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National  
Economic and  
Social Council

An Chomhairle  
Náisiúnta Eacnamíoch  
agus Sóisialach

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**Economic and Social Policy  
1983:  
Aims and Recommendations**

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# NATIONAL ECONOMIC AND SOCIAL COUNCIL

## NATIONAL ECONOMIC AND SOCIAL COUNCIL CONSTITUTION AND TERMS OF REFERENCE

1. The main task of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government, through the Taoiseach on their application. The Council shall have regard, inter alia, to:
  - (i) the realisation of the highest possible levels of employment at adequate reward,
  - (ii) the attainment of the highest sustainable rate of economic growth,
  - (iii) the fair and equitable distribution of the income and wealth of the nation,
  - (iv) reasonable price stability and long-term equilibrium in the balance of payments,
  - (v) the balanced development of all regions in the country, and
  - (vi) the social implications of economic growth, including the need to protect the environment.
2. The Council may consider such matters either on its own initiative or at the request of the Government.
3. Members of the Government shall be entitled to attend the Council's meetings. The Council may at any time present its views to the Government, on matters within its terms of reference. Any reports which the Council may produce shall be submitted to the Government and, together with any comments which the Government may then make thereon, shall be laid before each House of the Oireachtas and published.
4. The membership of the Council shall comprise a Chairman appointed by the Government in consultation with the interests represented on the Council,  
*Ten* persons nominated by agricultural organisations,  
*Ten* persons nominated by the Confederation of Irish Industry and the Irish Employers' Confederation,  
*Ten* persons nominated by the Irish Congress of Trade Unions,  
*Ten* other persons appointed by the Government, and  
*Six* persons representing Government Departments comprising one representative each from the Departments of Finance, Agriculture, Trade, Commerce and Tourism, Labour and Environment and one person representing the Departments of Health and Social Welfare.  
  
Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairman to regulate the numbers attending.
5. The term of office of members shall be for three years renewable. Casual vacancies shall be filled by the Government or by the nominating body as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office and their membership shall then be renewable on the same basis as that of other members.
6. The Council shall have its own Secretariat subject to the approval of the Taoiseach in regard to numbers, remuneration and conditions of service.
7. The Council shall regulate its own procedure.

## *Economic and Social Policy 1983:*

## *Aims and Recommendations*

*PUBLISHED BY THE NATIONAL ECONOMIC AND SOCIAL COUNCIL*

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## CHAPTER 1\*

### ECONOMIC REVIEW

1.1 This chapter presents a review of the macro-economic trends which are central to consideration of a strategy for economic and social policy, including policy choices which must be made in Budget 1984. After a brief review of the international economic outlook the chapter considers developments in the domestic economy including trends in output, the labour market, prices and costs and the external balance. The final section reviews the main policy developments under the headings of fiscal policy, income developments, exchange rate policy and monetary policy.

### INTERNATIONAL BACKGROUND(1)

#### The world economy

1.2 There are signs that a world economic upturn is underway. The current recession, which began in late 1979 and lasted longer than any recession since the Second World War, appears to have bottomed out in late 1982. Clear signs that the recovery is underway in the US emerged in the first half of 1983 with economic growth reaching an annual rate of almost 10% in the second quarter and indications of continuing strong growth in the third quarter.

1.3 *The recovery in the US* is, in part, policy induced: an expansionary fiscal stance combined with easier monetary conditions. In addition, the decline in inflation has contributed to a rise in real incomes. While the OECD expects the US recovery to accelerate from an annual growth rate of 3% in 1983 to 4.5% in 1984, it is more pessimistic on the outlook for Europe, where it expects more modest growth. *Overall OECD growth* is expected to accelerate in the second half of 1983 and decelerate marginally towards the end of 1984. This is implied by an average GNP growth rate of 2% in 1983 and 3.25% in 1984, compared to a fall of 0.2% in 1982.

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

1. The historical and forecast data in this section are drawn primarily from:

OECD Economic Outlook, No. 33, July 1983;

European Economy, No. 15, March 1983;

European Economy, Monthly Supplements on Economic Trends subsequent to March.

### Output, demand and expenditure

1.10 Ireland has been in the grip of recession since late 1979. During this period the growth of GDP has remained well below that of the mid 1970s. The recession deepened in 1981 and 1982 with GDP growth rates of 1.6% and 1.2% respectively (Table 1.1) and is forecast to deepen further in 1983 with the volume of GDP likely to increase by less than one per cent. The divergence between GDP and GNP growth became particularly marked in 1982. A 1.2% increase in GDP was turned into a fall of 1.4% in GNP due primarily to outflows associated with the servicing of official external debt.

1.11 The slowdown in the growth of GDP can be attributed to a fall in the volume of domestic demand and a slowdown in the rate of growth of foreign demand. Domestic demand fell in 1980 but recovered somewhat in 1981 as a result of the turnaround in investment, fuelled entirely by an 18% volume increase in the public capital programme. Total domestic demand fell by 3.5% in 1982, due mainly to a significant drop in both private consumption and private investment. The trends in these two components of expenditure are forecast to be the main contributors to a further decline in domestic demand of approximately 3.5% in 1983.

