenditure on the Public Capital Programme in 1980 (paragraph 3.10). These different trends imply that there is likely to be a decline, of the order of 2 to 4%, in fixed investment in 1980.

3.19 Agricultural exports could rise in volume terms by 10%, but some of this increase would reflect a running-down of stocks rather

[14]CII/ESRI, *Monthly Industrial Survey: June 1980.*

growth. Taking into account the increase in the volume of manufactured goods exports in January-May 1980, and taking account of the likely growth in world trade and of the impact of new exporting firms, industrial exports could increase in volume by about 8% in 1980. This assumes the maintenance of export competitiveness and reliability of delivery of Irish output. The volume of imports is likely to be static or to decline marginally in 1980, due to slower economic growth. Therefore, the volume of exports is expected to increase considerably faster than the volume of imports. But the impact of this on the balance of payments will be offset by the faster growth in import prices than in export prices. Import prices will reflect higher oil prices, while export prices will reflect little increase in agricultural prices. Physical changes in stocks should make a negative contribution to GNP in 1980.

3.20 Given the outlook for the components of demand, the increase in Gross National Product in 1980 could be about ½% to 1%. Since the terms of trade will deteriorate further—possibly by about 4% again, as in 1979—the GNP growth will be insufficient to avert a decline in the volume of resources available to the community as a whole.

Price inflation

3.21 The outlook for price inflation will partly depend on oil price increases, which have continued at a rapid pace. For OECD as a whole, the forecast is for an increase in price inflation from 8.5% in 1979 to a little over 11% in 1980[15]. The Budget will have an effect on the rise in prices in 1980. The impact of the indirect tax increases should result in an increase of 4 to 5 per cent in the Consumer Price Index over 12 months,[16] with the effect on the annual average index for 1980 being some 3 to 4 per cent. There is expected to be a moderating influence on the rate of inflation from the rate of change in prices of raw

[15]As measured by the consumption deflator; source: OECD. *Economic Outlook*, July 1980.

[16]The direct effects of the indirect tax increases on the Index should be about 4 per cent over 12 months. However, some tax increases affect costs but may not affect the Consumer Price Index immediately, or at all unless additional costs are passed on fully in prices. If this is taken account of by relating the additional revenue which is expected from increased indirect taxation (£231 million in 10 months, £287 million in 12 months) to personal consumer expenditure, the higher estimate is obtained.

1979 can be expected. Thus, the disparity between price inflation in Ireland and in the EEC is likely to continue to at least the end of 1980.

Balance of payments

3.22 There is a similarity between the size of the balance of payments deficits in 1974 and in 1979, as related to GNP. But there are no prospects that an improvement in the current balance of payments could occur in 1980, similar to that which occurred in 1975. There are two main reasons for this. First, the terms of trade are likely to worsen further; by contrast, the terms of trade improved between 1974 and 1976. The terms of trade in 1980 could worsen by 4%. This would be largely due to oil price increases. It would increase the value of the import bill, and other things equal, would increase the balance of payments deficit in money terms. The value of oil imports, which were £521 million in 1979, are expected to be about £800 million in 1980—assuming a rise of about 65% in the average price of oil, and a slight increase in the volume of oil imports. (While little volume increase could be expected due to the decline in economic activity, some substitution from oil, and a policy of utilising more coal, there was in fact an *increase* of 7% in the volume of oil imports in the first six months of 1980, compared with the same period in 1979).

3.23 Second, the outlook for the increase in the value of agricultural exports does not match the increase which occurred in the period immediately after 1974. Other influences which mean that there is likely to be a substantial balance of payments deficit are the size of the current budget deficit, and the poor prospects for tourism earnings which partly reflect world economic and political conditions. It is unlikely that invisible earnings could offset to any degree the trends on visible trade. One moderating influence on the balance of payments deficit will be the likely reduction in import growth due to a decline in the growth rate of GNP and due to de-stocking. The evidence on non-oil imports in the early months of 1980 bears this out. The substantial stock-building which occurred in agriculture in 1979 will not be an influence in 1980. There is likely to be a rundown of agricultural stocks in 1980 which will aid external payments. Nevertheless, the balance of payments deficit on current account is expected to improve only slightly on the deficit of £730 million incurred in 1979. A deficit of some £650 million is expected.

Employment and unemployment[17]

3.24 The continuing relative decline in farm incomes will have an adverse effect on employment in agriculture in 1980. But the deterioration in employment prospects outside agriculture will limit this. On this basis, the decline in the labour force in agriculture should revert to its average annual rate of change (over 1970-78) of about 2.5%. The net change in employment in manufacturing is likely to reflect a substantial employment increase in new grant-aided firms, offset by a relatively high level of job losses in established firms—higher than the 15,000 figure of 1979. At the onset of recession, firms tend to retain employees initially, and productivity tends to decline; the brunt of the decline in employment tends to lag the downturn in output. There is already evidence of a decline in productivity in industry (paragraph 2.17), and the adverse effects of lower activity on employment may be more pronounced in the period beyond the first quarter of 1980. Furthermore, the decline in demand for some agricultural inputs and the low rate of increase in output will put pressure on employment in agriculture-related industries.

3.25 Taking these effects into account, together with likely output by sector and employment prospects in the public sector, Table 25 shows estimates of the likely change in employment between mid-April 1980 and mid-April 1981. The prospects are that total employment will decline between mid-April 1980 and mid-April 1981 by about 4,000. Coupled with a projected increase in the labour force of about 10,000, this would imply an increase of 14,000 in unemployment. It must be emphasised that there is a good deal of uncertainty about the likely increase in the labour force. However, in the light of the increasing unemployment in other countries, involuntary emigration may not be a feasible solution, even if it were an acceptable one.

[17]As indicated in paragraph 1.3, this report is current as at July 1980. Talks on a new National Understanding were in progress when the report was being drafted, but any effects of a possible agreement on employment—or on output, the budget deficit or the current external balance—are not taken into account.

3.26 The employment prospects for young workers and for new entrants into the labour market are expected to deteriorate. In the recession of 1973–75, it was possible for participation rates in education to increase, thereby reducing pressures on the labour market. This was facilitated by the existence of spare capacity, especially in third level institutions. At the moment, the same degree of excess capacity in education does not exist.

CHAPTER 4

THE PROSPECTS FOR 1981

4.1 This chapter explores very tentatively the outlook for 1981, if there were no change in Government expenditure programmes and thus no change in the volume of Government expenditure, and if there were indexation of tax allowances and of specific rates of indirect taxation in line with the rate of price inflation. This working assumption is intended to be a "neutral Budget" assumption, although alternative definitions exist of unchanged policies.

World output and world trade

4.2 The growth in real GNP for OECD countries as a whole in 1981 could be about 1%, on the basis of the forecast for the first half of 1981. It is expected that the current account balance of OECD countries should improve in the first half of 1981 (with the current deficit being $40–50 billion compared to around $95 billion in the first half of 1980, at annual rates) due to the impact of oil price increases on domestic demand in OECD countries, together with the growth of exports to OPEC countries[1]. It is expected that the rate of growth of world trade will moderate again from the rate in 1980. One forecast[2] is that the volume of total world trade will increase by 3.5%, and that the volume of world trade in manufactures will increase by 4.5% in 1981. Some other forecasts for 1981 are more pessimistic, ranging from a growth in trade of 1.5% to a decline of 1.2%[3]. There is general agreement on one aspect of the 1980–81 world recession: the quick

[1]OECD, *Economic Outlook*, July 1980.

[2]NIER, May 1980.

[3]Independent Treasury Economic Model Club, and The London Business School Centre for Economic Forecasting, *Economic Outlook 1979–1983*, May 1980, respectively.

re-bound which occurred in 1976 after the 1973-75 recession will not be repeated. While the decline in world economic activity may not be as steep as in 1973–75, the recovery is likely to be more protracted than in the post–1973 period.

U.K. Output

4.3 Hardly any increase in real output in the U.K. can be expected in 1981. Hence, little growth, or even a decline is expected in the volume of U.K. imports[4].

Agriculture

4.4 In the EEC, for virtually all markets of concern to Ireland the emphasis will be on measures to stabilise if not to curb production. The EEC Commission aims to pursue a restrictive price policy as long as significant market imbalances exist and, of particular concern to Ireland, aims to introduce reinforced measures to moderate production in the milk sector. While the Council of Agriculture Ministers is likely to grant greater price increases than those suggested by the Commission, with respect to 1981 the Community price policy is unlikely in itself to effect any dramatic increases in Irish agricultural prices[5]. In the light of current trends in milk production and the EEC budgetary situation, only very modest increases in milk prices are likely to accrue in 1981. The expansion in cattle output has petered out. The cow herd has declined by an estimated 3.5 per cent in the twelve months ending June 1980 and a further decline is expected at year-end. Thus, there is no prospect of any expansion in cattle output in the short term. Current indicators suggest a dramatic decline in cattle disposals in 1981 (of 20 to 25 per cent) after considerable de-stocking in 1980. Domestic consumption is only increasing at a marginal rate. Consumption in the EEC is increasing slowly due to relatively small increases in real disposable incomes, increasing competition from other meats, and low population growth[6]. Therefore, while there may be a modest increase in

[4]NIER May 1980; The London Business School Centre for Economic Forecasting, *Economic Outlook 1979–1983*, June 1980.

[5]There are pointers in this regard even in the 1980–81 price package. For instance, it has been agreed that if the total amount of milk deliveries to dairies in 1980 were to increase by more than 1.5% compared with 1979, a supplementary levy for the 1981–82 marketing year would be charged.

[6]Bansback, R.J., CBF Beef Symposium, Dublin, April 1980.

intervention prices in 1981, domestic market prices will probably rise faster because of stagnation or decline in numbers. A stronger market will develop for pigmeat with the fall in supplies; sheepmeat prices are unlikely to be greatly different from their current levels; no major change in cereal prices is anticipated in 1981.

4.5 Milk output in 1981 will be crucially dependent on milk yield; as there may be some recovery in concentrate feeding early in the year, milk production could be expected to rise by about 5% in 1981. There is likely to be some further expansion in feed barley production in 1981 from an increased acreage, but there is little prospect of this happening in the case of other tillage crops. Some decline is expected in the output of cattle, but disposals are certain to fall appreciably. The numbers of pigs received at factories will probably be below their 1980 level while the sugarbeet quota for 1981 will be at its 1980 level at best. With reference to agricultural input prices, there is some indication at least that more moderate increases will ensue in the case of some major current inputs than was evident in 1979[7]. The rise in the index of farm input costs could be somewhat less than in 1980, but utilisation of inputs could increase at the same time.

4.6 It is anticipated that the *value of gross agricultural output* could increase by about 7% in 1981 over the estimated level for 1980. It is expected that the *volume* of gross agricultural output will rise by somewhat less than 1%. An implicit price rise of about 6% in the agricultural output price index for 1981 is thus assumed, together with only moderate improvements in productivity. On the assumption that there will be some recovery in the use of feedingstuffs and fertiliser, a somewhat lower increase in net output would be expected, given that unit costs are also forecast to increase. Thus, no growth or a decline could be expected in the *volume of net agricultural output.*

4.7 Hence, the outlook for the 1978–81 period is for a marked reversal in the expansion of agricultural output which occurred in 1974–78. Nominal incomes in agriculture in 1981 are not expected to be much above their 1980 level, and will probably be lower than in 1978.

[7]Relatively small rises in unit costs are anticipated for feedstuffs for the next production season mainly because of expected high levels of world production of feed grains and oilseeds; sluggish world demand for fertilisers is having a dampening effect on prices.

Industry

4.8 In 1981 there should continue to be an effect on output from new industrial projects. There are no indications as yet that the prospects for the world economy have adversely affected the flow of new industrial projects. Furthermore, the new 10% corporation tax which will apply to manufacturing projects for the twenty year period January 1981 to December 2000 should affect private investment for both domestic and export markets; it should provide an inducement to greater import substitution and linkage between hitherto export-orientated enterprises and domestic manufacturers. But there is likely to be an effect on output in 1981 from the down-turn in investment activity from domestic firms which is likely to occur in 1980. Labour-intensive firms which depend on the British market are again likely to come under pressure.

Aggregate output

4.9 The level of personal incomes in 1980 will depend partly on the carry-over effects of any pay increases of 1980. There is little likelihood that significant increases in real disposable personal incomes could occur, giving a boost to domestic demand—this would only be possible if the rate of inflation were to decline appreciably. Given the likely trend in real after-tax personal incomes and in view of the likely changes in real incomes in agriculture, there is unlikely to be a significant increase in personal consumption unless the savings rate falls markedly.

4.10 The outlook for private investment in manufacturing depends on the extent to which investment from the flow of new overseas projects offsets the weakening in investment from domestic sources. Investment in agriculture is unlikely to show any noticeable increase in volume. There should, however, be some comparative boost from the completion of the de-stocking adjustment by industry which should have run its course by the end of 1980.

4.11 There is likely to be little or no growth in service sector output. Given the particular assumption of policy neutrality, there would be no change in current expenditure by public authorities on goods and services in real terms,

4.12 Given that a marked increase in domestic demand is unlikely, import growth in volume terms should be low. If industrial exports continue to expand in volume terms—which is likely to happen only if competitiveness improves then the real foreign balance should make a positive contribution to growth in 1981.

4.13 In summary, therefore, the outlook for world trade, agricultural output, and private investment would suggest little or no increase in real output in 1981 compared with 1980. The entities which would work towards an increase in real output are the real foreign balance, and the stock adjustment (which is of no great magnitude in relative terms). The biggest imponderable is probably the rate of change in personal consumers' expenditure. If its relative change were about the same as is expected in 1980, then the increase in aggregate output could be expected to be relatively low—of the order of 1%. This is on the assumption of unchanged policies as defined in paragraph 4.1, and on the further assumption of some gain in competitiveness by Irish industry.

4.14 It should be emphasised that this outlook assumes policy neutrality (paragraph 4.1). There is necessarily a wide margin of error in this outlook. It relates to the following elements, among others:

(i) how the personal savings rate changes in response to increased uncertainty and to increased unemployment;
(ii) the extent to which investment by new overseas firms slows down as projects are deferred due to the world recession and, in particular, the recession in the United States;
(iii) trends in unit costs—which depend in turn on trends in both costs and in productivity—*vis-à-vis* competitor countries;
(iv) pay increases in 1980 and 1981, which have two contrasting effects—the one on consumer demand and the other on competitiveness and thus on output and employment.

Implications for budget balance

4.15 Given the assumptions of paragraph 4.1, the implications for the budget balance can be outlined. Only a broad order of magnitude can be suggested, since a detailed estimate would need to work out the likely change in the various components of tax revenue in response to changes in volume of output and in prices. An assumption is made about the likely growth in tax revenue and in non-tax revenue[8]. There is also need for an assumption on the "relative price effect", i.e., the rise in the cost of Government goods and services relative to the cost of other goods and services. In the five-year period 1974–79, the relative price effect was 2.6% per annum, on average[9]. It is assumed that price inflation in 1981 converges towards the EEC average: a 12% rate is used as a working assumption (for the GNP deflator). Together with an assumed relative price effect of 2.5%, this would mean that the implicit price of public consumption would increase by 15%. It is assumed that current budget expenditure (which includes transfer payments) would increase at the same rate as public consumption[10].

