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National
Economic and
Social Council

An Chomhairle
Náisiúnta Eacnamaíoch
agus Sóisialach

Economic and Social Policy
1982

Aims and Recommendations

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 1982

Aims and Recommendations

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SUMMARY

Chapter 1: Economic Developments 1981

The recession in the European economies deepened in 1981 with GDP growth becoming negative. The growth of GDP in Ireland in 1981 was somewhat over 1% and was due primarily to significant increases in the volume of industrial exports and public investment. Both the volume of public and private consumption fell in 1981. When GDP growth is adjusted for net factor payments abroad and an adverse movement in the terms of trade the volume of domestic resources available to the community fell by almost 1%.

The volume of output of manufacturing industry recovered in 1981, increasing by 2.9%. The growth of manufacturing output was entirely attributable to the growth of labour productivity with manufacturing employment declining by 7,500. The volume of agricultural output declined by over 2% despite an improvement of over 3% in the price/cost ratio. Total employment in the economy declined by 5,000 between April 1981 and April 1982 while unemployment increased to 10.7% of the labour force. The bulk of the decline in employment in the present recession has been concentrated in the industrial sector with services sector employment continuing to increase.

The divergence between the Irish inflation rate and the EEC average widened further in 1981 with the Irish rate climbing to over 20%. This widening was partly the result of a depreciation of the effective exchange rate of over 8%. Unit wage costs slowed significantly in 1981 due, in part, to a cyclically induced increase in productivity. However, the decline in unit wage costs was insufficient to prevent a further decline in competitiveness against most of the EMS countries. Personal disposable income fell for the second year in succession. Average real earnings in transportable goods industries together with profits, professional earnings and rents fell by almost 3% and 4% respectively. Family farm income per family labour unit declined by about 1.5%. The continued imbalance between Government current expenditure, which reached 46% of GNP in real terms, and tax revenue resulted in a further increase in the current budget deficit to 7.9% of GNP. The scale of the current budget deficit and the rapid increase in Government capital expenditure resulted in an increase in the exchequer borrowing requirement to 17.1% of GNP. The financing of this borrowing requirement entailed an increased reliance on foreign sources, with 73% being financed abroad.

In line with the increase in the exchequer borrowing requirement and increased recourse to foreign financing Government external debt expanded rapidly in 1981, to reach £3.8 billion, an increase of 72% over the 1980 level.

Manufactured exports performed strongly in 1981, increasing by 11% in volume despite a slowdown in world trade in manufactures. Agricultural exports declined in volume terms following the destocking of 1980. The slowdown in the growth of total exports of goods and services in 1981 combined with an adverse movement in the terms of trade resulted in a widening of the trade deficit. An increase in net payments abroad due almost entirely to interest payments on Government foreign debt resulted in the deficit on current account reaching 14.3% of GNP.

Chapter 2: Economic Outlook 1982 and 1983

World economic growth is estimated to have remained sluggish in 1982 despite earlier forecasts of an up-turn in the second half of the year. As a consequence the volume of world trade is likely to have declined somewhat in 1982. Despite this fall in world trade the volume of Irish exports is estimated to have increased quite significantly and to have provided the main stimulus to GDP growth. However, both the volume of personal consumer expenditure and investment are estimated to have exerted considerable downward pressure on the rate of GDP growth which is expected to be of the order of 1% in 1982. As a result of an increase in net factor payments abroad, reflecting as in 1981, the interest payments on increasing Government foreign debt, the volume of GNP is estimated to have fallen by approximately 1%.

A further deterioration in the public finances occurred in 1982 by comparison with both the budgetary forecasts and with 1981. An over-run of 45% in the current budget deficit occurred despite the introduction of a series of measures in July designed to correct the emerging divergence. However, the over-run in 1982 was different from those of previous years in that expenditure was broadly on target while there was a considerable shortfall in receipts. The outturn for the exchequer borrowing requirement, as a percentage of GNP, was 16.7% compared with 17.1% in 1981.

As a result of the relative movements in exports and imports the balance of trade is estimated to have improved. The terms of trade effect was also favourable. However, the current balance of payments deficit did not fully reflect these favourable movements due to a further increase in net factor payments abroad to £610m. The deficit for 1982 is estimated to have been around £1,100m equivalent to 9.4% of GNP.

The average annual rate of inflation fell to 17.1% in 1982 compared to an increase of over 20% in 1981. However, the underlying rate of inflation has fallen more sharply and was running at 12.3% by mid-November.

Manufacturing output is likely to remain unchanged and a fall of over 7,000 is expected in manufacturing employment. Agricultural output is expected to have increased by approximately 3% while income from self-employment in agriculture is estimated to have increased by 5% in real terms.

Monetary developments in 1982 were again dominated by the size of the exchequer borrowing requirement. Net foreign borrowing by the Government reached £1,150m with monetary financing of the borrowing requirement falling to 70%. Government foreign debt is estimated to have reached £5 billion by the end of 1982.

Two major influences dominate the outlook for the domestic economy in 1983, namely, an attempt to restore order to the public finances together with continued export growth. In the light of a number of assumptions regarding budgetary strategy for 1983 the contribution of private and public consumption and investment to GDP growth is likely to be negative while export growth will not be sufficient to offset this negative contribution. The volume of GDP is therefore likely to remain broadly static. Unemployment is likely to maintain its upward trend during 1983. Assuming stability of the exchange rate the underlying rate of inflation could be in single figures for 1983 as a whole. However, as a result of budgetary measures the actual rate is likely to be of the order of 10% to 11%.

Summary of Chapter 3

Chapter 3 opens with a review of the Council's definition of social policy and the principles which it believes should guide the development of social policy. The trends in the major expenditure headings of housing, education, health services and social welfare are then discussed in separate sections. The chapter concludes with a section on taxation trends. Deficiencies in the basic information on the operation and users of many of the social services are noted in detail in Appendix 1.

In relation to *housing* the trends in public subventions over the 1970s are examined. The ways in which the owner occupied sector and the local authority sector are subsidised are outlined, and the relative neglect of the private rented sector is noted. The case is put for a comprehensive housing policy which would take account of all three sectors and, inter alia, the regressive distributional effects of many of the existing subsidies.

The section on *education*, besides reviewing capital and current expenditure trends, shows that the total cost to the exchequer of each

student has been increasing most rapidly at first level. The links between educational disadvantage and unemployment are briefly explored. It is argued that there is a need for specific measures to intervene in this cycle of disadvantage.

Health service expenditure, both current and capital, is shown along with trends in current expenditure by programme. Two of the major programmes: The General Hospital Services and the Community Health Services Programme are examined in some detail. The rapid growth in expenditure on county hospitals in recent years is highlighted. Hospital admission rates per 1,000 for various age groups are shown to be high in Ireland compared to the regions in the United Kingdom. In 1981 drug costs accounted for over half the total expenditure on the Community Health services. While it is accepted that the pattern of delivery of these services must be reviewed, any reductions in services should have due regard for the most vulnerable sections of the community.

The developments in *social welfare* expenditure are examined in aggregate and in relation to schemes catering for the aged, the unemployed, families and the ill. The growth in the proportions of the youth and long-term unemployed is noted along with the existence of "poverty traps" for the minority of the unemployed who have large families. The information available on Disability Benefit recipients is analysed and serious deficiencies are noted.

The composition of the Taxation System is examined along with consideration of the tax changes in the 1982 Budget. The effects of direct taxation on the personal incomes of prototype families in recent years is also examined. Higher income families are shown to have improved their relative position from 1980 and the relative position of the unemployed has improved since 1981.

Chapter 4: Key issues for Economic and Social Development

There are two features of the Irish economy which give particular cause for concern: the high and rising unemployment rate and the large and growing external debt arising from the rapid expansion of the exchequer borrowing requirement. The balance of payments imposes a major constraint on any policy designed to alleviate these problems. Borrowing to finance the present level of the deficit on the balance of payments and to maintain the external reserves is unsustainable for any prolonged period.

The reduction of the exchequer borrowing requirement to a sustainable level will require the elimination of the current budget deficit. In addition, borrowing for capital purposes should only be continued if the investment undertaken yields a real net return to the economy.

In previous reports the Council recommended the elimination of the *current budget deficit* over a three year period. However, the size

of the deficit is now such that it may not be realistic to plan the elimination over as short a period. Regardless of the exact time scale, and while the scope for further taxation must be considered, the main burden of adjustment of the public finances must fall on the level of public expenditure. In the context of this adjustment future trends in public services pay must now reflect a choice between numbers employed and rates of remuneration within an overall public service pay bill consistent with restoring balance to the public finances. A strategy which aims to bring expenditure into line with available resources must be accompanied, also, by consideration of the allocation of resources within and between programmes.

In the medium term the magnitude of *job creation targets* which seek to maintain unemployment even at its present rate is daunting. The manufacturing sector will be the key sector in determining overall export, output and employment growth. The growth required to reverse the rising trend in unemployment will require an increased share of export markets. This in turn depends crucially on improvements in labour cost competitiveness throughout the entire economy. With a fixed exchange rate and productivity maintaining its long run growth trend average earnings become the key to improving competitiveness. The increase in earnings necessary for an improvement in competitiveness involves a significant departure from past experience.

The contribution to output growth arising from *import substitution* is considerable. There have been significant increases in import penetration of consumer goods markets in recent years due, in part, to a deterioration of cost competitiveness but also reflecting inadequacies in marketing and other non-cost factors. With regard to raw materials the potential for import substitution is also considerable particularly in the area of sub-supply to foreign industry.

The level of *social welfare benefits* and the operation of the tax code have given rise to a number of situations where absence from work can prove financially beneficial. This is particularly the case in respect of certified illness and short time working. There is a need to change to a five day week for the purpose of calculating benefits for workers on short time and also to monitor more closely the process of medical certification. There is also an urgent need for improvements in the information available for management of the social welfare system.

Sectoral strategies

In a longer term perspective moderation in the growth of incomes with consequent improvements in labour cost competitiveness will not be sufficient to ensure a strong industrial base with growing employment and income levels. This will require greater emphasis on ensuring that more firms have the size, functions and financial strength to maintain com-

petitive advantages on international markets. This in turn will require a more selective *industrial policy*.

Policy for manufacturing industry must also address non-pay factors such as management skills and innovative capacity. A key factor for the survival of a firm is the ability to manage change. This involves anticipating threats and opportunities in the business environment and also the development of a commitment to change among those working in the firm. The long term growth of firms will require the introduction of new products and processes in response to changes in market demand and developments in technology. The main thrust of policy in the area of technology must relate to the transfer of technology developed overseas. There are a number of areas where there is potential for the transfer of technology: increased linkage between foreign and indigenous industry; the employment of Irish personnel in the high skill areas by foreign firms; and licensing.

A favourable price cost environment will provide the real basis for output growth and efficiency at the farm level and allow a sustained increase in *agricultural output* and incomes. The Council believes that Government expenditure on agriculture should be directed more specifically to supporting an increased rate of growth of output. This increase will also require the identification and removal of structural impediments. Consideration may need to be given to developing some form of long term credit facility for agriculture.

Chapter 5: Conclusions and Recommendations

The Council believes that the ultimate objective of economic and social policy must be to bring about a sustained and significant increase in employment through policies which are consistent with restoring order to the public finances.

The level of state indebtedness, including the large part of it resulting from the current budget deficit, are immediate and severe constraints on policies to boost employment. Whereas the increasing seriousness of these constraints has been well documented in recent years, it has proved altogether more difficult to reach agreement on the type of corrective actions required.

A strategy which aims to provide an environment where employment levels will be maintained and expanded requires a comprehensive planning framework. The Council believes that a broad consensus on economic and social objectives is an appropriate starting point for the development of planning procedures.

If present trends continue employment will continue to rise rapidly. The reversal of these trends will require a rapid increase in output growth. The achievement of this growth will require large improvements in competitiveness and in the amount of output producing in-

vestment. In so far as moderation in wages and salaries gives rise to increased profits, it is necessary that these profits are seen by employees to result, through investment, in prospects for increased employment at rising incomes.

The extensive use of borrowing, in particular to finance current expenditure, has led to levels of public expenditure which are higher than the economy can sustain. There is an immediate need for corrective action to halt the adverse trend in the level of exchequer indebtedness. The Council believes that this action should include the elimination of the current budget deficit over a four year period.

Any realistic strategy for the elimination of the deficit must start with significant reductions in public expenditure and increases in taxation in 1983. There should also be consideration of the options for increased revenue from charges for publicly provided services. Developments in the public service pay bill, which accounts for 50 per cent of current public expenditure excluding debt service, must be consistent with the objective of eliminating the current budget deficit.

The Council recommends that a more rigorous evaluation be undertaken of new and existing public expenditures and concessions relating to capital projects in the public and private sector. The highest priority should be accorded to investment in the directly productive sectors and associated economic infrastructure. There is a need for more widespread debate and scrutiny of the evaluation techniques used and the decision making procedures in relation to all such expenditures and concessions.

The long term objective of industrial policy should be to restructure industry into high value-added businesses which would support income levels comparable to other developed countries. These businesses require the development of competitive advantages in non-wage areas such as scale, marketing, applications engineering and research and development. The Council recommends that a greater emphasis on these areas should take place in the context of a more selective industrial policy.

The macroeconomic policy outlined in this report would result in a more favourable environment within which the agricultural sector could develop. In addition to providing a more favourable environment the Council believes that the Government should consider a reallocation of public expenditure on agriculture with a view to maximising output growth.

A policy framework must incorporate explicit recognition of social policy principles. Policies which aim to affect the level of resources must be accompanied by consideration of the distribution of these resources. It is essential that the burden of corrective action is not borne by the most vulnerable members of the community. There are a number of areas identified in this report where the distributive impact of social services is at variance with the principles which the Council believes

should guide social policy. Present trends suggest that unemployment will continue to rise. There are two main requirements to the reversal of these trends — a large increase in exports and a reduction in the level of state indebtedness. The meeting of these requirements will involve the introduction of some measures which if viewed in isolation, will be unpopular. The Council believes that the alternative to facing up to the problems now confronting the economy would be an eventually harsher and more abrupt fall in employment and living standards.

CHAPTER 1*

ECONOMIC DEVELOPMENTS 1981

Output

1.1 The international environment in 1981, was characterised by slow or negative growth. GDP growth rates became negative in both the EEC and OECD-Europe while GNP growth was 1.2% for the OECD as a whole (Table 1.1). The growth of GDP in Ireland, while remaining sluggish compared to growth rates of the late seventies, increased by just over 1 per cent. This performance can be attributed to a notable expansion of industrial exports and of the public capital programme.

1.2 Gross domestic product is a measure of the total flow of goods and services produced by the economy. It is not, however, a measure of the volume of goods and services available to the community. In order to measure the volume of resources available, it is necessary, firstly, to adjust GDP for any factor payments (e.g. interest payments, dividends, profits) which have to be made abroad or any similar payments accruing to domestic residents from abroad. These net payments have grown steadily since 1977 with the result that GNP and GDP growth rates have begun to diverge quite markedly. In 1981 GDP grew by 1.1% while GNP increased by only 0.3%.

1.3 Secondly, GNP must be further adjusted for any changes in the terms of trade, i.e. the price of exports relative to the price of imports. These terms moved unfavourably from Ireland's viewpoint in both 1980 and 1981 indicating that a greater volume of exports was required to pay for a given volume of imports. This further reduces the volume of resources available to the community. The concurrence of net factor payments abroad and adverse movements in the terms of trade in 1980 and 1981 resulted in a fall in the volume of resources available to the community in both these years.¹

*Following discussions in the Economic Policy Committee, in the Social Policy Committee and in the Council, the successive drafts of this report were prepared by Gerry Danaher, James Raftery and Paul Turpin of the Council Secretariat.

¹Available resources as used here refers to the resources which accrue from domestic production following adjustment for net factor payments and terms of trade movements. It is possible to vary this supply of resources over time through borrowing abroad.

Components of Output

1.4 A volume increase of over 5% in gross domestic fixed capital formation was one of the main contributory factors to GDP growth in 1981. This increase, which represented a significant turnaround from the 7% fall in 1980, resulted mainly from a large increase in the public capital programme with non-publicly funded investment declining from the already low levels of 1980.

1.5 Exports of goods and services increased by only 1.6% in 1981, in contrast to the first two years of the present downturn with exports of goods and services growing by approximately 7% in both 1979 and 1980. The growth of total exports conceals significantly different performances in the two major exporting sectors. The volume of agricultural exports fell by approximately 9% following the destocking of 1980. By contrast, the volume of industrial exports increased by approximately 8%.²

1.6 Expenditure by public authorities on goods and services declined marginally in volume terms in 1981 while the volume of private consumption fell for the second consecutive year due to a fall of approximately 2% in real personal disposable income. This fall in private consumption occurred despite a fall in the savings ratio to just under 20% in 1981 from 23% in 1979.

Employment Trends

1.7 Total employment in the economy fell by 12,000 between mid-April 1980 and mid-April 1981 and by a further 5,000 in the succeeding twelve months to mid-April 1982 (Table 1.2), thus reflecting the slower growth of GDP since 1979. This fall in employment together with an increase in the labour force led to an increase in the unemployment rate (labour force survey definition) from 6.1% in 1980 to 8.9% in 1981 and to 10.7% in 1982. If first time job seekers are included, the rates of unemployment were 10.3% in 1981 and 12.0% in 1982. The absolute number unemployed has risen by 37,000 between April 1980 and April 1981 and by a further 24,000 up to April 1982.

1.8 The bulk of the decline in employment during the present recession has been concentrated in the industrial sector with employment declining by 20,000 between April 1980 and April 1982 in contrast to an increase in the services sector of 19,000 over the same period. Within the services sector, employment in both public and private sector ser-

²Manufactured exports (i.e. SITC 5-8) increased by 10.6% in real terms while exports from the food, drink and tobacco sectors (SITC 0 and 1) increased by 8.8% in volume terms.

vices has continued to increase (Table 1.3).

Agriculture

1.9 The agricultural output price index increased by almost 19% in 1981, a sharp contrast with 1980 when output prices fell by about 3% (Table 1.4). The increase in 1981 originated primarily in the live-stock sector. Input costs increased at much the same rate in 1981 as in 1980. However, as a result of the improved situation with regard to output prices, the price/cost ratio increased by over 3% in contrast to the sharp deterioration in 1980.

1.10 Despite the improvement in the price/cost ratio the volume of gross output fell by over 2% and the volume of net output by almost 7%. Deducting other items of expenditure such as rates, fuel and wages from net output, it is estimated that income from self employment in agriculture increased by approximately 14% in nominal terms, but fell in real terms for the third successive year.

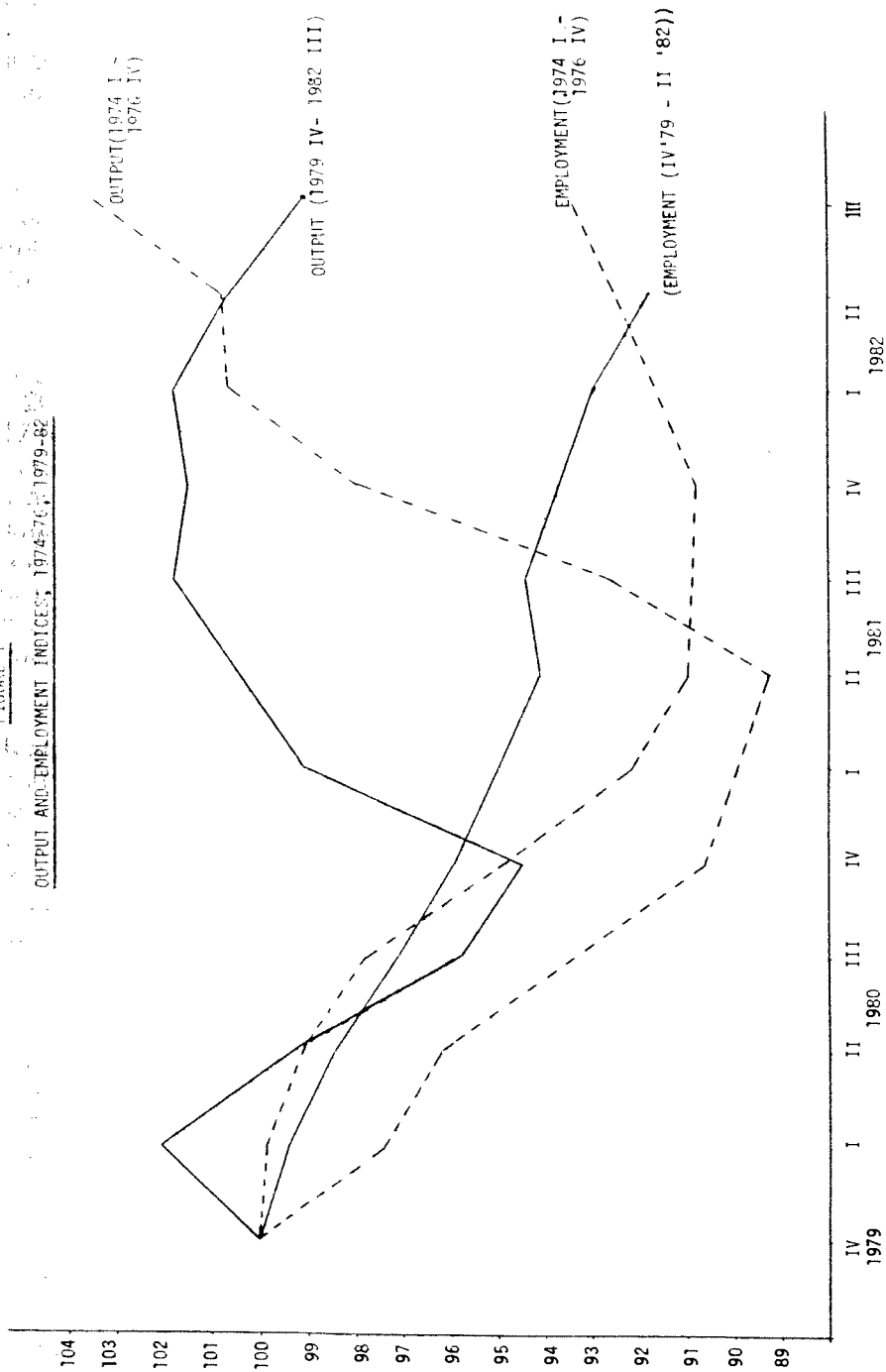
1.11 Part of the rise in nominal farm incomes in 1981 can be attributed to special measures from both the domestic exchequer and EEC sources. The former included increases in headage payments and the temporary suspension of disease eradication levies. The latter included incentives to increase lime consumption and silage production together with aid towards the cost of disease eradication and the suckler cow schemes.

Manufacturing Industry

1.12 The volume of output of manufacturing industry recovered in 1981, increasing by almost 3% compared to a decline of over 1% in 1980 (Table 1.5). The growth of output in 1981 was entirely attributable to the growth of output per person employed (labour productivity), with numbers employed actually declining by 3.5%, an absolute fall of 7,500. As discussed below, this rapid growth of productivity is not necessarily indicative of an improvement in the trend rate of growth in productivity but is due mainly to cyclical developments and changes in the composition of output. The fall in total manufacturing employment in 1980 and 1981 resulted in total employment in December 1981 being similar to March 1978 levels. In 1981 total job losses of over 24,000 were recorded in the manufacturing sector (Table 1.6).

1.13 In order to examine the course of the recession in the manufacturing sector it is necessary to consider the data on a quarterly basis. Figure 1 presents details of manufacturing output and employment on a quarterly basis from the end of 1979 to the third quarter of 1982 together with comparable details for the 1974/75 recession. In the present recession,

FIGURE 1
OUTPUT AND EMPLOYMENT INDICES: 1974-75, 1979-82



output reached its pre-recession peak in the first quarter of 1980 and declined by 7.4% over the next three quarters to end 1980. Output grew by 7.7% from the end of 1980 to the third quarter of 1981 but remained static up to the first quarter of 1982 before going into decline in the subsequent two quarters. Manufacturing employment has been in continuous decline (with the exception of a marginal increase in the third quarter of 1981) since the fourth quarter of 1979.

1.14 During the 1974/75 recession employment began to recover approximately two quarters after the output trough. However, the recovery of output was remarkably strong after the 1974/75 recession, increasing by almost 13% over a nine month period. One notable feature of the present recession is that despite the stabilisation of output in the last quarter of 1981 and the first quarter of 1982 employment continued to decline.

1.15 The present recession, examined from the perspective of manufacturing output would appear to be of shorter duration and not as severe as the 1974/75 recession. In the present recession output fell by 7.4% in three quarters and virtually reached its previous peak three quarters later, only 18 months in all. By contrast, in the previous recession output fell by almost 11% over six quarters but had reached its pre-recession peak three quarters later, indicating a very strong recovery. Recovery from the present recession has proved short-term with output stabilising after the third quarter of 1981 and declining again in the second and third quarters of 1982.

1.16 There are a number of points worth noting about comparisons of output and employment over the course of a recession, particularly in the Irish context. *Firstly*, short run movements in productivity follow a pronounced cyclical pattern. This is because employers do not fully adjust their labour force to changes in output immediately but respond to such changes with a time lag. This was well illustrated by the Irish experience of 1974/75. In the present recession, however, employment actually began to decline even before output reached its peak. An examination of output and employment trends prior to the period shown in Figure 1 indicates that the fall in employment which preceded the output peak was most likely an anticipatory fall, with employers adjusting current employment to their expectation of future output rather than a lagged response to earlier output trends. However, the more usual cyclical pattern characterised output and employment developments for the remainder of the recession.

1.17 *Secondly*, superimposed on this cyclical pattern is change of a

more structural nature. This results from a change in the stock of firms in the economy, as new firms (particularly new overseas firms) assume a greater importance in terms of their share of total output. Evidence for the operation of this factor can be found by a comparison of the growth of the volume of exports and the volume of output which shows the growth of exports to be considerably in excess of the growth of output in each year since 1977 (Table 1.5). This is most likely due to a change in the stock of firms in the economy rather than export re-orientation of existing firms.

Incomes

1.18 Real personal income fell by 1.3% in 1981 the second successive year of decline (Table 1.7). The net effect of budgetary measures in each of the years 1979, 1980 and 1981 has been to reduce the growth of real personal disposable income to below that of personal income. This was particularly marked in 1980 when real personal disposable income fell by 3.1% while real personal income fell by 0.5%.

1.19 Average real earnings in transportable goods industries fell by almost 3% in 1981 after showing marginal real increases in both 1979 and 1980. The sharp fall in real family farm income per family labour unit of 28% in both 1979 and 1980 slowed in 1981 to a fall of 1.5%. Profits, professional earnings and rents fell in real terms by 3.7% in 1981 following a decline of just over 15% in 1980.

Wage-Cost Competitiveness

1.20 The growth of unit wage costs (in Irish pounds) declined from 17.9% in 1980 to 9.5% in 1981. This occurred as a result of a fall in the growth of earnings per hour, combined with a significant increase in productivity with the latter resulting primarily from a 3.5% fall in employment (Table 1.8). Despite this slowdown in the growth of unit wage costs, the rate of growth remains extremely rapid reflecting a significant imbalance between the rate of growth of earnings per hour and the growth of labour productivity. In the three years 1979, 1980 and 1981 earnings per hour increased by about 62%, while output per man hour increased by some 12 per cent.

1.21 To assess changes in wage-cost competitiveness *vis-à-vis* Ireland's trading partners it is necessary to convert unit wage costs in Irish pounds to a common currency. Irish unit wage costs in European currency units increased by 7.5% in 1981, significantly in excess of our EMS partners with the exception of Italy and France (Table 1.9). One of the notable features of Table 1.9 is that in each year since EMS entry, Ireland's wage-cost competitiveness has deteriorated *vis-à-vis* her EMS partners.

However, wage-cost competitiveness *vis-à-vis* the US and UK improved significantly in 1981 due to the substantial appreciation of the dollar and the pound sterling.

1.22 The differential movements in Ireland's competitiveness compared with the UK and the EMS countries should not be treated as two distinct developments - one favourable and one unfavourable - when examining the implications for Irish exports. Since Irish exporters are not only competing with UK producers on the UK market but also against continental exporters, the potential benefits to exporters to the UK from any improvement in competitiveness *vis-à-vis* the UK will be eroded by losses of competitiveness against other countries who also export to the UK.

Comparison of Price/Cost Developments in the Manufacturing and Agricultural Sectors

1.23 It is useful to examine the price/cost relationships in both the manufacturing and agricultural sectors as it shows that many of the constraints they face are broadly similar in nature. For example, changes in the price of Irish manufactured exports are constrained by changes in the world price of these products while agricultural output prices are strongly influenced by the EEC Council of Ministers.³ On the input side, cost increases for both sectors are influenced to a large extent by domestic factors as well as by the trend in import prices.

1.24 In the early part of the period under consideration, 1975-77 in the case of manufacturing and 1975-78 in the case of agriculture, there was an improvement of approximately 16% and 19% respectively in the price cost ratio (Table 1.10).⁴ However, between 1978 and 1980 in the case of manufacturing and 1979 and 1980 in agriculture there was a substantial deterioration in the price/cost ratio, while both sectors experienced an improvement in 1981. This improvement derived largely from the output price side for agriculture while for manufacturing it was due to moderation on the cost side.

1.25 The structure of the manufacturing and agricultural sectors ensures

³In the period from EEC accession up to 1979 agricultural output prices were also strongly influenced by movements in exchange rates with consequent effects on green rates. Since Ireland's entry to the EMS, however, and the commitment to maintenance of the exchange rate *vis-à-vis* other EMS currencies this influence has been lessened considerably.

⁴A comprehensive input cost index for manufacturing is not available, a unit wage cost index is therefore used as a proxy. It should be noted that wage costs are only a partial element of total labour costs as they exclude employer's contributions to the social insurance fund.

that their reactions to a price/cost squeeze will be different. The predominantly family farm basis of Irish agriculture with only approximately 8% of income arising in agriculture being in the form of employee remuneration ensures that incomes are likely to suffer more than employment in a price/cost squeeze situation. This is exacerbated by the lack of job opportunities outside agriculture. Thus, between 1978 and 1980 family farm income per family labour unit fell by approximately 50% while total agricultural employment maintained its long run decline. In 1981, the improvement in the price/cost ratio resulted in a substantial increase in nominal farm income though real family farm income continued to decline.

