# NESC REPORT NO. 33

# COMMENTS ON ECONOMIC AND SOCIAL DEVELOPMENT 1976-1980

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# NATIONAL ECONOMIC AND SOCIAL COUNCIL

**Comments on**

## *Economic and Social Development, 1976–1980*

**No. 33**

## NATIONAL ECONOMIC AND SOCIAL COUNCIL

### CONSTITUTION AND TERMS OF REFERENCE

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

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

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

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

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

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

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

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

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

7. The Council shall regulate its own procedure.

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Comments on

*Economic and Social Development, 1976–1980*

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# I

## INTRODUCTION

1. The Minister for Finance, Mr. Richie Ryan, T.D., in the course of his address to the Council on 21 December 1976, stated that:

> "... the Government are anxious to ascertain the views of the social partners on the issues raised in the Green Paper on *Economic and Social Development, 1976–80,* so that work on an economic and social plan can be completed. The Council could play an important role in discussing these issues and influencing the development of the plan. Of course, the Government may in the national interest have to proceed with the preparation of the broad plan in the absence of receiving submissions on particular facets. Nonetheless, the Council's views would be helpful—the earlier the better".

2. In order to facilitate the preparation of a draft set of comments on the Green Paper, it was agreed at the Council meeting on 20 January 1977 that members would submit their comments to the Secretariat as soon as possible. The following comments are based on submissions received from Council members, on discussions in the Economic and Social Policy Committees at their meetings on 1 March and 24 February respectively, and on discussions at Council meetings on 24 March and 21 April 1977.

3. Sections II, III, and IV below deal with Chapters 1, 2 and 3 of the *Green Paper* respectively. Section V deals with the final section of the *Green Paper:* Some Issues for Consideration by the Social Partners. In Section VI the Council's conclusions are given.

## II

## THE PRESENT ECONOMIC SITUATION AND ITS CAUSES

4. The two major problems facing the economy are unemployment and inflation. In Chapter 1 of the *Green Paper* the dimensions of those problems are described:

> "With roughly 9½% of the labour force out of work, unemployment is now the urgent Irish economic problem. . . . For many decades, job opportunities in Ireland have never been sufficient to absorb the available labour supply. The result has been persistent high unemployment accompanied, until the beginning of the nineteen-seventies, by emigration. During this decade, with improvements in social conditions in Ireland and also with the emergence of large-scale unemployment overseas, net emigration has ended and has been replaced by net immigration. The consequential sharp rise in population not merely requires a substantially greater volume of new jobs at home but also involves additional social and educational commitments in respect of the big increase in the younger dependent age groups."

> "Another dangerous threat to economic and social life is the rapid rises in prices. . . . If this frightening rate of price rise were to continue, it would double the price level every three to four years. It would obviously impose an intolerable strain on our economic and social fabric. The consequences for our external trade would be disastrous. Price rises in other countries and the continuing devaluation of sterling and the Irish pound have helped to ward them off up to now but, for some time past, there have being increasing divergences, to our disadvantage, between rates of



> inflation here and in almost all other member countries of the EEC."*

5. The Council agrees that unemployment and inflation are the two main problems facing the economy. These problems have been discussed in the context of the current economic situation in a number of Council reports—for example, *Report on Inflation* (No. 9, June 1975), *The Economy in 1975 and Prospects for 1976* (No. 13, October 1975), *Report on Public Expenditure* (No. 21, July 1976) and *Prelude to Planning* (No. 26, October 1976).

6. The *Green Paper* states:—

> "The problems now being faced have been brought about by a variety of causes, some of them international in their origin and others internal. Some of these forces are transient, while others are deeply rooted in the Irish and international economic systems. The main influences affecting the economy in recent years have been:
>
> —the international recession,
>
> —a rate of increase in incomes in Ireland which is far in excess of national productivity and clearly out of line with the need to increase the rate of employment creation,
>
> —freer trade as a result of the Anglo-Irish Free Trade Area Agreement and EEC membership, and greater international economic interdependence,
>
> —the changing structure of the Irish economy and society with the ending of emigration and with rapid population growth,
>
> —the scale and method of financing of public expenditure and the community's reaction to this."**

*Green Paper, pp. 8–9.
**Ibid., pp 10–11.

7. Following its description of the present situation and its causes, the *Green Paper* concludes that:—

> "The recession has been a powerful force aggravating the basic problems of the Irish economy. But these problems predated it and a return to more normal international conditions will not, of itself, resolve them. It must be a cause for concern that, while other countries are now moving towards what could be a sustained return to growth, there is a distinct possibility that this country could fail to join them, if the required actions are not taken in areas which are within our own control. The implications for the future of failure to take such action are considered in Chapter Two."*

8. The Council is in general agreement with the five causes of present economic problems given in the *Green Paper* (see paragraph 6 above). A small open economy cannot escape the effects of international developments—it is not possible to stop the world to let Ireland off. World recession (or recovery) and increases in world prices must therefore be taken as data. They cannot be influenced by any policies applied in this country. To the extent that Irish goods are not competitive, the freeing of trade may adversely affect domestic output and employment. But any such adverse effects will accumulate only while trade is being freed. An attempt to return to general protection might temporarily maintain employment in the protected industries, but would work towards reducing competitiveness in the activities that remained unprotected, and towards lowering the growth rates in national output and in overall employment in the longer term.** The number of persons who will be seeking work between now and the early 1990s may also be regarded as a datum, because all those who will reach working age over this period have already been born. The proportion of these who will be able to find work in Ireland will depend on the relative effectiveness of the economic policies applied in Ireland—in particular, on the relative success achieved in curbing the growth of public expenditure and of money increases relative to national production.

