National Economic and Social Council

An Chomhairle Náisiúnta Eacnamíoch agus Sóisialach

Economic & Social Policy Assessment

No. 79

January 1985

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, Trade, 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 Assessment

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ECONOMIC AND SOCIAL DEVELOPMENTS

Review of 1984

Domestic

1.1 Judged on the basis of most indicators of economic performance, the single most important exception being unemployment, the state of the economy at the end of 1984 presented a somewhat more encouraging picture than that which obtained a year earlier. Having declined by 1¼ per cent in 1982 and a further ¼ per cent in 1983, real GNP is estimated to have grown by 2 per cent in 1984 (see Table 1). The rate of inflation, which reached 17 per cent in 1982 and declined to 10½ per cent in 1983, moderated further to 8½ per cent in 1984. Moreover, for the twelve months to mid-November the inflation rate had declined to 6¾ per cent. Output growth in both the industrial and agricultural sectors accelerated quite markedly, with net output from agriculture estimated to have grown by 7½ per cent and the volume of manufacturing output by 13 per cent.

1.2 The public finances improved in line with the targets adopted by the Government in its 1984 Budget (see Table 2). The Exchequer Borrowing Requirement declined to 12¾ per cent of GNP from its 1983 level of 14 per cent, while the current budget deficit fell from 8¼ per cent to 7½ percent of GNP. The current account balance of payments deficit was reduced from some £860m in 1983 to an estimated £775m in 1984 (See Table 3).

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* Following discussions in the Council, the successive drafts of this report were prepared by Jim O'Leary, James Raftery and Gerry Danaher of the Council Secretariat.

** The Secretaries of the Departments of Finance and the Public Service did not consider it appropriate to be involved formally in commenting on stated Government policy as set out in "Building on Reality".

On the debit side, unemployment which, in the Council's view, is the indicator of paramount importance, continued to rise, though at a slower rate than in the two previous years, and stood at 16.7 per cent of the labour force in December 1984. The average Live Register figure for 1984 was some 21,500 higher than in 1983. Moreover, the number of redundancies notified to the Department of Labour continued to increase. The figure of 23,260 for the first 9 months of 1984 was some 1,320 higher than in the corresponding period of 1983. The outturn for 1983 at over 29,900 was, in turn, about 3,600 higher than the 1982 outturn and over twice the level recorded in 1980. Both consumer spending and investment activity remained weak during the year. Private consumption in real terms is estimated to have risen by little more than 1 per cent in 1984, while the volume of retail sales declined by 1 per cent in the first eight months of the year relative to the corresponding period in 1983. The volume of investment is estimated to have declined by 1½ per cent in 1984. The net factor outflow on the balance of payments is estimated to have increased substantially above its 1983 level, by an amount, which as Table 3 indicates, more than counterbalanced the improvement which took place in the merchandise trade balance.

1.4 Moreover, although output increased in most industrial sectors, the impressive growth in merchandise exports and industrial output which took place in 1984, continued to owe their existence in large part to the performance of a limited number of sectors (see Tables 6 and 7).

1.5 Finally, it should be noted that towards the end of 1984, the achievement of the Government's fiscal targets in conjunction with the pattern of funding chosen for the Exchequer Borrowing Requirement, occurred at the expense of considerable pressure on domestic money markets and an increase in domestic interest rates.

International

1.6 International developments in 1984 generated two divergent set of influences on the Irish economy. On the one hand rapid growth in the US economy exerted a certain expansionary impetus to the exports of other industrialised countries thereby inducing modest growth rates in most Western European economies. At the same time the strength of the US dollar vis-a-vis the Irish pound (the pound depreciated by some 14 per cent against the dollar in the first 9 months of 1984) would have re-inforced the buoyancy of Irish exports in both value and volume terms.

1.7 These influences may be said to have been favourable. Unfavourable influences were also at work. The combination of US monetary and fiscal policies in 1984 produced historically high real interest rates there in addition to a strong dollar. As a consequence real interest rates throughout the industrialised countries remained high. The result was a depression of investment activity and of consumer expenditure below the levels which might otherwise have obtained. Moreover the fact that such a large proportion of Exchequer foreign debt in Ireland is denominated in US dollars meant that the conjunction of a strong dollar and high US interest rates further tightened the constraints within which fiscal policy must operate.

1.8 Inflation rates throughout the OECD continued to fall during 1984. An average annual rate of inflation of 5 per cent is estimated for the year. In tandem with this development there was a moderation in the rate of growth of nominal wages. Manufacturing unit labour costs in the seven major economies remained constant in 1984.

International Prospects for 1985

1.9 The medium term prospects for the Irish economy are heavily contingent on developments in the rest of the world and in particular the evolution of international trade, international interest rates and exchange rates.

1.10 The European Commission in its *Annual Economic Review 1984-1985* assumes a continuation of the existing combination of tight monetary policy and expansionary fiscal policy in the US. In consequence the expectation is that US interest rates will remain high and the dollar will on average maintain its strength throughout 1985. In accordance with this it is expected that real interest rates throughout the EEC will also remain high with

nominal rates projected to fall but only to the extent that inflation rates are reduced.

1.11 Towards the end of 1984 the rate of economic growth in the US decelerated. Accordingly, the rate of GNP growth in the US in 1985 is expected to be considerably lower, at 3 per cent, than the 7 per cent rate estimated for 1984. At the same time the more modest rate of growth achieved by the EEC economy as a whole in 1984 ($2\frac{1}{4}$ per cent) is expected to be maintained through 1985. The volume of world trade is expected to grow by some $5\frac{1}{4}$ per cent in 1985, a considerably lower rate than the 9 per cent recorded in 1984.

1.12 Inflationary pressures, according to the European Commission will continue to moderate within the Community in 1985, with the consumer price deflator for the EEC-10 forecast to decline to 4.2 per cent from 5.1 per cent. Parallel moderation is expected in the growth of employee compensation from 6 per cent in 1984 to 5.5 per cent in 1985.

CHAPTER 2

ECONOMIC AND SOCIAL STRATEGY 1985-1987

2.1 In its report on Economic and Social Policy 1983 (NESC Report No. 75, *Economic and Social Policy 1983: Aims and Recommendations*), the Council expressed the belief that the first objective of economic and social policies should be to provide sustainable employment opportunities for the country's growing labour force. The Council also identified the existence of an unsustainable Exchequer Borrowing Requirement, a large current account deficit on the balance of payments and a rate of inflation higher than that of our main trading partners as critical problems to be addressed by economic policy.

2.2 The previous section indicates that some progress was made in the alleviation of these problems (except the most pressing problem of unemployment) in 1984, but considerably more progress will be required if they are to be resolved. This applies with particular force to the objective of providing sustainable growth in employment.

2.3 In its 1983 Report, the Council recommended the publication by Government of an economic and social strategy to cover the next five years. It also recommended that the published strategy should be used as a basis for consultation with the social partners.

2.4 The Government's Economic and Social Plan *Building on Reality* sets out "to chart the way in which economic and social policy will develop over the next three years". In doing so the Plan firmly acknowledges the degree to which the Irish economy is exposed to economic events internationally and states that the Plan's projections are based on a number of assumptions concerning external developments over the period 1984 to 1987. These assumptions are as follows:

- world trade and Ireland's export markets will grow on average by about 4½ per cent per annum;
- average earnings per head in our main trading partners will grow by, at most, 7 per cent per annum;

- consumer prices in our main trading partners will grow on average by about 5 per cent per annum;
- the exchange rate of the IR£ will remain broadly stable although some improvement against the US dollar is expected over the period of the plan:
- foreign interest rates, particularly US dollar rates, while remaining high in the immediate future, will fall significantly over the period to 1987. A corresponding reduction in domestic interest rates in also assumed.

2.5 These assumptions, in so far as they pertain to world economic variables, broadly reflect those currently employed by international agencies (although the Council notes that the European Commission in its Annual Economic Review 1984-85 assumes that long-term interest rates in the US will remain high) and as such are the most authoritative available at the moment. That does not mean that they will necessarily be realised or that international agencies will not revise their assumptions as economic events unfold. If the international economy were to evolve in a direction different from that outlined in the Plan, either the targets contained in the Plan would have to be modified,or the measures which the Government have signalled their intention to adopt in order to achieve their existing targets would have to be revised. This applies with particular force to the public finances.

2.6 With regard to the assumption that domestic interest rates will fall in sympathy with foreign rates over the period of the Plan, the Council notes that the period since the Plan's publication has seen the occurrence of the precise opposite: domestic interest rates have risen substantially at a time when rates internationally have been in decline.

2.7 The principal ingredients in the Government's economic and social strategy may be divided into three components. Firstly, policy in relation to the public finances, which essentially revolves around the commitments to reduce the PSBR to 11¼ per cent of GNP by 1987 and to maintain unchanged the ratio of tax revenue to GNP. Secondly, in relation to generating employment growth there are two elements to the strategy: policy in relation to costs and competitiveness and development policies. Policy in relation to costs and competitiveness includes the Government's objectives on pay and taxation, the strengthening of competition policy and institutional reforms to achieve greater efficiency. Developmental policies include policy in relation to industry, agriculture and the other productive sectors, and policy for the development of the economy's infrastructure. Thirdly social policy is outlined in respect of public health, housing, education and social welfare services.

2.8 The identification of these principal ingredients of the Plan provides the framework within which the Council sets out its comments. Accordingly Chapter 3 of this report examines the Government's declared policy in relation to the Public Finances. Chapter 4 discusses the measures outlined in the Plan regarding employment and unemployment under the headings of Costs and Competitiveness, Developmental Policies, Manpower Policy and Public Enterprise. Chapter 5 deals with the Social Policy aspects of the Plan. In Chapter 6, entitled An Approach to Planning, the Council gives its views on *Building on Reality* as a planning document. A Summary and Conclusions are contained in Chapter 7.

CHAPTER 3

THE PUBLIC FINANCES

The Overall Stance of Fiscal Policy

3.1 In NESC Report No. 75 *(Economic and Social Policy 1983)* the Council outlined its views on the public finances and on fiscal policy. In particular the Council recommended that "having regard to overall economic and social objectives there should be a significant reduction in the EBR as a proportion of GNP in 1984". The Council also expressed the belief that the then existing levels of borrowing were unsustainable and that the failure to reduce borrowing would jeopardise growth in output and employment. The Council recommended that the burden of the reduction in the EBR should be borne by appropriate expenditure restraint.

3.2 The Council did not adopt an explicit position on the question of whether, within the EBR, the burden of reduction should be borne by the current budget deficit or by Exchequer borrowing for capital purposes. However, the Council did state that an overall objective of economic policy should be to bring about an increase in productive capital expenditure either through direct State investment or through facilitating an increase in private investment. It also recommended that productive public capital expenditure, rigorously evaluated in terms of future returns, should receive priority over public current expenditure.

3.3 In relation to the overall stance of fiscal policy the proposals in the Plan are to reduce the PSBR from 17 to 11¼ per cent of GNP between 1984 and 1987. Within this aggregate the intention is to cut the EBR to 9¼ per cent of GNP from its current level of 12¼ per cent and to reduce the current budget deficit from its 1984 level of 7½ per cent of GNP, to 5 per cent of GNP in 1987. (The Plan's target budget profile for 1987 is reproduced in Table 8).

3.4 Overall, therefore, the PSBR is to be reduced by 5¾ percentage points of GNP over the period of the Plan. The intended distribution of this reduction between the component parts of the PSBR is as follows: a reduction by 2½ percentage points of GNP in the current budget deficit; a reduction by ½ percentage point in Exchequer borrowing for capital purposes and, a reduction by 2¾ percentage points of GNP in borrowing by State-sponsored bodies and Local Authorities.

3.5 Although the Plan adopts a PSBR target, the means to be deployed in achieving the non-Exchequer element of this target are not spelled out. Thus, whereas a commendable level of detail is provided by the Government in relation to the intended profile of Exchequer current spending and expenditure under the Public Capital Programme over the period of the Plan, there is little detail provided on targetted capital expenditure, to be funded from non-Exchequer sources or by State-sponsored bodies. Nor is there any discussion of that portion of the Local Authorities borrowing requirement to be financed through channels other than the Exchequer.

3.6 What is clear however, is that, notwithstanding the relatively small reduction in Exchequer borrowing for capital purposes, the Public Capital Programme is to be substantially reduced relative to GNP - from 12.3 percent of GNP in 1984 to 9.6 per cent in 1987 a reduction of 2.7 percentage points. The Plan does not set out projections for Exchequer capital expenditure other than that covered by the Public Capital Programme. Such spending however has historically been small relative to expenditure under the Public Capital Programme[1].

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[1] Exchequer borrowing for capital purposes is the difference between capital expenditure, which includes the Public Capital Programme and other (non-programme) outlays, and capital budget resources, which include Exchequer and non-Exchequer resources. The Plan provides information on the intended evolution of Exchequer borrowing for capital purposes but, as far as the composition of this magnitude is concerned indicates the targetted position with regard to the Public Capital Programme only.

3.7 The Plan is quite specific about how the reduction in the current budget deficit is to be achieved by reference to its aggregate expenditure and revenue components. Tax revenue, over the period of the Plan is to be maintained at a constant 36½ per cent of GNP with total current receipts projected to rise marginally from 40¾ per cent of GNP in 1984 to 41 per cent in 1987. On the expenditure side Central Fund services are targetted to amount to 13¼ per cent of GNP in 1987 (the same proportion as in 1984) while expenditure on Supply Services is targetted to fall from 35 to 32¾ per cent of GNP (a reduction of 2¼ percentage points).

3.8 The following conclusions emerge therefore about the intended distribution of the proposed adjustments in the public finances:

(i) that the greatest contribution to the overall reduction in the PSBR is targetted to be made by the borrowings of State-sponsored bodies and Local Authorities;

(ii) that, within the EBR, the burden of adjustment will be borne mainly by the current budget deficit rather than Exchequer borrowing for capital purposes;

(iii) that, within the EBR, the burden of adjustment will be concentrated almost exclusively on Exchequer spending (current and capital) rather

(iv) than on taxation and other revenues; that, despite (ii) above, the reduction in the Public Capital Programme, will be greater than the reduction in current spending [2].

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[2] The co-existence of a small intended reduction in the Exchequer borrowing requirement for capital purposes and a relatively large intended reduction in the Public Capital Programme can only be fully explained with reference to the projected evolution of capital budget resources and intended expenditure on non-Programme capital items. This information is not provided in the Plan.

3.9 In relation to the Plan's targets discussed above, the Council notes that the Government has clearly moved away from its earlier objective of eliminating the current budget deficit by 1987 [3]. The Government's decision in this regard is explained in the Plan by reference to the recent adverse evolution of international variables (particularly interest rates) and the fear of deflating domestic economic activity to such an extent that the vitality of the economy would be severely damaged.

3.10 It is interesting to note that the target adopted by the Government for 1987 in relation to the current budget deficit is very similar to that proposed by the National Planning Board in its *Proposals for Plan*. The National Planning Board advocated a target of 5.2 per cent of GNP in 1987 for the current budget deficit on the basis of making a distinction between the cyclical and structural components of the deficit. The rationale for the Board's recommendation was that an amount of the existing deficit could be attributed to the stage of the business cycle at which the economy now finds itself, with the remainder attributable to structural factors. The elimination of the latter component was the one which the Board considered to be the appropriate target of fiscal policy, whereas the former component was regarded by the Board as one which could be expected to disappear automatically if and when the economy resumed its trend rate of growth.

3.11 The Council is of the opinion that a number of dangers are inherent in the approach to fiscal policy recommended by the National Planning Board. In the first place there are unresolved technical difficulties involved in separating out the cyclical from the structural element in the current budget deficit. Secondly, the pursuit of such an approach sets a very high premium on the expectation that the trend rate of growth in the Irish economy (for example the rate of growth which obtained, on average, over the years 1970-1983) will in fact be resumed. Thirdly, the pursuit of such an approach would still leave a large current budget deficit to be financed by borrowing in 1987 and, as such, would continue to generate problems of debt servicing.

3 The Programme for Government (December 1982) stated that: "*The phasing* of the elimination of the current Budget deficit between now and 1987 will have to be undertaken with due regard to prevailing economic conditions, and in particular to the importance of achieving economic growth and dealing with unemployment". (Emphasis added).

3.12 In essence, this approach, which takes as its point of departure the distinction between the cyclical and structural components of the current budget deficit, is a variant of the approach which emphasises the importance of the prevailing economic and social situation as a factor determining the pace and phasing of its elimination. The Council is of the view that while the Government should seek to avoid an undue deflation of economic activity in setting overall fiscal policy, it is not clear why such considerations should be confined to the current budget deficit only. Economic activity is sensitive also to changes in the other elements of the PSBR. If an overall PSBR target is determined in accordance with criteria which derive from a concern about the evolution of foreign debt servicing and total public sector indebtedness, and if, within this overall target the planned evolution of the current budget deficit is predicated on a concern about prevailing economic conditions, the danger is that productive capital expenditure may be squeezed out.