1.26 In the manufacturing sector, the reaction to a price/cost squeeze can take a number of forms: a decline in employment; reduced profit margins and lower investment; a switch to cost reducing investment; reduced real income per employee or a combination of all three.⁵ The evidence on the nature of the reaction is however difficult to isolate; for example net employment change is the result of job gains and losses with the former heavily influenced by new foreign firms coming on stream. Thus, existing firms may be shedding labour as a result of the price/cost squeeze but in considering data on net employment change, this effect may not be obvious. Data on profit margins in the manufacturing sector are also difficult to estimate. Ideally it would be desirable to isolate the profit data of the sheltered from the exposed sectors since the former can compensate for cost increases through increased prices more easily than the exposed sector. Finally, long run effects may be quite different from short run effects particularly if the price/cost squeeze obtains for more than a limited period. For example, a price/cost squeeze may initially result in a narrowing of profit margins but ultimately in a movement of resources out of the traded sector.

Foreign Trade and the Balance of Payments

1.27 The background against which the growth of Irish exports in 1981 must be viewed is one of slow growth in world trade. The growth in volume of total world trade declined from a peak of 7.4% in 1979 to 1.5% in 1980 and remained static in 1981 while the growth in volume of world trade in manufactures halved to 2.2% in 1981 compared to 1980 (Table 1.11). Against this background industrial exports from Ireland performed strongly in 1981, increasing by approximately 8% in

⁵The form of the cost reducing investment will depend on the nature of the cost increase. For example, after the oil price increase of 1973 energy saving investment is likely to have occurred while in more recent years labour saving investment is likely to have been more important.

volume terms. Irish export's share of both developed countries and EEC manufactured exports continued to increase in 1981 reaching 1% of EEC manufactured exports. Following a large increase in 1980, the volume of agricultural exports fell by over 9% in 1981, reflecting relative scarcity of cattle supplies as a result of destocking in the previous year.

1.28 The volume of imports of goods and services increased by approximately 1.7% in 1981. Competing imports have substantially increased their share of the domestic market between 1977 and 1980, rising by approximately eight percentage points from 29.2% in 1977 to 37.7% in 1980 (Table 1.12).⁶ However, the rate of increase appears to have slowed down in 1981. This can be gauged from an examination of the ratio of total imports to GDP, which, although a crude measure of import penetration, fell from 71% in 1979 to 67% in 1980 and increased only marginally in 1981. This would be expected due to destocking as the economy entered a recession and may not reflect the underlying trend.

1.29 As a consequence of these movements in exports and imports, together with a deterioration in the terms of trade of approximately 2%, Ireland's trade deficit deteriorated further in 1981 reaching £1,697m or 16.9% of GNP compared to 15.8% in 1980 (Table 1.13). A fall in transfers from the EEC and an increase in net payments abroad, due almost entirely to interest payments on Government foreign debt, resulted in a deficit of £1,432m on current account, equivalent to 14.3% of GNP. In 1981 the deficit on external current account was almost entirely financed by net Government foreign borrowing with other net capital inflows falling from £662m in 1980 to £304m in 1981.

Inflation and the Exchange Rate

1.30 The divergence between the Irish inflation rate and the EEC average widened further in 1981 compared to 1980 (Table 1.14). The Irish inflation rate increased from 18.2% in 1980 to over 20% in 1981 while the inflation rates of the main trading partners in particular the UK, began to decline as a result of tight fiscal and monetary policies.

1.31 One of the major contributory factors to the higher inflation rate in Ireland in 1980 and 1981 has been increases in import prices of 17.9% in 1980 and 18.3% in 1981. These increases in import prices are partially attributable to the appreciation of sterling in 1980 and 1981 and the 22% appreciation of the dollar against the Irish pound

⁶Competing imports are defined as imports for which domestic substitutes are readily available.

in 1981 which offset any beneficial advantages which might have resulted from the weakening of the prices of primary commodities.

1.32 The trade weighed exchange rate fell by 4% in 1980 and by over 8% in 1981 (Table 1.15). The depreciation was concentrated in the fourth quarter of 1980 and the first quarter of 1981. In fact there was some strengthening of the effective exchange rate in the last two quarters of 1981, due in particular, to the general weakening of sterling. This is reflected in the growth of import prices which slowed significantly in the second half of 1981 and actually fell in the August/November quarter.

1.33 Other factors contributing to Ireland's relatively high inflation rate in 1981 were the increased charges for public services and the increase in indirect taxes imposed in the January and July budgets. In addition, the imbalance, between the rate of growth of earnings and productivity while primarily having an effect on employment also contributed to the higher average inflation.

Public Sector Finances

1.34 Government current expenditure continued to expand rapidly in 1981, increasing by 27% in nominal terms and 5.6% in real terms (Table 1.16). Since 1976, Government current expenditure has increased almost threefold in money terms and was equivalent to nearly 49% of GNP in 1981 compared to 38% in 1977 (Table 1.17). The composition of the growth in current expenditure changed somewhat in 1981 with transfer payments growing faster than expenditure on goods and services reflecting increased rates of benefit, the upward trend in unemployment and increased national debt interest. In absolute terms expenditure on transfer payments amounted to almost £2,600m in 1981.⁷

1.35 The ratio of Government expenditure on goods and services to GNP increased slightly from 22% in 1980 to 22.9% in 1981 in nominal terms while remaining largely unchanged in constant price terms. This continues the trend observed in previous years whereby the rise in the ratio in volume terms is less than the rise in value terms. This indicates that the rise is largely attributable to the rise in the price of such goods and services relative to the price of privately produced goods and services. A comparison of changes in the private consumption expenditure deflator with changes in the public current expenditure

⁷Transfer payments are defined to include: subsidies, national debt interest and current transfer payments to both residents and non-residents.

deflator in Table 1.24 illustrates this. Given the labour intensive nature of much of publicly provided goods and services the deviation in prices is most likely a result of relative wage movements in the public and private sectors. Exchequer pay costs increased by 24% in 1981, a decline from the very high increase of 34% in 1980 (Table 1.18). Exchequer funded employment increased by 3.0% with the result that exchequer pay costs per employee increased by 21%, a marginal real increase.⁸

1.36 Total tax revenue also increased as a proportion of GNP to 37.5% in 1981 from 35.2% in 1980 (Table 1.19). This increase, however, was insufficient to finance the growth in current expenditure with the result that the current budget deficit increased to £802m in 1981, equivalent to 7.9% of GNP (Table 1.20). The deficit has therefore continued on an upward trend since 1977 and only temporarily halted in 1980.

1.37 Government capital expenditure increased in nominal terms by a dramatic 36.3% in 1981, a 19.5% real increase and was the major contributor to growth in the economy. Total Government expenditure, i.e., current and capital, has increased significantly faster than the growth of the total output in the economy with the result that total government expenditure has increased relative to GNP by 15 percentage points in nominal terms and 12 percentage points in real terms in the period 1977-81 (Table 1.17).

1.38 The current budget deficit of £802m, equivalent to 7.9% of GNP together with government borrowing for capital expenditure of £920m resulted in an Exchequer borrowing requirement of £1,722m or 17.1% of GNP in 1981 (Table 1.20). Including the borrowings of the State-sponsored bodies, the total public sector borrowing requirement amounted to 22.3% of GNP.

1.39 The scale of the increase in the exchequer borrowing requirement since 1977 has necessitated increased recourse to foreign sources for financing the requirement. The proportion of the exchequer borrowing requirement financed from foreign sources increased from 33% in 1977 to 48% in 1980 (Table 1.21). In 1981, a massive 73% was financed abroad. The fall in the domestic contribution to the financing in 1981 resulted from a drop in sales of securities to both the domestic non-bank public and the commercial banks.

1.40 The external financing of the borrowing requirement is reflected in the external debt of the Government which has increased from one bil-

⁸For qualifications regarding calculations of this nature see NESC No. 62 paragraph 1.26.

lion pounds in 1977 to £3.8 billion in 1981 (Table 1.22). In 1981 alone the external debt of the Government increased by almost £1600m. A similar picture emerges when the external debt of the State-sponsored bodies is considered. Total official external debt stood at £5,100 million in 1981, an increase of nearly 60% over 1980. The servicing of this debt now has substantial effects on a number of macro-economic aggregates, for example, the growth of GNP, the balance of payments and the public finances. The growth in foreign exchange reserves has not kept pace with the growth of external debt with the result that the debt/reserves ratio has continued to increase since 1978 with the increase being particularly marked in 1981.

Fiscal and Monetary Policy

1.41 In Budget 1981 (January) the exchequer borrowing requirement was projected to fall to 13% of GNP from 14.2% in 1980. However, a borrowing requirement considerably in excess of 13% was being forecast by mid 1981. A supplementary budget was introduced, involving increased indirect taxes and revised expenditure plans. Despite these alterations, the exchequer borrowing requirement was still estimated at 16.5%. The end year outturn was slightly greater than this at 17.0%.

1.42 The degree of fiscal stimulus is influenced not only by changes in exchequer borrowing requirement but also by the method of financing the requirement. Sales of securities to the domestic non-bank public and small savings simply involve a transfer of purchasing power from the private sector to Government while the remaining financing methods involve a net addition to purchasing power. The latter methods, entitled monetary financing, therefore involve a greater degree of stimulus to the economy. Monetary financing of the exchequer borrowing requirement amounted to 83% in 1981 compared to 70% in 1980 (Table 1.21). The proportion of the exchequer borrowing requirement financed by monetary means virtually doubled between 1977 and 1981.

1.43 The means of financing the exchequer borrowing requirement also has implications for monetary policy. The increase in domestic credit expansion was again heavily influenced by the extent of monetary financing in 1981 and the Government's share of domestic credit expansion further increased to 59% (Table 1.23).

CHAPTER 2

ECONOMIC OUTLOOK: 1982 AND 1983

International Economic Trends

2.1 The world economy since 1979 has been adjusting to the second major oil price rise of the 1970's. The price increase, which occurred at the end of 1979, is estimated to have cost oil-consuming countries the equivalent of 4.5% of GNP compared to approximately 2.5% in the case of 1973/74 oil price increase¹.

2.2 In order to counter the inflationary pressures associated with this increase, policy makers in the industrialised countries have pursued generally restrictive financial policies. These policies have been continued despite the significant weakening of output growth, to which they have contributed, and the associated increase in unemployment. Unemployment increased to over 30 million in the OECD area in 1982, equivalent to 8½% of the labour force².

2.3 The restrictive financial policies have been quite successful in limiting the inflationary impact of the 1979 oil price increase. There are a number of other favourable influences also affecting consumer prices in the OECD area, in particular falling world commodity prices, stable oil prices and a fall in the growth of nominal wages. These influences in combination with tight financial policies have resulted in a fall in the rate of consumer price inflation to 7.3% in the OECD area in the twelve months to September 1982³.

2.4 As a result of the weakness of economic activity in the major industrial countries the growth in the volume of world trade has remained sluggish. The volume of world trade remained largely unchanged in 1981 and is estimated to have declined by one per cent in 1982⁴.

¹Bank of England, Quarterly Bulletin, June 1982.

²OECD Economic Outlook, December 1982.

³Ibid.

⁴NIESR, November 1982.

However, EEC imports are estimated to have grown by 2.3% in 1982 in contrast to a decline of 1.4% in 1981, thus providing a more favourable background for Irish exports⁵.

2.5 Restrictive monetary policies in the absence of a complementary fiscal policy have resulted in high nominal interest rates, particularly in the US. In order to minimise the inflationary impact of exchange rate depreciation vis-vis the dollar, similarly high interest rates have been maintained in Europe. Although there has been a significant easing of nominal interest rates since mid-1982 real rates have remained very high due to the success in moderating the rate of inflation.

2.6 Against this policy background real GNP growth in the OECD as a whole is estimated to have declined by ½% in 1982⁶. In July 1982 the OECD were forecasting a growth rate of approximately a half of one per cent with growth expected to be concentrated in the second half of the year. However, developments since July indicate this expectation to be somewhat optimistic. The long-awaited and much forecast upturn from the present recession did not begin to any significant extent in the second half of 1982. The prospects for 1983 are discussed later in this chapter.

Outlook for the UK

2.7 GDP growth was negative in the UK in both 1980 and 1981. However, in 1981 the fall was concentrated in the first half of the year, while a slowdown in the rate of destocking contributed to positive growth in the latter half of the year. However, the weak recovery evident in the latter half of 1981 and the beginning of 1982 faltered in mid-1982 with the result that GDP is likely to have fallen again in 1982. Of more importance than the growth of GDP from Ireland's viewpoint is the growth in the volume of imports which is estimated to have been up to 4% in volume terms⁷.

2.8 The rate of UK retail price inflation continued to moderate in 1982 having fallen from an average annual rate of 18% in 1980 to 11.9% in 1981. Tight fiscal and monetary policies coupled with the favourable influences mentioned in the previous section on international trends have led to an easing of inflationary pressures. For

⁵Commission of the European Communities, Annual Economic Review, 1982-1983.

⁶OECD Economic Outlook, op. cit.

⁷NIESR, op. cit.

example, the growth of unit labour costs in manufacturing is likely to have fallen to somewhat over 5% in 1982 compared to nearly 9% in 1981. On a year-on-year basis inflation had fallen to single figures by the beginning of the second quarter of 1982 and was down to 6.3% by November⁸.

Domestic Economy 1982

Fiscal Policy

2.9 One of the prominent features of the Irish macro-economic environment since 1979 has been the extent to which budgetary outturns have diverged from budgetary estimates (Table 2.1). It is difficult to isolate the extent to which discretionary policy changes or automatic stabilisers are responsible for these divergences⁹.

2.10 The main thrust of *Budget 1982* was to reduce the exchequer borrowing requirement as a percentage of GNP to 13.9% from 17.1% in 1981. The bulk of the reduction was expected to come from the current side of the budget with the current budget deficit forecast to fall from 7.9% of GNP to 5.6%. This was to be achieved through an increase in total tax revenue of 32.6% compared to a current expenditure increase of 24.6%. However, by mid-year the full year estimate for the deficit had already been exceeded by £13m.

2.11 A series of measures were introduced by the Government at end-July with the objective of reducing the deficit below the emerging mid-year position. The measures on the current expenditure side were estimated by the Government to yield £100m of savings. The provisional outturn for the year as a whole amounted to a deficit of £988m or 45% greater than the estimate contained in the March budget. This divergence was due primarily to a shortfall of revenue compared to the budget estimate while expenditure was broadly on target.

2.12 There is an aspect of the budgetary position in 1982 and the prospective outlook for 1983 which is worth noting. The bringing forward of the due date for corporation tax and the imposition of VAT on imports at the point of entry were estimated to yield £36m and £140m respectively in 1982. However, bringing forward these

⁸Ibid.

⁹Automatic stabilisers are those elements of the budget which are sensitive to changes in the level of economic activity, for example, as economic activity slows, both direct and indirect taxes fall off and unemployment payments increase.

revenues will have a once-off effect on exchequer revenues which will not recur in 1983. The opening budget deficit in 1983 will therefore be higher than if some recurring form of taxation was imposed or if some expenditure was permanently reduced¹⁰.

2.13 The public capital programme was projected in Budget 1982 to increase by 17% in nominal terms in 1982, giving rise to an exchequer borrowing requirement for capital purposes of £1,000m for 1982. The series of measures introduced by the Government in July 1982, included provision for savings of £20m in capital expenditure. Of this, £10m was due to savings on capital injections to semi-state bodies. Public capital programme expenditure was somewhat less than the budget estimate of £2088m resulting in an exchequer borrowing requirement for capital purpose of £957m, a fall of £47m on the budget estimate.

2.14 An exchequer borrowing requirement for capital purposes of £957 in addition to a current budget deficit of £988m yields a total exchequer borrowing requirement of £1,945m, approximately 16.7% of GNP. Borrowing by the semi-State bodies and local authorities was estimated in *Budget 1982* at £722m. Assuming that this borrowing is on target and allowing a marginal fall for the July 1982 measures gives a public sector borrowing requirement of £2,660m, equivalent to almost 23% of GNP.

Monetary Policy

2.15 The major concern of monetary policy in 1982 continued to be the protection of the external value of the currency, which requires the maintenance of an adequate level of external reserves. However, since the large balance of payments deficits of recent years have meant increasing resort to external borrowing (with associated debt-servicing burdens), in order to maintain the level of external reserves, the Central Bank has become increasingly concerned to reduce the size of the external deficit. In 1982, therefore, the stance of monetary policy was stated to be such as not to accommodate any slippage in the originally projected balance of payments deficit (£1,300 million) and, indeed was intended to be supportive of any tendency for a lower deficit to emerge. To this end a credit guideline of 14% for the growth of private sector credit for the year to February 1983 was imposed. The figure included foreign currency lending by the com-

¹⁰The opening budget deficit for 1983 is that deficit which would emerge in 1983 in the absence of any policy changes.

mercial banks and was 1% lower than that imposed to February 1982, the latter having been broadly adhered to.

2.16 In contrast to 1981 the Central Bank has imposed *quantitative* guidelines on the growth of credit for non-productive purposes. In the year to February, 1982 lending to the personal sector and to hire-purchase companies increased by 17%, despite requests by the Central Bank that such credit should grow by less than the overall guideline. Consequently, a guideline of 7% for 1982 was imposed on the growth of non-productive lending, permitting lending for productive purposes to grow by approximately 15%.

Components of Output¹¹

Consumption Expenditure

2.17 Private consumption expenditure is determined principally by movements in personal disposable income and the savings ratio. The most buoyant elements of personal income in 1982 were agricultural incomes and transfer payments with the latter budgeted to increase by 25%. Overall personal income is likely to have increased by somewhat less than the rate of inflation.

2.18 However, personal disposable income is likely to have increased by significantly less than the rate of inflation due to increased taxation on personal income including the 1% Youth Employment Levy which yielded £34m in 1982 and the increased rates of PRSI. Overall, personal disposable income is likely to have fallen by approximately 3% in real terms.

2.19 Movements in the savings ratio are very difficult to forecast due to uncertainty with respect to its underlying determinants. The ratio has been in continuous decline since 1979, falling to somewhat under 20% in 1981. It was estimated in the most recent *Quarterly Economic Commentary* that the savings ratio increased to 23.2% in 1982. An increase of this order of magnitude would have exerted substantial downward pressure on private consumer expenditure. Overall, the volume of private consumer expenditure is estimated to have declined by somewhat over 6% as a result of the movements in personal disposable income and the savings ratio.

¹¹The forecast for output growth for 1982 and for its individual components draws extensively from the Quarterly Bulletins of the Central Bank and the Quarterly Economic Commentary of the ESRI.

2.20 In the 1982 Budget statement net current expenditure on goods and services by central Government was budgeted to increase by 24%. Allowing for net current expenditure by local authorities and taking into account the impact of the July measures discussed earlier on both volume and prices, net current expenditure by public authorities is estimated to have increased by approximately 1% in real terms.

Investment

2.21 The boost of the economy which was provided by the Public Capital Programme in 1981 was not repeated in 1982. The programme was estimated in Budget 1982 to reach £2088m in 1982, an increase of 17% in nominal terms over the 1981 outturn. The section of the programme affecting the building industry was budgeted to increase by 19%, but the actual increase was somewhat less than this. However, private investment is estimated to have fallen again in 1982, a third consecutive year of decline. This was partly due to a fall-off in new overseas investment and was reflected in the overall static provision for the IDA in the public capital programme for 1982. The IDA allocation included a 9% increase in grant expenditure and a 19% fall in building expenditure. Gross domestic fixed capital formation in total is estimated to have fallen by up to 7%.

Exports and Imports of Goods and Services

2.22 Manufactured exports provided a strong impetus to growth in 1981 against a background of slow growth in world trade. The background against which manufactured exports evolved in 1982 was somewhat more favourable with EEC imports estimated to have increased by 2.3% by contrast with a decline of 1.4% in 1981 while UK imports are estimated to have increased by 4% in volume terms in 1982. Manufactured exports up to November 1982 have reflected this demand growth. In the period January to November 1982 manufactured exports increased by 24% in nominal terms over the corresponding period of 1981.

2.23 Agricultural exports following a volume fall of 9% in 1981 are estimated to have fallen again in 1982. The volume of merchandise exports grew by approximately 6% while exports of goods and services are likely to have grown by somewhat less than this.

2.24 The main factors influencing the growth in the volume of imports in 1982 are the fall in the volume of personal consumer expenditure and fixed capital formation and the volume increase in manufactured exports. The decline in the volume of consumer demand is likely to lead to a drop in the volume of imports of finished consumer goods

although on past trends the volume of imports may not have fallen by as much as consumer expenditure.

2.25 The estimated increase in manufactured exports, particularly that part emanating from the activity of new overseas firms, with their high import propensity, could provide a boost to imports of materials for further production towards the end of 1982, though much depends on destocking trends. One factor, the effects of which are difficult to evaluate, is the bringing forward of VAT payments to the point of entry on all imports. Overall, it is likely to result in a dampening of import demand. Total imports of goods and services are expected to fall by approximately 4% in volume terms.

2.26 As a result of these movements in the components of expenditure, GDP growth is estimated to be of the order of 1% in 1982 with the GDP deflator likely to have increased by 17%. Net factor income abroad is estimated to have risen to £610m with the result that GNP is expected to have declined by somewhat over 1%. There was an improvement in the terms of trade in 1982 which should result in GNP adjusted for the terms of trade remaining broadly static.

Balance of Payments

2.27 The balance of trade deficit in 1982 is likely to improve as a result of the estimated increase in exports together with the decline in import demand. The cumulative trade deficit for the first eleven months of 1982 amounted to almost £1,100m (unadjusted for balance of payments purposes) compared to approximately £1750m for the first eleven months of 1981. However, the balance of payments deficit will not fully reflect these favourable movements due to the further increase in net factor payments abroad. The deficit for 1982 is estimated at around £1,100m, equivalent to 9.4% of GNP.

Manufacturing Industry

2.28 Developments in manufacturing output and employment for the first three quarters of 1982 were discussed in Chapter 1. In the nine months to end September, manufacturing output fell by 2.4% compared with the end of 1981 position. For the year as a whole manufacturing output is, at best, likely to remain static with a likely average fall in employment of over 7,000. The trend observed in Table 1.5 whereby the volume of manufactured exports has increased considerably faster than the volume of manufacturing output, appears to have continued in 1982. While destocking by manufacturers may be in part responsible for the discrepancy between the two growth rates in 1982

a further decline in production for the domestic market is also likely to be occurring.

Agriculture

2.29 Gross agricultural output in 1982 will be some 13 per cent higher in value terms than in 1981, reflecting a volume increase of about 3 per cent and a price increase of some 9-10 per cent. The main features of this outturn are set out below.

2.30 Net disposals of cattle and calves are expected to reach some 1.51 million in 1982 compared with 1.61 million in 1981. While slaughtering for export and domestic consumption remained largely unchanged, live cattle exports were down by about a third on last year's levels. Adjusting for some build up in stocks on farms, output of cattle and calves in 1982 will reach some 1.58 million, somewhat higher than the previous year's level of 1.57 million. The continued relative scarcity of cattle supplies on the domestic market was one of the main factors responsible for cattle price increases of the order of 12 per cent in 1982. The impact of the live cattle export markets on prices weakened considerably in 1982.

2.31 Despite the particularly harsh weather at the start of 1982, cumulative milk intake at the creameries for the first 8 months of 1982 was over 6 per cent higher than the cumulative intake during the same period of 1981. Milk output is estimated to have increased by 8 per cent in volume terms for 1982 as a whole with milk prices about 10 per cent higher. With regard to crops, cereal output is estimated to have increased by about 6 per cent in volume terms reflecting a large increase in the output of wheat and oats.

2.32 The value of farm materials (feed, seed and fertiliser) is likely to be about 4 per cent higher in 1982. With a price increase of 6 per cent in farm materials this suggests a decline of about 2 per cent in the volume used on farms. As a result of this moderation in farm material usage, net agricultural output is likely to have increased by over 5 per cent in volume terms and by some 11 per cent in price terms. The value of net agricultural output is expected to increase by approximately 17 per cent.

2.33 The agricultural output price index is estimated to have increased by 9-10 per cent, largely originating in the livestock and livestock products sector. Input costs increased at a similar rate. Deducting other items of expenditure from net output, income from self employment in agriculture is estimated to have increased by some 24

per cent in nominal terms. This represents an increase of about 5 per cent in real terms in 1982.

Employment and Unemployment

2.34 The outlook for employment growth over the short term in the Irish economy is poor. As discussed in the section on manufacturing industry, employment on average in 1981 is likely to fall by approximately 3.4% while employment in building and construction is likely to fall significantly, in line with a forecast fall in building and construction investment.

2.35 The public service employment embargo introduced in July now rules out any significant employment boost from this sector. In addition, the decline in personal consumer expenditure will have an adverse impact on the growth of private services employment. Agricultural employment is likely to continue its long run decline but this may moderate somewhat due to the absence of job opportunities in other sectors. These likely developments in employment in the main sectors combined with rapid labour force growth will lead to a continuing growth in unemployment.

Inflation

2.36 The average annual rate of inflation fell to 17.1% in 1982 compared to an increase of over 20% in 1981. This, however, disguises a much more significant fall in the underlying inflation rate. The year-on-year rate peaked in the second quarter of 1982 at 21% reflecting a 2% depreciation in the effective exchange rate in the first quarter of 1982 combined with higher excise duties, post office and VAT charges introduced in Budget 1982. Since mid-May the year-on-year inflation rate has fallen steadily and was running at 12.3% in mid-November.

Monetary Development

2.37 Monetary developments in 1982 were influenced chiefly by the extent of the exchequer borrowing requirement of £1,945m. Net sales of securities increased from £290m in 1981 to approximately £750m in 1982 while small savings remained at broadly their 1981 level. These changes together with other smaller items results in net foreign borrowing by the Government of approximately £1150m. Foreign financing of the borrowing requirement is estimated to have fallen to 58% while monetary financing fell to approximately 70% from 83% in 1981.

2.38 In line with the rapid growth of foreign financing of the exchequer borrowing requirement in recent years Government external debt has increased rapidly. This growth continued in 1982. From £3.8 billion

at end 1981 external Government debt had increased to £4.7 billion by mid 1982 and is estimated to have approached £5 billion by end 1982. This amounts to a doubling of Government foreign debt in two years. The policy implications of this growth are discussed in Chapter 4.

PRELIMINARY OUTLOOK FOR 1983

International Outlook

2.39 As outlined in paragraphs 2.1 and 2.6 world economic growth remained sluggish in 1982 despite earlier forecasts of an up-turn in the second half of the year. The most recent and comprehensive forecasts for 1983 are contained in the Annual Economic Report of the European Commission and the OECD Economic Outlook. The Commission expects a relatively weak recovery in the Community in the first half of 1983, which should gain some strength in the second half. Nevertheless the Commission sees little sign of a sustained upturn in economic activity.

2.40 Community GDP is expected by the Commission to grow by 1.1% in 1983. This is forecast to result from marginal improvements in each of the components of demand in 1983 with the exception of Government consumption which is expected to be somewhat restrained and the contribution of the net foreign balance which is likely to be negligible. In line with the forecast growth of GDP, community imports are expected to grow by 2.6%. The OECD has revised down its projections for real GDP growth based mainly on a re-assessment of export market developments in non-OECD countries. With regard to the European economies in particular, GDP growth is projected to be modest until mid-1984. Overall the OECD expects EEC GDP to increase by a quarter of one per cent in 1983.

2.41 In the present economic environment growth prospects depend crucially upon the policy stance adopted in the major industrialised countries. A striking feature of recent policy in a number of major industrialised countries is the attention accorded to the control of inflation at considerable cost in terms of growth and employment. The extent to which the control of inflation is likely to remain the major focus of attention is one of the uncertainties attached to the forecasts. It is assumed here that there will be some easing of the tight policy stance in a number of major countries. The most plausible scenario for 1983 is therefore one of slow recovery from the trough of the recession.

Domestic Outlook

2.42 Two major influences dominate the outlook for the domestic economy in 1983, namely an attempt to restore order to the public finances together with continued export growth. This preliminary outlook for 1983 is discussed below in the context of a budgetary strategy designed to effect a significant reduction in the exchequer borrowing requirement in 1983.

2.43 The opening budget deficit for 1983 is likely to be of the order of £1,300m. One of the reasons for an opening deficit of that magnitude is that some measures adopted in 1982 will not have recurring effects on the exchequer finances in 1983. Examples are the imposition of VAT at the point of entry on all imports and the bringing forward of corporation tax. These measures served to accelerate payments to the exchequer rather than resulting in any permanent return to the exchequer. In addition the postponement of the due date for payment of the 5% October phase to the public service which is to be paid retrospectively in 1983 also boosts the opening deficit. The exchequer pay and pensions bill will increase by 10.4% in 1983 on the basis of present agreements.

2.44 A number of points are relevant when considering how a reduction in the exchequer borrowing requirement is to be achieved in 1983. *Firstly*, growth in 1983 is likely to be such that overall revenue buoyancy will not occur – in fact the opposite is possible. *Secondly*, it is assumed that it will not be possible to rely on expenditure reductions alone to effect the necessary adjustment. A rise in the tax burden will therefore be necessary.

2.45 In the light of these assumptions, the contribution to GDP of public and private consumption and fixed capital investment will be negative. Export growth is unlikely to increase sufficiently to offset the negative contribution of these other components with the result that the volume of GDP is likely to remain broadly static in 1983. Unemployment is therefore likely to maintain its upward trend as a result of declining employment and the continuing increase in the labour force. Assuming stability of the exchange rate the underlying rate of inflation could decline to single figures in 1983. However, the impact of budgetary measures is likely to be such that the actual rate will be of the order of 10% to 11%.

CHAPTER 3

REVIEW OF SOCIAL POLICY DEVELOPMENTS

Introduction

3.1 This chapter includes a review of recent important developments in the area of social policy. The definition of social policy adopted by the Council is:

"social policies are those actions (of Government) which deliberately or accidentally affect the distribution of resources, status, opportunities and life chances among social groups and categories of people within the country, and thus help shape the general character and equity of its social relations"¹.