1.12 Foreign demand (3) began to weaken significantly in 1980, when its growth rate fell to 2.2% by comparison with 9.5% in 1979 (Table 1.1). It weakened still further in 1981 (1.7%) but recovered somewhat in 1982 (3.8%). Foreign trade, together with public expenditure on goods and services have, with the exception of 1981, provided the main stimulus to the modest GDP growth in the present recession. Despite this, overall export growth during the present recession has fallen substantially by comparison with growth rates of significantly over 10% in the mid 1970s. There was an average growth rate in exports of approximately 5% in the four year period 1979-82. However, as Table 1.2 indicates the deceleration in manufactured export growth in recent years was not as pronounced as the fall in overall export growth.

1.13 A number of features are particularly striking when the evolution of the economy during the course of the present recession is viewed from the expenditure side. These relate mainly to the changing structure of domestic demand and to the allocation of resources within the economy. In the three years 1980-82 private consumption fell by 4.5%, total investment fell by

2. The forecasts in this section draw extensively from the Quarterly Bulletin of the Central Bank.

3. Calculated as the weighted growth of imports of manufactures in Ireland's export markets.

1.4 There are however, a number of uncertainties regarding a sustained world recovery, relating particularly to the course of business investment, public sector demand and future monetary policy in the US. Monetary policy is particularly important as the US recovery gathers pace and credit demand expands, exerting upward pressure on US interest rates. Any generalised upward movement in interest rates would have adverse consequences both for the sustainability of the US recovery and the incipient European recovery. In addition, high interest rates would increase the difficulties faced by the international banking system.

1.5 In the OECD area *inflation* continued to decline through 1982 and the first half of 1983, markedly in a number of the larger countries. This resulted from depressed non-oil commodity prices, a fall in dollar oil prices and lower wage settlements. Despite the fact that the fall in oil prices will have worked through in 1984 and that non-oil commodity prices are likely to recover, inflation in the OECD area is expected to stabilise at 6% in 1983 and 1984.

1.6 *Employment* levels in the OECD continued to fall in the second half of 1982 and unemployment reached 8.4%. The rate is expected to increase further to over 9% in 1983. Despite the forecast continued recovery in 1984, overall unemployment is expected to continue increasing, though with contrasting developments in the US and OECD-Europe. Unemployment in OECD-Europe is forecast to increase to 11.5% in 1984.

1.7 The last quarter of 1982 and the first quarter of 1983 witnessed a very moderate recovery in output in the *European Community*. However, the European Commission has questioned whether a durable recovery is underway in the Community. The Commission's growth forecasts for the Community are identical to the OECD forecasts for OECD-Europe; involving 0.5% real growth in 1983 and accelerating to 1.5% in 1984.

1.8 Both the European Commission and the OECD are more optimistic about the growth prospects for the *United Kingdom* than for the Community as a whole, expecting a GDP growth rate there of slightly over 2% in 1984. This is broadly in line with official UK forecasts. However, unofficial UK forecasts diverge somewhat from this figure with the London Business School expecting growth to exceed 2.5% and the NIESR forecasting growth of 1.75%.

1.9 Based on the forecast growth of import volumes into Ireland's main export markets, the OECD expects demand facing Irish exporters (weighted by the destination of Ireland's manufactured exports) to grow by 3.5% in 1983 and 4% in 1984. Despite the forecast world economic recovery this demand increase is broadly similar to the increase of 3.8% experienced in 1982. This is due to the fact that 70% of Ireland's exports are directed to the relatively slower growing European Community.

9% while public consumption increased by 12%, all in volume terms (4). This pattern is forecast to continue in 1983 with declines of approximately 11% and 3% in total investment and private consumption respectively while public consumption is likely to increase marginally (5).

1.14 While no figures are available for privately financed investment, it is possible to get some indication of what has been occurring by comparing movements in total investment with movements in the public capital programme (publicly financed investment):

	1980	1981	1982	1983(f)
Total Investment	-5.6%	5.5%	-8.4%	-11.0%
Public Capital Programme	9.1%	18.2%	2.6%	-8.1%

It is estimated that by end 1983, total investment will have fallen by over 18% over the four year period 1980-83 while the public capital programme will have increased by over 21%. This indicates the very significant fall in the amount of privately financed investment during the present recession.

1.15 An increasing share of the economy's resources are being channelled through the public sector. It is not entirely appropriate to describe this situation as a crowding out or pre-emption of resources by the public sector because this approach implies a fixed pool of available resources. The "crowding-out" constraint is more appropriate to a closed economy. In an open economy the key constraint is the balance of payments. However, this is not to say that the public sectors' absorption of resources will not have an effect on the private sector.