4.16 In order to indicate the likely budget balance, a range of real GNP growth in 1981 of from 1% to 3% is used. The resulting current budget deficit would be about £480m, compared with an estimated (post-Budget) deficit of £353m in 1980.

Price inflation

4.17 While inflation in OECD countries in 1981 is expected to be high by recent standards, it is expected to moderate slightly. The rate of price inflation in OECD countries is expected to peak in the autumn of

[8]It is assumed that a 1% increase in nominal GNP would lead to an increase of 1.05% in tax and in non-tax revenues, given the assumptions of paragraph 4.1 on taxation. The extent to which income tax revenue would grow at a faster rate than nominal GNP is limited by the assumption of indexation. But especially with progressivity, the income tax revenue should grow at a slightly faster rate than the income base. However, allowance must be made for the fact that, in 1980, income tax revenue is expected to account for 38% of all tax revenue.

[9]This is the implicit price deflator for net expenditure by public authorities on current goods and services, relative to the GNP deflator. (Source: NIE 1978 and ERO).

[10]In 1975–79, in nominal terms, public consumption increased by 20.5% per annum, on average, while current budget expenditure increased by 21.6% per annum, on average.

1980, then it should fall in the first quarter of 1981 when it could be 10% at an annual rate.[11] Price increases in raw materials other than oil should be moderate due to the level of world economic activity, while food prices are not expected to increase notably. While these external effects should work to moderate the rate of price inflation in Ireland, the outcome will depend on the extent to which the external effects will be offset by domestically-induced price increases.

Balance of payments

4.18 The prospects for the balance of payments will partly depend on the likely change in the terms of trade. It must be assumed that oil prices will continue to increase at a rate which will result in a deterioration in the terms of trade—although there is a wide margin of error about the likely price of oil. The run-down in agricultural stocks in 1980 could have adverse effects on agricultural exports in 1981. No marked increase in the price of agricultural exports is in prospect, thus no offsetting influence on the terms of trade is likely. There is potential for expansion in tourism, and hence in invisible receipts, but only by increased attention by the industry and by the community in general to improving standards in tourism and to moderating increases in domestic costs, with consequent moderation in price rises, and by action on the relatively high prices of access transport. Given these prospects, the outlook for trade and agricultural exports and the influences mentioned in paragraph 4.10, together with a continuaton of the current budget deficit under the assumptions, then a slight reduction in the balance of payments deficit on current account in 1981 over 1980 could be expected.

[11]OECD, *Economic Outlook*, July 1980.

CHAPTER 5

SOCIAL SERVICES: REVIEW AND PROSPECTS FOR 1980

5.1 The economic review in Chapters 1–4 of this report draws attention to the macro-economic factors which must be considered in an examination of Government strategy. In this Chapter the Council considers recent developments in public expenditure on the social services; it proposes to give detailed views on the future development of social policies in a forthcoming report. In its assessment of the implications of Government policy on the social services the Council is keenly aware of constraints on the expansion of public expenditure. Clearly not all desirable objectives can be simultaneously achieved. The Council does, however, stress that the adjustment of public expenditure should not fall disproportionately on the social services.

5.2 The Council believes that those most in need must not suffer from changing economic fortunes over which they are powerless. In later paragraphs the Council describes recent developments in the principal social services and identifies some areas of priority for the well-being of the most vulnerable groups. Such people are often most dependent on services whose level of provision is determined by administrative decision rather than by statutory entitlement, e.g., home helps, remedial education. For this reason it may be simpler on administrative grounds to bring about economies at their expense rather than on any criterion directly related to their needs.

5.3 The Minister for Finance when introducing the 1980 Budget on 27 February stated that it was the Government's intention to curb the growth in public expenditure while maintaining the momentum of economic and social development[1]. The following sections of this

[1]The Minister in his speech stated that the improvements in the income of the less well off provided for in the Budget were a demonstration of "the Government's care and concern for the most vulnerable in society".

report compare the Estimates for the principal social services; education, health, housing and social welfare, for 1980 in constant prices with the expenditure during the period 1976 to 1979. In most cases there is an apparent reduction in 1980, after a period of expansion. If no supplementary funds are provided for these services this reduction could be reflected in a reduction in the level of services. Certain qualifications must be entered, however, to the interpretation of the results:—first, any reduction in inputs might be matched by a rise in productivity or a reduction in waste; second, the deflators used are crude[2]; third, the impact on the level of services may be delayed through effecting economies on maintenance work, running down inventory, etc. Thus a *temporary* reduction in the level of funding for a social service might not affect the client group. Finally, given the long time lags involved, a single year comparison of capital expenditure might reflect the chance scheduling of large projects rather than a real change of trend.

Education

5.4 The position relating to capital and current expenditure on education is set out in Tables 26 and 27. The allocation in the Public Capital Programme (PCP) represents a fall of 7½% in money terms from 1979 to 1980. It was the only functional heading in the Programme to experience such a fall. The drop in real terms is estimated to be in excess of twenty per cent. A comparison, as discussed in paragraph 5.3, of expenditure between two successive years must be qualified to make allowance for certain characteristics of the expenditure. Table 26 shows the Public Capital Programme allocation and building output[3] over the last five years. The figures in constant prices suggest a drop in building output in 1979 and again in 1980. The extent to which a

[2]Capital expenditure has been deflated by reference to the capital goods price index for building and construction published by the CSO to end 1978, together with estimates for 1979 and 1980. Current expenditure has been deflated by the deflator for net current expenditure by public authorities on goods and services up to 1978, together with estimates for 1979 and in Table 36, expenditure on social welfare has also been deflated by reference to the Consumer Price Index as this is a more appropriate measure of the value of transfer payments to recipients.

[3]In calculating building output, deductions are made from the PCP figure for site costs, furniture, equipment, etc. and additions are made for local contributions in the case of Primary and Secondary Schools.

decline in building output reflects the achievement of targets for the provision of accommodation requires analysis of projected growth in pupil numbers by age and region.

5.5 During the period 1976–79 the number of national school pupils increased by 18,500 (3.5%). Over the same period the number of national school pupils in classes with 45 pupils or more declined by 57% from 45,100 to 19,500. The number of pupils in second-level schools increased by 8,150 (3%). The White Paper *Investment and National Development 1979–83* stated that the primary school population was projected to increase by 15,000 and the second-level student population by 20,000 between 1980 and 1985[4]. These increases are unlikely to be distributed equally throughout the country. It is expected that a forthcoming White Paper on Education will give details of projected demand for schools. It is clear, however, that there will be, over the next five years, a need to expand the provision of classroom accommodation.

5.6 Current public expenditure on education is set out in Table 27. Expenditure at constant prices gives a broad indication of the real changes involved. The table shows a real increase in expenditure on education during the years 1976 to 1979. The increase in the 1980 estimate over 1979 (16.5%), suggests that there will be a cut-back in the real level of public expenditure given an annual rate of inflation of the order of 20%.

5.7 There is a strong case to be made for the expansion and improvement of education services in certain priority areas. It is clear, however, that the 1980 budget involves a cut-back in the real level of public finance for education. There will, therefore, be a reduction in the level of services unless the reduction in the State's contribution is fully compensated for by more efficient use of resources or an increase in funds from other sources.

5.8 The present economic environment and the budgetary strategy chosen by the Government serve to highlight the need for decisions on

[4]These figures will be reviewed when detailed results are available from the 1979 Census. They are intended, here, to show rough magnitudes.

where resources should be directed in education. In its report *Population Projections 1971–86: The Implications for Education*[5], 1976, the Council stated:

> "Education is almost certain to account for an increasing share of national income, and employ an increasing share of the labour force."

The need for an increase in real terms in expenditure on education was restated by the Council in *Comments on Development for Full Employment*[6], 1978. This was due to the increasing participation rates at second- and third-level. There would also be rapid increases in per-pupil costs due to the declining contribution of religious orders, the increasing technological emphasis in secondary education, and the rising cost of teaching due to the difficulty of achieving productivity increases[7].

5.9 This analysis is still valid. The impact of a freeze or reduction in the provision of funds is therefore potentially very acute. The Council believes that, should an overall reduction in the real level of provision be necessary, the ensuing economies should not take the form of blanket cut-backs[8]. This would have the effect of reinforcing past patterns of provision rather than necessarily addressing areas of greatest need. It would also pre-empt the possibility of re-allocation within the existing expenditure on education.

5.10 The Council believes that priority should be given to increased expenditure on the compulsory education age group as this would do most to promote equality of opportunity in education. It is therefore concerned that the 1980 capital allocation of £17 million to national schools, which is similar in money terms to the 1979 allocation, represents a significant reduction in real terms. Table 26 shows that

[5]NESC Report No. 18, 1976.

[6]NESC Report No. 44, 1978.

[7]There is detailed analysis of this in A. D. Tussing, *Irish Education Expenditures—Past, Present and Future*, ESRI, 1978.

[8]The Council recognises that the cutbacks in provisions for education by the Government in 1980 were of a selective nature.

the total building output in education in 1979 represented a reduction over 1978. The same is true of the primary schools building output. After a period of growth in the late seventies, real capital expenditure on second-level education is also being reduced.

5.11 The Council has already outlined its views on the priorities for expenditure of funds in education[9]. There are three issues which deserve to be highlighted:—

(i) Priority in expenditure is (still) needed for compulsory age groups;

(ii) A mixed system of loans and grants for student support at senior second-level and third-level should be examined;

(iii) There should be adequate provision of remedial teachers.

5.12 The Council notes the commitment to increase by 600 the number of teachers in national schools which will have the effect of reducing the average size of classes, and in addition the decision to introduce an extra 100 teachers into second-level schools for remedial education. The Council is concerned that a reduction in capital expenditure might be one of the policies chosen to meet the crucial resource allocation questions facing the educational services. It believes that this would be short-sighted and become increasingly difficult and costly to rectify.

Health

5.13 The position relating to public capital and current expenditure on health is set out in Tables 28 and 29. There has been a significant expansion of the capital programme in recent years. The real increase in building output between 1976 and 1979 was in excess of 60%. This coincided with an expansion of the hospital building programme, principally on the general hospital side, which included new hospitals or major extensions at Wilton, Beaumont, the Mater and Letterkenny. The 1980 allocation represents a marginal increase (£0.5 million) in

[9]*Educational Expenditure in Ireland*, NESC, Report No. 12.

money terms over 1979 (£27.5 million). This suggests a significant reduction in resources for the building programme in 1980. This is the first instance in recent years of a slowdown in the hospital building programme. The question of whether this represents a permanent reduction in activity or a temporary deferment of some of it will only be clear in the light of the provision for hospital building in 1981 and later years.

5.14 There has also been a rapid growth in current expenditure on the health services. The recent special pay awards to nurses and other grades together with the adjustment of allowances contained in the 1980 Budget have had the effect of raising the 1980 estimated expenditure by around £120 million from £570 million to £690 million. There is a large element of retrospection for 1979 in the pay awards. If the 1980 and 1979 figures (shown in Table 29) are adjusted for this, there is a small increase (approximately 1.0%) in real terms over 1979. Since 1977 approximately 6,700 extra jobs were provided in the health services. The total number of employees in the health services has increased by 19,700 or 28% over the period 1974-79. Table 29 shows the increasing share of expenditure devoted to health services pay over the last four years (a trend which could be identified before the recent pay awards to nurses and allied grades). This trend could suggest that the health services are becoming more labour cost intensive and therefore costs may increase even faster in future years.

5.15 The share of GNP devoted to both total and public expenditure on the health services has been increasing. In 1958 current public expenditure on the health services was equal to 3% of GNP; this had increased to 3.4% in 1968 and 6.3% by 1978. The rising cost of health care is a question causing concern in most countries[10]. It is apparent that the exploitation of the full potential of medical technology and the meeting of the total demand for health services would require a level of funding which the community could not afford. Given that resources are limited there is a need to ration them. As in the case of education there is a need in the first place to decide the total allocation which the

[10]In the OECD report *Public Expenditure on Health* it is stated: "A very real fear now appears to exist in the Governments of member states that the demand for health services is insatiable."

community wishes to make to these services. Second, it is desirable to examine the possibility for reallocation within the services.

5.16 The Council recognises the importance of continuing priority for preventive and other community services. The community care services funded by the State were very significantly expanded during the last decade. This coincided with an improvement in the quality of the services, e.g., the introduction of the choice-of-doctor scheme for persons covered by medical cards, the introduction of other new services and the increased take-up rates by members of the public. There was also an expansion of preventive services and the Health Education Bureau was established. During the same period the absolute provision for the hospital services was also increasing.

5.17 Table 30 gives the percentage breakdown of current health services expenditure from 1977 to 1980. These figures are based on the programme division which is now used for health services management. Comparable data are not available for previous years. The growing significance of the community services can, however, be illustrated by reference to the trend in expenditure on the General Medical Services (the largest component of the community services): expenditure on the GMS as a percentage of current public expenditure on health increased from 8.1% (1967-68) to 11.5% (1972-73) and to 15.2% in 1976. Table 30 suggests that this growth trend has not continued, whereas the percentage allocated to the general hospitals has grown significantly since 1977. This may be indicative of the fact that in the short term there is little discretionary power over the continuing growth of hospital costs. This would suggest that when the available resources are frozen or reduced, the burden may fall disproportionately on the community services. The Council intends to study these services in more detail in a future report.

5.18 The Council notes the widely expressed concern about conditions in some of the country's mental hospitals[11]. The Council

[11]The Minister for Health, addressing the Annual Conference of the Psychiatric Nurses' Association on 8 March 1980, stated that it would be his earnest endeavour "to continue to improve mental hospital conditions and to seek to create in them conditions which are of an acceptable level for those who must avail themselves of treatment in them and for those who work in them".

supports the policy of, where possible, treating psychiatric patients in the community. The total number of psychiatric patients in institutional care has declined over the last decade. However, it is clear that a significant number of patients will always require in-patient care, sometimes on a long-term basis. The Council believes that there is a need for the commitment of increased funds to improve the present living conditions in the district mental hospitals.

Housing

5.19 The total number of local authority houses completed in recent years is set out in Table 32. The 1979 figure of 26,600 dwellings completed was nearly as high as the 1975 total of 26,900 which represented the highest output during the last decade. While the number of local authority houses built annually has remained fairly static since 1977, local authority houses have declined as a proportion of total annual house completions since 1975. Private estate house-building is the largest source of completions.

5.20 The 1980 capital allocation of £183 million to housing will, if fully taken up, represent an increase of 8.3% in money terms over 1979. The major part of this increase is to provide for grants and loans for house purchase and for house improvements. The allocation for new local authority housing (excluding the allocation for the low-rise mortgage scheme) is £92.5 million and represents an increase in money terms of 3.2% over 1979. Given the expected rate of inflation in costs the 1980 allocation represents a reduction in resources for local authority house building. In the absence of any further resources this will probably be reflected in a reduction in the rate of completions over the forthcoming six to twelve months.

5.21 The sale of houses in the private sector is very sensitive to the loan finance available from the building societies. The societies provide around 70 per cent of all mortgage finance. Their resources expanded rapidly in the first half of 1979, partly because of an inflow of funds from abroad consequential on the introduction of Exchange Controls. The growth in resources fell off during the second half of 1979 and the first quarter of 1980, although it now appears to be recovering somewhat.