*Ibid., p. 21.

**There may, however, be cases where *selective* controls to help industries that are severely depressed would be justified, to the extent permitted by international commitments.



9. It is the view of the Council that both these causes of present problems—the rapid growth in public expenditure relative to GNP and the faster growth in money incomes than in national production—merited more analysis than they were accorded in the *Green Paper*. It is easy to raise public expenditure. It is possible to curb its growth in a single year or even in two successive years. To restrain its growth over a longer period, however, is much harder and may require difficult political decisions and new administration arrangements. The same is true of the growth in money incomes. The rates of growth in public expenditure and in money income are inter-related. If the latter grows, so will the former; if the former grows, the higher taxes needed to finance it may provoke faster growth in the latter.

10. The inter-relationships between the growth in public expenditure, in money incomes and in national output were analysed in *Prelude to Planning* (NESC, No. 26):

> "There are, then, *two* crucial elements in the present problems facing the Irish economy. *First,* the level of real income demanded by employees in Ireland has always been too high to enable full employment to be approached; and the attempts to acheive the level of real income now demanded by employees will tend to generate rates of increases in costs and prices that are higher than those occuring in Ireland's main export markets and especially in the UK. . . . Without significant and sustained growth in output, real income expectations cannot be met. The attempt to realise them by increases in money incomes will accelerate the rate of inflation and increase the already large foreign borrowing. The levels of real income now demanded and expected cannot be achieved in this way.
>
> "*Second,* . . . the present level of public expenditure (even when allowance is made for the effects of the world recession) requires a level of taxation that is widely (if nor universally) felt to be excessive, but which nevertheless leaves a very large overall budget deficit and heavy overseas borrowing (which cannot for long be sustained) in order to help finance it. The overall deficit must be reduced. But, . . . reductions in Govern-

ment spending tend to be strongly resisted. At the same time, there is increasing evidence that increases in tax rates to raise more revenue in order to reduce the overall deficit provoke a defensive reaction by taxpayers, as they attempt to maintain their real disposable incomes (if not to prevent a reduction in the rate of growth in them to which they have become accustomed). When these claims for higher money incomes are pressed, the competitiveness of Irish products (both in the home and export markets) is further eroded.

"The main conclusions . . . can be summarised briefly as follows. Increases in money incomes are determined mainly by reference to what the sectors of the economy that are sheltered from external competition can pay. The strong pressures to maintain the existing traditional differentials between different activities and occupations means that these increases tend to be generalised throughout the economy. In the sheltered market sector, employers can generally recoup the higher labour costs through price increases. But in the exposed market sector, selling prices are determined externally. As a result, the profitability of the exposed market sector is reduced, some workers are paid off and some firms are driven out of business, because of the rise in incomes and the higher cost of the services bought from the sheltered market sector. This applies throughout the exposed market sector—both in agriculture and manufacturing industry. This has serious implications for economic growth. The exposed market sector is the key one in the growth process. If the profitability of the firms and farms in it is reduced, there will be less investment and a slower growth in employment. This means slower growth in the sheltered market activities and therefore in the whole economy. This largely explains the domestic contribution to the problems that the economy now faces. These problems could be made more serious still. To the extent that the rate of growth in public expenditure is not curbed, the rate of growth in tax revenue must be raised. Given the relatively poor prospects for economic growth in the short-term, it may not be practicable to avoid increases in taxes. These are likely to precipitate demands for further increases in money incomes



as employees attempt to maintain their living standards. These demands will in all probability be granted in the sheltered sectors and similar increases will be expected in the exposed sector. This will exacerbate the problems of the exposed sector and thereby further reduce the prospect for growth in the economy as a whole."*

*Paragraphs 2.21, 2.22 and 6.12 of NESC, No. 26, *Prelude to Planning*. In their Reservation to Report No. 26, the Irish Congress of Trade Unions stated:

"In view of the tripartite discussions between Government, Irish Congress of Trade Unions and Employer Organisations, the representatives of the Congress cannot commit themselves to any view on this Report or on its implications, and must therefore reserve their position."

## III

## PROSPECTIVE SITUATION IF EXISTING TRENDS WERE TO CONTINUE

11. The situation "towards which the economy would tend . . . if action were not taken to redirect it" is discussed in Chapter 2 of the *Green Paper.* The discussion is based on certain assumptions about the prospective international situation and the growth rates in public expenditure and money incomes.

12. The *Green Paper* makes the following assumptions about international developments:

> "—*a relatively fast rate of growth in world trade to 1980.* It is expected that this rate will be in the region of 8% (per annum), which approximates to the experience of the 'sixties and early 'seventies . . . The EEC . . . is expected to participate fully in this growth process.
>
> —*a reduction in the rate of inflation in all of the main industrialised countries* . . . it is envisaged that all Member States would aim to reduce the rate of inflation to below 5% by 1980. . . .
>
> —*slow progress in reducing unemployment.* The expectation at Community level is that, even if the EEC as a whole succeeds in reducing the rate of inflation and achieves a growth rate of 4½%—5% a year, unemployment in the Community in 1980 would still be high in relation to past standards . . . The implication . . . for Ireland is that in attracting job creating investment we will face strong competition from countries which have certain advantages over us . . ."*

