# NESC REPORT NO. 21

# REPORT ON PUBLIC EXPENDITURE

Price: £2.30

# NATIONAL ECONOMIC AND SOCIAL COUNCIL

## *Report on Public Expenditure*

No. 21

**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 berore each House of the Oireachtas and published.

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

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

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

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

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

7. The Council shall regulate its own procedure.

# NATIONAL ECONOMIC AND SOCIAL COUNCIL

## *REPORT ON PUBLIC EXPENDITURE*

DUBLIN
PUBLISHED BY THE STATIONERY OFFICE

To be purchased through any Bookseller, or directly from the
GOVERNMENT PUBLICATIONS SALE OFFICE, G.P.O. ARCADE, DUBLIN 1

Price: 45p

(Prl. 5479)

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## Chapter 1

## INTRODUCTION*

### The Consultants' Study

1.1. In 1974, the Council decided that the growth in public expenditure and its economic implications merited deeper study. The Council, therefore, commissioned Professor Jack Wiseman, Director, Institute for Social and Economic Research, University of York, and Dr. Bernard Stafford, also of the University of York, to prepare a background study to assist the Council in its deliberations. Their analysis and conclusions are discussed in Appendix A. The Council recommends that the consultants' study should be published in full simultaneously with the publication of this report.

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

1.3. The consultants defined public sector expenditure as the current and capital expenditure of Central and Local Government plus the deficits on operating account of State trading bodies that are met by transfers from Central and Local Government. Public sector spending can be broadly classified into expenditures on the purchase of goods and services and transfer payments (such as pensions, unemployment assistance, etc., and investment grants). Public expenditures have to be financed. To finance the current purchases of the public sector, the real expenditures of private individuals and firms must be correspond-

*The general contents of this Report were discussed at a meeting of the Economic Policy Committee on 4 March 1976. A first draft was discussed at a meeting of the Economic Policy Committee on 23 March 1976, and subsequent drafts were discussed by the Council at meetings on 22 April 1976 and on 6, 17 and 27 May, 1976.

ingly reduced. In other words, the proportion of the income they earn that they can spend as they please is reduced. To finance transfer payments, the consumption and/or saving of some must be reduced to make possible the consumption (or increases in the consumption) of others.

1.4. As their base period, the consultants took the years 1963–64 to 1972–73, this last year being the latest one for which statistics were available on a national income basis. Over this ten-year period, real public expenditure on goods, services and transfers grew at a rate substantially above that of the real GNP (6·88% as against 4%). As a result, the share of *total* real public expenditure in GNP rose from 34·4% in 1963–64 to almost 44% in 1972–73.

1.5. In their forward projections, the consultants concentrated primarily on changes in the claims exercised by public expenditure on the community's real resources and only secondarily on transfer payments. In order to project the growth of public expenditure and its implications, they had to make their own projections for the growth in the economy to 1986. The consultants assumed that Government policy would aim at full employment by 1986, and that this objective would be achieved. If output per person employed grew at the same average annual rate between 1972 and 1986 as during 1963–64 to 1972–73, the achievement of full employment by 1986 would require an average annual growth rate in national output of around 5¾%, giving a 1986 GNP of £3,300 million (at 1968 prices).

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

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



(*a*) that there would be no change in the trend in public expenditure policies;

(*b*) that the 1972–73 share of private consumption in national output would be maintained;

(*c*) that the 1972–73 ratio between private consumption and public consumption and investment would be maintained.

1.8. Under the first assumption (the continuation of the historic expenditure trend), of the residual of £2,444 million in 1986, private consumption would account for £1,706 million and net public consumption and public investment for £737 million—or 51·7% and 22·3% of the 1986 GNP respectively. Under the second assumption (the maintenance of the 1972–73 share of private consumption in GNP), the allocation would be £2,304 million for private consumption (or almost 70% of GNP) and £140 million for public sector uses (or about 4¼% of GNP). Under the third assumption, the allocation would be £1,910 million for private consumption (or almost 58% of the 1986 GNP) and £534 million for public sector uses (or 16% of GNP).

1.9. The implications of these three assumptions for the annual average growth rates in *total* private consumption and in *per capita* private consumption during 1972 to 1986 are shown in the following table:

**TABLE 1.1**

**The Growth of Private Consumption: 1972–86**

| Assumption | Per cent p.a. 1972–86 | |
|---|---|---|
| | *Total* private consumption | *Per capita* private consumption |
| (*a*) Maintenance of historic expenditure trends | 3·5% | 2·1% |
| (*b*) Maintenance of 1972–73 share of private consumption in GNP | 5·8% | 4·3% |
| (*c*) Maintenance of 1972–73 ratio between private consumption and public consumption and investment | 4·4% | 2·9% |

In 1972–73, 29% of private consumption was financed by current transfers to households (for example, food subsidies, unemployment benefit and assistance and old age pensions). On the third assumption in paragraph 1·7 above, current transfers would account for 44% of private consumption in 1986. In the consultants' view, this would present policy-makers with a very difficult problem, because of the level of taxation needed to finance these transfer payments, together with Government purchases of goods and services.

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

(*a*) The 1972–73 share of private consumption in national output cannot be maintained. Any attempt to maintain the share at that level would require a drastic cut in real terms in public expenditure on goods and services. The cuts would have to be so harsh as to be both undesirable and unacceptable.

(*b*) The continuation of the historic public expenditure trend would involve a very severe reduction in the share of private consumption in national output and an unacceptably low rate of increase in *per capita* private consumption. The level of taxation required to transfer claims over resources from private individuals and firms in order to finance the maintenance of the upward trend in public expenditures would be rejected by the community, or would lead to a continuing high level of inflation as attempts were made to maintain real disposable incomes.

(*c*) Any feasible picture for the next ten years will require significant cuts in the rate of growth in public expenditure below the rate of growth implied by the maintenance of the 1963–64 to 1972–73 upward trend in public expenditure.

(*d*) Any modification in the consultants' assumptions in order to make them more "realistic" would on balance strengthen these conclusions. More realistic assumptions would demand larger cuts in the growth rate in public expenditure required to maintain the historic public expenditure trend. (This conclusion is discussed at greater length in paragraphs 22 to 27 of Appendix A.)



**This Report: Outline**

1.11. The primary concern in this report is not with the rapid increases which have occurred in Government expenditure over the last few years. This growth has been influenced by factors, some of which it is hoped are temporary, such as the world recession, the rise in unemployment and rapid inflation. In this report, the main interest of the Council is in the implications for the economy of the continuation of the underlying upward trend in public expenditure.

1.12. It is nevertheless of interest to note the acceleration in the rise in Government expenditures which has occurred in recent years. The growth in Government current and capital expenditure between 1958 and 1976 is illustrated by the figures in Table 1.2. In the late 1950s, Government current expenditure was just over 20% of national output (GNP at current prices), but the proportion had risen to around 30% by the early 1970s, and to over 40% by 1976. Public capital expenditure rose from about 7% of GNP in the late 1950s to 11 to 12% in the early 1970s, and 14½% in 1976.[1] Of the increase in GNP over the three years 1959 to 1961, 38% was accounted for (or appropriated) by increased Government expenditure. The corresponding figures for the three-year periods 1968 to 1970 and 1974 to 1976 were around 50% and just under 83% respectively.

1.13. The figures in Table 1.2 must be interpreted with care. They show only the growth in explicit or actual public expenditure. Specific tax reliefs within any given tax structure may be regarded as "implicit" public expenditures and these are not shown. This merely illustrates the fact that tax measures may be alternatives to public expenditures. For example, public service pensions are included in current public expenditure, but it could be argued that these are paid for by public

[1]The figures in Table 1.2 have not been converted to a national income basis. They therefore differ from those discussed in the consultants' study. However, the conversion to a national income basis does not materially affect the trend in public current and capital expenditure. It should be noted also that the figures in Table 1.2 refer in the main to Government expenditure, although capital expenditures of State bodies and Local Authorities, which are *not* financed by the Exchequer are included. The definitions used in Table 1.2 therefore differ from those used by the consultants (see paragraph 1.3).

## TABLE 1.2

### Government Expenditure/GNP: 1958-76

£m at current prices

| Year | Government Current Expenditure (£mn)(*a*) | Public Capital Programme (£mn)(*a*) | Total Government Expenditure (£mn)(*a*) (1) + (2) | GNP @ Current Market Prices £mn | Government Current Expenditure as % of GNP (1) as % of (4) | Public Capital Programme as % of GNP (2) as % of (4) | Total Government Expenditure as % of GNP (1) + (2) as % of (4) | Increase in Total Government Expenditure as % of increase in GNP(*e*) | Increase in Total Government Expenditure as % of increase in GNP: Three-year moving average |
|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| 1958 | 126·3 | 37·9 | 164·2 | 584·7 | 21·6% | 6·5% | 28·1% | | |
| 1959 | 128·7 | 44·1 | 172·8 | 622·4 | 20·7% | 7·1% | 27·8% | 22·8% | |
| 1960 | 139·6 | 51·3 | 190·9 | 658·1 | 21·2% | 7·8% | 29·0% | 50·7% | 37·7% |
| 1961 | 152·4 | 58·6 | 211·0 | 708·8 | 21·5% | 8·3% | 29·8% | 39·6% | 42·8% |
| 1962 | 168·3 | 65·8 | 234·1 | 765·5 | 22·0% | 8·6% | 30·6% | 40·7% | 45·4% |
| 1963 | 186·6 | 78·5 | 265·1 | 821·7 | 22·7% | 9·6% | 32·3% | 55·2% | 49·0% |
| 1964 | 223·1 | 97·8 | 320·9 | 933·0 | 23·9% | 10·5% | 34·4% | 50·1% | 48·5% |
| 1965 | 248·4 | 99·3 | 347·7 | 999·6 | 24·9% | 9·9% | 34·8% | 40·2% | 45·3% |
| 1966 | 272·1 | 97·6 | 369·7 | 1,052·7 | 25·9% | 9·3% | 35·1% | 41·4% | 43·9% |
| 1967 | 305·6 | 110·4 | 416·0 | 1,149·8 | 26·6% | 9·6% | 36·2% | 47·7% | 48·8% |
| 1968 | 353·8 | 140·9 | 494·7 | 1,300·7 | 27·2% | 10·8% | 38·0% | 52·2% | 48·8% |
| 1969 | 411·6 | 173·4 | 585·0 | 1,493·7 | 27·6% | 11·6% | 39·2% | 46·8% | 50·3% |
| 1970 | 490·4 | 189·7 | 680·1 | 1,675·1 | 29·3% | 11·3% | 40·6% | 52·4% | 47·8% |
| 1971 | 571·6 | 213·9 | 785·5 | 1,909·6 | 29·9% | 11·2% | 41·1% | 44·9% | 42·2% |
| 1972 | 664·5 | 248·5 | 913·0 | 2,272·5 | 29·2% | 10·9% | 40·2% | 35·1% | 42·3% |
| 1973 | 803·3 | 320·7 | 1,124·0 | 2,724·1 | 29·5% | 11·8% | 41·3% | 46·7% | 51·8% |
| 1974 | 944·5(*b*) | 368·7(*b*) | 1,313·2 | 2,928·0 | 32·3% | 12·6% | 44·8% | 92·8% | 70·8% |
| 1975(*c*) | 1,350·0 | 467·3 | 1,817·3 | 3,550·0(*d*) | 38·0% | 13·2% | 51·2% | 81·0% | 82·7% |
| 1976 | 1,681·7(*d*) | 596·3(*d*) | 2,278·0 | 4,120·0(*d*) | 40·8% | 14·5% | 55·3% | 80·8% | |

*Notes:* (*a*) Refers to financial years ending 31 March of following calendar year.
(*b*) Annualised from a nine-month financial year.
(*c*) The financial years from 1975 onwards coincide with calendar years.
(*d*) Budget, 28 January 1976—estimates
(*e*) Inter-year increases in total government expenditure (column 3) as a percentage of inter-year increases in GNP (column 4).



servants in employment accepting a salary that is net of superannuation contributions. In private pension schemes, the contributions enjoy tax relief and to that extent the pensions are being paid for by the State but this is not reflected in the figures for public expenditure. Subsidies to tenants of local authority houses would be included in public sector spending, but the tax reliefs on the interest payments by those buying their houses (for example, through a building society) would not be included. If all tax reliefs (that is, "implicit" public expenditures) were replaced by explicit or actual expenditures and the latter added to the figures in the table, both the level and the rate of growth of public expenditure would be larger than shown.

1.14. The rapid growth in total public spending, both in absolute terms and as a proportion of national output, has not, of course, been peculiar to Ireland. It has occurred in all EEC member countries, though not to the same extent as here. The reasons everywhere have been similar—mainly increased public provision for education, health and social welfare and public service pay. In Ireland, there were additional pressures at work because of the importance of encouraging investment to provide new jobs and a desire to get nearer to the standards of public services provided in other EEC countries. In France, the *share* of total public spending in national output was about one-quarter larger in 1975 than in 1960, in Belgium, Germany and Britain the share increased by about one half, and in Luxembourg and the Netherlands by about three-quarters. In Ireland, however, the share of total public spending in national output rose from around 27½% in 1960 to 53½% in 1975—that is, it almost doubled. However, these international comparisons must be treated with caution because of differences in economic structure, political organisation and (perhaps) in the definitions used.

1.15. This report was prepared after the consultants' study had been examined in the Council's Economic Policy Committee. In Chapter 2 the role of public expenditure is very briefly discussed. In Chapter 3 the reasons why the level of public expenditure matters are discussed. In Chapter 4 the reasons why public expenditure has risen are examined. In Chapters 5 and 6 some of the steps that could be taken to curb the growth in public expenditure are examined.

## Chapter 2

## THE ROLE OF PUBLIC EXPENDITURE

2.1. Ireland has a mixed economy. The greater part of the national output is bought by private households, and by enterprises in the private sector to maintain or increase the productive capacity. The greater part of the national output is produced and sold by private firms. The distribution of income among persons or groups (as it is earned or accrues) depends on their skills and bargaining strength and on the pattern of ownership of the economy's economic resources. Within this private sector of the economy, the way in which people spend the money available to them determines what will be produced. Where competition among suppliers is strong, it encourages more efficient production of the goods and services that are being demanded. However, where competition is weak (as it is, for example, in some areas of banking and insurance) producers will be less responsive to what consumers want and the pressures to improve efficiency will be weaker. The distribution of purchasing power determines how the goods and services that are produced will be distributed. Exports of goods and services come almost entirely from the private sector. The enormous number of individual decisions about what to buy and about what to produce and sell are kept broadly in line with each other by the operation of markets.

1. 2.2. At the same time, a substantial part of the national output is bought by public expenditures—that is, those made by Central Government, Local Authorities and various State Agencies. These public
(a) expenditures may be spent directly on buying goods and services to satisfy "public" wants. These may be social or collective wants (such as defence and law and order): since no-one can be excluded from the benefits, there is no incentive to pay for them voluntarily; they cannot therefore be provided through the market system and must be provided by Government. Such services are of fundamental importance because without them a private sector could not exist. Public expendi-



(b) tures are also made to provide services (such as education, health and housing) that could be provided through the market. These may supplement or displace private provision of such services. In either case, they reflect a judgment that private provision would be inadequate, or inequitable in the access it offered to the services. Moreover, services such as education and health confer benefits not only on those who enjoy or use them, but on the community at large. It is therefore proper that the community should at least contribute to the costs of providing them. For technical reasons, some services may best be provided by a
(c) national or local monopoly—for example, electricity, rail transport, water and sewerage. Since private provision would necessarily involve detailed regulation to protect consumers and the public interest, these services are almost everywhere provided by State boards or Local Authorities.