The Council has previously expressed the view that social planning should be closely integrated with economic and physical planning². This follows from the definition of social policy quoted above which attributes social policy aspects to virtually all public policies. The Council considers that future official planning documents should include both economic and social policy dimensions.

3.2 The Council has developed a framework for the analysis of social policy developments³. The framework is based on three principles:

- (i) the distributive consequences of existing and proposed policy developments should be taken into account;
- (ii) the interaction of social, fiscal and occupational welfare systems should be considered;
- (iii) the manner in which the services are provided should encourage recipients to participate in normal economic and social life as equal citizens.

¹For a discussion of this definition see *An Approach to Social Policy* NESC Report No. 8.

²Council comments, paras. 14 and 26, *Social Planning in Ireland: Its purpose and organisational requirements*, NESC Report No. 68.

³These principles are discussed in *Irish Social Policies: Priorities for Future Development* NESC Report No. 61.

3.3 The application of the above three principles would require information on the operation of each major programme, its interaction with other programmes and their combined effects on recipients. The Council notes with disquiet that, in general, the information available is insufficient for the application of the above three principles except in the most rudimentary fashion. The major priority headings for improved information are listed in Appendix 1. The Council has previously noted the lack of institutional provision within departments for planning and for the production of the information on which planning could be based⁴. The Council recommends that the information deficiencies listed in Appendix 1 be remedied as a matter of urgency.

3.4 Public expenditure on the social services has increased rapidly over the past decade. Total expenditure on education, health and social welfare rose from 16.5% GDP in 1970 to 26.8% of GDP in 1981 (Table 3.1). Of this increase of 10.3 percentage points, social welfare accounted for 4.4 points, health services for 4.1 points and education for 1.8 points. The share of social welfare expanded cyclically, reflecting changes in economic activity; while the share of health services increased steadily. In absolute terms, then, total social spending has increased rapidly and represents a substantial proportion of the output of the community. In view of Ireland's unique demographic structure, it is to be expected that a high proportion of output would be devoted to the provision of social services. However, the high levels of social spending in recent years have coincided with increasing current budget deficits. The reduction of the current budget deficit is discussed in the final chapters of this report. It is likely to necessitate reductions in public expenditure and increased taxation. It is the view of the Council that the burden of this adjustment should not be directed at those parts of the social services which support the most vulnerable sections of the community.

HOUSING

3.5 In previous reports⁵ the Council has drawn attention to aspects of housing policy which are questionable from a social policy perspective. These include the subsidisation of the owner-occupied and local authority sectors, the relative neglect of the private rented

⁴NESC Report No. 68, pp. 5, 6.

⁵*Economic and Social Policy 1981* NESC Report 62, *Irish Social Policy: Priorities for Future Development*, NESC Report 61, *Economic and Social Policy 1980-83*, NESC Report 53, *Report on Housing Subsidies*, NESC Report No. 23

sector and the regressive nature of many of the subsidies provided to each of these sectors. These trends have continued in 1981/82. The following paragraphs review overall developments in housing and briefly examine each sector.

3.6 Housing completions in 1981, at almost 29,000, were the highest in the history of the State (Table 3.2). The share of local authority completions at just under 6,000, fell to below 20% of total completions for the first time⁶. In real terms, public capital expenditure on housing increased 12% in 1981 and by an estimated 7% in 1982 (Table 3.3). House purchase loans and associated supplementary grants have accounted for an increasing share of public expenditure on housing in recent years (Table 3.4).

3.7 The public subvention of housing includes tax allowances and reliefs (tax expenditures) as well as capital and current expenditure. Tax expenditures on housing increased more rapidly than any other form of subvention during the 1970s, followed by loans and grants for house purchase (Table 3.5).

3.8 The distribution of subsidies, both explicit (cash grants) and implicit (tax expenditures), primarily favours the owner occupied sector, followed by the local authority sector with minimal subsidisation of the private rented sector⁷ (Table 3.6). Implicit subsidies predominate in the owner occupied sector and local authority tenants are subsidised explicitly by rent subsidies.

Owner Occupied Sector

3.9 The Council has previously noted the high costs of entry to this sector due to the level of initial deposit required and the cost of mortgage repayments. As house prices continued to increase in 1981, the net deposit required to purchase an average priced new house rose to almost one third of average annual industrial earnings compared to one fifth in the mid 1970s (Table 3.7). The share of the £1000 state grant in the average gross deposit has fallen steadily since its introduction in 1977. Repayments on mortgages on average priced new houses

⁶ Local authority completions reached a peak of around 8000 in 1950/51 and declined steadily to a little over 1000 by 1961/62 and thereafter rose steadily to another peak of almost 9000 in 1975. The 1961/62 figure represented 22% of total houses completed and was the lowest figure until the 1981 figure of 20%.

⁷ There was a subsidy to the private rented sector in the form of the income tax yield foregone due to income foregone by landlords because of rent control. This amounted to £6m in 1980. See NESC Report 23, para 6, for discussion of this subsidy.

have increased sharply due to the combination of rising house prices and interest rates⁸. In early 1982, repayments amounted to almost two thirds of average industrial earnings compared to one third in the mid 1970s (Table 3.8).

3.10 These high entry costs can be reduced by a number of schemes. The *Mortgage Subsidy Scheme* introduced in April 1981 provided a £3,000 subsidy spread over three years. If the £1,500 available in the first year under the mortgage subsidy is used to finance a deposit, the net deposit required to purchase an average priced house in the first quarter of 1982 would fall to just under £700 or 9% of average annual industrial earnings⁹. If the subsidy were, instead, offset against repayments, the repayments would decrease by different amounts: from £343 to £137 per month for a tax payer on the 35% tax band and to £44 per month for those in the 60% tax band. It is estimated that this scheme will cost £6m in 1982. The *Housing Finance Agency* which was established in 1982, provides mortgages, the repayments on which are limited to 18% of the recipients gross income¹¹. Local authorities provide fixed interest mortgages under the *Small Dwellings Acts* (SDA loans)¹².

3.11 The main subsidies provided to the owner occupied sector are in the form of tax expenditures, the most important of which are income tax relief on mortgage interest repayments and the exemption of new houses from stamp duty. The Council has drawn attention on a number of occasions to the regressive impact of the system of income tax relief for mortgage interest payments¹³. The Council has recommended that consideration be given to "confining tax relief on interest payments to tax at the standard rate only or for a limited period or the fixing of a lower maximum on loans eligible for tax relief"¹⁴.

⁸ Although interest rates fell in the later parts of 1982 they are still high by historical standards.

⁹ Compared to £518 in 1981.

¹⁰ *Economic and Social Policy 1981* NESC Report No. 62, pp. 48, 49.

¹¹ Loans from the Housing Finance Agency are limited to £22,500 and eligibility is limited to those who earned under £9,000 in 1981/82. The Agency is envisaged as being self-financing through the issue of index linked bonds.

¹² SDA loans are limited to £14,000 and eligibility is limited to those who earned under £6,700 in 1981/2.

¹³ *Irish Social Policies: Priorities for Future Development* NESC Report No. 61 paragraph 5.9.

¹⁴ *Report on Housing Subsidies* NESC Report No. 23 paragraph 22.

Both the proposed January and the March 1982 Budgets proposed changes towards confining relief to the standard rate of income tax. However, the Minister for Finance said he was not introducing this change in the Finance Bill for technical administrative reasons¹⁵. The Council strongly recommends that action be taken to make possible the changes that are needed in this area. The cost of this relief is estimated at £35m in 1981/82, compared to £24m in 1980/81¹⁶. The Council notes that the First Report of the Commission on Taxation recommended that the relief on interest repayments should be withdrawn¹⁷.

The Local Authority Sector

3.12 Although the number of local authority dwellings completed has been falling from the peak figure of 9,000 in 1975 to under 6,000 in 1981, the number of families on the approved waiting list of the local authorities has continued to grow (Table 3.2). In 1981 there were 29,000 families on the waiting list. Two thirds of these families comprised three persons or less and most of them are currently housed in overcrowded and or unfit accommodation (Table 3.9).

3.13 The number of local authority tenancies has remained largely unchanged in recent years and amounted to 105,000 in 1982. (Table 3.10). Average rents in 1982 were a little over £5 per week. Local authority tenants are subsidised in respect of rents. The estimate for this subsidy in 1982 was £120m, a nominal increase of 24% over the 1981 outturn. Rent subsidies have accounted for an increasing share of local authority receipts in recent years (Table 3.11). In 1982 rent subsidies were estimated at 77% of local authority receipts and rent receipts at 18% with most of the remainder accounted for by receipts from sales of local authority houses. It has been suggested¹⁸ that the high level of subsidy and the consequent low rents of local authority tenants may be due to the relatively better off tenants purchasing their dwellings. If this is so, the tenants who continue to rent their dwellings

¹⁵The Minister for Finance stated that "The Revenue Commissioners advised me that they were not in a position to implement the proposals as originally announced. These proposals would have involved three separate and unrelated restrictions. . . It was not found possible to devise a satisfactory method of incorporating these unrelated restrictions in certificates of tax free allowances for PAYE purposes. . . However, I shall be looking at the relief at a later stage". Dail Records 17/6/82, Column 700.

¹⁶Information received from Revenue Commissioners.

¹⁷Commission on Taxation, *Report on Direct Taxation*, Chapter 10, 1982.

¹⁸*Public Subventions to Housing in Ireland*, An Foras Forbartha, p. 29.

will be in the lower income levels, giving rise to low rents through the differential rents scheme. Although information is collected at local level on the incomes of tenants, it is not available nationally. It is estimated however,¹⁹ that some 40% of tenants are dependent on social welfare. In view of the absence of data on the income levels of local authority tenants, it is difficult to assess the scope for rent increases. The Council believes that any rent increases should be designed in such a way that the position of the most vulnerable groups is not worsened.

3.14 The number of sales of local authority houses was equivalent to 95% of the number of local authority houses completed in the period 1975 to 1980. Sales in 1981 were around 4,000 while 5,681 dwellings were completed. The present financing arrangements provide an incentive for local authorities to encourage sales²⁰ and tenants are subsidised to purchase local authority dwellings: the gross price is reduced in respect of the length of tenancy and the purchaser qualifies for a fixed interest loan. The price charged to a tenant purchasing a ten year old local authority house after ten years continuous tenancy is shown in Table 3.12 for various years. In 1980 that house could be bought for £6,280 after deductions. The average price for a second hand house in that year was just over £24,000. In real terms the price for such a house fell sharply with the changes in the tenant purchase scheme in 1973 and has been increasing slowly since then. Although this example may be untypical because of the assumptions made, no information is available on the "age" of houses sold or on the average period of occupancy by purchasers²¹. The example does indicate however the existence of very sizeable subsidies to tenant purchasers. To the extent that the tenants who purchase their dwellings are those

¹⁹Department of Environment estimate.

²⁰Receipts from sales of local authority houses are divided between capital and current account by local authorities. Those credited to capital account are used for site acquisition, redemption of capital liabilities outstanding, etc, while those credited to current account are used mainly for maintenance of local authority housing. The proportion of receipts from sales credited to the current account has varied, from 50% up to 1975, 25% in 1976, 68% in 1977 and 1978, 50% in 1979 and 45% in 1980. The Coalition Government withdrew the arrangement — whereby receipts from sales can be used for current expenditure — in 1981 and the Fianna Fail administration restored the proportion credited to current account at 40% in 1982 (Parliamentary Debates, Dail Eireann 2/7/82 col. 968; Quarterly Bulletin of Housing Statistics, Dec. 1981). There are also likely to be a number of other benefits arising to the local authorities from sales, e.g., savings in maintenance costs.

²¹The purchase price estimates in the example would fall if the house was older and would rise if the period of occupancy fell. This example indicates a subsidy of the order of £90m to tenant purchasers in 1980 based on the difference between the average price of second hand houses and the estimated average sale price to local authority tenants.

with relatively higher incomes, the effects of the sales scheme works in a regressive manner. The Council has warned of the possibility that local authorities may be left managing the least attractive or residual portion of the housing stock. The Council reiterates its concern at the likely adverse social policy implications of this scheme and urges its reappraisal.

The Private Rented Sector

3.15 This sector can be divided into the formerly controlled rented sector and the uncontrolled sector. Parts of the Rent Restrictions Act 1960 which prevented the raising of rents were declared unconstitutional by the Supreme Court in June 1981. The Housing (Private Rented Dwellings) Act 1982 made provisions for the level of rents to be settled by the landlord and tenants and, in default of agreement, the District Court has the power to set what it considers a just and proper rent. The 1982 Act also provided for the Minister for Social Welfare to introduce a system of rent allowances to tenants who might otherwise suffer hardship as a result of rent increases. Such a system of rent allowances has been introduced.

3.16 Very little information is available on the economic and social characteristics of tenants in the private rented sector. With the phasing out of the major part of rent controls this is the one sector which does not benefit in any substantial way from subsidies²². The proportion of households renting accommodation from private landlords has fallen from 26% in 1946 to 13% in 1971. Within this sector there has been a decline in the number of rent controlled dwellings. This has been partly offset by growth in uncontrolled dwellings, many of which are furnished. Weekly rents in the uncontrolled sector are significantly higher than in the local authority sector²³.

3.17 The flexibility of privately rented accommodation suits certain categories of tenant, notably young people, including students, and those whose occupations involve mobility. Married couples in the private rented sector may be saving to purchase their own house or will enter local authority housing when sufficient children are born. There is a significant number of elderly persons in this sector, many of whom are in formerly controlled tenancies. Some tenants, including many of

²²The Finance Act 1981 (Section 23) introduced tax incentives for the construction of rented apartments. The estimated cost was £4m in 1981 and £8m in 1982. Because this scheme applied only to new apartments, they tend to have higher rents. Consequently the benefits of this subsidy are likely to flow to those on higher incomes.

²³*Private Rented, the Forgotten Sector*, L O'Brien and H Dillon, 1982, p. 23, 24.

the elderly but also including low income or unemployed persons and small families have little prospect of receiving local authority accommodation or of acquiring home ownership. These groups are often households on the verge of homelessness, who are "trapped" at the bottom of the housing ladder. Public policy has hitherto paid little attention to the problems of these groups.

3.18 In the context of Ireland's demographic structure and labour force trends, it is unlikely that the owner occupied and the local authority sector will be able to cater for the entire housing needs of the future. It follows that the private rented sector has an important role to play and that housing policy should take account of the different groups of people with differing requirements who are presently housed in this sector. Further, the inequality of subsidies by type of tenure needs to be corrected in order to maintain the private rented sector in existence. In this context the recent decision to provide assistance, through the Department of Social Welfare, toward payment of rent by tenants in the formerly controlled rented sector is to be welcomed. The Council is of the opinion that consideration should be given to extending this type of scheme to both low income tenants in the "uncontrolled" sector and to the homeless.

3.19 The Council welcomes the establishment of the Joint Oireachtas Committee on Building Land which was to make recommendations regarding possible legislative and other measures to deal with the supply and cost of building land²⁴. The Council considers that this Committee should be reconstituted in the new Oireachtas. The Council also welcomes the changes in capital gains legislation relating to development land. From 25 March, 1982 the rate of tax on gains from disposals of development land was raised from a top rate of 30% to 50% with a special 60% rate for gains realised within one year. Tax reliefs were also reduced.

3.20 The Council considers that there is a need for a comprehensive housing policy which could ensure that the regressive aspects of the existing subsidies are corrected and which should also insure that persons and families who are unable to afford the high entry costs to the owner occupied sector and who do not qualify for local authority accommodation are catered for.

EDUCATION

3.21 Public expenditure on education is determined largely by the

²⁴Dail Debates, 15/7/82, col. 2608-2610.

pattern of demographic change, particularly the number of children and their participation rates in education and also by cost increases in respect of teachers salaries and equipment. The *White Paper on Educational Development*, published in 1981, recognised the likelihood of further substantial increases in real expenditure in education. In its report on economic and social policies in 1981, the Council regretted that the White Paper, while it acknowledged the importance of equality of opportunity within the educational system, did not outline priorities. In the following paragraphs the overall trend in expenditure on education up to 1982 is briefly reviewed, and recent developments are examined in the terms of the objective of equality of opportunity.

3.22 Public capital expenditure on education is estimated at £94m in 1982 – which would be a 2% decline in constant prices on the 1981 figure (Table 3.13). Capital expenditure on education has been subject to considerable year to year fluctuations.

3.23 There was steady growth in current educational expenditure in real terms of around 4% p.a. between 1977 and 1981. Current public expenditure on education in 1982, which is estimated at £695m, represents a decline in real terms of 4% on the 1981 outturn (Table 3.14)

3.24 The non-capital cost per pupil is shown in both current and constant prices for different educational institutions in Tables 3.15 and 3.16. There is a sharp increase in the cost per student as one progresses from the "lower" to the "higher" levels. In comparison with the 1981 cost per primary pupil, cost per pupil almost doubles at second level, and almost triples at RTC and more than quadruples at university level. The cost of teacher training places is as high as for university places.

3.25 There have, however, been changes in the relative costs per pupil over time. The cost in real terms has increased by some 16% between 1975 and 1981 for pupils at primary level, while the real cost at secondary level has increased by 5.5% over the same period. By contrast, real expenditure per pupil at third level fell over the period: by 27% in RTCs, 20% in universities and 31% in teacher training colleges.

3.26 The Council welcomes the shift towards increased expenditure at the compulsory age groups but is concerned at the redistributive effects of continuing high levels of subsidy for third level students, whose backgrounds are predominantly those of middle and higher

income families²⁵. While recognising that many aspects of third level education are important for economic and social development, the Council considers there is merit in considering changes in the methods of financing third level education²⁶.

3.27 Participation rates by age and sex are given for 14 to 24 year olds in Table 3.17. The increase over time in the rate for 16 year olds is noticeable. The participation rates at age 17 are significantly lower. It is clear that at third level there has been a significant increase for all ages and particularly for girls. At the same time that participation rates have been increasing, pupil-teacher ratios have fallen: from 32 to 28 in national schools and from 19 to 18 in secondary schools, between 1972 and 1981²⁷.

3.28 The Council is concerned at the apparently close links between unemployment and poor education. Those leaving school in 1980 with no qualifications had an unemployment rate of 30% while those with Intermediate Certificate or Group Certificate had an unemployment rate of 16% and those with Leaving Certificate had an unemployment rate of 8%²⁸. It has been argued that participation in education depends largely on the socio-economic background of the pupils' families so that "the potential for mobility out of the more marginal and disadvantaged categories is slight. The children born into such categories will lack the credentials for movement to other positions"²⁹. In this way the present system of education can contribute to reproducing social inequalities. The Council believes that there should be increased emphasis at first and second level education on measures which could identify likely early school-leavers and provide special training and support to prevent them becoming long term unemployed.

HEALTH SERVICES

3.29 Public capital expenditure³⁰ on health services in 1982 is estimated at £49m, a decline of almost 1% in real terms on the 1981

²⁵*Participation in Higher Education – A National Survey*, Pat Clancy, HEA 1982.

²⁶Perhaps along the lines suggested by A Barlow *The Financing of Third Level Education* ESRI Paper 106, 1981 which suggested loans for students.

²⁷Dail Records 25/5/82 Column 890.

²⁸*NMS School Leavers Survey*, 1980, Department of Labour June 1982.

²⁹*The Distribution of Income in the Republic of Ireland. A Study in Social Class and Family Cycle Inequalities*, D Rottman, D Hannan, et. al. ESRI paper 109 p. 70.

³⁰Capital expenditure on health services refers almost entirely to expenditure on hospitals.

outturn (Table 3.18). Between 1977 and 1981 capital expenditure on the health services grew by around 14% p.a. in real terms.

3.30 Current expenditure on the health service is estimated at £951m in 1982, the same in real terms as the 1981 outturn. (Table 3.19) have been considerable increases in current expenditure in real terms in recent years, particularly in 1979 and 1980 when increases of 13% and 14% respectively were recorded³¹. The 1981 outturn represented a decline in expenditure in constant prices of 3% over 1980.

3.31 The General Hospitals Programme dominates public expenditure on the health services, accounting for over half of current expenditure in recent years (Table 3.20). The Community Programmes³² account for just over 20% of current expenditure and the Psychiatric Programme and the Programme for the Handicapped account for 12% and 8% respectively.

3.32 Current public expenditure on the health services grew by almost 32% in real terms between 1977 and 1981 (Table 3.21) with the most rapid increase of 39% occurring in the General Hospitals Programme followed by Community Health Services at 30%. These two programmes are examined in some detail in the following paragraphs.

General Hospitals Programme

3.33 "Acute"³³ hospitals account for a little over 80% of expenditure on this programme (Table 3.22). Within this category the increase in expenditure was particularly sharp for health board county hospitals and homes: 77% in real terms between 1977 and 1981. This may, in part, reflect the Governments' decision in its 1975 National Hospital Development Plan³⁴ to develop 22 General Hospitals. Increased expenditure was required to develop a number of hospitals, almost all of which were county hospitals. No estimates have been made of the costs of this

³¹The large real increases in 1979 and 1980 were due partly to major pay awards. This is reflected in an increase to 66% in the proportion of expenditure accounted for by pay in those years (Table 3.19). The 1982 allocation in the Book of Estimates put pay at 64% of current expenditure.

³²Community here is taken to mean the Community Protection, Community Health and Community Welfare programmes. The community aspects to the Programme for the Handicapped and the Psychiatric Programmes are excluded.

³³"Acute" hospitals are those that cater for short stay patients with acute illnesses.

³⁴*General Hospital Development Plan*, Department of Health, October 1975.

decision nor of the optimum size for general hospitals³⁵.

3.34 Admissions to acute hospitals have been increasing at over 4% per annum over the past decade³⁶. Admission rates³⁷ are above the comparable rates, classified by age and sex, for the main regions in the United Kingdom (Table 3.23). These higher admission rates were made possible by relatively high bed-population ratios rather than by shorter stays in hospital³⁸.

3.35 The Council considers that there is an urgent need to examine the functioning of the General Hospitals Services Programme in much greater detail in order to see if those presently availing of the services provided cannot be cared for in a more cost-effective manner. It is not possible to ascertain, for example, with present data, the socio-economic characteristics of inpatients, whether there are multiple admissions by the same persons, nor whether the high admission rates for older persons could be reduced by improved geriatric care outside of general hospitals. A study reported by the Medico-Social Research Board of the records of short-stay patients in one hospital concluded that "40% of the patients who spent less than four days in hospital could have been treated without admission to an acute hospital bed. This represents almost 18% of the entire hospital admissions"³⁹.

Community Health Services Programme

3.36 The Community Health Services Programme includes the general

³⁵The Fitzgerald Report (*Report of the Consultative Council of the General Hospital Services*, S.O. 1968) recommended the development of 12 general hospitals, each serving a minimum population of 100,000. 16 of 22 centres finally chosen have been estimated to serve populations of less than 100,000. (A Horner and A Taylor *Grasping the Nettle - Locational Strategies for Irish Hospitals*, Administration Vol 27, No. 3, 1979). The proportion of acute hospital patients attending county hospitals fell slightly between 1973 and 1979 and the growth in hospital beds in those hospitals was below the average for all hospitals according to *Statistical Information Relevant to the Health Services*, (various years).

³⁶The increase in admissions was from 368,000 to 561,000 between 1970 and 1979, an annual increase of 4.3% p.a.

³⁷Discharge rates are virtually the same as admission rates. The data is drawn from the *Hospital Inpatient Enquiry* of the Medico-Social Research Board which excludes maternity and psychiatric discharges.

³⁸There are 4.3 acute beds per 1000 persons in Ireland in 1979, on the basis of data made available by the Medico - Social Research Board. The comparable ratios were 4.2 in Northern Ireland, 3.5 in Scotland, 3.1 in Wales and 2.8 in England, according to *Priorities for Public Expenditure: Health and Social Services*, Northern Ireland Economic Council, Report No. 32, p. 24.

³⁹Annual Report of Medico-Social Research Board, 1981, p. 21.

practitioner services which accounted for over 60% of the programme's expenditure in 1981 (Table 3.24). Drug subsidies and refunds made up a further 13% of expenditure, the same share as home nursing services. Expenditure on this programme rose in real terms by 30% between 1977 and 1981. The largest increases were in the drug subsidy scheme and in home nursing services (albeit from low bases).

3.37 The major cost element in the general practitioner service was the provision of drugs to persons with category 1 eligibility which cost £50m in 1981, or just over 70% of the total cost of the general practitioner service. The refund towards cost of drugs scheme, which applies to non-medical card holders, cost £11m and the drugs scheme for persons with certain long term illnesses cost just over £4m in the same year. Drug costs in total were £65m, or over half the total expenditure on the Community Health Programme.

3.38 The Trident Report⁴⁰ examined methods which could reduce the cost of drugs. According to that report "the concept of having only ethical drugs⁴¹ in the GMS Scheme is . . . essential in any rationalisation of the health services cost structure". The authors estimated that some 26% of items prescribed under the GMS were available without prescription. Of the almost £11m in 1979 which the report estimated could be saved by its proposals, £5m was due to the exclusion of non-ethical drugs from the GMS, £2m from the inclusion of community drug schemes in the GMS, £1m from changes in the structure of the GMS rebate structure, £1m from the management of the discount and rebate structure, and finally £1m from a switch to generic rather than brand name prescriptions.

3.39 The Council considers that there is merit in all of these proposals and notes the recommendation in the Trident Report for an integrated package of reforms encompassing all the elements listed above, only one of which appears to have been implemented. From a social policy point of view the Council is concerned that some low income individuals or families may experience hardship due to a recent decision to exclude non-ethical drugs from GMS prescriptions. More generally the trend in recent years has been to extend the subsidisation of middle and high income groups in their use of GMS-type services through the

⁴⁰ *Report on the Review of Arrangements for the Supply of Drugs and Medicine*, Stationery Office, 1979.

⁴¹ Ethical drugs are defined as those which are available only with a prescription from a medical doctor.

direct subsidy for drugs purchased by non medical card holders⁴², through tax allowances for medical expenses⁴³ and the extension of category 1 eligibility to all persons over 65 years in receipt of social welfare pensions⁴⁴. The Council, while recognising that there may be need for changes in the services provided for those with category 1 eligibility, is also concerned that the brunt of expenditure reductions should not be borne by this category⁴⁵.

3.40 The numbers employed by the health boards and voluntary hospitals in 1977 and 1981 are shown in Table 3.25. Over the period the number employed grew by 27% with an expansion of the largest single category, nursing and allied, of 40%⁴⁶. It is unfortunate that more detailed information is not available on employment by programme. The Council recommends that attempts to improve data in this area be given a high priority.

3.41 Expenditure in real terms on health services grew by 32% between 1977 and 1981. The numbers employed are estimated to have increased by 27% between 1975 and 1981. The implication appears to be that the real growth in health service expenditure has been due to a growth in the numbers employed, although much more detailed study is required to explore these relationships and their effects on the services provided.

SOCIAL WELFARE

3.42 Social Welfare expenditure is determined by demographic factors, economic conditions and the levels of payments in the various income maintenance schemes. As already indicated above (paragraph 3.4) there have been cyclical variations in the rising trend of social welfare expenditure which have been due largely to changes in the level of

⁴² The eligibility limit for the subsidy of drugs purchased by non medical card holders was extended in April 1979 from those with Category II eligibility to include those with Category III eligibility. All drug costs over £16 per month, are refundable. This scheme accounted for 17% of drug costs under the Community Health Services in 1981 compared to 6% in 1977.

⁴³ Tax allowances for medical expenses cost £444,000 in 1981, according to the Revenue Commissioners.

⁴⁴ The March 1982 Budget extended Category I eligibility to all persons aged over 65 who are in receipt of a social welfare pension.

⁴⁵ In this context it is noted that some £8m is outstanding for health charges due from farmers and self employed (Dail records 9/6/1982).

⁴⁶ Labour Force Survey estimates for health service employment indicate an increase of 21% over the same period (*Sectoral Changes in the Labour Force over the Period 1961-80*, QEC August 1982 and additional information provided by J J Sexton, ESRI).

unemployment. Current public expenditure on social welfare is estimated at almost £1,200m in 1981, a rise of almost 11%⁴⁷ in real terms over the 1980 figure (Table 3.26).

3.43 Current expenditure on social welfare is financed partly by social insurance contributions from those at work. There was a sharp drop in the share of social insurance contributions to total expenditure, from 42% in 1980 to 38% in 1981 (Table 3.27). This drop was offset by increased exchequer funding which amounted to £696m in 1981, 18% above the 1981 budget estimate. The 1982 estimate is for exchequer expenditure of £866m, which represents a nominal increase over the 1981 outturn of 27%⁴⁸.

3.44 The composition of social welfare expenditure across the broad headings of income maintenance for the Aged, the Unemployed, Families and the Ill is shown in Table 3.28. Income maintenance for the Aged accounts for one third of total expenditure, followed by that for the Unemployed (one quarter) and for Families (one quarter) with the remainder accounted for by income maintenance schemes for the ill. A breakdown of each of those broad headings is provided in the following paragraphs.

Income Maintenance for the Aged

3.45 The shares of Contributory, Non-Contributory and Retirement Pensions are shown in Table 3.29. Non-Contributory Pensions absorbed 47% of pension expenditure in 1981 compared to 52% in 1976. The share of Old Age Contributory Pensions increased from 32% in 1976 to 36% in 1981. The share of Retirement Pensions remained the same at 16% in each of the years. In total there were almost 230,000 pensioners who each received on average a little over £1,600 each in 1981.

Income Maintenance for the Unemployed

3.46 The number of claimants for unemployment payments rose sharply in 1981 to almost 123,000, a rise of 37% over the 1980 figures. As the level of unemployment has risen, the share of income maintenance for the unemployed (excluding small holders) has increased to almost 20% of social welfare expenditure. The number claiming

⁴⁷10% using the Consumer Price Index as deflator.

⁴⁸After the Second Supplementary Estimate, passed by the Dail 16/12/82 the estimated 1982 outturn is £935m, a 34% nominal increase over the 1981 outturn. Details of the composition of this revised expenditure estimate were not available at the time of writing.