**Green Paper,* pp. 22–23.



13. The extent to which the Irish economy will be able to take advantage of the recovery in the world economy, even if that recovery is as strong as the *Green Paper* assumes, will depend in large part on what happens to money incomes and public expenditure. On money incomes, the *Green Paper* makes the following assumptions:

> ". . . that pay would increase by an average of 12% per annum over the period 1977–80. In the absence of a disciplined approach to pay this might well be a conservative assumption. But such an average rate of increase as 12% would be far higher than among our major trading partners. . . . This would undoubtedly mean a dangerous loss in competitiveness *vis-a-vis* the UK and all our EEC partners . . . a 12% rise in pay costs per annum . . . would depress export sales, even allowing for the increased exports from IDA industries, reduce the domestic share of the home market and discourage further investment by domestic and foreign industries.
>
> "Overall, the growth of GNP would not be more than 2% per annum. It is likely that unemployment, instead of falling, would increase by a further 15,000 or more. The balance of payments deficit by 1980 would come to over £600 million compared with £65 million in 1970 and would be more than double the record post-oil crisis deficit of £288 million in 1974."*

14. On the assumption that past trends would continue, the *Green Paper* projects a public sector deficit of 21% of GNP in 1980, compared with 16% in 1975. In making this projection:

> ". . . account was taken of recent trends in the volume of expenditure, of expected population changes which may increase Government expenditure still more, of the likely rate of inflation, and of public sector pay increases . . . it was assumed, for the technical purposes of the exercise only, that there would be an increase in the tax burden from 26·8% to 29% of GNP. The phenomenon of fiscal drag (i.e. the fact that unchanged personal and other income tax allowances become devalued by inflation, resulting in a higher effective rate of tax) was assumed to operate."**

*Ibid., pp. 23–24.
**Ibid., p. 24.

15. After a brief examination of the possibility of financing a public sector deficit of the order of 21% of GNP in 1980, from domestic savings, foreign borrowing or increased taxation, the *Green Paper* concludes that it:

> "... could not be financed by recourse to internal or external sources. A reduction in the borrowing requirement to 12% of GNP, still a relatively high level of borrowing, would, for example, require a cut of some two-thirds in the real rate of growth of public expenditure to 1980. When allowance is made for the growth in interest charges as a result of continued borrowing, there could be little if any growth in non-debt expenditure.
>
> "If with a view to maintaining investment the reduction in expenditure were confined to current items, there would have to be a real decline in current expenditure ... programme expenditures would have to be slashed, redundancies would occur and the ability of the public sector to continue to offer secure employment called into question.
>
> "Such cuts in public expenditure, which a failure to achieve an adequate growth rate would force upon the community, would ... make impossible the attainment even of the 2% growth rate."*

16. The *Green Paper* concludes that:

> "... the key features of the projection of existing trends are continuing high inflation, mounting balance of payments deficits, drastic cuts in public expenditure, an unacceptable level of taxation, an impossible borrowing requirement and growing unemployment —in short an intolerable situation."**

The economy could not for long continue on this course. It would be necessary to apply:

> "... measures to rectify an unsustainable imbalance in external account ... measures to cut public expenditure in order to reduce an unsustainable public sector deficit. Severe income

*Ibid., p. 25.
**Ibid., p. 26.



> restrictions would be necessary to restore internal stability, to promote the exports on which any prospects of sustained growth would have to depend, and to avoid disruptions stemming from successive devaluations of the currency."*

As a result:

> "The more likely outlook would be of some transient growth for a short period, ending well before 1980, followed by a period of severe economic restrictions and very serious financial difficulties, where there would be little or no growth and the rise in unemployment would be even greater than the 15,000 or more suggested by this scenario."**

17. In its *Prelude to Planning* (No. 26, October 1976), the Council stated that if present policies were continued:

> "There would ... be little growth in national output and a further rise in unemployment. By any standards (international, past performance, current requirements or potential for growth) this would represent failure. It would be a waste of effort to attempt to quantify a forecast for 1977 on these assumptions; all available energies should be directed to achieving (or at least laying the foundations for) increases in output and employment in 1977 and the following years."***

The Council therefore broadly concurs with the conclusion in the *Green Paper* about the general direction in which the continuation of recent trends could lead the economy. The crucial problem in planning is to identify, formulate and apply the policies that will divert the economy's path from the apocalypse.

*Ibid., p. 26.
**Ibid., p. 26.
****Prelude to Planning*, paragraph 7.6, p. 56.

## IV

## POSSIBILITIES AND REQUIREMENTS FOR GROWTH TO 1980

18. The *Green Paper* states:

"The first priority in any plan, or set of policies, . . . is to keep the economy competitive."*

The *Green Paper* assumes that keeping the economy competitive:

". . . means getting the rate of increase in manufacturing unit wage costs down to about 4½% a year over the period 1977–80, which should in turn bring price rises in Ireland at least down to the target rates for those countries (our external competitors and trading partners) by 1980 namely, a low single-figure level—possibly 5%."**

In order to keep the economy competitive in this sense:

". . . will require considerable restraint in income growth . . . This does not mean that competitiveness involves restraint in incomes only. There are other cost pressures which must also be relieved. Action will be necessary to reduce fiscal pressures on prices and to reorient public expenditure towards the improvement of productivity and the modernisation and expansion of capacity. Above all, our economic policy must ensure the availability of resources for investment, and the generation of maximum confidence, both at home and abroad, in the future of the economy."***

*Green Paper, p. 28.
**Ibid., p. 28.
***Ibid., p. 28.