5.22 The Council has already voiced its concern over the difficulties for first-time house purchasers. In July 1977 a £1,000 grant was introduced for first-time purchasers of new houses. This grant was at that time equivalent to over one quarter of the average deposit on a house bought with the help of a building society loan. In the first quarter of 1980 it was equivalent to less than 20 per cent of such a deposit (Table 33). There were three further measures introduced recently which will alleviate, in some part, the burden of house purchase. First, the maximum for an SDA loan was increased from £9,000 to £12,000, and the qualifying income limit from £4,000 to £5,500[12]. Second, the Government decided to subsidise the interest rates offered by the building societies in order to prevent a further rise of the lending rates charged by these institutions. Third, the maximum amount of interest payments allowable for tax relief was doubled for married couples.

5.23 The two main difficulties facing the potential house-purchaser are the deposit required and the level of repayments. Table 33 shows the deposit required, if the purchaser received a loan equal to 80 per cent of the house price, on an average priced house, for each year since 1976. It is estimated that the average deposit in 1979, net of the £1,000 grant for a first-time owner occupier was about £3,600. This amount, equal to about 15 per cent of the total cost of the house, was nearly three-quarters of the gross average annual industrial earnings. By the first quarter of 1980 the net cash requirement was near £4,200.

5.24 The initial monthly repayments required on a loan of 80 per cent of the average house price are shown in Table 34. It can be seen that the burden of repayments rose steeply in 1979 reflecting the very rapid rise in the price of houses and also an interest rate of 14.15 per cent since December 1978. The overall picture is one of increasing difficulties for new house purchasers. Of the three measures referred to in paragraph 5.22 above, the increase in the maximum for SDA loans

[12]The income limit refers to income earned in the preceding tax year.

will have the most significant effect on aiding the new purchaser[13]. The interest subsidy does reduce the initial burden of repayments. However, given that these are already very high, those on relatively low incomes will be unable to buy houses and benefit from the subsidy.

5.25 There are at present about 33,000 families on the waiting list for local authority housing around the country. This is made up of 26,000 approved and 7,000 unapproved[14]. The approved alone represent more than four families waiting for each local authority house completed in 1979. The numbers of applicants have been relatively static in recent years (Table 32). Meanwhile the total number of local authority house completions has been declining (see Table 32) and the difficulties of private house purchases have been increasing. There is little evidence of a decline in the housing needs of families who live in unfit or in overcrowded dwellings and of categories such as the aged and the disabled. The Council, therefore, considers that the need for local authority dwellings will not decline in the immediate future.

5.26 The housing situation in the Dublin area is particularly serious[15]. Table 32 shows that the number of local authority completions has been relatively constant. There are at present almost 7,500 families on the waiting lists of the Dublin local authorities. In the Dublin area as a whole the number of vacancies, including new dwellings, in recent years has represented approximately one-third of approved applications. However, the demand for housing in certain areas, particularly inner-city areas, far outstrips the provision of accommodation. The Council has already commented on housing provision in the inner-city[16].

[13]However, the maximum loan (£12,000) is only 60% of the cost of the average house bought with SDA loans from speculative builders in the first quarter of 1980. The average price of such houses was less than 80% of the cost of the average new house financed by all agencies. Financing the net balance poses significant difficulties while the range of suitably-priced houses is very narrow.

[14]Approved applicants are those who have been accepted by the local authority as being eligible for public housing.

[15]A resolution proclaiming a housing emergency was passed by Dublin City Council on 10 December 1979.

[16]NESC Report No. 44, page 60.

5.27 There are many similarities in the present financial environment with the situation facing the industry in 1975-76. The Council has already drawn attention to a number of possible initiatives. It believes that the following options are still worthy of examination:

(i) A stabilisation fund for building society funds would help to achieve a better match between the supply of and the demand for society funds. In periods of high liquidity, the building societies would contribute to a reserve fund which would be drawn on in periods when the flow of deposits was markedly below its trend[17];

(ii) The greater involvement of insurance companies and pension funds in the provision of housing finance: Table 35 gives a breakdown of mortgage finance between the four main sources for recent years. The Table shows the dominant role of the building societies. The involvement of the Associated Banks has coincided with the reduced role of the assurance companies in the provision of finance;

(iii) The introduction of "real-value mortgage". At present the real value of payments declines over the term of the typical mortgage because the money payments remain constant while prices rise. Under the real value mortgage, real payments would be constant, while money payments would increase at the rate of inflation and the debt would be repaid in the original term of years[18];

(iv) Rent maxima for local authority dwellings could be more closely related to costs of building and maintenance.

[17]This happened, to some extent, with the gradual advancing of loans after the sudden very high level of deposits during the initial months of 1979. The *Housing (Miscellaneous Provisions) Act, 1979* also made provision for regulations in relation to the purpose and amounts of loans by building societies, having regard to the financing needs of the national housing programme. There have, as yet, been no such regulations. Following discussions with the Department of the Environment, the societies agreed that from 1 August 1979 they would allocate at least 70 per cent of available mortgage finance to house purchasers whose mortgage requirements do not exceed £20,000. At the same time they operate so as to allocate at least 40 per cent of all loans for the purchase of new houses.

[18]This issue is treated in detail in *Some Aspects of Finance for Owner-Occupied Housing*, NESC Report No. 16.

(v) Decisions should now be taken as a matter of urgency on the issues relating to the control of the price of building land. The recommendations in the Kenny Report have been under examination for sufficient time for policy decisions to be taken[19].

Social Welfare

5.28 The policy of successive governments has been to maintain the real value of social welfare benefits and to try and provide for real improvements. The Council welcomes the increases given in accordance with the National Understanding in October 1979, and the further improvements in benefits rates announced in the 1980 budget as positive efforts to help the less well off in our community. An old age contributory pensioner received on average £18.21 a week during 1979, and £23.28 during 1980, an increase of 27.8 per cent. The corresponding increase for 1980 over 1979 for an unemployed man with a wife and two children was an average of 23.4 per cent.

5.29 The current public expenditure on social welfare[20] is set out in Table 36. The figures have been deflated to constant prices in order to estimate the real increase in expenditure[21]. Using the deflator of net current expenditure by public authorities this shows that real expenditure has been relatively constant over the period 1976 to 1980 (an estimated change of —2.4 per cent). Using changes in the Consumer Price Index, real expenditure over that period is estimated to have increased by 11.5 per cent. This, however, does not make allowance for the changing number of beneficiaries. Selected statistics for numbers in receipt of unemployment and other benefits are shown in Tables 37A and 37B.

[19]The Minister for the Environment stated in the Dáil on 3 June 1980 that possible methods of dealing with building land costs were under consideration in his Department in conjunction with other interested Departments.

[20]Social Welfare is defined as expenditure under the social welfare vote and from the Social Insurance Fund. It includes unemployment benefit and assistance, old age pensions (contributory and non-contributory), children's allowances, retirement pensions, supplementary welfare allowances, etc.

[21]Volume changes have been calculated by reference to the deflator of net current expenditure by public authorities and to changes in the Consumer Price Index. The latter deflator is more appropriate if it is intended to measure the value of transfer payments to the recipient. (See footnote 2).

5.30 Table 38 shows the allocation of Social Welfare expenditure for 1980. Social insurance contributions are estimated to provide about 81.5 per cent of the finance for the Social Insurance Fund or 46 per cent of total expenditure on Social Welfare. The main increase in the income from contributions will be from employers (who account for about two-thirds of the total); income from this source is expected to rise by about 30 per cent in 1980. Contributions income from employees is expected to rise by around 20 per cent. The trend in recent years is set out in Table 39.

5.31 Ireland is unusual by EEC standards in its high level of exchequer financing of social security spending. Table 40 shows a comparison of the projected sources of finance for social security in the Member States in 1980. One of the main reasons for the high exchequer commitment in Ireland compared with other EEC countries, except Denmark, is that the data in the table encompasses health expenditure which, in Ireland, is financed mainly by the Exchequer. A further explanation is that the social assistance system must compensate in part for the absence of social insurance for the self-employed. A further explanatory factor is Ireland's high dependency ratio[22], which is the highest in the Community.

5.32 The Council notes the increase in children's allowances and the corresponding reduction in income tax child allowances in both the 1979 and 1980 budgets as steps towards the strategy advocated in NESC Report No. 47[23]. In this report the Council recommended a family benefits scheme which would integrate the present schemes of children's allowance and the child tax allowance. For families not liable to tax, or paying tax at less than the standard rate, the increases in children's allowances in the 1980 Budget were substantial. The net effect of the changes for families paying tax at the standard rate was a small increase (£3.95 for the first child) in child support. The Council would not wish the development of a child benefit scheme to result in a reduction in the real value of benefit to the standard rate tax payer as a result of inflation.

[22]The dependency ratio is the ratio of the population under 15 years plus those aged 65 and over, to the economically active population.

[23]*Alternative Strategies for Family Income Support*, NESC Report No. 47.

5.33 The Council also welcomes the increases in income tax allowances for less privileged tax payers such as the tax exemption limits for people on low incomes; the incapacitated child allowance and the one parent family allowance.

5.34 It also notes the lack of action in relation to implementing proposals to extend social insurance to the self-employed, and in relation to the income-related pension scheme.

5.35 The recent changes in the income tax structure with the implementation of "income-splitting" have had the effect of giving substantial gains to many families. One issue arising, to which attention should be drawn, from the income-splitting arrangements is the tax treatment of one parent families. While single parent families are treated more favourably than single persons for the purpose of tax allowance, the tax bands are the same as for a single person. The Council recommends that this position should be examined.

Social Spending 1980—Summary

5.36 The overall picture of public expenditure on the social services is drawn together in Table 41. The total current and capital expenditure in 1976 was equal to 26.6 per cent of GNP; in 1980 it is provisionally estimated at 22.5 per cent of GNP.

5.37 The public funds allocated to the social services have been constantly increasing. This clearly reflects, in part, a general acceptance and willingness to support the less privileged members of our society. While it might also reflect the ability of the community to afford the increasing provision, it has occurred during a period when the current budget deficit was increasing as a percentage of GNP (see Table 18). Table 42 shows increased social expenditure as a proportion of the current budget deficit from 1976. This indicates that the community has not, as yet, borne the full cost of these developments.

5.38 The estimates for public expenditure on the social services in 1980 represent a provision equal to an average of £650 per head of population. The benefits accruing to children and the aged would be

very much higher than the average for many of the social services. It is to be expected that a country with a high dependency ratio and a fast growing population will pay relatively more taxation per gainfully occupied person[24] to finance social services.

5.39 As argued elsewhere in the report, it is clear that urgent steps must be taken to reduce the current budget deficit. To the extent that the deficit cannot be eliminated by increases in taxation, because of pressures for compensatory pay increases, the burden must fall on current Government expenditure. It is important that a blanket ceiling is not imposed on the development of the social services. In pruning expenditure due regard must be had to the importance to the community's welfare of current expenditure on health, education, housing and social welfare because of its direct effects on the welfare of the community.

5.40 The distributive consequences of the way in which revenue is raised are just as important as the effects of public expenditure programmes. Any system of taxation requires a balance between direct and indirect taxation. In general indirect taxation is regressive (although it need not be so) and direct taxation is progressive. The most recent evidence available for this country is an analysis based on the 1973 Household Budget Survey[25]. Table 43 shows the redistributive effects of taxes on households of two adults and two children[26]. Indirect taxes in 1963 accounted for 30 per cent of the disposable income of persons in the lowest income group, while they accounted for less than 13 per cent in the highest income group. The question of equity should be considered fully if it is proposed to increase the level of taxation in real terms.

[24]It has already been pointed out (Chapter 2, paragraph 28) however, that the total tax burden, as a proportion of GNP is lower in Ireland than the average for the EEC.

[25]*Redistributive Effects of State Taxes and Benefits on Household Incomes in 1973.* Estimated from the 1973 Household Budget Survey, Stationery Office, 1980.

[26]There have been significant changes in indirect taxes since 1973, relating to rates, motor car taxation, adjustment of VAT rates and the introduction of food subsidies. Nevertheless it is likely that the present system of indirect taxation is no less regressive than was the case in 1973.

borrowing of £509 million[2]; however, even if these interest subsidies had not been available, it is likely that the amount of net foreign borrowing would have been of the £500 million order). The result was a deterioration of some £900 million in the net external asset position of the public authorities. A further deterioration of anything like this magnitude would be most undesirable.

6.7 Given that the external reserves were, in June 1980, equal to about $2\frac{1}{2}$ months import cover—at the lower end of the EEC range—the maintenance of the parity requires a reduction in the current balance of payments deficit. The underlying balance of payments position reflects, among other things, the rate of inflation of costs and prices in Ireland relative to that in competing countries. Official foreign borrowing to support the reserves would not be needed, if the balance of payments deficit on current account were no greater than the net capital inflow of the private sector plus public sector foreign borrowing which was used to finance projects which—taking one year with another—generated sufficient foreign exchange to meet the debt servicing cost incurred.

6.8 The target for the balance of payments deficit on current account should be determined in the light of these considerations, although admittedly it is not easy to translate them into quantified terms. The degree to which this target can be achieved will depend on the fiscal and monetary policies applied in Ireland and on the trends in costs in Ireland relative to those in other countries.

The adjustment problem

6.9 The earlier chapters have outlined the current position, and the outlook for 1980 and 1981. The size of the current balance of payments deficit imposes a fundamental constraint on policies to promote the growth of national output. The seriousness of the current external deficit has been partly concealed by the two-and-a-half fold increase in net international transfers to Ireland—much of which comprised transfers from the EEC—between 1976 and 1978.[3] The considerable rate of increase in world trade and output, which would

[2]Excluding sales of gilts to non-residents.
[3]In 1979 the net international transfers were £475 million in Irish pound terms.

help to bring the deficit back automatically to an acceptable level is not foreseeable in the medium term. There is no escape, therefore, from the fact that specific measures must be introduced to reduce the current balance of payments deficit to a tolerable level, and all the policy measures discussed below must be assessed in this context.

6.10 An increase in the current budget deficit will normally result in an increase in the balance of payments deficit on current account, because Government consumption that is not financed by taxation means higher personal consumption and therefore higher imports[4]. When final demand is itself buoyant (as it was, for example, in 1976-79) the result is a level of consumption which causes an unsustainable balance of payments deficit.

6.11 The public sector borrowing requirement as a proportion of GNP is much too high, for the following reasons.

6.12 *First,* a consistently high borrowing requirement—such as has been experienced in Ireland since 1974—means that during periods of low economic activity there is little scope for counter-cyclical policy. Debt service pre-empts so large a proportion of current revenue (24 per cent in 1980) that it severely limits the scope for higher Government expenditure to maintain output and employment.

6.13 *Second,* the financing of the borrowing requirement can have adverse effects on price inflation and the current balance of payments. In an open economy, an increase in domestic credit expansion can be expected to lead to a higher balance of payments deficit on current account and to inflationary pressure, depending on the degree of utilisation of resources (paragraph 39). The focus of monetary policy has been on bank lending to the private sector: the Central Bank guideline for the growth in private sector credit in Irish pounds was reduced from 20 per cent to 18 per cent for the year to mid-February 1980, and to 13 per cent for the following twelve months. But the credit extended to the public sector (the magnitude of which is outlined in paragraphs 2.30 and 3.12) has been even more important.