2. 2.3. However, the State must assume wider responsibilities for the efficient working of the economy and the welfare of its citizens. To raise
(a) efficiency in the private sector, the State (for example) may have to take action to increase the degree and improve the quality of competition among producers. If no action is taken by Government, there is no reason to suppose that the amount of investment undertaken by private
(b) firms would be sufficient to raise employment and output at the rates required. Government action is therefore needed to encourage private investment by such measures as capital grants, tax reliefs or the provision of supporting infrastructure. The distribution of income and
3. wealth that would emerge, if the Government remained passive, would be inequitable and socially unacceptable. Governments therefore attempt to achieve a more equitable and acceptable distribution by progressive tax structures and a variety of social expenditures.

2.4 It is generally accepted in Ireland that the level and composition of public expenditure and the way in which it is financed have major effects on the distribution of national output, on the rate of growth in national output, and on the behaviour of employment, output and prices in the private sector and in the economy as a whole. The frequent demands for more public expenditure to encourage agricultural and industrial development, to expand education and health services, and to provide higher social benefits in the interests of social justice and equity may reflect the belief that public expenditure can be effective in achieving particular objectives. However, it may also indicate that any benefit that has not to be paid for in full by the recipient is attractive.

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



**Chapter 3**

## WHY THE LEVEL OF PUBLIC EXPENDITURE MATTERS

3.1. Public current and capital expenditures have to be financed. The money to finance them can be obtained from two main sources: direct and indirect taxes, and borrowing. Direct taxes reduce the proportion of the incomes they earn that people can spend as they please. Indirect taxes reduce the real purchasing power of disposable incomes—that is, of what people are left with after direct taxes have been paid. The public sector may borrow money from the non-bank public, the licensed banks, the Central Bank or externally. If public expenditure is financed by borrowing, the immediate involuntary reduction in private spending on consumption and investment would be smaller, but, except where the borrowing is from the non-bank public, there can, in some circumstances, be inflationary consequences. However, whatever the source of the borrowing, interest must be paid and provision made for the repayment of the principal, and these will be the greater the shorter the period of the loans and the higher the interest rates that have to be paid. These monies to service the debt can come only from taxes (or more borrowing).

3.2. In principle, there are no rules which determine the "right" level of public expenditure, the "right" balance between public and private expenditures, or the "right" way in which public expenditures should be financed. Some goods and services must be provided by the public sector, namely, those needed to satisfy "public" wants (see paragraph 2.2 above). Reasonable people differ in their views on which goods should fall into this category and on the amount of them that should be provided. The public sector provides services such as education and health, a greater proportion of which could (at least in theory) be made available through the market economy. But there are wide differences of view among people about the extent to which public provision should supplement or displace private provision, and on the quantity and quality of the services that should be provided. It is accepted that public current and capital expenditure must be financed but again there are differing views about the relative importance that should be given to direct as opposed to indirect taxes, and about the extent to which it is appropriate to use funds borrowed either internally or externally.

3.3 The differences of view on all these issues within the Council reflect those in Irish society. These differences cannot be resolved by the use of technical expertise of an economic and quantitative kind. Moreover, it is a fallacy that differences in beliefs, ideologies and interests can be resolved and consensus reached by discussion in representative bodies such as the Council. To the extent that such discussions succeed in getting to grips with the basic issues, differences and divisions are exposed, articulated and re-emphasised. This in itself can be important: while the exposure and articulation of unreasonable viewpoints may not change them, it will detract from their support. However, in the last resort such differences can be resolved, or the action that is appropriate to the circumstances taken despite them, only by a political process or procedure.

3.4. If in principle there is no "right" answer to the question: does the level of public expenditure matter?, a clear answer is now emerging in practice. The present level of public expenditure (even when allowance is made for the effects of the world recession) requires a level of taxation that is very widely (if not universally) felt to be excessive, but which nevertheless still leaves a very large overall budget deficit and a heavy borrowing requirement. The present size of the current budget deficit and the amount and terms of public sector borrowing—the high interest rates and the relatively short periods within which the loans must be repaid—provide no grounds for hope that the tax burden can be lightened in the foreseeable future. In one respect at least public debt is the same as private debt—it curtails the debtor's freedom of action by prescribing in advance how a part of future income must be allocated.

3.5. In Table 3.1 below, an attempt is made to show what happened to real disposable incomes (that is, to what people are left with after they have paid their direct taxes) between 1965 and 1974. The data used



**TABLE 3.1**

**The Trend of Real Disposable Income: 1965–66 to 1974–75**

| "Prototype" Workers | Earned Income 1965–66 | Earned Income 1974–75 | % increase in Gross Income ((3) = (2) —(1) as % of (1)) | % increase in *real* gross income ((3) deflated by increase in CPI*) | % increase in *money* disposable income** | % increase in *real* disposable income ((5) deflated by increase in CPI*) |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| A. Senior Administrative | £4,750 | £9,022 | 89·9% | —4·8% | 68·8% | —15·3% |
| B. Middle Management | £3,045 | £5,785 | 90·0% | —4·7% | 75·3% | —12·1% |
| C. Executive | £1,600 | £3,188 | 99·3% | —0·1% | 81·3% | —9·1% |
| D. Clerical | £1,120 | £2,435 | 117·4% | 9·0% | 93·6% | —2·9% |
| E. Skilled Worker | £921 | £2,330 | 153·0% | 26·9% | 127·4% | 14·0% |
| F. Unskilled Worker | £745 | £2,030 | 172·5% | 36·7% | 152·2% | 26·5% |
| G. Agricultural Worker | £491 | £1,345 | 175·8% | 38·3% | 166·9% | 33·9% |
| *Memorandum Item* | 1965 £ million | 1974 £ million | 1974–65 % increase @ Current Prices | 1974–65 % increase @ Constant Prices | | |
| GNP | £999·6 | £2,928 | 192·9% | 42·0% | — | — |

*Average increase in CPI of 99·4% between 1965 and 1974.
**Increase in gross income *less* direct taxes between 1965–66 and 1974–75—based on data in Table 1 (*a*), 1 (*d*), 2 (*a*) and 2 (*d*) of Appendix 3, NESC, Report No. 11.
*Source: Income Distribution: A Preliminary Report,* NESC, September 1975—Appendix 3.

are taken from the Council's Report on Income Distribution.[1] Seven "prototype" workers are included in the table. For the first four—senior administrative, middle management, executive and clerical—the incomes shown are based on public sector salary rates for comparable grades in the tax years 1965–66 to 1974–75. The incomes for the last three—skilled, unskilled and agricultural workers—are based on published statistics and assume that the full amounts due under the National Agreements were paid during 1965 to 1974. The consumer price index was used to deflate the increase in money incomes (column 3) in order to obtain the increase in real incomes (column 4). In calculating the increase in direct taxes, it was assumed that in each of the seven categories, the "prototype" worker had a wife and four dependent children. The direct tax payments in 1965–66 and 1974–75 were deducted from the gross money incomes in columns 1 and 2 respectively to obtain the increase in disposable incomes in money terms shown in column 5. These increases in disposable incomes were deflated by the rise in the consumer price index to get the changes in real disposable incomes shown in column 6. If the number of dependants is smaller than assumed in the table, then the improvement in real disposable incomes will be smaller (or the reduction greater) than is indicated by the figures in column 6; and conversely if the number of dependants is larger. In the last row of the table, the figures in columns 1 and 2 give the gross national product (GNP) at current market prices in 1965 and 1974 respectively. The percentage increase in GNP at current market prices is given at the bottom of the table in column 3, and the increase in real GNP between 1965 and 1974 (using the GNP deflator) is shown in column 4.

3.6. The table shows that the workers in the first two categories suffered a reduction in real incomes, and the first three categories a significant reduction in real disposable incomes, over this ten-year period. The middle category—clerical worker—experienced a slight

[1]See *Income Distribution: A Preliminary Report*, NESC No. 11, September, 1975. The study suggested that payments to, and benefits received from, the State helped to narrow the spread in the command over resources enjoyed by the prototype families included in the study. The Government accepted the Council's recommendation that the Department of Finance should continue this research in the area of income distribution through further studies at periodic intervals.



reduction in real disposble income between 1965 and 1974. The remaining three categories—skilled, unskilled and agricultural workers—all enjoyed increases in real disposable incomes, but the percentage increase was the smaller the higher the income being earned. The figures in the table must, of course, be interpreted with caution. As was emphasised in the Council's Report on Income Distribution, the precise results depend on the data used, and on the assumption made about the number of dependants. In calculating real disposable incomes, no adjustment was made for any allowances that might be claimed for mortgage interest, voluntary health insurance contribution, etc. But despite all these limitations, the figures do give an indication of what happened over this ten-year period—namely, there was a squeeze on real disposable incomes that was progressively tighter for the higher income groups. The squeeze on real disposable incomes in the middle and upper ranges was effected by smaller percentage increases in money incomes and by the progressive structure of income taxation. The degree to which real disposable incomes were squeezed certainly increased towards the end of the period covered by the table. There is no doubt that the squeeze was further tightened through 1975 and into 1976.

3.7. The growth in money incomes, and its causes and consequences, have been discussed in previous Council Reports.[1] One major pressure for increases in money incomes springs from attempts to improve, or at least maintain, the standards of living that employees are currently enjoying. In Ireland over the last ten years, those workers who remained in employment generally succeeded in increasing their money incomes at a rate faster than the rise in consumer prices. However, employees increasingly tend to measure their standard of living by what they can buy with what they are left to spend after direct taxes have been paid, because they tend to disregard the value of the benefits provided by public expenditure and see their disposable income as the money from which they pay for their current consumption and provide for future contingencies through saving. The progressive rates of direct taxation and the fact that personal allowances were not maintained in real terms

[1]See *Report on Inflation*, NESC, No. 9, June 1975, and *Economy in 1975 and Prospects for 1976*, NESC, No. 13, October 1975.

meant that real disposable incomes rose very slowly and at a much lower rate than national output. Attempts to maintain real disposable incomes—if not to prevent a reduction in the rate of growth in them to which employees had become accustomed—help to explain at least a part of the pressure for higher money incomes in recent years.

3.8. Increases in many types of public expenditure at a time when the level of taxation is widely felt to be excessive may therefore have inflationary consequences. The inflationary pressures may come from the extent to which the financing of the growing public sector deficit involves increases in the money supply (either as a result of direct borrowing from the banking system or of external borrowing). Inflationary pressures may (and indeed have increasingly) come from the efforts of employees to protect their living standards in the face of attempts to finance the growth in public expenditure by higher taxation. These are some of the reasons why the level of public expenditure must be a matter for grave concern at the present time. Unless the community is prepared to accept a level of taxation which finances a rising proportion of public expenditure, there is no escape from (at worst) a fall in real public expenditure or (at best) a very much slower rate of growth in it.[1]

3.9. It would appear that the present level of taxation is increasingly felt to be excessive and that any further rise in tax rates would be

[1]The views set out in paragraph 3.4, 3.7 and 3.8 are essentially the same as those of the Minister for Finance. In his Financial Statement (see Parliamentary Debates, Dáil Éireann, 28 February 1976, column 626) he said:—

> "There is . . . a growing contrast between the demands of the public for services to be provided 'free', or at prices which do not cover their cost, and their obvious reluctance as taxpayers to pay for them. Let it be bluntly said and honestly admitted: the Government cannot provide 'free' services. They have to be paid for by someone and that someone is the taxpayer . . . The taxpayer's reluctance shows itself in the demands for wage increases to compensate for the increased taxation necessary, in the tendency towards tax avoidance and evasion, and in the unwillingness of those at present outside the tax net to be brought within it, at least on the same terms as everyone else. Indeed, in the difficulty of raising increases resources and in the ceilings of varying kinds that taxation seems to be approaching there are also compelling reasons for taking firm action on public expenditure."



unacceptable to those that have to pay them. This is happening because of the co-existence of high rates of indirect taxation, the progressive system of direct taxation and a historically high rate of inflation: together, these have meant many people have suffered a significant fall in real disposable income in recent years. At the same time, there has been very little pressure, and very few specific proposals, to reduce any particular items of public expenditure. Indeed, most of the pressures are for increases in various items of public expenditure, both current and capital. And those who see a cause of the present economic difficulties in the present level of public expenditures, and therefore believe that their total should be reduced, very often argued for increases in particular expenditures or for reductions in taxes (which would at least temporarily raise the public sector deficit) to give an incentive to producers. It is worth examining how this inconsistency in attitudes arose and why it persists.

3.10. In attempting to explain these inconsistent attitudes, at least four things are relevant. *First*, until very recently the goods and benefits provided by the public sector were widely regarded as "free", and were often presented as such to the electorate. It is not surprising that they were so regarded because no sustained effort was made to relate new public services, or improvements in existing ones, to the increased taxation that would be required to pay for them. The nearest approach to relating the cost to the benefit occurred where increases in contributory benefits (such as old age pensions or unemployment benefit) and in the weekly social insurance contributions by employers and employees were introduced from the same date. However, even here those who paid more were not those who immediately enjoyed the higher benefits, so that the message was diluted.

3.11. *Second*, to the extent that the fact was appreciated that public goods and services (such as education and health) had to be paid for, it was assumed that they would (or should) be paid for by people other than those who mainly benefited from them. Until a decade or so ago, there may have been some grounds for this belief—many of the benefits of public expenditures were enjoyed mainly by the "poor" and the payments were made mainly by the "rich". To help to finance the rapid growth in public expenditure in recent years, tax revenue has had to be raised and the direct tax burden is now felt even among the lower income groups.

3.12. *Third,* direct tax payments that eat into private expenditure that would usually be undertaken by working class families may have contributed to a wider appreciation of the fact that public goods and services have to be paid for. But this helped to raise the issue of whether or not public goods and services were "value for money". The general reaction suggests that at the margin, either the view persisted that the cost of public goods and benefits should be met by the higher income groups, or that goods provided by the public sector were regarded as less attractive than the private consumption that had to be forgone as a result of the tax payment necessary to help pay for them. This latter may be due, at least in part, to the "indivisibility" of many public services (e.g. defence, law and order). This makes it difficult for people to relate the benefits they receive from such services to the tax burden that they know they are bearing. It may be inherent also in the nature of many public services: the young may not want to contribute to the cost of pensions and the healthy may prefer to spend money on a holiday rather than helping to maintain a hospital.