19. The *Green Paper* then proceeds "on the assumptions that cost competitiveness can be maintained and that public policies can be reoriented to support increased investment" to assess the growth potential of the economy over 1977–80. The salient features of the projections for 1977–80, which "are capable of realisation, *provided those fundamental assumptions are met,*" are an annual average growth rate of:

—6% in real GNP;

—9% in the gross output of manufacturing industry with an increase in employment of 50,000;

—15% in manufacturing exports;

—6% in gross agricultural output and 4·7% in the sectoral product of agriculture, with the agricultural labour force declining by 3,500 a year;

—about 4% in the output of the building and construction sector;

—about 5% in output in the services sector, with employment rising by just over 5,000 a year;

—not more than 7% in consumer prices *over the period as a whole,* thereby implying a decline from the present rate of price rise to about 5% by 1980."

20. The two crucial questions in Chapter 3 are:

(*a*) the realism of "the assumptions that cost competitiveness can be maintained and that public policies can be reoriented to support increased investments".

(*b*) the realism of the projections which are based on the assumption that the assumptions in (*a*) above about the maintenance of competitiveness and curbing the growth and changing the composition of public expenditure are met.

21. Not enough information is given in the *Green Paper* to enable the Council to make any analysis of the realism of the projections set out in it.

For example, the *Green Paper* projects an annual average increase in consumer prices of 7% during 1977–80. In a small open economy, prices and especially those of tradeable goods, can be influenced domestically only to a limited extent. If incomes rise faster in Ireland relative to productivity than in other countries, the main consequences will be reductions in output and employment. Without more information on the assumptions made about increases in the prices of exports and import substitutes in the *Green Paper,* it is difficult to assess the realism of the projected rise in consumer prices during 1977–80.

22. The pattern of employment and sectoral productivity growth associated with the projected growth rates for sectoral output in agriculture, industry and services, based on Table 13 of the *Green Paper,* is as follows:—

**TABLE A**

| | Employment 1976 (000) | Annual Average percentage change 1977–80 | | Employment 1980 (000) |
|---|---|---|---|---|
| | | Employment | Sector productivity | |
| Agriculture, Forestry and Fishing | 249 | −1·4 | +6·2 | 235 |
| Industry | 293 | +4·4 | +3·4 | 348 |
| Services | 487 | +1·1 | +3·8 | 508 |
| Total | 1,029 | +1·5 | +4·3 | 1,091 |

The projections of employment and productivity growth for industry and services during 1977–80 are at variance with past trends*. The growth in industrial employment (4·4% a year) is high, and that in output per

*The changes in sectoral employment, output and productivity during 1964 to 1973 are shown in Appendix A.



person engaged in industry (3·4% a year) is low, when the economy is starting from a position in which there is some idle capacity in industry and when a good deal of industrial investment is directed towards raising the value of output per employee nearer to current money wages. Again, in Ireland and other countries the rate of productivity growth in industry has invariably exceeded that in services, yet a higher growth rate is projected for productivity in services. It may be that there are special reasons which explain these apparent anomalies in the table on page 18. However, until more information is made available on how the projections were arrived at, the Council remains sceptical of their realism.

23. The projections in the *Green Paper* give annual average growth rates for the period 1977–80. No indication is given of the projected growth *path*. For example, the *Green Paper* assumes "a rate of price increase of not more than 7% a year *over the period as a whole,* thereby implying a decline from the present rate of price rise to about 5% by 1980". If prices were to rise by 7% a year through the four years, the price level would be 31% higher on average in 1980 than in 1976. However, consumer prices are expected to be about 15% higher on average in 1977 than in 1976. If the rise in the price level between 1979 and 1980 is 5% (as projected in the *Green Paper*), this implies an average annual increase in prices of about 4·2% in 1978 and 1979. Similar problems arise in relation to the growth of real national output. Provided its assumptions are met, the *Green Paper* projects an annual average growth rate of 6% in real GNP during 1977–80. The forecast for the growth in national output in 1977 is around 4%. To achieve the projected average growth rate of 6% for 1977–80, an average rate of 6·7% would therefore be required during 1978–80.

24. However, it is the view of the Council that preoccupation with projections would be unprofitable and unproductive. The *Green Paper* was published in September 1976. Since it was drafted, more up-to-date statistical information has become available. If a second edition of the *Green Paper* was prepared on the same assumptions as the first, it is likely that many of the projections would be significantly different. In their turn, these new projections could be subject to criticism and would require revision as new information about the performance of the economy and its main sectors became available. This reflects the fact

that projections are merely exploratory arithmetic. They describe one of an infinite number of potentially consistent pictures of the economy at some future date—pictures that could describe the reality on the assumption that certain specified conditions are met. But no matter how they are revised the projections based "on the assumptions that cost competitiveness can be maintained and that public policies can be reoriented to support increased investment" will show higher rates of growth in output and employment and a slower rate of inflation than projections based on the assumptions that recent trends will continue into the future.

25. The major weakness in the *Green Paper* does not lie in its projections. Nor does it lie in any confusion about the problems that must be resolved if a better economic future is to be assured: these are correctly identified as excessive growth rates in money incomes and in public expenditure. The major weakness lies in the fact that no policies have as yet been put forward by the Government to resolve these problems—to restrain the growth in incomes and public spending and so improve competitiveness by reducing the domestic contribution to inflation.

26. The *Green Paper* states at the beginning of Chapter 3:

> "It will require considerable restraint in income growth over the intervening period (i.e. the years to 1980) and the policy measures and institutional arrangements needed are discussed further below."