3.13 In this regard the Council reiterates the opinion it expressed in NESC Report No. 75 *Economic and Social Policy 1983: Aims and Recommendations*, namely that productive capital expenditure, rigorously evaluated in terms of future returns, should receive priority over current expenditure. The Council's view is that, within the PSBR, the distinction between borrowing for purposes of productive capital investment and borrowing for current purposes is conceptually sound and operationally important. At the same time, the Council accepts that the simple classification of expenditure as between current and capital may not always and in every case be useful: expenditure on items conventionally classified as current (viz. education) may be productive while expenditure on items conventionally classified as capital may be unproductive.

3.14 In addition to the targets in respect of the PSBR, the EBR and the current budget deficit, the Plan sets out three other dimensions of the position it is proposed to reach by 1987 in connection with the public finances and the balance of payments. These are:

- (i) a reduction, or at least a stabilisation, of Exchequer foreign debt and foreign debt servicing, both as a proportion of GNP;
- (ii) a halt to the growth of the overall national debt to GNP ratio and,
- (iii) a reduction of the balance of payments deficit on current account to a manageable 3 per cent of GNP.

With regard to these objectives, a crucial question is whether their pursuit imposes constraints on the conduct of fiscal policy additional to those imposed by the pursuit of targets in respect of the PSBR, the EBR and the current budget deficit.

3.15 In this connection it should be noted that, in general the adoption of overall public sector borrowing targets (whether represented by the PSBR, or more narrowly, the EBR) does not imply any one particular pattern of funding that borrowing requirement. (Table 9 sets out details of the financing of the EBR over the years 1981-1984). In other words, a specific target for the EBR is consistent with a variety of different distributions of borrowing as between foreign and domestic sources. The adoption of explicit targets in respect of Exchequer foreign debt and foreign debt servicing, as proportions of GNP allied to the adoption of an explicit current account balance of payments target, however, would have implications for the distribution of future borrowing between foreign and domestic sources. For that reason, an additional constraint on the operation of fiscal policy is being imposed by the setting of additional explicit targets.

3.16 The publication of explicit targets for Exchequer foreign debt and foreign debt servicing represents a refinement of fiscal policy as publicly stated. The pursuit of such targets in the Plan reflects a concern with the way in which the stock of Exchequer foreign debt

and the burden of associated debt servicing costs have evolved in the last decade, even in the face of the more restrictive fiscal policies which have characterised the most recent years of that period. It should be noted however, that much of the increase in Exchequer foreign debt servicing costs which took place in 1983 and 1984 was due to the strength of the dollar and the increase in US interest rates, as distinct from the magnitude of Exchequer borrowing abroad.

3.17 It would appear, therefore, that implicit in the pursuit of these additional targets is a view on the part of the Government as to the prudent limits of foreign borrowing. In this connection it seems too that the Government's perception of what are prudent limits to foreign borrowing has been influenced, at least in part, by the manner in which the exchange rate risks attendant on such borrowing have been highlighted in recent years by the behaviour of the US dollar. On the other hand the experience of 1984, when the Exchequer adhered strictly to a foreign borrowing limit, has demonstrated that domestic interest rates are sensitive to the funding strategy for the EBR. Accordingly, it would also appear that the pursuit of these objectives will have important implications for the evolution of domestic interest rates and the availability of domestic credit to the private sector over the period of the Plan. In this regard it should be noted that real interest rates in Ireland are now at an historically high level. It is noteworthy, however, that at no stage in the Plan is the question of monetary policy explicitly discussed. The Council considers this to be an unsatisfactory feature of the Plan. Given the importance of monetary policy and the close inter-relationship between monetary and fiscal policy, the Council recommends that monetary policy be articulated in future Budgets, and that details of the

Government's intended distribution of financing of the PSBR, particularly as between foreign and domestic borrowing, be announced in the Budget speech [4].

3.18 The Council in NESC Report No. 75 did not express an opinion on the relative merits of foreign versus domestic borrowing or on the appropriate stance of monetary policy in the context of reducing the EBR. However it is worth pointing out that the National Planning Board, in *Proposals for Plan*, concluded that foreign borrowing was an appropriate means of financing productive investment by the public sector.

Current Expenditure

3.19 Current public expenditure is projected to fall from 48½ to 46 per cent of GNP between 1984 and 1987 (see Table 8). Within this total, expenditure on Central Fund services (mainly the cost of servicing public debt) is projected to remain constant at 13½ per cent of GNP. Accordingly expenditure on supply services is targetted to fall by 2½ per cent of GNP - from 35 per cent in 1984 to 32¾ per cent in 1987. The forecast evolution of national debt servicing costs is obviously predicated on some set of specific assumptions about the likely future development of interest and exchange rates. If these variables evolve in a less favourable direction than assumed it is likely that expenditure on the Central Fund item will be larger than envisaged. Consequently, expenditure on supply services will need to be reduced even further if the current budget deficit target is to be reached.

[4] In 1984, for example, the Government's decision to limit net direct Exchequer foreign borrowing to £640m was not announced in the Budget nor was it announced or explained in any subsequent official publication. This, notwithstanding the crucial importance of the decision and the fact that it represented an element of policy central to the monetary-fiscal policy nexus.

3.20 *Building on Reality* sets out the precise breakdown of projected supply services expenditure for the period of the Plan by ministerial group. These figures are reproduced in Table 10, expressed as proportions of GNP, thus indicating the distribution of projected expenditure restrictions by vote heading and also indicating how the overall expenditure reduction is to be distributed between pay and non-pay items.

3.21 Combined expenditure on Education, Health Services and Social Welfare is targetted to decline by almost 1.2 per cent of GNP between 1984 and 1987. In the case of Education this reduction will presumably be effected largely on foot of savings in respect of pay. In the case of Health Services, payroll savings through staff redeployment and reductions in staffing levels are targetted to amount to £30m in 1987, an amount which represents some 30 per cent of the overall reduction in Health Services expenditure relative to GNP. (Further details are provided in Chapter 5 of this report). These headings therefore account for over half of the total reduction in current expenditure relative to GNP. If food subsidies are abolished (an eventuality contingent on the introduction of the Child Benefit Scheme) would account for a further 0.7 percentage points of the reduction. The projected reductions in current expenditure accounted for by individual headings other than those mentioned above are small partly reflecting the relative size of these headings.

3.22 In NESC Report No. 75 *Economic and Social Policy 1983: Aims and Recommendations* the Council recommended that reductions in public expenditure should take into consideration their distributive implications with a view to minimising their impact on the weaker sections of the community. This question is discussed in Chapter 5 on Social Policy.

3.23 Public sector pay restraint is of central importance in the Government's strategy. Of the reduction of 2.2 per cent of GNP projected for public current expenditure, 1.6 percentage points is accounted for by restrictions in the Exchequer pay bill and 0.6 percentage points by non-pay items. It is notable that the projected impact of the pay restrictions together with the abolition of food subsidies, more than accounts for the reduction in current public expenditure relative to GNP over the period of the Plan. This in turn allows for modest growth in some headings namely, Environment and Labour. It should be noted that the Government's control over the evolution of Exchequer pay rates is somewhat attenuated by the role of the Labour Court and the provisions of the public service conciliation and arbitration schemes.

The Use of Cash Limits

3.24 The Plan sets out current expenditure allocations for Ministerial groups for each of the years 1985, 1986 and 1987. In order to appreciate the important changes which are taking place in the expenditure management system it is necessary to briefly consider previous procedures. Firstly, the system heretofore was annual in that estimates were provided only for the upcoming year in the estimates volume. Secondly, the system was broadly cash based in that the amount of cash that would be available was indicated. However, the degree of commitment to these allocations was often weak and supplementary estimates were frequently provided.

3.25 There are two novel features in the system outlined in the Plan. Firstly the estimates are set out for a three year period and are formulated on the basis of the prices expected to prevail in these years. Secondly, there is an express commitment in the Plan to adhere to these allocations, thus giving cash limits for each year. The use of cash limits basically derives from a 'top-down' management process for the public finances as distinct from a 'bottom-up' process. The latter system involves the Departmental bids, in the course of the estimates cycle, becoming the focus of attention and, in the extreme, determining the level of public expenditure. The 'top-down' process on the other hand involves determining the revenues available for both taxation and borrowing taking account of the constraints on each. For example, the Plan takes the position that the upper limit has been reached on the level of taxation. It also has specific objectives for the overall levels of borrowing and debt.

It therefore follows that public expenditure must be determined within these contraints, i.e. expenditure is determined by the resources available. This is essentially how the cash limit is determined.

3.26 There are many implications of using cash limits which the Council has not had an opportunity to consider. These include, for example, the extent to which unanticipated changes in costs erode the volume of goods and services provided. Other issues which arise are the implications and appropriateness of using cash limits as an instrument of volume control. This relates to the tightness of the limits, the action required to stay within the limits (e.g. efficiency improvments, service reductions etc.) and the priorities to be assigned to the individual programmes within a Departmental cash limit. The Council intends to return to these issues in a future report on the management of public expenditure.

Capital Expenditure

3.27 In Table 11 projected investment under the Public Capital Programme is set out by category for the years 1985 to 1987 together with the post-Budget estimates for 1984. In nominal terms, expenditure is set to fall slightly over the period of the Plan from £1,798m in 1984 to £1,782m in 1987. Relative to GNP the reduction is from 12.3 per cent of 1984 GNP to 9.6 per cent of GNP in 1987.

3.28 Within the total, sectoral economic investment is targetted to fall from 3.0 to 2.6 per cent of GNP between 1984 and 1987, investment in social infrastructure from 3.9 to 3.5 per cent and investment in productive infrastructure from 5.4 to 3.3 per cent. The bulk of the reduction is thus projected to occur in this latter category reflectng the fact that the Moneypoint power station is nearing completion and that the telephone development programme is drawing to a close.

3.29 The Government has decided that the economic and social importance of an adequate road network justifies accelerated State investment. Accordingly State expenditure on road improvements is to be significantly increased in nominal terms, from £102m in 1984 to £115m in

1987. The provisions for the period 1985-1987 are 10 per cent greater than those recommended in the *Road Development Plan for the 1980s* published in 1979.

3.30 With regard to the targetted provision for investment in industry the Council notes that this is set to decline from about 2.2 per cent of GNP in 1984 to some 2 per cent in 1987. The Council would be concerned to ensure that the provision for industrial investment is sufficient to accomodate the support of all projects which yield an appropriate rate of return.

3.31 Finally, the Council would draw attention to the possibilities that exist for private investment in joint ventures with public capital, particulrly in roads and, possibly, in housing. Such an approach would tend to stimulate private investment to make up, to some extent and where appropriate the fall inpublic, capital spending.

Taxation

3.32 The level of overall taxation in Ireland is relatively high when account is taken of the narrowness of the tax base and the relatively underdeveloped state of the economy. This in turn results in adverse effects on competitiveness and incentives within the economy. Total government revenue, (mainly tax) in 1985 will amount to 43½ per cent of GNP. A relatively high level of taxation may however, be necessary to provide for the level of public services to which the community aspires which, in turn, has to be financed out of a relatively low level of national resources.

3.33 The Council has previously expressed concern at particular elements of the tax system notably:

- the existence of high marginal tax rates at relatively low levels of income;
- the sharp reduction in family disposable incomes due to increases in direct taxation in recent years;
- the distributive impact of the system of allowances and reliefs and

- the regressive nature of the overall taxation system.

3.34 The Council, while accepting that there was unlikely to be scope for increasing the yield from the main taxes, has recommended that the inequitable aspects of the taxation system be addressed without delay and has suggested that there was scope for restructuring the tax system and for widening the tax base. "The Council believes that a start must now be made to serious reform of the tax system. The narrowness of the present tax base is a severe constraint to developing a system which would be more equitable and which would provide greater incentives to enterprise and wealth generation". (Report No. 75 *Economic and Social Policy 1983: Aims and Recommendations*).

3.35 Concern has been widely expressed about the effects of high direct taxes on work incentives. The 1984 *White Paper on Industrial Policy* stated: "Even with the relief given in this year's Budget, personal taxation rates are still high and represent a disincentive to work and save". At present a single person reaches a marginal tax rate of 53.5 per cent at an income of 70 per cent of average industrial earnings while his/her married counterpart reaches the same rate at 125 per cent of average industrial earnings.

3.36 In the Plan the Government states that were will be no increase in the overall level of taxation throughout the period to 1987. The overall tax burden is to be maintained at 36½ per cent of GNP (excluding rates and PRSI). PRSI contributions account for a further 6½ per cent of GNP. The Social Welfare vote cash limits up to 1987, referred to in the Plan, assume indexation of the PRSI income ceiling to wage movements and unchanged rates of contribution i.e. no increase in the real burden. Income tax bands and allowances are also to be adjusted each year in such a way as to prevent the income tax burden from increasing. It is not clear, however, whether the "overall income tax burden" refers to income tax as a proportion of GNP or as a proportion of total wages and salaries. If aggregate wages and salaries were to grow more slowly than nominal GNP, such a distinction could assume some significance.

3.37 The Plan makes it clear that the Government does not consider the main proposals of the *First Report of the Commission on Taxation on Direct Taxation* as practicable, that is:

(a) the widening of the income tax base through, inter alia, the withdrawal of existing exemptions and reliefs;
(b) the application of a single low rate of income tax;
(c) the introduction of a direct expenditure tax for those at the higher end of the income scale.

These proposals are rejected on the grounds of the hardship which they would involve for many taxpayers, especially those on low incomes and because of the loss of revenue. Hardship for low-income tax-payers could only be avoided, it is suggested, if the single rate of income tax was pitched so low as to seriously reduce revenue. The Plan accepts however that the tax base should be extended and that the 1% Income Levy should be phased out as soon as resources permit. It also proposed to consolidate secondary tax allowances with the social welfare system.

3.38 The Council regrets the lack of urgency contained in the Plan on the issue of reform of the direct tax system and reiterates its belief that a start should now be made towards serious reform.

3.39 The Plan refers only briefly to the Second and Third Reports of the Commission on Taxation. Commenting on the *Second Report, "Direct Taxation The Role of Incentives"* the Plan confines itself to the following: "The Commission has also made a series of recommendations on tax incentives based on the assumption that its recommendations on the direct tax system will be implemented". Since the Government appears to have rejected the Commission's recommendations on the direct

tax system, it is not clear if the recommendations on incentives are being similarly rejected.

3.40 The Plan comments on three proposals from the Commission on Taxation's Third Report, *Indirect Taxation*, namely:

(a) the full indexation of excise duties;
(b) the introduction of a single rate of VAT and,
(c) the elimination of stamp duties.

The Plan states that the first of these proposals "may not be feasible" in present circumstances, presumably due to cross border trade. The Plan states that the recommendation on VAT could involve a substantial loss of revenue, unlessfood were to be included in the new single-rate VAT. The Plan suggests that this would involve an increase of 15 per cent in food prices. The Commission, however, envisaged a gradual movement from the six VAT rates currently in existence towards a single rate, with the increase in zero rated items like food being balanced by reductions in the higher rates. The Plan states that progress will be made towards reducing the high VAT rates on a selective basis and towards reducing the number of rates. Two specific measures are announced in this context, namely, viz, the reduction in VAT on newpaper sales and the reduction of excise duties on spirits.

Farm Taxation

3.41 The Council acknowledges that there are problems in relation to the taxation of farmers. The Government has explained the decision to adopt the new system of farm taxation on the grounds that the existing system gives rise to "practical problems in terms of administration and collection and of compliance by taxpayers". It is the Council's view that the Government should have sought to resolve these problems by identifying farmers' incomes within the income tax code.

3.42 The Plan announces the introduction of a new farm tax to take effect from 1986. The farm tax, which is to be based on the concept of adjusted acreage, is intended to apply eventually to all agricultural holdings of twenty adjusted acres and over. Farmers with holdings of eighty adjusted acres and over will continue to be liable for income tax but a credit will be given against income tax in respect of farm tax paid in the year. The relevant legislation will provide for an appeals procedure. "The new arrangements will be designed to increase the yield from farm taxation in 1986 to about twice the level produced by the present system". Unfortunately no comparison is made between the yield under the new arrangements and the amount the present system might yield by 1986.

3.43 The Council has previously set out its views on the question of the taxation of farmers in NESC Report No. 42, "*Report on Policies for Agricultural and Rural Development*". The position then adopted was that farming profits should be taxed on the basis of actual accounts based on the "ability to pay" principle. In this regard the Council sees no reason to change the basic thrust of the views it has expressed in favour of taxation of farm profits on the basis of income. A resource tax is an issue of development policy. However, the proposals in the Plan fails to differentiate between income taxation and development policy issues.

3.44 It is the Council's view that the arrangements governing the taxation of farming profits had in recent years been moving towards a situation of greater equity within farming. It would appear that under the proposed new system the "ability to pay" principle would be subservient to the objective of securing an overall revenue target, namely, the doubling of the tax yield from the agricultural sector by 1986. It is the Council's view that the adoption of yield targetting for the farming sector or for any other sector would be an unsatisfactory basis for designing tax arrangements and could set an undesirable precedent.