3.13. *Fourth,* it can be argued that many of these problems could have been avoided or eased if taxpayers (and especially those in the middle and lower income groups) had been persuaded to think of the "social wage" accruing to them, rather than of their real disposable incomes. In broad terms, the social wage is the gross income earned *less* direct and indirect taxes paid *plus* all benefits received both in cash and kind. The pilot study described in *Income Distribution: A Preliminary Report* (NESC, No. 11) was in effect an attempt to identify the "social wage" for a number of prototype families, and it gave a rough indication of the way in which command over goods and services was redistributed as a result of public expenditures and taxation. However, so far in this country the concept of the social wage seems to have had little significance in practice: it seems to be regarded as a theoretical (perhaps even an ideological) construct; it has not been identified by wage and salary earners and has had little or no effect on their behaviour in pay negotiations. It would clearly be desirable that the implications of Government expenditures which increase the social wage or salary in



real terms should be taken into account. It must be recognised that social services in the broadest sense are not applicable only to wage and salary earners, but to all sections of the community to a greater or lesser degree.

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

## Chapter 4

# WHY GOVERNMENT EXPENDITURE HAS RISEN

4.1. It might seem reasonable to argue that the level, behaviour and composition of public expenditure, and the manner in which it is financed, ought to be the result of rational decisions about what is required to maximise the economic and social welfare of the Irish community. What the community wants should be made known through the democratic process, and the decisions relating to public expenditure and taxation should reflect the expressed wishes of the community. If this view were accepted, then the blame for the rapid growth in public spending, the rise in tax rates towards the limit of taxable capacity and a public sector borrowing requirement[1] of around 19% of GNP in 1975, and for the contribution that these developments made to domestic inflation, would lie squarely on the community. While there may be some element of truth in the view that the community got what it wanted, it is nevertheless too simple because it implies that a mechanism exists through which the community's (that is, the sum of all individuals') choices about how national resources should be used can be clearly indicated.[2]

4.2. In an election, all voters are equal. They are offered a choice between the different packages of issues and policies put forward by political parties—packages which are not comprehensively costed and whose tax implications are not indicated. These packages must, of course, be attractive (and this point is dealt with more fully below). But there is no way in which a voter can register his preferences for any single item within the mix offered in any particular package, nor indicate

[1]The *Central Government* borrowing requirement as a percentage of GNP in 1975 was about 17%.

[2]In technical terms, there are insuperable difficulties in compiling a social welfare function which accurately reflects the individual preferences of the voters and which contains no dictatorial decisions.



the relative strength of his preferences for different items. Moreover, it cannot be assumed that politicians always respond precisely to the will of the majority—they may have worthy private views about what should be done. The view expressed in the previous paragraph—namely, that the community may seem to will the ends but simultaneously deny the Government the means to achieve them—is therefore too simple to explain or predict the behaviour of governments.

4.3. There are at least five basic reasons which help to explain the long-term upward trend in public expenditure as a proportion of total national expenditure. The *first* reason has been stated as follows by Mr. Kelly, Parliamentary Secretary to the Taoiseach:[1]

> "It seems to me that governments, possibly through the accumulation of generations of democratic existence which carried with it the constant effort to attract political support and, in a sense the constant effort to attract political support and, in a sense—perhaps, buy votes, have saddled themselves with tasks that I feel—not just now but under Fianna Fáil also—in some respects are almost beyond them."

In its simplest terms, this point might be developed as follows. The objective of a political party (or parties) in opposition is to get a majority at the next election. The objective of the political party (or parties) in government is to remain in government. Whether in opposition or in government, the business of politics is "to sell policies for votes". In normal conditions, policies which confer benefits on voters as a whole, or on significant groups of voters, tend to succeed in attracting votes. Such policies inevitably involve increases in public expenditure. Policies which deprive voters of benefits which they might otherwise have enjoyed—such as increased taxation or reductions in the quantity or quality of public services or benefits—tend to lose votes. In these circumstances, it could be argued that an upward trend in public expenditure is probably inescapable, and that it may be difficult to avoid an increase in the relative importance of public expenditure in total national expenditure.

[1]See Parliamentary Debates, Dáil Éireann, Wednesday, 4th February 1976, column 1104.



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4.4. The logic of a parliamentary system in which the number of parties is small might suggest that the parties would tend towards agreement on the policies and issues which are supported by a majority of the electorate. In this kind of system the policies put before the electorate would be similar and not precisely spelt out—in other words, there would be a tendency towards consensus policies. This in turn would carry implications for public expenditure. There could, for example, be competition for the allegiance of the "floating" voters; since these are spread over many interest groups the policies to attract them are likely to be relatively costly.

4.5. As spelt out in the previous two paragraphs, this view of the implications of a democratic system for public expenditure is too simple. Elections have been won on issues that do not involve any substantial public spending. The allegiance of voters is determined by many things other than the benefits which a political party promises. If there appears to be no basic ideological differences between parties, and therefore a wide range of policies and issues on which they agree, that consensus is a result of many important considerations other than competition for votes. The "floating" or "marginal" voters undoubtedly exist but it is very difficult to identify them or estimate their numbers. The policies which might attract them need not involve large public expenditures. Moreover, to win elections it might be at least equally, if not more, important to increase the "turnout" of those whose allegiance seems assured, and the package of policies and issues that would succeed in doing so might be very different from those that would attract the allegiance of the "floating" voters.

4.6. Nevertheless, even when all this is recognised, there remains some element of truth in the view that public expenditure tends to attract voters and the taxation to pay for it to displease them. As Edmund Burke said: "To tax and to please, no more than to love and be wise, is not given to men."

4.7. *Second*, the objectives of Government Departments and of the State agencies for which they are responsible will have implications for public expenditure. What is relevant is not so much the objectives of the Departments and State agencies as statutorily defined, but rather the



objectives of those who work in them. The most realistic assumption is that, within such overall constraints which may be set by the Government, Ministers responsible for "spending" Departments seek as high an allocation as possible in their budgets. The realism of this assumption could not, of course, be proved or disproved by surveys or questionnaires; its validity rests on observation of what has happened in practice. Ministers and public servants are committed to serving the public interest, though it is not a simple task to determine unequivocally where the public interest lies on most specific issues. Moreover, the demand for the services of "spending" Departments (such as Education and Health) seems to be virtually insatiable. Given the Departments' (or an Agency's) functions, the provision of more and better services tends to be equated with the furtherance of the public interest, and this is both reasonable and in some circumstances commendable. Indeed, Ministers and their Departments tend to be judged by the new services they succeed in providing and by the existing services whose coverage they extend. And these things cannot be done without spending more money.

4.8. The efforts of a Department or State agency to raise its budget year by year are undoubtedly strengthened by public pressures from organised interest groups. These groups usually represent producers rather than consumers. This is what might be expected, since most people earn their income from one or a few sources and spend it over a wide range of goods and services. Producers' interests are therefore more easily identified and organised than those of consumers. Moreover, interest groups representing producers (such as employers', management and farmers' organisations and trade unions) have perhaps most to gain by trying to influence Ministers and Departments in their favour. Producers' organisations tend to be more articulate and the pressures they can bring to bear may be particularly strong where they represent groups (such as the professions) whose earnings and level of education are relatively high, or groups whose capacity to disrupt the economy is great.

4.9. Other (though less important) considerations may support the pursuit of a larger budget as an objective. A larger budget may enhance the public reputation of Ministers. It may also increase a Department's power and its effectiveness as it sees it. Incidental consequenc (though not causes) of a larger budget may be the opening up of new opportunities for promotion and the creation of greater job security through reducing the possibility of staff reductions or of staff transfers. These phenomena are common to all bureaucratic organisations, whether in the private or in the public sector.

4.10. *Third,* the pursuit of an objective does not, of course, mean that it will be achieved. The Council understands that for each year the Department of Finance indicates a ceiling for public expenditure that is consistent with its estimate of the resources available. Too often, the pressures for increased expenditure may be so strong that the ceiling initially indicated has to be raised to accommodate the conflicting demands.

4.11. The manner in which this occurs can be illustrated by an analogy. A basic cause of the domestic contribution towards inflation is that the real incomes that individuals and groups demand together add up to more than the real output that is available for distributing among them. Individuals, groups and agencies demand increases in the amount of money available to them that would enable them to acquire the share of real output which they feel they need or to which they believe themselves to be entitled. As these sums are spent in an attempt to acquire the desired shares of real output, prices are raised. The rise in prices is the process by which the demands of individuals, groups and agencies are ultimately cut back in real terms to the real output that is available for distribution among them. Until the price inflation develops there is the illusion that the higher money incomes are succeeding in satisfying the claims of the protagonists—in reconciling the irreconcilable.

4.12. A somewhat similar process may create a tendency for public expenditure to rise. Each year ceilings are presumably set to limit the level of public expenditure. These ceilings are the analogue of the real output available in a particular period for distribution among the different individuals and groups in the economy. The estimates submitted by



Departments and Agencies, when added together, invariably exceed any ceiling that is fixed. There follows a complex process involving Ministers, the Department of Finance and the spending Departments in which the estimates as originally submitted are examined and almost always reduced. This process can be a lengthy and painful one, and even after it is completed the total of the revised estimates will exceed the overall total that is initially fixed. In other words, there is conflict over shares in the overall total that is available—conflict because in these circumstances the revised estimates of some Departments can be met only if the estimates of others are further reduced. Given the nature of the democratic system (see paragraph 4.3 above), what is basically at stake is the relative power and influence of different Ministers and their Departments. The temptation to raise the ceiling and thereby ensure that all contestants can be accommodated, is not always resisted.

4.13. *Fourth,* no satisfactory arrangements exist for public discussion of the effectiveness of public expenditure in achieving the objectives for which they were introduced or are currently being made. In general, the Dáil has the opportunity of discussing one aspect or another of the estimates of expenditure only twice during the year. First, it has an opportunity of discussing the estimates in a general way in the Budget debate which results in the annual Finance Bill. Second, it has the opportunity of examining the estimates in a more specific way when it is dealing with the Money Resolutions for each Vote in preparation for the annual Appropriation Bill. The Dáil also may discuss estimates of public expenditure in a general way[1] during "Adjournment Debates" or "No-confidence Motions". Furthermore, the estimates for each

[1]In Ireland at present there is no equivalent of the British Select Committee on Expenditure. However, the Minister for the Public Service has recently proposed the setting up of a Joint Committee, consisting of members of the Dáil and of the Seanad, to examine the reports and accounts and overall operational results of State-sponsored bodies engaged in trading or commercial activities. As presently conceived, the Joint Committee would have power to send for persons, papers and records, as well as engaging the help of outside experts to assist in particular enquiries. It is envisaged that the Joint Committee would report on its deliberations to both Houses of the Oireachtas and make recommendations where appropriate. It is also envisaged that the Joint Committee would have power to publish its findings, together with evidence given to it including any relevant documentation.

Department must be approved annually by the Dáil, but the number of estimates debated in detail has tended to become smaller in recent years. In Ireland, when new policies are introduced, or significant extensions made in existing policies, there may be an opportunity for debate in the Dáil. But the implications for public expenditure, and therefore for the level of taxation, are not projected forward over a number of years when such new or extended policies are being presented.

4.14. The Comptroller and Auditor General has the function of auditing and certifying the accounts of Departments and public bodies. He may also seek to identify and report on areas in which there has been loss, waste or uneconomic expenditure in the implementation of Government policies. The Comptroller and Auditor General reports to a Select Committee of the Dáil, namely, the Committee on Public Accounts. The Committee examines, and reports to the Dáil on, the accounts and may suggest alterations and improvements in the form of the estimates. Its influence on Departments is indirect and mainly consists in such publicity as may be given to its reports:

> "The Committee may not concern itself with policy and may not, therefore, question the amounts of the estimates. It may, however, consider the merits of expenditure and may not accept a plea of policy if it appears unwise, unnecessary or extravagant. Neither may it concern itself with matters of administration unless they are shown to be negligent, extravagant or ineffective."[1]

4.15. The present procedures were derived from those in Britain. The British procedures were devised to do a much needed job in the second half of the nineteenth century, namely, to ensure regularity and economy (in the narrow sense) in public expenditure that was very small in volume and which included very little capital expenditure and very few programmes of expenditure that continued over a number of years.

[1]See J. B. O'Connell: *The Financial Administration of Ireland*, Dublin, 1960, page 145.



The system has never been fundamentally altered to take account of the vastly larger volume, and much greater diversity, of public expenditure, or to take advantage of the possibilities for systematic scrutiny and control offered by the development of the social sciences.

4.16. Within present procedures in this country, then, there is the opportunity for only rather remote scrutiny of individual public expenditure by the Dáil. The role of the Comptroller and Auditor General is one of traditional audit, and not efficiency audit. Studies made within the public service of the efficiency of public spending—that is, whether or not each of the major items in it represents the minimum expenditure necessary to achieve its objective(s)—are not published. In the latter half of the 1960s, cost benefit studies were made of the major semi-State bodies and of the main items of public capital expenditure. The results of only a few of these studies were published, and then in summary form. The paucity of published studies must inhibit informed public discussion of the effectiveness of public expenditures in achieving the objectives for which they were authorised and of their efficiency in doing so. It also provides no basis for debating whether or not the present composition of public expenditure, or increases in its level, are succeeding in realising the major objectives of economic and social policy.

4.17. Under present procedures, when new or extended services are introduced, no projections are made available of how the cost will develop over a number of years. At most, the cost in the year in which the changes are made, and in the ensuing full financial year, are given. No projections of how total public expenditure is likely to grow over the next four or five years are made available. These would, of course, have to be based on present policies and should be accompanied by a statement indicating whether standards of service would be maintained, improved or reduced. There are obvious difficulties in making such forward projections, especially in relation to the assumptions about price and income changes on which they must be based. But there are even more obvious problems in entering into policy commitments before their implications for the future are estimated and examined. There is no reason why a range of values should not be given. If projections for public expenditure were made available, they should be accompanied by some estimate of the rate at which the economy was expected to grow.

4.18. In short, under present arrangements informed debate and reasoned judgments on public expenditure are made more difficult because no information is made available on whether individual services offer good value for money, on the extent to which the level and composition of public expenditure are helping to realise the overall objectives of economic and social policy, on how individual expenditures and the overall total will grow in the years ahead, and on how this growth is related to, and how it will affect, the growth in the economy. In these circumstances, it is not surprising that increases in public expenditure meet acquiescence rather than critical examination and debate.

4.19. *Fifth,* present arrangements tend to focus attention on public expenditure and the benefits that are expected to follow from it; too little attention is paid to the reduction in private expenditure on consumption and investment that will be required to finance it, or to the comparative value derived from such expenditures as against public expenditure. The annual Budget debate does not offer an adequate opportunity for an examination of these issues. By the time the Budget is introduced, increases in expenditure and tax rates have been determined, the scope for significant change is very limited, and attention is concentrated on incremental changes rather than on the overall position. Informed debate requires not only that projections of the growth in public expenditure over the next four or five years should be made available, but that some indication should be given of how it will be financed. Unless this is done, any serious consideration of the overall impact of the activities of the public sector on the economy will be impossible. Public expenditures affect the level, composition and distribution of national output (though very little is known precisely about the extent to which they succeed in doing so). The transfer of resources to Government and Local Authorities to finance public expenditure reduces private consumption and investment expenditures and therefore also affects the level, composition and distribution of national output. The net effect on the economy as a whole can be



judged only if public expenditures and the manner in which they are financed are considered together.[1]

4.20. The need for projections of the growth of the major items of public expenditure and of the total has already been discussed. These must be accompanied by projections of tax revenues. The "benchmark" projection of public expenditure should be based on existing standards of service and the existing real rates of current and capital transfers. There is no reason why other projections should not be given, based on planned improvements (or changes) in services and benefits, and including the effects of any policies whose introduction is planned. The forward projections of revenue would necessarily have to be based on the assumption that the existing tax rates and tax structure would be maintained: any indication of future tax changes could encourage speculation, and would certainly give tax consultants the opportunity of planning how they could be avoided.