But these matters are not discussed further. In the "Outline of proposals to stimulate economic growth" later in Chapter 3, no policy measures or institutional arrangements are presented; the requirement is merely re-stated:

> "... agreement with the social partners on income restraint to maintain the competitiveness of Irish goods and services in domestic and external markets; this must be a first priority."

27. The problem of curbing the growth of public expenditure is treated in a not dissimiliar way. The relationship between the level of public expenditure and the manner in which it is financed and the growth in money



incomes is largely ignored. It is *assumed* that pay restraint is achieved and that public policies are reoriented to support increased investment. On these assumptions a growth rate of nearly 6% a year in real national output is projected for 1977–80. But a growth rate of 6% a year would ease significantly the problem whose solution was assumed to begin with:

> "With a growth rate of 6% a year, it would be possible to avoid the drastic cuts in public expenditure . . . the expansion in resources deriving from 5·9% growth rate would permit a continued expansion in public investment designed to secure and service economic growth, a maintenance of the real volume of current public expenditure, and a significant reduction in overall borrowing by the public authorities."

28. Problems cannot be removed by assuming that they have been resolved. The "policy measures and institutional arrangements" by which the problems could be eased or resolved must be spelt out. This is not done in the *Green Paper*.

## V

## SOME ISSUES FOR CONSIDERATION BY THE SOCIAL PARTNERS

29. At the end of Chapter 3, the *Green Paper* states:

> "The main issues having been identified in previous chapters, we have now to consider how best to get concerted action by those who have a part to play in overcoming the nation's difficulties".

If the GNP were to grow at 6% a year during 1977–80,

> "the maintenance of current public expenditure at its present level . . . would be possible (but) would involve changes in its composition . . . The continuing increase in the population . . . will entail an expansion of current spending under certain headings . . . In carrying out a review of current public expenditure in the context of an increasing population priority will be given . . . to expenditure which generates additional employment and . . . to ensuring that the social services available to the disadvantaged will be improved. In order to carry through a policy of increasing real volume expenditure under these headings adjustments elsewhere will be required . . . Further growth in the real volume of current public spending is not feasible, nor would it be an appropriate economic weapon in the new conditions ahead".

30. The Council agrees that there is very limited scope for growth in real current public spending over the next three to four years, and that a change in its composition is necessary. Following its studies in the field



of public expenditure*, the Council would not under-estimate the difficulties of achieving these objectives. If the level of real current public expenditure is contained near its present level, the margin for change in the short term is limited because by far the greater part is unavoidable because of past decisions. The constraint on the total means that some expenditure heads can rise in real terms, beyond what the uncommited margin would permit, only to the extent that others are reduced.

31. The task of changing the composition of real current expenditure is not made easier by the fact that, under the Ministers and Secretaries Acts, the Irish Government is a federation of departments. All claims for additional money are made to the Departments of Finance an the Public Service. But that does not resolve the problems, because there are no objective creteria that would enable the relative value to the community of some expenditures to be weighed against others. The services that are to be cut to make possible increases in expenditure on generating additional employment and on improving the social services available to the disadvantaged can only be identified by a political process which resolves conflicts and makes choices.

32. The *Green Paper* states that:

> "The shift in public spending policies must be accompanied by other policy changes designed to stimulate rapid growth".

The following proposals to stimulate economic growth are given in outline:

> "1. Measures to create new confidence and to stimulate enterprise and expansion in the private sector. . . . . .
>
> 2. Measures to mobilise more fully enterprise in the public sector. . . . . .
>
> 3. Measures to promote productivity by associating employees more closely with the enterprise and its financial results. . . . .

*See *The Future of Public Expenditures in Ireland,* NESC, No. 20, July 1976 and *Report on Public Expenditure,* NESC, No. 21, July 1976.

4. Measures to intensify agricultural production. . . . .

5. Measures to minimise the tax burden by eliminating circular transfers. . . . . .

6. Measures to reform the public service. . . . . .

7. Measures to improve the infrastructure for economic development. . . . . .

8. Measures to improve social justice."*

These are discussed briefly in the paragraphs which follow. It is assumed that any additional expenditure which these proposals might involve will be consistent with the constraints on the growth of total public expenditure implicit in the *Green Paper*.

33. *Creation of New Confidence and Stimulation of Enterprise and Expansion in the Private Sector:* The *Green Paper* lists five measures to achieve these objectives. The *first* is:

> ". . . the preparation of a clearly defined plan for economic growth, setting out agreed priorities, and offering a sound basis for investment in the private sector . . ."**

The Council agrees that a plan should be prepared and published as a matter of urgency. In its *Prelude to Planning* (Report No. 26), the Council described the potential for rapid growth that exists in the Irish economy. If this potential is to be realised, the key activities are those in the unsheltered market sector. The main obstacles to the expansion of these key activities are the fact that the real income, which is demanded, is too high relative to productivity, and the tax burden, needed to finance the level of public expenditure and help to reduce the current budget deficit, is generally judged excessive.

34. The prime objective of economic policy must be to raise the level of employment. The rate at which employment can be raised depends on the success with which the output of the exposed market activities can

*Green Paper*, pp. 36–39.
**Ibid., p. 36.



compete in external markets and with imported goods in the home market. The rate at which competitiveness improves will depend on how much faster productivity* can be raised relative to money incomes. To achieve this, new policies and new institutional arrangements will be required. The objectives will be achieved only to the extent that these measures are successful.