3.45 The proposed new tax arrangements for the farming sector, as articulated, also appear to represent an amalgam of income tax and resource tax elements with no explicit differentiation between the two. It is not clear why the proposed farm tax should apply in lieu of income tax only to farmers with holdings between 20 and 80

adjusted acres. Nor is it clear whether the new farm tax is to operate as a resource tax for those with holdings in excess of 80 adjusted acres.

3.46 The new farm tax is also intended to be part of the restructuring of local authority financing. It is not clear what the shape of the restructured system of local authority financing will be. The introduction of one tax in isolation does not seem to be the most appropriate way of initiating a restructuring of the local authority financing system; a system which has been the subject of various ad hoc changes since 1978. The intention of the Plan is that "the grant in relief of rates on agricultural land will be reduced by the amount of farm tax collected". From the perspective of local autonomy it is important to note that responsibility for setting of tax rates per acre will be determined by central government.

3.47 The Commission on Taxation has suggested that it would take up to 15 years to develop a sufficiently detailed soil survey to enable land to be taxed on an adjusted acreage basis. Unless such an objective basis is provided the appeals system is likely to face enormous pressure. As such the new farm tax is likely to be the source of considerable administrative difficulty. Further administrative problems will arise with the application of the new Child Benefit Scheme to farmers. Since Child Benefit is to be taxed, the exclusion of many farmers from income taxation will entail them receiving the full untaxed value of the benefit unless some means can be devised to avoid this. The farm tax also raises the question of liability and eligibility in relation to a range of other levies and services.

Commission on Taxation

3.48 As noted above the Plan contains a number of references to the Commission on Taxation. In its first three reports the Commission sets out a carefully phased programme for the implementation of its proposals which extends beyond 1987. The Council believes that the Plan should have addressed specifically the proposals of the Commission which could be implemented before 1987. The

Plan summarily outlines reasons for rejecting the Commission's recommendations on direct taxation and dismisses the recommendations on indirect taxation. The Council believes that the Government should publish a full response to all the reports published by the Commission on Taxation. The Council also intends to draw up its own response to the Commission's reports in the near future.

CHAPTER 4

Employment and Unemployment

4.1 In assessing the Government's Plan from the point of view of employment generation four elements are considered: Costs and Competitiveness, Development Policies and Manpower Policy. First of all, however, the impact which the totality of policies proposed in these areas will have on the employment and unemployment outlook for the period of the Plan is analysed.

The Employment Outlook

4.2 In NESC Report No. 75, *Economic and Social Policy 1983: Aims and Recommendations*, the Council expressed the belief that the priority objective of economic and social policies should be to provide sustainable employment opportunities for the country's growing labour force.

Employment Projections

4.3 Given the universal endorsement of the view that unemployment is our most serious problem it follows that the ultimate criterion against which the Government's Plan should be evaluated is the extent to which it confronts the problem of unemployment and the degree of success it envisages in resolving it. Accordingly this section sets out an analysis and evaluation of the prospects for employment and labour force growth given in the Plan and the associated projections of unemployment.

4.4 The Plan sets out employment projections for 1987. These are reproduced in Table 18 together with the corresponding figures for 1984 and 1983. *Building on Reality* does not contain sector by sector employment projections for the intra-Plan period although it does indicate that the unemployment rate (on a labour force basis) will be 16 per cent in 1985 and 15½ per cent in 1986.

4.5 Employment in agriculture is expected to decline by 9,000 between 1984 and 1987, industrial employment is expected to grow by 14,000 and employment in the services sector by 17,000 with the latter made up of a 22,000 increase in private sector services and a reduction of 5,000 jobs in public sector services. Employment, excluding special schemes, therefore, is projected to grow by 22,000 over the period of the Plan. The impact of special schemes, including the Enterprise Allowance Scheme already in existence, is projected as providing a net increase of 22,000 jobs between 1984 and 1987. Taken in conjunction with the forecast expansion of 45,000 in the labour force, the total out of work is projected to be 1,000 higher in 1987 than in 1984. Accordingly the projected unemployment rate for 1987 is 15.3 per cent, compared with 15.8 per cent in 1984.

4.6 The Council notes that the projected increase of 15,000 per annum in the Labour Force must necessarily be based on some set of assumptions about the evolution of demographic variables, including net migration, over the period of the Plan. Such assumptions are not set out explicitly in the Plan.

4.7 It is interesting to note that if the effect of the special employment schemes is excluded, the projected level of unemployment for 1987 would be 235,000 representing 17.2 per cent of the labour force in that year compared with 212,000 in 1984 (16 per cent). Clearly the policies announced in the Plan to promote economic activity in the conventional sectors of the economy, together with the restrictive stance of fiscal policy and the assumed evolution of international demand, are not in themselves expected to stabilise unemployment, in the face of anticipated labour force growth.

Output and Productivity Projections

4.8 Building on Reality also sets out projected cumulative output growth rates by sector for the period 1984-1987. These are reproduced in Table 17 together with corresponding employment growth rates and the implicit projections of productivity growth. The projection for GDP is a cumulative growth rate of 12 per cent over the period of the Plan. This growth is heavily concentrated in the industrial sector (25 per cent) with agricultural output projected to grow by a cumulative 10 per cent and services sector output by 9 per cent between 1984 and

1987. Within industry, growth is further concentrated in the manufacturing sector - 36 per cent - whereas building and construction activity is projected to expand by no more than 1½ per cent and other industry (mining, quarrying and turf and public utilities) by no more than 4 per cent.

4.9 The productivity growth rates implicit in the Plan's employment and output projections demonstrate considerable variability across sectors. For manufacturing industry the expectation is that cumulative productivity growth over the Plan period will be almost 32 per cent compared with a corresponding rate of growth of 11 per cent for the economy as a whole.

Implications

4.10 The foregoing discussion focusses attention on some of the most important features of the output and employment projections of *Building on Reality:*

(i) the high rate of output growth projected for industry in general but more particularly for manufacturing;

(ii) the low implied level of linkage between the manufacturing sector, on the one hand, and the building and construction and private services sectors, on the other, relative to previous periods of similar duration;

(iii) the relatively small employment gains projected for industry as a whole and more particularly for the manufacturing sector;

(iv) the rapid growth in productivity expected for the economy as a whole and more especially for the industrial sector and the manufacturing portion thereof;

(v) the fact that the industrial sector is projected to increase its share of domestic output by some 4 percentage points and the services sector share to decline by 4 percentage points over the period of the Plan.

4.11 A structual weakness of the Irish economy throughout the last decade has been the absence of significant increases in sustainable employment, output and living standards throughout the economy as a whole. A fundamental dualism has become increasingly apparent in the structure of the economy whereby the impressive performance of industrial output and exports has been heavily concentrated in a limited number of manufacturing sectors, particularly chemicals and electronics. These sectors are comprised in the main of subsidiaries of foreign-owned companies which are characterised in general by relatively low levels of linkages with the rest of the domestic economy.

4.12 Given the crucial importance of this dualism as a factor explanatory of the structure and performance of the Irish economy in the past, it would have been useful if the Plan had provided some indication of where the output and employment growth is expected to occur within manufacturing industry. Projections of output and employment growth for manufacturing industry disaggregated by sector would, if available, provide a useful basis for appraising the employment prospects more rigorously.

4.13 The Council believes that an important objective of overall economic policy should be the creation of an environment conducive to the expansion of employment and output in all firms, irrespective of ownership, and the fostering of those characteristics which would permit a strengthening of their linkages with other sectors of the Irish economy.

4.14 As the Government's projections are presented it is only possible to draw inferences about the nature of output growth envisaged for the manufacturing sector. The projections suggest that manufacturing growth will continue to be heavily concentrated in the high-technology sector which is largely, but not exclusively composed of foreign-owned firms. The projections are also consistent with the view that considerable variations in the performance of individual manufacturing sectors will persist throughout the period of the Plan. Moreover the employment projections contained in the Plan would not appear to be consistent with the prospect of substantially strengthened linkages between the

manufacturing sector (including foreign-owned firms) and the rest of the domestic economy (including the services sector). In this regard, it would have been useful if the Government had provided some indication of where the projected increase in private services sector jobs is expected to occur.

Policy Issues

4.15 Three important issues are raised by the foregoing discussion. Firstly, the anatomy of the private services sector needs to be analysed much more closely than has hitherto been the case. In particular, careful study of the linkages between this sector and the rest of the economy needs to be undertaken, with special emphasis on the factors (including demographic and geographic factors) which are currently inhibiting the development of those linkages to their maximum potential. Consideration will need to be given to the question of whether a more explicit role should be given to deploying new policy instruments to promote the development of the services sector. The Council intends to address these issues in a future report.

4.16 Secondly, the Council believes that the current unemployment situation and the medium-term employment and unemployment outlook presented in the Government's Plan underscore the necessity of continually re-evaluating and monitoring industrial policy. Ultimately the objective of industrial policy is to promote the expansion of sustainable employment, whether generated directly in the industrial sector or indirectly, by means of maximising economy-wide value-added, in the other sectors of the economy. Therefore it is against this criterion that the results of the Government's new industrial policy should be evaluated.

4.17 Thirdly, industrial policy instruments involve the incurring of costs which do not devolve solely on the Exchequer, but on the economy as a whole through the redirection of resources. Taking this into account the Council considers that an assessment of the techniques currently used in appraising state-funded investment should be undertaken.

4.18 In NESC Report No. 66, *Policies for Industrial Development: Council Comments and Recommendations,* the Council stated that it would like to see a study on the overall effects of industrial development expenditure on the national accounts. The Council also considered that an international comparative exercise, showing the various constituents of Government income and expenditure, would provide a useful additional insight into the ultimate effects of pursuing current industrial policies.

Costs and Competitiveness

4.19 Considerable emphasis is placed in the Plan on the necessity of securing greater efficiency in the economy and promoting a more favourable cost environment within which the productive sectors can expand. In this context an objective for the evolution of private sector pay over the period of the Plan is announced together with a specification of the parameters within which public sector pay will develop. The plan also addresses the issue of non-pay incomes, and outlines measures to be taken with regard to the efficiency of provision and the cost of, energy, transport and communications services. The objective of increasing efficiency also informs the policies outlined in respect of the public service, public enterprise and local government.

Pay Policy

4.20 In NESC Report No. 75, *Economic and Social Policy 1983: Aims and Recommendations* the Council recommended that the economic and social strategy of Government should incude a framework for the development of incomes set in the context of the overall objective and improving the employment situation. It was also recommended that the policy framework should provide a broad perspective on incomes and should take into account the impact of taxation and the contribution of publicly financed goods and services to individual incomes and living standards. The Plan sets out the factors which should determine pay in the private sector and public sector respectively as well as those which should inform the evolution of "non-pay incomes".

4.21 In respect of the private sector the Plan states that "the appropriate objective for pay policy is that increases in average pay should not exceed the rate of increase in pay in competitor countries" and that "within this framework, however, the free collective bargaining system should continue to have regard to the ability to pay of individual firms and organisations and to the likely impact of pay settlements on employment". The Government is thus apparently eschewing the full use of centralised bargaining machinery in pay negotiations and appears to be implicitly rejecting the notion of an overall norm for the private sector.

4.22 The implications of private sector pay developing along these lines according to the Plan would be: (i) that average real earnings in manufacturing industry would be broadly maintained over the period of the Plan (ii) there would be a reduction in average unit wage costs in manufacturing industry relative to our main trading partners, given the projections of productivity growth contained in the Plan.

4.23 The Government has outlined what it believes the evolution of private sector pay should be, on average over the period of the Plan and apparently expects its aspirations in this regard to be realised by independent negotiations within the private sector.

4.24 The Council concludes that central to pay moderation and increased productivity in the private sector is the extent to which increases in output and profits can be harnessed to provide greater employment.

4.25 With regard to the public sector the Plan states that pay developments "must take express account of the capacity of the public finances". The Government sets out an explicit ceiling for the Exchequer provision for pay and pensions over the period of the Plan. These are: 1985 - £2,400m; 1986 - £2,525m and, 1987 - £2,700m. The 1985 provision represents a 1 per cent increase over the Budget allocation of £2,376m for 1984. The projected increases for 1986 and 1987 are 5.2 per cent and 6.9 per cent respectively. The Plan points out that "if all the restriction in growth of the pay bill were to be made through a reduction in the numbers employed, there would be a heavy impact on unemployment".

4.26 Restrictions in public expenditure can involve restraints in the Exchequer pay bill and a possible trade-off between increases in rates of pay and employment levels in the public sector. The Council notes that the provision for Exchequer pay as set out in the Plan does not imply any specific evolution of rates of pay. If the pay policies envisaged in the Plan are followed it is possible that substantial differences could emerge in the growth of per capita pay not only between different sectors (including, between the public and private sectors) but also between individual firms or industries within the same sector. This is a significant change in relation to the approach to pay adopted during the centralised bargaining of the 1970s but its implications in relation to the labour market, the institutional structures for pay determination and industrial relations generally are not explored in the Plan.

Non-pay incomes

4.27 The Plan in addressing the question of 'non-pay incomes' states that such incomes should be determined where possible by competitive forces. Accordingly the Government's intention is to deploy more rigorously and more extensively the instruments of competition policy currently at its disposal.

4.28 In particular the Plan announces the imminent strengthening of competition policy by means of new legislation, the amalgamation of the offices and functions of the Examiner of Restrictive Practices and the Restrictive Practices Commission and the removal of certain exemptions from the coverage of Restrictive Practices legislation. The Council believes that the removal of monopolistic practices, particularly in the area of professional services can do much to improve the general cost environment both for producers and consumers and notes that the initiatives announced in respect of competition policy are in line with the views expressed by the Council in its report No. 75, *Economic and Social Policy 1983: Aims and Recommendations*.

4.29 In a wider context it would be useful to examine the respective roles of the Restrictive Practices Commission and the National Prices Commission with a view to comparing their respective functions and to considering whether the public interest might best be served by merging the two bodies in an Office of Competition Policy.

4.30 In the context of 'non-pay incomes' the Council notes the belief expressed in the Plan that "higher profits will require trust that current pay moderation is, in fact, an investment in future incomes and employment". This sentiment accords with the view expressed by the Council in NESC Report No. 75: "... it is reasonable for individuals and groups to seek consultation on how their acceptance of restraint will facilitate the implementation of a coherent strategy for eventual increases in output and employment".

4.31 In this context the Council also considers it important to recognise the deterioration in the profitability of indigenous manufacturing industry since 1978. NESC Report No. 76, *The Role of the Financial System in Financing the Traded Sectors*, showed that in 1982 profits measured as a percentage of sales had fallen to less than 30% of their 1978 level. By contrast foreign owned companies on average earned a very satisfactory level of profits.

4.32 An improvement in the profitability of investment is the main factor necessary to bring about a reversal in the fall off in private investment and consequently employment opportunities. The Council also notes the Government's support for profit sharing and worker shareholding. The Council will be publishing in the near future a study on this topic.

4.33 On the question of non-pay conditions in the public sector, some of which are referred to specifically in the Plan, the Council believes that it is important to ensure that morale in the public sector be maintained at a level consistent with the provision of a high quality of service to the public and a high quality of policy analysis, formulation and execution. Such conditions would include the conditions governing promotions, staff mobility and the application of the 1 in 3 rule. It is to be hoped that the forthcoming White Paper on the Public Service will address such issues.

Energy, Transport and Communications Costs

4.34 Labour costs are not the only, and sometimes not even the most important, element in costs of production. Costs incurred in using energy and in purchasing transport and communications services are vital elements in overall cost competitiveness. It is imperative that every effort be made to ensure that avoidable disparities in these costs between Ireland and our main trading partners be eliminated. Some international comparisons are set out in Tables 12 to 15. It is noteworthy that, in respect of Heavy Fuel Oil prices and external mail postage rates, Ireland's position vis-a-vis our main trading partners improved quite substantially in 1984. In the case of electricity prices for industrial users some improvement also took place between January 1983 and 1984 although a considerable unfavourable disparity continues to exist. This disparity is larger in the case of relatively big consumers of electricity.

Development Policies

4.35 In the short-term the response of the Irish economy to the opportunities presented by the evolution of demand at home and internationally is largely determined by the level and rate of increase in costs of production, widely defined. In the longer term, however, the productive element of the economy and its potential for providing income and jobs is constrained by the size of its productive base and the capacity of the supporting infrastructure. The productive base of the economy is augmented over time by investment: direct investment in agriculture, industry and the other productive services and investment in infrastructure both physical and non-physical. The role of developmental policies is to achieve rapid growth in such investment and to confront and resolve problems inherent in the structure of the economy. The Council in this section assesses the

policies for industry and agriculture, announced in the Government's Plan and in the White Paper on Industrial Policy.

Industrial Policy

4.36 In the Council's view one of the most important objectives of industrial policy should be to foster the growth of indigenous businesses which have the capacity to survive and grow in international markets. The Council, in Report No. 66, *Policies for Industrial Development: Council Comments and Recommendations*, concluded that this would require a more selective industrial policy in which priority would be given to the development of large internationally trading indigenous firms and the location in Ireland of foreign companies incorporating key business functions such as marketing and research and development.