Unemployment Benefit showed the greatest growth indicating that redundancies were an important component in the growth of the number unemployed (Table 3.30).

3.47 The numbers receiving Pay Related Unemployment Benefit increased sharply in 1980 by 60% and again by 54% in 1981 (Table 3.31). This increase supports the suggestion of increased redundancies since the payment of Pay Related Unemployment Benefit is dependent on the claimants income in the previous tax year. The 33,600 recipients in 1981 make up 51% of all Unemployment Benefits claimants. The average payment in 1981 was £19 compared with a maximum payment of £60 per week.

3.48 The proportion of both men and women on the Live Register who are long term unemployed has been rising in recent years (Table 3.32)⁴⁹. In 1981, one in three men and one in five women on the Live Register had been unemployed for more than a year. Some 85% of all long term unemployed were male and they tended to be older, unskilled and often had health problems⁵⁰. As many as 40% of these males had agricultural occupations⁵¹. The Council considers that there is a need for improved information about the problems of the long term unemployed and the evolution of specific policy measures for this group.

3.49 The share of youth (under 25 years) in total unemployment has also been increasing. In January 1982, 25% of the unemployed males were under 25 as were 41% of the females (Table 3.33). The figure for females has risen more sharply than for males over the past two years⁵². The Irish ratio of youth to adult unemployment, however, has been below the ratios for many of the OECD countries⁵³.

⁴⁹This trend towards increasing longterm unemployment (more than 53 weeks) can be temporarily hidden in periods of sharp increase in the numbers on the Live Register. In 1979, 38% of men unemployed were longterm and this proportion fell to 34% in both 1980 and 1981 as the number of new entrants to the Live Register grew. See *Age by Duration Analysis of Live Register*, October 1981, CSO.

⁵⁰Jack Short, *Study of Longterm Unemployment in Ireland* unpublished MSC thesis.

⁵¹Derived from *Age by Duration Analysis of Live Register* 1981, CSO.

⁵²An unknown proportion of the unemployed youth do not register as unemployed due to their reduced entitlements because of living at home. There is some evidence of an increasing proportion of school leavers (18 plus) joining the Live Register as the level of payments for which they are eligible have increased in recent years.

⁵³OECD, *Youth Unemployment, The Causes and Consequences* (1980), (the OECD ratios are based on Labour Force Survey data in the various countries).

The expansion of AnCO and the implementation of a variety of schemes aimed at youth employment⁵⁴ has contributed to lower levels of youth unemployment. The Council notes the establishment of the Youth Employment Agency which has the function of funding and co-ordinating these and other programmes. It is likely that long term youth unemployment is concentrated on disadvantaged children, particularly the 15% who leave school without any qualifications⁵⁵. In the present economic climate, measures to boost youth employment may redistribute jobs towards the more academically qualified. The Council considers that there is a need for measures specifically aimed at the early school leavers to provide them with at least equal employment opportunities. The Council welcomes recent statements from the Youth Employment Agency that it will ensure that schemes are geared to the needs of unemployed young persons, particularly those who are on the live register for six months or more.

3.50 Since unemployment payments are related to the number of dependents a claimant has, it is sometimes suggested that claimants with large families would receive little extra income from taking up employment. A breakdown of the Live Register by number of dependents in Table 3.34 shows that over half of those on the Live Register have no dependents and over 80% have less than three dependents. The percentage with seven or more dependents has been falling, from 5.0% in 1976 to 3.9% in 1981.

3.51 Although the majority of those on the Live Register are likely to be significantly better off by becoming employed, it is possible that the minority with larger families may experience what has been called the "poverty trap". Hypothetical replacement ratios (the ratio of social welfare payments to income from employment) are shown for various prototype families with children and for single persons in Table 3.35. For single persons the replacement ratios are low (below 40%) except in the case where pay-related benefit can boost the ratio to around 70%. A married couple with three children would experience a ratio of around 60% if earnings had been around the average industrial level and 85% if eligible for Pay Related Unemployment Benefit. If however the same sized family had previous earnings of two thirds of the average industrial level, the ratios rise to between 75% and 87%.

⁵⁴Environmental Improvement Schemes Programme, Temporary Grants Scheme for Youth Employment, the Work Experience Programme and the Community Youth Training Programme.

⁵⁵Derived from *Tuarscail*, Department of Education. See also annual School Leavers Survey from the Department of Labour.

Similar ratios apply to married couples with large numbers of children whose earnings have been around the average industrial level but ratios around and in excess of 100 are possible for such families whose earnings have been around two thirds of the average. The effects of reducing the pay related supplement from 40% to 30% is also shown in Table 3.35 to have no effect on replacement ratios for the families shown and hence would have no effect on the high ratios which apply to larger families⁵⁶.

3.52 The Council is concerned at the possibility of these hypothetical replacement ratios being actual ratios for a minority on the Live Register with larger families, particularly those with low earning power. Such a situation would be undesirable from the point of view of the invidious position for the families involved and the disincentive to seeking employment which might result (or apply). The Council has previously urged consideration of measures to improve the relationship between the income tax and social welfare codes which gives rise to this problem and has recommended an improved system of child benefits⁵⁷. The Council believes that these proposals still warrant scrutiny and urges that policy developments, particularly in the areas of taxation and social welfare, take full account of this problem.

3.53 From the social policy perspective, unemployment constitutes one of the most important causes of social distress in terms of material deprivation and lack of social status. Unemployment compensation declines as duration of unemployment increases due to the structure of pay related unemployment benefit and the likelihood that any savings will be exhausted. The Council is therefore concerned that the level of income received by families whose breadwinner is unemployed over long time period should be adequate and that the distribution of the burden of unemployment should not be permitted to aggravate the extent of inequality within the community. The Council reiterates its previous recommendation⁵⁸ that the question of providing more adequately for the needs of the long term unemployed be given urgent attention, while efforts should continue to be made to assist their return to gainful employment.

3.54 While statistical information on the characteristics of the un-

⁵⁶Tax Rebates are excluded in the replacement ratios examined here, since such rebates apply only to those who have recently become unemployed.

⁵⁷NESC Report No. 37, also NESC Report No. 47.

⁵⁸NESC Report No. 62 para 3.48.

employed does not extend to an adequate account of their social background, it is clear that unskilled and semi-skilled workers are more likely to be unemployed than other members of the labour force. At least 60% of the males currently on the Live Register are unskilled (Table 3.36). They are likely to be restricted to lower paid occupations, have limited educational attainment, and are themselves likely to have been raised in low incomes families. It is also known that older workers, on becoming unemployed, are less likely to be re-employed. In the course of a recession, the employment prospects of the less skilled and the older workers are aggravated by the fact that younger and more skilled workers are able to compete more successfully for available jobs. There is thus a need for intensified efforts to make appropriate arrangements for the income maintenance and training of these less advantaged groups.

Income Maintenance for Families⁵⁹

3.55 Expenditure on family income maintenance accounts for around one quarter of gross social welfare expenditure. Widows and Orphans Contributory Pensions accounted for over 42% of expenditure on these programmes, followed by Childrens Allowances at 37% of expenditure. This position is the reverse of the situation in 1976 when Childrens Allowances were the largest item and accounted for almost 45% of expenditure (Table 3.37). Social Assistance Allowances⁶⁰ ranked third in 1981, accounting for almost 8% of expenditure. The Council has recommended increased Childrens Allowances for certain categories of family in the short run and the integration of Childrens Allowances and child tax allowances into a single child benefit scheme in the long term. While there has been some progress in this direction, the Council considers there is still substantial progress to be made.

Income Maintenance for the ill

3.56 Expenditure on programmes of income maintenance for the ill accounted for around 16% of gross social welfare expenditure in 1981. Disability Benefit is the largest programme, accounting for 77% of expenditure under this heading in 1976 and almost 70% in 1981 (Table 3.38). Invalidity Pension ranked second in both years. The combined share of these two programmes was 88% in 1977 and 87% in 1981.

⁵⁹Social Welfare payments in respect of dependents e.g., unemployment payments, disability payments and the like are excluded.

⁶⁰Social assistance allowances comprise: Deserted Wives Allowance, Unmarried Mothers Allowance, Single Women Allowance and Prisoners Wives Allowance.

3.57 The number in receipt of Disability Benefit (Table 3.39) has been just over 300,000 in recent years. Hughes⁶¹ has shown that the number of spells of incapacity per person at risk in Ireland has always been much less than the number of spells in Northern Ireland or Britain, although the rate is rising relatively quickly in Ireland. However, the length of the average period of incapacity has also been increasing more quickly in Ireland. Consequently the rate of absence from work has moved from virtual equality with Northern Ireland in 1954 to nearly 10% higher in 1978 and from one and a half times the rate in Britain in 1954 to nearly one and three quarters the British rate in 1978⁶².

3.58 At present around one in four applicants for Disability Benefit is summoned for a second medical opinion, (Table 3.39). The proportion who do not attend for the second medical opinion has been increasing and reached almost 10% in 1981. However, since it can take up to four weeks to get a second medical opinion⁶³, it cannot be taken that non-attendance necessarily implies a spurious claim. (It is also worth noting that although the Northern Ireland authorities refer most of their doubtful cases to medical referees within a week, the rate of absence is similar to that of Ireland). The proportion of claimants judged capable of work is approximately 4% of all claimants for the years shown.

3.59 Disability Benefit claims are classified by sex and marital status in Table 3.40 and claim rates are presented using estimates of the insured labour force⁶⁴. The claim rate for married women is exceptionally high at over 30% compared to rates of between 4% and 6% for men and for single women respectively. Very little is known about the reasons for the high claim rate for married women, which could be due to their general ineligibility for unemployment compensation, to the pressures of combining family duties with employment, or to the effects of high marginal tax rates on their earned income⁶⁵. In order to begin to answer these

⁶¹G Hughes, *Social Insurance and Absence from Work in Ireland* ESRI, January 1982, p. 36.

⁶²Ibid p. 36.

⁶³Ibid p. 10.

⁶⁴It has not been possible for the Department of Social Welfare to provide the numbers of persons fully insured, classified by sex and marital status. Hence estimates based on the Labour Force Survey of 1979 are used. Although these estimates are approximate, they indicate the order of the magnitudes involved.

⁶⁵Married women are uneligible for UA and their claims for UB are generally disallowed if they have children. If their husbands are working they are likely to experience high marginal

questions more detailed analysis is required. The Council recognises that there is a need for policy reappraisal in this area and urges that this be based on analysis of the underlying causes. For example, reduction of the ceiling on disability benefit payments⁶⁶ would have little effect on the claim rates for married women as many of these claims are of long duration and hence ineligible for a pay related supplement. Around one in four claimants receive pay related supplements at present. (Table 3.41).

TAXATION

3.60 The trend in recent years in the composition of total tax revenue has been towards increased reliance on VAT and to a lesser extent on personal income (income tax, social insurance and the youth employment levy) (Table 3.42). The share of VAT rose from 15% of total taxation in 1975 to an estimated 21% in 1982 while the share of personal income taxes rose from 42% in 1975 to 45% in 1980, before settling at 44% in 1981 and 1982. The 1982 VAT figure, however, includes an exceptional once off yield from VAT on imports. These increases were counterbalanced particularly by a decline in the share of rates from 7% of total taxation in 1975 to an estimated 2% in 1982. Declines were also recorded in the share of capital taxation (including estate duty) from 1.2% to 0.4% and of motor vehicle duties from 2.4% to 1.4%, over the same period.

3.61 Similar trends are evident when tax yields are expressed as a proportion of GDP (Table 3.43). The rise in the share of taxes on direct income, from 13% to 18% of GDP, and VAT from 5% to 8% GDP, over the period 1975/1982 is particularly notable. The total tax yield has increased from 31% GDP in 1975 to 40% GDP in 1982. The Council is concerned that the increased reliance on indirect taxes (Customs and Excise, VAT) is likely to bear most heavily on lower income groups due to the regressive nature of these taxes⁶⁷.

3.62 The ratios of family disposable income to earned income for 1981/82 and 1982/83 show little change over the previous years except for those on higher income whose position disimproved (Table 3.44). This is because the narrowing of the tax bands in the 1982

rates of income tax. Since Disability Benefit is untaxed it can be worth almost £60 per week in real terms to a married woman paying income tax at 45%.

⁶⁶ As was proposed in *The Way Forward*, Stationery Office 1982.

⁶⁷ NESR Report No. 53 (paragraph 5.40) stated "In general indirect taxation is regressive (although it need not be so.") See also B Nolan *Redistribution of Household Income in Ireland by Taxes and Benefits*, Economic and Social Review, October 1981, p. 80.

budget⁶⁸ has little effect on families with near average earnings. Senior management was affected by these changes so that its ratio fell to 63% in 1981/82 and 58% in 1982/83. Similarly, single persons on around average earnings were affected since they began to pay above standard rate of income tax at 78% of average industrial male earnings in 1982/83 compared to 102% on the previous year.

3.63 Trends in family disposable incomes relative to average industrial earnings are shown in Table 3.45 for prototype families with only the standard tax free allowances (See Appendix 2 for details of these families). The introduction of income splitting in 1980 considerably improved the position of those families on higher incomes, like those of senior management⁶⁹. This improved position continued at a lower level in 1981/82 and is estimated to have continued in 1982/83. The improved relative position of the unemployed in 1981/82 and particularly in 1982/83 is also worthy of note. Their payments relative to average industrial earnings rose from 49% in 1980/81 to 52% in 1981/82 and 60% in 1982/83, due to a slowdown in industrial earnings as well as to improvements in unemployment compensation.

3.64 The Council welcomes the improvement in the relative position of the family relying on Unemployment Benefit. In earlier paragraphs the existence of a poverty trap has been noted. The Council believes there is a need for a review of alternative methods of family income support which could guarantee the unemployed a reasonable living standard without exacerbating the poverty trap.

3.65 There has been a sharp increase in the proportion of persons liable to income tax above the standard (35%) rate. In 1973/74, 1% of tax payers were at the higher rates; by 1981/82 this had risen to 17% and the 1982 budget increased the proportion to 40%⁷⁰. High marginal tax rates increase the incentive to minimise tax liabilities by means of discretionary tax allowances and reliefs. The most important of these is tax relief on loan interest which cost the exchequer £30m in 1979/80, £38m in 1980/81 and £53m in 1981/82 in revenue fore-

⁶⁸ The 35% standard rate band was narrowed from £4,500 for a single person and £9,000 for a married couple, to £3,000 and £6,000 respectively.

⁶⁹ Based on the IMI Survey of Management Earnings. The Federated Union of Employers has expressed dissatisfaction with this survey. It has continued to be used for illustrative purposes.

⁷⁰ *Commission on Taxation: Report on Direct Taxation* p. 36.

gone. Housing mortgages account for around three quarters of this relief⁷¹.

3.66 The distributive consequences of the system of allowances and deductions within the income tax system — generally designated as fiscal welfare — is of particular concern. Table 3.46 sets out the cost in terms of revenue foregone of the principal allowances and reliefs in the income tax system. The total cost in 1981/82 was close to £1,000m. The value of tax allowances and reliefs to the individual tax payer is determined by his or her marginal tax rate, as well as by the nominal value of the allowance or relief. Thus, the fall in the cost of the personal allowance in 1980/81 as compared with 1979/80 reflects the introduction of income-splitting for married couples in 1980 which had effect of doubling their tax bands. The total value of allowances and reliefs is substantial, particularly in comparison to the amount of public expenditure devoted to programmes with similar aims⁷².

3.67 Concern at the rate of increase of public expenditure on the social services may not take account of increases in the value of related tax allowances and reliefs (tax expenditures) which have similar implications for the public finances. The Council in a previous report⁷³ has recommended that the distributive impact of tax expenditures should receive greater attention in the development of social policy. In that report it was indicated that higher income groups benefited disproportionately from such allowances, partly due to the structure of the tax system but also because certain expenditures for which tax relief may be claimed are more likely to be incurred by those on higher incomes. The Council recommended that the benefits of tax allowances should not flow disproportionately to the higher income groups. The Council reiterates these recommendations and urges that tables showing all tax expenditures should be published as a matter of course.

⁷¹ Information received from Revenue Commissioners.

⁷² Thus, for example, the costs of child tax allowances and non taxation of social welfare children's allowances was equivalent to 77% of the cost of paying children's allowances in 1980 and 72% in 1981. The cost of relief of tax for employees superannuation contributions was equivalent to 52 per cent of the Exchequer contribution to the cost of paying social insurance (contributory) old age pensions in 1980 and 42% in 1981. The estimated cost of the tax relief on medical insurance premia rose by 2.5% between 1979/80 and 1980/81 and 40% between 1980/81 and 1981/82, while Government current expenditure on the health services increased by 39% between 1979 and 1980, and by 17% between 1980 and 1981.

⁷³ NESC Report No. 61.

CONCLUSION

3.68 The trends in public expenditure on housing, education, health services and social welfare as well as developments in taxation were reviewed in the above paragraphs. The lack of sufficient information on a number of major programmes has been noted and specific recommendations have been made on the provision of the data which is required for the application of the principles of social policy (Appendix 1). There have been considerable achievements in the past decade, notably in the provision of new housing, the increase in participation rates in secondary education, the provision of improved health services to much of the population and the extension of social welfare provisions. There exist, however, serious questions about the redistributive transfers involved. Many of the housing subsidies benefit disproportionately those who are better off. Third level students who come predominantly from relatively privileged backgrounds are heavily subsidised. The moves towards universality in the health services has been of most benefit to the middle income groups. Levels of social welfare support are still relatively low for larger families, particularly those who are unemployed over long periods. The taxation system has relied increasingly on indirect taxes, the impact of which may be regressive. The tax base has been narrowed in recent years and, of the range of tax allowances and reliefs available, most are of greatest value those on relatively higher incomes. In a previous report, the Council has stated its belief that:

"levels of support for those most in need and the degree of redistribution within the community should at least be maintained in times of economic difficulty. It follows that in periods or recession, those in employment or otherwise in receipt of a secure income have an even greater obligation to contribute to the support of those in need through taxation⁷⁴.

The manner in which revenue is raised to meet expenditure commitments, including additional revenues which may be required to eliminate the current budget deficit, has substantial implications for the distribution of disposable income in the community. The distributive consequences of the tax system are therefore of equal concern as the provision of social services for the attainment of the objectives of social policy.

⁷⁴ NESC Report No. 61 paragraph 53.

CHAPTER 4

KEY ISSUES FOR ECONOMIC AND SOCIAL DEVELOPMENT

Introduction

4.1 This Chapter presents the Council's analysis of key issues in economic and social policy. It is divided into two main sections, the first section deals with the overall macro-economic strategy while the second section deals with the strategies for particular sectors. The Chapter includes a discussion of certain trends which are of major importance in the formation of policy: the rate of growth in the labour force, the growth of export markets and the rate of increase in costs among our trading partners.

MACRO-ECONOMIC STRATEGY

Objectives

4.2 The economy in 1982 is characterised by a continuation of slow growth, rapid (though falling) inflation, a large balance of payments deficit on current account (also falling) which is financed by State external borrowing and a high and rising unemployment rate. The persistence of these trends in recent years has culminated in a very serious economic situation. The present situation does reflect, in part, the continuing global recession. It also indicates, however, the extent to which domestic policies have failed to address the problems.

4.3 While there are many aspects of the present situation which give cause for concern, two particularly serious features deserve priority ranking — the high and rising unemployment rate and the large and rapidly expanding external debt. In April 1982 there were 157,000 persons unemployed and seeking work. This was equivalent to 12.0% of the labour force.¹ The growth in both the exchequer borrowing requirement and the public sector borrowing requirement has been accompanied by increased recourse to foreign borrowing. External Government debt more than doubled between 1979 and 1981 as did

¹ Labour Force Survey definition, including first time job seekers. On the Live Register definition, unemployment reached 170,000 in November 1982, an increase of 28% over the same period in 1981.

the external debt of the State-sponsored bodies while the ratio of total official external debt to reserves increased from 2.18 to 3.46. During 1982 interest payments on exchequer debt are expected to total £1300 million, 44% of which will relate to foreign borrowing. The interest payments on the foreign debt are likely to exceed one third of income tax receipts, or £450 per employed person.

4.4 A major constraint on any economic strategy is the present state of the balance of payments. The balance of payments deficit on current account since 1979 has been high both by historical and international standards (Table 4.1). In the period 1973-78 the deficit averaged over 4% of GNP while over the period 1978-81 this average increased to over 11%. The recent large balance of payments deficits have been financed primarily by foreign borrowing by the Government and State-sponsored bodies. Since movements in the balance of payments are ultimately reflected in the external value of the currency, it must be reduced to a level which is compatible with continued stability of the currency. Borrowing to finance a balance of payments deficit and to maintain the external reserves is unsustainable for any prolonged period.

4.5 Neither the high unemployment rate nor the level of foreign borrowing can be regarded purely, or perhaps even primarily, as recession-related, transient, phenomena. In the absence of a marked change in government expenditure policies, external borrowing levels by the Exchequer would continue to be unacceptably large even under the most favourable assumption concerning the return of high growth rates in the international economy.² Similarly, the growth of employment required to reduce unemployment below the currently high rates will require more than global recovery.

4.6 In this chapter the Council focuses attention on the exchequer borrowing requirement and unemployment. The balance of payments deficit and policies to reduce it to a more sustainable level are not directly addressed in this chapter. However, this in no way lowers the priority which should be attached to this objective. Rather the Council believes that the policies outlined to reduce the exchequer borrowing requirement and reverse the trend of unemployment will have considerable beneficial effects on the balance of payments deficit.

Public Finances

4.7 The Council has previously analysed the scale of Ireland's official

² For an examination of the impact of various growth rates on Government borrowing levels, see NESC Report No. 62, Appendix 3.

external debt and its rapid rate of growth.³ Since then there has been a further deterioration in the external debt position. In the six months to June 1982 external Government debt increased by 20% or £1000 m. A number of key factors in the deteriorating external debt position should be noted. *Firstly*, borrowing to finance current expenditure (which does not yield a significant return and which exacerbates the balance of payments deficit) accounts for nearly half of the EBR. *Secondly*, capital expenditure when considered in total has not generated a significant quantifiable return. This arises partly because much of the capital expenditure is of a social nature but also because many investment decisions have been based, not on a rigorous appraisal of costs and benefits, but on other, non-commercial, factors. *Thirdly*, the rapidly rising burden of debt service places an increasing strain on the public finances and eventually on tax payers. *Fourthly*, the larger the accumulated level of net external debt, the greater is the vulnerability of the economy to changes in the availability and cost of further foreign finance.

4.8 Any attempt to reduce the level of official foreign indebtedness must focus on the exchequer borrowing requirement. Total exchequer borrowing is forecast to reach £1,945 m in 1982, equivalent to 16.7% of GNP with 8½% accounted for by the current budget deficit. One of the central elements of any macro-economic strategy must be the reduction of the borrowing requirement to a sustainable level. This will require the elimination of borrowing to finance current expenditure, i.e. elimination of the current budget deficit. In addition, borrowing for capital purposes is only sustainable if the investment undertaken yields a real net return to the economy.

4.9 There is general agreement on the need to eliminate the current budget deficit. The issue which must now be decided is the timing of the adjustment and the mix of expenditure restraint and/or taxation increases required to effect the adjustment. In its 1980 report on the economy, the Council recommended the elimination of the current budget deficit over three years beginning in 1981. It was the view, at that time, that the elimination of the deficit over a shorter period would have been unrealistic. The analysis at that time showed that the deficit would not be eliminated automatically, even in the event of high levels of economic growth. It would require curbs on public expenditure and/or an increase in tax rates. The setting of an objective longer than three years would have incorporated the risk of the real urgency and necessity of the adjustment being lost. As the state of the public finances, in par-

³NESC Report No. 62.

ticular the level of the current budget deficit, deteriorated further in 1981, the Council revised its recommendation to three years from that date in its 1981 report.

4.10 The appropriate period for the elimination of the current budget deficit must now be reconsidered. The imbalance in the public finances has deteriorated further since 1980. The deficit has increased from 6.4% of GNP in 1980 to an estimated 8.5% of GNP in 1982. In addition it has been suggested that the level of taxation has reached saturation level. This would suggest that any further increases will lead to a reduction in the volume of economic activity such that overall taxation revenue will fall. It is not clear that this is, in fact, the case. It is estimated that there will be a fall off in VAT and excise revenue in 1982 (to below that expected at budget time). It is unclear whether this is due to diminishing returns from these taxes or to a general fall in sales activity induced by recession and falling real incomes. However, since part of the decline in real disposable income is due to increases in personal income tax, the combination of direct and indirect taxes may be leading to diminishing returns.

4.11 As regards personal taxation the issue is similarly complex. For example, if wage increases compensate for tax increases, a consequent loss in competitiveness could lead to a fall off in the volume of domestic activity. Also it might be argued that the increases in personal income tax divert activity to the informal economy with consequent loss of revenue to the Government.

4.12 Although it is not possible to conclude on the extent to which existing taxation levels are affecting economic activity, there is substantial resistance to aspects of the tax code. This arises partly because of the extent to which people perceive the operation of the tax system to be inequitable. In recent years there has been the seemingly paradoxical situation of increased public expenditure accompanied by a narrowing of the tax base. Any discussion of taxation in the present economic and social situation must consider the impact, in terms of revenue and increased equity, of a widening in the tax base.

4.13 A further issue in considering the tax burden is the international comparison of tax/GDP ratios. Bearing in mind the qualifying considerations of differences in economic and social structures, Ireland's tax/GDP ratio does not appear excessive by EEC standards. The following is the position for all EEC countries over the last two years:⁴

⁴Commission of the European Communities, Annual Economic Review, 1982-83, (Table 6.2).

	<u>1981</u>	<u>1982 (e)</u>
Indirect taxes	14.0	14.1
Direct taxes	12.6	12.8
Social Security contributions	14.7	15.1
	<u>41.3</u>	<u>42.0</u>

In Ireland in 1981, total tax revenue including social security contributions amounted to 37.7% of GDP while the estimate for 1982 is 39.8%.

4.14 While the scope for further taxation must be considered, the main burden of adjustment of the public finances must fall on public expenditure. Since public service pay and pensions account for approximately 50% of government current expenditure excluding debt service, the trend in numbers employed and average levels of remuneration are central to the controlling of expenditure. Between 1979 and 1982 the exchequer pay bill almost doubled in money terms. In 1983 the exchequer pay bill is set to increase by 10.4% without any increases above those already agreed.⁵ Future trends in public service pay must now reflect a choice between numbers employed and rates of remuneration within an overall pay bill consistent with restoring balance to the public finances.

4.15 With regard to the volume of non-pay expenditure the Council wishes to emphasise that controlling current expenditure is not simply a matter of reducing its amount. While bringing expenditure into line with resources is necessary for any overall macro-economic strategy, planning also requires attention to resource allocation. Restraining the growth of current expenditure cannot be divorced from planning since decisions on which programmes to restrict must be based on some priority ordering. This relative ordering of priorities must pay due regard to equity considerations, particularly in the social services area, such that the burden of adjustment does not fall on the most vulnerable sections of the community. This need for priorities within and between programmes will necessitate increased attention to mobility and productivity within the public service.

Charges for Services

4.16 The Council believes that charges for services are an important means of restraining the growth of non-pay expenditure. Where charges

⁵This figure includes the 1982 cost of the Third phase and the "1982" special claims to be paid in 1983 together with the portion of the 1983 special claims to be paid in 1983.

are introduced they have the desirable effect of removing a possible perception that many services provided by the Government are free. Furthermore, where taxation is replaced by charging, decisions regarding the volume of services are partially transferred from the Government to the public. However, the Council is aware that the introduction of charges could hit the most vulnerable sections of the community disproportionately. A mechanism for the identification of these sections with a view to ensuring that they are protected should therefore accompany the introduction of new charges.

Employment and Unemployment Trends

4.17 Ireland, in common with all other EEC countries, has experienced a substantial rise in unemployment over the past decade, rising from 5.7% in 1971 to an estimated 12.0% in April 1982.⁶ However, in Ireland this period was also one of rapid employment growth with non-agricultural employment rising by 160,000 between 1971 and 1981.

4.18 In terms of the sectors contributing to employment growth the 1970s were markedly different to the 1960s. Over the period 1961-71 the industrial sector accounted for 57% of net non-agricultural job creation. In the period 1971-81 the contribution of the industrial sector fell to 26% (Table 4.2). However, since the 1970s were characterised by two major recessions it may be somewhat misleading to compare the relative contributions of the various sectors over these two periods, since the service sector is more recession proof than other sectors. For example, over the period 1974-76 industrial employment fell by over 7% while service employment increased by 4.5%. It is possible to remove this distortion by examining the sub-periods of employment growth during the 1970s, i.e. 1971-74 and 1976-80. Over these two periods the industrial sector contributed 52% and 42% respectively to net non-agricultural job creation. Thus, even removing the effects of the recession the contribution of the industrial sector to job creation has fallen, particularly in the latter half of the 1970s.

4.19 To gain some insight into likely future employment trends it is necessary to examine the relative performance of private services and the public sector in terms of employment growth. The relative growth rates for the two sub-periods are presented in Table 4.3. Public sector employment growth was much more rapid in the period 1971-79 than in the period 1961-71 and in both periods grew at a more rapid rate than did private services employment. Despite accounting for only one

⁶A background note on European employment policies and trends, used in preparing this text, was prepared by Mr A. Foley, NIHE Dublin.

third of total service employment in 1971 the public sector accounted for 62% of employment growth in the service sector over the period 1971-79. In the sub-period 1971-75 it accounted for 79% but fell off to 50% over the 1975-79 period.

Scale of Employment Problem

4.20 The number of new jobs which will be required over the next decade to effect a significant reduction in unemployment will depend on the actual development of a number of key factors. An estimate of the number of jobs which would be required to reach a given unemployment rate by a specific year can be made on the basis of the labour force projections contained in a recent Council report.⁷ A technical annex which discusses the main factors in projecting job needs is available from the Council Secretariat.⁸ Assuming a continuing decline in agricultural employment it is estimated that non-agricultural employment would have to increase by between 21,000 and 26,000 per annum over the period 1981-1991 in order to achieve a 4% unemployment rate by 1991 (Table 4.4).