35. The description of a policy objective, with a spelling out of the beneficial consequences that will follow if it is achieved, is not enough. Objectives which are otherwise feasible can be achieved only to the extent that the Government and the community are committed to them—that there is a willingness to accord priority to the national interest over sectional interests. Specific policies and measures will not be sufficient by themselves—they will be effective only if they evoke the responses needed to achieve the desired results.

36. The *second* measure to create new confidence and stimulate enterprise and expansion in the private sector is:

> ". . . agreement with the social partners on income restraint to maintain the competitiveness of Irish goods and services in domestic and external markets; this must be a first priority".**

This has already been mentioned (see paragraph 26 above). This measure is a restatement of a basic problem and offers no guide towards its solution.

37. The *third* measure is the creation of a favourable tax environment:

> "This will entail tax adjustments designed to reduce the tax burden especially on established domestic industry . . . (and) adjustments to the tax code designed to reduce marginal personal tax rates".***

The direct tax reliefs in the 1977 Budget made the tax environment for employees more favourable to work and enterprise by reducing its disincentive effects. It also introduced incentives to expand industrial output and employment.

*See paragraph 43 below.
**Green Paper, p. 36.
***Ibid., p. 36.

38. Another area of tax reform, which the *Green Paper* states is to be examined is:

> ". . . the social insurance system, where the flat rate contribution arrangement bears unfairly on employees with low wages and on firms which are in low-wage industries . . . A contribution system related to wages would be fairer than the present system with its important flat-rate element".*

The Council notes that the social insurance contributions by employees and employers are regarded as coming within the area of tax reform. The replacement of flat rate by pay-related contributions would have to be carefully planned. It could represent a move in the direction of greater equity, because the contributions would be related to capacity to pay. Pay-related contributions could also diminish the burden of this tax on labour-intensive, low-wage industries, which are often those which are most vulnerable to external competition. However, if pay-related contributions were introduced, careful consideration should be given to their coverage—for example, should they apply to the entire employed population? In a pay-related system, some level of income is often specified above which the contributions do not rise as income rises but are maintained at a flat rate. If such a maximum income is specified, should it be significantly higher than (for example) the average industrial wage in order to give greater benefit to the lower paid? At this stage, the Council is offering no comment on how the self-employed should be treated if a pay-related system were introduced. It will have the opportunity of doing so if proposals for dealing with the self-employed are published.

39. The *fourth* measure for creating new confidence and stimulating enterprise and expansion in the private sector is:

> ". . . a generally welcoming environment for enterprise, including the establishment of a private investment trust or development bank, through which new enterprise would be promoted with substantial Irish private participation".**

*Ibid., p. 36.
**Ibid., p. 36.



The Council agrees that an environment which is favourable to enterprise will encourage faster growth in output and employment. Given the prices at which manufacturing industry and agriculture can sell their output in export markets and the prices of competing imports, expansion in output and employment will occur only if at the ruling levels of pay and productivity a revenue can be earned which enables the capital employed to be renumerated, renewed and expanded. This is the fundamental condition that must be met. The *Green Paper* does not provide enough information about the proposed private investment trust or development bank to enable the Council to comment usefully on it.

40. *Fifthly*, the *Green Paper* proposes:

> ". . . short-term measures to reduce unemployment, including a review of the existing employment subsidy scheme, expansion of training and re-training arrangements and financial and technical measures to counter redundancy, together with the creation of a special employment programme aimed at identified, vulnerable sections of the work force. The nature and extent of this programme will depend on the availability of resources following the review of public expenditure and on the response of the social partners".*

The Council generally favours the short-term measures which are proposed. A fuller response is not possible until more details are made available. The proposal makes clear that these measures cannot be spelt out until the amount of money available to finance them has been determined. What it will be possible to do will therefore depend on how much public money is made available to do it with.

41. The Council hopes that it will be given the opportunity of commenting on the proposed review of the existing employment subsidy scheme,** when that review has been completed. In any review of the

*Ibid., pp. 36–37.
**In the 1977 Budget, the Premium Employment Programme was extended into the Employment Incentive Scheme by the inclusion of recipients of unemployment assistance and school leavers.

employment subsidy scheme, it is important that an attempt is made to quantify the effects of the scheme and to assess its consequences not only in the short-term but also in the longer term.

42. *Measures to mobilise more fully enterprise in the public sector:* The *Green Paper* states that:

> "The potentialities of existing public enterprises engaged in commercial activities will be mobilised to supplement growth in the private sector. To this end consideration will be given to establishing an Industrial Development Corporation which would exercise a supervisory and co-ordinating role over the activities of existing promotional agencies, identify new opportunities for productive investment, either public or joint public and private which will not compete unfairly with the private sector, and advise on industrial and commercial developments."*

In the early 1960s, public enterprises were encouraged to set standards of performance which could inspire private enterprise to greater achievements and help to build up confidence in the country's future. Government Departments were encouraged to act and think like development corporations. In the course of this year, the Council plans to examine what changes have actually taken place, the extent to which they depended on subsidies and the influence (if any) which inhibited particular public enterprises from diversifying their activities. The Council notes that consideration will be given to establishing an Industrial Development Corporation, and would like to be given the opportunity of commenting on this proposal when further details are available about its possible range of activities.

43. *Measures to promote productivity by associating employees more closely with the enterprise and its financial results:* The *Green Paper* puts forward three proposals under this heading:

*Green Paper, p. 37.