[4]Furthermore, there is a national accounts identity whereby, if the surplus (deficit) of private firms and households is constant, then any increase in the Government deficit is mirrored in an increase in the current balance of payments deficit.

6.14 *Third,* Exchequer borrowing is being used, to far too great an extent, to boost or maintain consumption. A sustainable level of borrowing to finance productive investment is economically justifiable. But borrowing to finance public consumption (such as occurs when the current budget is in deficit) is not justifiable (except where there is scope for counter-cyclical measures) because there is little or no resulting increase in the productive capacity of the economy. In recent years, there has been a reluctance to raise taxes to close the budget deficit. But borrowing does not avoid the need for taxation—revenue must eventually be raised in order to pay interest and repay capital on the loans. Borrowing to finance capital projects has the same consequences to the extent that the rate of return achieved falls short of the cost of servicing the debt. Unfortunately. the paucity of the published information (which is quite out of keeping with the scale of a Public Capital Programme of £1.2 billion) makes it impossible to measure the extent of any such shortfall.

6.15 *Fourth,* in recent years, a significant part of the borrowing requirement has been financed by foreign borrowing (paragraph 2.27). Foreign borrowing on this scale is undesirable, for the following reasons.

(i) External borrowing must be serviced until it is finally repaid and this involves a real transfer of resources abroad each year from current output in Ireland. In 1980, interest payments alone on Exchequer foreign borrowing (including interest expected to be paid on borrowing which occurs up to the end of 1980) will amount to some £165 million. If the scale of Exchequer foreign borrowing of 1979 were repeated in 1980, these interest payments would increase by a further £50 million approximately in 1981. In addition, the loans have to be repaid. (These debt charges partly reflect current high nominal interest rates. A decline in international interest rates would cause the interest bill for a given volume of debt to be lower as outstanding debt was "rolled over" and replaced by new debt at the lower interest rates). The Exchequer has also guaranteed foreign borrowing by State-sponsored bodies but this is not included in the figures given above. If the State-sponsored bodies continue to borrow abroad on the 1979 scale, their annual debt interest

payments would increase by about £20 million at current interest rates.

(ii) The service of external borrowings is a prior charge on foreign currency earnings. The burden of reducing the external deficit must, therefore, fall on other items in the balance of payments account.

(iii) If recent trends in foreign borrowing were to continue, export earnings would have to rise rapidly in order to service foreign debt and to provide foreign exchange to purchase a given volume of imports. This would increase the vulnerability of Ireland to fluctuations in world trade and the availability of finance in world capital markets. A situation in which it became difficult to service the external indebtedness, or to finance the current external deficit, would pose the danger that control over economic policy would pass to the country's creditors.

(iv) While foreign borrowing helps to offset the impact on external reserves of a current balance of payments deficit, it creates a higher monetary base (unless neutralised by the Central Bank). It differs from internal borrowing from the non-bank public in that it does not help to correct the balance of payments deficit by reducing the level of domestic private sector demand.

Difficulties in short-term adjustment to public finances

6.16 One of the problems which faces the Government in controlling the public finances is the high proportion of public expenditure required for debt service, public sector pay and social services. In 1979, service of the public debt, public service pay, public service pensions and State expenditure on income maintenance payments amounted to about £2,400m or 83% of total current public expenditure[5].

[5]Data on pay include the pay element in grants to non-commercial State-sponsored bodies. universities and colleges etc. It is assumed that expenditure on income maintenance payments in 1979 was 13 per cent higher than in 1978; the data cover expenditure on all schemes administered by the Department of Social Welfare (including social insurance. occupational injuries. and social assistance) including the costs of administration. (Sources: *Budget 1980, Report of the Department of Social Welfare,* 1976-78).

6.17 If there are no changes in policy (as defined in Chapter 4), the current budget deficit will probably be larger in 1981 than the Budget estimate for 1980 (before allowing for the deterioration in economic prospects which has occurred since the Budget was presented). This is partly because the £82 million exceptional revenue in 1980, a result of the postal strike, will not be available in 1981 (paragraph 3.14); neither will the revenue increase in 1980 due to the change in date of payment for non-PAYE tax. In addition, the effects on tax revenue of the income-splitting measures, introduced in the Budget of 1980, will not be fully felt until 1981. (The full-year revenue from the increases in indirect taxes in 1980 will only partly offset these influences working to increase the current deficit in 1981).

6.18 The extent to which the current budget deficit can be bridged depends to some extent on taxable capacity. Taxable capacity, in practice, has been adversely affected in recent years by certain contractions of the tax base and by a widespread perception of inequity in the incidence of income tax. While increases in indirect taxation can yield more revenue, they can also lead to claims for compensation in the form of income increases, for resulting price increases, thus diminishing the efficacy of the indirect tax increases.

6.19 The current economic problems would be less acute if policy actions had matched aspirations, as expressed in statements by successive Governments. For example, the *Programme for National Development 1978-81* (January 1979) set a target of reducing the Exchequer borrowing requirements to 10.5% of GNP in 1979 and 8% in 1980, and of reducing the current budget deficit to 0.5% of GNP in 1980. Performance has fallen far short of these targets (especially in relation to the current deficit), and current Government policy, as outlined in the Budget of 1980, of making a gradual reduction in the level of Exchequer borrowing, will not achieve these targets within a tolerable period. Moreover, there is need for targets to be set for the more widely defined public sector borrowing requirement, rather than the Exchequer borrowing requirement. This is because the broader borrowing requirement affects the current balance of payments, price inflation and output, as outlined in paragraphs 6.11-6.14.

Micro-economic and sectoral policies

6.20 The policies discussed in this section, and in the following sections on agriculture and on building and construction, are necessarily selective, and are *not* an alternative to the policies required to reduce the rate of inflation and the current budget and external deficits. They cannot achieve results fast enough to make a material contribution to solving the economic problems which now exist. However, the sooner they are initiated, the sooner will their effects be felt.

6.21 Some of the increases in unemployment have been due to influences originating in the cost or supply side of economic activity—such as the rise in the cost of labour relative to capital[6] and mismatches between labour supply and labour demand. The pressure on costs could be reduced by policies relating to manpower, housing, management deficiencies, and restrictive practices in the widest sense. Selective manpower policy measures are required in the areas of apprentice training and re-training, including possible inducements to employers to engage school leavers for on-the-job training in anticipation of economic recovery, and work experience programmes for young workers. An active manpower policy could equip industry and the labour force for a resumed increase in economic activity. One lesson of the 1973-76 recession is that a cut-back in training can lead to subsequent skill shortages. These manpower policies could involve little or no charge on the Exchequer when the resulting savings on unemployment payments, and increased tax revenue, are taken into account. If, however, they did impose higher charges on the Exchequer, other programmes would have to be reduced or taxes increased.

Agriculture

6.22 The demand for agricultural products, and the level of agricultural prices (which is determined by the EEC), cannot be significantly influenced by domestic policy. Policy must focus on achieving sustained increases in yields and in output, on ensuring that domestic inflationary pressures are minimised, and on improved export marketing. (State aid for market research and promotion is permitted

[6]This is documented in OECD, *Economic Survey: Ireland,* 1979.

under EEC regulations). Notwithstanding the acceptance by Government of the principle of a performance-related payments scheme[7], no action on this or indeed on many of the recommendations in NESC Report No. 42 on *Policies for Agricultural and Rural Development*, published in September 1978, has been taken, with the exception of the imposition of a resource tax in the 1980 Budget which was in a different context from that recommended in Report No. 42[8]. Despite the higher prices obtained under the Common Agricultural Policy, there has been little or no sustained increase in the trend rate of growth of Gross Agricultural Output in the period since commencement of EEC membership. It is regrettable therefore that little action has been taken, on the recommendations in Report No. 42, to accelerate the rate of growth of agricultural output.

6.23 A tendency for the cattle breeding herd to decline and the current sluggish performance in agricultural output are inter-related. Cattle output is static and dairy production is likely to increase only marginally. The tillage sector, which has expanded significantly in terms of output in recent years, especially in the case of feed barley, does not have the potential of the dairy and beef sectors for accelerating agricultural development. Unless the recent significant increase in the rate of cow slaughtering is checked, little or no increase in the volume of agricultural output is likely. Without an increase in total cow numbers, agriculture will fail to realise its potential to contribute to the economy. Urgent consideration must be given to structuring existing incentives to give maximum encouragement to the expansion in the number of breeding animals, recognising the capital nature of such expansion.

Building and Construction

6.24 Table 15 shows the pronounced fluctuations in the year-to-year percentage changes in output in building and construction—and in the housing component. This has a number of undesirable consequences. It works against the provision of sustainable capacity in the industry. It

[7]*Programme for National Development 1978-1981*, January 1979.

[8]In Reports Nos. 42 and 44 *(Comments on Development for Full Employment)*, the representatives of the ICMSA, the ICOS and the IFA expressed certain general and particular reservations on the recommendations on taxation.

makes manpower development for the industry more difficult because employers are more reluctant to train apprentices. Any increase in demand leads to increases in prices and labour costs, because of the time taken to achieve building completions. These effects are amplified if there are resource constraints such as shortages of skilled labour. Excessive short-run increases in housing demand lead to—and have led to—sharp increases in house prices. The financial constraints, and the likely price effects, rule out any sharp stimulation of housing demand by financial incentives. But every effort should be made to sustain and increase the level of local authority housing completions, in view of the extent of the need for such housing (Chapter 5). The Council has on a number of occasions—most recently in Report No. 44[9]—indicated that housing problems need to be attacked by a comprehensive policy which would be addressed to equity between all tenure groups, would seek to provide the assurance that a smoother flow of output would be sustainable in the medium term, would seek to provide a smoother flow of housing finance in the medium-term, and would ease whatever supply constraints exist in the building industry. These comments are equally valid in current circumstances.

Policy aims

6.25 Chapters 2 to 4 show that the situation with which policy measures, in relation to the economy as a whole, have to grapple is exceptionally difficult. In 1979, the increase in GNP was offset by the effects of the adverse change in the terms of trade, largely caused by the sharp increases in oil prices. In 1980, for the same reason, it is expected that a very slow growth in GNP will be turned into a fall of about 3 per cent in the community's resources. Even to sustain the lower level of consumption which this disappointing down-turn entails will require an import of resources, financed by foreign borrowing, on a large scale. The expectation is that the balance of payments deficit on current account in 1980 will remain of the order of 8% of GNP, a big supplement to the resources earned by current production, but one that has to be repaid, with interest, out of future domestic production, since it is being partly financed by incurring foreign indebtedness. Almost 4% of GNP was applied towards interest and principal repayments on official foreign debt in 1979 and the proportion is rising rapidly, given

[9]*Comments on Development for Full Employment*, Chapter 5.

the present rate of foreign borrowing of what must be counted dear money, considering an exchange risk as well as the nominal terms.

6.26 At the same time as living standards are being compressed by the adverse turn in the terms of trade, and world production and trade are showing a slow-down in growth, economic difficulties have been further increased by the relatively fast rise in our production costs in Ireland as compared with most of the main Continental EEC and other competitors. The price and cost effects of the oil price increases in 1979 and 1980 have been aggravated by money income increases which are high in comparison with current income increases in, say, Germany, France and the United States. At least some of the firm closures and job losses which occurred in 1979 and which are occurring in 1980 are a consequence of increases in unit production costs, whether due to money income increases, relatively high interest rates, inadequate improvements in productivity, or management deficiencies. These job losses are on a scale which nullifies much of the promotional effort and new investment being devoted to job creation.

6.27 Although current difficulties are discouraging, they can be overcome if the right remedies are pursued. Priority should be given to strengthening the capacity of the Irish economy to take advantage of increased world economic activity when it develops. Within a number of years, relief can be expected on the external scene as the recession eases, inflation abates, and the richer countries resume more stimulatory policies, to the benefit of world trade and development. Meanwhile, interest rates should slacken and non-oil commodity prices advance less markedly. It should be Ireland's main concern to be ready to take early and full advantage of any expansion and achieve a steady rate of growth which does not need to be so heavily buttressed by foreign borrowing. In this way, employment can be increased on a secure basis and living standards steadily improved. Expectations in this respect must, in future, be related more closely to the rate at which annual output can be increased. The adjustment which is referred to in paragraphs 6.8 to 6.14 is necessary if steady economic growth is to be achieved. There is no prospect of sustained increases in productive capacity, output and employment, so long as the current high rate of inflation and high levels of current budget deficit and external deficit

continue. These adjustments must entail a foregoing of improvements in living standards for a time. If they are not made, the effects on living standards and levels of employment in the longer run will be more acute. The principal policy conclusions in this report follow from this basic, inescapable fact.

6.28 Over the difficult period of a year or two ahead the appropriate objectives of policy may, therefore, be summarised as follows.

(i) A general realisation should be brought about:

(a) that it is not possible for the time being to maintain the rate of improvement in living standards that has been achieved in recent years—this arises from a combination of factors reducing the economic resources available to the community;

(b) that there must be an equitable sharing of the burden of this economic setback until the world recession eases and a firmly competitive base has been established for economic growth, rising employment and higher living standards, without undue reliance on foreign borrowing.

(ii) Priority should be given to safeguarding and improving economic competitiveness, since this affects the growth of output and employment. In this context, relevant factors are the level of income increases relative to those in the main competitor countries, and productivity measures through more efficient and professional management, better organisation of work, improved industrial relations, less absenteeism and other means.

(iii) Progressively more of Government expenditure should be financed from current revenue with a view to the elimination, over a fixed period, of the current budget deficit.

(iv) The current balance of payments deficit should be reduced to a supportable level, and measures should be taken to reduce the volume of imports of oil.

Subsequent paragraphs discuss various aspects of these policy aims.

Policies

6.29 The following possibilities are reviewed in relation to the objectives of policy stated in paragraph 6.27.

(i) Domestic expansionary policy.

(ii) Devaluation.

(iii) Import controls.

(iv) Direct action on consumer prices.

(v) Incomes policy.

(vi) Fiscal and monetary policy to correct budgetary and balance of payments deficits.

Domestic expansionary policy

6.30 A domestic policy designed in its overall effects to be expansionary might operate through fiscal policy, monetary policy, or both, to expand domestic demand, output and employment. This particular possibility was open in the early 1970s. It no longer exists because of budgetary and balance of payments constraints. In an open economy like Ireland, expansionary fiscal and monetary policy would raise imports and increase the current balance of payments deficit. The dependence on foreign borrowing would increase. It would be increasingly difficult to finance the larger balance of payments deficit. The result could be a forced devaluation of the Irish pound which would lead to further inflationary pressures, both directly and indirectly.

Devaluation

6.31 Devaluation, which would be designed to offset a loss of competitiveness of Irish products, is not an appropriate means of correcting the current balance of payments deficit. Devaluation would increase both the price of exports and the price of imports, expressed in Irish pounds. These price increases would initially reduce real wages and raise export profits. If income compensation were sought for the increase in prices—compensation which in turn would further raise prices—then any incentive to increase output would prove temporary. There is, indeed, evidence from other countries that the benefits from

devaluation are transitory[10]. Furthermore, in the short term, devaluation would worsen the trade balance. A devaluation would increase the import bill, and also export proceeds, in Irish pounds. The value of imports is substantially higher than that of exports. Thus, initially at least, the increase in the former would be greater than that in the latter, thus leading to a disimprovement in the trade balance. The response of both import and export volumes to a devaluation would take time. In the case of imports, the fall in demand in response to higher prices (expressed in Irish pounds) would only emerge over a period. Similarly, it would take time for exports fully to reflect the potential increase in profitability since export capacity would have to be increased.