4.21 The key factor in determining employment requirements is the rate of growth in the labour force. The Council report projected an annual rate of growth ranging from 12,000 to 17,000 over the period 1979-1991. Other projections by Sexton have estimated that labour force growth will be even more rapid over the period: ranging from 19,400 to 21,600 annually.⁹ The main reason for differences between the two sets of projections is the different assumptions used for activity rates. The more conservative activity rates by the NESC consultants assume:

- (i) that the overall effect of an increase in the proportion of married women, despite a rise in the activity rates of married women, will be a decline in women's activity rates

⁷NESC Report No. 63, *Population and Labour Force Projections, by County and Region, 1979-1991*.

⁸The annex was prepared by Mr John Blackwell, Resource and Environmental Policy Centre, University College, Dublin. Since the technical annex was prepared, revised labour force estimates from the Central Statistics Office were published. These revisions show a higher number for the labour force in 1981 than was used in the technical annex. However, as the estimate of job needs is based on the *change* in the labour force up to 1991, the revisions would not significantly affect the estimates of job needs.

⁹Sexton, J.J., 'The Changing Labour Force' in *The Irish Economy and Society in the 1980s*, October 1981, ESRI.

- (ii) that education participation rates among those aged 15-19 and 20-24 will rise.

It is on the first point that the main differences arise with the higher projections by Sexton. The NESC consultants did recognise the fact that the potential labour force is much higher than their projected labour force for 1991. In particular their report states:

"if the activity rate for women in Ireland were equal to that of the rest of the EEC in 1977, the female (labour) force would be higher by 103,000" (paragraph 48).

4.22 There are a number of factors which will affect the rate of growth in the labour force. Different levels of unemployment and employment will have major influence. Changes in employment are likely to affect net migration and activity rates. Activity rates may also be affected by the introduction of new technologies; changes in living standards over the next decade; the level of social service provision; earlier retirement; and increased participation in second and third level education.

4.23 The scale of the jobs required is underlined when one considers changes which have taken place in respect of some previous sources of employment growth. Between 1961 and 1971 the public sector accounted for 29% of non-agricultural employment growth. This increased to over 43% in the period 1971-79.¹⁰ The indebtedness problem outlined earlier together with the balance of payments constraint now rule out any further general fiscal stimulus. It is therefore necessary to look to industry and private services for future job creation. In addition, much of the growth in private services will depend on the growth of employment in industry, of which manufacturing is the most important part.

4.24 In the last two decades the policy of attracting foreign industry was undertaken in the realisation that indigenous industry would not provide sufficient employment opportunities. During the period 1973-80, foreign firms were the primary source of the growth in manufacturing employment. This employment growth resulted from new inward investment projects rather than a net expansion in employment in already established overseas firms.

¹⁰Allowance for the effects of the 1974/75 recession on the growth of industrial employment would result in a lower share than 43% attributable to the public sector.

4.25 The present environment for overseas investment indicates that the future contribution of new overseas firms may be much reduced. There has been a slowdown in the amount of direct foreign investment for which Ireland is a potential host. This amount reflects, in large measure, the amount of investment by US companies. These companies have been the most important source of new overseas investment in Ireland. In 1973, US companies accounted for 28% of those employed in foreign firms. By 1982, nearly 37,000 or 42% of all jobs in foreign firms were in US firms. In 1981 there was a real decline in US investment in Europe and there is likely to be a further decline in 1982. Ireland may beat this trend for some time, but, given the extent of the employment problem in other developed countries, this might only be possible through an increasingly expensive incentive package.

4.26 *In summary*, the magnitude of a job creation target which seeks to maintain unemployment even at present rate, in the absence of emigration, or significant changes in labour force activity rates, when examined in the light of past trends, is daunting. Growth in one of the sectors making a large contribution to growth in the past, i.e. the public service element of the services sector, will be severely constrained by attempts to restrain the growth of the public service pay bill while fresh injections of new foreign firms are likely to become increasingly expensive.

Output, Employment and Competitiveness

4.27 The primary economic and social objective of any macro-economic strategy must be to reverse the current upward trend in unemployment. The Council believes that the manufacturing sector will be the key sector in determining overall export, output and employment growth. Export growth will depend upon the growth of export markets and the competitiveness of Irish goods vis-a-vis foreign goods in terms of price and non-price factors such as quality, reliability of service and delivery. Competitiveness is also influenced by wider issues such as the quality of management, infrastructure and the exchange rate. This section concentrates primarily on labour-cost competitiveness while other issues are dealt with in the context of sectoral strategies.

Manufacturing Industry

4.28 With regard to the growth of our export markets it is relevant to consider recent projections prepared by the EEC Commission. These projections assume that the control of inflation will be the central objective of national policies in the EEC, thus indicating a tight monetary policy. Fiscal policy on the other hand is assumed to be dominated by attempts to contain budget deficits. As a result, major expansionary

fiscal policy initiatives are seen to be unlikely, particularly in the early part of the period 1983-87. (However, it is worth noting that the European Commission recently urged the UK and West Germany to attempt some reflation by allowing monetary growth to climb to the top end of their target ranges.) With generally tight macro-economic policies, community GDP is forecast to grow on average by 2.5% over the period 1983-87. Given the relationship between the growth of GDP and the volume of imports in the EEC since the mid-1970s, the growth of EEC imports could be of the order of three to four per cent.

4.29 The effects of changes in real incomes on employment, operating in particular through imports and exports, was discussed in detail in NESG No. 62 where it was concluded that:

“real income movements have significant effects on the level of employment. Such real income movements operate both through the effects on the competitiveness of the exposed sector and also through effects on the demand for imports” (NESG No. 62, page 83).

4.30 Reliable estimates of the effects of competitiveness on output and employment are not available to the Council. However, it is possible to gain some insight into the effects of labour cost competitiveness by comparing the growth of manufactured exports with changes in unit labour costs relative to our trading partners.¹¹ Table 4.5 presents details of the growth of Ireland's export markets (weighted by the proportion of Irish exports going to each market) together with the growth of Irish exports. A comparison of the two series indicates that the growth of Irish exports has been consistently greater than the growth of export markets. While this, in part, reflects the inflow of new overseas firms, the effects of changes in labour cost competitiveness are likely to be significant also. By subtracting the growth of Irish exports from the growth of export markets the difference in broad terms shows improvements in market share. A comparison of the difference with changes in relative unit labour costs notwithstanding the existence of lags etc. is indicative of the benefits in terms of exports which flow from improvements in relative unit labour costs.

4.31 Future developments in Ireland's labour cost competitiveness vis-a-vis her trading partners will depend upon movements in average

¹¹The likely effects of changes on competitiveness on import substitution are discussed in paragraph 4.36 et. seq.

earnings and productivity in Ireland, movements in unit labour costs in competitor countries and exchange rate changes. Assuming stability of the exchange rate and allowing productivity to maintain its long run average annual rate of growth of 4%, the critical factors become the growth of average earnings in Ireland and the growth of unit labour costs in our trading partners.

4.32 When comparing cost competitiveness across countries labour costs are a more relevant variable than wage costs. The former is a broader concept as it includes employer's contributions to social insurance funds. These contributions have become increasingly important in recent years and their rate of change has varied across countries. There is little internationally comparable data available on these non-wage labour costs, hence the present discussion focuses on wage costs. However, in any policy discussion on competitiveness these contributions must be considered in the context of their likely effects on competitiveness.

4.33 Since the only comprehensive data available for earnings and unit costs in the private sector in Ireland is for manufacturing industry the following discussion concentrates directly on that sector. However, given the flow of goods and services across sectors and the comparability of wage rates between sectors, economy-wide competitiveness is more important than competitiveness in any one sector. Thus, any comments on the manufacturing sector in this section apply equally to other sectors with relevant adjustments for differential rates of productivity growth.

4.34 In the national economic plan published in October 1982, a figure was quoted from the European Commission projecting an average increase of 7.5% in the unit wage costs of our trading partners over the period 1983-87. This, however, is likely to be somewhat optimistic. Over the period 1976-81 unit wage costs in ECUs increased by an annual average of 4.2% in the Netherlands, 6.3% in West Germany, 5.7% in Belgium, 6.6% in France, 5.8% in Denmark and by 13.3% in the UK. Over the same period unit wage costs in Ireland increased by 8.1%. In addition, given the success of many of our trading partners in moderating significantly the rate of inflation and the likelihood of weaker labour markets for the foreseeable future the growth of unit wage costs is likely to decelerate further.

4.35 The following table provides an estimate of the annual rate of growth in average earnings which will be required to maintain competitiveness (assuming productivity growth of 4%) if average unit wage costs in our trading partners increase by certain percentages.

Unit Wage Cost increases in our trading partners:	Size of increase in average earnings in Ireland which would maintain competitiveness:
7.5%	11.8%
5.0%	9.2%
3.0%	7.1%

However, as shown in Chapter 2 there has been a deterioration in wage cost competitiveness against the majority of our EMS partners since entry to the EMS which was largely the result of increases in average earnings being out of line with our trading partners. Restoration of competitiveness to pre-1979 levels would therefore require even lower increases in average earnings than those set out above. However, a comparison of the increases in earnings required to maintain competitiveness with the actual increase in earnings for the last number of years (Table 1.8) shows the magnitude of the departure from previous experience. The lowest increase in average earnings since 1975 was almost 15%. In the light of these considerations improvements in competitiveness will be difficult to achieve. It is worth noting that in only two years since 1975 has Ireland achieved a significant improvement in its competitive position vis-a-vis its trading partners. These years were 1976 and 1981 and the improvement in both years resulted from a depreciation of the effective exchange rate.

Import Substitution

4.36 The scope for import substitution is examined in the following paragraphs by reference to two categories of imports, viz, imports of consumer goods ready for final use and imports of materials for further production. The latter is discussed in the section dealing with sectoral strategies. In the case of consumer goods it is useful to look at the relative growth of consumer goods imports and private consumption expenditure over the last number of years.

4.37 Private consumption expenditure is total consumer expenditure by Irish residents, which is the total of domestically produced consumer goods and imports of consumer goods. While total private consumer expenditure increased by over 17% in the period 1971-79, imports of consumer goods increased by 50% in real terms. This divergence was also evident in 1980 and 1981 when imports of consumer goods increased by over 10% while private consumer expenditure fell by 1%.

4.38 The divergence between the growth of total consumer expenditure

and the growth of consumer goods imports may, in part, reflect the pattern of demand such that demand is growing faster for goods which are not produced domestically. This could result from increases in living standards or changes in the distribution of income towards sectors with a high import propensity. However, the competing import data in Table 1.12 even allowing for their tentative nature, do indicate that imports are taking an increasing share of markets for goods which are produced domestically. Part of the reason for increased import penetration in 1977 and 1978 is likely to have been the relatively high degree of capacity utilisation in the economy over those two years with the result that the rapid growth of consumer demand was satisfied by increased imports.¹² However, increased penetration also occurred in years in which this capacity constraint did not exist. In fact in 1980 and 1981 consumer demand fell while consumer imports continued to increase.

4.39 Another possible explanation for the increase in import penetration is a deterioration in competitiveness. It is therefore instructive to examine relative movements in the price of imports and the price of domestically produced output.¹³ Ideally one would like to compare movements (at a disaggregated level) in the price of domestically produced consumer goods with those of imported consumer goods. Since this information is not available the comparison is between the overall manufacturing output price index and the overall import price index. There is one important qualification to the use of the overall output price index in that it includes both manufactured exports and output for sale on the domestic market, the price indices for which could diverge significantly. Manufactured output prices and import prices moved broadly in line in 1977 (Table 4.6). In 1978 manufacturing output prices increased significantly faster than import prices while over the remaining part of the period (1979-81) import prices increased faster, particularly in 1980.

4.40 By subtracting the growth in the volume of personal consumer expenditure (which indicates the growth of demand for consumer goods) from the growth of imports of consumer goods, the residual can be interpreted as a market share effect (Table 4.6). The results of

¹²For further discussion on this point see *An Analysis of Job Losses in Irish Manufacturing Industry*, NESR Report No. 67.

¹³This may not be the most appropriate measure since domestic producers may be price takers and hence relative prices may not diverge significantly. Measures of cost competitiveness must be examined also.

a comparison of the market share effect with relative price movements is somewhat ambiguous. In some years in which import prices increased faster than domestic output prices, for example 1978 and 1979, there was still significant increases in import penetration, while in 1980 the increase in import penetration fell significantly which was consistent with the more rapid increase in import prices.

4.41 An examination of wage cost competitiveness (i.e. the movement of manufactured output prices relative to unit wage costs) indicates that changes in cost competitiveness, even in combination with price competitiveness and taking into account the possibility of a capacity constraint in some years, are not sufficient to fully explain the continuous rise in import penetration. The persistence of increasing import penetration, despite improvements in competitiveness, indicates that an examination of non-price factors such as marketing, quality, etc. is necessary. Improvements in cost competitiveness would therefore appear to be a necessary rather than a sufficient condition for import substitution of consumer goods.

Disincentive to Work

4.42 The level of social welfare benefits and the operation of the tax code have given rise to a number of situations where a person's take home earnings will be greater on being absent from work or while engaged on short-time work. The ratio of net payments while out of work (or on short-time) to net pay while working is referred to as the replacement ratio. The two main areas where replacement ratios can be greater than 100% occur in respect of certified illness and short-time working. In the latter case the use of a six day work week as the basis for calculating social welfare benefits while the five day work week is now almost universally applicable results in the possibility of high replacement ratios for persons engaged on short-time work.

4.43 In the case of certified illness an insured worker will be eligible after twelve days for a combination of flat rate benefit and pay related benefit. The maximum of the combined benefits is limited to 100 per cent of a claimant's weekly gross earnings in the previous tax year. These payments are not treated as income for tax purposes. The claimant may, however, also be entitled to a tax rebate on the basis that, under the PAYE system, his taxable income will have been overestimated for the purpose of tax deductions in that year.¹⁴ The actual replacement

¹⁴The tax free allowance and the amount of tax to be deducted from each wages payment will have been calculated on the basis of the person remaining in employment for the full year.

ratio will depend on wage levels, family circumstances and the time of the tax year in which the absence occurs. Table 4.7 shows possible replacement ratios for one particular set of circumstances. Information is not available on the numbers who are in receipt of benefits at various replacement ratios.

4.44 The Council believes there can be no justification for replacement ratios which make it attractive to avoid reasonable employment opportunities. It agrees on the need to change to a five day week for the purpose of calculating benefits for workers on short-time. It is also necessary to tackle more fundamental aspects of the present system. *First*, if there is abuse of the present system of qualification for disability benefit there is a need to monitor more closely the process of medical certification.¹⁵ *Second*, the lack of integration of the tax and social welfare systems has led to the anomalous situation whereby, in a number of cases, a person's total annual take home income will be maximised by spending time out of work. *Thirdly*, in the course of its discussion on the issues of support through the social welfare system and abuse of the system the Council was anxious to have information on the numbers and characteristics of persons involved. Unfortunately in most cases, it was not possible to get information on the numbers and characteristics of the persons who would be affected by changes in the system. Of particular concern is the possibility of "poverty traps" arising for large families.¹⁶ The Council believes that there is an urgent need for improvement of the information available for management of the social welfare system.

DEVELOPMENT STRATEGY

Manufacturing Industry

4.45 The development of the manufacturing sector provides the basis for increased exports, output and employment. The trend in pay costs necessary for the growth of the sector is discussed above. In a longer term perspective, however, moderation in the growth of incomes, with consequent improvements in labour cost competitiveness, will not be sufficient to ensure a strong industrial base with growing employment.

¹⁵The Council notes that four additional medical referees have been appointed by the Department of Social Welfare. The results of an increased number of claimants being referred more quickly for a second opinion will provide valuable information on the operation of the present scheme.

¹⁶See paragraph 3.51-3.53.

4.46 The Council believes that industrial policy should give priority to the development of strong internationally trading indigenous industry and foreign companies incorporating those characteristics which will maximise their contribution to the Irish economy.¹⁷ In the case of indigenous firms there is a need for greater emphasis on ensuring that more firms have the size, functions and financial strength to maintain a competitive advantage on international markets.

4.47 Whereas many of the job losses in Irish manufacturing industry reflect necessary structural change, there have also been cases where the prevention of losses would have been amenable to domestic control, for example, through more timely recourse to the State rescue services. A key factor in the survival of a firm is the ability to manage change. This involves anticipating threats and opportunities in the business environment and also the development of a commitment to change among those working in the firm. The resistance of many workers to change must reflect, in part, a lack of understanding of the need for change or lack of trust in the motives for change. A recent paper¹⁸ by an experienced company receiver and liquidator emphasised internal factors such as styles of management, relationships in the work place and a lack of emphasis on marketing as the main causes of company failure. All persons working in a company have a common interest in the long term survival and growth of the company. The increasing complexity of the environment facing companies in Ireland and the more intense competition from abroad have combined to increase the importance of managers' skills and expertise.

4.48 The characteristics of foreign firms locating in Ireland were discussed in detail in the Council's review of industrial policies. The analysis showed that most foreign firms were not locating those aspects of their businesses in their Irish subsidiaries which would ensure sustained growth of the firms in Ireland at rising levels of income. It is necessary to see foreign firms, not as providing the core of Irish industry, but rather complementing the development of indigenous trading companies. An important aspect of this complementarity is the markets provided by these firms to Irish sub-suppliers. Foreign firms also provide a yardstick of the standards required by affiliates in other countries and other large multinational companies. Thus the successful marketing of products to these firms can be a key springboard to penetration of overseas markets.

¹⁷For a discussion of desirable characteristics of foreign firms, see NESC Report No. 66.

¹⁸L. Crowley 'Causes of Business Failure', Management, May/June 1982.

4.49 In the case of materials for further production which account for approximately 59% of merchandise imports, the potential for import substitution is considerable, particularly in the area of sub-supply to foreign industry. In NESC Report No. 64 it was estimated that the percentage of raw material supplies for non-food sectors purchased domestically by Irish and foreign-owned firms was approximately 15% and had increased only very marginally since 1974. With domestic demand likely to be flat for the immediate future, firms competing on the domestic market must look to increasing market share as the basis for expanding output.

4.50 Foreign firms are likely to be reluctant to experiment with new suppliers in the more skill intensive product areas. For example an offered price differential may seem a small advantage in relation to the potential risk of quality problems with components. A recent study of linkages with new overseas industry found Irish suppliers were rated inferior to overseas companies in key criteria used for choosing suppliers, such as quality, price, delivery date, reliability and past experience.¹⁹ It concluded that many Irish firms had not adjusted to the standards of internationally trading companies.

4.51 In summary, the Council reiterates the view that sustained growth at rising levels of income will require the development of indigenous trading industry. There has been a lack of success in developing companies with the size, functions and financial strength necessary to maintain competitiveness on international markets. Policy for manufacturing industry must address non-pay factors such as management skills and innovative capacity. The Council believes that industrial policy must be more selective in the future. It believes that there is potential for development of the local sourcing of foreign firms and using such contracts as a basis on which to develop export markets. Finally the Council emphasises that industrial policy must concentrate on building the in-house strength of companies.

Innovation

4.52 The long-term survival of a firm and the employment which it provides will require the introduction of new products and processes in response to changes in market demand and developments in technology. The level of technology employed in Irish firms will depend on: the extent of in-house research and development; the orientation of the education system and research institutes; spin-offs from dealings with

¹⁹ O'Farrell, P.N. 'Industrial Linkages in the New Industry Sector: A Behavioural Analysis, Journal of Irish Business and Administrative Research, April 1982.

foreign firms; joint ventures and licensing agreements. Although spending on research and development does not necessarily lead to innovation, it does provide an indication of commitment and capacity to absorb and adapt new technologies.²⁰ In this context it is notable that the total level of research and development in Ireland is low by international standards (Table 4.8).

4.53 However, in order to make an evaluation of the relative contribution of R & D expenditure to economic development in a country, it is necessary to look in more detail at the type of R & D being carried out. An important consideration is the extent to which commercial criteria operate on the allocation of the expenditure.²¹ In this context it is notable that the level of R & D spending by Irish firms appears low. The largest 20 companies in Ireland which perform R & D, spend, on average, less than 0.5% of their turnover on it.²² In addition, R & D expenditure per employee by indigenous firms is very much lower than for foreign firms located here.

4.54 The level of resources available, or likely to be available in the future for the promotion of basic research in Ireland will inevitably be small in comparison with larger industrialised countries. It is clearly not realistic to expect that the greater part of new technology appropriate to industry could be developed from basic research in Ireland. The main thrust of policy in the area of technology must relate to the transfer of technology developed overseas.²³ There are a number of areas where there is further potential for the transfer of technology. An increased

²⁰ *Technological innovation* is defined as comprising those technical, industrial, commercial or other steps which lead to the successful marketing of new manufactured products and/or to the commercial use of technically new processes or equipment.

Research and Development

Research is defined as systematic study directed towards fuller scientific knowledge or understanding of the subject studied. Pure research (basic, fundamental) is devoted to this knowledge or understanding for its own sake. Development, in this context, is the systematic application of the knowledge and understanding gained from research, to the design or production of products or processes.

²¹ For example, although Japan devotes a slightly lower percentage of GDP to research and development than the United Kingdom, the overall return is said to be greater because of the greater emphasis in the UK on public finance and consequently greater priority to defence and other projects not rigorously evaluated in terms of return in the market.

²² Information derived from unpublished data collected in 1979 Research and Development survey by the NBST.

²³ A certain level of research and development will be necessary in Ireland to ensure that new technologies can be absorbed and adapted to the requirements of Irish industry.

degree of linkage by foreign firms located in Ireland with indigenous industry is one such area. The location by foreign firms of high skill functions which employ Irish personnel in the country also provides a very important means of technology transfer. With regard to licensing, it is estimated that only about 100 companies operate licensing, agreements with firms abroad. This number appears low when it is considered that licensing can be one of the cheapest and least risky ways of acquiring technology. It raises two questions: the first relates to the understanding by Irish industry of licensing possibilities, and the second, more fundamentally, to the adequacy of the Irish industrial structure to incorporate new technologies.

Agriculture

4.55 One of the major factors influencing developments in agricultural output and incomes for the last number of years has been the movement in the agricultural price/cost ratio. The significant downturn in agricultural incomes in 1979 and 1980 was partially due to adverse movements in this ratio. The ratio improved somewhat in 1981 and is estimated to have remained static in 1982. The Council in a recent report on *Farm Incomes* stated its belief that, within a favourable price/cost environment, output growth and efficiency at the farm level provide the only basis for a sustained increase in output and incomes.²⁴ In future, however, this favourable environment will depend crucially on moderating domestic cost pressures since increases in common prices have become constrained by budgetary pressures in the European Community. The Council believes that the macro-economic strategy outlined in this report would significantly ease domestic cost pressures.

4.56 With regard to Government expenditure on agriculture the Council has previously recommended that any aid to agriculture should be designed to encourage the growth of output while equity objectives, including income support measures, should be pursued through the social welfare code. In this context the possibility of revising the Disadvantaged Areas Scheme with a view to making it more growth orientated should be considered. To accelerate the rate of growth of output of agriculture it will also be necessary to increase the number of farmers who avail of aids and supports for increased production. An important consideration in any strategy for agricultural development will be trends in interest rates. Recent experience of high and volatile interest rates will make many farmers reluctant to undertake investment. The Council believes that within the context of overall Government support for agriculture

²⁴NESC Report No. 65 *Farm Incomes: Analysis and Policy*.

consideration should be given to developing some form of long term credit facility which would reflect the long payback period of farm investment.

4.57 The Council views structural adjustment as more long term in nature and therefore unlikely to contribute greatly to agricultural output in the short term. However, the Council believes that without an acceleration in structural change, and in particular the concentration of increased resources in the hands of farmers equipped to expand output rapidly, output growth will remain sluggish. The Council recommends that Government expenditure on agriculture, together with other Government instruments, should be examined with a view to identifying any impediments to structural change.

4.58 In addition to refocussing policies to accelerate the rate of growth of agricultural output it is necessary to consider the timing of agricultural output. A key underlying consideration in the improvement of capacity utilisation in agricultural based industries is the reduction in the present cyclical and highly seasonal patterns of supply as discussed in the Council's review of industrial policies.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS¹

5.1 In Chapter 4 the Council discussed the key problems facing the economy. The Council identified the main objectives of macro-economic policy as follows:

- to reverse the rising trend of unemployment;
- to reduce the exchequer borrowing requirement to levels consistent with the ability to borrow and repay;
- to reduce the balance of payments deficit to a more sustainable level.

In Chapter 3 the Council discussed the principles which should guide social policy. Social planning should also be closely integrated with economic and physical planning. The Council believes that an objective of public expenditure and the taxation system should be the promotion of social equity.

5.2 The level of state indebtedness and the size of the balance of payments deficit are immediate and severe constraints on policies to boost employment. Of particular concern is the expansion of State indebtedness which has resulted from the growth of the current budget deficit. A reduction in the latter will be essential to reducing the level of State indebtedness. The growing seriousness of these constraints was clearly identified by the Council over two years ago (NESC Report No. 53). There now exists a broad measure of agreement on the need for corrective action. However, reaching agreement on the types of policies required has proved altogether more difficult, as witnessed by the continuing deterioration in the state of the public finances, especially over the last two years.

5.3 A strategy which aims to provide an environment where employment levels will be maintained and expanded requires a comprehensive planning framework which puts the specific advantages and disadvantages

¹The Secretary of the Department of Finance did not participate in the discussions in so far as they involved specific budgetary policy recommendations.

of policies in context. Taken in isolation the case against a policy which, for example, involves a reduction in public expenditure or an increase in taxation may be exaggerated. The Council believes that there is a basis for agreement on a comprehensive framework for the development of the economy around the following themes:

- the smallness and openness of the economy make international competitiveness a prerequisite to the maintenance of employment and output
- social policies should be directed towards increasing equity
- the level of borrowing abroad must not lead to a stage where the dictates of the lenders will be the primary consideration of domestic management of the economy.

Consensus could be developed further by a more detailed outline of both the equity considerations guiding public policy and the criteria for promoting the most effective use of the funds available for investment, particularly in the wealth generating sectors.

5.4 The achievement of consensus on economic and social objectives is an appropriate starting point for the development of planning procedures. The Council believes it essential that the procedures for economic and social planning are developed to assist with overcoming the present crisis and to facilitate future growth. It is important that economic policies are not considered in isolation from their social impact.

MACRO-ECONOMIC STRATEGY

Employment

5.5 The ultimate aim of any economic strategy must be the provision of employment opportunities for the country's growing labour force. However, the policies adopted to achieve this objective must be consistent with restoring order to the public finances. The unemployment rate has risen rapidly in recent years, from 7.2% of the labour force in 1980 to 12.0% in April 1982 and has continued to rise since then.² This increase results from a number of factors, in particular, the world economic recession coupled with declining competitiveness and rapid labour force growth.

²Using the Live Register definition, unemployment reached almost 170,000 in 1982 compared to over 148,000 in April 1982, an increase of 14.5%.

5.6 If present trends continue unemployment will continue to rise rapidly as the gap between labour force growth and employment growth expands. Although it is not possible to project job needs with accuracy, given the interdependencies between the size of the labour force and other economic and social factors, it is unlikely that there will be any improvement in the rate of unemployment if the net increase in non-agricultural employment is less than 15,000 per annum.

5.7 To achieve this rate of increase in non-agricultural employment a rapid and sustained growth of output will be required. Given the outlook for domestic demand the Council believes that this growth will have to be export led and will have to come primarily from the manufacturing sector. There will also be scope for import substitution in the consumer goods and raw materials categories. Income moderation and improvements in price and cost competitiveness must be complemented by improvements in non-price factors such as quality, design and marketing efforts to guarantee an increased share of the domestic market. A key indicator of growth in export markets is the projection for EEC imports which are expected to grow by three to four per cent per annum over the years immediately ahead. However, an annual increase of this magnitude in the volume of Ireland's exports would not be accompanied by any significant growth in employment in manufacturing industry.³ An improvement in market share is essential to achieving a rate of output increase which will lead to an expansion in employment.

5.8 The primary requirement for achieving increased market shares is a significant improvement in the environment within which industry operates, particularly in the area of competitiveness. While competitiveness embraces such factors as product quality, reliability of delivery and quality of management, labour costs play a crucial role in determining overall competitiveness. To achieve increased export market shares a significant and sustained improvement in labour cost competitiveness will be required.

5.9 Such an improvement in competitiveness will depend upon trends in earnings and productivity. Assuming a stable exchange rate the opportunities for improving competitiveness in the short-term lie primarily in moderating the growth in earnings. The trend in earnings required to achieve significant gains in competitiveness, even allowing

³The relationship between output and employment is discussed in Chapter 1 (Paragraphs 1.12 et seq. and Table 1.5). In 1981 a growth in output of 2.9% was accompanied by a decline in employment of 3.5%. Overall employment would be likely to grow when output growth is higher than 4%.

for a high average rate of growth in productivity, would involve a significant departure from past trends. However, the present downward trend in the rate of inflation provides an environment conducive to this moderation. Moderation in the growth of earnings would be required not only in the trading sectors but also throughout the entire economy.

5.10 A further important consideration to the achievement of high levels of output growth is the requirement for increased investment, particularly in the internationally trading sectors. The information that is available on profits suggests that their share of national income has declined in recent years.⁴ Whereas there is, without doubt, a direct relationship between profits and investment, it is desirable that this investment is directed at increasing output and employment.

5.11 The conclusion that the reversal of the adverse trend in unemployment will require a reduction in the growth of earnings and an increase in the funds invested in the wealth producing sectors is unlikely to be implemented without a clear appreciation of the strategy by government, employees and employers. It requires trust that current moderation is in fact an investment in rising incomes and employment. It is reasonable, for example, that employees of an enterprise would seek assurances that increases in profits made possible through income moderation will be reflected in investments which strengthen the enterprise and their own future prospects.

Public Finances

5.12 In its 1980 report on economic and social policy the Council argued that in an economy faced with serious and growing unemployment and where the current external deficit was a significant constraint, public sector borrowing must be concentrated on financing productive investment.⁵ It was therefore seen as necessary to reduce the borrowing requirement and, in particular, to eliminate the current budget deficit over the following three years. The analysis showed that the current budget deficit would not be eliminated automatically, even allowing for the possibility of high rates of economic growth. It would require curbs on public expenditure and/or increases in tax rates, together with an effective system for the collection of revenue.