1.16 Increases in public consumption have been achieved, in part, at the expense of private consumption through the increased tax-take from personal incomes. If growth in public consumption is not to result in excessive claims on resources and in inflationary pressures, the community must be willing to accept a lower level of privately provided goods and services (in effect, lower real disposable incomes). If the community is unwilling to accept this and seeks to maintain its command over resources (through negotiating higher income increases than would otherwise be the case), then resources have to be transferred from other sectors of the economy to satisfy this demand. In an open economy this transfer is likely to be at the expense of the traded sectors. This will be reflected in a lower growth of exports and private investment than would otherwise be the case.

4. It should be noted that public consumption *excludes* transfer payments which would be expected to increase during a recession.

5. If expenditure financed by the Youth Employment Agency is excluded, public consumption in 1983 is likely to decline in volume terms.

1.17 On the investment side the influence of fiscal policy on the decline in private investment is less clearcut. In recent years the public sector has had both significant positive and significant negative effects on private investment. An analysis of this decline should include consideration of: the effects of the high borrowing requirement, and in particular that part of it which is domestically funded, on interest rates; the effects of the tax regime in rendering investment in Government gilts relatively more attractive; the effects of the introduction of Accelerated Corporation Tax in Budget 1983. The high borrowing requirement and the uncertainty caused by the lack of a coherent national strategy for dealing with an economy in fundamental disequilibrium must also have adversely affected private investment decisions. A positive stimulus to private investment has resulted from the provision of generous financial grants and incentives.

### Sectoral output trends

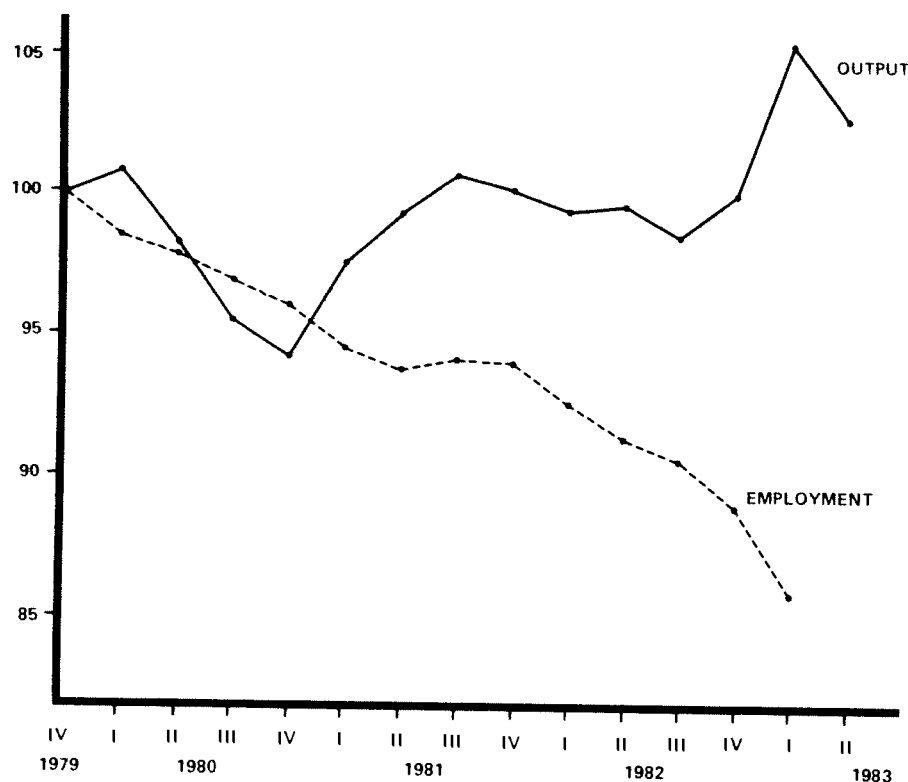
1.18 The volume of *manufacturing output* remained virtually static in 1982 while the average level of employment maintained its downward trend, falling by a similar percentage (3.4%) as in 1981 (Table 1.2). This was the third successive year of decline in manufacturing employment. As a result of this employment-shakeout in 1982, output per person employed grew by 3.4%.

1.19 The overall volume of manufacturing output remained static despite output falls in all sectors with the exception of food and metals and engineering (Table 1.3). This highlights the importance of these two sectors which account for almost half of net output in manufacturing industry. The metals and engineering sector, which contains the rapidly growing office and data processing machinery industry, has recorded consistent output growth in the course of the present recession. The food industry — in which output depends to a large extent on raw material supply — recovered strongly in 1982 following declines of approximately 3% in both 1980 and 1981.

1.20 Within the overall annual trends there is a pronounced cyclical pattern (Chart 1.1). Having fallen by 2% between the third quarter of 1981 and the third quarter of 1982 output began to recover in the final quarter of 1982 and recorded a substantial quarter on quarter increase of 5.5% (seasonally adjusted) in the first quarter of 1983. Although output declined in April it stabilised in May and strengthened again in June and July. Manufacturing output for the first seven months of 1983 showed an increase of 5% over the corresponding period of 1982.