> "First, measures to encourage planned changeovers to co-operative enterprises, where this would save firms facing adaptation problems and financial difficulties . . . Second, . . . encouragement for worker participation and profit-sharing throughout industry. Third, consideration to be given to the establishment of a National Development Fund, to be financed by voluntary arrangements with trade unions and workers and to be used for investment in industry."*

The Council favours the first of these proposals, provided the co-operative enterprises are not given preferential treatment as compared with enterprises organised in other ways. The Council cannot offer any detailed comments until more information is made available about the proposed level and degree of worker participation and about the mechanism and extent of profit-sharing.

44. The Council notes that consideration is to be given to the establishment of a National Development Fund, but would not be able to comment usefully on the proposed fund until much more information is made available about it. In the *Green Paper*, the establishment of two other institutions is mentioned: a private investment trust or development bank and an Industrial Development Corporation. In the Council s view, new institutions should be established only after the problems which it is their function to resolve have been carefully and fully analysed. New institutions are not an appropriate mechanism for identifying and analysing the problems to whose resolution they will have to contribute.

45. The community as a whole cannot for long enjoy goods and services over and above what it produces. If through foreign borrowing the community consumes more than it produces, it must consume less than it produces as the loans are being repaid. At present, productivity (in the sense of output per person employed) is lower in Ireland in

*Green Paper, page 37.

almost all economic activities than in any other EEC country.* The potential for increases in productivity are therefore very great. The proposals in the Green Paper (see paragraph 43 above) fall short of what is needed to raise productivity in Ireland nearer to European levels in comparable activities. In the course of this year, the Council hopes to complete a detailed study of the measures which are required to raise productivity in Ireland.

46. *Measures to intensify agricultural production:* The *Green Paper* proposes:

> "Steps to secure more productive use of grasslands, higher stocking rates, increased milk yields and to expand tillage, particularly in barley, but also in wheat. The development of agricultural incomes will not only depend upon the course of EEC policies which the Government will continue actively to influence to the advantage of Irish farmers but also upon more intensive systems of production."**

The Council agrees that steps to intensify agricultural production and to raise agricultural incomes are desirable. It cannot make any fuller comment until more information is made available about the specific steps which it is proposed to take.

47. In 1975, the Council embarked on an examination of the potential for development in Irish agriculture. After consultations with farming organisations, expert advice was sought from Mr. L. Folkesson, Professor of Agricultural Marketing and Policy, the Agricultural College of Sweden, Uppsala; Mr. J. F. van Riemsdijk, Professor of Farm Management, Wageningen University of Agriculture, the Netherlands; Mr. R. Savary, until recently Secretary-General of the International Federation

*See *Jobs and Living Standards: Projections and Implications*, NESC, No. 7, June 1975; and *A Comparative Study of Output, Value-Added and Growth in Irish and Dutch Agriculture*, NESC, No. 24, December 1976.

***Green Paper*, pp. 37–38.



of Agricultural Producers, Paris; and Dr. S. J. Sheehy, Department of Applied Agricultural Economics, University College, Dublin. These experts suggested a programme of work which was approved by the Council.

48. The first study—*A Comparative Study of Output, Value-Added and Growth in Irish and Dutch Agriculture*—was completed by the Council in July 1976 and published as Report No. 24 in December 1976. The second study—*New Farm Operators, 1971 to 1975*—was completed by the Council in October 1976, submitted to the Government in December 1976, and published in April 1977. The third study—*Alternative Rates of Growth in Irish Agriculture*—is nearing completion. In the course of this year, the Council will complete a general report on the potential for development in Irish agriculture, and the strategies and policies by which this potential might best be realised.

49. *Measures to minimise the tax burden by eliminating circular transfers:*

The *Green Paper* porposes:

> "A thorough examination of existing transfers through the tax system, which in many cases involve payments or subsidies that return to taxpayers, thus increasing the overall burden of taxation without affecting any social purpose. In this way, the tax burden could be reduced, and a larger share of income could be left to the discretionary spending of individuals, without adverse social effects."*

The Council has commissioned an expert study of the whole issue of circular transfers and plans to present a report in the autumn of this year. When the expert study has been completed, the Council will be in a better position to comment on the results of the thorough examination of circular transfers which is now being made in the relevant Government Departments.

*Ibid., p. 38.

50. *Measures to reform the public service:* The *Green Paper* proposes:

"Reforms in the public service designed to increase mobility, to increase the availability of expert advice, and to improve the effectiveness of the planning system."

The Public Service Organisation Review Group was set up in 1966 and reported in 1969. While a wide-ranging programme relating to public service organisational reform, designed to achieve the objectives mentioned, is on hands under the aegis of the Minister for the Public Service, the pace of decision-taking is slow and disappointing. The importance of pushing ahead as rapidly as possible in the areas mentioned in the *Green Paper* cannot be over-emphasised.

51. The *Green Paper* also proposes that there should be:

"Consultation between Government and the social partners on the institutional arrangements which are required to carry through effective economic and social planning as part of the intended annual medium-term review of developments under the rolling plan system, which it is proposed to adopt for the future. *

As a body on which all the social partners are represented, the Council welcomes this proposal. The consultative process should cover two issues. First, and more important, the nature and content of planning, and how and where a plan should be prepared. Second, the annual "medium-term review of developments under the rolling plan system."

52. If time and resources permit, in the course of this year the Council will prepare a general report on planning which will cover, *inter alia*, "the institutional arrangements which are required to carry through effective economic and social planning . . ."