4.37 As regards foreign companies an important dimension of their contribution to the Irish economy is the extent of the linkages between them and indigenous firms. The Council, in NESC Report No. 66 suggested a three-pronged strategy for strengthening such linkages: (i) the strengthening of indigenous sub-supply firms; (ii) the placing of greater emphasis on attracting to Ireland foreign firms with desirable characteristics and (iii) the putting in place of a systematic approach to the development of linkages.

4.38 The Government's White Paper on Industrial Policy states that industrial incentives and State advisory services will be applied more selectively through concentrating resources on traded firms particularly those which are Irish-owned. Strong Irish-based companies capable of taking strategic decisions and developing R & D programmes will be promoted. State resources will be shifted from fixed asset investment to technology acquisition and export market development. Priority in the attraction of foreign projects will in future be given to those which involve the performance of key business functions here. Linkages will be developed through the National Linkages Programme recently initiated by the IDA.

4.39 While the Council notes and agrees with the sentiments expressed regarding the strategic thrust of industrial policy in the Government's White Paper it emphasises the need for policy instruments capable of translating the changed orientation of stated industrial policy into action. In this connection, the Council welcomes the commitment to a company development approach rather than an individual project approach in disbursing grant-aid, as a means of achieving the declared objective of promoting strong Irish-based companies. Moreover the declared objective of shifting State resources from fixed asset investment to the payment of grants to offset specific cost penalties is complemented by the announcement of detailed new policy instruments, namely, incentives for (i) technology acquisition, (ii) market research; (iii) market entry and (iv) export finance and insurance. The Council would be concerned to ensure that the proposed shift in resources from fixed asset investment to other forms of state support would be sufficient to adequately offset the specific cost penalities currently experienced by firms in the traded sector.

4.40 However, the White Paper does not specify any policy instrument for achievement the more general objectives of concentrating resources on indigenous industry and of giving priority to the attraction of foreign firms which embody key business functions in their Irish operation.

4.41 The Council believes that industrial policy should be formulated and articulated by Government in such a way as to obviate undue discretion in the interpretation of that policy by State agencies responsible for policy execution. In this context the Council is disappointed that an overall industrial policy budget covering the period up to

1987 was not published in the White Paper [1]. In such a budget, which would have practical as well as theoretical benefits, the Council would expect the overall allocation of resources to reflect the new strategic thrust of industrial policy e.g. between indigenous and foreign

[1] The White Paper on Industrial Policy contains a diagram entitled: "The changing Pattern of State Aid, 1978-1988". A percentage breakdown of State aid to industry by main category (Marketing, R&D, Training, Machinery, Factory Construction and Technology Acquisition) for each of the years 1978, 1983 and 1988 is presented. The diagram is designed to illustrate, *inter alia*, the intended change in the distribution of state aid to industry over the 5 year period to 1988 and thereby, to provide some measure of pictorial corroboration of the Government's declared commitment to concentrate State resources more heavily in areas such as marketing and technology acquisition rather than capital grants, in the future. For example, marketing as a proportion of State aid is projected to increase from 4 per cent in 1983 to 9 per cent in 1988 while the share accounted for by factory construction is targetted to fall from 42 to 31 per cent. It is difficult to ascertain the precise implications of the information contained in the illustrative diagram or to assess the extent to which the proportions explicit in the diagram will constrain the allocation of State funds in absolute terms as between the various categories of aid over the relevant time period.

In the first place there is no key to the diagram setting out what precisely is meant by "total state aid" or what exactly is meant by the various component parts thereof. Secondly no absolute values corresponding to either the total or its constitutents are set out in respect of any of the years instanced. Accordingly it is difficult to avoid the conclusion that the projected changes in the pattern of State aid to industry purportedly quantified in the White Paper diagram, amount to a framework for resource allocation which is loose, flexible and lacking in rigour.

industry, between capital grants and other types of grant etc. This would place the Minister firmly in control of the strategic thrust of policy. Otherwise, undue flexibility reverts to the implementing agencies.

4.42 The Council acknowledges a number of difficulties which might arise in operating an industrial policy budget due in particular to the fact that State expenditure on industrial development depends heavily on the flow of suitable new projects. However problems in this regard are not, in essence, any different from those which arise in setting out expenditure targets under the more general rubric of the Public Capital Programme. In any event the desired degree of flexibility could be introduced into the industrial policy budget framework by means of a contingency reserve the purpose of which would be to provide a means of accommodating an unanticipated flow of desirable projects. This expedient is used within the Public Capital Programme.

4.43 The Council views the absence of precision evinced by the White Paper in relation to the allocation of State resources for industrial development as a major shortcoming. In the Council's opinion this shortcoming represents a failure on the part of Government, and more particularly, the Department of Industry, Trade, Commerce and Tourism to convert the expression of broad strategic sentiments on industrial policy into an operational decision-making framework sufficient to the task of realising the strategic objectives. The Council is impelled to the conclusion that the Department has not grasped the opportunity to take control of industrial policy. Given the proposed new emphasis of industrial policy on (a) the development of indigenous firms and, (b) the allocation of State resources to offset specific cost penalties, the Council believes it is vitally important to ensure that both the personnel and techniques employed in the relevant State agencies are adequate to the new tasks which these State agencies are being asked to undertake.

4.44 The Council welcomes the importance attached in the Plan to the development of sectoral and sub-sectoral strategies for industry based on detailed sectoral

analyses by the tripartite Sectoral Development Committee. Such an approach is common to most industrialised countries and provides a means of bringing about more rapid technological change as well as improvements in management and marketing (both at home and abroad) and acceptance of more selective State industrial aid. Greater selectivity should apply to both indigenous and overseas firms.

4.45 The Council welcomes the commitment expressed in the Government's White Paper to have tri-ennial reviews of industrial policy carried out by the Department of Industry, Trade, Commerce and Tourism, as an indispensible ingredient in the ongoing evaluation of policy which is required. The Council believes this to be an urgent priority made all the more so by the present scale and nature of the unemployment problem, by the ever increasing pressure on public resources and by the concomitant desirability of securing the maximum benefit to cost ratio in expenditure on industrial promotion.

4.46 However a number of basic questions arise regarding these reviews. For instance, by what criteria will the Department evaluate industrial policy? In an appendix to NESC Report No. 66, *Policies for Industrial Development: Council Comments and Recommendations*, the Council set out the principal criteria which should be used and in this context expressed the belief that a clear distinction should be maintained between indigenous and foreign industry.

4.47 The concept of an industrial policy budget is as important in assessing past policy as it is in indicating the thrust of future policy. Given its absence, however, the evaluation of industrial policy will prove all the more difficult. Also of relevance to the assessment of industrial policy is the performance of the various State agencies involved in industrial development. Performance criteria for these agencies would not appear to have been developed bythe Government, however. It is only in the context of such criteria that the information system required for monitoring and evaluating industrial policy can be deemed coherent and complete. In the absence of performance criteria for policy executing agencies being devised and put in place by the relevant department, the likelihood is that the agencies concerned will devise their own performance criteria. It is the Council's view that, the objectives as stated in the White Paper on Industrial Policy are sufficiently vague to permit many interpretations of success.

Agriculture and the Food Industry

4.48 The Council believes that four factors primarily will determine the prospects for growth and development of the agricultural sector in the short and longer term. The first of these is the ongoing price-cost squeeze which continues to characterise the relationship between agricultural output and input prices. As Table 16 shows, 1984 was the third successive year in which the growth of agricultural input prices exceeded that of output prices. Indeed in only one of the last six years was the opposite the case. The root cause of this unfavourable trend has been the divergence between Irish and EEC inflation rates. If the target path for Irish inflation envisaged by the Government for the period of the Plan is attained one of the factors determining the competitive position of Irish agriculture will become more favourable. In this regard it should be noted that the extent to which the competitive position improves will also depend on the evolution of the exchange rate and the level at which EEC agricultural prices are fixed (a process which involves consideration of the conditions which obtain on average throughout the Community).

4.49 A second key issue which must be confronted by the agricultural sector in the wake of the recent changes in the Common Agricutural Policy is the achievement of greater efficiency, competitiveness and diversification. In this connection the Council notes the Government's intention as expressed in the Plan to raise the level of grant-aid under the Disadvantaged Areas Scheme payable for beef cows, and to provide additional capital funding for drainage purposes in western areas. The success of these initiatives in providing incentives for diversification will require careful monitoring along with consideration of the position of the beef herd in all areas.

4.50 A third important issue in the development of the agricultural sector is the provision of more focussed and more cost-effective training and advisory services to farmers. The Council welcomes the proposals in the Plan for the improvement of the efficiency of the farm advisory service (as proposed in the *Report of the Working Group on the Four-year Plan for Agriculture*). The Council also agrees that the objectives of policy, as stated in the Plan, should be to progressively raise the educational and training qualifications of the farming community,to increase their capacity to absorb new technology and to focus training and advisory services to farming on those who are best positioned to profitably avail of them. The Council would concur with the National Planning Board in its recommendation that the Government should establish a review committee to examine the working relationships between ACOT and AFT with a view to strengthening the contribution each organisation can make to the development of agriculture.

4.51 In the Council's view a fourth key issue in medium-term agricultural development is the question of land mobility and utilisation. The Council is of the opinion that this question assumes increased urgency in the context of the recent changes in the Common Agricultural Policy, the concomitant requirement of greater competitiveness and product diversification in Irish agriculture and the emphasis which must be placed on developing the food processing industry as a source of future employment growth and economic expansion. Against this background, the Council does not believe that the Government's Plan articulates a sufficiently coherent or wide-ranging land policy. The Council previously considered these issues in a number of reports, the last of which was published in 1978 [2]. The same issues have been addressed, more recently, by the National Planning Board and by the Commission on Taxation. This is an item to which the Council intends to return in the context of its work-programme.

2 These reports are: *Report No. 15, The Taxation of Farming Profits; Report No. 40, Policies to Accelerate Agricultural Development, and Report No. 42, Report on Policies for Agricultural and Rural Development.*

4.52 The problem of animal disease needs to be tackled with greater rigour and effectiveness. State funded programmes for disease eradication should be based on strict targets. Such targets could then be used as a measure of progress towards the primary objective and, in conjunction with data on expenditure, as a measure of the programmes' cost effectiveness.

4.53 In relation to the food processing industries the Council, in 1982, in NESC Report No. 66, *Policies for Industrial Development: Council Comments and Recommendations*, identified the two key considerations in the formulation of policy pertaining to the food processing industry. The first of these concerns the question of seasonality and uncertainty of supply to processing factories. The second issue is that of maximising value added in food processing. The Council also emphasised the particular potential of food processing as a source of wealth and employment generation given the low import content of the industry. The reports of the Sectoral Development Committee on the beef and dairying industries also provide analysis and recommendations relevant to the future direction of policy. The Plan even taken in conjunction with the White Paper on Industrial Policy, contains no substantive policy initiatives in respect of the food processing industry. However the Plan indicates that a consultant is being appointed to help the Ministerial working group on the food industry to devise measures to promote its development. The Council notes the intention in the Plan to streamline and make more efficient the State support services for the industry with the aim of strengthening its market orientation.

Public Enterprise

4.54 The major commercial State-sponsored bodies in Ireland have, since their inception, played a central role in the overall development of the economy. Despite the financial difficulties which many of them now experience, taken together they provide substantial employment and the strategic importance of many of their activities must be acknowledged. A number of arguments can be marshalled in support of direct State involvement in the provision of

goods and services and in the development of an industrial infrastruture. Amongst these arguments are ones based on the existence of market failure and risk aversion on the part of private entrepreneurs towards the undertaking of certain activities. In the case of a small and developing economy there are additional factors: the existence of economies of sale and the necessity for large initial capital outlays which would typically render private sector participation prohibitive. Public enterprises are frequently created to promote social objectives that would be consistent with social profitability criteria but which would not generate private profits.

4.55 Many public enterprises are currently facing difficulties similar to those being experienced by firms in the private sector, and frequently for the same reasons: market conditions, adverse cost developments and inappropriate financial structure. Moreover to some extent the problems confronted by public enterprises have as their source cyclical or recession related factors. This is not to deny that structural problems also exist. In designing policies, the implementation of which will help public enterprise to contribute positively towards overall economic recovery, it is necessary to carefully draw this distinction between cyclical and structural factors.

4.56 With a view to ensuring that public enterprises make a significant contribution to future Irish economic development the Plan makes a number of proposals to overcome perceived weaknesses: (i) the careful direction of capital investment; (ii) continuous monitoring of financial performance; (iii) the imposition of non-negotiable borrowing limits; (iv) the design and publication of performance indicators; (v) the distinction between commercial activities and those which have a social purpose.

4.57 A common and fundamental problem which faces publicly-owned enterprises is what may be termed the "conflict of expectation". On the one hand they are commercial entities required to perform their economic functions efficiently and expected to do so in a profit-performance criteria for policy executing agencies being devised and put in place by the relevant department, the likelihood is that the agencies concerned will devise their own performance criteria. It is the Council's view that, the objectives as stated in the White Paper on Industrial Policy are sufficiently vague to permit many interpretations of success.

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4.56 With a view to ensuring that public enterprises make a significant contribution to future Irish economic development the Plan makes a number of proposals to overcome perceived weaknesses: (i) the careful direction of capital investment; (ii) continuous monitoring of financial performance; (iii) the imposition of non-negotiable borrowing limits; (iv) the design and publication of performance indicators; (v) the distinction between commercial activities and those which have a social purpose.

4.57 A common and fundamental problem which faces publicly-owned enterprises is what may be termed the "conflict of expectation". On the one hand they are commercial entities required to perform their economic functions efficiently and expected to do so in a profit-maximising or loss-minimising fashion. On the other hand they are accountable to the Government which may enunciate objectives in a vague and incoherent manner, or in such a way as to superimpose political considerations on commercial criteria. The Council therefore welcomes the commitment in the Plan to the separate identification of the commercial and social functions of public enterprise. It is imperative however that the financial cost of pursuing the relevant social objectives be determined at the outset of the accounting period concerned rather than equated with the financial shortfall at the end.

4.58 The Council also welcomes the commitment, expressed in the Plan, to the preparation and publication of performance indicators for State-sponsored commercial bodies and looks forward to the issuance of clear and consistent objectives to all State enterprises. The Council believes that there is a constructive role to be played by State enterprise in achieving future economi and social progress. If the direction of policy as set out in the Plan is actively pursued, the result should be that State enterprise will execute this role more efficiently that has been the case in the past.

4.59 The Council notes the Government's intentions with regard to the proposed National Development Corporation (NDC), in particular the statements contained in the Plan that the NDC will be "a primary instrument in translating the Government's philosophy and approach to direct State involvement in industry into practice" and that the emphasis will be on "commerciality and profits, and strengthening indigenous industry and enterprise". The following are the parameters within which the White Paper specifies that the NDC will operate: (a) that the NDC should aim to become self-financing within 6-8 years; (b) that the NDC must be capable of replenishing its capital by realising its investments and (c) that the NDC will be required to observe predetermined time limits for involvement in each of its investments.

4.60 The Council acknowledges the significant contribution which it is intended that the NDC will make to economic expansion and employment growth. The Council particularly

welcomes the new impetus which it is envisaged the NDC will generate in respect of natural resource processing and the building of structurally strong Irish firms, and will be carefully monitoring the progress and performance of the NDC along these lines.

Manpower Policy

Overall Policy

4.61 The National Plan deals with manpower policy in a summary fashion and does not advert to the White Paper on Manpower Policy which has been promised by the Department of Labour. The section which deals with manpower policy is concerned almost entirely with the introduction of schemes to help the long term unemployed. The Plan indicates that the Government are taking steps to improve the overall co-ordination of education, training and manpower services, to develop better strategies and to strengthen and modernise relevant manpower structures. It is also proposed to strengthen the role of the Department of Labour to ensure that full account is taken of the manpower implications of all policy initiatives.

4.62 The Council has been concerned for some time that the overall economic and social environment within which manpower policy operated in the 1960s and 1970s altered radically but that manpower policy does not appear to have responded to the new environment. Many of the measures introduced to cope with labour market slack have been interventions with equity objectives. The Council believes it is now opportune to critically assess the allocation of resources to specific measures influencing the demand for labour and to more traditional manpower measures such as skill training. The Council intends to deal with these issues in a forthcoming report on manpower policy. Since the main innovation in the Plan under the heading of manpower policy is the introduction of two special schemes to help the long-term unemployed, the remainder of this section deals with these measures.

Schemes for the Long-term Unemployed

4.63 The two new schemes are as follows:

(a) a Social Employment Scheme which will offer work on a half-weekly basis to the long term unemployed on non-profit, community oriented projects which do not substitute for existing employment. The net cost to the Exchequer will be £20m, and the scheme will be administered by the Department of Labour at wages of £70 per half week.

(b) A Training and Placement "Alternance" scheme which would provide the long term unemployed with alternating spells of training and practical work experience for six months with a view to providing them with the skills to return to employment, to become self employed or set up co-operatives.

4.64 A statistical profile of the long term unemployed is provided in Tables 18, 19 and 20. The main features are: in April 1984 two out of every five persons unemployed had been unemployed for over one year (Table 18); the increasing incidence of long term unemployment with age (Table 19); in virtually all age groups long term unemployment has begun to affect a higher proportion of unemployed in the group (Table 20); the changing composition of long term unemployment, with youths and prime-age adults accounting for an increased share. The Plan also indicates that half the long-term unemployed have families with, on average, between three and four dependents.