CHART 1.1

MANUFACTURING OUTPUT AND EMPLOYMENT,  
1979 - 1983 SEASONALLY ADJUSTED,  
(1979 IV = 100)



1.21 The forecast fall in domestic demand of 3.5% for 1983 will place further pressure on those firms supplying the domestic market. Demand growth in Irish export markets is expected to be broadly similar to the 1982 growth rate. Notwithstanding this relatively weak demand background, manufacturing output could grow by as much as 5% in 1983, significantly up on the 1982 increase. This growth will emanate mainly from those advanced technology sectors dominated by foreign firms.

1.22 The volume of *agricultural output* recovered in 1982 following three successive years of decline (Table 1.4). Gross output showed a 3.3% increase, which, together with a marginal fall in the use of inputs, resulted in a 5.5% increase in the volume of net output. The improvement in the price-cost ratio in 1981 did not continue in 1982 but the adverse movement of just over 1% did not exert a significant downward pressure on output and income. Income from self employment in agriculture increased by almost

23% or approximately 6% in real terms, the first real increase since 1978. The recovery in agricultural output in 1983 is unlikely to be as strong as in 1982 with gross output expected to increase by less than 2% and a net output increase of approximately 1%. The price-cost ratio is expected to deteriorate slightly in 1983. Real income is likely to fall by perhaps 2% to 3%, but per capita real income will probably be maintained.

#### Labour market trends

1.23 Total employment in the economy fell by approximately 0.5% between April 1981 and April 1982 (Table 1.5). However, a decline of over 2.5% is estimated to have occurred between April 1982 and April 1983 reflecting the deepening of the recession in 1982. Unemployment (labour force survey definition) increased from 8.9% of the labour force in April 1981 to 10.7% in 1982 and is estimated to have reached 14.3% in April 1983. The impact of labour force growth on the unemployment figures is underlined when it is considered that between April 1980 and April 1982 total employment fell by 17,000 but unemployment increased by 61,000.

1.24 Unemployment (live register definition) reached a trough in October 1979 when there were almost 83,000 unemployed, equivalent to 6.8% of the labour force. Unemployment has been on a consistent upward trend since then reaching 193,200 in September 1983, equivalent to 14.8% of the labour force. However, the rate of increase in unemployment (seasonally adjusted) has slowed down considerably since February 1983. Data on flows onto and off the live register, though not seasonally adjusted, also reflect this trend, with the outflow from the register exceeding new registrations in the April to June period. The numbers on systematic short-time have also declined significantly since February 1983. While all these trends are favourable they do not point to any reversal in the rise of unemployment in the immediate future.

1.25 Within total unemployment, the percentage of long term unemployed on the live register has remained broadly constant. However, youth unemployment has steadily deteriorated since 1980, increasing from 24% in mid-1980 to over 31% of registered unemployed in September 1983. In April 1983 38% of young unemployed had been on the live register for six months or more while 18% had been on the register for twelve months or more. Since the inception of the Youth Employment Agency in 1981 the rate of participation in training and employment programmes of young persons has increased from 21,360 (9,100 manyears) in 1981 to over 47,000 (21,250 manyears) in 1983. It is estimated that the number on the live Register in 1983 is approximately 15,000 below what it would otherwise be as a result of the activities funded from the Youth Employment Levy. This may partly account for the slowdown in the rate of increase of unemployment observed in the previous paragraph.



1.26 Both the immediate and medium term prospects for employment growth are not encouraging. The growth rate of GDP, particularly for the remainder of 1983 and also in 1984, is such that total employment is likely to continue to fall, though a slowdown in the rate of decline is possible during 1984. Given continued labour force growth, unemployment is forecast to continue on an upward trend at least until the end of 1984.

1.27 At a sectoral level there is evidence that a significant shakeout of employment has been occurring in the manufacturing sector, with employment declining by over 14% since the end of 1979. It is normal for productivity to fall with the onset of recession and to increase in a recovery phase. This broadly characterised the period 1980-81 when output moved in a V pattern. However, productivity continued to improve in 1982 despite static output. This indicates that employers are engaging in a major shakeout in response to a combination of weak demand and cost pressures producing a narrowing of profit margins (see section on Prices, earnings and costs). This shakeout has continued into the first quarter of 1983, with employment declining by 3.4% giving a quarterly productivity increase of over 9%.