4.21. If projections of tax revenue on the assumption of no change in tax structure, and alternative projections of public expenditures (see previous paragraph), were made available and the two projections integrated, some of the defects in present procedures would become less serious. Public services and benefits could no longer be regarded as "free"—the growth in their cost would have to be discussed in the context of how much would have to be raised from new taxation or higher tax rates in order to pay for them. In addition, the availability of

[1]In his Financial Statement (see Parliamentary Debates, Dáil Éireann, 28 January 1976, column 663) the Minister for Finance stated:—

> "While the individual components of a budgetary package can, in isolation, be labelled 'expansionary' or 'deflationary', these labels are merely of academic interest or make good debating points. Of course, if disputation were the answer to economic problems, we would have none. Leaving aside the niceties of academic debate it is the overall impact of the budget that matters: in other words, the total effect of the increases in current and capital expenditure, after account is taken of the offsetting influence of increased taxation."

This, of course, is true and has not been a matter of dispute between academic economists for decades. In this and the following paragraphs, however, the Council is concerned with much more than the "overall impact" on aggregate demand in a single year.



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the projections for four or five years ahead would make it possible for more significant changes in the level and composition of public expenditure to be discussed. Without projections, decisions must be taken on an annual basis and this seriously limits the scope for changes (and may indeed confine it to changes in an upward direction).

4.22. In this chapter, an attempt has been made to identify some of the main underlying reasons why public expenditure has risen. The emphasis has been on trying to explain the longer term upward trend and not that part of the rapid rise in recent years that has resulted from the world recession. Apart from the pressing need for public provision of many services, the pressures favouring higher public expenditures lie in the democratic process, the nature of bureaucracies, the difficulties in resolving conflicts between Departments, the influence of articulate (and inarticulate) interest groups, and the limited opportunities that exist at present for informed public debate of public expenditure and of its growth and effects. All these may help to explain the very large number of decisions to increase individual items of public expenditure which have resulted in the upward trend in the total. It must be emphasised, however, that public expenditures have risen because decisions were made to raise them either explicitly or by default—the expenditure of public funds must be authorised, and does not (and cannot) merely happen. Inherent in all these decisions was a preference (if only implicit) for spending rather than not spending or spending less. This needs to be said because of the tendency to assume that if something can be explained then it must be inevitable.



## Chapter 5

# HOW PUBLIC SPENDING COULD BE CURBED: SHORT-RUN

5.1. A central argument in this Report is that the present level of public expenditure (even when allowance is made for the effects of the world recession) requires a level of taxation that is very widely (if not universally) felt to be excessive, but which nevertheless leaves a very large overall budget deficit and heavy overseas borrowing (which cannot for long be sustained) in order to help finance it. Increasingly, there is 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).[1] When these claims for higher money incomes are pressed, the competitiveness of the private sector is further eroded and private sector employment falls. But public sector spending rises and the overall deficit is not significantly reduced.

5.2. In these circumstances, either all must be forced to accept a lower level of (or much slower growth in) private consumption and the lower level of private investment (and its consequences) must be accepted also or the historic rates of growth in public expenditure must be reduced. It may be very difficult to reduce sufficiently the growth in private consumption and constraints on the growth in private investment will have implications for economic growth. The solution may therefore

[1]This reaction is not, of course, the sole cause of price inflation in Ireland. For a discussion of other influences at work, see *The Economy in* 1974 *and Outlook for* 1975, NESC, No. 3, November 1974; *Report on Inflation*, NESC, No. 9, June 1975, and *Economy in* 1975 *and Prospects for* 1976, NESC, No. 13, October 1975.

have to be sought in reducing the growth in public expenditures. In this chapter, the possibilities of doing this in the short-run are examined. In the next chapter, what might be done in the medium term is discussed.

5.3. In neither this chapter nor the next is any attempt made to specify the particular public expenditures which should be cut or curbed. Each member of the Council as it is constituted, and each organisation represented on it, has his or her (or its) own views on which items of public expenditure (and the number of individual items is very large) should be cut and by how much, and indeed on which particular items should be raised. The order of priority in which the items eligible for reduction would be listed would differ widely between different members and organisations. There would be unanimity only on the fact that debt charges should be met. Otherwise, there would be little or no correspondence between the different orders of priority—indeed, there would be almost as many as there are Council members. Not only are no unanimous recommendations possible, but neither are majority recommendations because the composition of the majority would vary from one major item of spending to another. The differences of view and emphasis within the Council merely reflect those which exist in Irish society. However, on one issue there is general agreement: the main brunt of the adjustment would have to fall on total public expenditure, and it is a function of the Government to effect these adjustments. And the speed with which the necessary adjustments are effected will have important implications for competitiveness and the future growth of the economy. The problems posed for Government in reducing the growth in public expenditure may be little more unpalatable than those which Government has faced and resolved when decisions have been made to raise the rates of direct or indirect taxation.[1]

[1]There may have been a preference for tax increases over reductions in expenditure. If fiscal policy had been used to iron out fluctuations in the economy, then tax-rates would have been raised to dampen activity during booms and expenditure increases to support economic activity during recessions. A "ratchet effect" would have operated on public expenditure. However, the available evidence does not support the view that fiscal policy was used to stabilise the economy. What evidence there is suggests that it was on balance de-stabilising. (See *Causes and Effects on Inflation in Ireland* NESC, No. 10, 1975).



5.4. However, it might (and very probably will) be argued that the Council should nevertheless attempt to make specific recommendations indicating the particular items of public expenditure that should be cut or curbed. Even if the difficulties described in the previous paragraph did not exist, it would at present be impossible to do so. The Council does not have the details of the amount spent on individual public programmes and their constituents. Moreover, in addition an assessment of the efficiency and effectiveness of each individual programme would be required. The Department of Finance should take the initiative in obtaining these data and assessments from the Departments concerned, on a consistent basis. If this information were made available to it, the Council (despite the diversity of view among its members) would be in a position to attempt to reach specific recommendations.

5.5. In the short-term, there are a number of difficulties in reducing (and arguments strongly pressed against attempting to reduce) Government expenditure. About 43% of current Government expenditure is paid back to the public in the form of price and other subsidies and social welfare payments. Around 39% covers the cost of running what are considered to be essential public services and the remaining 18% is committed to interest payments on public debt. Moreover, public service remuneration represents about 32% of current Government expenditure.[1] No reductions in service charges on existing debt or in social welfare benefits generally are conceivable; and reductions in public sector pay (below what is being paid for comparable work in other activities) are not practicable.[2] In Ireland, as in other European countries, practically all civil servants and most other public servants too have security of tenure and the possibility of reducing their numbers (other than by natural wastage) is, therefore, very limited. Moreover, some current

[1]This percentage understates the wage and salary content of current Government expenditure because it excludes (for example) the pay content of grants-in-aid (e.g. to the Economic and Social Research Institute and An Foras Talúntais) and of the subventions (which are treated as transfer payments) to secondary schools and the universities.

[2]However, given the present size of the public sector it may now be valid to question which is dog and which is tail. In other words, public sector salaries may now be becoming the standards for comparability in the private sector.

expenditures are not wholly under the Government's control—for example, given the rates of pension or benefit, expenditure on old age pensions and unemployment benefit depend on the numbers eligible. In the short-term, therefore, the main emphasis must be on limiting the growth in current expenditures and improving the efficiency with which they are provided.

5.6. For most public capital expenditures—whether on social or economic infrastructure—five or more years may elapse between the start of planning and the completion of the project. Once a project has been embarked upon, it is very often wasteful and disruptive to slow down the rate of expenditure on it. Nevertheless, when there is pressure to curb public spending, it is often easier to slow down the rate at which existing capital projects will proceed and to postpone new capital commitments. This has happened in the past—for example, in the late 1950s and during 1965 and 1966.

5.7. When the growth in total public expenditure has to be curbed, productive public capital expenditures should not be made to suffer disproportionately for at least two reasons. First, public capital expenditures encourage private investment (for example, industrial grants) and expenditures on infrastructure are often a precondition for private investment or complementary to it. Second, if the growth in public capital expenditure is curbed disproportionately, it is the private sector (and especially the construction industry and the industries that depend on it) that suffers in comparison with the public sector. Jobs can be lost in the private sector without the public sector reducing its own labour force.

5.8. If the growth in public expenditures has to be curbed because difficulties are being experienced in financing it, there is little alternative in the short-run to the use of rules-of-thumb. Examples of conceptually simple rules are limiting the growth in public expenditure to the growth in GNP at current market prices (which is approximately the same as limiting the growth in real public expenditure to the growth in real GNP), or stabilising the numbers of publio servants. By their nature, such rules are arbitrary in their application and may have little economic



or social justification. In any year, the level of public expenditure reflects decisions made last year, the year before and indeed decades previously. At the beginning of any year, the scope for reducing the growth in public expenditure (never mind reducing or even stabilising its level) is very limited. The time to worry about the level of public spending is when new expenditures are being considered. If very little can be done today to reduce significantly (for example) the growth in this year's current spending, what is done today can materially influence its behaviour in three or five or ten years' time.

5.9. Keeping the rise in public expenditure in step with GNP may be a good rule-of-thumb only to the extent to which it brings public spending more into line with what the community is prepared to pay for, without undue reliance on increases in the domestic money supply through borrowing from the banks or from external sources. If such a rule were introduced quickly, the "cuts" applied would necessarily be arbitrary, because there would be no time to identify which objectives would involve the least sacrifice of economic and social objectives and "inadvertent policy-making" (that is, unplanned reductions in standards of service) may be unavoidable. There is also the danger that the mere observance of the limit set for particular expenditures may be interpreted by a Department as an indication of its "efficiency". Limiting the growth in the number of public servants is subject to similar criticisms. Its impact is likely to be arbitrary, because it will generally involve not filling vacancies where they exist or not replacing staff in the Departments where they retire. It may also lead to the sub-contracting of such services as cleaning, even though the same number of people may be employed with little saving to the taxpayer.[1]

5.10. Other rules that are somewhat less simple may be more useful. One example is based on the application of "sound business practice" to the public finances. Current expenditure should be financed by current revenues (that is, from taxation). If there is a limit to the amount of taxation that is politically acceptable, this will limit the growth in

[1]However, sub-contracting may have some advantages. It is easier to get rid of a sub-contractor if a service is discontinued than to get rid of permanent public servants.

public expenditure. Capital expenditures (that is, those which increase the national capital stock) should (or may legitimately) be financed from borrowing. If the new capital assets are productive, they will raise national output and provide the money to pay the interest and repay the borrowings without any increase in tax rates. For the current budget, this rule was consistently followed in Ireland until the early 1970's. Indeed, some capital expenditures (namely, sinking fund charges) were financed from current tax revenues so that (strictly and in the national income sense) there was typically a current budget surplus. The reapplication of this rule is the aim of Government policy.[1]

5.11. The rule described in the previous paragraph will not necessarily be consistent with the requirements of demand management. There will be occasions on which a current budget surplus or deficit would be required to reduce fluctuations in output and employment. However, what is economically desirable may be politically difficult. For example, it is relatively easy to run a current budget deficit to help expand total spending in the economy, but it is much more difficult to move from a current deficit to a current surplus when the economic situation so requires. Moreover, when current deficits and surpluses are used to help manage the economy, a continuing upward trend in current public expenditure may result. When national spending has to be curbed (for example, to reduce inflationary pressures or the external deficit), tax rates may tend to be raised while expenditure is maintained. When it seems necessary to raise national expenditure (for example, to expand output and reduce unemployment), tax rates may tend to be maintained while expenditures are increased. There is therefore a "ratchet" effect on public expenditure: it rises in "steps", going up but never coming down. In other words, the whole burden of the adjustment for stabilisation purposes is placed upon the private sector. Finally, if it is difficult to adhere to this rule, it can be even more difficult to return to it after it has been broken. The current budget deficit in 1976 was estimated at £327 million in the January Budget. This is equivalent to 8% of the 1976 GNP at current prices. The elimination of a current deficit of this size within a three-year period will require a significant transfer of resources from the private sector through taxation unless there are reductions in real current public expenditures.

[1]In his Financial Statement (Parliamentary Debates, Dáil Éireann, 28 January 1976, column 642) the Minister for Finance stated:—

> "Borrowing for capital purposes is justifiable in the context of our long-term economic aims. Borrowing to meet current deficits is not, no matter how defensible it may be by reference to immediately pressing requirements. It is the Government's firm intention, therefore, to phase out the present current deficit over a three-year period".



5.12. Another example of a more sophisticated rule of thumb is the "structural budget margin" which has been used in the Netherlands. The margin is the sum of money which the Government considers to be available each year for increasing public expenditure and/or for reducing tax rates. It is calculated on the assumption that Government expenditure should not rise as a proportion of the GNP in money terms. The calculation of the margin can be illustrated by an example. Suppose public expenditure in 1975 was 50% of GNP. Suppose further that in 1976 GNP at the money values current in 1976 is expected to be 20% higher than in the value of 1975 GNP, and that revenues at 1975 tax rates will rise $1\frac{1}{4}$ times as fast as money GNP. The margin is then equal to:—

$$\tfrac{1}{2}\,(0{\cdot}2 \times 1975 \text{ GNP in money terms}) + (0{\cdot}2 \times 1{\cdot}25)\ 1975 \text{ tax revenues.}$$

If 1975 GNP and tax revenues were £4 billion and £1 billion respectively, then the margin available in 1976 for raising public expenditures and/or reducing tax rates would be £650 million.

5.13. The structural budget margin is a principle for use in successive years. It is concerned with the medium-term rather than the short-term. If strictly adhered to, it could result in conflicts between the margin as calculated and the change in public expenditure and/or tax rates that was deemed appropriate for the purpose of short-term demand management. It is in essence a rule of thumb for stabilising public expenditure as a proportion of GNP, and like all such rules the limit for increased expenditure and/or lower tax rates that it indicates may not be in accord with what is considered politically desirable or necessary. When this happens, the rule is broken (as occurred in the Netherlands in the latter half of the 1960s).

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5.14. The Government has already indicated its intention of balancing the current budget within three years. If the structural budget margin were used, for a number of years a significant part of the margin would have to be applied to reducing the public sector borrowing requirement, so that expenditures could not be raised or tax rates lowered to the full extent of the limit set by the margin. With either rule, therefore, it would be necessary to consider how the rate of growth in public expenditure could be curbed in the years immediately ahead. In the short-term, it would, therefore, be necessary to study how this could be done. At least five things are worth doing. These are discussed briefly below and some of them at more length in the next chapter.