4.65 The initiatives in the Plan appear to have been undertaken without adequate consideration of the characteristics of the long-term unemployed and in particular the difficulties they face in re-entering employment. These difficulties include skill obsolescence and inadequate job-seeking skills. However, the Alternance Scheme (which incorporates personal development and enterprise training) is the kind of response one might expect if this exercise had been undertaken. However, this is the more modest of the two in respect of the number of places. In the Social Employment Scheme the intention is to have a participation level of 10,000

within a year. The aim of the Alternance Scheme is to give 2,500 persons a six month programme in the first full year of the scheme. The Social Employment Scheme is essentially a 'make-work' scheme which does not appear to have paid attention to the needs of the long term unemployed. The Council believes that the latter scheme should incorporate at least the more basic elements of the Alternance Scheme, in particular, employment counselling. The cost of the Social Employment Scheme is provided but that of the Alternance Scheme is not. This inhibits the Council from suggesting a more definite move of the Social Employment Scheme in the direction of the Alternance Scheme. The Council would have liked to have been in a position to comment on the detail of the Social Employment Scheme. However these details were not available at the time of writing.

CHAPTER 5

SOCIAL POLICY

Introduction

5.1 The social policy chapter in the Plan on Reality lists Ireland's high population growth, high dependency rate and high unemployment as the main constraints on the development of social policies. Three "fundamental changes in approach and attitudes" are required in order "to see how things can be improved without giving in to narrow sectional interests and to do all this without increasing the already heavy burden of taxation". The three changes or objectives are:

- more selective provision of services to the needy needy instead of generalised measures which provide help to the better off;
- increased efficiency and cost effectiveness in administration;
- preparedness to accept changes including the reduction, or even abandonment, of services and structures which are no longer appropriate to current needs or requirements.

5.2 The social policy proposals for the main social services in the Plan are examined in this section against the above goals. The views of the Council on these issues as outlined in previous reports are first summarised.

5.3 The views of the Council on selectivity and universality, are summarised in NESC Report No. 61: *Irish Social Policies: Priorities for Development.*

- social policy should involve selectivity in the sense of promoting a redistribution of resources from high to low income groups;
- such redistribution should involve the three dimensions of social, fiscal and occupational welfare;
- a fundamental requirement for greater selectivity is the achievement of a progressive tax system, embracing direct and indirect taxes;

- positive discrimination is required in favour of those most in need;
- greater understanding is required of the distributive consequences of public policies.

Education

5.4 The projected totals of public expenditure on education are outlined below for the period of the Plan. Expressed as a share of GNP, public current expenditure on education rose from 5.0% of GNP in 1978 to 5.9% in each of 1981, 1982 and 1983. A fall to 5.8% is projected for 1984 with a further fall to 5.3% in 1986 and 1987. When capital spending is included, expenditure on education will fall from 6.6% of GNP in 1983 to 6.3% in 1984 and 6.0% in 1986 and 1987. On the basis of the assumptions on pay, the Plan intends to maintain the real level of current resources available. Capital expenditure is projected to increase significantly in real terms over the course of the Plan, depending on cost developments.

	1978	1981	1983	1984	1985	1986	1987
Education Current Expenditure as % of GNP	5.0	5.9	5.9	5.8	5.4	5.3	5.3

5.5 The Plan states that priority will be given to primary education with additional support being given in disadvantaged areas. Although the decline in the birth rate has shifted demographic pressure from primary onto second and third level education, there is widespread agreement that improvement of primary education, particularly in disadvantaged areas, should remain a priority. The 1985 Estimates contain the following expenditure changes in nominal terms which are shown along with projected enrolment increases (from NESC Report No. 71, *Education: The Implications of Demographic Change*).

	Nominal Expenditure increase in 1985	Enrolment Increase Projected
Primary Education	+2%	0.4% to 0.6% p.a.
Secondary Education	0%	1.2% to 1.9% p.a.
Third level Education	+2%	1.9% to 4.2% p.a.

5.6 The Council has previously recommended that attention be given to policies designed to increase participation by low income families beyond the minimum school leaving age, perhaps by means of grants. The main innovation in the Plan is the extension of European Social Fund (ESF) grants to secondary students on vocational educational courses and to two thirds of Regional Technical College students, with over 50 per cent of the extra funds going to the RTC students. The £33m involved in the ESF schemes dwarfs the £0.5m which the Plan proposes to set aside in a special fund to aid primary education in disadvantaged areas. The implications for manpower policy and equity in education of the provision of grants to secondary school students for vocational educational courses have not been articulated. The Council proposes to deal with these issues in its forthcoming report on Manpower Policy.

Health Services

5.7 Projected public health service expenditure is shown below, along with the trend in recent years. Net current Expenditure[1] rose sharply from 5.8% of GNP in 1978 to 7.2% in 1980 and remained at 7.0% in the years following to 1983. A drop to 6.6% of GNP is projected for 1984 and a continued decline to 6.1% GNP is projected by 1987. When capital expenditure is included, the projected decline is from 7.4% of GNP in 1983 to 7.0% in 1984 with a further decline to 6.4% by 1987. Of the reduction in current expenditure expressed as a percentage of GNP,

[1] The figures cited refer to net expenditure on the public health services by the Department of Health. Total expenditure is higher than net expenditure by approximately 1¼ per cent of GNP.

savings in payroll costs, through measures such as redeployment or reduced staffing levels, will account for about one third of the reduction. The bulk of the balance of savings are projected to emerge in consequence of the cash limits for pay generally as set out in the Plan.

	1978	1980	1981	1982	1983	1984	1985
Net Current Expenditure as % GNP	5.8	7.2	7.0	6.6	6.5	6.3	6.1

5.8 The Plan posits as objectives "a shift towards prevention of disease and an emphasis on community care ensuring that scarce resources are directed more specifically towards those in greatest need" (paragraph 5.33). The shift toward prevention is to be accomplished by stricter controls on smoking, a new nutritional surveillance scheme and an improved vaccination service. The promotion of community care is seen to centre on steps to improve the effectiveness of general practitioners and the provision of an effective home nursing service.

5.9 Any shift towards community care will however have to involve basic reorganisation of the Community Care Teams. On the basis of a report currently under consideration by the Council, it is clear that the organisation of community care is far from ideal, with several of the professional groups involved refusing to co-operate with each other. No details of how these services might be reorganised are contained in the Plan. Neither does the Plan provide any details as to the proposed reallocation of resources from institutional to community care. Because of the degree of autonomy of the health boards, it is not clear that the Government has the power to implement changes towards community services. The Council will address these issues in a future report.

5.10 The Council has previously drawn attention to the high level of acute hospital bed provision and high admission rates in Ireland relative to the countries in the UK which share similar morbidity patterns. The Plan suggests that "the efficiency and cost effectiveness of the hospital system will be improved by the closure of facilities which are outmoded or no longer necessary and by using modern management information systems in administration". While the Council welcomes this approach it is to be regretted that no details are provided on the implementation of these statements. In terms of greater selectivity in the provision of public hospital services, until more is known about hospital utilisation rates by socio-economic group, it is not possible for the Council to assess the distributional consequences of present policies.

Social Welfare and Income Maintenance

5.11 The trend in social welfare expenditure is summarised below. Net expenditure rose from 4.9% of GNP in 1978 to 6.6% in 1981, 7.8% in 1982 and 8.2% in 1983. The Plan projects a slight rise to 8.6% in each of 1984 and 1985, followed by a decline to 8.5% in 1986 and 8.3% in 1987.

	1978	1983	1984	1985	1986	1987
Net Social Welfare Expenditure as % GNP	4.9	8.2	8.6	8.6	8.5	8.3

5.12 The largest element of social welfare expenditure is the item "transfers to the elderly" which accounted for £574m in 1984, compared to £562m on "transfers to the unemployed". While payments to the unemployed can be viewed as cyclical in the sense of being recession-related, the increase in expenditure on old age pensions can be seen as structural and as unlikely to diminish with the resumption of economic growth.

5.13 The Plan states that "The Government intend to publish a framework for a national pension plan". The Council believes there should be explicit discussion of the costs and benefits of a national income related pensions plan in the proposed White Paper on Pensions.

5.14 In the past, the Council has drawn attention to the need for greater integration of the tax and benefit systems because of the possibility of unemployment and poverty traps. (See Appendix 1 for definitions and

discussion). The Council has previously considered[2] that the introduction of a substantial child benefit would remove the principal cause of these traps.

5.15 The Family Income Supplement was introduced in late 1984 to deal with unemployment traps or the disincentives to work. The effects of this scheme are explored in Appendix 1, along with the effects of the proposed Child Benefit Scheme which is to replace the Family Income Supplement by 1987. The results of that examination can be summarised as follows:

- Firstly, both unemployment and poverty traps of considerable magnitude are shown to exist in the present structure when "final income" is examined, that is income, net of tax and the value of benefits, including medical card eligibility and local authority rents.
- Secondly, the effect of the Family Income Supplement (FIS) alleviates the unemployment trap, making the net gain from low paid employment more attractive. It does nothing however to ease the poverty trap, which has to do with the difficulty of low paid employees increasing their final income.
- Thirdly, the proposed introduction of the Child Benefit Scheme to replace the Family Income Supplement, Children's Allowances, Child Tax Allowances and a partial reduction in social welfare child dependent payments, will do little to alter either the unemployment or poverty traps.

5.16 The conclusion from the above would appear to be that the introduction of the Family Income Supplement and its proposed abandonment by 1987 in favour of Child Benefit, will not be sufficient to resolve the existing anomalies which have worsened in recent years. This is because of the complete withdrawal of medical card eligibility and associated entitlements at certain income thresholds. The complex interaction of the schemes administered by four

[2] NESC Report No. 61, *Irish Social Policies: Priorities for Future Development*.

different Departments (Taxation, Social Welfare, Local Authority Housing, and Health Services) needs to be considered in their entirety if public policies are to be made consistent.

Housing

5.17 The Council, having been previously extremely critical of housing policy on the criteria of efficiency and equity, both within and between different sectors of the housing system has argued for a fundamental and comprehensive review of the role of the State in the national housing system. The Council regrets that the Plan does not deal with many of the aspects of housing policy which the Council has suggested warrant review and possible reform.

5.18 The main initiative in the Plan in respect of private housing is the provision of a new £5,000 grant to local authority tenants as encouragement to move into owner occupancy. The existing grants and subsidies are to be maintained on the basis that, being confined mainly to first time buyers, they "embody an appropriate selectivity". This approach to selectivity is at variance with the views of the Council as outlined above.

5.19 In relation to local authority housing the main developments include the raising of rents, the extension of the tenant purchase scheme to flats and the shifting of responsibility onto tenants for minor repairs and routine maintenance.

5.20 The Council has been critical of sales of local authority houses for the reasons outlined in a series of reports [3]. The Council therefore, has reservations about the extension of the tenant purchase scheme to flats. The Council has also previously noted the anomalies in the Differential Rents Scheme and believes that the entire scheme requires reappraisal if rents are to be raised.

3 see NESC Report No. 61, *Irish Social Policies: Priorities for Future Development*, and also NESC Report No. 23, *Report on Housing Subsidies*.

While the Council believes that action is necessary to curb the escalating costs of maintenance and management it believes that the implementation of the policy of making tenants responsible for minor repairs "except where compassionate circumstances are involved" must be carefully monitored to ensure that the high proportion of tenants who are reliant on social welfare do not bear undue burdens. The Council proposes to undertake a comprehensive study of housing policy in the near future.

Concluding Remarks

5.21 The main measures with regard to education and health services are significant reductions in the share of GNP devoted to these services. Combined expenditure on these two items will drop by 1.6 percentage points of GNP over the period 1983-87 due mainly to the effects of cah limits on pay. The share of Social Welfare in GNP will be unchanged over the period and details are not provided for housing.

5.22 Broadly, services will be provided as heretofore, despite the instances of regressive transfers to which the Council has drawn attention in the past, notably in the subsidies to housing and to third level education. The main innovations include the proposed Child Benefit scheme and the £5,000 grant to local authority tenants. The Council believes that the Child Benefit scheme, while a move in the right direction, is likely to be insufficient to alleviate the existence of severe unemployment and poverty traps.

5.23 The conclusion, then, is that there is little progress towards greater selectivity in the provision of services despite this objective in the Plan. With regard to greater cost effectiveness, the reductions in education and health service expenditure will necessitate efficiency increases if the services are to continue to function at present levels. However, besides the provision of cash limits no specific policies are proposed in the Plan as to how these gains will be achieved. The Plan contains no proposals with regard to the final objective of the replacement or dropping of obsolete services.

CHAPTER 6

AN APPROACH TO PLANNING

6.1 This section reviews the Plan as a planning document under two headings. Firstly, some major gaps and possible inconsistencies are noted. Secondly, the Plan is evaluated against the criteria for economic and social planning suggested by the National Planning Board which parallel in the main the views previously expressed by the Council.

Gaps and Inconsistencies

6.2 As noted in the section on public finances the Plan proposed a range of targets not only for aggregates like the current budget deficit, the EBR and the PSBR, but also for the evolution of Exchequer foreign debt, the overall National debt and the cost of foreign debt service. It has been noted already that the rationale for the simultaneous pursuit of these targets has not been articulated in the Plan. Nor is there any discussion of the repercussions on domestic interest rates which the constraints on foreign borrowing might generate. The absence of an explicit discussion of monetary policy is, in the Council's view, a serious omission.

6.3 A similar problem arises with the use of cash limits as a means of controlling public expenditure as proposed in the Plan. For example, expenditure on public health services is projected to decline by almost 1% of GNP over the period to 1987. While specific manpower reductions and re-deployment will account for about 1/3 of this reduction, the remainder is projected to emerge in consequence of the cash limits on pay. The danger is that using cash limits to achieve reductions, changes will be made in an ad hoc manner, possibly along the lines of least resistance.

6.4 The Plan does not provide any means of evaluating the impact on economic activity of the totality of policy measures which it announces. Thus, although projections are set out for the evolution of the various demand,

output and employment aggregates over the period of the Plan (albeit in a somewhat patchy way), no indication is given of how these aggregates might have been expected to evolve in the absence of the Plan. In addition, there is a failure to indicate or speculate where private service jobs will appear.

6.5 Moreover, the degree of detail provided in the projections makes certain aspects of the Plan more than usually difficult to evaluate. The Council has already pointed out the need to distinguish between sectors in the context of the manufacturing employment and output forecasts. Another case in point is the absence of relevant disaggregated detail in the investment projections. No explicit distinction is made here between public and private investment, nor between investment by function (e.g. residential vs. non-residential, construction, machinery and equipment). Monitoring progress towards the achievement of the Plan's targets other than those set out in respect of the public finances is rendered almost impossible by the absence of detailed projections for the intra-Plan years.

Criteria for and Evaluation of the National Plan

6.6 The National Planning Board (NPB) suggested that planning in a mixed economy should consist of:

(i) determining the amount of public expenditure which can be financed by tax rates which are broadly acceptable and which maintain incentives to work, save, invest, take commercial risks and innovate,

(ii) within these constraints on tax revenue, priorities should be set for public current and capital expenditures,

(iii) the pattern of public expenditure and taxation should not only promote sustainable economic growth but should also work toward greater equity in the distribution of income, wealth and life chances,

(iv) the plan should be specific about objectives and the policy measures which will achieve them,

(v) there should be institutional arrangements to develop fuller understanding of the objectives an policies and to ensure that the necessary decisions are taken by Government and effectively implemented.

6.7 While the above refer to the planning of the public sector, the NPB suggested that in relation to the private sector, planning should involve the formulation of a consistent set of Government policies to encourage and sustain growth in the market sector, and especially in the exposed market sector, by inducing private persons, agencies and public enterprises to use their time, talents and other resources more productively in Ireland. Given the involvement of the public sector in all spheres of economic and social life the issue of how Government incentives both direct and indirect might be used to influence events in the private sector should be of primary concern in the planning process.

6.8 The Council, in a report on social planning (NESC Report No. 68, *Social Planning in Ireland:* Its Purpose and Organisational Requirements) outlined its views on planning requirements which included most of the NPB points. In particular, the Council saw the need for priorities to be established in public expenditure and taxation, the need to promote both efficiency and equity, the need for specific objectives and policies to achieve them and finally the need for institutional arrangements to win consent for the Plan. The remainder of this section assesses the Plan against the five criteria outlined above.

6.9 With respect to the first of the five criteria identified, the Plan does determine the amount of public expenditure which can be financed by the current level of taxation. However, the Plan does not consider whether the existing tax rates constitute disincentives nor does it propose any major changes in the taxation of personal income.

6.10 The Plan also goes some way to meet the second criterion - of determining priorities for public expenditure - in that expenditure projections are provided by department for the year 1984 to 1987. The basis for these allocations is not made explicit however, so that the priority setting exercise is implicit rather than explicit.