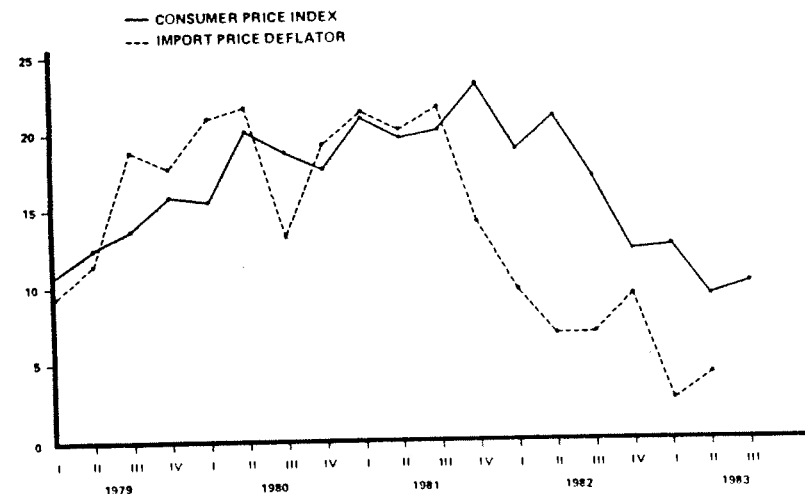
1.28 The prospects for a sustained upturn in output, of the order required to generate an increase in employment, are not favourable given the present and forecast weakness of domestic demand and relatively modest growth in export demand. The OECD expects foreign demand to grow by 4% in 1984, slightly up from the 3.5% expected in 1983. Agricultural employment will continue to decline while service sector employment will only show minimal growth, given the weakness of domestic demand and the partial embargo on public sector recruitment. Employment in the private sector of the building industry was down by almost 20% in the first five months of 1983 compared to the same period in 1982 and is likely to continue falling in line with the forecast fall in investment. The appraisal of sectoral employment prospects is therefore in line with the overall conclusion that total employment will continue to fall in the immediate future.

### Prices, earnings and costs

1.29 One of the most encouraging features of the economy in 1982 was the rapid decline in *inflation* (Chart 1.2). The year-on-year inflation rate peaked in the final quarter of 1981 at 23.3% and declined almost continuously to reach 12.3% in the final quarter of 1982. This fall in inflation was primarily due to a significant fall in the rate of increase of import prices, from 21.7% in August 1981 to 9.4% in November 1982.

1.30 The rate increased slightly in the quarter to mid February 1983, due entirely to indirect tax increases, but fell sharply in the subsequent quarter primarily as a result of an appreciation of the effective exchange rate. The

CHART 1.2  
PRICE INDICES (1979 = 83)  
YEAR ON YEAR PERCENTAGE CHANGE



turnaround in the effective exchange rate following the March 1983 EMS realignment and exceptional increases in the prices of fresh vegetables contributed to the year on-year inflation rate rising to 10% in the quarter to August. The constant tax price index, which excludes price movements due to changes in indirect tax rates, was running at a rate of 6.9% in the year to mid-August 1983.

1.31 The recession, and in particular the level and rate of increase in unemployment, has had a significant effect on the growth of real average weekly *earnings* in manufacturing. Following an increase of 1.8% in 1979, real earnings remained static in 1980. As the recession deepened in 1981 and 1982 real earnings went into decline, falling by 3.1% in 1981 and by a further 3.5% in 1982 (6). The decline in real post-tax earnings has been even more marked (Appendix A). While real earnings in manufacturing industry declined in 1982, real per capita income in agriculture increased by 10.5%. This comparison should, however, be seen in the context of the enormous variability of per capita income in agriculture: a 32% real increase between 1976 and 1979 and a 36% real decline between 1978 and 1981.

1.32 Real *personal* income having declined in the last three years is expected to remain static in 1983 (Table 1.6). Deducting taxes on personal income and wealth gives personal disposable income. The latter fell in each

6. Change in real average hourly earnings differ somewhat from weekly changes due to changes in the average number of hours worked per week. The latter fell in both 1980 and 1982 with the result that real average hourly earnings increased by 2.7% in 1980 and fell by 2.1% in 1982.

of the three years 1980-82 and is forecast to fall by a further 3% in 1983, giving a decline over the four years 1980-83 of almost 10% in real terms. Over the same period real personal income declined by just over 1%. The impact of fiscal measures on personal income has therefore been quite marked over the period.

1.33 *Unit wage costs* in domestic currency terms increased by 8.2% in 1982, down about 1.5 percentage points from the increase in 1981 (Table 1.7). Despite this fall, the increase was still more rapid than the average increase experienced by our trading partners. With the effective exchange rate remaining broadly stable, this resulted in an overall deterioration in competitiveness (using unit wage costs in common currency) of about 2% (Table 1.8). In contrast to previous years the overall deterioration was of a similar magnitude to the deterioration against our EMS partners.

1.34 It is now four years since entry to the EMS. Over this period there has been differential movements in competitiveness relative to the EMS countries and our other major trading partners, notably the UK and the US (Table 1.8). Between 1978 and 1982 overall competitiveness has improved by about 1% due entirely to a depreciation in the effective exchange rate. Relative to our EMS partners our cumulative loss in competitiveness was 24% in common currency terms, virtually the same as the deterioration in national currency terms.