53. *Measures to improve the infrastructure for economic development:* The *Green Paper* proposes:

**Green Paper*, p. 38.*



"Steps to secure adequate provision of the infrastructure for economic development, without which bottlenecks could occur, holding up economic growth."*

The Council agrees that such steps are necessary. The Council will be able to comment more fully when details of the proposed steps are made available to it. The place in which the existing infrastructure will have to be improved, or new infrastructure provided, will depend on the location of new economic activities. In turn, this will depend on the Government's regional policy. The Council notes that the *Green Paper* contains no reference to regional policy.

54. *Measures to improve social justice:* The *Green paper* proposes:

"Within the constraints of available resources, steps to streamline and improve the social services, which remain largely a piecemeal response to individual social needs, rather than a planned system to ensure social justice . . . There is an obvious need to maintain a balanced relationship between economic and social development, difficult though this may be in the years to 1980. While steps will be taken in the adjustment of public expenditure to free additional resources for employment creation, this cannot be achieved at the expense of vital social services . . . Society, including Government and the social partners, have a duty to protect the old, the poor, the sick and disadvantaged children who, because of personal circumstances and inflation, depend on the (Irish) Community to act on their behalf. Society must therefore be willing to pay for the social services needed for these groups, including health, social welfare, education and housing, if the value of these services is to be protected or, in certain priority areas, improved."**

55. The Council agrees with these statements and proposals. In *An Approach to Social Policy* (NESC, No. 8, June 1975), the Council stated its belief "that any change is desirable which brings nearer a situation in which the disadvantaged are brought nearer to the level

*Ibid., p. 38.
**Ibid., pp. 38–39.

that assures their self-respect and the respect of others, in which all are assured of equal access to education, medical care, satisfactory housing and satisfying jobs, in which opportunities for improving their living standards are as nearly as possible equalised, and in which the human dignity of all individuals is respected."*

56. In the "adjustment of public expenditure to free additional resources for employment creation", it is important that the cuts are not concentrated on new services that cater for particular disadvantaged groups. There is no doubt that these are the services which it is easiest to cut—no staff will be made redundant if they are abandoned, their clients are weak and unorganised, and no powerful professional interest groups support them. Yet these new services are often among the more imaginative. The home-help service keeps many elderly and disabled at home; the social work services prevents the break-up of problem families; the chiropody service helps to keep the elderly mobile. These services could prevent children being put into care and keep the elderly out of hospital. Money spent on them now could therefore mean much more money saved later—as well as preventing much human suffering. In human and material terms, it is cheaper to resolve problems as they arise, than to let them grow and have to cope with their consequences.

**An Approach to Social Policy*, NESC, No. 8, June 1975, paragraph 16, p. 13.



## VI

## CONCLUSIONS

57. The *Green Paper* concludes that:

> "This general programme for economic and social development, which the Government believes to be an essential part of any plan to maximise economic growth in the period immediately ahead, will be discussed with the social partners for the purpose of publishing a national plan."

58. The Council agrees with the *Green Paper's* diagnosis of the basic problem that must be resolved if progress is to be achieved towards raising the level of employment at an acceptable rate. The Council also agrees with the *Green Paper's* prognosis of what will happen if these problems are not resolved and if past trends continue.

59. The *Green Paper* does not put forward any policies or policy options by which the major problems—namely, the less favourable relationship between the growth in incomes and productivity than in other countries and the tendency for current public expenditure to grow at a rate faster than taxpayers are prepared to pay for—are to be resolved. It assumes that the first of these problems will be resolved and in its projections describes the economic and social benefits that could follow. It then assumes that these benefits, as they materialise, will solve the second problem.

60. The additional proposals to stimulate economic growth which are given in outline are important, but they are nevertheless ancillary to the solution of the basic problems which the *Green Paper* identifies. Unfor-

tunately, not enough information is given about these proposals to enable the Council to comment at any length on them.

61. A national plan should set out a consistent set of policies designed to establish the conditions in which output and employment can grow at the rates necessary to achieve rising employment at increasing standards of living. The articulation and refinement of projections should be only an ancillary part of any new plan. At this juncture, the scarce skills of policy-makers should be devoted to formulating policies and spelling out policy options rather than to exercises in the illustrative arithmetic of macro-economics.

62. The new plan should not therefore assume that basic problems were solved and then project the kind of future that could lie ahead. In its detailed chapters it should not merely describe what had happened in the recent past to various economic sectors and areas of social activities, and then discuss in general terms the main policy issues for the immediate future. While a document of this kind might have value as an historical record, it would have little relevance as a *plan*.

63. In the preparation of any plan for economic and social development, there should be the fullest possible consultations with those expected to contribute towards achieving its objectives. These consultations should include all productive sectors—agriculturalists, as well as trade unions and industrial managers and employers.



## APPENDIX A

**Contribution of Employment and Productivity to Sectoral Output: 1964-1973**

| Sector | Employment in 1964 000's | Average Annual Increase in Employment % | Average Annual Increase in Productivity* % | Average Annual Increase in Output % | Employment in 1973 000's |
|---|---|---|---|---|---|
| Agriculture, forestry and fishing | 354 | −3·4% | +5·4% | +1·8% | 260 |
| Industry | 289 | +1·3% | +4·5% | +5·8% | 324 |
| Services | 428 | +1·1% | +2·7% | +3·9% | 473 |
| Total** | 1,071 | −0·2% | +4·3% | +4·2% | 1,057 |

*The productivity figures were obtained by dividing sectoral product *at factor cost* by numbers employed.

**The overall annual average changes in productivity and output relate to GDP *at factor cost.*

*Sources:* (i) *National Income and Expenditure,* 1974 (CSO, May 1976).
(ii) *The Trend of Employment and Unemployment* (CSO, various issues).

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