5.15. *First*, an attempt should be made to identify public programmes that could be discontinued or curtailed. Public expenditure has grown by a process of annual accretion. Each element in it was introduced to achieve some particular objective (though that objective was very seldom precisely defined). At the same time, each element of public spending creates its own sense of involvement among those who work in providing the service it finances and among those who benefit from it. There may, therefore, be pressure to maintain it even after its objective has been largely achieved or ceases to be relevant. There may also be attempts to extend the objectives or find new ones. In most cases, not enough detailed information is published to enable redundant programmes to be identified by persons outside the public service. Moreover, the task of reducing or discontinuing a service is not made any easier by the orchestrated pressures of interest groups, the media and public representatives, which so often greet any suggestion of a cut back. The ultimate in these campaigns is to present the responsible Minister as a champion fighting the cut-back, and to assure him of full support, including support for any necessary taxation that may be necessary to maintain the particular service.

5.16. If a public expenditure programme were discontinued or its growth curbed, less of the service would be made available by public



provision, but tax rates could be reduced so that individuals would have more to spend as they pleased. If they decided to spend the increase in their disposable incomes on buying the same service, the total quantity of it provided could remain much the same. There might be changes in the quality of the service. A shift in the present balance between public and private provision in favour of the latter need not necessarily result in less equality of opportunity nor in a less equitable distribution of income and output than exists at present.

5.17. *Second*, unless some existing programmes are discontinued or their cost reduced, the introduction of new programmes will inevitably raise public expenditure. Given the problems that will arise in identifying programmes that have already achieved their purpose or ceased to be relevant, and the time that will pass in the ensuing debate among Ministers and Departments before any decision is reached, it is, therefore, necessary in the short-term to identify political objectives that can be postponed. However, it would be unrealistic to suppose that it would be easy to do so. It is seldom that new political objectives suddenly materialise from outside the on-going process of political and social discussion and debate within the community. At any point in time, therefore, there will be strong pressures from particular interests or groups for new programmes or services to achieve new objectives. These pressures may have so grown in strength that it is virtually impossible to withstand them when the time is reached for a political decision. It may be that all that can be done in the short-term is to make clear that the constraints that must be applied to the growth in overall public expenditure mean that new programmes and services can be introduced only to the extent that existing programmes and services are abandoned or curtailed.

5.18. *Third*, attempts should be made to identify public services in which standards (and therefore costs) ~~can be reduced~~. Those who administer a service are naturally committed to raising its standards and quality—and if they are not, many would argue that they should be. Those who work in providing services (such as education and health) are similarly committed. This commitment is part of their professional ethic and evidence of their dedication to the service and of their belief in its importance to the community. All this is praiseworthy. But standards must be related to the costs of achieving and maintaining them and to the capacity of the community to finance them. Because of the increasing popularity of international conferences of professional bodies and the influence of professional journals, a very strong "demonstration effect" is at work: the higher standards in the richer countries tend to become those to which it is believed Irish standards should be raised. However, this does not increase the ability to meet the cost.

5.19. In Britain, the standard of living (measured by output per head of population) may be about 60% higher than in Ireland, and in the continental EEC countries about twice as high as here.[1] At the same time, the proportion of dependants—that is, the numbers in the age groups up to 15 years and 65 years and over—in the Irish population is significantly higher. This has obvious implications for education and health services. The consequences of attempting to provide the same standards in Ireland as in the continental EEC countries can be illustrated by a simple example. Suppose that on average there, 5% of national output per head is transferred to the public sector to provide education and health services. Suppose further that in Ireland the proportion of dependants in the population is half as large again as in the richer countries. In these circumstances, 15% of national output per head would have to be transferred to the public sector to maintain the continental standards of service here. This example indicates that standards of service must be related not only to what is regarded as professionally desirable but also to the capacity to pay for them.

5.20. *Fourth*, action is needed to improve efficiency. By an improvement in efficiency is meant the provision of a given standard of service with the use of fewer resources, that is, at less cost. In the public sector there are no spontaneous pressures at work to raise efficiency, such as those which can operate in a competitive environment. Competition is strong for firms whose products compete with imports or who are trying to export. The competition becomes stronger still during a recession. Where competition is keen survival depends on reducing

[1]See *Jobs and Living Standards*, NESC, No. 7, June 1975.



costs by improving productivity and efficiency. The external pressures from market forces that can operate in the private sector may be replaced in the public sector by dedication and commitment (which may also be strong in the private sector). However, these motivations need not necessarily work towards minimising costs in the same way as do market pressures.

5.21. No similar pressures exist within the public sector. If efficiency is to be raised, initiative and drive are necessary from within all Departments and State Agencies. There is evidence that the Department of the Public Service is already playing an important role:—

> "A major consideration for the future development of our public service . . . will be concerned with ensuring that individual public sector agencies should be managed effectively and that the public service as a whole should function in a co-ordinated and harmonious fashion in accordance with the principles of best management practice".[1]

But the pre-conditions for translating into practice "the principles of best management practice" may take more account of the susceptibilities of those whose efficiency will have to be improved than would typically occur in the private sector (especially where competition is acute). Moreover, the efforts of the Department of the Public Service to improve efficiency (and in this field that Department must have a special co-ordinating role), may not always be welcomed in other Government Departments and Agencies.

5.22. However, the experience following the report of the Public Service Organisation Review Group (the Devlin Committee) would not suggest that internal initiatives would by themselves be sufficient. For example:—

> "Bureaucracies—and here I mean our public service in general, Civil Service and the other bodies in the public sector—will not

[1]N. Whelan: "Organisation and Management in the Public Service", *Administration*, Volume 21 (4) 1973, page 399.

and, indeed, cannot reform themselves fundamentally without constant pressure and agreement to do so coming from outside themselves, from the political arena in particular. Furthermore, a key prerequisite will be . . . the continuing interest and active involvement of Parliament, Government and individual Ministers in this field".[1]

5.23. While the efforts from within to improve the efficiency of the public service are encouraging, it is accepted by many within the public service itself that many of its activities are neither as efficient nor as effective as they might be. Skilled labour can sometimes be wastefully used. A sense of urgency can sometimes be lacking. Sometimes it may seem that too much emphasis is put on identifying difficulties in proposals from outside the public service for dealing with urgent problems and too little on the constructive activity of formulating positive proposals for coping with them. However, these superficial appearances may well be an inevitable result of efforts to keep down public expenditure. Moreover, it must be emphasised that these are subjective views and that some of the things which are taken as indicators of inefficiency could be unavoidable characteristics of any bureaucratic system, whether in the public or the private sector. It must also be remembered that EEC membership, the preparation of answers to Parliamentary Questions (a time-consuming activity) and the continuing need to ensure that decisions and acts comply with the law, all place significant burdens on the public service.

5.24. *Fifth,* given the importance of curbing the growth in overall public spending, the objective should be to ensure that the net benefit flowing from public expenditure is concentrated, to the maximum extent possible, on those most in need. It is the intention of the Council to return to the question of priorities, within and between programmes, in a later and more detailed study.

5.25. This chapter has been concerned with what little can be achieved, and with what actions can be initiated, in the short-term to

[1] N. Whelan: "Reform (or change) in the Irish Public Service 1969–1975", *Administration,* Summer 1975, pages 124–125.



curb the growth in the public spending. The Council believes that the suggestions point in the right direction, but that by themselves they would not be sufficient; more basic changes are required. These are discussed in the next chapter.

## Chapter 6

# SOME REQUIREMENTS FOR THE CONTROL OF PUBLIC EXPENDITURE

6.1. The consultants' study showed a marked upward trend in public expenditure as a proportion of GNP during 1963 to 1972. The upward trend existed before 1963 and accelerated after 1972. Their projections indicated that if the historic trend in public expenditure policies (i.e, that derived from 1963–64 to 1972–73) were continued, and if sufficient resources were devoted to investment to achieve full employment by 1986, then only a very slow rate of growth in real private consumption per head would be possible. To restrain the growth in private consumption to this historically low rate would require substantial increases in tax rates to transfer to the Government the claims over resources needed to finance the projected growth in public expenditure. The increase in taxation is unlikely to be acceptable to the community, unless there is a radical change in attitudes. It is therefore difficult to avoid the conclusion that the growth in public expenditure must be curbed. In this chapter the Council is concerned with how the long-run upward trend in public spending might be slowed down. The Council believes that the three matters discussed in this chapter could materially influence the trend within a few years.

### Development Strategy

6.2. *First,* a strategy for economic and social development is required. No such strategy has existed since the mid-1960s. There were, of course, the Second Programme for Economic Expansion and the Third Programme for Economic and Social Development. But the extent to which Government was committed to them was at best always ambiguous. Neither of these Programmes was debated in Dáil Éireann. Neither of them seemed to be widely accepted in the public service as a framework for thought and action. Indeed, very little was heard of the Third Programme after it was published.[1]



6.3. Individual policy objectives have been debated and measures introduced to achieve them. But the different objectives have never been related satisfactorily to each other, and in the absence of any overall strategy it is hard to see how they could have been. Too often, the measures taken have been a reaction to events rather than an attempt to mould them. When times were good there was euphoria; when bad, despondency. The Irish economy is small and what happens in the rest of the world has a major influence on it and limits the scope for domestic action. However, this has always been the case and was as true twenty years ago as it is today. If Ireland cannot change the world it has to learn to live in it and must have a clear strategy for doing so.

6.4. There are certain similarities between the present and the mid-1950s. These must not, of course, be pressed too far. Nevertheless, there is considerable concern about unemployment and the level and composition of public expenditure. In the private sector, there is no clear sense of the direction of Government policy. In the private sector—both in agriculture and in industry—there is uncertainty and a reluctance to make and implement plans for future expansion and development. During the years 1955 to 1958, the study *Economic Development* was initiated and completed. That study provided:—

(*a*) a brief outline of the state of the economy, concentrating on the main deficiencies and opportunities;

(*b*) a statement of the principles to be followed in order most effectively to correct the defects and realise the opportunities; and

(*c*) an indication of the specific forms of productive development which appeared to offer the best prospect.

[1]Very little happened despite the work of the National Industrial Economic Council. The NIEC published five reports (Nos. 1, 2, 8, 15 and 26) on Economic Planning and Planning Procedures; ten reports (Nos. 3, 4, 9, 10, 11 (Part IV), 12, 16, 18, 23 and 27) on Policies to Promote Planning Objectives and twelve reports (Nos. 5, 6, 7, 11 (Part I-III), 13, 14, 19, 20, 22, 24, 25 and 28) on Progress towards the Programmes' targets.

In effect, it provided a strategy for economic development—a context in which it was "easier to win acceptance for particular decisions of policy which, presented in isolation, might be strenuously opposed".[1] The development that ensued was accompanied by a significant increase in public expenditure—an increase which was, of course, appropriate to the economic situation that then existed.

6.5. A strategy for economic and social development can be spelt out only by the relevant Government Departments. The Council assumes that the statement of a strategy for development will be the central theme in the new plan which will be published later this year. When that plan has been published, the Council would wish to have the opportunity of commenting on it. However, at this stage it is possible to indicate the two essential elements in any such strategy. The first is the development of the economy. A pre-condition for faster economic growth is an improvement in competitiveness.[2] This improvement will be achieved only by a closer relationship between the growth in money incomes and in productivity here than in neighbouring countries. Competitiveness must be sufficiently improved to enable jobs to be provided at rising real wages for those now unemployed and for the growing numbers who will be seeking work in the future. Most of these jobs will have to be provided in the private sector, because "one would naturally expect the principal source of new productive ideas . . . to be the private sector, enlarged by imported enterprise, organisational ability and technical competency, and the principal function of the State to be that of stimulating such ideas and helping to bring them to fruition. . . ."[3] The first element in the strategy—the development of the economy—therefore requires the creation of an environment in which agriculture and industry can grow at the fastest feasible rate.

6.6. The second element in a strategy for economic and social development must be the equitable distribution of income and wealth and greater equality of opportunity. There are, of course, differences of

[1]*Economic Development*, Dublin, 1958; Appendix 1, Memorandum for the Information of the Government, 16 December 1957, page 228.
[2]See *Economy in* 1975 *and Outlook for* 1976. NESC, No. 13. October 1975.
[3]*Economic Development*, Dublin, 1958, pages 18–19.



view among the Council's members about what would constitute an equitable distribution of income and wealth, but these should not be over-emphasised. The area of disagreement relates to matters of degree and mechanism, and not of principle.

6.7. There need be no conflict between these two major objectives. The provision of permanent jobs for those now out of work and for the growing numbers who will be seeking work would by itself make a major contribution towards a more equitable distribution of national output and wealth. The present level of many social benefits such as unemployment benefit and assistance and redundancy payments was determined when the numbers eligible for them were very much smaller than they are at present. The current levels can be maintained or improved only if continuing growth in national output and employment is achieved. However, if priority is given to improving social services and benefits when the economy is stagnant or growing very slowly, costs of production will be raised directly (for example, by increases in employers' social insurance weekly contributions) or indirectly (for example, by claims for higher incomes to offset higher tax rates or higher employee social insurance contributions). These cost increases could depress output and raise unemployment and therefore jeopardise the maintenance of social benefits at their current real levels. The achievement of social objectives will not contribute significantly to the realisation of economic objectives, but faster economic growth will create the resources needed for more rapid social progress.

6.8. In Chapter 4 above, it was argued that the absence of an accepted strategy for economic and social development was a major reason why public expenditure has risen. Without an overall strategy, no system of priorities is possible. Without a system of priorities, there are no consistent criteria that can be used to weigh proposed increases in different expenditures against each other—no over-riding objectives to which Departmental objectives can be subordinated or against which they can be policed. Without a strategy, the pattern of public expenditure merges by a process of accretion—it is built up like a mosaic that when completed contains neither picture nor message.

6.9. If there is a strategy to which Government is firmly committed, then it is possible to assess better the extent to which each item of expenditure and each programme contributes to the over-riding economic and social objectives. For example, it would be reasonable to judge the subsidy of at least £28 million to CIE in 1976 by the contribution it was making to economic expansion and greater social justice, and to explore whether the same sum of public money spent in other ways (or not spent at all) would realise the major strategic objectives to a larger degree. Again, expenditures on education and health are the two largest components in expenditure from the Exchequer, and it would be valid to ask whether the money spent on providing these services works in the direction of greater equity and less inequality of opportunity or whether it is regressive in its impact and effects. A similar question could be posed about the implicit and explicit expenditures on housing subsidies: do they on balance give most assistance to those in greatest need (and therefore, lead to a more equitable distribution) or do they on balance favour the better-off? How effective is the present collection of housing subsidies in raising output in building and construction? The examples chosen—the CIE subsidy, education, health and housing—are chosen solely to illustrate the kind of question that could be asked and answered if an overall strategy existed. The examples used must not be taken as indicative of the public expenditures that would fail when tested in the context of the overall strategy—or for that matter of those that would succeed.

6.10. The discussion in the previous paragraph deals only with public expenditures. In any attempt to assess the impact of Government on promoting economic growth and reaching a more equitable distribution, both public expenditures *and* the way in which they are financed by taxation and borrowing must be considered. The level of public expenditure, the balance within it between capital and current spending, and the way in which the total is allocated over different programmes, have a significant effect on the way in which real resources are used and on the distribution of real output among different individuals and groups within the community. Direct and indirect taxes and weekly social insurance contributions by employers and employees reduce the real disposable incomes of those who (directly or indirectly) pay them.