1.35 Improvements in competitiveness vis-a-vis the non-EMS group, in particular the UK and the US, have outweighed the deterioration against the EMS group over the period 1978-82. This was due to a 19% fall in the Irish pound against sterling and 26% against the US dollar. This conclusion needs to be qualified somewhat to take into account third country effects, for example Irish producers are competing not only with UK producers in the UK market but also with producers from EMS countries. The result of these competitive movements has been a severe squeeze on firms trading with EMS countries and a more favourable environment for those trading with the UK and the US. It should be noted that the favourable environment was offset for food exporters to the UK by positive MCAs.

1.36 The extent of a squeeze on a sector is usually indicated by comparing movements in prices and unit wage costs. This comparison may, however, conceal the full extent of the squeeze since unit wage cost changes may reflect an adjustment to a squeeze via productivity improvements. A price/earnings ratio together with a price/cost ratio is therefore included in Table 1.9.

1.37 A significant deterioration in the price/earnings ratio in 1979 and 1980 was associated with a deterioration in the price/cost ratio. In 1981 and

1982 the price/earnings ratio continued to deteriorate, though not at the same rate as in the previous two years, while the price/cost ratio improved. The divergence in these two ratios is due entirely to productivity improvements. Employers, confronted with an 8.5% margin decline in 1979 and 1980 prevented further declines in 1981 and 1982 by reducing employment, improving productivity and hence lowering the rate of increase of unit wage costs. These improvements in the price/cost ratio were achieved at the cost of a 7% decline in manufacturing employment.

1.38 In addition to wage cost competitiveness other cost increases may have equally adverse effects on the traded sectors. These other costs come under two broad headings: non-wage labour costs and the cost of services. Non-wage labour costs, and in particular employers contributions to the social insurance fund, have been growing rapidly in recent years. Not only do these directly increase an employer's overall costs but, in conjunction with the government-take from employee incomes, may make it more difficult to achieve moderate wage settlements.

1.39 The other category of costs relates particularly to the cost of services purchased by the traded sector from the sheltered sector. These include transport, telephone, postal and electricity charges together with the costs of professional services. The sheltered sector is insulated from the effects of foreign competition with the result that the cost of services may increase much more rapidly than the general rate of price increase achieved by the traded sectors.

#### **Foreign trade and external balance**

1.40 The deficit on external current account fell in 1982 to 8.8% of GNP from 13.5% in 1981 (Chart 1.3) as the recession deepened and the volume of merchandise imports fell by approximately 5%. Merchandise exports increased by about 4.5% in 1982, composed of a 10% increase in industrial export volume and a 9.5% volume fall in agricultural exports. This favourable movement in the real trade balance was accompanied by a 3.5% improvement in the terms of trade with the result that the balance of trade fell to 9.3% of GNP compared to 16.5% in 1981.

1.41 Given the rapid growth in the volume of manufactured exports, it is worth examining the growth on a sectoral basis. Of the total increase in manufactured exports between 1978 and 1982, almost 72% was accounted for by Machinery and Transport Equipment (SITC 7) and Chemicals and Related Products (SITC 5). These are the sectors in which the bulk of foreign investment is concentrated. At a further level of disaggregation the impact of foreign investment on export growth is even more marked. Over 60% of the increase in SITC 5 and 7 was accounted for

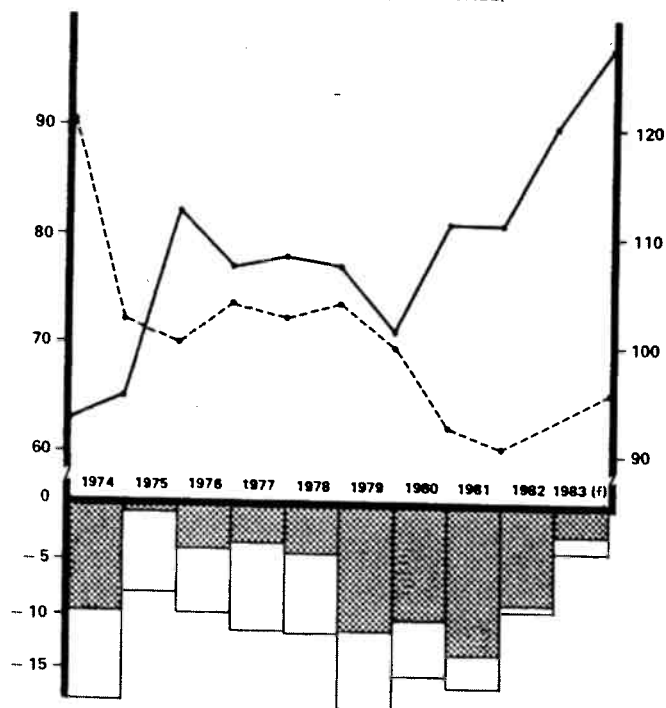
by Organic chemicals (SITC 51), Office Machines and Automatic Data Processing Equipment (SITC 75) and Electrical Machinery (SITC 77).