⁴OECD data for Ireland break domestic factor incomes into compensation of employees and operating surplus. The latter has fallen from 29% of domestic factor incomes in the mid-1970s to 25% in 1980 (OECD, *National Accounts*, Volume II, 1963-1980, page 133).

⁵Report No. 53, *Economic and Social Policy 1980-83: Aims and Recommendations*, 1980.

The introduction of charges is also an important option in cases where it is desired to reduce unjustifiably high demands on a service. For example, charges could be introduced for some advisory services, with the cost being refunded as part of an overall grant to aid developments undertaken in line with the advice given. In the area of industry, charges for infrastructural provision could be reflected in eventual grant aid to a firm.

5.19 Despite high levels of investment and, within this total, the high levels of public investment, the return in terms of output and employment appears disappointing over recent years. The actual quantification of this return would require more detailed consideration of the objectives of the different parts of the *Public Capital Programme* such as directly productive investment, infrastructural investment and social investment. The Council recommends that a more rigorous evaluation be undertaken of new and existing public capital expenditure and concessions relating to capital programmes in the public and private sectors. The highest priority should be accorded to investment in the directly productive sectors and associated economic infrastructure. There is a need for more widespread debate and scrutiny of the evaluation techniques used and the decision making procedures in relation to all such expenditures and concessions. It would be desirable to publish, in the *Public Capital Programme*, an evaluation of all major programmes, including their expected returns subject to any necessary confidentiality in regard to individual projects and in this respect the Council envisages that public and private projects would receive the same treatment. There should be provision for discussion of the programmes among members of the Oireachtas. Finally as the Council considers reduction in the exchequer borrowing requirement to be a fundamental element of fiscal strategy, failure to effect the necessary reduction in the current budget deficit should in the last resort be compensated for by reductions in borrowing for capital purposes.

SECTORAL STRATEGIES

Manufacturing Industry

5.20 The Council believes that the successful development of manufacturing industry will be the critical factor in the development of the economy and the expansion of employment opportunities. In its review of industrial policy the Council expressed concern with the extent of progress achieved in the development of a sustained indigenous industrial base despite a very large commitment of public resources. The Council recommended that State assistance to companies should

be more finely tuned to help firms overcome the main barriers to entry into international markets. A central consideration to the future success of industrial policies would be the continued attraction of foreign firms to set up and expand in Ireland. Priority should be given to the development of internationally trading industry. Present policies should be complemented with more intensive efforts to ensure that an increased number of enterprises in the country have the scale, functions and financial capacity to compete in international markets.

5.21 The long term objective of industrial policy should be to restructure into profitable, high value-added business which would support income levels comparable to other developed countries. The Council adopted the Telesis nomenclature of complex-factor cost business to describe the type of business which would support higher incomes. These businesses require the development of competitive advantages in non-wage areas such as scale, marketing, applications engineering and research and development. The Council recommends that a greater emphasis on these areas should take place in the context of a more selective industrial policy.

5.22 For an economy such as Ireland's there are high barriers to entering these businesses which are dominated by countries which industrialised earlier or initially built up businesses with the help of large and protected home markets. The development of complex-factor cost businesses will often require high levels of investment over a number of years before profitability will be achieved. The Council therefore recommends priority in the allocation of state funds for industry to supporting the development of firms in these businesses. It is essential that as great a share as possible of the value added by a firm so developing is invested in the achievement of this objective. The investment required to establish complex-factor cost businesses will impose a severe constraint on income levels until firms establish competitive advantages on international markets.

5.23 One of the key factors in bringing about the restructuring of Irish industry in a rapidly changing environment will be the skill of managers and the capacity to innovate. Companies must now achieve large gains in competitiveness, continuously introduce new technology and build a shared commitment to change with the company's workforce. Managers must also be able to compete with the strategies of highly trained managers from other countries. This will require means for ensuring that Irish managers are up to date on the most modern management techniques. These means could include arrangements for Irish managers to work overseas with leading foreign companies, the introduction of

overseas-management expertise on a contract basis to Irish firms, a greater emphasis on business studies and technological courses in third level education.

Agriculture

5.24 Over the period 1970-78 the volume of gross agricultural output increased by almost 4% per annum. As indicated in the Council's report on *Farm Incomes* this growth rate probably exaggerates the underlying trend rate of growth as the price/cost ratio was extremely favourable over this period, reflecting accession to EEC common prices and green pound devaluations. However, it does indicate the potential which exists for accelerating the rate of growth of agricultural output. The Council believes that the macro-economic policy outlined in this report would result in a more favourable environment within which the agricultural sector could develop.

5.25 In addition to providing a more favourable environment the Council believes that the Government should consider a reallocation of public expenditure on agriculture with a view to maximising output growth. This will involve, *inter alia*, increasing the number of farmers who avail of aids and supports for increased production and the removal of impediments to structural change. An acceleration of the growth of output will require an increase in investment. The Council believes that, within the reallocation of public expenditure on agriculture, consideration should also be given to alleviating the adverse effects of high and volatile interest rates on agricultural investment. An important consideration regarding the future pattern of markets for agricultural output will be the extent of success in achieving closer co-ordination between farm production patterns and the development of the food processing industry.⁸

SOCIAL POLICY

5.26 The Council believes the principles outlined in Chapter 3 should guide the development of social policy in the years ahead. The difficulties posed by lack of adequate information on the use of many social services in applying these principles has been noted.⁹ Some general application of these principles can be made on the basis of existing knowledge.

⁸The Council has recently discussed these issues in its review of industrial policies, NESC Report No. 66.

⁹See Appendix 3.1.

5.27 *Firstly*, there are some programmes whose distributive effects are such that they disproportionately benefit the middle and upper income groups. This appears to be particularly true of some of the programmes in housing, both in the owner occupied and the local authority sectors. Expenditure on higher education predominantly benefits students from middle and upper income backgrounds. In the health services the General Hospitals Programme is the single biggest programme of public expenditure, accounting for close on £500 m in 1982. There would appear to be scope for either reductions in the overall provision of services in this area or increasing the revenue from charges on those who can afford to pay.

5.28 *Secondly*, there are some aspects of public expenditure which redistribute resources towards the vulnerable, low-income dependent groups. These include many of the social welfare programmes, particularly those which are means tested and long-term. Expenditure on primary education and junior cycle secondary education is desirable from a social policy point of view, particularly if emphasis is given to correction of educational disadvantage. Some of the non-institutional health services programmes would also merit priority within a social policy framework. The provision of local authority dwellings for families on low incomes or who are dependent on social welfare payments is also necessary from a social policy perspective.

5.29 *Thirdly*, there are social expenditures about which either the information available is very poor or which may require re-examination. In social welfare many of the social insurance schemes would fall under both of these headings. The possibility of high replacement ratios for those out of work can be identified. However, little is known about the numbers and characteristics of persons for whom the system operates as a disincentive to employment. With regard to the financing of social welfare the Council considers that the varying rates of PRSI contributions and social welfare benefits between different sections are worthy of further examination. In the health services improved data on the social and economic characteristics of the users of the General Hospitals Programme is required. Since some 70% of health service expenditure is on institutions and a major part of the remainder is accounted for by the provisions of drugs; there is a strong case for re-examination of the extent to which community care type programmes can replace costly institutional care or provision of drugs.

5.30 *Fourthly*, there are important organisational aspects to any reductions in expenditure. By their nature, organisations will attempt to minimise reductions in their activities and expenditures. Consequently

there is a tendency for some organisations to build resistance to budget reductions by threatening to cut back on the more visible, popular and perhaps socially desirable programmes. In other cases public expenditure reductions may be implemented through cutting programmes which are less visible and less established, though not necessarily less socially desirable. The Council considers that attention needs to be paid to the organisational aspects of expenditure reduction to ensure application of the social policy principles outlined in Chapter 3. This will involve ensuring that organisational exigencies do not distort these principles in practice.

CONCLUDING REMARKS

5.31 The Council believes that the ultimate objective of economic and social policy must be to bring about a sustained and significant increase in employment. The policies adopted to achieve this objective must be consistent with restoring order to the public finances. The appropriate actions will require a radical break with past trends. There is a need for large improvements in competitiveness over our main trading partners and in the amount of output-increasing investment. The appropriate measures must be co-ordinated in the context of an overall planning framework.

5.32 The immediate implication of an output led strategy, requiring more investment and competitiveness gains in the trading sectors, is that there should be a drop in current consumption. In so far as moderation in wages and salaries gives rise to increased profits it is necessary that these profits are seen by employees to result in prospects for increased employment at rising incomes.

5.33 Any planning framework must incorporate explicit recognition of the objectives of social policy. Economic policies cannot be considered in isolation from their social impact. Policies which aim to affect the level of resources must be accompanied by consideration of the distribution of these resources. It is essential that the burden of adjustment is not borne by the most vulnerable sectors of the community. Attention to the distributional implications is an important aspect of any strategy which seeks support for the sacrifices which are necessary.

5.34 There is an immediate need for corrective action to halt the adverse trend in the level of exchequer indebtedness. The Council believes that this action should include, as a priority, the elimination

of the current budget deficit over a four year period since borrowing to finance this deficit is a major source of exchequer indebtedness. This should take place, mainly, through reductions in public expenditure. It will, however, require a combination of expenditure reductions and increases in tax revenue. It will not be possible to make a significant start on the elimination of the deficit in 1983 through expenditure reductions alone. The strategy on public expenditure will also highlight the trade off between different elements of that expenditure. For this reason if public sector pay grows rapidly it will have to be financed by even greater reductions in other areas, such as in the numbers employed.

5.35 The level of output growth which will give rise to increased employment in the private sector will require an improvement in the share of markets held by Irish producers. In the medium to long term this will take place if a sufficient number of Irish enterprises are structured to achieve high value added in specific market niches. The main option which exists to promote increased market share in the short term is an improvement in wage cost competitiveness. The rates of increase projected for unit wage costs among our trading partners mean that the level of income growth which will allow gains in competitiveness is likely to be very much lower than in recent years. The acceptance of this rate of income growth by employees is only likely to be successful if the full benefits to them are clear.

5.36 Present trends suggest that unemployment will continue to rise. There are two main requirements to the reversal of these trends — a large increase in exports and a reduction in the level of state indebtedness. The meeting of these requirements will involve the introduction of some measures which, if viewed in isolation, will be unpopular. There is now, however, no option to immediate and radical action to remove the constraints on policies for the expansion of employment. The Council believes that the alternative to facing up to the problems now confronting the economy would be an eventually harsher and more abrupt fall in employment and living standards.

Table 1.1

Expenditure on GNP, 1976-1981

Percentage change over previous year

	1977	1978	1979	1980	1981
Private consumption	5.4	8.3	2.7	0.2	-0.4
Public consumption	3.6	6.8	7.0	6.1	-0.1
Gross fixed capital formation	4.4	16.8	13.7	-6.9	5.4
Exports of goods and services	14.0	12.3	6.9	6.4	1.6
Imports of goods and services	13.0	15.6	14.7	-4.2	1.7
Gross Domestic Product	6.8	5.9	2.5	2.7	1.1
Gross National Product	6.1	5.1	2.1	2.3	0.3
GNP, allowing for changes in terms of trade	5.1	6.1	0.9	-2.2	-0.7
Growth of GDP:					
EEC	2.4	3.3	3.4	1.3	-0.6
OECD-Europe	2.4	3.0	3.2	1.5	-0.3
OECD	3.7	3.7	3.3	1.3	1.2(a)

Note: (a) GNP.

Sources: CSO, *National Income and Expenditure, 1980*. OECD, *Economic Outlook, December 1982*.

Table 1.2

Employment Performance by Sector, 1975-1982 (a)

(000)

	1975	1977	1979	1980	1981	1982
Agriculture	238	228	221	212	201	196
Industry	337	336	365	372	360	352
Services	498	519	559	579	590	598
Total employment	1073	1083	1145	1163	1151	1146
Unemployed	73	89	74	76	113	137
Unemployed (including those seeking first job) (b)	88	104	89	91	133	157
Total labour force (excluding those seeking first time job)	1146	1172	1219	1239	1264	1283
Unemployment rate	6.4%	7.6%	6.1%	6.1%	8.9%	10.7%
Unemployment rate (including first job seekers)	7.6%	8.8%	7.2%	7.3%	10.3%	12.0%

Notes: (a) Figures refer to mid-April.

(b) Assumption of 15,000 seeking first job for years up to and including 1980. For 1981 and 1982 a figure of 20,000 is used in line with the results of a sample analysis of Census returns carried out by the CSO.

Sources: *Economic Review and Outlook, Summer 1982*; Department of Finance; *Estimated Labour Force 1982*, Statement issued by the Government Information Services on behalf of the CSO, 21 December 1982.

Table 1.3

Service Sector Employment, 1978-1982

(000)

	1978	1979	1980	1981	1982
Civil Service	52.3	55.2	56.9	60.1	63.8
Gardai	8.8	9.4	9.6	9.9	9.9
Defence Forces	16.7	15.9	15.4	15.6	17.2
Education Sector	41.0	43.8	45.2	46.4	49.4
Health Sector	52.5	57.5	59.1	59.6	58.3
Local Authorities	16.3	16.3	16.5	16.2	16.2
State-sponsored bodies	38.5	40.8	41.8	41.9	41.9
Total -- public sector services (a)	226.1	238.2	244.5	249.7	256.7
Total -- private sector services (b)	307.9	320.8	334.5	340.3	341.3
Total Services (c)	534.0	559.0	579.0	590.0	598.0

Notes: (a) January each year.

(b) Derived residually by subtracting the public sector services total from total services in Table 1.2.

(c) Mid-April each year.

Source: Table 1.2; Department of the Public Service.

Table 1.4

Agricultural Trends, 1977-1981

Percentage change over previous year

	1978	1979	1980	1981
Output prices	13.1	5.9	-2.7	18.8
Input costs	4.2	12.5	14.3	14.8
Price/Cost ratio	8.5	-5.8	-14.9	3.4
Volume of gross output (a)	6.5	-0.8	-0.6	-2.2
Volume of net output (a)	1.9	-9.5	6.4	-6.7
Volume of farm materials	18.5	18.8	-12.5	7.2
Income from self employment	12.2	-12.1	-8.2	14.2

Note: (a) Including value of changes in livestock numbers.

Source: CSO, *Agricultural Output 1981, Estimated Quantity and Value*.

Table 1.5

Manufacturing industry: output, exports and employment, 1976-1981 (a)

	1977	1978	1979	1980	1981
Volume of output (% change)	8.7	8.4	6.1	-1.1	2.9
Employment (% change)	3.1	2.9	4.1	-1.1	-3.5
Output per person employed (% change)	5.4	5.3	2.0	0	6.6
Volume of exports (% change) (b)	20.9	11.5	14.1	8.0	10.6
Net change in employment	6200	5900	8600	-2300	-7500

Notes: (a) All changes are annual averages.
(b) Excluding exports from Shannon.

Sources: CSO, *Industrial Production Index, Industrial Employment, Earnings and Hours Worked, Trade Statistics of Ireland*.

Table 1.6

Job gains and losses in manufacturing industry, 1973-1981

	1973	1974	1975	1976	1977	1978	1979	1980	1981
(1) Gross jobs created	21.2	16.8	15.7	21.1	24.6	23.6	25.7	19.5	20.3
(2) Gross job losses	11.6	19.7	27.5	18.0	18.7	16.6	15.6	27.3	24.2
(3) Net change in employment (1-2)	9.6	-2.9	-11.8	3.1	5.9	7.0	10.1	-7.9	-3.9

Source: Industrial Development Authority, *Employment Survey*.

Table 1.7

Incomes, earnings, selected groupings, 1977-1981

Percentage change over previous year

	1977	1978	1979	1980	1981 (e)
<i>Constant Prices</i>					
1. Personal income	5.8	8.9	4.4	-0.5	-1.3
2. Disposable personal income	5.7	9.6	4.0	-3.1	-2.0
3. Average earnings in transportable goods industries	4.0	6.4	1.0	0.4	-2.6
4. Family farm income per family labour unit	13.6	5.1	-28.5	-28.1	-1.5
5. Profits, professional earnings, rents etc.	29.0	17.9	0.0	-15.1	-3.7

Notes: (a) Deflator used is private consumption expenditure deflator (Table 1.24).
(e) Estimate.

Sources: (1) CSO, *National Income and Expenditure*, 1980.
(2) CSO, *National Income and Expenditure*, 1980.
(3) CSO, *Employment, Earnings and Hours Worked*.
(4) AFT, *Farm Management Survey*.
(5) CSO, *National Income and Expenditure*, 1980.

Table 1.8

Unit wage costs in Irish pounds 1975-1981

	Earnings/hour	% change	Output/man hour	% change	Unit wage costs	% change
1975	100	—	100	—	100	—
1976	118	18.0	109	9.0	108	8.0
1977	137	16.1	111	2.4	123	13.9
1978	157	14.6	117	5.4	134	8.7
1979	181	15.3	120	2.4	151	12.7
1980	219	21.0	123	2.3	178	17.9
1981 (e)	255	16.4	131	6.5	195	9.5

Source: *Economic Review and Outlook*, Summer 1982.

Table 1.9

Unit wage costs in common currency (ECUs) 1975-1981

	Ireland	Netherlands	UK	Denmark	W Germany	Belgium	France	Italy	US
1975	100	100	100	100	100	100	100	100	100
1976	97	106	100	109	108	108	102	97	113
1977	105	116	104	116	119	120	106	115	120
1978	112	121	114	119	127	124	111	121	114
1979	126	125	134	126	131	126	116	125	112
1980	147	127	177	126	139	133	131	140	118
1981 (e)	158	128	206	134	144	139	146	160	155

Note: (e) Estimate.

Source: Central Bank of Ireland.

Table 1.10

Price/cost ratio in manufacturing and agriculture 1975-1981

	Manufactured export prices	Agricultural output prices	Unit wage costs	Agricultural input prices	Price Cost Ratio in:	
					Manufacturing	Agriculture
1975	100	100	100	100	100	100
1976	121.4	125.6	108	115.9	112.4	108.4
1977	142.6	153.9	123	140.7	115.9	109.4
1978	150.2	174.1	134	146.6	112.1	118.7
1979	164.2	184.4	151	164.9	108.7	111.8
1980	184.6	179.4	178	188.5	103.7	95.2
1981	208	213.1	195	216.4	106.7	98.5

Source: Central Statistics Office; Tables 1.4 and 1.8.

Table 1.11

Ireland's foreign trade performance, 1976-1981

	1977	1978	1979	1980	1981
(1) Growth in volume Irish exports of goods and services (%) (a)	14.0	12.3	6.9	6.4	1.6
(2) Growth in volume world trade (%) (b)	4.5	4.3	7.4	1.5	0
(3) Growth in volume of world trade:					
Manufacturing (b)	4.5	5.1	5.7	5.4	2.2
(4) Ireland's terms of trade (Base, 1975 = 100) (c)	102.2	103.7	99.8	92.4	90.5
(5) Ireland's export share of developed countries manufactured goods exports (%) (d)	0.397	0.426	0.474	0.494	0.499
(6) Ireland's export share of EEC manufactured exports (%) (d)	0.739	0.785	0.853	0.917	1.000

Sources: (a) Table 1.1.
 (b) NIESR No. 101 August 1982.
 (c) *Economic Review and Outlook*, Summer 1982.
 (d) UN, *Monthly Bulletin of Statistics, Trade Statistics of Ireland*.

Table 1.12

Import penetration (a) 1977-1980 (b)

	1977	1978	1979	1980
Food (c)	17.7	20.5	26.8	27.8
Drink and Tobacco	4.7	5.1	5.9	5.4
Textiles	50.6	56.3	52.3	61.9
Clothing, footwear and leather	40.7	47.4	54.6	57.2
Wood and Furniture	29.3	36.7	41.0	45.4
Paper and Printing	21.8	24.8	28.5	27.4
Chemicals (d)	61.8	68.2	69.2	73.7
Clay Products	7.3	9.5	10.9	12.4
Metals and Engineering	38.7	38.3	45.8	51.4
Other manufacturing	37.1	41.4	37.1	42.8
Total	29.2	32.0	36.0	37.7

Notes: (a) Competing imports as a percentage of domestic consumption.
 (b) NACE classification.
 (c) The data for this sector exclude some of the major agricultural based industries and should therefore be treated with caution.
 (d) Excluding the petrochemicals sector.

Source: Department of Trade, Commerce and Tourism.

Table 1.13

The balance of payments, 1977-1981

	£ million				
	1977	1978	1979	1980	1981
Balance of Trade (1)	-618	-735	-1365	-1342	-1697
Net invisible exports (2) (a)	427	478	530	468	265
Balance of current account (3) = (1) + (2)	-191	-257	-836	-874	-1432
Changes in official reserves (4)	245	51	-277	371	127
Implied capital inflow (5) = (3) + (4)	436	308	559	1245	1559
Net Government foreign borrowing (6) (b)	181	353	459	583	1255
Other capital inflows (7) = (5) - (6) (c)	255	-45	100	662	304

Notes: (a) Includes net transfers with the rest of the world.
 (b) Government net foreign borrowing plus net sales of securities to non-residents.
 (c) Derived residually.
 Sources: CSO, *National Income and Expenditure, 1980*; Central Bank of Ireland, *Quarterly Bulletin* (1) 1982.

Table 1.14

Inflation, international comparisons, 1976-1981

	Percentage change in consumer prices				
	1977	1978	1979	1980	1981
Ireland	13.6	7.6	13.2	18.2	20.4
UK	15.8	8.3	13.4	18.0	11.9
EEC	10.0	7.1	9.1	12.3	11.5
OECD-Europe	11.3	9.3	10.6	14.2	12.3

Source: OECD, *Main Economic Indicators*, May 1982.

Table 1.15

Ireland's exchange rate 1976-1981

	Foreign currency per IR£: annual period average				
	1977	1978	1979	1980	1981
Pound Sterling	1.00	1.00	0.96	0.89	0.80
U.S. Dollar	1.75	1.92	2.05	2.06	1.61
German Mark	4.05	3.85	3.75	3.73	3.64
French Franc	8.57	8.65	8.71	8.68	8.74
Effective exchange rate index (Dec. 1971 = 100)	77.01	77.57	77.08	74.01	67.75

Source: Central Bank of Ireland, *Quarterly Bulletin* (1) 1982.

Table 1.16

Change in Government expenditure, 1976-1981

	1977	1978	1979	1980	1981
<i>% Changes: nominal values</i>					
Transfer payments	18.0	18.3	20.1	26.8	31.7
Expenditure on goods and services	16.7	24.7	22.8	28.3	22.4
Government current expenditure	17.4	21.3	21.4	27.5	27.1
Government capital expenditure	-1.0	30.1	25.1	30.1	36.3
Total Government expenditure	13.7	22.8	22.1	28.0	28.9
<i>% Changes: real values (1975 prices)</i>					
Transfer payments	4.4	9.9	5.2	7.9	10.1
Expenditure on goods and services	2.7	12.4	6.1	5.3	0.7
Government current expenditure	3.6	11.0	5.6	6.6	5.6
Government capital expenditure	-14.9	16.8	8.8	10.0	19.5
Total Government expenditure	0	12.0	6.2	7.2	8.2

Notes: (i) The present table is derived from the National Accounts classification of budget expenditure.

(ii) Government capital expenditure also includes a transfer element.

Deflators: (a) *Transfer payments* (private consumption deflator).

(b) *Expenditure on goods and services* (public consumption expenditure deflator).

(c) *Capital expenditure* (fixed capital formation deflator).

Sources: Annual *Budget Booklets*.

Table 1.17

Government expenditure in relation to GNP

(%)

	1977	1978	1979	1980	1981
<i>Ratio to GNP: market prices</i>					
Government current expenditure	37.8	39.4	41.4	45.3	48.8
(a) transfers	20.2	20.5	21.3	23.2	25.9
(b) expenditure on goods and services	17.7	18.9	20.1	22.1	22.9
Capital expenditure	7.9	8.8	9.6	10.7	12.3
Total expenditure	45.8	48.3	51.0	56.0	61.0
<i>Ratio to GNP: constant prices</i>					
Government current expenditure	38.4	40.6	42.0	43.8	46.1
(a) transfers	20.3	21.2	21.9	23.1	25.4
(b) expenditure on goods and services	18.1	19.3	20.1	20.7	20.8
Capital expenditure	7.7	8.6	9.2	9.8	11.7
Total expenditure	46.2	49.2	51.2	53.6	57.9

Sources: Annual *Budget Booklets*; CSO, *National Income and Expenditure*, 1980.

Table 1.18

Exchequer pay costs, 1975-1980

	1975	1976	1977	1978	1979	1980	1981
Exchequer pay costs (a) (IR£ million)	516.6	628.9	719.2	862.3	1,079.1	1,447.7	1,802.3
Real Exchequer pay costs (b) (1975 IR£ million)	516.6	528.9	536.2	597.2	654.5	747.0	777.9
Exchequer-funded employment (000's) (c)	172.9	177.2	181.9	189.8	198.0	204.8	210.7
Real Exchequer pay costs per employee (1975 = 100)	100.0	99.9	98.7	105.3	110.6	122.0	123.4

Notes: (a) Excluding pensions.

(b) Deflator used is private consumption expenditure deflator.

(c) Employment data used is an average for January of the year in question and January of the following year.

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

Table 1.19

Ratio of tax revenue to GNP, 1977-1981

	1977	1978	1979	1980	1981
Total tax revenue: Ratio to GNP	31.5	31.4	31.8	35.2	37.5
Taxes on income and wealth: Ratio to GNP	16.3	16.1	16.9	19.2	20.1
Taxes on income and wealth: - Share of total tax revenue	51.6	51.2	53.4	54.5	53.7

Sources: CSO, *National Income and Expenditure*, 1980; Annual *Budget Booklets*.

Table 1.20

Current Budget deficit, Exchequer borrowing and public sector borrowing, 1976-1981

	1977	1978	1979	1980	1981
Current Deficit					
(1) £m	201	397	522	547	802
(2) As % of GNP	3.7	6.3	7.2	6.4	7.9
Exchequer Borrowing					
(1) £m	545	810	1009	1217	1722
(2) As % of GNP	10.0	12.8	13.8	14.3	17.1
Government Foreign Borrowing (a)					
(1) £m	181	353	459	583	1255
(2) As % of GNP	3.3	5.6	6.3	6.8	12.5
Public Sector Borrowing (b)					
(1) £m	704	988	1258	1592	2237
(2) As % of GNP	13.0	15.6	17.2	18.7	22.3

Notes: (a) Includes sales of securities to non-residents.
(b) Equals Exchequer borrowing plus non-Exchequer capital resources less internal resources of State bodies and local authorities.

Sources: Annual Budget Booklets; Central Bank of Ireland, *Quarterly Bulletin* (1) 1982; CSO, *National Income and Expenditure*, 1980.

Table 1.21

Financing of Exchequer borrowing requirement, 1976-1981

	1977	1978	1979	1980	1981
Net sales of securities to:					
(1) domestic non-bank public	204	227	256	319	210
(2) non-residents	95	330	50	17	-30
(3) commercial banks	154	67	104	243	110
Small savings	102	65	27	52	76
Borrowing from Central Bank	-	-	100	-	-
Government net foreign borrowing	86	23	509	566	1285
Change in liquidity of Department funds	-51	165	21	-	55
Miscellaneous borrowing	15	3	42	20	16
Total Exchequer borrowing	545	810	1009	1217	1722
Current budget deficit (£m)	201	397	522	547	802
as share of Exchequer borrowing (%)	37	49	52	45	47
Foreign financing of Exchequer borrowing (£m) (a)	181	353	459	583	1255
as share of Exchequer borrowing (%)	33	44	45	48	73
Monetary financing of Exchequer borrowing (£m) (b)	239	518	726	846	1436
as share of Exchequer borrowing (%)	44	64	72	70	83

Notes: Classification of funds in 1977 and 1978 follows that of OECD Economic Survey; "Ireland", January 1981.

(a) Foreign financing = Government net foreign borrowing plus net sales of securities to non-residents.

(b) Monetary financing = Exchequer borrowing requirement less net sales of securities to domestic non-bank public less small savings.

Sources: Annual Budget Booklets; Central Bank of Ireland, *Quarterly Bulletin* (1) 1981.

Table 1.22

Official foreign indebtedness of State, 1977-1981

£m					
	1977	1978	1979	1980	1981
External Government debt (a)	1039	1064	1542	2207	3794
External debt of State-sponsored bodies (b) (c)	410	430	580	1010	1306
(1) Total official external debt	1449	1494	2122	3217	5100
(2) Official external reserves	1201	1252	975	1346	1473
Debt reserves ratio = (1) ÷ (2)	1.21	1.19	2.18	2.39	3.46

Notes: (a) Excludes securities held by non-residents.
 (b) The data for external debt of State-sponsored bodies for 1979, 1980 and 1981 are more comprehensive in coverage than data for years prior to 1979.
 (c) Includes foreign currency borrowing from Irish resident banks.

Sources: Central Bank of Ireland, *Quarterly Bulletin* (3) 1982, (1) 1982, (2) 1981, (2) 1980, (4) 1979; Department of Finance.

Table 1.23

Domestic Credit Expansion (DCE), 1977-1981

	Government borrowing (1)	Sales of securities to domestic non-bank public (2)	Small savings (3)	Bank-lending to non-Government sector (4)	DCE 1+4 -(2+3) = (5)
1977	545	204	102	552	791
1978	810	227	65	836	1354
1979	1009	256	27	875	1601
1980	1217	319	52	700	1546
1981	1722	210	76	1003	2439

Government share of Domestic Credit Expansion

	1977	1978	1979	1980	1981
%	%	%	%	%	%
	30	38	45	55	59

Source: Central Bank of Ireland, *Quarterly Bulletin* (1) 1982.