6.32 To offset the short-run increase in the trade deficit, and to release resources for export, policies to restrict domestic demand would be necessary. If incomes were increased to offset the impact of devaluation on prices, an increase in the profitability of exporting would not occur—or else there would be short-term gains which would disappear before the new exporting and import-competing capacity had a chance to respond. To succeed, devaluation would require an acceptance of the fall in real income which is its immediate impact. But if the reduction in real income had been accepted earlier, the devaluation would have been unnecessary.

Import Controls

6.33 Import controls, or import licensing for so-called "sensitive" products, could reduce the share of imports in the domestic market. They would work faster than policies such as devaluation or moderation of increases in domestic costs and in theory might achieve their effects without the worsening of the terms of trade that is likely under these other policies. But apart from the limited and selective areas in which they operate under EEC policy, import controls would be in breach of international obligations under GATT and the EEC, and they could leave Ireland open to retaliatory measures. They are

[10] R. J. Ball and others, "The role of exchange rate changes in balance of payments adjustment: the United Kingdom case", *Economic Journal*, March 1977; Optica Report 1977, "Inflation and Exchange Rates: Evidence and Policy Guidelines for the European Community", Commission of the European Communities, Brussels, 10 February 1977.

inappropriate and potentially dangerous measures for a country which is so heavily dependent on exports. Import controls would not make exports any more competitive—indeed they would protect relatively inefficient firms. They would limit the range of goods available on the Irish market, and would raise their prices. Import controls would tackle symptoms rather than causes, and would delay acceptance of the need for a fundamental adjustment of domestic policies.

6.34 While Ireland should possess a comparative advantage in food production, there was a volume increase of about 56% in imports of food and live animals between 1975 and 1979[11]. There is need for an appraisal of the extent to which the increased volume of food imports may be due to causes such as inadequate marketing of Irish products and trading practices in distribution, rather than to inefficiencies and relatively high processing costs in Ireland.

6.35 The current balance of payments deficit partly reflects the volume and high price of oil imports. The Council is working on a separate report on energy policy. No specific recommendations are made at this stage but in that report the Council will discuss, among other things, the relative advantages of reducing oil consumption by pricing policy (via increases in taxation) on the one hand, and direct controls and energy conservation on the other.

Direct action on consumer prices

6.36 In view of the fact that pay claims have been heavily influenced by actual or anticipated price movements, the rate of pay increase might be slowed down by postponing increases in public sector prices, lowering indirect taxes and increasing subsidies in order to reduce consumer prices "at a stroke". These measures would raise the current budget deficit and increase the borrowing requirement. By temporarily increasing real incomes, they would make it more difficult to reduce unjustified expectations regarding improvements in living standards. They would distort the allocation of resources unless applied to all goods and services. Subsequent reversal of the tax and subsidy measures would create problems. There would be no underlying

[11]The import (unit value) price index which is used is for food, drink and tobacco.

improvement in competitiveness, the current balance of payments deficit would be likely to increase. In June 1975 in its *Report on Inflation,* the Council did recommend policies which were designed to reduce consumer prices directly. But that was in a different economic and budgetary context, and circumstances have changed since that time. (The recommendations were part of a set of proposals, and the proposal on measures to reduce prices was in the context of the 1975 pay agreement which was designed to ensure that the money incomes of employees were adjusted to compensate for price increases).

Incomes policy

6.37 Chapters 2 and 3 showed that the adverse turn in the terms of trade has reduced the volume of resources available to the community in 1979 by 2%, and a reduction of a similar order is expected in 1980. The current standard of living rests on the insecure foundations of large deficits on the current external account and on the current budget account. Since 1976, the rate of increase in real income per person employed has been substantially above the rate of growth in output per head (corrected for changes in the terms of trade).[12] To avoid further deterioration in the balance of payments on current account, the growth of real income per person employed should reflect more closely the growth in output per head (corrected for changes in the terms of trade).

6.38 Paragraph 2.24 shows the deterioration in competitiveness in industry which has occurred in 1978 and 1979. The agricultural performance in 1979 and the prospects for 1980 and 1981 illustrate another aspect of competitiveness, namely, the "squeeze" on agricultural incomes which occurs when the prices of domestic inputs rise much faster than selling prices. Irish industry will lose competitiveness vis-à-vis competitor countries, with the possible exception of Britain and Italy, again in 1980 even if there were no general pay increases on the expiry of the 1979 National

[12]In the three-year period 1976-79, wages, salaries and income from self-employment per person employed increased by 15.6%, while Gross National Product in real terms, corrected for changes in the terms of trade, per person employed, increased by 9.4%. (Sources: Table 1 of NIE 1978, ERO, Table 13. Income data comprise: income from agriculture, forestry and fishing, "other trading profits, professional earnings, etc." as defined in Table 1 of NIE, wages, salaries, pensions, employers' contributions to social insurance).

Understanding. Non-agricultural earnings per head are expected to be over 15% higher in 1980 compared with a 20% increase in 1979—using year-on-year comparisons—*before* allowance is made for *any* increases following the expiration of the National Understanding. This is likely to leave the exposed sector in Ireland at a competitive disadvantage, especially compared to Belgium, Germany, the Netherlands, Japan and the USA. In these countries the increases in hourly earnings in manufacturing in 1979 were in the range of 4.3% to 8.4%, and the increases expected in 1980 are in the range of 5% to 9%; comparative figures for Ireland are 16% in 1979 and 18% in 1980.[13] The above three EEC countries produced 51% of EEC exports of goods (in US dollars) in 1979[14].

6.39 Chapters 2 to 4 have shown why nominal incomes should not increase as fast as prices in the immediate future. If inflation is brought down to the EEC average, near balance achieved on the current budget and the current external deficit significantly reduced, then increases in real living standards can occur. The decline in living standards should be equitably borne. It should be shared by those in the sheltered sector, both public and private, and should not be concentrated on those in the exposed market sector or on those whose bargaining power tends to be weaker. The burden of recession, particularly unemployment, tends to fall on untrained and unskilled workers, on those seeking a job for the first time, and on farmers and workers in other industries which compete with imported products or depend on export sales.

6.40 The aim of incomes policy is to ensure that the rates of increase in nominal incomes—not just pay for employees—are compatible with the rate of growth of output adjusted for changes in the terms of trade, and with objectives for the external balance and for rates of price increase in the sheltered sector. If further significant increases in unemployment are to be avoided, the recent loss of competitiveness (in terms of relative unit costs) must be made good. Real income can only be sustained by real output, because continued foreign borrowing to maintain it at a higher level is not sustainable. An earlier Council

[13]OECD. *Economic Outlook*, July 1980, p. 45. Data for the Netherlands are hourly rates. These data are on a different basis from the data earlier in the paragraph on non-agricultural earnings per head in 1980, which are based on ERO.

[14]Source: OECD. *Economic Surveys*. Data for Belgium include Luxembourg.

report[15] has shown the relative disparity between sectoral output per person engaged in Ireland and on the Continent: thus, real incomes are lower in Ireland.

6.41 In specific activities there is a link between pay and employment. If income increases are not earned by increases in overall productivity, Irish products will cease to be competitive in the home and export markets and jobs will be lost. When output and employment fall in the exposed sectors of the economy, output and employment suffer in other domestic activities as well. Moreover, unless exports are sufficiently competitive so that they grow faster than imports, attempts to approach full employment will be halted by unsustainable balance of payments deficits long before full employment is reached.

6.42 The achievement of voluntary consent is a necessary condition for the effectiveness of incomes policy for anything longer than a relatively short period. The prospect of consent might be improved by appropriate Government measures to re-distribute income through taxes and transfers. But such re-distribution is accepted more in principle than in practice by the community in which for many years "compensatory" pay increases have been sought for higher taxes. This prevents the transfer of real purchasing power from being effected. Demands for improvements for the lower paid do not tend to be accompanied by any willingness on the part of others to accept smaller differentials.

6.43 The 1979 National Understanding has now run its full term. Part of the National Understanding comprised an agreement on pay policy, and this followed a succession of national pay agreements. These pay agreements have certain advantages—they provide a framework within which bargaining units can take account of one another's actions rather than act individually, they avoid "leapfrogging" in pay increases, and (a related point) they provide common terminal points for many pay increases. However, there are a number of problems with these nationally-negotiated pay agreements. In particular sectors, there tend to be wage drift and pay increases for

[15]NESC, *Population and Employment Projections 1986: A Reassessment*. Report No. 35, 1977.

productivity on top of the nationally-negotiated figures. Certain pay increases in the public sector are made by reference to internal comparability, without regard to public sector productivity.

6.44 The Government is the largest single employer in Ireland. As such, it has an important role to play in explaining the implications of pay increases which endanger competitiveness of the economy. Increases in public sector pay must be related to the Government's capacity to pay, which is limited by the urgent need to reduce the current budget deficit. They should also be related to the need for improved competitiveness in the exposed sector.

Fiscal and monetary policy to correct budgetary and balance of payments deficits

6.45 Increases in taxes or reductions in Government expenditure work to reduce the current budgetary and current balance of payments deficits. These measures would need to be accompanied by the appropriate monetary policy, or else the fiscal measures would be thwarted.

6.46 In earlier paragraphs the inter-relationship between the current external deficit and the public sector borrowing requirement has been indicated, and the Council has underlined the urgent need to secure a significant reduction in both. The progressive elimination over a fixed period of the current budget deficit (which accounted for 52 per cent of the Exchequer borrowing requirement in 1979 and 39 per cent of the estimated Exchequer borrowing requirement in the 1980 Budget) would make a major contribution to reducing the overall borrowing requirement. The Council sees this as a key issue facing the Government. The current budget deficit—which has persisted at a relatively high level for many years—represents consumption which is financed by borrowing. Much of the Exchequer borrowing is foreign borrowing. In an economy faced with serious and growing problems of unemployment and where the current external deficit poses a significant constraint, public sector borrowing must be concentrated on financing productive investment (including infrastructural and building and construction projects which are a necessary underpinning of such investment).

6.47 The Council does not recommend a specific target for the public sector borrowing requirement or any particular rate at which it should be reduced as a percentage of the GNP over a specified number of years. The Council recommends, instead, that the current budget deficit should be eliminated within the minimum possible period of time.

6.48 The basic problem of fiscal policy in Ireland is that the level of tax rates is not sufficient to eliminate the current budget deficit under "normal" circumstances where growth in real output is of the order of 4% per annum and where the capacity of the economy is at a relatively full degree of utilisation. The aim of fiscal policy, in the medium term, should be to correct this problem either through increasing taxation or other charges or through curbing the growth in Government current expenditure.

6.49 It would be unrealistic and impracticable to aim at eliminating the current budget deficit in one year, particularly a year in which economic activity is at a low level. However, if the conditions for more rapid growth are to be re-established and the flexibility of fiscal policy restored, the elimination of the curret budget deficit must be achieved within a relatively short period. The appropriate time period for the elimination of the current budget deficit is a matter of judgement. The choice must avoid a period which is either unrealistically short, or so long that action lacks urgency and credibility. The Council is satisfied that the gravity of the problems facing the economy, and the urgent need to concentrate a higher proportion of public sector borrowing on productive capital projects, rule out the possibility of spreading the elimination of the current budget deficit over a period longer than three years. The Council considers, therefore, that the deficit should be eliminated over the three years 1981 to 1983 inclusive.

6.50 The magnitude of the change required can be gauged from the likely size of the current budget deficit over the next few years on the basis of assumptions of no change in the volume of public expenditure, and indexation of specific rates of indirect taxation and of income tax allowances. If the adjustment were to be concentrated on current expenditure alone, it would require an average annual decrease of about 5.9% in expenditure (compared to what it otherwise would be) over the three year period[18]. If it were to fall on tax and non-tax revenue alone, it would require average annual increases of about 6.8% in receipts (compared to what they would be otherwise) over the same period. If the adjustment were to be spread equally over current expenditure and taxation, the average annual reductions in nominal current expenditure and increases in nominal taxation would be about 2.7% and about 3.1% respectively. These figures are likely to under-estimate the size of the adjustment which is needed for the following reasons. First, no account is taken of the fact that the deficit for 1980 is likely to be greater than that envisaged in the budget, unless corrective measures are taken (paragraph 3.13). Second, the "opening deficit" for 1981 is likely to worsen, even if the 1980 budget estimate is achieved, due to the full-year effect of the 1980 budget changes and the fact that 1980 receipts included a number of items which affect 1980 only (paragraph 6.17).

6.51 Adjustments of this order cannot be effected without slower growth in real disposable incomes and in the volume of public services provided, over the three-year period. The scale of the adjustment required is a measure of the wide gap which has emerged in recent years between the rate of expansion in public current expenditure, on the one hand, and in taxation on the other (see paragraph 6.18). A three-year adjustment period is recommended on the strict understanding that fiscal policy would resolutely be directed towards achieving the target. If this approach is to have credibility, it would be essential that the Budget forecast for the current deficit in 1980 should not be exceeded, and that significant progress be made in the 1981 Budget towards reducing the deficit in that year.

6.52 Attention has been drawn in Chapter 5 to the necessity on social grounds for at least maintaining the level of expenditure on social

[16]These calculations are illustrative. They are based on the following hypothetical case. The following assumptions are made simply to suggest orders of magnitude for the adjustments to current expenditure and to taxation, respectively. The calculations assume that a 1% increase in nominal GNP leads to a 1.05% increase in tax and in non-tax revenue, on the assumptions that personal tax allowances and specific rates of indirect tax are indexed to the rate of price inflation. The calculations assume a 14% per annum increase in nominal GNP, nominal current Govemment expenditure and non-tax revenue in the three years beyond 1980, and an average annual increase in the GNP deflator of 10.7% per annum in the three year period. This would give a current budget deficit of £840 million, in nominal terms, in 1983. For ease of calculation, the required reduction in this deficit is divided equally between the three years over the 1980-83 period, and an annual (arithmetic) average percentage change in both current expenditure and in taxation is obtained.

services in real terms. This means that the percentage reduction required in *other* expenditure will be greater than that indicated in paragraph 6.50.

6.53 The Council has also outlined in Chapter 5 the factors which are likely to lead to increased social expenditure in the immediate future. The financing of these additional services, while desirable in the interest of social justice, can be undertaken only to the extent that funds are re-allocated from other programmes, or that the community is prepared to devote funds to them through increased taxation over and above what would be required from paragraph 6.50.

6.54 The Council does not have the resources, or the information, to enable it to formulate detailed proposals on which specific items of Government expenditure should be reduced in real terms. But in view of the proportion of current public expenditure which consists of pay, what is said above on incomes policy (paragraphs 6.37-6.44) is of particular importance. The principle that compensation should not be given for any deterioration in the terms of trade or for increases in taxation to eliminate the current budget deficit—a principle which should be part of Government policy on pay—should be applied in the public sector. Any policy on public expenditure must have regard not only to pay but also to the numbers employed in the public sector. Unless the growth in public sector pay is kept within limits, set by capacity to pay (as defined in paragraph 6.44), the growth in the public sector pay bill will have to be contained by adjustments to public sector employment. Otherwise, the whole burden of the adjustment would fall on non-pay current expenditure. That would be undesirable, because it would involve a reduction in productivity in the public sector.