1.42 A further fall in both the balance of trade and the current account deficit is forecast for 1983. This is due to a further decline in merchandise imports, in line with the forecast fall in domestic demand, and continued growth in the volume of industrial exports, together with a turnaround in agricultural exports. The terms of trade effect is also expected to be favourable. The cumulative trade deficit for the first nine months of 1983 amounted to £380m compared to £989m for the first nine months of 1982.

CHART 1.3

### FEATURES OF THE BALANCE OF PAYMENTS (1974 - 1983)

■ CURRENT ACCOUNT DEFICIT (% of GNPI)  
□ TRADE DEFICIT (% of GNP)  
--- TERMS OF TRADE (RIGHT SCALE, 1975 = 100)  
— REAL EXPORT/IMPORT RATIO (LEFT SCALE)



Note: The real export/import ratio is arrived at by deflating imports and exports by their respective deflators and expressing the resulting figures as a ratio.

1.43 The fall in the external current account deficit in 1982 and the forecast fall in 1983 is due to a combination of buoyancy in industrial exports, recessionary influences and terms of trade movements. The improvement in the real export/import ratio (Chart 1.3) has been due to a fall-off in imports as domestic demand weakened and exports continued to increase. The terms of trade improved by 3.5% in 1982 and are expected to improve by a further 2.5% in 1983.

1.44 One of the main concerns with the balance of payments deficit on current account since 1979 has been that with the economy in recession, the deficit was not falling to supportable levels. Any upturn in the economy was therefore expected to lead to the balance of payments constraint becoming quite severe thus necessitating strong deflationary measures. Accordingly, the fall in the deficit in 1982 and the forecast fall in 1983 does not necessarily indicate any significant scope for an easing of fiscal policy. The underlying deficit (i.e. the deficit corrected for the fall in domestic demand) is still a matter of concern.

## POLICY DEVELOPMENTS

### Fiscal policy

1.45 The *budgetary outturn for 1982* exhibited some slippage by comparison with the post budget estimate for the fourth year in succession. In the March 1982 Budget, an exchequer borrowing requirement (EBR) of 13.9% of GNP was projected while the actual outturn amounted to 16.5% of GNP (Table 1.10). All of the spillage occurred on the current side of the budget with borrowing for capital purposes actually undershooting its target marginally. Despite this slippage, the EBR as a percentage of GNP fell slightly by comparison with 1981 while the current budget deficit increased from 7.9% in 1981 to 8.4% in 1982.

1.46 The overrun on the current deficit compared to the post-budget estimate in 1982 was due almost entirely to a shortfall on tax revenue. VAT was almost 13% below the budget estimate with shortfalls of 8% and 7% respectively in income tax and excise duties. Despite these shortfalls, revenue from VAT, excise duties and income tax increased by 53%, 7% and 17% respectively over their 1981 levels (7). The 1982 budgetary overrun contrasts with previous years when expenditure overruns were the main

7. The measures in the 1982 budget which resulted in this increase in VAT receipts were as follows:

- (i) an increase in the 15% rate to 18% together with a removal of exemption from certain services;
- (ii) an increase in the 25% rate to 30%; and
- (iii) applying VAT at the point of import on all goods.

cause of the overrun on the borrowing target. However, mid-year adjustments were required to keep expenditure on target.

1.47 The proportion of the EBR financed from foreign sources declined appreciably in 1982 (Table 1.11). This was due entirely to a doubling of the sales of securities to the domestic non-bank public and the commercial banks. Despite the fall in the proportion of the EBR financed abroad, external Government debt as a percentage of GDP continued to increase, reaching 42.5%. Interest payments on external debt are estimated to amount to 4.1% in 1983 while total servicing of external debt is likely to absorb 6.7% of GDP.

1.48 *Fiscal policy in 1983* was framed with the object of reducing the EBR to 13% of GNP with the current budget deficit to fall from 8.4% of GNP in 1982 to 6.8%. Borrowing for capital purposes is thus to fall from 8.1% to 6.2%. This is a very significant reduction in the overall borrowing requirement from the 16.5% outturn for 1982. From a policy viewpoint it is necessary to examine how it is proposed to achieve the reduction.

1.49 On the current budget side expenditure is estimated to increase by almost 13%, partly due to the impact of the deepening recession (on unemployment payments, for example) while revenue is set to increase by over 17% (8). Although the growth in current expenditure has been curtailed in 1983, the burden of adjusting the current budget is being borne by taxation with the major revenue items — income tax and VAT — budgeted to increase by 19.2% and 19.6% respectively. On the expenditure side, both transfer payments and expenditure on goods and services are set to increase in real terms, by 2.7% and 3% respectively (Table 1.12).