Their claims over real resources are diminished and this also affects the way in which the economy's real resources are used and the distribution of national output. Borrowing increases the claims of the public sector over real resources without any immediate offsetting reduction in the claims of other sectors. But this merely postpones the reduction in private sector claims over real resources[1] until the periods in which interest payments and capital repayments are being made. In assessing the extent to which public sector activities on balance promote faster growth and greater equity it is therefore necessary to take the *net* effect of public expenditures and the way in which they are financed into account.

6.11. The difficulties of doing this—that is, of assessing what in effect the public sector is doing—must be recognised. It is not easy to develop a conceptual framework within which the effects of Government spending and its financing on the growth of the economy and on the redistribution of income can be examined. There are, for example, obvious difficulties in allocating the benefits of "collective" goods (such as defence and law and order) among different individuals and groups. If there is to be any prospect of reaching firm conclusions, it would be necessary to know what would have happened to national output and its distribution if Government had not intervened in the economy. For some time to come, therefore, it may be possible only to perform imperfectly the exercise discussed in the previous paragraph, but that is better than not attempting it. Even without elaborate models, it is possible to *think* in the terms described in paragraph 6.10 above. That at least would have the merit of ensuring that attention was continuously being focussed on the *net* contribution of public spending and the way in which it was being financed to the achievement of the major strategic objectives, namely, to faster economic growth and to social justice.

6.12. The approach discussed in paragraph 6.10 above can be applied more easily where changes are being contemplated in particular expenditures. Suppose that an increase in old age pensions is being

[1]The real resources may, of course, be increased if the borrowed monies are used productively.

considered. If the increase is paid, it would be reasonable to conclude that pensioners will benefit and that the distributional effect of the increase, taken in isolation, will work towards greater equity in the distribution of national output. But there will be consequential increases in taxation. For example, the weekly social insurance contributions of employers and employees will be increased to cover the greater part of the increase in contributory old age pensions. These increased contributions will tend to bear more heavily on the lower income groups, both directly (because take-home pay is reduced) and indirectly as a result of the price increases applied by employers to recoup from their customers the increase in their weekly social insurance contributions. In addition, direct and/or indirect taxes will have to be raised to cover the increased costs of the non-contributory old age pensions. If reliance is placed on direct taxes, the distributional effect may work towards greater equity in distribution, because of the progressive nature of the direct tax structure. If reliance is placed on indirect taxes, the effect on distribution may be regressive or neutral. To assess the effect on national expenditure, and therefore on the growth of the economy, the net change in the level of private consumption and on saving must be estimated. All these have to be considered if a balanced judgment is to be made. Again, this example is purely illustrative. If this exercise is done in respect of each proposed change, the results can be summed and some indication thus obtained of the extent to which the changes help towards the realisation of the major strategic objectives.

**Projections of Public Expenditures and Revenues**

6.13. *Second,* the Government should have prepared and should publish projections of the growth in public expenditure on the basis of existing policies,[1] and projections of the growth in tax revenues on the assumption of no change in tax rates and structures, each year. These

[1]It must be recognised that there could be differences between the Department of Finance and the Department responsible for a programme or service on what "existing policies" means. The relevant meaning in the context of projections is the maintenance of existing standards of service—and not, for example, the maintenance of past rates of improvement or of the existing percentage of total current expenditure. See also paragraph 6.15 below.



projections and their policy implications are an integral part of any strategy for economic and social development. The projections should cover the next four to five years, and should be published annually. The importance of these projections was discussed in Chapter 4 above. Present arrangements focus attention on public expenditure and the benefits that should follow from it. They do not give equal emphasis to the fact that public expenditures have to be paid for. Informed public discussion and debate on the relationship between the gross benefits that will follow from the expenditures and the gross "costs" of financing them in terms of present (and future) reductions in private consumption and investment are therefore difficult. Without expenditure projections that are "rolled forward" each year, the main interest rests on the current year and the year following it. Without projections of tax revenues at existing rates, and the possibility of identifying where the burden will fall, the view can persist that public services are "free" or that they are being (or will be) paid for by somebody else. If projections are not available, decisions tend to be taken on an annual basis and there is no framework within which their consequences can be estimated.

6.14. The consultants' report which is summarised in Appendix A shows one way in which the future behaviour of public expenditure can be projected. A Council study, which is now nearing completion, should indicate how projections of tax revenues can be prepared. Any projections of public expenditure and tax revenue must be based on assumptions about the rate at which the economy and its main sectors will grow in future. The inter-relationships between the growth in national output, tax rates and tax structures and the level and composition of public expenditure are complex and very little is known about them. As a matter of urgency attempts should be made to identify these (and other relevant) inter-relationships and obtain some measure of their strength and direction. If these efforts are to be even modestly successful, then a model of the economy is required. The need for such a model has long been felt. The Council understands that work on the formulation of such a model is now under way in the Department of Finance and the Central Bank. The Council has been informed that, in order to make the most effective use of resources available for this task, the Department and the Central Bank intend to co-operate closely with other interested bodies and particularly with the Central Statistics Office and the Economic and Social Research Institute. The emphasis at this stage should be on building as quickly as possible a relatively simple model, which can be progressively developed. Since the growth rate that will emerge from any model will depend on the assumptions fed into it, and since different assumptions may seem equally realistic given the uncertainty about the future, the implications of a small number of different rates and patterns of growth for public expenditure and tax revenues should be prepared by the Department.

6.15. The projections of expenditure should be based on the assumption that "existing" policies will be continued. This assumption is necessary to give a "benchmark" projection to which the effects of proposed changes in policy can be related. The exercise of defining precisely what existing policies are would be valuable in itself, because it would bring into the open issues that are sometimes left dormant. For example, the maintenance of existing policies must imply the maintenance of existing standards of service. But it is often difficult to define and measure standards of service. In university education, is the standard of service measured by the ratio of numbers of academic staff, or of total academic and administrative staff, to total student numbers, or by the real value of the average Government subsidy per student? In calculating the numbers of staff should the simple total be taken, or should staff be weighted by status? Or would it be more appropriate to take average real expenditure on all staff, equipment and other facilities per student as a measure of the standard of service? Under existing policies, should the standard of service in providing old age pensions be measured by the existing purchasing power of the pension, or by the ratio of the real pension to the real average earnings or real output per person? It could therefore be difficult to define standard of service without defining precisely what the objective of a service is, and this might not be an easy task (see paragraphs 6.24 to 6.28 below).

6.16. The benchmark projections of public expenditure would probably have to be based on the assumption of constant prices. Great care would have to be taken to ensure that all Departments took the prices and costs ruling at the *same* base date for their projections. Constant price (or "volume") projections create problems, but these often pose important questions. For example, if expenditure on pensions is pro-



jected forward using the cash pension in the base period, and with adjustments for changes in the number of pensioners, that implies the maintenance of the real value of pensions at the level ruling in the base period. This may be reasonable because the preservation of the real value of old age pensions is probably a minimum policy objective.

6.17. Constant price (or "volume") projections also have some obvious deficiencies. Even if the volume estimates of public expenditure are correct, they cannot be converted into current money values at a later date simply by adjusting for the rise in the general price level (as measured, for example, by the increase in the Consumer Price Index since the base date). The conversion to current money values must also take account of the relative price effect—that is, the tendency for the prices paid by the Government and Local Authorities to rise faster than prices in general. If the volume projections were adjusted to take account of this relative price effect, it would be very important that the way in which its magnitude was calculated should be spelt out clearly. If this were not done, it would be impossible to monitor the accuracy of the projections, and identify the reasons for divergences between them and what actually happened, as time passed.

6.18. The defects in constant price projections[1] could be avoided if forecasts were made of price and pay increases for each item of public expenditure, in order to produce projections that would show the actual amount of money that would be spent in each of the years to which the projections related. But again there are difficulties. For example, a Government might not wish to reveal the rate of inflation assumed in any projection for the future behaviour of public expenditure. Such revelations would (among other things) imply some assumption about the expected behaviour of money incomes, and this assumption might be either self-fulfilling or provocative. It is probable, therefore, that no more could be sought than forward projections of public expenditure, based on existing policies and on the prices ruling at a base date, with

[1]These defects of constant price projections should not be over-estimated. In practice, constant price projections after adjustment for the relative price effect are sufficient for most purposes, unless it is assumed that the pattern of relative prices will be affected by the rate of inflation. The latter assumption may not be true in the very short-run, but it would probably be true enough in the medium term.

some allowance (the nature of which was clearly specified) for the relative price effect.

6.19. In the projections for public expenditure, expenditures on goods and services (which appropriate real resources for public sector use) should be distinguished clearly from transfer payments (which, in the main, redistribute claims over real resources within the private sector, though the public sector absorbs resources in effecting the transfers). Both kinds of public expenditure have to be paid for by taxation or borrowing, and these create claims on private consumption and investment,[1] either now or in the future. For real resource planning, projections of public expenditure based on constant prices are useful, and the consultants' report showed how such projections could be used in estimating the relative extent to which resource use would be determined by the market and by public sector decisions.

6.20. Arrangements should be made for monitoring at annual intervals the relationship between the projected use of real resources by the public sector and total real public expenditure, against what is actually happening. The latter exercise presents fewer problems and can be related to the existing vote subheads in the Estimates. Each year the Department of Finance should prepare and publish a detailed analysis of why actual expenditures under the major vote subheads diverged from their projected behaviour. The Council has in mind an exercise which goes beyond that published annually in the Appropriation Accounts. If the projections are in volume terms, the reasons why divergencies could occur are clear enough. They could arise because wrong assumptions were made in the projections about the volume of public expenditure (which could be the result of policy changes announced after the projections were made or of unannounced policy changes), because standards of service had been increased or reduced (that is, "inadvertent policy-making" had occurred), because of changes in prices, wages and salaries (which were ignored in the volume projections), because wrong assumptions were made about the growth in the economy, or because of failure or tardiness by Government Departments in implementing agreed policy changes or economies that

[1]The real resources may, of course, be increased if the borrowed monies are used productively.



had been incorporated in the estimates. The annual monitoring exercise should specify the relative importance of each of these in explaining the discrepancy which occurred. This exercise is necessary in order to improve the quality of the projections. Its results should be published to promote fuller public understanding of the problems involved and facilitate research into major policy problems. This kind of exercise is not done on a consistent and coherent basis at present. Under current practices, it seems to be done only at a high level of aggregation and on an *ad hoc* basis, to illustrate (for example) the impact of increases in public service pay on total public expenditure.

6.21. The regular monitoring of the projections of real resource use presents more difficult problems and could not be related in any adequate way to subheads in the estimates. Some of the problems can be illustrated by an example. Suppose that a decision has been taken (or is contemplated) to raise the school leaving age in a year's time. This will increase the pressure on real resources, and it would be necessary to estimate the real resource changes that would result. More school buildings and more teachers will be needed. There will be a reduction in the year, in which the change is introduced, in the number of school-leavers seeking work. This change would not show up in the vote for the Department of Education or in Local Authority spending on education. In the present state of knowledge, detailed investigations after the event would be required to discover what actually happened—for example, how much additional school building was actually undertaken, how many additional teachers were actually required, how did the number of school-leavers seeking work actually behave. This monitoring of projections of real resource use is a quite different exercise from that of relating the out-turn to what appeared in the budget estimates. It is much more important, however, in the context of planning public expenditure in the medium term.

6.22. Side by side with the projections of public expenditure, the Department of Finance should prepare and publish projections of tax revenue. These must be based on some assumption about the growth in the economy and in its main sectors. The growth in tax revenues will depend also on what happens to money incomes and prices, but any attempt to forecast how these will behave comes up against the difficulties discussed earlier. The behaviour of tax revenues will depend in addition on what happens to tax rates, but there are obvious reasons why indications of changes in tax rates or tax structures and of their probable timing cannot (and perhaps should not) generally be given. All that can be provided, therefore, is a projection of tax revenues, based on some assumption about the growth in the economy and on the assumption that there will be no change in tax rates or structures (including the weekly social insurance contributions of employers and employees).

6.23. When placed beside the projections of public expenditure, the projections of tax revenue will at least indicate whether or not revenues seem likely to grow at a slower or faster rate than expenditures. This will give some indication also of how the balance between the yields from direct taxes and indirect taxes is likely to alter over the period to which the projections relate. If both sets of projections are in real terms (that is, exclude the effects of inflationary changes in money incomes and prices), and if the projections for expenditures and revenues are diverging, the publication of the projections will help to focus attention on the central issue. If this growing divergence were occurring, then tax rates would have to be raised, or borrowing would have to be increased (which would only mean that the tax increases were postponed), or the projected growth in public expenditure would have to be curbed. The magnitudes would be known and in public discussion and debate the fundamental issues would have to be faced. It would be clear that increased public expenditure had to be paid for, and that to the extent that the community is unwilling to pay, the possibility of higher public spending had to be sacrificed.

## Efficiency and Effectiveness

6.24. *Third,* action is required to improve the efficiency of public expenditure—that is, to achieve its objectives with the minimum use of resources. The first requirement in any discussion of efficiency is that the objectives of the expenditure should be specified clearly and explicitly. The fact that objectives are not normally specifically stated follows from the fact that public expenditures are the result of political decisions and are made to achieve political objectives. In this context, the words political and politics are being used in their widest sense.



Since "politics . . . is about disagreement or conflict; and political activity is that which is intended to bring about or resist change, in the face of possible resistance,"[1] objectives are not generally defined too precisely and it might activate resistance or sacrifice support to state them too explicitly. However, this may be too simple a view. In practice, the position is more complex: objectives may be defined by the Government; and Departments may play a role in formulating objectives, not only when advising their Ministers, but in articulating Ministerial statements and decisions.

6.25. The objectives which are stated in general terms by Ministers are translated into operational terms by their Departments. In the process, it is unavoidable that as the general statements are articulated, the objectives and values of the Department intrude. The fleshing out of objectives continues at executive level even after objectives have been stated generally in statutes. In saying all this, the Council is not questioning in any way the propriety of what is in effect unavoidable, or the competence and integrity of officials. At this stage, the main concern is with efficiency, and no judgment on the efficiency of a public service is possible unless its aim or objective is clear and explicit. The process by which objectives are defined and refined is very complex, but no one can question that the ultimate responsibility for objectives, as they are defined, interpreted and pursued, lies with the Government and Dáil Éireann.

6.26. In any discussion of the efficiency of a particular service provided by a Department or Agency, its objective has to be the starting point. Greater efficiency consists in realising that objective to a greater extent (that is, providing more "output") with a given amount of resources, or minimising the resources used in providing any given output. In most public services, the output cannot be valued directly in money terms, because (with the exception of the State trading activities) there is no market in which the output is sold. It is therefore necessary to identify some other indicator or measure of output. In any attempt to do so, value judgments are unavoidable. In a democracy such judgments should be made by the Government and the Dáil—or, at least, Ministers, the Dáil and the public should be aware of any value judgments being

[1] J. D. B. Miller: *The Nature of Politics*, Duckworth, London, 1962, p. 14.

made by Departments when the output of a service is being identified and measured.