6.55 It is the view of the Council (for reasons outlined in paragraph 6.15) that, in general, foreign borrowing by the public sector should be undertaken only for projects where there is a high probability that they lead to a flow of output sufficient to finance interest payments and capital repayments on the borrowing which financed the projects. Where any foreign borrowing is undertaken and earmarked for specific projects, the projects must be realistically costed in advance. While there may be circumstances in which foreign borrowing needs to be undertaken to avoid a rundown in the external reserves, such borrowing should be minimised.

6.56 Depending on the progress made in achieving the objectives of eliminating the current budget deficit and of reducing the current balance of payments deficit to a supportable level, productive public expenditure might be allowed to increase in real terms on a selective basis and private productive expenditure might be encouraged. As indicated in paragraph 6.46, the Public Capital Programme should be urgently reviewed with the objective of giving greater weight to productive capital projects, including related infrastructural projects.

6.57 There has been widespread dissatisfaction with the present system of taxation and this has become a source of increasing friction between different sections of the community. To what extent this is justified is a matter of opinion, but the reality is that there is opposition from many sources to the manner in which the tax burden is distributed. The level of taxation relative to Gross Domestic Product has risen over the past decade but the community must appreciate that this trend is an inevitable consequence of the extension and improvement of Government services.

6.58 As indicated in paragraph 5.40, increases in tax revenue should be sought with due regard to equity. The Council expects that the Commission on Taxation, which has been set up to carry out a comprehensive assessment of the taxation system and to advise on appropriate changes, will give attention to this aspect of taxation.

6.59 Monetary policy, which must complement fiscal policy and be consistent with it, is directed primarily towards maintaining external reserves at a prudent level, and hence maintaining the exchange rate. Given the current and immediate prospects for the current balance of payments deficit, the need to minimise external borrowing, and the size of the public sector borrowing requirement and its likely financing, no relaxation in the constraints on the growth of private sector credit in Irish pounds would be appropriate.

6.60 In the past two years, increases in lending denominated in foreign currencies have been exempted from the Central Bank guidelines for the growth of private sector credit. The Council understands that this exemption is not regarded as a permanent

element of monetary policy. It was introduced in the spe circumstances created by EMS membership, and has helped to supp the external reserves and avoid too precipitate a reduction in t credit. However, the higher level of *total* credit results in a hig current balance of payments deficit. Moreover, any improvement in external reserves would be temporary to the extent that firms swi back to domestic credit sources (which would reduce external reserv as soon as they can in order to avoid the exchange risk. Credit pol should, at an early date, be formulated (and quantified) in terms of growth in *total* credit which is considered to be appropriate, hav regard to the aims of monetary policy in terms of external rese adequacy.

Implications of policies for output and employment

6.61 The recommendations on incomes policy and on fiscal monetary policy must be taken together with the recommendations paragraph 6.56 on the scope for selective expansion thro components of public and private expenditure, the recommendati of paragraph 6.21 on the need for measures to reduce pressures costs by improving productivity and by selective manpower pol measures, and the recommendations on agriculture in paragra 6.22-6.23. The recommendations put forward in this Chapter form set of policies which are intended to complement one another. Th should be viewed as an integrated policy package which has be framed with the aims of achieving the needed adjustment which outlined in paragraphs 6.25-6.27, of enabling sustained increases real output to occur when the world economy moves out of recession, and of achieving beneficial effects on real output a employment over a period extending beyond the next year or tw

NOTE BY ICTU REPRESENTATIVES

The ICTU representatives on the NESC are unable to sign the report for the following reasons:

(a) the report's recommendations hold out no hope of any short-term improvement in employment and fail to take into account the need for immediate action to reduce the present high level of unemployment;

(b) the report, in its discussion of competitiveness, does not consider the well-established fact that hourly labour costs in industry here are the lowest in the EEC; nor does it take fully into account the opportunities for Irish industry provided by the devaluation of the Irish pound in relation to sterling;

(c) we cannot accept the proposition that nominal pay should not increase as fast as prices (Paragraph 6.39);

(d) we reject the suggestion that pay increases in the public sector should be based on the Government's capacity to pay (Paragraph 6.44);

(e) the proposal in Paragraph 6.54 that compensation should not be given to workers in the public sector for any deterioration in the terms of trade or for increases in taxation, is wholly unacceptable;

(f) it would be undesirable, as is proposed in Paragraph 6.59, to maintain the existing constraints on the growth of private sector credit where this leads to a reduction in employment (e.g. in the construction industry);

(g) we do not consider that the objective of policy (Paragraph 6.49) should be the *elimination* of the current budget deficit

over a period of three years without regard to the econom circumstances prevailing in each of these years.

We wish to make it clear however, that, in general, we support tl approach to the social services set out in Chapter 5.

We would emphasise too that we are in favour of the recommendatic in Paragraphs 6.46 and 6.56 that there should be a concentration (public sector borrowing in financing productive investment includin building and construction projects and that productive publi expenditure should be allowed to increase in real terms.

Received: 23 September 1980.

TABLE 1

Volume of Expenditure on Gross National Product with Comparative Data for Other Countries, 1970-79

Percentage change

	% per year (compounded annually) 1970–76	From previous year 1977	1978	1979 (a)
Private consumption	2.2	4.0	8.8	3.6
Public consumption	6.7	2.3	4.3	3.5
Gross fixed capital formation	4.3	6.3	17.3	15.6
Exports of goods and services	5.7	13.5	12.7	6.7
Imports of goods and services	4.3	13.0	15.2	14.7
Gross Domestic Product (GDP)	3.6	5.8	6.3	1.9
Gross National Product	3.2	5.4	6.3	1.8
Gross National Product, allowing for changes in terms of trade	3.1	4.7	7.3	0.0
Comparative data:				
Growth of real GDP at market places:				
Total EEC	3.1	2.4	3.2	3.5
Total OECD Europe	3.3	2.3	3.0	3.3
Total OECD	3.4	3.8	3.9	3.4

Note (a): Preliminary.
Sources: *National Income and Expenditure* (NIE) 1977, 1978; *Economic Review and Outlook Summer, 1980* (ERO); OECD, *Economic Outlook,* July 1980; Central Bank.

TABLE 2

Contributions to Total Growth of Output, 1970-79

%

	% per year (compounded annually) 1970–76	As percentage of GNP in previous period 1977	1978	1979 (a)
Private consumption	1.6	2.6	5.5	2.3
Public consumption	1.2	0.4	0.8	0.6
Gross fixed capital formation	1.1	1.6	4.3	4.3
Physical changes in stocks	–0.3	2.1	–1.7	1.5
Net foreign balance (exports-imports)	0.2	–0.9	–2.6	–5.8
Gross Domestic Product (GDP)	3.6	5.8	6.3	1.9

Note: (a) Preliminary.
Sources: NIE 1977, 1978; ERO.

TABLE 3

Disposable Personal Income, 1970-79

Percentage change from previous year

	Disposable personal income at current prices (a)	Effects of net taxes on disposable personal income (b)	Disposable personal income in real terms (c)	
			Total	Per capita
1975	27.6	−1.9	4.4	2.6
1976	15.8	−2.8	−2.4	−4.0
1977	18.2	−0.5	5.0	3.6
1978	18.3	0.9	10.3	8.9
1979	16.2	−0.7	3.7	2.0
% per year (compounded annually) 1970-79	18.6	−0.7	4.8	3.2

Notes: (a) Personal income is income received by households, whether in the form of income earned in the labour market or from other sources, including transfer payments from Government. Disposable personal income is personal income less direct taxes on personal income and wealth.

(b) First col. minus first col. of Table 4. Net taxes are direct taxes (including social insurance contributions) minus transfer payments received. A positive number means that average net taxes, as a proportion of personal income, fall.

(c) Deflator is implicit deflator for personal expenditure on consumers' goods and services.

Sources: NIE 1977, 1978; ERO; The Economic and Social Research Institute, *Quarterly Economic Commentary* (QEC), January 1980.

TABLE 4

Ireland's Share of World and of EEC Exports, 1970-79

%

	Share of world exports of goods	Share of world manufactured goods exports (a)	Share of EEC manufactured goods exports (a)
1970	0.39	0.21	0.40
1975	0.41	0.31	0.58
1976	0.37	0.33	0.63
1977	0.43	0.40	0.74
1978	0.48	0.43	0.79
1979	0.50	0.49	0.88

Note: (a) The underlying data on Irish manufactured goods exports, in Irish pounds, are converted into US dollars, using exchange rate data in International Monetary Fund, *International Financial Statistics* and *International Financial Statistics Yearbook* for the period to 1978 inclusive and in Central Bank of Ireland, *Quarterly Bulletin* (QB) for 1979.

Sources: Trade Statistics of Ireland; UN, *Monthly Bulletin of Statistics.*

TABLE 5

External Trade, Balance of Payments and Terms of Trade 1970-79, and Forecast 1980

	Balance of Trade £m.	Balance of Payments on Current Account £m.	As % of GNP	As % of Reserves (a)	Balance of Payments on Capital Account: Government Capital Inflow £m.	Private Capital Inflow £m.	Terms of Trade 1968=100
1970	−212	−65	−3.9	−22	12	54	101.8
1971	−216	−71	−3.8	−21	15	56	103.4
1972	−191	−48	−2.1	−12	22	26	112.2
1973	−269	−82	−3.0	−19	29	56	121.5
1974	−541	−280	−9.4	−60	139	202	103.0
1975	−291	−6	−0.2	−1	159	27	100.9
1976	−453	−157	−3.5	−19	297	140	104.7
1977	−621	−155	−2.9	−14	199	202	103.1
1978	−730	−149	−2.4	−12	338	−138	104.6
1979	−1,334	−730	−10.3	−66	464	−11	100.7
1980f	−1,200	−650	−7.5	n.a.	n.a.	n.a.	97.0

Notes: (a) For reserves, the average of the end-December numbers is used.

f: Forecast.

Sources: ISB; QB; ERO.

TABLE 6

Quarterly Indicators of Economic Activity, 1978-80

Percentage change on preceding quarter, seasonally adjusted data

Year and quarter	Volume index of retail sales	Volume of production in manufacturing industry	Total exports volume	Cement sales (a)	Unemployment (b)
1978 I	2.1	3.3	−6.9	−11.9	−1.1
II	6.5	2.3	6.5	51.0	−3.4
III	−0.9	−0.2	1.7	−5.6	−3.1
IV	−1.2	3.1	6.2	−7.3	−1.3
1979 I	2.6	1.6	−11.1	−4.8	−3.3
II	2.8	2.9	8.7	52.9	−2.0
III	−2.7	0.0	9.4	7.3	−2.1
IV	0.1	−0.2	6.8	−18.5	−3.5
1980 I	3.4	2.2	−9.0	−15.4	+1.4

Notes: (a) Sales of home-produced cement, in metric tons.

(b) Numbers on Live Register.

Sources: ISB; CSO; QEC, April 1980.

TABLE 7

Personal Income, Earnings in Industry, Family Farm Income, in Nominal Terms and in Real Terms, 1970-79

Percentage change from previous year

	Nominal income			Real income (a)		
	Personal income	Earnings in transportable goods industries (b)	Family farm income	Personal income	Earnings in transportable goods industries	Family farm income
1971	14.4	16.4	9.9	4.6	6.4	0.5
1972	20.2	15.0	41.7	10.7	5.9	30.5
1973	23.3	21.1	27.9	9.4	7.5	13.5
1974	16.5	19.2	−9.0	0.9	3.2	−21.2
1975	29.5	29.5	44.3	6.2	6.1	18.3
1976	18.6	19.9	12.3	−0.3	0.8	−5.6
1977	18.7	17.1	38.9	5.4	4.0	23.4
1978	17.4	14.3	12.4	10.1	7.1	5.3
1979	15.5	15.9(b)	−11.6	2.0	2.9	−21.5
% per year (compounded annually) 1970-1979	19.3	18.6	16.8	5.5	4.9	3.3

% per year (compounded annually) 1970-79:

Nominal earnings per person employed in transportable goods industries:	17.4
Nominal family farm income per person employed in agriculture:	20.1

Notes: (a) Money incomes deflated by implicit personal expenditure deflator.

(b) Data are average weekly earnings for all industrial workers. Data are available for the new classification system for the September quarter in each year from 1973, for June 1978 and for March and June 1979. Data for the old series in each year are adjusted by using proportionate changes based on the new data for that particular year. It is assumed that earnings in December 1979 are 3 per cent higher than in September 1979.

Sources: NIE 1977, 1978; QEC, January 1980; *Irish Statistical Bulletin* (ISB); CSO.

TABLE 8

Consumer Prices, Ireland, EEC and Other European Countries, 1970-79

Percentage change

	% per year (compounded annually) 1970-76	From previous year 1977	1978	1979
Ireland	14.0	13.6	7.6	13.2
EEC	9.2	9.5	6.9	9.1
OECD Europe	9.7	10.9	9.1	10.8

Sources: ISB; OECD, *Economic Outlook*, July 1980.

TABLE 9

Balance of Payments Deficit on Current Account and its Financing, 1979 (a)

£m.

(1) Net deficit on current account (a)	730
Financed by:	
(2) Government net foreign borrowing	509
(3) State-sponsored bodies' net foreign borrowing (b)	150
(4) Net private capital inflow and non-Central Bank banking transactions (c)	−206
(5) Decline in official foreign exchange reserves	277

Notes: (a) Provisional.
(b) Estimate.
(c) Calculated as a residual: (1)−((2)+(3)+(5)).

Sources: ERO for (1); QB for (5); Tables 20, 21.

TABLE 10

Output of Cattle, and Cow Numbers, 1970-80

	Output (excluding Inventory)	Inventory (at December)	Output (including Inventory)	Cow Numbers (at June)	Year to year % variation in cow numbers
	'000	'000	'000	'000	%
1970	1,273	+176	1,449	1,713	—
1971	1,439	+111	1,550	1,794	4.7
1972	1,282	+468	1,750	1,920	7.0
1973	1,204	+532	1,736	2,138	11.4
1974	1,717	+92	1,809	2,208	3.3
1975	2,361	−502	1,859	2,102	−4.8
1976	1,577	+40	1,617	2,047	−2.4
1977	1,768	+1	1,769	2,092	2.2
1978	1,903	−90	1,813	2,096	0.2
1979 (a)	1,630	+107	1,737	2,108	0.6
1980 (b)	n.a.	n.a.	1,760	2,035	−3.5

Notes: n.a. not available.
(a) Estimate.
(b) Forecast.

Sources: ISB; CSO.

TABLE 11

Output, Incomes and Prices in Agriculture, 1970-80

	1970	1975	1976	1977	1978	1979	1980f	Growth rates % per year (compounded annually) 1970-79	1975-79	1979-80
Indices										
Gross Output (a) (£m.)	344	859	1,023	1,366	1,593	1,677	1,674	16.2	18.2	−0.2
Index Volume of Gross Output	82	100	95.7	104.7	111.5	110.4	110	3.4	2.5	−0.4
Net Output (b) (£m.)	263	662	761	1,024	1,178	1,151	1,198	17.8	14.8	4.1
Index Volume of Net Output	77	100	89.8	98.7	100.6	90.8	98	1.9	−2.4	7.9
Income from Self-Employment (£m.)	182	477	536	744	836	739	737	16.8	11.6	−0.3
Output Price Index	45	100	126	154	174	184	184	16.9	16.5	0.0
Input Price Index	44	100	116	141	147	165	191	15.8	13.3	15.8
Percentage change over previous year, 1975-80										
Output price index	—	28	26	22	13	6	0	—	—	—
Input price index	—	16	16	22	4	12	11	—	—	—

Notes: f: forecast.
(a) Including value of changes in livestock numbers.
(b) This is "family farm income", i.e., income arising in agriculture, less land annuities, wages and salaries.