Table 1.24

Implicit price deflators, 1975-1981

	1975	1976	1977	1978	1979	1980	1981 (a)
Private consumption expenditure	100	118.8	134.1	144.4	164.9	193.9	231.9
Public current expenditure	100	115.9	131.7	146.1	169.0	206.0	250.4
Gross domestic fixed capital formation	100	118.7	138.2	153.9	176.9	209.1	238.5
GNP	100	120.1	135.0	149.5	169.6	193.0	227.3

	1976	1977	1978	1979	1980	1981 (a)
% Change in price indices:						
Private consumption expenditure	18.8	12.9	7.7	14.2	17.6	19.6
Public current expenditure	15.9	13.6	10.9	15.7	21.9	21.5
Gross domestic fixed capital formation	18.7	16.4	11.4	14.9	18.2	14.1

Note: (a) Preliminary.
Source: CSO, *National Income and Expenditure*, 1980.

Table 2.1

Exchequer borrowing requirement as % of GNP 1977-1982

	Estimate v Outturn	
	Budget estimate	Actual outturn
1977	11.0%	10.0
1978	13.0%	12.8
1979	10.5%	13.8
1980	10.4%	14.3
1981 (a)	13.0%	17.1
1982	13.9%	16.3% (b)

Notes: (a) A supplementary budget was introduced in July 1981 following which the EBR was forecast at 16.5%.
 (b) Estimated.

Sources: Annual *Budget Booklets*.

Table 3.1

Total (current plus capital) expenditure on education, health and social welfare as % GDP (various years)

Year	Total Expenditure as % GDP			Total
	Education	Health	Social Welfare	
1970	5.0	4.3	7.2	16.5
1971	5.1	4.6	7.5	17.6
1972	5.0	4.8	7.2	17.5
1973	5.1	5.0	7.6	17.7
1974	5.7	6.0	9.2	20.9
1975	6.1	6.5	10.6	23.2
1976	6.0	6.4	10.6	23.0
1977	5.9	6.3	10.1	22.3
1978	5.9	6.7	9.7	22.3
1979	6.3	7.3	9.6	23.2
1980	6.3	8.5	10.3	25.1
1981	6.8	8.4	11.6	26.8

Note: The expenditure data for 1970-1973 are annualised from the fiscal years' data.

Sources: CSO, *National Income and Expenditure, 1980*; *Book of Estimates 1982* for 1981 data.

Table 3.2

House completions 1975-1980

Year	(1)	(2)	(3)	Approved waiting list for LA dwellings
	Total completions	Of which local authority completions	(2) as % of (1)	
1975	26,892	8,794	32.7	n.a.
1976	24,000	7,263	30.3	n.a.
1977	24,548	6,333	25.8	25,900
1978	25,444	6,073	23.9	27,400
1979	26,544	6,214	23.4	25,900
1980	27,785	5,984	21.5	27,700
1981	28,917	5,681	19.6	29,000

Note: n.a. not available.

Sources: *Quarterly Bulletin of Housing Statistics, March 1982*; Information received from the Department of the Environment.

Table 3.3

Public capital expenditure on housing, 1976-1981

	Public capital expenditure Current prices	Constant (1975) prices (1)		Proportion for local authority housing (%)
		Total	% increase on previous year	
	£m	£m		
1976	105.4	90.4	-21.5	62
1977	99.9	73.1	-19.1	71
1978	128.4	85.3	+16.7	59
1979	169.2	97.2	+14.0	53
1980	216.5	103.4	+ 6.4	53
1981(p)	277.2	116.0	+12.3	52
1982(e)	332.2	124.1	+ 7.0	55

Notes: (p) Provisional.

(e) Estimate.

(1) Using the Capital Goods Price Index for Building and Construction.

Sources: *Quarterly Bulletin of Housing Statistics, March 1982*; *Building Industry in Ireland: Review of 1981 and Outlook for 1982, July 1982*.

Table 3.4

Main constituents of public capital expenditure on housing, 1976-1981

Year	House purchase and improvement loans; supplementary grants (a)		Grants from Department of the Environment (b)		Local Authority housing		Other (c)		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%
1976	30.7	29.1	6.5	6.2	65.3	62.0	3.9	2.8	105.4	100
1977	22.9	22.9	4.3	4.3	70.7	70.8	2.9	2.1	99.9	100
1978	35.5	27.6	14.5	11.3	75.8	59.0	2.7	1.1	128.4	100
1979	53.0	31.3	24.6	14.5	89.7	53.0	1.8	1.1	169.2	100
1980	72.8	33.6	27.0	12.5	113.6	52.5	3.2	1.5	216.5	100
1981	99.9	36.0	29.7	10.7	144.6	52.2	3.0	1.1	277.2	100
1982	129.6	39.0	17.0	5.1	182.6	55.0	3.1	0.9	332.2	100

Notes: (a) These figures include expenditure on the low-rise mortgage scheme. Supplementary grants were terminated in 1978 apart from transitional cases and restored 1982.

(b) These figures include payments of £1,000 grants for first-time owner occupiers of new houses and house improvement grants terminated in 1980 apart from transitional cases.

(c) Principally expenditure by the IDA: SFADCo; Department of Defence; Roinn na Gaeltachta and the National Building Agency.

Source: *Quarterly Bulletin of Housing Statistics, March 1982* and December 1981.

Table 3.5

Public expenditure on housing 1971/2-1980

	Current prices			% Change in constant (1975) prices 1971/2-1980
	1971/2 £m	1975	1980 £m	
<i>Current Expenditure</i>				
On goods and services	0.8	1.2	2.0	-32.4
Subsidies:	14.9	34.7	64.1	16.4
of which: deficit on local authorities housing account	11.2	26.9	62.1	50.0
Total Tax Expenditures	8.4	25.5	82.0	164.0
<i>Capital Expenditure</i>				
Fixed Capital Formation in Local Authority dwellings	24.8	65.3	113.6	23.9
Capital Transfer Payments	4.2	8.3	30.5	96.4
Loans for House Purchase and Improvement	8.9	42.9	72.2	119.4
Total Expenditure	53.6	152.4	282.4	42.3
Total Expenditure including tax expenditure	62.0	177.9	383.8	67.2

Sources: NESR Report No. 23 *Report on Housing Subsidies*; John Blackwell, *Public Expenditure and Housing policy 1981*. (Paper read to Dublin Economics Workshop October 18, 1981) Department of the Environment.

Table 3.6

Housing subsidies, by tenure, various years and % Change 1971/2-1980

	1971/2	1975	1980	% Change
	£m	£m	£m	(in constant 1975 prices)
<i>Subsidies to LA tenants</i>				
Explicit	11.2	26.2	62.1	50
Implicit	—	—	—	—
Total	11.2	26.2	62.1	50
<i>Subsidies to owner occupied sector</i>				
Explicit (2)	6.9	14.8	21.3	-16
Implicit	12.9	30.5	67.9	60
Total	19.8	45.3	89.2	33
<i>Subsidies to Private Rented Sector</i>				
Explicit	—	—	—	—
Implicit	2.1	3.5	5.8	-25
Total	2.1	3.5	5.8	-25
TOTAL SUBSIDIES	33.1	75.7	157.1	35

Notes: (1) Deflated by implicit deflator for Gross Domestic Fixed Capital in dwellings.

(2) Comprises grants for new houses and grants for reconstruction and repairs.

Sources: John Blackwell, *Public Expenditure and Housing Policy 1981* (Paper read to Dublin Economic Workshop October 18, 1981) Department of the Environment; NESR Report No. 23, *Report on Housing Subsidies*.

Table 3.7

Average deposit required on average priced new houses being purchased with Building Society loans, 1976-1980

	Gross deposit (a)	State grant (b)		Deposit, net of state grant	
		Money value	As percentage of gross deposit	Current prices	Net deposit as % of gross average industrial earnings per annum
	(1)	(2)	(3)	(4)	(5)
1976	1,211	325	26.8	886	27.7
1977	1,457	663	45.6	794	20.7
1978	1,859	1,000	53.8	859	19.4
1979	2,343	1,000	42.6	1,343	27.3
1980	2,799	1,000	35.7	1,799	30.8
1981	3,189	1,000	31.4	2,189	31.9

Notes: (a) assumes a 90 per cent 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 figures in column (2) is an average for the twelve months.

Source: Quarterly Bulletin of Housing Statistics, March 1982.

Table 3.8

Initial monthly repayments to Building Societies for mortgages on average-priced new houses, 1976-1981

	(1) Total loan (a)	(2) Monthly repayment	(3) Average monthly male industrial earnings (b)	(4) Repayment as % of earnings in (3)
1976	9,690	111	267	41.6
1977	11,656	118	320	36.8
1978	14,847	175	369	47.3
1979	18,746	238	410	58.0
1980	22,390	284	492	57.7
1981	25,508	319	571	55.8
1982 first quarter	27,590	393	599	65.6

Notes: (a) assumed an 80 per cent mortgage on an average priced house payable over 20 years.
(b) figures for industrial earnings refer to total transportable goods industries and relate to the position at June of each year.

Sources: Column (1), Quarterly Bulletin of Housing Statistics, March 1982.
Column (3), CSO.

Table 3.10

Rents of local authority houses

Financial Year	Estimated number of rented houses at mid-year	Annual rental income	Average weekly rent
		£m	£
1972/73	106,000	7.89	1.43
1973/74	107,000	8.45	1.52
1974 (April to December)	108,000	6.32	1.50
1975	105,000	8.67	1.59
1976	101,000	9.86	1.88
1977	99,000	12.29	2.39
1978	100,000	13.88	2.67
1979	102,000	16.39	3.09
1980	103,000	20.80	3.88
1981	105,000	24.25	4.44
1982 (estimated)	105,000	28.75	5.27

Sources: Quarterly Bulletin of Housing Statistics, December 1981, Department of the Environment.

Table 3.9

Approved applications for local authority housing by family size and category, 1981

Basis for inclusion on waiting list	Family size	
	1-3	4-7
Unfit accommodation	15	6
Overcrowded accommodation	29	15
Unfit and overcrowded accommodation	6	7
Medical compassionate grounds	7	2
Other	11	2
Total	68	32

Source: Department of the Environment.

Table 3.11

Subsidies and rents in local authority dwellings, 1975-82, expressed as % local authority current receipts

	1975		1976		1977		1978		1979		1980		1981		1982 (e)	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Rent subsidies	27.0	68.2	30.5	62.9	33.7	64.3	47.7	69.6	63.0	73.8	75.0	73.3	96.8	74.9	120.4	77.2
Rent receipts	8.7	22.0	9.9	20.3	12.3	23.5	13.9	20.8	16.4	19.2	20.8	20.3	24.3	18.8	28.8	18.4

Note: e: Estimate.

Source: Quarterly Bulletin of Housing Statistics, March 1981 and December 1981, Department of the Environment.

Table 3.12

Local Authority House Purchase Schemes

	1970 £	1975 £	1980 £
1. Average sale price of a ten year old house	3,430 ¹	4,870 ²	10,633
2. Occupancy discount (built-up area)	340	1,460	3,250
3. Deduction in lieu of grants and rates remission	—	900	1,300
4. Net sales price			
Current prices	3,090	2,510	6,280
in 1970 prices	3,090	1,350	1,838

Notes: (1) Market value assumed equal to cost of new house.
(2) All-in cost of a house in 1965 converted to money values of November 1974, using the CPI.
(3) All-in cost of a house in 1970 converted to money values of November 1979 using the CPI.

Sources: An Foras Forbartha, *Public Subventions to Housing, Ireland*, (1970, 1975 columns); *Quarterly Bulletin of Housing Statistics* various years, (for 1980 column).

Table 3.13

Capital expenditure on education, 1976-1982

	Public capital programme		% increase on previous year
	At current prices £m	At constant (1975) prices (1) £m	
1976	27.98	24.08	—
1977	37.36	27.33	+13.9
1978	46.92	31.17	+14.0
1979	53.11	30.50	-2.1
1980	60.80	29.02	-4.9
1981 (p)	81.96	34.29	+18.2
1982 (e)	93.92	35.1	+2.3

Notes: (1) Deflated by the Capital Goods Price Index for Building and Construction.
(p) Provisional.
(e) Estimate.

Source: *Public Capital Programme* various years.

Table 3.14

Current public expenditure on education, 1976-1982

	Current prices £m	Constant (1975) prices (1) £m	% increase on previous year
1976	234.8	202.5	—
1977	272.0	206.5	+2.0
1978	308.6	211.2	+2.4
1979	393.0	232.6	+10.1
1980	486.0	235.8	+1.4
1981 (p)	623.8	249.1	+5.6
1982 (e)	695.0	239.3	-3.9

Notes: (p) Provisional.
(e) Estimate.
(1) Deflated by the Implicit Price Index for Public Authorities Net Current Expenditure.

Source: *Book of Estimates*, various years.

Table 3.15

Current (non-capital) cost per pupil by institution, various years
(current prices)

Type of institution	1975	1976	1977	1978	1979	1980	1981
	£	£	£	£	£	£	£
Primary	152	175	198	224	270	339	440
Secondary	284	328	362	408	510	589	748
Comprehensive & Community	342	370	419	457	560	653	809
Community College & Technical	364	414	433	529	610	704	922
RTCs	801	830	896	1011	1170	1405	1470
University	1014	1044	1180	1073	1378	1644	2033
Teacher Training	1170	1144	1354	1434	1710	1786	2030

Source: Department of Education; Parliamentary Questions, 569 (29/6/82) 698 (12/5/82).

Table 3.16

Current (non-capital) costs per pupil, by institution, various years
(constant 1975 prices)¹

	1975	1976	1977	1978	1979	1980	1981	% Change 1975-81
	£	£	£	£	£	£	£	
Primary	152	151	150	153	160	164	176	+15.8
Secondary	284	283	275	279	302	286	299	+5.3
Comprehensive & Community	342	319	318	313	331	317	323	-5.6
Community College & Technical	364	357	329	362	361	342	368	+1.0
RTCs	801	716	680	692	692	682	587	-26.7
University	1014	900	896	734	815	798	812	-19.9
Teacher Training	1170	986	1028	982	1012	867	811	-30.7

Note: (1) Deflated by implicit price deflator for Public Authorities Net Current Expenditure (ERO 1982).

Source: Table 10.

Table 3.17

Participation rates by sex for 14 to 24 years olds, 1974, 1979 and 1981

Age	1974		1979		1981	
	Male	Female	Males	Female	Male	Female
14	95.3	95.5	95.2	95.8	96.4	97.4
15	75.1	81.9	81.1	85.5	84.5	89.3
16	52.4	68.5	62.6	74.5	64.5	77.2
17	37.4	48.9	40.6	56.1	43.1	59.8
18	22.6	22.3	23.6	29.8	23.9	31.1
19	14.7	10.8	16.1	15.2	16.3	15.1
20-24	9.0	4.6	9.0	6.3	8.8	6.4

Note: The enrolment data refer to February and state age as of 1st January of the same year. The age-specific population date is based on April.

Source: *The Implications of Demographic Change for Education*, NESG forthcoming.

Table 3.18

Health services capital expenditure 1976-1982

	Capital expenditure current prices (£m)	Constant (1975) prices (£m) (1)	% Change on previous year
1976	11.2	9.7	—
1977	16.0	11.7	+20.6
1978	21.5	14.3	+22.2
1979	27.5	15.8	+10.5
1980	35.0	16.7	+5.7
1981	44.5	18.6	+11.4
1982 (e)	49.2	18.4	-1.2

Note: (1) Deflated by Capital Goods Price Index for Building and Construction.

Sources: *Book of Estimates*, Department of Health.

Table 3.19

Current public expenditure on health services, 1976-1982

	Current prices (£m)	Pay as % of total (£m)	Constant (1975) prices (£m) (1)	% Change
1976	275	61.5	237	-2.2
1977	328	62.0	250	+5.5
1978	400	64.0	265	+6.0
1979	505	66.1	299	+12.8
1980	701	65.4	340	+13.7
1981	823	63.6	329	-3.2
1982 (e)	951	64.1 (2)	329	0

Note: (e) Estimate.

(1) Deflated by implicit price index for Public Authorities Net current expenditure.

(2) 1982 Budget Estimate.

Source: *Book of Estimates*, Department of Health.

Table 3.20

A. Current public expenditure on health by programme 1976-1981

	£m						
	1976	1977	1978	1979	1980	1981	1982 (e)
Community protection	6.1	7.6	9.4	12.0	13.0	15.5	16.4
Community health	45.1	46.5	57.6	68.0	90.4	115.1	143.0
Community welfare	16.9	27.6	30.0	36.2	46.8	54.8	72.0
Total community	68.1	81.7	97.0	116.2	150.2	185.4	231.4
Psychiatric programme	39.1	46.5	55.6	61.0	93.5	105.7	120.0
Programme for the handicapped	22.2	30.1	37.1	45.1	59.7	65.6	91.4
General hospital programme	139.5	173.0	213.2	281.9	393.8	458.4	511.0
General support programme	21.7	24.3	26.1	30.8	34.8	42.9	48.2
Gross expenditure	290.6	355.6	429.0	535.0	732.0	858.0	1002.0
Income	16.0	27.1	29.0	30.0	31.0	35.3	50.7
Net expenditure	274.6	328.5	400.0	505.0	701.0	822.7	951.3

B. Percentage share of gross current public expenditure on health

	1976	1977	1978	1979	1980	1981	1982 (e)
	%	%	%	%	%	%	%
Community protection	2.1	2.1	2.2	2.2	1.8	1.6	1.6
Community health	15.5	13.1	13.4	12.7	12.3	14.2	14.3
Community care	5.8	7.8	7.0	6.8	6.4	7.1	7.2
Total community	23.4	23.0	22.6	21.7	20.5	22.9	23.1
Psychiatric programme	13.5	13.1	13.0	11.4	12.8	11.9	12.0
Programme for the handicapped	7.6	8.5	8.6	8.4	8.2	8.9	9.1
General hospital programme	48.0	48.6	49.7	52.7	53.8	51.6	51.0
General support programme	7.5	6.8	6.1	5.8	4.7	4.7	4.8

Notes: (e) Estimate.

The figures given in the fourth row of each table, Total Community, comprise the sum of the first three rows. There are also community aspects to both the Psychiatric and Handicapped Programme.

Source: Department of Health.

Table 3.21

Programme	1977	1978	1979	1980	1981	% Change 1977-1981
Community Protection	5.8	6.4	7.1	6.3	6.2	+6.9
Community Health Services	35.3	39.4	40.2	43.9	46.0	+30.3
Community Welfare	20.9	20.5	21.4	22.7	21.9	+4.8
Psychiatric	35.3	38.1	36.1	45.4	42.2	+19.5
Programme for the Handicapped	22.9	25.4	26.7	29.0	26.2	+14.4
General Hospital Programme	131.4	145.9	166.9	191.1	183.1	+39.3
General Support Programme	18.4	17.9	18.2	16.9	17.1	-7.1
	270.0	293.6	316.6	355.3	342.7	+26.9
Less Income	20.6	90.9	17.8	15.0	14.1	-31.6
Total	249.4	273.7	298.8	340.3	328.6	+31.8

Note: (1) Deflated by implicit Price Index of Public Authorities Net Current Expenditure.
Source: Table 21.

Table 3.22

General hospital programme expenditure by service 1981 and change in constant prices, 1977, 1981

	1981 Current Prices	1977 1981 Constant Prices (1)		% Change 1977-81
	£m	£m	£m	%
6.1 Services in Regional Hospitals	93.000	25.8	37.1	+43.8
6.2 Services in Public Voluntary Hospitals	178.000	55.6	71.1	+27.9
6.3 Services in Health Board County Hospitals and Homes	100.620	22.7	40.2	+77.0
6.4 Contributions to Patients in private hospitals	12.550	3.5	5.0	+42.9
6.6 Services in District Hospitals	21.800	6.0	8.7	+45.0
6.7 Services in Health Board Long Stay Hospitals	41.500	14.9	16.6	+11.4
6.8 Ambulance Services	10.900	2.9	4.4	+51.7
TOTAL	458.370	131.4	183.1	+39.4

Note: (1) Deflator as for Table 15.
Source: Statistical Information Relevant to the Health Services, (SIRHS), 1981 and 1977.

Table 3.23

Admission rates (1) to acute hospitals by sex and age per 1,000 population, Ireland (1978), England and Wales, (1978) and Scotland (1976)

Age	Ireland 1978		England and Wales 1978		Scotland 1976	
	Male	Female	Male	Female	Male	Female
0-14	111	83	86	62	86	60
15-24	86	100	53	76	68	84
25-44	94	122	51	96	73	114
45-64	146	136	93	83	129	113
65-74	245	186	170	118	235	157
75+	287	217	279	200	375	271
TOTAL	123	118	87	92	110	112

Note: (1) The data are discharge rates which approximate closely to admission rates.
Source: Derived from *Hospital Inpatient Inquiry 1978* Medico Social Research Board; *Hospital Inpatient Inquiry England and Wales 1978*; *Hospital Inpatient Inquiry for Scotland, 1976*.

Table 3.24

Community health services programme — expenditure, 1981 and change, 1977-1981

	Current Prices 1981	Constant 1975 Prices			Change % 1977-1981
		Share %	1977	1981	
2.1 General Practitioner Service (incl. prescribed drugs)	£m		£m	£m	
	71.8	12.4	26.7	28.7	+7.5
2.2 Subsidy for Drugs purchased by persons ineligible under 2.1	10.8	13.1	1.3	4.3	+230.8
2.3 Refund of Cost of Drugs for Long Term Illness (including Hardship cases)	4.3		1.2	1.7	+41.7
2.4 Home Nursing Services	14.8	12.8	1.9	5.9	+210.5
2.5 Domiciliary Maternity Services	1.3	1.1	0.8	0.5	-37.5
2.6 Family Planning	0.1	0.1	—	—	—
2.7 Dental Services	9.2	8.0	2.7	3.7	+37.0
2.8 Ophthalmic Services	2.7	2.3	0.6	1.1	+83.3
2.9 Aural Services	0.2	0.2	0.2	0.1	-50.0
TOTAL	115.1	100.0	35.4	46.1	+30.2

Sources: Statistical Information Relevant to the Health Services, 1977, 1981.

Table 3.25

Health service manpower — numbers employed by health boards and voluntary hospitals 1975 and 1980.

Type	1975	1980	% Change 1975-1980
	(persons)	(persons)	(%)
Dental/Medical	3600	4348	+20.8
Nursing and allied	21,000	29,472	+40.3
Paramedical	2200	2814	+27.9
Catering and Housekeeping	9300	8806	-5.3
Maintenance	2400	2158	-10.2
Admin/Clerical	4000	5443	+36.1
Other	1200	2606	+117.2
Total	43,700	55,647	+27.3

Source: Statistical Information Relevant to the Health Services, 1975 and 1981.

Table 3.26

Current public expenditure on social welfare, 1976-1981

Year	Current prices (all schemes plus administration)	Constant 1975 prices			
		Deflator (1)		Deflator (2)	
		£m	% Change	£m	% Change
1976	447	386	—	379	—
1977	511	388	+0.5	381	+0.5
1978	582	398	2.6	404	+6.0
1979	681	402	1.0	418	3.5
1980	890	432	7.5	462	10.5
1981 (e)	1199	478	10.7	516	11.7

Notes: Deflator (1) is that for net current expenditure to public authorities.
Deflator (2) is based upon changes in the Consumer Price Index.

Source: Department of Social Welfare.

Table 3.27

Social welfare — source of funding and type of expenditure

A. Sources of Finance for Social Welfare Expenditure, Various years

Year	Social Insurance Contributions	Exchequer	Other	Total
	%	%	%	
1977	44.5	55.3	0.2	100.0
1978	44.2	55.6	0.2	100.0
1979	43.5	56.3	0.2	100.0
1980	42.4	57.5	0.1	100.0
1981	38.0	61.8	0.2	100.0

B. Expenditure by Type

Year	Social Insurance Fund (1)	Social Assistance	Administration	Total
	%	%	%	
1976	52.7	42.4	4.4	100.0
1977	52.5	42.4	5.1	100.0
1978	53.5	42.0	4.5	100.0
1979	53.8	41.2	5.0	100.0
1980	55.5	40.2	4.2	100.0
1981	56.4	39.7	3.9	100.0

Note: (1) Including Occupational Injuries.

Source: Department of Social Welfare Annual Reports, to 1980; Parliamentary Questions 946/948 26 May 1982; Book of Estimates 1982.

Table 3.28

Social welfare — expenditure by scheme, 1976/1981, current prices
(excludes administration expenditure)

Income maintenance for:	1976 £(000)	%	1981 £(000)	%
Aged	137,111	32.0	373,950	33.0
ill	76,014	17.8	193,740	17.1
Unemployed	101,155	23.6	256,200	22.6
Family	103,672	24.2	265,720	23.4
Miscellaneous	10,102	2.4	44,600	3.9
Total	428,054	100	1134,210	100

Source: Department of Social Welfare.

Table 3.29

**Expenditure on old age pensions, 1976 and 1981,
by pension and total recipients of each pension, 1981**

	1976		1981		Recipients at Dec 1981
	Expenditure	% share	Expenditure	% share	
	£000		£000		
Old Age Contributory Pension	44,875	33	137,950	37	67,964
Retirement Pension	20,504	15	59,640	16	32,198
Old Age Non-contributory Pension (including blind person)	71,727	52	176,360	47	129,411
Total	137,111	100	373,950	100	229,573

Sources: Department of Social Welfare Annual Reports; Parliamentary Questions 947, 948, 26/5/82; Department of Social Welfare.

Table 3.30

Unemployment benefit and assistance

A. Average weekly number of claimants

	1976	1977	1978	1979	1980	1981 (e)
Unemployment benefit	59,973	54,866	47,959	42,000	50,726	66,802
Unemployment assistance (a)	47,399	49,936	48,743	46,227	46,373	56,360
Total no. of recipients	107,372	104,802	96,702	88,227	90,099	123,162

B. Expenditure on payments to the unemployed, 1976-1980

	£m	£m	£m	£m	£m	£m
Unemployment benefit	43.3	44.5	44.5	43.2	70.5	113.6
Unemployment assistance (a)	31.9	38.5	43.4	47.9	60.0	83.9
Pay-related benefit (b)	7.9	7.6	7.7	8.7	17.7	32.9
Total	83.1	90.6	95.6	99.8	148.2	230.4
As % of social welfare expenditure	18.6	17.6	16.4	14.8	16.6	19.6

Notes: (a) Figures exclude small holders.
(b) Payments with unemployment benefit only.
(e) estimated.

Source: Department of Social Welfare.

Table 3.31

Unemployment benefit

**Pay related benefit — average number of recipients
and average payments, various years**

Year	Number	Unemployment benefit % claimants receiving pay related benefit	Average weekly pay related payment
	persons	%	£
1976	22,365	37.3	6.64
1977	19,304	35.2	7.58
1978	17,056	35.6	8.69
1979	13,629	32.5	12.51
1980	21,838	43.1	15.49
1981	33,610	50.3	19.27

Source: Department of Social Welfare Annual Reports; information from Department of Social Welfare.

Table 3.32

**Percentage registered unemployed who are unemployed over
53 weeks, by sex 1975-1981**

Year	Males %	Females %
1975 (Nov)	23.6	7.8
1976 "	31.4	12.7
1977 "	33.4	19.6
1978 "	36.5	15.1
1979 (Oct)	38.7	19.2
1980 "	34.6	22.1
1981	34.2	19.4

Source: Trend of Employment and Unemployment, various years. CSO, Age by Duration Analysis of the Live Register, April figures.

Table 3.33

**Youth unemployment as percentage of registered unemployment
1980, 1981, 1982**

	Males — % under 25	Females — % under 25
January 1980	21.6	33.6
January 1981	23.0	37.3
January 1982	25.1	40.9

Note: A consistent series exists only since January 1980.

Source: CSO, Monthly Live Register statement.

Table 3.34

Average yearly percentage of persons on live register according to the number of dependants

Number of dependants	1976	1977	1978	1979	1980	1981
	%	%	%	%	%	%
None	51.5	52.0	52.4	53.6	55.3	55.1
1-3 (1)	27.6	27.3	26.9	25.7	24.9	25.0
4 to 7 (1)	16.0	16.0	16.1	15.9	15.7	16.0
7 or more (1)	5.0	4.8	4.7	4.6	4.1	3.9
Total (2)	100	100	100	100	100	100

Notes: (1) Assuming one adult and various numbers of child dependants.
(2) Totals may not add due to rounding.

Source: CSO, *Trends in Employment and Unemployment* 1976, 1977, 1978.

Table 3.35

Replacement ratios for various types of recipient claiming unemployment 1981: pay related benefit (PRB), and unemployment assistance (UA), (1)

Average industrial earnings = £7722 p.a. 1982 = £148.50 pw

	Single	Married 3 children	Married 7 children
UB Replacement Ratios	31%	64%	84%
UB and PRB (2) (30%) (3)	70% (61%)	85% (85%)	85% (85%)
UA Replacement Ratio	26%	56%	72%

Average industrial earnings = £5148 p.a. 1982 = £99 pw

	Single	Married 3 children	Married 7 children
UB Replacement Ratio	42%	87%	113%
UB and PRB Ratio (2) (30%) (3)	73% (65%)	87% (87%)	113% (113%)
UA Replacement Ratio	35%	75%	97%

Notes: (1) Transportable Goods Industry Earnings.
(2) The so called 85% Rule limits pay related supplement so that its payment will not lead to replacement ratios in excess of 85%.
(3) The 30% figure refers to the effects of changing the pay related supplement from 40% to 30%. The results are those shown in brackets.

Source: Department of Social Welfare.

Table 3.36

Occupational classification of males on the Live Register

Occupation	1980	1981	1982
General labourers	12,818	16,734	19,469
Builders' labourers	8,096	9,940	12,305
Undefined	10,106	12,775	16,308
Agricultural labourers	6,948	7,554	8,129
Relatives assisting farmers	8,697	9,955	9,077
	44,665	56,958	63,318
Total males on Live Register	69,969	97,186	113,577
Above categories as % Total males	66.7	58.6	57.5

Source: CSO, *Occupational Classification of Live Register*, various years.