6.11 The third criterion has to do with protecting the disadvantaged. Although the social policy section in the Plan broadly accepts this objective, there is no discussion of the extent to which the present pattern of provision favours equity, nor are there proposals to make service provision more equitable.

6.12 The clear statement of objectives and of the policies required to implement them is the fourth criterion identified above. The Plan performs poorly in this respect, as shown in Figure 1 by the summary of objectives, broad policy headings and detailed policy proposals. Objectives are set out under the themes of employment policy, social policy and public finances, but vary in the degree to which they are specific. Policy headings are shown as they are linked in the Plan to these objectives and the detailed policies proposed are noted in the figure in relation to each policy heading. In many cases, rather than announcing detailed policies, the Plan refers either to (i) already published discussion documents/White Papers or (ii)discussion documents/White Papers to be published in the future.

6.13 No fewer than nine such documents are referred to in the Plan. Five White Papers are mentioned (two already published on industrial policy and education and three forthcoming on pensions, the public service and the fishing industry) along with three discussion documents (on industrial relations, agriculture and on health services). In addition the Plan refers to a forthcoming NESC study on Profit Sharing. The Minister for Labour has also promised a White Paper on Manpower Policy in the near future.

Figure 1

Objectives and Policies as outlind in "Building on Reality"

Objectives	Policy Areas	Detailed Policies
EMPLOYMENT POLICY		
(i) tax and incentives should be conducive to private	(a) Industry - White Paper	reviews to come
	(b) Agriculture - four year plan (White Paper)	details of grants per cow White Paper on Fishing Industry to come Legislation pending on leasing land
(ii) legal and institutional rigidities which hinder output and employment growth should be removed	(a) Industrial relations	discussion paper being circulated, company registration pending
	(b) Profit Sharing	NESC study to come
	(c) Services Sector	Legislation to widen Restrictive Practices Act to come
(iii) greater efficiency in the public sector must be achieved	(a) Roads/transport/energy forestry	multifarious White Paper on Industry to be implemented
	(b) Public enterprise/NDC Public Sector	White Paper on Public Services to come
	(c) Institutions - Oireachtas NESC and Local Government	New Committee on Socio Economic Affairs to be established in Oireachtas
(iv) special employment programmes must be provided for school leavers and the longterm unemployed	(a) Social Employment Scheme	details provided of new schemes
	(b) Alternance scheme	
	(c) Co-ordination of all schemes	White Paper on Manpower Policy to come
SOCIAL POLICY		
(i) Government assistance to become more specific and more carefully aimed at and delivered to the poor and underprivileged - those in need.	(a) Education	Action to come on White Paper on Education already published
	(b) Health	Green Paper on Health Services to come
	(c) Social Welfare	Child Benefit Scheme to be implemented White Paper on Pensions to come
(ii) all possible measures must be taken to improve efficiency and cost effectiveness	(d) Housing	£5000 scheme for LA tenants
(iii) must be prepared to accept reduction or even abandoment of services which are no longer appropriate	(e) Youth	Natioal Youth Policy to be formulated
PUBLIC FINANCES		
(i) no increase in the overall level of taxation	(a) No changes in tax burden or in income tax levels	New Farm Tax to be implemented
(ii) targets for the main budget aggregates up to 1987	(b) Current expenditure to be 46% GNP in 1987 against 48½% in 1984	Expenditure data by main Department to 1987 provided Cash limits on Public Sector pay provided

6.14 Notable features of the Plan include the marked variation in the degree of detail with which policy measures are stated and the disproportionate attention paid to relatively unimportant items. These features are exemplified by the information provided in respect of the increased grants for beef cows under the Disadvantaged Areas Scheme, the extension of licensing hours and the reduction of excise duty on spirits. By way of contrast, as noted in above there is an absence of detail or even explicit discussion in certain more important policy areas.

6.15 The Plan makes some provision for meeting the fifth criterion of providing institutional arangements to develop fuller understanding of the objectives and policies and to ensure the necessary decisions are taken and implemented, in that it refers to the reconstitution of the NESC and the more regular consultation with Ministers that is envisaged. This provision, however, refers to the future. In drawing up the Plan itself, no formal consultation or structured discussions took place, either collectively or individually with those groups who have a major role to play in the achievement of the targets which the Plan sets out. The Council has made a number of recommendations about institutional arrangements for planning in NESC Report No. 68, *Social Planning in Ireland: Its Purpose and Organisational Requirements*. The Council would like to see these recommendations given further consideration by the Government.

CHAPTER 7

SUMMARY AND CONCLUSIONS

7.1 The National Economic and Social Plan has three principal components: policy in relation to the public finances; policy in relation to employment generation; and social policy. A summary and conclusion of the Council's views are provided in the following paragraphs.

Public Finances

The fiscal stance

7.2 As outlined in the Plan, policy in relation to the public finances involves a commitment to specific reductions in the PSBR, the EBR and the current budget deficit and a commitment to maintaining the overall burden of taxation. In setting the overall stance of fiscal policy for the period 1984-1987 the Government has clearly moved away from the earlier target of eliminating the current budget deficit by 1987. This decision is explained by reference to the adverse international developments and the deflationary impact which such a policy would have at the current stage of the economic cycle.

7.3 To the extent that the overall PSBR target has been set primarily with reference to prudent borrowing levels and debt servicing objectives, and the current budget deficit target has been set with reference to economic and social conditions, the Council is concerned that there may be an undue squeeze in productive capital expenditure.

7.4 In the Plan the announcement of conventional fiscal targets is supplemented by the publication of objectives to be pursued in respect of debt variables and the balance of payments. The pursuit of these objectives in respect of Exchequer foreign debt and foreign debt servicing, allied to a balance of payments target, amounts to an additional constraint on the conduct of fiscal policy, which will in turn have implications for the conduct of monetary policy. However, there is no discussion of monetary policy in the

Plan. The Council recommends that the monetary implications of fiscal policy be set out in future budgets and that the planned financing of the borrowing requirement be set out in the budget speech.

The pattern of adjustment
7.5 Within the EBR the burden of adjustment will be borne mainly by the current budget deficit rather than by Exchequer borrowing for capital purposes and within this, adjustment will be concentrated almost exclusively on Exchequer spending. The central role of public sector pay policy in the Plan is highlighted when it is considered that of the reduction of 2.2 per cent of GNP projected for current public expenditure, 1.6 percentage points or almost three quarters is accounted for by restrictions to the Exchequer pay bill.

7.6 Within the capital expenditure budget the Council would be concerned to ensure that the provision for industrial investment is adequate to accomodate the support of all projects which yield an appropriate return. As an effort to stimulate private investment the Council would draw attention to the possibilities which exist for private investment in joint ventures with public capital particularly in roads and possibly in housing.

7.7 The Council considers that the Plan displays a pronounced lack of urgency on the question of reform of the direct taxation system. The Council reiterates its belief, as expressed in NESC Report No. 75, *Economic and Social Policy 1983: Aims and Recommendations*, that serious reform of the tax system is urgently required. The Council has also identified the narrowness of the present tax base as a severe constraint to developing a system which would be more equitable and which would provide greater incentives to enterprise and wealth generation. The Council is disappointed at the response of the Government to the reports of the Commission on Taxation and recommends that the Government should now prepare and publish a response to the three reports of the Commission.

7.8 The one major change in the taxation area is the introduction of a farm tax. The Council believes that the principles underlying its introduction are inappropriate in that the new tax appears to represent a combination of an income tax and a resource tax. In the Council's view these two policy issues should be differentiated.

7.9 The Council has already set out its views on farm taxation in earlier reports. It is the Council's view that the Government should have sought to resolve the problems of farmer taxation mentioned in the Plan by identifying farmer's incomes within the income tax code.

Employment and Unemployment

7.10 Policy in this area is considered under five main headings: employment outlook; costs and competitiveness; development policies; manpower policy; and policy with regard to public enterprise.

The Employment Outlook
7.11 Given the universal agreement that unemployment is the most serious national problem, the ultimate criterion against which the Plan should be evaluated is the extent to which it confronts the problem of unemployment.

7.12 The policies announced in the Plan to promote economic activity in the conventional sectors of the economy, together with the restrictive stance of fiscal policy, are not in themselves expected to stabilise unemployment in the face of anticipated labour force growth. In the absence of special employment schemes, unemployment would reach 17.2% of the labour force in 1987 compared to 16% in 1984.

7.13 The output growth projected in the Plan is heavily concentrated in manufacturing industry. The direct employment growth resulting from this output is small however, with a projected cumulative output growth of 36% compared to a cumulative productivity growth of 32%. The indirect effects of this output growth on the building and construction and private services sectors are also small implying that the output growth in the manufacturing sector is likely to be concentrated in the high technology sectors. The fundamental dualism of the economy, characterised by poor linkage within the manufacturing and between that sector and the rest of the economy, is therefore likely to persist over the period of the Plan.

Costs and Competitiveness

7.14 Under the heading of costs and competitiveness pay policy is the primary issue. Independent negotiations are expected to achieve what the Plan considers to be the appropriate evolution of private sector pay i.e. that increases in average pay should not exceed the rate of increase in pay in competitor countries. However, the plan does not propose any initiatives which would facilitate the achievement of this objective. Possible initiatives include a restructuring of the tax system without reducing the revenue yield.

7.15 The Plan sets out explicit ceilings for the public sector pay bill over the period of the Plan. There is, however, no reference to the institutional structures for pay determination in the public sector.

7.16 With regard to non-pay incomes, the Plan proposes to sharpen the instruments of competition policy. The Council believes that further action should be taken through the creation of an Office of Competition Policy by merging the National Prices Commission and the Restrictive Practices Commission.

Development Policies

7.17 The Plan largely reiterates the White Paper on Industrial Policy. The Council welcomes many of the individual elements of the White Paper, notably:

(i) the commitment to a company development approach; the shifting of resources from fixed

(ii) asset investement to grants which offset specific cost penalties;

(iii) the commitment to the development of sectoral and sub-sectoral strategies.

7.18 While the Council notes and agrees with many of the aspirations expressed in the White Paper, it emphasises the need for policy instruments capable of translating the changed orientation of stated industrial policy into action. The Council also notes the absence of an overall strategic thrust to industrial policy, which is reflected in the absence of an overall industrial policy budget covering the period up to 1987.

7.19 The Council welcomes the proposal in the White Paper to carry out a tri-ennial review of industrial policy. However, the evaluation of policy will be greatly hindered by the absence of several factors including an overall strategic plan, performance criteria for the relevant agencies and an adequate information system.

7.20 With regard to agriculture, the Council believes that the Plan fails to articulate a coherent or wide ranging land policy. The Council welcomes the proposals with regard to the training and advisory services. The Council notes that the Plan contains no substantive policy initiatives in respect of the food processing industry.

Manpower Policy

7.21 The manpower proposals in the Plan are concerned almost entirely with two new schemes to help the long-term unemployed. The Social Employment Scheme is essentially a make-work scheme with little evidence of being designed to meet the needs of the long term unemployed. The Alternance Scheme, on the other hand, attempts to deal with some of the barriers to re-employment which the long term unemployed face. The Council believes that the Social Employment Scheme should incorporate at least the more basic elements of the Alternance Scheme, in particular, employment counselling.

Public Enterprise

7.22 The Council believes there is a constructive role to be played by State enterprise in the future development of the economy. The Council therefore welcomes the commitment in the Plan to the separate identification of commercial and social functions of public enterprise and to the preparation and publication of performance indicators. The Council acknowledges the contribution which the National Development Corporation can make to employment and output growth.

Social Policy

7.23 Although the Plan includes a statement of objectives for social policy, an analysis of its specific proposals reveals that very little progress is likely to be made towards these objectives. The objectives stated are:

- selective rather than generalised provision of services;
- increased efficiency and cost effectiveness in administration; and
- a preparedness to accept a reduction or even abandonment of particular services.

7.24 Most services will continue to be provided as at present, despite evidence of regressive distributional effects in a number of programmes.

7.25 Any increases in cost effectiveness will be due to the imposition of tight cash limits rather than due to specific policy initiatives. No proposals are made to replace or eliminate outmoded services.

7.26 Current expenditure on education, health and social welfare, is projected in the Plan to decline from 21.0% of GNP in 1984 to 19.8% in 1987. The Plan projects a maintenance of the real level of current resources in education, based on assumptions about the effects of cash limits. With regard to the health services, the main proposal is for a shift of resources from institutional to community care. However, there are no budgetary commitments to this policy and no specification of precise instruments. Although improved management information systems and the closure of outmoded facilities are identified as means by which the efficiency and cost effectiveness of the hospital system can be improved, no specific proposals are made in the Plan.

7.27 The main social policy initiative is in social welfare with the proposal to develop a unified Child Benefit scheme. Although the Council welcomes the move towards a Child Benefit scheme, it is concerned that the proposed scheme may be insufficient to ameliorate the serious unemployment and poverty traps which have developed in recent years.

7.28 The Council has previously been extremely critical of housing policy on both efficiency and equity grounds. The proposals in the Plan will have little effect on either the efficiency or the equity of the system. The Council is to shortly undertake a comprehensive study of housing policy.

An Approach to Planning

7.29 In the examination of the Plan a number of gaps and inconsistencies have been identified. The absence of supporting argument for many of the announced policy changes is notable, including:
for example:

- the absence of a rationale for, and implications of, the simultaneous pursuit of borrowing and financing targets, and
- the lack of a section on monetary policy.

The absence of targets for intra-plan years (other than those for the public finances) makes monitoring of progress towards the achievement of overall objectives difficult.

7.30 An assessment of the Plan against five criteria suggested by the National Planning Board (and paralleling those of the Council) reveals limitations in the Plan as a planning document. The Plan partly meets the first criterion of determining the amount of public expenditure which can be financed by the current level of taxation. However, the plan does not consider the extent to which the level and structure of taxation may constitute disincentives to save, work, etc.

7.31 The Plan also partly meets the second criterion of determining explicit priorities for public expenditure.

However, by providing expenditure projections up to 1987 the priority setting exercise is at a broad aggregate level and does not specify priorities within department expenditure.

7.32 Although the Plan explicitly accepts the third criterion as an objective, that is that the pattern of public expenditure and taxation should promote equity, there is no discussion of the extent to which the present pattern of Government intervention favours equity and, hence, few policy initiatives. The Council will examine the redistributive effects of public policies in a forthcoming study.

7.33 The Plan performs poorly on the fourth criterion, that is that specific objectives should be set, together with the policy measures to achieve them. In many cases the Plan refers to discussion documents and White Papers already published or to be published in the future.

7.24 The Plan makes some provision for meeting the fifth criterion of providing institutional arrangements for consultation by referring to the future role of the NESC. However it is notable in the drawing up of the Plan itself, no formal consultation or structured discussions took place either collectively or individually, with those groups which have a major role to play in the achievement of the targets contained in the Plan.

TABLES AND APPENDIX

Table 1

GNP and its Components, 1982-1984
(volume changes %)

	1982	1983	1984(F)
Personal Consumption	- 5	- 3½	+ 1¾
Public Consumption	+ 4	0	- 2½
Gross Investment	- 6¼	- 7¾	- 1¼
Exports	+ 5½	+10½	+14¾
Imports	- 3	+ 3¾	+ 8
GDP	+ 2	+ ½	+ 3¾
GNP	- 1¼	- ¾	+ 2

(F): Central Bank Forecasts
Sources: Economic Review and Outlook, Summer 1984; Central Bank Quarterly Bulletin, Autumn 1984.

Table 2

The Public Finances 1982-1984

	1982	1983	1983(adj)	1984 (B)
Current Budget Deficit (£m)	988	960	1085	1089
(% GNP)	8.2	7.2	8.2	7.5
Exchequer Borrowing (£m)	1945	1756	1874	2050
(% GNP)	16.1	13.2	13.9	12.7

(B) 1984 Budget Booklet.

Note: The second set of figures for 1983 have been adjusted to take account of the establishment of An Post and Bord Telecom Eireann

Source: Budget Booklets, successive years.

Table 3

The Current Account Balance of Payments, 1982-1984

	1982	1983	1984 (E)
Merchandise Trade	-1120	-474	-134
Trade in Services	+139	+119	+138
Net Factor Income	-928	-1176	-1570
International Transfers	+593	+668	+791
Current Account Deficit	-1316	-863	-775
(% of GNP)	(10.9)	(6.5)	(5.3)

(E): Central Bank Estimates

Sources: CSO, Central Bank Quarterly Bulletin, Autumn 1984.