6.27. The problems involved, and the contribution that attempts to identify or measure output can make towards clarifying objectives, can be illustrated by a few examples:

> "It is possible to view the output of the university system in 'educational' terms, 'cultural' terms or 'economic' terms. The first might be measured by annual output of graduates, the second by the annual output of graduates with different degree subjects (and graduates of different universities) weighted differently, and the third by the discounted value of future earnings of graduates. Each measure would give a different indication of the 'success' of the university programme, and not every Member of Parliament would agree which indicator is the best one. It may be sensible in this case to have a composite measure of output in which the cultural advantages of education are 'traded off' against the economic ones. The same difficulty is exemplified by the Treasury's graphic example which shows that numbers of doctors and nursing staff per hospital bed is an indicator of workload and not of output."[1]

6.28. It would seem, then, that the appropriate measure of output cannot be derived from technical or administrative expertise. The choice of a measure of output must be a political one, and the choice is inextricably linked to the objective that the output is required to achieve. Even if there is agreement on the proper measure of output, and if the inputs required to produce this output can be identified and measured (and there may be difficulties in doing this), greater efficiency in the use of inputs to produce the output will not necessarily follow. Within the public service, the rewards for those who improve efficiency may not be as direct as in the private sector, and the penalties for those who are prepared to live with inefficiency may be less. Penalties and rewards exist in those parts of the private sector which have to meet competition from imports or compete in export markets. The rewards for more

[1]*Scrutiny of Public Expenditure and Administration*, First Report from the Select Committee on Procedure, Session 1968–69, *The Economics of Public Expenditure and its Consequences for Parliamentary Control*, Memorandum by Alan T. Peacock and Jack Wiseman, page 253.



efficiency are higher profits for the firm, the capacity for faster growth and higher rewards for those who work in it. The penalties for inefficiency are reduced profits or losses, redundancies and contraction. If the efficiency with which a public service is provided is raised, neither its budget nor the remuneration of those who work in it will be raised; if it is inefficiently provided, there will be no reduction in its budget (indeed, the budget may increase) or in the emoluments of those engaged in it. In the absence of penalties and rewards, emphasis may be placed on techniques—principles of best management practice—but these are more concerned with how resources are used than with how much of them is used.

6.29. If the service being provided by the public sector has a large investment element, techniques such as cost-benefit analysis may be used. The approach in cost-benefit analysis is similar to that used in the private sector in appraising investment projects. It differs mainly in that estimates of social benefits are used instead of sales revenue, and estimates of social costs instead of cash disbursements. The differences between the current gross benefits and the current costs that will be incurred—that is, the net social benefit—are estimated for each year of the project's life and discounted to give a present value. The ratio of the discounted present value of the stream of net benefits expected, to the capital cost of the project—the benefit cost ratio—is analogous to the rate of profit in a businessman's calculation. Cost-benefit analysis enables public investment projects to be ordered in terms of their net social "profitability". It does not measure how efficient a project is or indicate what scope there is for improving efficiency. Cost-benefit analyses of a range of major public sector activities were undertaken in the latter half of the 1960s under the auspices of the Department of Finance. No results were published officially.

6.30. However, cost-benefit studies encounter similar difficulties to those which arise in defining objectives and measuring outputs. In the identification of relevant social costs and benefits, there is an element of subjective judgment. The money values placed on social benefits and social costs can vary widely, depending on who is doing the study. Whether or not a government investment will show a discounted present net benefit exceeding its capital cost will depend on the discount rate that is used. A high discount rate will eliminate many projects, and a low rate will make many more projects appear worthwhile. In short, the results of different cost-benefit studies may not be comparable and there exists a fairly wide latitude for choosing assumptions that will give the results desired.

6.31. In cost-benefit appraisals, Ministers and the Dáil must be made aware of what is being done, of what social costs and benefits are being identified and of how they are being valued in money terms. The discount rate which is to be used in cost-benefit studies is a matter for political decision. The appropriate discount rate is one which reflects the community's "time-preference"—the premium it is willing to pay for enjoying benefits now rather than later. This rate must therefore be determined on behalf of the community by its elected representatives, because it is a major political and social judgment that will determine which public investment projects are worth while and which are not.

6.32. In this chapter, two main recommendations have been made. First, a strategy for economic and social development is urgently needed, with in which existing public expenditures and proposals for new ones can be judged. Second, the Government should have prepared and should publish each year projections of public expenditure (based on existing policies) and of tax revenue (based on existing tax rates and structures) covering the next four to five years. When any new proposal for public expenditure is made, its costs should be projected forward for five years so that the public will be made aware of its cost implications.[1] These projections would help to ensure that the growth in public expenditures was related to the capacity and willingness of the community to finance them. In this chapter, attention has been drawn to the importance of efficiency in the use of resources within the public sector. For a number of reasons, Ministers and the Dáil must be involved in judgments about

[1]The implications for distribution should also be stated. In *An Approach to Social Policy*, NESC, No. 8 (June, 1975) the Council stated: "When important changes in policies, programmes and procedures are proposed the Government should publish estimates of the amount and the distribution of the benefits likely to be conferred. These estimates are necessary if rational decisions about social matters are to be made."



efficiency. No recommendation is made in this chapter on how efficiency could be improved; instead, an attempt has been made to state the problems. These problems will not be solved merely by the structural changes now being implemented in the public service or solely by the use of the best management techniques.

6.33. The present level of public expenditure (even when allowance is made for the effects of the world recession) requires a level of taxation that is very widely (if not universally) felt to be excessive, but which nevertheless leaves a very large overall budget deficit and heavy overseas borrowing (which cannot for long be sustained) in order to help finance it. Increasingly, there is 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 try to maintain their real disposable income (if not to prevent a reduction in the rate of growth in them to which they have become accustomed). When these claims for higher money incomes are pressed, the competitiveness of the private sector is further eroded and private sector employment falls. But public sector spending rises and the overall deficit is not significantly reduced. In these circumstances, a significant reduction in the historic growth rate in public expenditure is a necessary (though not by itself a sufficient) condition for faster economic growth.

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

## APPENDIX A

### The Consultants' Report: Summary and Discussion

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

2. By public sector expenditure is meant the current and capital expenditure of Central and Local Government plus the deficits on operating account of State trading bodies that are met by transfers from Central and Local Government. Public sector spending can be broadly classified into expenditures on the purchase of goods and services and transfer payments. The expenditure on goods and services represents the public sector's use of the community's real resources for the direct provision of public services. Resources so appropriated cannot simultaneously be available to the private sector, where their use would be determined by the decision of private households and firms. The "competition" between the public sector and all the other demands on the supply of real resources available to the community has important economic implications (for example, for employment, inflation and the balance of payments). In the broadest terms, transfer payments represent a redistribution of purchasing power between different individuals and groups within the private sector through the agency of Government.

3. Public expenditures have to be financed. The growth in public current expenditure on goods and services and on transfers must therefore be matched by a similar growth in "claims on taxpayers". To finance the current purchases of the public sector, the real expenditures of private individuals and firms must be correspondingly reduced or total resources increased. In other words, the proportion of the income they earn that they can spend as they please is reduced. To finance



transfer payments, the consumption and/or saving of some must be reduced to make possible the consumption (or increases in the consumption) of others.

4. As their base period, the consultants took the years 1963–64 to 1972–73. The terminal year (1972–73) was the latest one for which statistics (calculated on a national income basis) were available. Their classification of public expenditures was taken from *National Income and Expenditure*, with certain modifications. They would have preferred a more meaningful classification based on policy objectives, so that expenditure could be categorised by purpose, but this was not available. Over the ten-year period 1963–64 to 1972–73, real public expenditure on goods, services and transfers grew at a rate substantially above that of the real GNP (6·88% as against 4%). As a result, the share of *total* real public expenditure in GNP rose from 34·4% in 1963–64 to almost 44% in 1972–73. Real public expenditure on *goods and services* (that is, current expenditure on goods and services and gross fixed capital formation) grew at a slower rate than total expenditure (5·7% on average), but the growth was sufficient to increase the share of national real resources taken up by the public sector from 14·2% in 1963–64 to 20·4% in 1972–73.

5. In their forward projections, the consultants concentrated primarily on changes in the claims exercised by public expenditure on the community's real resources and only secondarily on transfer payments. The behaviour of real public expenditure (both current and capital) w[illegible] influence the growth in real resources available to the community, though the ways in which it will do so and how strong the influence will be are not precisely known. In its turn, the growth in the community's real resources (that is, in real GNP) will affect the scope for increasing real public expenditure. The inter-relationships between growth in public spending and in national output are complex and little work has been done to define and quantify them in this country. In these circumstances, and given the severe time constraints and paucity of relevant data, the Council did not expect the consultants to unravel and measure the strength of these inter-relationships.

6. No official projections for the growth in national output over the

next ten years have been published.[1] Moreover, there is no usable model of the economy and none seems likely to become available in the immediate future. In these circumstances, the consultants had to make their own projections for the growth in the economy to 1986. They assumed that Government policy would aim at full employment and a zero current balance of payments deficit by 1986, and that these Government objectives would be achieved. They accepted the criticism that their optimism in making these assumptions might not seem to be justified by historical experience, but they quite reasonably questioned how they could make a study which predicted the failure of Government to attain its objectives.

7. In projecting the real GNP for 1986, the method used by the consultants was similar to that employed in the *Second Programme for Economic Expansion* and in the National Industrial Economic Council's *Report on Full Employment*. The starting point was to estimate the real resources—that is aggregate supply or real GNP—that would be available in 1986. This was derived as follows: % growth in aggregate supply (GNP) 1972–1986

= % growth in the employed labour force 1972–1986
× % growth in output per person employed 1972–1986.

The percentage growth in employment over the period was based on Professor Brendan Walsh's population and employment projections, retaining his assumption of 4% unemployment by 1986.[2] The annual average percentage growth in real output per head of the employed labour force (that is, in productivity) during the period 1963 to 1972 was assumed to continue during 1973 to 1986. In this way, an estimate of aggregate supply (real GNP) for 1986 at 1968 prices was obtained, namely, £3,300 million.

8. In 1986 (or indeed in any year) gross national product, whether in real or current value terms, must be the same as gross national expenditure. The latter is equal to:

[1]The Council understands, however, that medium-term projections for the growth in national output are made by the Department of Finance.
[2]See NESC, No. 5: *Population and Employment Projections: 1971–86*, February 1975.



private consumption + private investment + public expenditure on consumption and investment + value of physical changes in stocks + exports − imports + net factor income from abroad.

As stated in paragraph 6 above, the consultants assumed that imports and exports of goods and services would be equal to each other by 1986. This may be too restrictive an assumption—but in its favour is the fact that, other things remaining equal, the payment of interest and the repayment of principal on foreign borrowings can be effected only by a rise in exports relative to imports. The growth in private investment required to generate this growth in aggregate supply (GNP) was calculated using the marginal real private capital-output ratio derived from 1963–72 data. The private fixed investment requirement for 1986, calculated in this way, was £747 million at 1968 prices. Changes in stocks in 1986 were estimated at £66 million, using the ratio between stock changes and GNP in 1972–73. This gave a total private investment requirement in 1986 of £813 million at 1968 prices.[1]

9. Assuming that the net factor income from abroad will account for the same proportion of GNP in 1986 as in 1972, the real resources available for private consumption and for public consumption and investment in 1986 will be equal to the 1986 GNP at 1968 prices (less net factor income from abroad) *less* the private investment required to generate it, or £2,444 million at 1968 prices. More resources would be available in 1986 for these purposes to the extent that a current external deficit was assumed for that year. Less resources (than £2,444 million at 1968 prices) would be available for these uses to the extent that a higher rate of private investment is required to generate the 1986 GNP or that a lower growth rate in national output is taken for 1972 to 1986 because the 5¾% per annum implied in the model is considered too high to be realistic or attainable.

10. The consultants discussed the implications of allocating the residual between GNP and private investment in 1986, of £2,444 million

[1]The assumption about the private investment requirement and the realism of the projected annual average growth rate in GNP during 1972 to 1986 are discussed in paragraphs 24 and 25 below.

at 1968 prices, between private consumption and public sector ues on the following assumptions:

(*a*) that there would be no change in the trend in public expenditure policies during 1963–64 to 1972–73;

(*b*) that the 1972–73 share of private consumption in national output would be maintained;

(*c*) that the 1972–73 ratio between private consumption and public consumption and investment would be maintained.

The consequences of each of these assumptions are summarised in Table A.1.

11. The notion of the maintenance in the historic trend in public expenditure policies requires an empirical interpretation. The consultants assumed that where the expenditure data by programme showed a reasonably regular trend in the base period, this trend would continue to 1986, *unless* there were reasons already known that would make this simple extrapolation of past trends misleading or there were "breaks" in the statistical series that suggested major policy changes during the base period. Where there was specific evidence that the future would differ from the past—a good example was the need to adjust the projected expenditure on education to take account of the effect of population changes on the size of the "client group"—the historical trends were adjusted accordingly. Where there were "breaks" in the historical data (defence spending provides a good example), the specific causes were identified and an appropriate change made in the trend used for projecting future expenditure. Since the immediate (and central) interest was in the claims that would be exercised over real resources by private individuals and government respectively, transfer payments had to be eliminated from the expenditure data. This was done by applying the historic ratios of public expenditure on goods and services to total public expenditure, programme by programme.

12. On the assumption that the historic trend would continue (see column 2 of Table A.1), private consumption would account for 51·7% of GNP in 1986, as compared with nearly 70% in 1972–73. This would imply an annual average growth rate in *total* real private consumption



**TABLE A.1 The Use of National Resources: 1972–73 and 1986–87** (£m 1968 Market Prices)

| Category | Actual 1972–73 (1) | | Projection 1986–87 "Maintenance of historic trend"** (2) | | Projection 1986–87 "Constant Private Consumption Share"*** (3) | | Projection 1986–87 "Constant Ratio: Private Consumption to Public Expenditure"**** (4) | |
|---|---|---|---|---|---|---|---|---|
| | £mn | % of GNP | £mn | % of GNP | £mn | % of GNP | £mn | % of GNP |
| Private Consumption | 1,051·0 | 69·8 | 1,706·4 | 51·7 | 2,303·7 | 69·8 | 1,910·1 | 57·9 |
| Private Investment and Stocks | 307·2 | 20·4 | 812·8 | 24·6 | 812·8 | 24·6 | 812·8 | 24·6 |
| Public Consumption (Net) | 229·0 | 15·2 | 621·6 | 18·8 | 140·0 | 4·3 | 449·9 | 13·6 |
| Public Investment | 64·8 | 4·3 | 115·7 | 3·5 | | | 83·7 | 2·5 |
| Exports of Goods and Services | +568·0 | +37·7 | +1,611·9 | +48·8 | +1,611·9 | +48·8 | +1,611·9 | +48·8 |
| Imports of Goods and Services | −735·0 | −48·8 | −1,611·9 | −48·8 | −1,611·9 | −48·8 | −1,611·9 | −48·8 |
| Net Factor Income from Abroad | 20·0 | 1·3 | 43·9 | 1·3 | 43·9 | 1·3 | 43·9 | 1·3 |
| Total GNP | 1,505·0 | 100 | 3,300·4 | 100 | 3,300·4 | 100 | 3,300·4 | 100 |

*This projection assumes a continuation of the trend during 1963–64 to 1972–73 in public expenditure policies.
**This projection maintains the 1972–73 share of GNP for private consumption at 69·8%.
***This projection maintains the 1972–73 ratio of private consumption and public resource use, i.e. 21·8% and 78·2% respectively.

during 1972 to 1986 of slightly over 3·5%. The corresponding figure for the period 1963 to 1972 was 3·8%. However, between 1963 and 1972 the growth in population was relatively small, so that *per capita* consumption was growing at almost the same rate as *total* private consumption. In the base period, the annual average growth in real GNP was about 4%. When allowance is made for the projected growth in population during 1972 to 1986, an annual average increase of 3·5% in total private consumption is equivalent to an annual average increase of just over 2% in consumption per capita. In the consultants' model, the annual average growth in real GNP projected for 1972 to 1986 is about 5¾%.