Table 3.37

Expenditure on family support programmes, 1976 and 1981, classified by scheme, showing share of each scheme

	1976		1981	
	Expenditure	%	Expenditure	%
Widows and Orphans Contributory Pension	£m		£m	
	39,680	38.3	112,180	42.2
Children's Allowance	46,319	44.7	99,104	37.3
Widows and Orphans Non-Contributory Pension	7,671	7.4	18,198	6.9
Social Assistance Allowances	5,916	5.7	20,128	7.6
Deserted Wives Benefit	1,457	1.4	6,720	2.6
Maternity Allowance (including Pay Related Benefit)	2,495	2.4	8,990	3.4
Maternity Grant	190	0.2	400	0.2
Total	103,334	100	262,520	100

Source: Department of Social Welfare.

Table 3.38

Expenditure on programmes of income maintenance for the ill, 1976 and 1981,
classified by scheme and showing share of each scheme

	1976 £(000)	% Share	1981 £(000)	% Share
Disability Benefit (flat rate)	51,991		116,000	
Disability Benefit (pay related)	5,832	76.5	22,960	69.6
Invalidity Pension	8,503	11.3	33,750	16.8
Treatment Pension	3,108	4.1	7,620	3.8
Occupational Inquiries	5,934	7.9	12,890	5.6
Death Grant	191	0.3	520	0.3
	75,323	100	193,270	100

Source: Department of Social Welfare.

Table 3.39

Disability benefit – number in receipt, number summoned for second medical opinion, number who did not attend and number judged capable of work, various years

(a) – calculations on total recipients

	1 Number who received disability benefit	2 Number summoned for second medical opinion	3 (2 as % 1) %	4 Number who did not attend	5 (4 as % 2) %	6 Number judged capable of work	7 (6 as % 2) %
1976	306,815	64,206	20.9	16,005	24.9	12,525	26.0
1977	309,519	69,166	22.3	18,995	27.5	13,637	27.6
1978	341,864	68,380	20.0	19,821	29.0	11,413	23.5
1979	305,594	43,084	14.1	16,012	37.2	6,453	23.8
1980	309,363	79,485	25.7	27,458	34.5	12,756	24.5
1981	289,979	69,520	24.0	28,067	40.4	8,842	21.3

Source: Department of Social Welfare.

(b) – calculations on numbers involved with second medical opinion

	8 Number attending	9 Number who did not attend as a percentage of number summoned (4 as % 2)	10 Number judged capable of work as a percentage of number attending (6 as % 2)
1976	48,201	24.9	26.0
1977	50,171	27.5	27.6
1978	48,559	29.0	23.5
1979	27,072	37.2	23.8
1980	52,027	34.5	24.5
1981	41,453	40.4	21.3

Source: Department of Social Welfare.

Table 3.40

Average weekly disability benefit claims 1981, classified by sex and marital status and expressed as claim rates on estimated insured labour force

	Men		Women		All persons Total
	Single	Married	Single	Married	
Claims (1)	13,805	23,230	6,950	22,148	66,139 (1)
Estimated insured labour force (2)	240,000	363,000	157,000	70,000	830,000
Claim rate %	5.8	6.4	4.4	31.6	8.0

Notes: (1) Average weekly claims were slightly above this figure but not all claims have been classified according to the categories shown in this Table.

(2) Estimated using the 1979 Labour Force Survey.

Sources: Department of Social Welfare, Department of Finance.

Table 3.41

Average weekly beneficiaries of pay related disability benefit, maternity allowance and injury benefit, and average payment

	Number of claims	Average payments £
1976	15,832	7.85
1977	18,554	8.97
1978	19,650	10.23
1979	17,946	14.94
1980	18,690	20.61
1981 (1)	17,887	33.82

Note: (1) Maternity allowance figures were not included.

Table 3.42

Percentage composition of tax yield, 1975-1982, various years

	1975	1976	1977	1978	1979	1980	1981	1982
Income tax	28.7	29.9	29.1	29.3	30.6	32.8	31.9	30.3
Social insurance	12.8	12.4	12.6	12.5	12.4	12.2	12.3	13.2
Youth employment levy	—	—	—	—	—	—	—	0.8
Taxes on personal income	41.5	42.3	41.7	41.8	43.0	45.0	44.2	44.3
Customs and Excise	28.9	28.8	26.4	25.8	27.0	28.9	28.7	25.3
VAT	15.2	16.5	17.9	20.1	17.6	15.2	15.9	20.6
Corporation tax	2.3	1.0	3.9	4.9	5.4	4.5	5.1	3.8
Stamp duties	1.2	1.1	1.4	1.7	1.8	1.6	1.7	2.0
Motor vehicle duties	2.4	2.4	1.7	0.8	0.8	0.8	1.0	1.4
Flats	7.3	7.1	6.2	4.0	3.8	3.3	2.6	2.0
Capital taxes and estate duties	1.2	0.7	0.7	0.7	0.6	0.6	0.5	0.4
Resource tax and agricultural levies	0.1	0.2	0.3	0.2	0.1	0.1	0.2	0.2
Total (1)	100	100	100	100	100	100	100	100

Note: (1) Totals may not add due to rounding.

Sources: Department of Social Welfare, Budget Booklets; ESRI Quarterly Economic Commentary, various issues.

Table 3.43
Individual taxes and total taxation as % GDP, 1975-82

	1975	1976	1977	1978	1979	1980	1981	1982
Income tax	8.9	10.1	9.5	9.4	9.8	11.8	12.0	12.1
Social insurance	4.0	4.2	4.1	4.0	4.0	4.3	4.6	5.3
Youth employment levy	—	—	—	—	—	—	—	0.3
Taxes on personal income	12.9	14.3	13.6	13.4	13.8	15.9	16.6	17.7
Customs and Excise	9.0	9.7	8.6	8.2	8.6	10.2	10.9	10.1
VAT	4.7	5.6	5.9	6.4	5.6	5.4	6.0	8.2
Corporation tax	0.7	0.4	1.3	1.6	1.7	1.6	1.9	1.5
Stamp duties	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.8
Motor vehicle duties	0.7	0.8	0.6	0.3	0.3	0.3	0.4	0.6
Rates	2.3	2.4	2.0	1.3	1.2	1.2	1.0	0.8
Capital taxes and estate duties	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.4
Resource tax and agricultural levies	0.0	0.1	0.1	0.1	0.0	0.0	0.1	0.1
Total (1)	31.0	33.7	32.8	32.0	32.1	35.4	37.7	39.8

Note: (1) Totals may not add due to rounding.

Sources: Department of Social Welfare, Budget Booklets; ESRI Quarterly Economic Commentary, various issues.

Table 3.44
Family disposable income as percentage of earned income, various prototype families, various years

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
Senior management	62	64	64	60	67	63	58
Executive	76	78	79	86	78	77	77
Industrial worker	81	81	84	82	83	82	82
Unemployed	—	—	—	—	—	—	—

Source: See Appendix 2.

Table 3.45

Family disposable income for various prototype families expressed as an index based on income of a family independent on average male industrial earnings, various years

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83(e)
Senior management	214	206	201	203	246	238	227
Executive	127	123	123	121	124	124	122
Industrial worker	100	100	100	100	100	100	100
Unemployed	47	48	46	47	49	52	60

Note: (e) Estimate.

Source: Appendix 2.

Table 3.46

Estimated cost (in revenue foregone) of the principal income tax allowances and reliefs

Allowance/relief	1979/80	1980/81	1981/82	% change 1979/82
Personal allowances:				
Married	273	246	266	-3
Single and widowed	164	167	168	+2
One parent families	1	3	4	+300
Child allowance	47	43	48	+2
Dependent relative allowance	5	5	4	+20
PAYE allowance	—	98	180	—
Age allowance	2	1	2	—
Housekeeper allowance	1	1	1	—
Relief of loan interest paid in full	30	36	53	+67
Relief on superannuation contributions paid by employees	10	14	18	+75
Life assurance relief	8	9	10	+25
Medical insurance relief	4 (a)	5 (b)	7	+63
Children's allowance (Social Welfare) relief	9	15	23	+150
Relief of bank deposit interest — first £70	3	3.5	5	+150
Capital allowances — machinery etc.	43 (a)	63 (b)	99 (d)	+130
Stock relief	10	11 (c)	11 (e)	+14
Export sales relief	53 (a)	86 (b)	100 (f)	+100

- Notes:*
- (a) these figures relate to the tax year 1978/79.
 - (b) these figures relate to the tax year 1979/80.
 - (c) this figure relates to the calendar year 1981.
 - (d) this figure relates to the tax year 1980/81.
 - (e) this figure refers to calendar year 1982.
 - (f) this figure refers to February 1981 to February 1982.

Source: 1979/80 figures: *Interim Report of Government ICTU Working Party on Taxation*.
1980/81 figures: Revenue Commissioners.

Table 4.1

Balance of payments deficit 1973-1981

	Balance of trade deficit as % of GNP	Deficit on Current Account as % of GNP
1973	9.9	3.4
1974	18.0	9.8
1975	8.0	0.5
1976	9.9	4.0
1977	11.4	3.5
1978	11.6	4.1
1979	18.5	11.2
1980	15.2	9.7
1981	16.3	13.6

Source: ERO, Summer 1982.

Table 4.2

Change in labour force, employment, unemployment, 1961-81 (000's)

	Labour force	Unemployment	Employment				
			Total	Agriculture	Industry	Service	Non-agriculture
1961-71	+19.7	+7	+12.3	-102	+65.5	+49.1	+114.5
1971-74	+50.2	+3	+47.3	-17.1	+33.5	+30.9	+64.5
1974-76	+23.9	+37.5	-13.5	-9	-26.3	+21.8	-4.6
1976-80	+83	-16	+99	-10	+47	+64	+111
1980-81	+18	+34	-16	-5	-13	+2	-11
1971-81	+175.1	+58.5	+116.8	-43.1	+41.2	118.7	+159.9

Source: Sectoral changes in the Labour Force over the period 1961-80 with particular reference to Public Sector and Services Employment, J.J. Sexton, *QEC*, August 1982.

Table 4.3

Components of services sector employment change 1961-1981

	Private services		Public sector		Total	
	'000	%	'000	%	'000	%
1961-1971	+16.4	+5.7	+32.7	+27.8	+49.1	+12.1
1971-1979	+38.7	+12.7	+64.0	+42.6	+102.7	+22.6
1971-1975	+9.1	+3.0	+34.6	+23.0	+43.6	+9.6
1975-1979	+29.6	+9.4	+29.4	+15.9	+59.0	+18.8

Source: Sectoral changes in the labour force over the period 1961-80 with particular reference to public sector and services employment, J.J. Sexton, *QEC*, August 1982.

Table 4.4

Estimates of job needs, 1981-1991 (000's)

Labour force	Target employment 1991 at 4% unemployment rate	Target non- agriculture employment 1991	Agricultural employment 1991	Average annual increase required, 1981-91	
				Non-agriculture employment	Total employment
P (1)	1331	1145	186	21.3	18.4
P (2)	1351	1165	186	23.3	20.4
P (3)	1377	1191	186	25.9	23.0

Notes: (1) The labour force projections are based on the model developed in NESC Report No. 63 for the period 1979-1991. The following assumptions are used:

P (1) — Average annual net migration of 5,000 persons; age — specific activity rates change as in assumption A in Report No. 63.

P (2) — Zero net migration; activity rates as P (1).

P (3) — Zero net migration; activity rates remain at their 1979 levels. Because the rates in respect of women are held constant with marital status, women's aggregate activity rates are assumed to fall.

(2) Agricultural employment is assumed to have an annual rate of decline of 1.5 per cent.

Table 4.5

Exports of manufactured goods, selected influences¹
Percentage changes, annual rates

	Export markets ²	Irish exports	Export performance ³	Change relative unit labour costs ⁴
1973	14.1	25.4	+11.3	+9.9
1974	4.9	8.5	+3.6	+1.1
1975	-5.1	-4.5	+0.6	-0.5
1976	12.7	20.0	+7.3	+11.0
1977	7.9	20.9	+13.0	+1.5
1978	10.1	11.5	+1.4	-3.6
1979	9.5	14.2	+4.7	-8.4
1980	2.7	8.0	+5.3	-6.6
1981	1.5	11	+9.5	+6.2

Notes:

¹ Refers to SITC Sections 5-8 (volumes).

² Weighted average of trading partners imports of manufactures, the weights being shares in Irish exports of manufactures.

³ Growth of exports minus growth of markets.

⁴ On a basis similar to the market calculations in the first column; a positive sign denotes an improvement in Irish competitiveness. The calculation distinguishes between the UK market and other destinations, assuming competition with other major suppliers to the UK for the former and with the principal OECD suppliers (weighted by their shares in total exports) for the latter. The implied weight for the UK is small, compensating for its large weighting in the market measure which captures the effects of changes in the UK's competitiveness. Irish data refer only to wage costs, whereas for other countries non-wage costs are included.

Source: OECD Economic Surveys 1981-82.

Table 4.6

Price and cost competitiveness and consumer expenditure

	Output prices Import prices	Output prices Unit wage costs	Private consumption expenditure	Imports of consumer goods	Market share effect
	(1)	(2)	(3)	(4)	(4-3)=5
1975	100	100	—	—	—
1976	99.5	109.6	+2.4	+17.4	+15.0
1977	100.1	114.3	+5.4	+13.1	+7.7
1978	104.0	114.3	+8.3	+22.4	+14.1
1979	102.5	112.6	+2.3	+14.2	+11.9
1980	96.4	105.3	-0.2	+4.0	+4.2
1981	94.6	112.2	-0.5	+6.1	+6.6

Note: An increase in the index in column (1) indicates that output prices increased faster than import prices.

Source: CSO, ERO.

Table 4.7

Possible replacement ratios for persons in receipt of disability benefit

	1982/83				
	Gross average weekly earnings				
	£86	£114	£143	£172	£229
	Replacement Ratios*				
	%	%	%	%	%
Single person	93.9	87.5	88.1	89.7	93.4
Married couple	109.4	113.2	104.5	98	87.8
Married couple and 2 children	108.6	113.4	113.6	106.9	95.2
Married couple and 4 children	127.1	113.2	119.9	116.3	102.9
Married couple and 6 children	134.9	115.2	119.1	123	110.2

Note: * Assume employee works until he earns the equivalent of his total tax-free allowances and remains on sickness benefit for the remainder of the tax year; estimated average weekly equivalent of the tax rebate for year has been added to the individual's flat rate and maximum pay related benefit income to produce the effective weekly replacement ratio.

Source: Department of Finance.

Table 4.8

R & D profile of foreign and Irish manufacturing firms, 1979

	Foreign owned	Irish owned	Total
Total employment ('000)	82	162	244
R & D expenditure/employee (IR£)	109.76	50.62	70.49
R & D expenditure/net output of all firms (%)	—	—	0.72

Source: NBST, *Irish Science and Technology Statistics*.

APPENDIX 1

Major Social Service Data Deficiencies

The lack of information on the working of many social service programmes has been noted in Chapter 3. This Appendix lists major programmes to which this point applies and also refers to the type of information which would be required to enable the programmes to be analysed within a social policy framework and their efficiency and effectiveness increased. The possibility that substantial policy changes will be made blindly, or along the lines of least resistance is increased by the absence of this information. The Council would expect that the collection of information of the types suggested as well as additional analysis and presentation would involve costs which would be small in relation to the level of current expenditure and which might be offset by consequent savings as a result of greater effectiveness achieved in social programmes.

1. Housing

(a) *Owner Occupied Sector*

The Department of the Environment publishes much useful information in the *Quarterly Bulletin of Housing Statistics*. This could be usefully extended by the inclusion of data which is already collected on:

- (i) the proportion of mortgage loans which go to existing owner-occupiers;
- (ii) the number of extensions and additions financed by mortgage loans;
- (iii) more detailed figures relating to housing output including allowance for work in progress;
- (iv) more detailed classification of the income distribution of those taking out mortgage loans;
- (v) data on average loan/income and average loan/house price ratios and the distribution about these ratios;
- (vi) some indication of the extent to which purchase is financed from previous resale of house;
- (vii) breakdown of previous tenure of those taking out mortgage loans between private and public tenancy.

(b) *Local Authority Sector*

The only information available on this sector is on local authority completions, number of tenancies, number of sales, average rents and current receipts and expenditure on local authority housing. Under the dif-

ferential rents scheme and the tenant purchase scheme a considerable amount of information is collected at local authority level but is not published on either a local or national basis. The major types of information required on local authority tenants would include:

- (i) distribution of income levels of local authority tenants;
- (ii) distribution of rents;
- (iii) proportions of local authority tenants dependent on the various social welfare income maintenance schemes;
- (iv) family size, age and stage in the family cycle of local authority tenants;
- (v) cross-classification of waiting lists by category of entitlement and family size, age, occupation, income etc.

This information should be made available in a form which is classified by locality e.g. parish, which would enable cross classification with other socio-economic data.

The main types of information required under the tenants purchase scheme would include:

- (i) number of dwellings sold under the various schemes;
- (ii) distribution of prices at which dwellings are sold;
- (iii) "vintage" of houses sold;
- (iv) distribution of periods of occupancy by tenant purchasers;
- (v) distribution of sales of local authority dwellings by area;
- (vi) subsequent history of dwellings sold by local authorities.

(c) *Private Rented Sector*

The Census of Population is the only official source of information of this sector. Some additional information may be gleaned from the reports of voluntary bodies like Threshold. If this sector is to play an important part in the housing system, there is a minimum need for the following data:

- (i) numbers of tenancies by type and area;
- (ii) socio-economic characteristics of tenants; (income, sex, age, marital status, previous tenure, stage in family life cycle, intentions on future housing etc.);
- (iii) quality of rented accommodation — size, age, facilities;
- (iv) socio-economic characteristics of landlords (age, income, marital status etc.) and their intentions on the future use of the property.

(d) *Public Subvention of Housing*

There is no systematic presentation of the cost of the various forms of tax relief of which the main constituents are:

- (i) tax relief on interest repayments on building society loans;
- (ii) exemption of stamp duty on new houses;
- (iii) tax relief on life assurance loans;

- (iv) tax relief on capital gains on houses;
- (v) tax relief on local authority loans;
- (vi) stamp duty exemption on sales of dwellings to local authority tenants;
- (vii) tax foregone on imputed net rent on owner occupied dwellings.

There are no estimates of the costs of fixed interest rate loans under the SDA or the tenant purchase scheme.

The distribution of subsidies by tenure type and per housing unit should be presented routinely as a background to policy considerations.

2. Education

The Department of Education publishes an annual *Statistical Report* which contains much useful information on the numbers of students, teachers and institutions at each level. No data is published on educational disadvantage. The data presented on the financing of education is sparse and it is difficult to estimate total costs by level (see Tussing (1978) for an attempt to do so).

The major data requirements in education in relation to educational disadvantages include:

- (i) data on early (under 15) school leavers¹ and on poor attenders, classified by sex, age, area and by socio-economic family characteristics;
- (ii) participation rates, or age survival coefficients, classified by socio-economic background of students;
- (iii) the distribution of pupil-teacher ratios by area and size of school, particularly at first level, so that inter school variations may be monitored.

On the financing of education, the main data requirements include:

- (i) detailed breakdown of total costs by level; including personnel, equipment, management costs etc.;
- (ii) trends in current and total cost per pupil at each level;
- (iii) trends in current and total cost per pupil by type of course at third level;
- (iv) estimates of indirect transfers due to the provision of both tax allowances and childrens allowances to older children who remain in full time education;
- (v) regular publication of data on the socio-economic backgrounds of students at senior cycle second level and at third level.

¹The National Manpower Services' annual School Leavers Survey is a useful source of information of this type.

3. Health Services

The Department of Health produces an annual Report, *Statistical Information Relevant to the Health Services*, which contains a considerable amount of data on the expenditure on the various health service programmes and the number of persons using the services. A major difficulty from a social policy point of view is the absence of information on the socio-economic backgrounds of those using the services. While there are difficulties on obtaining this information in programmes which deal with very large numbers of people (the General Hospital Services deal with over 0.5m cases and there are over 7m consultations under the general medical services each year) such information is essential to any assessment of the distributional effects of the provision of the service. Only gross consultation rates (of general practitioners) are published by the GMS (payments) Board although data is collected but not processed on age, sex and marital status.

The manpower figures which are published deal only with the entire health services although the data is necessarily collected by institution. If the data was presented by programme, sub programme and by type of institution it would be possible to compute bed/nurse ratios etc. which could enable international and inter-regional comparisons to be made.

It is not possible to monitor either changes in the structure of health service employment or shifts within occupational classifications. No data is produced on trends in earnings by occupational group.

The Hospital Inpatient Enquiry carried out annually by the *Medico-Social Research Board* contains a wealth of information on the patterns of acute patient discharges, average duration of stay and disease category, all by type of hospital. Only one or two overall tables of these results are published in *Statistical Information Relevant to the Health Services*. Much more detailed presentation of these results and analysis of them by the *Medico Social Research Board* would be useful. Consideration should be given to including data on the social and economic backgrounds of inpatients.

It is worth noting in this context that *Activities of Irish Psychiatric Hospitals and Units*, published annually by the *Medico Social Research Board*, contains data on admissions by socio-economic groups as well as useful presentation of the results in 42 tables.

No information is available on *morbidity patterns*. Classified by socio-economic group, such data would provide a basis to assess the relative health service requirements of different social groups and the adequacy of existing policies. It is worth noting that the General Household Survey in the UK collects morbidity data. Consideration should be given to including questions on this topic in the Household Budget Survey.

In order to analyse trends in public health service expenditure it is necessary to have data on total health service expenditure from which the changing balance between public and private expenditures can be derived. Data of this sort is collected or estimated routinely in other countries. The OECD, which has developed illuminating health statistics on an international basis, has repeatedly failed to obtain comparable Irish data.

The following list summarises the main information requirements, starting with those for which data is collected but not collated or published:

- (i) GMS consultation rates by age, sex, marital status, occupation, family size, stage of family cycle etc.;
- (ii) detailed manpower, data by programme, main category of institution, by occupation, for each Health Board;
- (iii) detailed expenditure estimates for individual schemes by each Health Board;
- (iv) trends in earnings by occupational classifications in the health services;
- (v) publication of the *Hospital Inpatient Enquiry* results in a form similar to that of *Activities of Irish Psychiatric Hospitals and Units*;
- (vi) data on the social and economic backgrounds of those covered by the *Hospital Inpatient Enquiry*;
- (vii) inclusion of questions on morbidity in the Household Budget Survey perhaps along the lines of the General Household Survey, in the UK;
- (viii) production of estimates of total health service expenditure annually including private expenditure;
- (ix) co-ordination with the OECD in producing internationally comparable health service statistics.

4. Social Welfare

The Department of Social Welfare produces Reports at irregular intervals, usually covering several years. The last issue is for the years 1979 and 1980. Some 50 tables, basically one for each scheme administered are included, showing the total number of recipients. Breakdown of recipients by sex, marital status, age, etc are not provided although this data is collected routinely. The introduction of computerised PRSI, which replaced the old insurance card in 1979, would appear to have made provision of detailed information possible at minimal expense but the opposite has been the case. It is no longer possible for instance to obtain the number of married women who are insured. Reexamination and reorganisation of the computerisation of social welfare records so that basic data can be made available must be the first priority in the provision of improved information.

Concern is regularly expressed over replacement ratios (income maintenance levels as % earned income) but analysis of trends in these ratios is not published. Hypothetical replacement ratios are, however, poor guides compared to actual ratios. The Department of Social Welfare could produce information on actual ratios for unemployment payments from data on payments to certain recipients (e.g. those with large families) and their previous income levels when employed.

No information is published on the degree to which the various programmes in social welfare are providing adequately for their clients e.g. the expenditure patterns of various categories of recipient, the effects on family life etc. Nothing is known of the take-up rates of the various schemes.

The major types of improved information needed in social welfare are:

- (i) reorganisation of the computerised data to show recipients classified by sex, marital status, age, duration of claim, occupational employment and history, locality etc.;
- (ii) annual publication of these statistics;
- (iii) trends in replacement ratios to be monitored for the major programmes and the results published;
- (iv) investigations to be carried out of the degree to which programmes are meeting their objectives including the adequacy of payments to various classes of recipients, their expenditure patterns, the effects on family life etc.;
- (v) investigation of the take-up rates of the various schemes.

5. Taxation and Income Distribution

The main published data on taxation refer only to the amounts collected under the various headings. The incidence of taxation on different categories of taxpayers has received little attention, with the notable exception the CSO publication, *Redistributive Effects of State Taxes and Benefits on Household Incomes in 1973* (1980). This study examined the effects of both direct and indirect taxes and benefits using the 1973 *Household Budget Survey* data. While this study was extremely valuable, it was seven years out of date. Rapid publication of a similar analysis of the *1980 Household Budget Survey* must be a priority if the effects of recent and proposed tax changes are to be analysed in a meaningful way.

The *Household Budget Survey* is also the primary source of information on income distribution but analysis of this data has been left to individual researchers. It would be useful if presentation of the data on income distribution was to be presented by the CSO and changes charted over time in a way that would elucidate the effects of the various policies.

The main recommendations then are:

- (i) priority analysis and publication by the CSO of the effects of state taxes and benefits of household income in 1980, contained in the *Household Budget Survey* of that year;
- (ii) estimates, on an annual basis, of the effects of State taxes and benefits to be published in the years between *Household Budget Surveys*;
- (iii) presentation by the CSO of the income distribution data contained in the *Household Budget Survey* in a way that charted the effects of social policies on income distribution over time.

APPENDIX 2

Direct Taxes and Transfers and their Effects on Prototype Families

1. In a previous report,¹ the Council examined the distributive impact of taxes and transfers on nine prototype families. Subsequently official estimates of these distributive effects in 1973 were published.² The importance of such estimates for social policy development was discussed in the earlier report.

2. In the previous economic and social report³ the effects of direct taxes (including social insurance contributions) and transfers on a limited number of proto-typical families in recent years were examined. The effects of indirect taxes and benefits of kind were not included and so this analysis was a partial review of the effects of the tax transfer system. This appendix updates the analysis of these prototype families.

3. Each of the families, with the exception of the contributory pensioners, is assumed to have two children in respect of whom childrens' allowances are payable. No tax allowances, other than personal allowances, are assumed. The examples are not directly comparable with those used in NESC Report No. 11. The families are as follows:

- A. Senior Management; for which the IMI Survey of management earnings are used for 1981/2 with a provisional 1982/3 estimate which involves a 14% increase over the 1981/2 figure.
- B. Executive; for which civil service salary scales are used but with standard rates of social insurance contributions. The 1982/3 figure is a provisional estimate based on a 9% increase in earned income over 1981/2 figure.
- C. Average male industrial earnings; for which CSO data are used with estimates for 1981/82 and an estimated 9% increase in 1982/83 over the 1981/82 figure.
- D. Unemployed; for which Unemployment Benefit rates are used, on the assumption that no pay-related benefit is received.

¹ NESC Report No. 11, Report on Income Distribution, (Dublin 1975).

² CSO, Distributive Impact of State Tax and Benefits on Household Incomes in 1973.

³ NESC Report No. 62 p. 141.

- E. Old age pensioner; for which Contributory Pension rates (under 80) are used with the assumption that there is an adult dependent aged under 67.

4. Data for 1975-1980 is given in NESC Report No. 62.

1981/1982					
	A	B	C	D	E
Earned Income	21,700	9,209	7,068	3,002	2,730
Less Income Tax	7,738	1,917	1,147	—	—
Less Social Insurance	404	404	336	—	—
Income after direct taxes	13,558	6,948	5,585	—	—
As % earned income	63%	74%	79%	—	—
Plus benefits in Cash	180	180	180	3,002	2,730
Disposable Income	13,738	7,128	5,765	3,002	2,730
As % earned income	63%	77%	82%	—	—
1982/1983					
Earned Income	24,738	10,031	7,722	—	—
Less Income Tax	9,836	1,907	1,099	—	—
Less Social Insurance	865	718	579	—	—
Income after direct taxes	14,039	7,400	6,044	—	—
As % earned income	57%	74%	78%	—	—
Plus cash benefits	270	270	270	3,809	3,495
Disposable income	—	7,676	6,314	3,809	3,809
As % earned income	58%	77%	82%	—	—

ADDENDUM BY ICTU REPRESENTATIVES

The Congress representatives accept in principle the broad thrust of the Report but cannot accept the precise formulation used in some instances nor accept certain of the specific proposals and recommendations.

We have not dissented from the Report because we consider it would be undesirable for members of a body such as the NESC to do so except where fundamental disagreement rather than disagreement on detail arises.

However we wish, in particular, to emphasise that we dissent from the Report on the following matters:

We agree on the need for action to reverse the growth in the budget deficit and in Exchequer borrowing especially foreign borrowing. But account must be taken of the "prevailing economic conditions and in particular the importance of achieving economic growth and dealing with unemployment", to quote the Fine Gael/Labour Programme for Government. The impact on employment should be a major criterion in judging the pace of reduction in the deficit. For this reason we disagree with the Report's proposal that the deficit should be phased out over a four-year period and that substantial progress should be made in 1983.

Congress has stated in its Pre-Budget Submission (January 1983) its position in regard to cuts in public expenditure. Where, therefore, the Report may seem to be in conflict with the general principles set out in that submission, we wish to register our dissent from the Report. We would, however, emphasise our agreement with the Report where it states that: "It is essential that the burden of adjustment is not borne by the most vulnerable sectors of the community".

With regard to taxation we welcome the stress in the Report on the need to widen the tax base and to make greater use of capital taxation.

We cannot go along with all that is written in the Report on pay and competitiveness but would point out that in the current situation trade unions are simply endeavouring to maintain the real incomes of their members, something which, it should be obvious, is their primary function.

Finally, we trust that our not dissenting from details in the Report is not taken to imply endorsement of all of the comments contained in it or approval of all its contents. Furthermore, we assume that our position in relation to the Report will not be misinterpreted or used in a way that would be prejudicial to our subscribing in general to the content of Council reports. The Report is an important contribution -- but still only one contribution -- to the current debate on our economic situation and the way forward.

17 January 1983

NATIONAL ECONOMIC AND SOCIAL COUNCIL PUBLICATIONS

NOTE: The date on the front cover of the report refers to the date the report was submitted to the Government. The dates listed here are the dates of publication.

<i>Title</i>	<i>Date</i>	
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