Table 4

Employment and Unemployment 1982-1984
(,000)

	1982	1983	1984 (P)
Agriculture	193	189	186
Industry	355	331	320
- Manufacturing	233	220	214
- Building	96	86	82
- Other	26	25	24
Services	600	605	606
- Private	-	-	358
- Public	-	-	248
Total	1148	1125	1112 (1)
Labour Force	1296	1309	1324
Unemployment	148	184	212 (1)
Non-Agricultural Employment	955	936	926
Private Non-agricultural Employment	-	-	678

(P) Estimates in 'Building on Reality'.
(1) Excludes special schemes.
Sources: Economic Review and Outlook, Summer 1984; Building on Reality

Table 5

Seasonally Adjusted Live Register, 1982-1984

	1982	1983 ('000's)	1984
January	139.7	179.9	208.2
February	140.5	183.0	210.6
March	144.9	186.2	210.7
April	147.7	187.1	212.8
May	150.3	190.2	210.7
June	154.1	192.4	214.3
July	158.3	194.3	214.4
August	162.4	195.6	215.9
September	165.0	198.0	216.3
October	168.8	200.1	216.1
November	171.8	201.5	218.5
December	176.0	204.2	221.6
Average	156.6	192.7	214.2

Source: Central Statistics Office

Table 6

Manufacturing Output Growth by Sector, 1982-1984

	1982	1983	1984*
Non-Metalic Minerals	-6.6	+1.3	+6.0
Chemicals	-3.9	+18.6	+19.0
Metals and Engineering	+1.8	+14.0	+26.9
- Office Machines etc.	+10.9	+51.9	+53.5
Food	+6.6	+3.1	+2.1
Drink and Tobacco	-2.5	-2.6	-1.4
Textiles	-10.1	-6.4	+4.0
Clothing, Footwear and Leather	-3.9	-6.6	+1.8
Timber and Wooden furniture	-5.9	-2.0	-10.0
Paper and Printing	-10.5	-0.5	-2.9
Miscellaneous	+0.2	+7.4	+0.3
Total Manufacturing	-0.9	+7.1	+11.8

*January-September 1984 compared with corresponding period of 1983.

Source: Central Statistics Office

Table 7

Merchandise Export Growth by Value, 1982-1984

	1982	1983	1984*
Food and Live animals	8.9	13.6	21.6
Beverages and Tobacco	34.5	7.6	9.9
Crude Materials etc	26.9	23.9	94.2
Mineral Fuels etc	13.9	120.8	39.1
Animal and Vegetable Oils etc.	9.0	17.1	46.4
Sub-Total	12.8	16.1	29.7
Chemicals	25.3	19.6	28.2
- Organic chemicals	26.4	29.7	19.6
Goods Classified by Material	7.9	13.3	19.6
Machinery	32.9	30.1	39.7
- Office Machines	33.7	54.4	62.7
Miscellaneous Manufactured	19.9	28.7	23.3
Sub-Total (Manufactured)	23.4	24.4	30.3
Other	12.6	32.9	25.2
Total	19.1	21.9	29.9

*Jan - Sept 1984 compared with Jan - Sept 1983

Source: Central Statistics Office

Table 8

Target Budget Profile 1987

	1984 (Budget) (% of GNP)	1987
Current Expenditure		
Central Fund	13½	13½
Supply Services	35	32½
Total	48½	46
Current Revenue		
Tax	30½	36½
Non-Tax	4½	4½
Total	40¾	41
Current Budget Deficit	7½	5
Exchequer Borrowing for Capital Purposes	5¼	4¾
Total Exchequer Borrowing	12¾	9¾
PSBR	17	11½

Source: Building on Reality

Table 9

Financing the Exchequer Borrowing Requirement, 1981-1984

	1981	1982 (£m)	1983	1984(E)
Exchequer Borrowing Requirement	1722	1945	1756	1825
Sales of Gilts and Exchequer Bills (1)	324	754	816	830
- to Commercial Banks	(120)	(250)	(225)	(475)
- to Domestic non-bank public	(204)	(504)	(591)	(355)
Small savings	76	83	142	165
Central Bank and Miscellaneous (2)	67	-22	-18	115
Net Foreign Borrowing (1)	1255	1130	829	715
Net Foreign Borrowing (% of EBR)	72.9	58.1	47.2	39.2

Notes: (E) Official provisional estimates.
(1) Sales of Gilts and Exchequer Bills to non-residents are included in net foreign borrowing.
(2) Includes the change in Exchequer overdraft with Central Bank, Sales of Gilts etc. to Central Bank and the change in liquidity of departmental funds.

Sources: Central Bank Annual Report (1984), Department of Finance.

Table 10

Expenditure on Supply Services 1984-1987

	1984	1985	1986	1987	1984-1987
		(per cent of GNP)			(change)
Education	5.75	5.43	5.32	5.34	-0.41
Health	6.59	6.51	6.34	6.07	-0.52
Social Welfare	8.56	8.59	8.46	8.34	-0.22
Sub-Total	20.90	20.53	20.12	19.75	-1.15
Agriculture (1)	1.45	1.46	1.35	1.24	-0.21
Communications	0.79	0.75	0.71	0.77	-0.02
Denfence	1.80	1.78	1.71	1.64	-0.06
Environment	3.64	3.71	3.75	3.76	+0.12
Justice	1.95	1.97	1.95	1.97	+0.02
Labour	0.73	0.93	0.88	0.85	+0.12
Industry (2)	0.69	0.71	0.67	0.65	-0.04
Other (3)	2.34	2.08	1.98	2.13	-0.21
Food Subsidies	0.66	0.33	-	-	0.66
Sub-total	14.05	13.72	13.00	13.01	- 1.04
Total	34.95	34.25	33.12	32.76	-2.19
of which:					
Pay	16.22	15.34	14.85	14.59	-1.63
Non-Pay	18.73	18.91	18.27	18.17	-0.56

Notes: (1) including Forestry & Fisheries
(2) Industry, Trade Commerce and Tourism
(3) Includes Taoiseach, Finance, Public Service, Gaeltacht, Foreign Affairs and Energy

Source: Building on Reality.

Table 11

Public Capital Programme, 1984-1987

	Budget 1984	1985	1986	1987
Sectoral Economic Investment				
Agriculture	77	75	79	73
Industry	317	347	361	362
Tourism	11	12	10	9
Fisheries	9	8	9	9
Forestry	19	20	22	23
Miscellaneous	2	1	1	1
Sub-Total	435	463	482	477
(% of GNP)	3.0	3.0	2.8	2.6
Productive Infrastructure				
Energy	306	257	180	137
Transport	89	68	86	85
Roads, Sanitary Services	206	236	245	259
Telecommunications etc.	190	178	136	116
Sub-Total	791	739	647	607
(% of GNP)	5.4	4.7	3.8	3.3
Social Infrastructure				
Housing	377	383	397	411
Education	83	96	107	115
Hospitals	55	58	58	61
Government Buildings	57	61	59	61
Sub-Total	572	598	621	698
(% of GNP)	3.9	3.8	3.7	3.5
Total	1798	1800	1750	1782
(% of GNP)	12.3	11.5	10.3	9.6

Note: (1) included contingency provision of £50m in 1987

Source: Building on Reality

Table 12

Heavy Fuel Oil Prices - International Comparisons (1)

	1981	1982 (per tonne)	1983	1984	1981-84 ($ change)	1983-84
Belgium	237.21	175.15	182.72	180.71	-23.8	-1.1
Denmark	311.08	256.86	254.96	233.32	-25.0	-8.5
Germany	228.66	201.17	186.98	186.45	-18.5	-0.3
France	219.48	193.48	201.13	195.14	-11.1	-3.0
Italy	209.56	176.26	188.13	180.12	-14.0	-4.3
Netherlands	233.87	201.02	198.85	197.84	-15.4	-0.5
UK	241.81	241.40	205.99	206.94	-14.4	+0.5
Average of above	240.24	206.48	202.68	197.22	-17.9	-2.7
Ireland	259.03	231.49	249.42	205.04	-20.8	-17.8

(1) Including taxes and duties

Source: EEC

Table 13

Electricity Prices for Industrial Users - International Comparisons (1)

Category:	Demand Level (KW)	500		2500	
	Annual Consumption (GWH)	1.25		10.0	
		1983	1984	1983	1984
Country:	Ireland	100.0	100.0	100.0	100.0
	Belgium	82.1	83.9	81.0	80.9
	Denmark (IFV)	74.0	46.2	81.1	38.0
	France	64.0	69.7	62.5	66.7
	Germany (South West)	102.3	111.1	91.1	95.2
	Italy (North)	86.8	100.6	96.0	101.3
	Netherlands (Rotterdam)	97.2	97.9	96.3	95.9
	UK (Yorkshire)	n.a.	80.7	n.a.	83.0

Note: (1) Prices are inclusive of taxes other than VAT and are expressed in a common currency with Ireland set at 100.0. The prices are those which obtained on January 1st of each year.

Source: Adapted from "Prix de l'Electricite pour les Consommateurs de Reference dans les pays de la Communaute", European Commission, January 1983 and 1984.

Table 14

Telephone Charges - International Comparisons (1)

	Jan 1979 (DM)	Jan 1982 (DM)
Belgium	662	716
Denmark	474	468
Germany	933	794
France	673	656
Italy	424	482
Netherlands	478	445
U.K.	415	1051
Average of above	580	659
Ireland	544	917

(1) Sum of charges for one year in Deutschmarks.

Source: Siemens Study of Worldwide Telephone Tariffs

Table 15

External Mail Postage Rates - International Comparisons

	1981	1982	1983	1984	1981-84	1983-84
	(Irish Pence)				(% change)	
Belgium	23.5	21.5	32.0	35.0	+48.9	+9.4
Denmark	15.5	17.0	31.0	33.0	+112.9	+6.5
Germany	24.0	26.0	38.0	40.0	+66.7	+5.3
France	23.5	25.5	27.0	29.5	+25.5	+9.3
Italy	17.0	21.0	26.5	29.0	+70.6	+9.4
Netherlands	20.5	22.5	25.5	26.0	+26.8	+2.0
UK	24.0	24.5	25.0	26.0	+8.3	+4.0
Average of above	21.1	22.6	29.3	31.2	+47.9	+6.5
Ireland	16.0	24.0	29.0	29.0	+81.3	+0.0

Source: EEC

Table 16

Cost and Price Trends in Agriculture (Ireland), 1976-1984

	1976	1977	1978	1979	1980	1981	1982	1983
Output Price Index	+25.7	+22.4	+13.1	+5.9	-2.7	+18.9	+9.0	+6.3
Input Price Index	+15.7	+21.6	+4.2	+12.6	+14.3	+14.8	+10.2	+10.[illegible]

Source: Central Statistics Office
(1):January to August 1984 relative to corresponding period of 1983

Table 17

Cost and Price Trends in Agriculture (1) (EEC Countries), 1976-1983

	1976	1977	1978	1979	1980	1981	1982	1983
Germany	103.8	100.6	100.6	98.0	93.3	90.8	90.2	89.0
France	100.4	99.4	98.0	95.4	87.0	85.6	87.9	87.6
Italy	98.7	101.1	106.5	106.8	100.4	91.6	95.7	96.3
Netherlands	104.6	100.2	100.0	94.0	91.8	92.8	92.5	90.7
Belgium	104.2	96.4	98.4	94.4	92.1	91.6	86.5	86.5
UK	109.2	98.0	96.2	95.5	89.9	90.7	90.8	88.5
Ireland	98.7	101.9	107.0	102.0	88.8	90.7	89.4	90.1
Denmark	104.5	101.2	110.4	104.8	99.8	94.6	95.8	94.7
EEC-10	102.0	99.4	100.7	98.2	92.5	90.3	91.7	91.9

(1): Implicit index of prices of final output divided by implicit index of prices of intermediate consumption. Base 1973/74/75 = 100.0.

Source: Sectoral Income Index - Trends in Agricultural Income Indicators, 1973-1983. Eurostat, February '84.

Table 18

Employment, Unemployment and the Labour Force: 1983, 1984-87

	April 1983 (000)	April 1984 (000)	April 1987 (000)
Agriculture	189	186	177
Industry	331	320	334
- Manufacturing	220	214	227
- Building and Construction	86	82	83
- Other	25	24	24
Services	605	606	623
- Private Sector	355(E)	358	380
- Public Sector	250(E)	248	243
Total Above	1125	1112	1134
Special Schemes	n.a.	3	25
Total	1125	1115	1159
Labour Force	1309	1324	1369
Unemployment	184	209	210
(Unemployment %)	14.1	15.8	15.3
- Excluding Special Schemes -			
Non-Agricultural	936	926	957
Private Non-Agricultural	686	678	714
Unemployment	184	212	235
Unemployment %)	14.1	16.0	17.2

(E): Estimates.
Source: Economic Review and Outlook, Summer 1984; Building on Reality

Table 19

Projected Employment, Output and Productivity Growth: 1984-1987

	Output	Employment	Productivity
Agriculture	+10.0	-6.3	+17.4
Industry	+25.0	+0.9	+23.9
- Manufacturing	+36.0	+3.2	+31.8
- Building and Construction	+1.5	-3.5	+5.2
- Other	+4.0	-4.0	+8.3
Services	+4.0	+3.0	+1.0
- Private	+9.0	+7.0	+1.9
- Public	-3.0	-3.0	0.0
Total (1)	+12.0	+0.8	+11.1

Notes: (1) Excluding special schemes

Source: Building on Reality

Table 20

Proportion of Long-Term Unemployed (12 months, and over) in total unemployment 1980-84

	%	No.
1980	34.8	32,180
1981	30.5	38,543
1982	31.8	47,495
1983	31.0	58,529
1984	39.1	83,963

Note: (i) Data Refer to April of each year;
(ii) An age-by-duration analysis of the Live Register was first undertaken for April 1980

Source: Central Statistics Office.

Table 21

Composition of long term unemployment

	Youth	Prime-Age Adults	Older Workers
1980	11.9	47.6	40.5
1981	13.6	49.9	36.5
1982	15.2	49.2	35.6
1983	17.5	31.0	32.4
1984	19.4	51.5	29.1

Notes: (i) Youth are those aged under 24 years
(ii) Prime-age adults are 25-44 years
(iii) Older workers are 45-64 years

Source: Central Statistics Office.

Table 22

Percentage share of long-term unemployment within age groups

	Youth	Prime-Age Adults	Older Workers
1980	18.8	33.9	48.5
1981	15.9	31.9	42.3
1982	17.2	33.1	46.0
1983	18.4	33.1	42.6
1984	24.8	42.7	51.2

Notes: See Notes to Tables 1 and 2

(Interpretation: of total unemployment in the older age group in 1984 51.2% had been unemployed for over one year)

Source: Central Statistics Office.

APPENDIX 1

The Effects of the Child Benefit Scheme on Unemployment and Poverty Traps

Introduction

Social Welfare policy has recently changed direction with the introduction of a new scheme, Family Income Supplement (FIS) in 1984. The Plan now proposes to merge this scheme into a new Child Benefit scheme to take effect in 1986 [1]. From the point of view of lower income families, the entire range of taxes and benefits ought to be examined. In particular medical card eligibility and local authority rents need to be included in the calculations [2]. In Ireland no less than four different Departments are involved in administering the set of income related taxes and benefits for families: the Department of Health (medical card eligibility), the Department of Social Welfare (Children's Allowances and Unemployment Payments), the Department of Finance/Revenue Commissioners (income tax and pay related social insurance), and the Department of the Environment (Local Authority dwelling rents). In the UK, by contrast medical services are universally available and local authority rents are linked to social security through the housing benefit scheme. It is clear that the scope for anomalies and poor coordination is greater in Ireland.

Unemployment traps and poverty traps

The term 'unemployment trap' describes the position of an unemployed person who will be no better off by becoming

[1] See Budget Booklets 1983 and 1984 for announcements of the introducton of FIS and see *'Building on Reality 1985-1987'* for the announcement of the Child Benefit Scheme.

[2] Medical card eligibility and local authority rents are of most significance because they are income related or means-tested. Ideally the value of the non-means-tested provision of education and health services should be taken into account but the estimation of the value of such benefits poses particular difficulties.

employed because the level of unemployment payments is close to net income from working. The unemployment trap in Ireland is largely due to the fact that, unlike income from work, unemployment payments are linked to the number of children a claimant has. Thus unskilled workers with large families can receive levels of unemploment payments which compare facourably with any income they might receive in a low paid job [3]. They can be trapped in unemployment or, from another perspective, they face disincentives to work. The Family Income Supplement (FIS) is designed to boost the income of low paid employees with families by providing an income supplement that is related to the number of children they have.

The term 'poverty trap' was developed in the early 1970s in Britain to describe the situation whereby persons at work could find themselves unable to increase their final income [4] (post tax) even if their gross earnings (pre tax) increased. This is primarily due to the imposition of taxes and withdrawal of benefits as income increases. Final income can fail to rise despite increases in earnings for several reasons:

- income tax becomes payable by a married couple at around £100 per week,
- effective PRSI payments (including the various income levies) increase from 5.5% to 8.5% of gross earnings when a household's income exceeds the medical card limits, that is, around £100 p.w. for a married couple with children and somewhat higher for larger families,
- the loss of medical card eligibility due to an increase in earnings further reduces final income,
- local authority housing rents increase as earnings increase,
- FIS payments reduce to zero as earnings rises.

Poverty traps essentially result from the lack of coordination of the ways in which benefits are withdrawn and taxes are imposed. Anomalies can arise such that an increase in earnings can actually reduce final income, that is, the tax rate on any extra earnings can exceed 100%.

A recent and influential study of the tax/benefit system by the Institute of Fiscal Studies in the UK argued the case for coordination of the system by means of a single means test by the income tax authorities and a uniform tapering off of eligibility for the various benefits as earnings increase [5].