13. The projection of real public expenditure on goods and services on the assumption of the continuation of the historic trend would, therefore, imply a slow rate of growth in *per capita* private consumption as compared with past experience and with the projected growth in national output. In order to effect the transfer of resources to the public sector, the rates of direct and indirect taxes in 1986 would have to be significantly higher than in 1976. The limited growth in private consumption—and the tax rates required to transfer resources to the public sector to finance the growth in public expenditure—would in all probability be unacceptable to the community.

14. The results of the second assumption in paragraph 10 above are likely to be equally unacceptable (see column 3 of Table A.1). The share of private consumption in GNP could be maintained at its 1972–73 level of 69·8% only at the cost of an absolute decline in the volume of resources available for public sector uses. The historic trend in public spending would have to be abandoned, and the standards of many, if not all, public services would have to be reduced in absolute terms. On the assumption that private consumption maintained its 1972–73 share of GNP, real public expenditure on goods and services would fall from about 19·5% of GNP in 1972–73 to around 4¼% in 1986, and the volume of resources available for public sector uses in 1986 would be less than half the volume available in 1972–73. It was the view of the consultants that reductions of this order in real public expenditure on goods and services would be impractical politically.



15. The third assumption made by the consultants was that the 1972–73 ratio between private consumption and public consumption and investment would be maintained. Under the first assumption (the continuation of the 1963–64 to 1972–73 trend in public expenditure policies), of the residual of £2,444 million in 1986, private consumption would account for £1,706 million and net public consumption and public investment for £737 million—or 51·7% and 22·3% of the 1986 GNP respectively. Under the second assumption (the maintenance of the 1972–73 share of private consumption in GNP), the allocation would be £2,304 million for private consumption (or almost 70% of GNP) and £140 million for public sector uses (or about 4¼% of GNP). Under this third assumption, the allocation would be £1,910 million for private consumption (or almost 58% of the 1986 GNP) and £534 million for public sector uses (or 16% of GNP). Under the third assumption (the maintenance of the 1972–73 ratios between private consumption and the public sector expenditure on goods and services), there would be £203 million less resources available for public sector use than would be required to maintain the historic policy trend (See Table A.1).

16. There are an infinite number of ways in which the different heads of public expenditure on goods and services could be trimmed in order to "save" £203 million on the "constant policy" projection. The consultants give one illustration in their report. In it they apply the "cuts" on a *pro rata* basis over the different programmes.[1] Their exercise is purely illustrative, and the cuts are applied on a *pro rata* basis to enable them to avoid passing any judgment on the relative importance of the different public expenditure programmes. It is their view (and that of the Council) that any such judgments are in essence political and can

[1]The required reduction in public resource use of £203 million was split into its net consumption and investment components according to the proportions of these components in the total public expenditure in 1986 on the "constant policy" assumption (namely, 84% and 16% respectively). An adjustment was then made to convert the consumption element from a net to a gross basis, giving a required reduction in gross consumption of £181 million and in investment of £32 million. These subtrahends were allocated to the 19 expenditure programmes on a *pro rata* basis: each programme lost a "slice" of consumption and investment in proportion to its "constant policy" share in the total expenditure on gross public consumption and public investment.

be made only by the elected representatives of the Irish people. Such judgments can be informed by a clear statement of the economic consequences of alternative courses of action.

17. The three assumptions set out in paragraph 10 above were concerned with the allocation of claims on the community's real resources between private consumption and public expenditure on goods and services (both consumption and investment). Transfer payments (such as pensions, unemployment assistance and investment grants) reallocate the *existing* claims of the private sector over real resources as between persons and firms in the private sector. In the "trimming" exercise described in paragraphs 15 and 16 above, only the rates of growth in public expenditures on goods and services were reduced; the current and capital transfer components of all the expenditure programme were left untouched, thus allowing existing redistribution policies to be maintained. Maintaining the historic trend in policies on current transfers may benefit deserving groups and individuals; maintaining the historic trend in policies on capital transfers may stimulate investment and growth. Current transfers will not materially affect the proportion of national resources available for private consumption. However, they must be paid for by direct and indirect taxes and weekly social insurance contributions by employers and employees. The current transfers, therefore, reduce the degree to which claims over private consumption are exercised directly out of private earned income and increase the degree to which it is financed by transfers effected through the agency of government.

18. In 1972–73, 29% of private consumption was financed by current transfers to households. Of the projected private consumption in 1986 (on the assumption that the 1972–73 ratio between private consumption and public expenditure on goods and services would be maintained from 1972 to 1986), about 44% would be financed by current transfers. In the consultants' view, this presented a significant problem for policy-makers. In their report, the consultants give one example of the way in which the growth in current transfers (with the exception of interest on public debt) could be cut in order to keep the proportion of private consumption financed by current transfers in 1986 at its 1972–73 level of 29%. As a result of their "trimming" exercise, the allocation of



claims over resource use by private consumption and public consumption and investment is not affected—total private consumption in 1986 is £1,910 million as projected under the third assumption in paragraph 10 above. The projected increase in capital transfers was not "trimmed"; it was assumed that these were necessary to achieve the growth in investment required to reach full employment and raise productivity.

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

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

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

[1]Appendix B sets out the different projections of public expenditure in 1986–87 prepared by the consultants—they are, the projection based on continuation of existing policies (column 5), the projection based on a constant ratio between private consumption and public resource use (column 7) and the projection involving a cut in current transfers (column 9). The cuts in the projections in columns 7 and 9 of Appendix B were allocated to the 19 expenditure programmes on a *pro rata* basis.

implied discrimination in favour of the public financing of private consumption."

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

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

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

22. The Council's Economic Policy Committee discussed some of the assumptions on which the consultants' analysis was based, mainly:

(*a*) the real GNP projected for 1986 and the estimate of the investment required to generate it;

(*b*) the assumption that imports and exports of goods and services would be in balance by 1986;

(*c*) the fact that the projections were based on constant prices and made no allowance for the tendency for the prices of goods and services provided by the public sector to rise faster than prices in general (the "relative price effect"); and

(*d*) the absence in the model of specific assumptions about the inter-relationships between public expenditure and the rate of economic growth.



23. The last point listed in the preceding paragraph has already been discussed and it is not necessary to deal with it at length here. It appears to be generally accepted in Ireland that public expenditure and the way it is financed have desirable effects on the rate of growth of national output, and employment, and on the distribution of income. In the existing state of knowledge about how the Irish economy works, there is little firm evidence for this view, though there is adequate evidence in other countries. Leaving aside the problem of underemployment of resources, public expenditures have to be financed (either now or later) by reductions in private expenditures (or slower growth in them) effected by taxation. If public expenditures were lower, private expenditures could be larger. The growth in national output could, therefore, be bigger or smaller, but the composition of output and its distribution between individuals and groups would be different. Until more firm evidence is available, further discussion of this issue is speculative. The other points listed in the preceding paragraph are discussed in the paragraphs which follow.

24. The annual average growth rate in real GNP of around 5¾% was derived from the growth in the labour force as projected by Professor Walsh and from the assumption that the annual average increase in output per person employed during 1963 to 1972 would be maintained during 1972 to 1986 (see paragraph 7 above). The GNP growth rate projected for 1972 to 1986 would be lower (and therefore nearer to that experienced during 1963 to 1972) if a slower growth in employment were assumed (which would mean unemployment at more than 4% in 1986 or significant emigration between now and then) or if output per worker rose at a slower rate in future than in the past. However, for the purpose of the Council's present interest in public expenditure, it is not necessary to pursue further the realism or feasibility of the projected growth rate. If a lower growth rate is projected, then over the years to 1986 the maintenance of existing public policies would mean much slower growth in total private consumption and no growth or a reduction in per capita consumption; the maintenance of the share of private consumption in GNP would involve an even more drastic cut in the volume of resources available for public sector uses, and the maintenance of the 1972–73 ratio between private consumption and public expenditure would require even harsher cuts in the growth in public expenditure

programmes than those estimated by the consultants (see paragraph 15 above).

25. To the extent that a current external deficit is assumed for 1986, the resources available for both private and public use would be increased. However, if the projected growth rate in GNP were reduced to 4% (the average annual rate achieved during 1963 to 1972), the external deficit required to achieve the same volume of resources (namely, £2,444 million at 1968 prices) for private and public use in 1986 as that projected by the consultants would be unsustainably high. The combined effect of a "more realistic" growth rate for GNP and the assumption of a sustainable current external deficit would mean harsher cuts in the growth of public expenditure than those illustrated in the "trimming" exercises in the consultants' report. More severe trimming still would be required in public expenditure programmes if it was assumed that in future more private investment would be required to achieve any given GNP growth rate than was required in the past.

26. The prices paid by central and local governments when they spend taxpayers' or borrowed money tend to rise faster than prices in general. The main reason for this "relative price effect" is that public spending is concentrated more heavily on wages and salaries than is private spending. Historically, pay has risen faster than the prices of goods, because of the long-term upward trend in productivity in agriculture and industry. In service activities (and these include the public sector) increases in productivity are more difficult to achieve, and such increases as might occur are ignored in official statistics because of the difficulty of measuring the output of service activities.[1] The prices of services, therefore, tend to rise faster than the prices of goods. This means that if (for example) the volume of public services constitutes a quarter of total national output, *more* than a quarter of national expenditure will be needed to pay for them.

27. This relative price effect could be allowed for in projections of public expenditures by allocating the difference between the trend increase in pay and in the prices of goods according to the proportion of wages and salaries in public spending compared with the proportion in the private sector. However, it would make the outlook bleaker rather than brighter. A more important issue is the relevance of past trends in pay and in the prices of goods for projecting the strength of the relative price effect, because of changes which have taken place during the last few years. As a result, the difference between the rise in the prices of goods and the rise in pay has become greater than the difference between the historic trends in pay and in prices.

[1]In *National Income and Expenditure* the contribution of the public sector to national output is measured by the value of goods and services bought from the private sector plus wages and salaries paid to public servants. In other words, the value of public sector output is measured by the costs of "producing" it. If in providing a public service labour is the only input, and if wages and salaries remain unchanged, changes in the volume of output are measured by changes in the numbers employed. Given these conventions, a cost-reducing innovation (e.g. computerisation, or use of electric typewriters or photo-copiers) would show up in the statistics as a reduction in the value of public sector output (or a slower rate of increase in it).

# APPENDIX B

## Public Expenditure by Programme: 1972–73 to 1986–87

(£000, 1968 Market Prices)

| Programme | Actual | | | Projection based on Maintenance of Historic Trend(a) | | Projection based on Constant Private Consumption/Public Resource use Ratio(b) | | Projection based on Modification of Current Transfers(c) | |
|---|---|---|---|---|---|---|---|---|---|
| | 1963–64 | % p.a 1963–72 | 1972–73 | % p.a. 1972–86 | 1986–87 | % p.a. 1972–86 | 1986–87 | % p.a. 1972–86 | 1986–87 |
| | £000 | % | £000 | % | £000 | % | £000 | % | £000 |
| Social Security | 58,463 | 8·34 | 120,240 | 9·25 | 414,624 | 9·13 | 408,894 | 6·79 | 301,942 |
| Health | 30,963 | 9·88 | 72,315 | 9·88 | 270,552 | 7·75 | 205,542 | 7·50 | 199,155 |
| Public Debt | 50,706 | 5·57 | 82,606 | 5·57 | 176,488 | 5·57 | 176,488 | 5·57 | 176,488 |
| Agriculture | 40,196 | 5·45 | 64,815 | 5·45 | 136,261 | 4·93 | 127,221 | 2·15 | 87,313 |
| Housing | 21,905 | 7·59 | 42,292 | 7·59 | 117,694 | 6·67 | 104,374 | 5·6 | 90,744 |
| Transport and Communications | 36,377 | 4·79 | 55,452 | 4·79 | 106,828 | 3·02 | 84,108 | 2·17 | 74,945 |
| Other General Government Services | 12,768 | 8·57 | 26,766 | 8·57 | 84,668 | 6·23 | 62,448 | 6·08 | 61,175 |
| Primary Education | 31,326 | 4·47 | 42,756 | 4·19 | 75,891 | 1·89 | 55,551 | 1·73 | 54,340 |
| Mining, Manufacturing and Construction | 12,474 | 7·36 | 23,638 | 7·36 | 63,901 | 6·82 | 59 491 | 6·31 | 55,650 |
| Other Economic Services | 8,411 | 8·52 | 17,551 | 8·52 | 55,101 | 6·64 | 43,171 | 6·6 | 42,962 |
| Justice | 12,635 | 5·08 | 19,740 | 5·08 | 39,516 | 2·68 | 28,596 | 2·66 | 28,533 |
| Secondary Education | 6,321 | 14·55 | 21,457 | 5·47 | 45,201 | 5·17 | 43,441 | 1·86 | 27,766 |
| University and Higher Educ. | 3,316 | 14·59 | 11,302 | 8·92 | 37,361 | 8·92 | 37,361 | 7·11 | 29,596 |
| Defence | 12,032 | 6·04 | 20,448 | 2·93 | 30,615 | 0·63 | 22,325 | 0·51 | 21,959 |
| Other Community Services | 8,721 | 5·09 | 13,632 | 5·09 | 27,306 | 2·96 | 20,516 | 2·57 | 19,431 |
| Public Service Pensions | 11,628 | 2·76 | 14,855 | 2·76 | 21,745 | 0·42 | 15,745 | 0·42 | 15,745 |
| Fishing | 877 | 13·08 | 2,651 | 13·08 | 14,816 | 12·54 | 13,866 | 12·32 | 13,490 |
| Other Education | 583 | 15·48 | 2,129 | 11·91 | 10,293 | 10·89 | 9,043 | 10·22 | 8,312 |
| Forestry | 4,483 | 2·22 | 5,463 | 2·22 | 7,430 | —0·12 | 5,390 | —0·18 | 5,327 |
| TOTAL | 364,185 | 6·88 | 660,108 | 7·15 | 1,736,291 | 6·15 | 1,523,571 | 5·05 | 1,314,873 |

*Source:* "The Future of Public Expenditures in Ireland", NESC, No. 20, 1976.

*Notes:* (a)—benchmark projection assumes a continuation of the trend during 1963–64 to 1972–73 in public expenditure policies

(b)—maintains 1972–73 ratio of private consumption and public resource use, with the rate of current transfers to personal consumption increasing from 29% in 1972–73 to 44% in 1986–87.

(c)—maintains 1972–73 ratio of private consumption and public resource use, with the ratio of current transfers to personal consumption increasing from 29% in 1972–73 to 33% in 1986–87.



Wt.—.115814 . 2,500. 5/76. Cahill. (6883). Spl.

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