Sources: ISB, CSO.

TABLE 12

Growth Rates of Output, Productivity and Employment by Sector, 1970-79

Percentage change from previous year

	(1) Output				(2) Productivity				(3) Employment			
	1970-76 (a)	1977	1978	1979 f	1970-76 (a)	1977	1978	1979	1970-76 (a)	1977	1978	1979 e
Agriculture, forestry and fishing	2.7	9.9	1.9	–5	5.1	13.2	4.6	–1.1	–2.3	–2.9	–2.6	–3.9
Industry	3.7	8.0	10.4	8	4.0	5.3	7.3	4.4	–0.3	2.6	2.9	3.4
Services	3.5	3.1	4.8	2	2.4	3.9	3.6	–0.4	1.1	0.8	1.2	2.4

Notes: e: estimate.
f: forecast.

(a) % per year (compounded annually).
Col. (2) is derived from cols. (1) and (3).

Sources: Table 13; NIE 1977, 1978; ERO; QEC, January 1980.

TABLE 13

Employment by Sector, Labour Force and Unemployment, 1970-80(a)

'000

	At mid-April in each year							Absolute change	
	1970	1975	1976	1977	1978	1979 e	1980 e	1970-80	1975-80
Agriculture	283	250	242	235	229	220	214	–69	–36
Industry	312	319	307	315	324	335	345	33	26
Of Which:									
Manufacturing	213	214	207	215	219	227	234	21	20
Building & Construction	76	81	76	77	82	83	85	9	4
Services	458	484	488	492	498	510	515	57	31
(1) Total Employment	1,053	1,053	1,037	1,042	1,051	1,065	1,074	21	21
(2a) Unemployed	65	90	108	108	100	87	87	22	–3
(2b) Unemployed, incl. those seeking regular work for the first time (b)	80	105	123	123	115	102	102	22	–3
(3) Total Labour Force =(1)+(2a)	1,118	1,143	1,145	1,150	1,151	1,152	1,161	43	18
Unemployed as % of labour force ((2a) as % of (3)): %	5.8	7.9	9.4	9.4	8.7	7.6	7.5	—	—
Unemployed as % of labour force, counting those seeking regular work for the first time: %	7.1	9.1	10.6	10.6	9.9	8.7	8.7	—	—

Notes: e: estimate.
(a) These employment data are tentative as they are still inconsistent with the results of the 1979 Census of Population. Further revision is possible when the results of the 1979 Labour Force Survey become available and when the results of the 1975 and 1977 Labour Force Surveys have been re-analysed in the light of the 1979 Census data.
(b) Assuming 15,000 seeking regular work for the first time: these are added to the labour force for the calculation in the last row.

Sources: *The Trend of Employment and Unemployment* 1976; ERO (for data up to 1979); ISB; CSO.

TABLE 14

Service Sector Employment by Category, 1975-79

'000

	1975	1976	1977	1978	1979	Change 1975-79
(1) Civil Service (a) (b)	55.9	57.2	58.0	58.3	61.6	5.7
(2) Local Authorities Administration (c)	14.8	15.1	15.2	16.3	16.3	1.5
(3) Other Public Sector (excluding State-Sponsored Bodies) (a) (d)	83.8	87.7	91.7	94.4	98.1	14.3
(4) Total Public Sector Services =(1)+(2)+(3)	154.5	160.0	164.9	169.0	176.0	21.5
(5) Total Service Sector (e)	484	488	492	498	510	26.0
(6) Private Services =(5)–(4)	329.5	328.1	327	329	334	4.5

Notes:

(a) At January each year.

(b) Includes industrial Civil Service (6,421 in number in January 1979) and non-industrial staff employed on a contract basis, mainly Sub-Postmasters (3,200 in January 1979).

(c) Estimated portion of Local Authorities employees allocated to "Public Administration and Defence" in a Census classification of employment—excludes those allocated to Building and Construction.

(d) Garda Síochána, Defence Forces, Teachers, Health Boards. This excludes employment in State-sponsored Bodies which was 65.7 thousand in 1979; this exclusion is because data are not available for all the years.

(e) At mid-April each year; estimate for 1979.

Sources: Department of the Public Service; Department of Finance; Table 13.

TABLE 15

Output of Building and Construction at constant (1975) prices, 1975-80

	1975	1976	1977	1978	1979	1980 f
Output (£m)	509.4	535.2	575.9	662.4	746.4	727.6
Year to year % change		5.1	7.6	15.0	12.7	–2.5
Housing output (a) (£m)	246.4	248.4	265.9	310.3	335.1	319
Year to year % change		0.8	7.0	16.7	8.0	–4.8
Public capital expenditure affecting the industry as % of total output	56.0	48.8	49.8	47.3	46.8(b)	46.6

Notes: f: forecast.

(a) Data include private and public repairs and maintenance.

Sources: Department of the Environment, *Review of 1979 and Outlook for 1980*; Department of the Environment.

TABLE 16

Job Gains and Job Losses in Manufacturing Industry, 1973-79

'000

	1973	1974	1975	1976	1977	1978	1979
(1) Gross jobs created (a)	21.4	16.7	15.6	20.6	22.1	21.3	23.6
(2) Gross job losses (a)	11.6	20.0	27.1	18.1	15.9	14.7	14.9
(3) Net change in employment	9.8	−3.2	−11.5	2.5	6.2	6.6	8.7
(4) Employment in December each year	210.4	208.6	196.1	201.8	205.5	213.1	221.5
(5) Net increase in employment in calendar year (b)	7.3	−1.8	−12.5	5.7	3.7	7.6	8.4

Notes: (a) See text (paragraph 2.22) for qualifications to these figures.
(b) Equals first difference of (4).

Sources: Industrial Development Authority; CSO (for data in (4)).

TABLE 17

Relative Costs in Manufacturing Industry, 1975-79

	Unit wage costs, in Irish pounds	Unit wage costs, in US dollars							
		Ireland	France	Germany	Italy	U.K.	U.S.A.	Canada	Japa[n]
		Index 1975=100							
1975	100	100	100	100	100	100	100	100	100
1976	108.7	88.6	91	98	87	93	102	113	100
1977	121.1	94.9	98	109	106	100	110	111	113
1978	131.4	113.6	114	129	124	123	116	104	141
1979	148.4	140.4	129	144	140	153	123	110	133
		Year to year % change							
1976	8.7	−11.4	−9	−2	−13	−7	2	13	
1977	11.4	7.1	8	11	22	8	8	−2	
1978	8.5	19.7	16	18	17	23	5	−6	
1979	12.9	23.6	13	12	13	24	6	6	

Notes: Data are earnings per hour in manufacturing, divided by output per person-hour, except for France and It (hourly rates). Earnings data for Ireland are adjusted according to the method of Table 4, note (b). It is assum that earnings in December 1979 are 3 per cent higher than those in September 1979. Exchange rate da come from NIER, with the exception of data for Ireland for which Q8 data are used for 1979 and IN data for 1975-78.

Sources: IS8; CSO; NIER; Q8; *International Financial Statistics: 1978 Supplement; International Financial Statistics Yearbook* 1979.

TABLE 18

Current Budget Deficit, Exchequer Borrowing, and Public Sector Borrowing, 1970-80

Year (a)	Current budget deficit		Exchequer borrowing (b)		Of (3): Net foreign borrowing (c)	Public sector borrowing (equals (3) plus borrowing by State-sponsored bodies and local authorities)	
	(1) £m	(2) As % of GNP	(3) £m	(4) As % of GNP	(5) £m	(6) £m	(7) As % of GNP
1970	9	0.5	127	7.7	29	166	10.1
1971	2	0.1	130	6.9	25	164	8.7
1972	5	0.2	157	7.0	17	203	9.0
1973	10	0.4	216	8.0	40	258	9.5
1974 (d)	95	3.2	385	12.9	153	449	15.1
1975	259	7.0	601	16.2	159	675	18.2
1976	201	4.5	506	11.2	310	598	13.3
1977	201	3.8	545	10.2	71	703	13.2
1978	397	6.4	810	13.0	23	981	15.7
1979	522	7.3	1,009	14.0	509	1,258	17.5
Post-Budget estimate 1980	353	4.1	896	10.4	500	1,201	13.9

Notes: (a) Years 1970 to 1973 are financial years from 1970/71 to 1973/74 respectively.
(b) Equals current budget deficit plus Exchequer borrowing requirement for capital purposes.
(c) Data excludes sales of gilts to foreigners: these were particularly significant in 1978, when the increase Government external liabilities was £338 million.
(d) Data for April-December 1974 plus one quarter of data for financial year 1973-74.

Sources: Annual *Budget* Booklets and Department of Finance (but not for column (5) for 1980); NIE 1978 and ERO data on GNP).

TABLE 19

Government Current and Capital Expenditure, in Nominal and in Real Terms, 1975-80

		Out-turn					Budget estimate
		1975	1976	1977	1978	1979	1980
At current prices:							
(1) Current expenditure	(£m)	1,331	1,667	1,955	2,404	2,906	3,523
of which: service of public debt	(£m)	242	337	403	510	622	796
of which: public service remuneration	(£m)	479	584	667	801	997	1,297
Year to year % change in current expenditure			25.2	17.3	23.0	20.9	21.2
(2) Expenditure on Public Capital Programme (a)	(£m)	471	548	659	798	1,001	1,154
Year to year % change in Public Capital Programme			16.3	20.3	21.1	25.4	15.3
At constant prices:							
(4) Government current expenditure at constant (1975) prices (b)	(£m)	1,331	1,437	1,485	1,653	1,611	1,596
Year to year % change in (4)			8.0	3.3	11.3	–2.5	–0.9
(5) Public Capital Programme at constant (1975) prices (c)	(£m)	471	462	475	522	574	563
Year to year % change in (5)			–1.9	2.8	9.9	10.0	–1.9

Notes: (a) The Public Capital Programme accounts for some 9% of Government capital expenditure; the remainder—"nc Programme outlays" comprise repayments of borrowings of previous years.
(b) Deflator is implicit deflator for net expenditure by public authorities on current goods and services.
(c) Deflator is implicit deflator for gross domestic fixed capital formation.

Sources: Annual *Budget* Booklets; Department of Finance; QEC, April 1980.

TABLE 20

Financing of Exchequer Borrowing Requirement, 1978-80
£m.

Method of Financing	Actual 1978	Actual 1979	Forecast 1980
Net sales of securities			
(i) to the domestic non-bank public	157	256	250
(ii) to non-residents	330	−50	
(iii) to Commercial Banks	67	104	100
Small savings	65	27	80
Government net foreign borrowing	23	509	450(a)
Borrowing from Central Bank (b)	0	100	0
Miscellaneous borrowing	3	42	0
Changes in liquidity of Departmental funds	165	21	20
Total (=Exchequer Borrowing Requirement)	810	1,009	900(c)

Notes: (a) Calculated as residual, on assumption that no further borrowing from Central Bank occurs.

(b) The Central Bank increased its holding of Government paper by £100 million (cash value) in late 1979. Because bank liquidity was tight, the uptake of Government securities by the Associated Banks in the previous year had been about £100 million below the amount indicated by secondary liquidity requirements. In the light of continuing tight liquidity, the Associated Banks were not required to make good that shortfall in 1979. Instead, the Central Bank agreed to increase its portfolio of Government securities by £100 million as part of the Exchequer's borrowing requirement for 1979. For further details, see "Monetary Developments in Ireland", Central Bank of Ireland, *Annual Report 1980*.

(c) Budget estimate of £896 rounded off.

Sources: Annual *Budget* Booklets and Department of Finance for 1978 and 1979 data only.

TABLE 21

Public Sector External Debt, Official External Reserves and Debt/Reserves Ratio, 1970-79
At 31 December each year

	(1) External Government debt (a) (b) (c) £m	(2) External debt of State-sponsored bodies (a) (b) £m	(3) Total official debt =(1)+(2) £m	(4) Official external reserves £m	(5) Absolute annual change in official external reserves £m	(6) Debt reserves ratio= (3)/(4)
1970	85	76	161	290		0.56
1971	103	105	208	381	+91	0.55
1972	122	129	251	432	+51	0.58
1973	157	136	293	435	+3	0.67
1974	364	173	537	495	+60	1.08
1975	567	201	768	676	+181	1.14
1976	1,040	296	1,336	956	+280	1.40
1977	1,039	334	1,373	1,201	+245	1.14
1978	1,064	327	1,391	1,252	+51	1.11
1979	1,542	500(d)	2,042	975	−277	2.09

Notes: (a) For 1970-73 inclusive, data in cols. (1) and (2) are estimated by linear interpolation from published data for 31 March in each year.

(b) For data for 1974 (1973 in the case of State-sponsored bodies) onwards, amounts outstanding at any given date have been converted into Irish pounds at the exchange rates obtaining at that date; for earlier data the exchange rates used were those obtaining at the time each loan was contracted.

(c) Exclude sales of Government securities to non-residents.

(d) Estimate.

Source: Q8; *Finance Accounts 1979*.

TABLE 22

Tax Revenue as proportion of GNP, and income tax revenue as proportion of personal incomes, 1976-80

%

	Total tax revenue as % of GNP (a)	Taxes on income as % of GNP (b)	Taxes on income as % of personal incomes (b)
1976	32.4	11.8	12.3
1977	32.1	11.3	11.8
1978	31.9	11.1	11.5
1979	32.3	11.5	11.8
1980(c)	34.5	12.7	n.a.

Notes: (a) Tax revenue includes social insurance contributions by employers and by employees. Data on social insurance contributions for 1979 and 1980 (post-Budget) are based on answer to Parliamentary Question No. 246, 25 March 1980.

(b) Income tax revenue includes social insurance contributions by employees.

(c) Post-Budget estimates for tax revenue; forecast figure for GNP.

Sources: Annual *Budget* Booklets; *Report of the Department of Social Welfare, 1976-78;* NIE; ERO; QEC, January 1980.

TABLE 23

Manufacturing Milk Production 1974-77

	Cow numbers ('000)	Milk deliveries (m. gall.)	Delivery/ cow (gall.)	Milk/ con-centrate price ratio	Con-centrate/ cow (50 kg)
1974	1,246	571	458	7.3	4.6
1975	1,237	625	505	9.4	5.6
1976	1,274	675	530	9.2	5.8
1977	1,333	735	551	9.2	7.0
1978	1,378	852	618	9.9	10.0
1979(a)	1,410	872	619	9.2	11.0

Note: (a) Estimate.

Sources: Derived from CSO and An Foras Talúntais.

TABLE 24

Growth in Volume of World Trade, 1970-79

Percentage change from previous year

	Total	Manufactures
1971	6.5	6.9
1972	9.8	9.1
1973	11.1	13.1
1974	5.0	9.5
1975	− 4.8	− 3.8
1976	12.0	12.0
1977	4.5	4.5
1978	5.1	5.1
1979	5.7	4.9
% per year (compounded annually) 1970–79	6.0	6.7

Sources: National Institute Economic Review (NIER), May 1980; National Institute of Economic and Social Research.