The Irish Situation

To date hardly any attention has been paid to the issue of poverty traps in Ireland, partly because the main means-tested schemes are spread around the different Government departments. The existence of both unemployment traps and poverty traps and the effect of FIS is illustrated in Figures 1 and 2 for different household types [6]. Gross

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[3] Although no reliable estimates are available of the number of families experiencing unemployment trap effects, it is worth noting that less than 25% of those on the Live Register have any child dependents and less than 5% have more than 5 child dependents.

[4] Final income is used here to mean income after deduction of income tax and PRSI, (including income levies and health contribution where applicable), with the inclusion of Children's Allowance and the estimated value of a medical card, less the estimated local authority rent. The value of the medical card is estimated by dividing the 1984 expenditure on the General Medial Services by the number of persons with Category I eligibility. Local Authority Rents are based on the Differential Rents Scheme as outlined in Circular Letter HRT 8/83 from the Department of the Environment. 1984 earnings have been deflated by 10% to provide the mid 1983 earnings used in the scheme.

[5] The Reform of Social Security A W Dilnot, J A Kay & C N Norris, IFS, 1984.

[6] These household types are hypothetical in that they are based on model households. Although the use of a range of actual households would be desirable, no recent data are available. The model households however cast light on how the system of taxes and benefits is designed.

pre-tax earned income is shown along the horizontal axis and final income (after tax, PRSI, Children's Allowance, Local Authority rent and the estimated value of a Medical Card) is shown on the vertical axis, along with the pre/FIS and post/FIS positions.

The unemployment trap is strongest where unemployment payments (adjusted to include the value of medical card and local authority rent) are clse to final income. Before FIS the extent of such traps was considerable. For example, a married couple with two children and earnings less than £80 per week would have a final income below the final income from unemployment assistance which is in effect the minimum long term income floor [7]. For the five child household, the final income from unemployment assistance exceeds final income for earnings below around £100 per week. The introduction of FIS boosts final income for households with relatvely low earnings and thus eases the unemployment trap such that for both household types, final income exceeds unemployment assistance when earnings exceed £80 per week.

Poverty traps are also shown in the Figures by the sharp drops in final income at around £105 p.w. for the married couple with two children and around £133 p.w. for the married couple with five children. A drop in the curve means than an increase in earned income leads to a

[7] The use of Unemployment Benefit would arguably be more appropriate from the point of view of a worker rationally deciding whether or not to quit work because of the disincentive effect. However calculation of the unemployment payments that that persons would receive is complicated by the provision of Pay Related Benefit and income tax rebates. Sine these additional income sources are short term and variable, the Unemployment Assistance flat rate has been used as the most appropriate income floor in the longer term. Final income from Unemployment Assistance includes the value of Children's Allowances, Medical Card and Local Authority Rent. It should be noted that in examining the figures, the unemployment trap would be worsened considerably by the use of the Unemployment Benefit Pay Related Benefit rates.

decrease in final income. The declines in final income can be considerable; from £96 p.w. to £90 p.w. or a decline of £6 per week for the two child household when its earned income rises from £100 p.w to £110 p.w. The introduction of FIS does nothing to alleviate this sharp decline. For the five child household the poverty trap is such than an increase in earnings from £130 p.w. £140 p.w. reduces final income by over £10, post FIS.

The sharp declines in final income are due to the simultaneous withdrawal of Cateogory I eligibility (the medical card) and the imposition of the various levies which raise the effective PRSI rate from 5.5% to 8.5%. The decline in final income at this point is such as to reduce final income to close to the level provided by Unemployment Assistance.

The way in which taxes and benefits vary with earnings is shown in Figure 3 for the five child family with a single earner. On the tax side [8] local authority rents increase sharply as earnings increase beyond low levels, income tax becomes payable at £96 per week and the effective PRSI rate increases at around £133 per week. On the benefit side, medical card eligibility is withdrawn at £133 per week and FIS is gradully reduced, from £15 per week to zero, as earnings rise from £95 per week to £155. Clearly the impact of the poverty trap would be lessened if the eligibility for the medical card and the the exemption from the various income levies were withdrawn gradually i.e. tapered off, as is the case with FIS. As a first step, the wisdom of linking medical card eligibility to exemption from the income levies requires reconsideration [9].

[8] Local Authority rents can arguably be called a tax since they are set nationally and bear little relation to the economic cost of the service provided.

[9] The medical card has increasingly been becoming a passport to other benefits, notably free secondary school transport entitlement. Inclusion of this item would worsen the poverty trap.

Child Benefit

The new Child Benefit scheme will combine Children's Allowances, child income tax allowances and FIS into a single integrated scheme along the UK model. Unlike in the UK however, Child Benefit will be taxed as income. In many countries unemployment compensation payments are not made for child dependents, who instead are catered for by child benefit type schemes with the result that the unemployment trap effect is reduced. The introduction of the Child Benefit scheme in Ireland is to be accompanied by reductions in the unemployment payments for child dependents [10].

The new Child Benefit scheme is envisaged as being self financing which means that the unemploynent payment for child dependents cannot be wholly replaced by Child Benefit [11]. Child Benefit is to be £30 per month per child, compared to the existing chldren's allowance of £12.05 per month. By contrast with FIS, Child Benefit will be payable to all families with children, whether in paid employment or not.

The effect of Child Benefit on final income of a five child family is shown in Figure 4 which also shows the post FIS pattern of final income. The introduction of Child Benefit reduces final income for earnings below £133 per week and increases final income for earnings above that level. The poverty trap persists due to withdrawal of medical card eligibility and imposition of the full effective PRSI rate. Sine Child Benefit will be subject to income tax, which becomes payable at £96 per week, the value of Child Benefit for almost all working families is reduced from £30 per month per child to just under £20 per month. Two groups however seem likely to receive extra benefits from Child Benefit - farmers with below 80 adjusted acres and local authority tenants. These farmers will not be liable to income tax according to the proposals in *'Building on Reality'* and hence those with incomes above the income tax thresholds will receive the full value of Child Benefit, unless some way can be devised for taxing them [12]. For working local authority tenants, whose rent is determined on the basis of post tax income, the taxation of Child Benefit will increase their tax bill, thus reducing their post tax income and hence their rent [13]. Under the present rent scheme the value of Children's Allowances are excluded from the definition of assessable income. If this arrangement applies to Child Benefit, then their rent will go down, further increasing their final income.

[10] The details have not been announced to date, but the £18 per child per month increase (from £12.05 per month under Children's Allowance to £30 per month under Child Benefit) under the new scheme is considerably less than the Unemployment payments for a dependent child which is currently around £37 per month (Unemployment Assistance, urban, long term rate). Thus the increase in payment per child under the Child Benefit Scheme would allow the halving of payments for child dependents.

[11] The cost of Chilrens Allowances in 1983 was £166m while the tax foregone on child tax allowances was £31m in 1982/83 and the tax foregone in not taxing Children's Allowance as £41m in 1982/83 (see NESC Report No. 75, Table 2.13 p. 73).

[12] The net gain to such farmers of the introduction of a Child Benefit Scheme on which they would not be taxed would be almost £30m, based on the average number of children per farm household contained in the Household Budget Survey, 1980.

[13] Assessable income is based on the income levels as of 6 June 1983. Because of the lack of details on how the Child Benefit Scheme will relate to assessable income, the local authority rents used in producing Figure 4 are unadjusted for Child Benefit. If Child Benefit is treated in the same way as Children's Allowances under the Differential Rents Scheme, the extra benefits mentioned in the text will apply, with the result of widening the gap between the final income patterns illustrated in Figure 4.

Conclusions

The existence of both unemployment and poverty traps has been illustrated. Recent policy changes have focussed mainly on the unemployment trap. The existence of a sharp poverty trap due to the sudden cut-off of medical card eligibility and the imposition of the full PRSI rate has received much less attention. Although it has not been possible to estimate the numbers of families affected by the various traps due to lack of information on earnings levels, it is likely that the poverty trap affects considerable numbers of families, particularly larger families with earnings slightly below average industrial earnings and those employed in the lower earning service industries. The Unemploymen Trap would have most effect on the some 8000 of those on the Live Register who have 7 or more dependents. Clearly there is a strong case for much improved information on earnings levels [14] and of the number of households affected by these traps.

On a more general level there is a need to consider the implications of unemployment and poverty traps for other public policies including labour market policy which may otherwise be rendered ineffective.

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14 The only available data base for income levels is the 1980 Household Budget Survey which would require considerable analysis to provide estimates which, being based on small number of households, are unlikely to provide reliable estimates. Analysis of the PRSI data bank, where it is available, might provide a more reliable source.

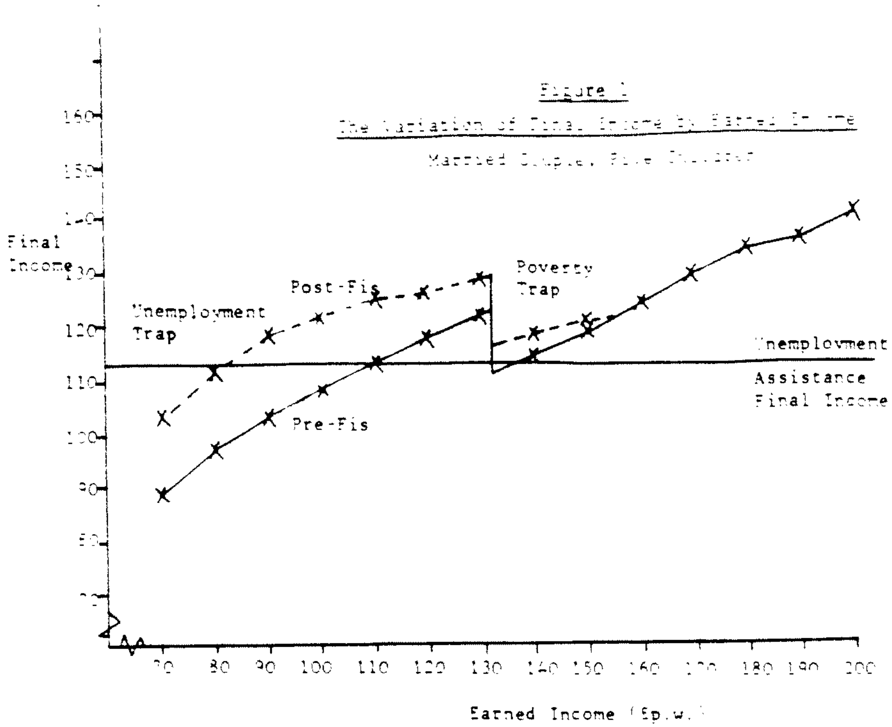


FIGURE 2

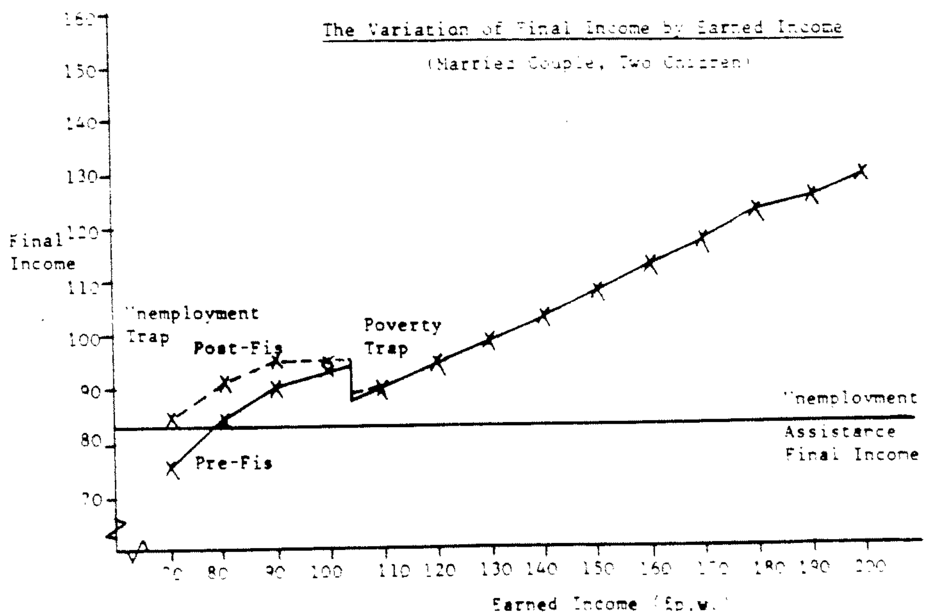


FIGURE 3

VARIATION OF TAXES AND BENEFITS WITH EARNED INCOME

Married Couple, Five Children

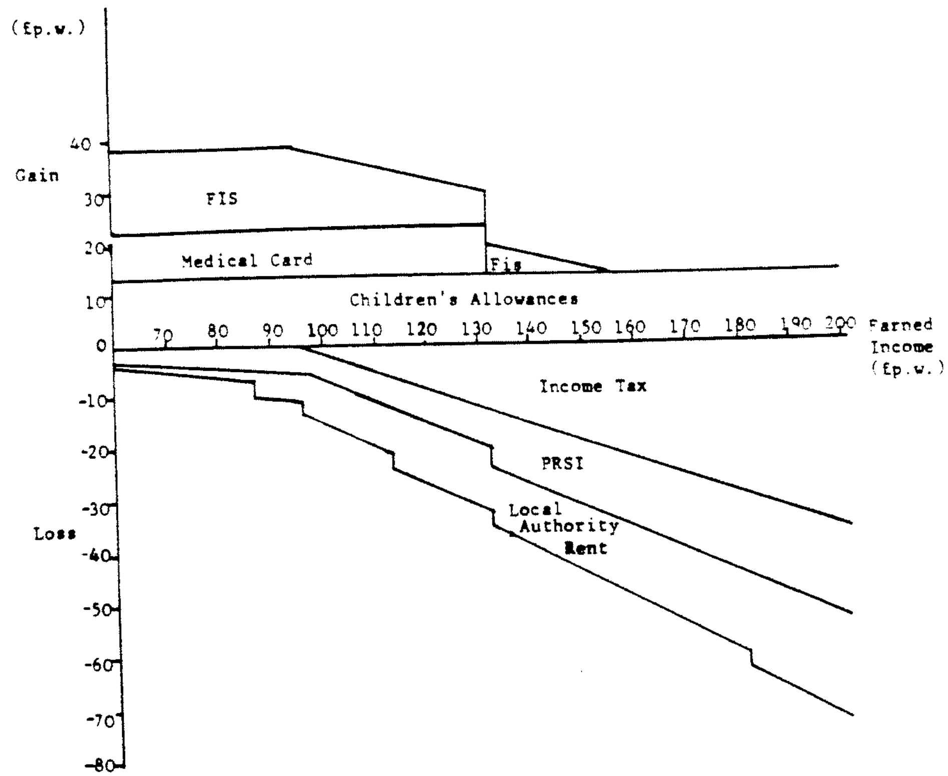
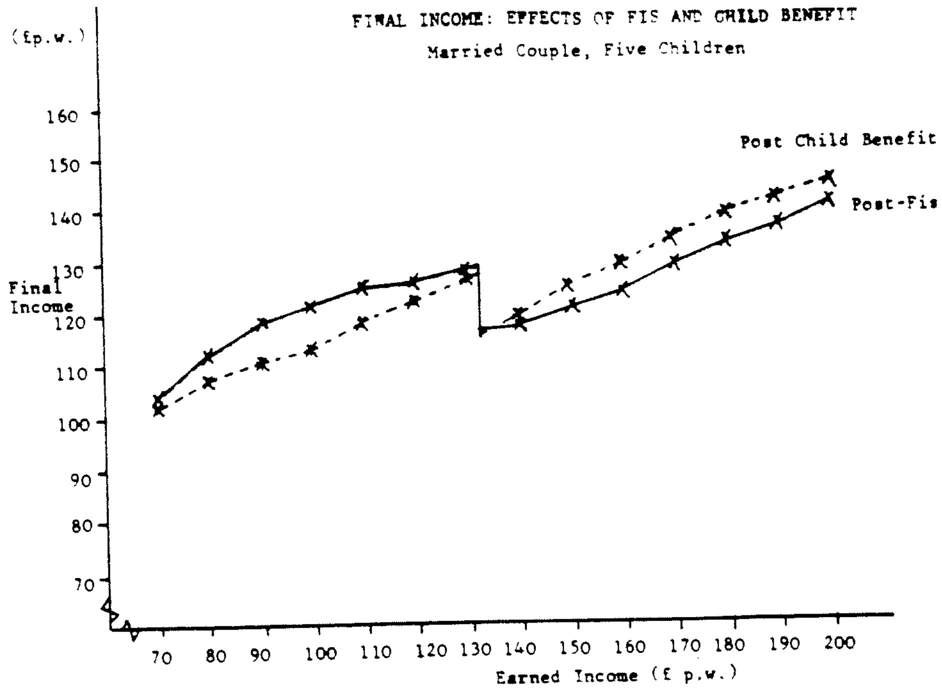


FIGURE 4

FINAL INCOME: EFFECTS OF FIS AND CHILD BENEFIT

Married Couple, Five Children



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