TABLE 25

Forecast Employment, Labour Force and Unemployment 1981
'000

	Change mid-April 1980 to mid-April 1981	Level mid-April 1981
(1) Agriculture	–5	209
(2) Manufacturing	+3	237
(3) Building and Construction	–4	81
(4) Other Industry	0	26
(5) Total Industry=(2)+(3)+(4)	–1	344
(6) Public Services	+3	183
(7) Private Services	–1	334
(8) Total Services=(6)+(7)	+2	517
(9) Total Employment=(1)+(5)+(8)	–4	1,070
(10) Labour Force	+10	1,171
(11) Unemployed =(10)–(9)	+14	101
(12) Unemployed, incl. those seeking regular work for the first time	+14	116

TABLE 26

Capital Expenditure and Capital Formation in Education, 1976-80

	Public Capital Programme (a) —current money values	Building Output (b)		
		Current Prices	Constant (1975) Prices	
			Total	% increase on previous year
	£m.	£m.	£m.	
1976	27.98	26.37	22.62	+3.7
1977	37.36	35.13	25.70	+13.6
1978	46.92	44.77	29.74	+15.7
1979	53.11	48.30	27.74	–6.7
1980	49.12	45.50	21.78	–21.5

Sources: (a) Public Capital Programme, various years.
(b) Department of the Environment. *Building Industry in Ireland, Review of 1979 and Outlook for 1980.*

TABLE 27

Current Public Expenditure on Education (a), 1976-80

	Current Prices	Constant (1975) Prices	
	£m	£m	% increase on previous year
1976	234.8	202.6	
1977	272.0	207.3	+2.3
1978	308.6	204.1	–1.5
1979	393.0(p)	215.2	+5.4
1980	458.0(e)	207.3	–3.7

Notes: (a) Public expenditure on Education is defined as expenditure under the Education Votes.

p: provisional out-turn. e: estimate

TABLE 28

Health Services Capital Expenditure, 1976-80

	Public Capital Programme	Building Output (a)		
		Current Prices	Constant Prices (1975)	% increase on previous Year
	£m.	£m.	£m.	
1976	11.2	9.85	8.45	–0.6
1977	16.0	11.70	8.56	+1.3
1978	21.5	16.49	10.96	+28.0
1979	27.5	24.02	13.80	+25.9
1980	28.0	24.40	11.68	–15.4

Note: (a) Building output is derived from the PCP by deducting expenditure on furniture, equipment and site purchases.

Sources: As Table 26.

TABLE 29

Current Public Expenditure on Health Services, 1976-80

	Current Prices £m.	Pay as percentage of total	Constant (1975) Prices £m.	% increase on previous year at constant prices
1976	275	n.a.	237	−2.2
1977	328	61.7	250	+5.4
1978	400	62.4	265	+1.1
1979(a)	505(537)p	64.5(67.1)	277(295)	+4.4(+11.3)
1980(a)	691(659)e	68.5(66.5)	313(298)	+13.0 (+1.0)

Notes: (a) The figures in brackets represent the expenditures in 1979 and 1980 with the retrospective element in the 1980 pay awards to nurses and related grades attributed to 1979.

p: provisional.

e: estimate.

Source: Book of Estimates, various years.

TABLE 30

Percentage Shares of Current Public Expenditure on Health, 1977-80

	1977	1978	1979(c)	1980(c)
Community Services (other than preventive services) (a)	20.9	20.6	18.6	18.0
Preventive Services (b)	2.1	2.3	2.1	2.0
General Hospitals	48.5	49.5	53.2	53.9
Psychiatric Services and Services for the Handicapped	21.4	21.2	20.7	21.4
Administration, Research, etc.	7.0	6.4	5.4	4.7
	100	100	100	100

Notes: (a) Community Services include general practitioners services, subsidies for drug purchases, home nursing, dental, opthalmic and aural services, cash payments to disabled and other persons, home help services etc.

(b) Preventive Services as defined here include child health examinations, food hygiene services, prevention of infectious diseases and health education.

(c) These figures take into account the recent pay awards with the retrospective element in the 1980 award attributed to 1979.

Source: Department of Health.

TABLE 31

Public Capital Expenditure on Housing, 1976-80

	Public Capital Expenditure Current Prices	Constant (1975) Prices		Proportion for local authority housing (a) %
		Total	% increase on previous year	
	£m.	£m.		
1976	105.4	90.4	−21.5	62
1977	99.9	73.1	−19.1	73
1978	128.4	85.3	+16.7	63
1979(p)	169.0	97.1	+13.8	56
1980(e)	182.5	87.36	−10.0	54

Notes: p: provisional.
e: estimate.
(a) The allocation to local authority housing includes allowance for the "low-rise mortgage" scheme.

Source: *Quarterly Bulletin of Housing Statistics*, March 1980.

TABLE 32

Number of Completions of Local Authority Houses, 1976-79

	Total local authority (L.A.) completions	L.A. as % of all comple-tions	L.A. completions		Waiting list for State (approved and unapproved)
			Dublin County Borough (a)	Dublin County	
1976	7,300	30.3	1,626	556	n.a.
1977	6,300	25.8	1,640	887	33,500
1978	6,100	23.9	1,386	700	35,000
1979	6,200	23.4	1,505	737	32,500

Note: (a) The figures for Dublin County Borough include local authority dwellings completed by Dublin Corporation in the functional area of Dublin County Council.

Source: *Quarterly Bulletin of Housing Statistics*, March 1980.

TABLE 33

Average deposit required on new houses being purchased through Buildin Society Loans, 1976-80

	Gross deposit (a)	State Grant (b)		Deposit Net of State Grant	
		Money Value	as percent-age of gross deposit	Current Prices	Net deposit as % of gross average industrial earnings per annum
	(1)	(2)	(3)	(4)	(5)
1976	2,423	325	13.4	2,098	65.5
1977	2,914	663	22.8	2,251	58.6
1978	3,719	1,000	26.9	2,719	61.4
1979	4,686	1,000	21.3	3,686	74.9
1980 (first quarter)	5,193	1,000	19.3	4,193	–

Notes: (a) Assumes an 80% loan on an average priced house.
(b) The £1,000 grant, introduced in July 1977, was restricted to first-time buyers of new houses. The 1977 figure in column (2) is an average for the twelve months.

Source: *Quarterly Bulletin of Housing Statistics*, March 1980.

TABLE 34

Initial monthly repayments to Building Societies for mortgages on average-priced new houses, 1976-80

	(1) Total Loan (a)	(2) Monthly Repayment	(3) Average monthly male industrial earnings (b)	(4) Repayment as % of earnings at (3)
1976	9,690	109	267	40.8
1977	11,656	128	320	40.0
1978	14,874	155	369	42.0
1979	18,746	238	410	58.0
1980 (first quarter)	20,770	263	n.a.	—

Notes: (a) Assumes an 80% loan on an average priced house.
(b) Figures for industrial earnings refer to total transportable goods industries and relate to the position at June of each year.

Source: Col (1) *Quarterly Bulletin of Housing Statistics,* March, 1980.
Col (3) CSO.

TABLE 35

Mortgage finance by Source, 1974-79

Lending Agency	Percentage Share of Loan Payments					
	1974	1975	1976	1977	1978	1979
Local Authorities	43.6	36.2	17.3	10.9	14.5	17.2
Building Societies	44.6	56.0	68.9	69.5	66.1	68.4
Associated Banks	—	0.3	8.3	16.0	16.8	12.4
Assurance Companies	11.8	7.5	5.5	3.6	2.6	2.0

Source: Quarterly Bulletin of Housing Statistics, March 1980.

TABLE 36

Current Public Expenditure on Social Welfare, 1976-80

Year	Current Prices	Constant 1975 Prices			
		Deflator (1)		Deflator (2)	
	£m.	£m.	% Increase	£m.	% Increase
1976	444	383.1		376.3	
1977	511	389.4	+1.6	381.3	+1.3
1978	576	380.9	−2.2	400.0	+4.9
1979	675	369.2	−3.1	414.1	+3.5
1980	826	374.0	+1.3	421.4	+1.8

Notes: Deflator (1) is that for net current expenditure by public authorities. Deflator (2) is based upon changes in the Consumer Price Index (see footnote 2, Chapter 5).

Source: Book of Estimates, various years.

TABLE 37A

Average weekly number of beneficiaries—unemployment benefit and assistance, 1976-79

	1976	1977	1978	1979
Unemployment Benefit	59,973	54,866	47,959	42,000
Unemployment Assistance (a)	47,399	49,936	48,743	46,197
Pay–Related Benefit (b)	22,365	19,304	17,056	13,900
Total	129,737	124,106	113,758	102,097

Notes: (a) Figures exclude smallholders.
(b) Payments with unemployment benefit only.

TABLE 37B

Selected benefits and allowances—number of beneficiaries on 31 December, various years, 1976-79

	1976	1977	1978	1979
Old Age Pensions (Contributory) (a)	71,508	78,346	80,824	85,727
Old Age Pensions (Non-Contributory) (b)	129,460	135,695	133,669	132,192
Disability Benefit	70,810	70,835	67,831	69,460
Allowances for Unmarried Mothers (a)	7,365	8,289	8,981	10,160
Supplementary Welfare Allowances (a) (c)	28,992	28,684	31,509	37,181
Total	308,135	321,849	322,814	334,720

Notes: (a) Figures include recipients' dependants.
(b) Figures include blind pensioners.
(c) Supplementary welfare allowances replaced home assistance on 1 July 1
Source: Reports of the Department of Social Welfare, various years.

TABLE 38

Social Welfare Expenditure 1980

£m

Source		Expenditure	
Exchequer	444	Administration (excluding for Social Insurance Fund)	9
Appropriations-in-Aid	1		
		Social Assistance	350
Income from Social Insurance Fund	381	Social Insurance Fund	467
Total	826		826

TABLE 39

Percentage of Expenditure on Social Welfare met from various Sources, 1976-1978

Source	1976	1977	1978
Exchequer	55.6	54.1	54.1
Employers' Contributions	28.0	29.3	30.4
Employees' Contributions	15.8	16.1	14.7
Other	0.7	0.6	0.5

Source: Report of the Department of Social Welfare, 1976-1978.

TABLE 40

Social Security: Source of Finance as a Percentage of Expenditure, Estimates for 1980

Country	Employers	Insured Persons	State or other public authorities	Other sources
Belgium	43.4	26.9	27.7	2.0
Denmark	6.1	2.4	87.1	4.4
France	48.7	20.8	30.5	—
Germany	34.6	26.3	37.7	1.4
Ireland	16.1	11.9	71.5	0.5
Italy	55.0	11.7	26.6	4.4
Luxembourg	26.0	23.2	43.4	7.4
Netherlands	28.6	33.3	28.5	9.6
United Kingdom	26.5	16.0	57.5	—

Note: The figures include expenditure on health and certain other services and are not absolutely comparable because of differences in the material included for various countries.

Source: The European Social Budget 1980, EEC Commission.

TABLE 41

Exchequer and Social Insurance Expenditure on the Social Services, 1976 to 1980

	Expenditure (current prices)					As % of Government Expenditure				
	1976	1977	1978	1979 provisional	1980(a) estimates	1976	1977	1978	1979	1980
Current Expenditure										
Education	223.6	260.1	302.1	380.1	462.9	13.4	13.3	12.6	13.1	13.1
Health	254.0	309.8	375.0	469.0	650.0	15.2	15.8	15.6	16.1	18.5
Housing (b)	29.7	30.7	45.0	53.0	63.0	1.8	1.6	1.9	1.8	1.8
Social Welfare (c)										
(i) social insurance fund	198.5	234.6	265.7	295.2(d)	382.0	—	—	—	—	—
(ii) exchequer	246.9	274.5	314.4	373.9	444.0	14.8	14.0	13.0	12.9	12.6
Total (excluding social insurance fund)	754.2	875.1	1,036.5	1,276.0	1,619.9	45.2	44.7	43.1	43.9	46.0
						As % Public Capital Programme				
Capital Expenditure										
Education	28.0	37.4	46.9	53.1	49.1	5.1	5.7	5.9	5.3	4.3
Health	11.2	16.0	21.5	27.5	28.0	2.0	2.4	2.7	2.8	2.4
Housing	107.1	100.7	135.5	159.3	182.5	19.5	15.3	17.0	15.9	15.8
Total	146.3	154.1	203.9	239.9	259.6	26.6	23.4	25.6	24.0	22.5

Notes: (a) The figures for 1980 are estimates provided by the Department of Finance.
(b) The estimates of current expenditure on housing were received from the Department of Finance.
(c) The expenditure shown for the social insurance fund is only that portion derived from contributions from employers and employees and other, non-exchequer, income. The exchequer figures include grants to the social insurance fund.
(d) The social insurance fund figure for 1979 is an estimate; an out-turn figure is not yet available.
(e) The figures given in this Table are not directly comparable with those in Tables 26 to 40.

Sources: *Budget 1980; Report of the Department of Social Welfare 1976-78;* Department of Finance.

TABLE 42

Increase in Social Expenditure on Previous Year as Percentage of Current Budget Deficit, 1976-80

	1976		1977		1978		1979		1980	
	£m.	%	£m.	%	£m.	%	£m.	%	£m.	%
Education	42.6	21.2	36.5	18.2	42.0	10.6	78.0	14.9	82.8	23.5
Health	46.7	23.2	55.8	27.8	65.2	16.4	94.0	18.0	153.0	43.3
Housing	5.2	2.6	1.0	0.5	14.3	3.6	8.0	1.5	10.0	2.8
Social Welfare (exchequer contribution)	36.7	18.3	27.6	13.7	39.9	10.1	59.5	11.4	70.1	19.9
Total	131.2	65.3	120.9	60.2	161.4	40.7	239.5	45.8	315.9	89.5

Sources: Budget 1980; Department of Finance.

TABLE 43

Redistribution of Income through Taxes and Transfers: Households with 2 Adults and 2 Children, 1973

Direct Weekly Household Income: In 1973	Direct Weekly Household Income: relative position (£30 to £35=100)	Direct taxes as % of direct income (including social insurance contributions)	Indirect taxes as % of disposable income
Under £7	Under 22	0.4	30.0
£7 and under £15	22-46	11.1	29.4
£15 and under £20	46-62	5.6	30.7
£20 and under £25	62-77	7.4	27.5
£25 and under £30	77-92	8.7	23.8
£30 and under £35	100	10.8	26.3
£35 and under £40	100-108	9.4	31.1
£40 and under £50	108-154	11.7	21.4
£50 and under £60	154-185	11.7	20.7
£60 and under £80	185-246	15.1	17.0
£80 and over	246+	12.4	12.7
All households		11.3	21.8

Notes: Indirect taxes are: rates, motor taxation, VAT, fiscal duty, licences. *Total Benefits* are: (i) *cash benefits*: children's allowances, social welfare pensions, unemployment benefits and assistance, other cash benefits; (ii) *estimated non-cash benefits*: medical services, education, housing, other.

Source: *Redistributive Effects of State Taxes and Benefits on Household Incomes in 1973: Estimated from the 1973 Household Budget Survey*, Stationery Office, 1980.

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