1.50 The public capital programme is budgeted to decline marginally in nominal terms resulting in a forecast real decline of over 8%. This decline is accounted for by a 16% volume fall in sectoral economic investment (i.e. investment in agriculture, industry etc.) while investment in productive and social infrastructure is budgeted to fall in real terms by 6.5% and 4.3% respectively.

1.51 Every budget since 1979 has been faced with the difficulty of reducing the exchequer borrowing requirement against a background of recession and rising unemployment. The deepening of the recession in 1983 and the continued increase in unemployment compound the difficulties faced by those framing the 1984 Budget. For example, in January 1979 the

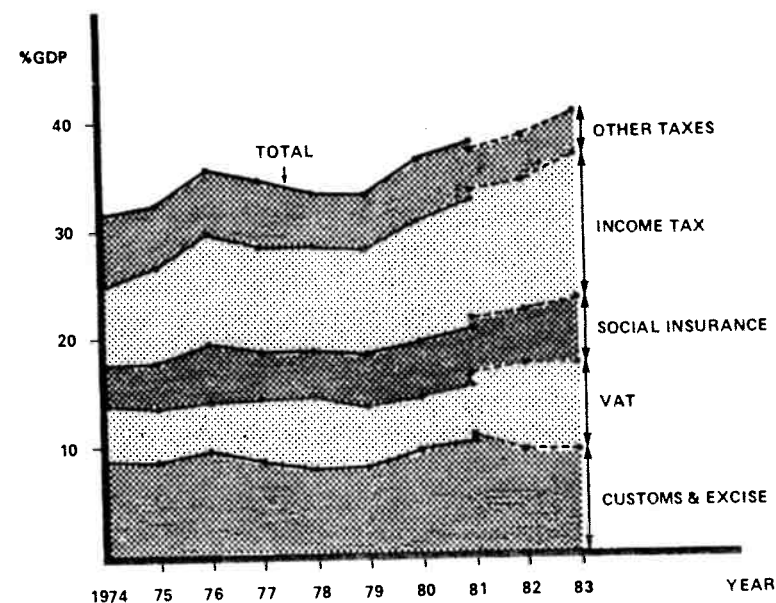
8. Of the total increase in social welfare expenditure budgeted for 1983, approximately 37% is accounted for by increased unemployment payments (this percentage covers both increased rates of payment and increased numbers in receipt of payments).

unemployment rate was 8.7% whereas the equivalent figure in January 1984 is likely to be 15%. The need to reduce the exchequer borrowing requirement, especially foreign borrowing, while minimising any possible deflationary impact on the economy is the central issue faced by budgetary strategy in 1984.

### Taxation trends

1.52 The level of taxation and its rapid growth in recent years imposes an additional constraint on budgetary policy in 1984. Total taxation as a percentage of GDP has increased sharply from 33% in 1979 to 41% in 1983. The main constituents of total taxation and their rate of growth are presented in Chart 1.4 and Table 1.13.

CHART 1.4  
TOTAL TAXATION & MAIN TAXES AS % GDP



Note: Series breaks in 1981 as shown. 1974 – 1981 series is based on *National Income & Expenditure 1981* and 1981 – 1983 series is based on *Budget Booklets 1982 and 1983 and Estimates Volume, 1983*.

1.53 The overall increase in the level of direct personal taxation (these axes are estimated to account for 47% of total taxation in 1983 compared to 42% in 1975) is reflected in both average and marginal tax rates. There has been a sharp increase in the proportion of persons liable to income tax

above the standard rate of 35%. In 1973/74, 1% of tax payers were at above-standard rates; by 1981/82 this has risen to 17% and the 1982 Budget increased the proportion to 40%. The non-indexation of tax bands and allowances in the 1983 Budget is likely to have increased this proportion even further.

1.54 The average tax rate for a single man in receipt of average industrial earnings has risen from 27% in 1980 to an estimated 34% in 1983 (9). The equivalent figures for a married man with two children are 17% and 22%. These increases, together with employers' contributions to the social insurance fund, have led to a widening of the gap between the take-home pay of an employee and the cost of employing to the employer. For example, in 1983 the take-home pay of a single person in receipt of average male industrial earnings and standard tax allowances amounted to 61% of the cost of employing that person (10).

1.55 The trends in taxation in recent years have far-reaching implications for incentives in the economy, both for the firm and the individual. For example, the incentives on the individual to increase income through greater output or risk taking are diminished. High average and marginal tax rates also make the achievement of income moderation more difficult. Despite increases in gross nominal incomes this year, which will increase further real labour costs from the employers' point of view, the real post-tax income of employees will decline.

#### **Income developments**

1.56 The last two pay rounds (the 22nd and 23rd) in the economy were determined in the private sector by negotiations at local and industry level. In these two rounds the Government has only been directly involved in negotiating pay for the public service. It took an indirect involvement in the 22nd round through the appointment of the Committee on Costs and Competitiveness to determine the rate of pay increase consistent with maintaining competitiveness. However, its influence is likely to have been greater than this indirect involvement would suggest since the early conclusion of the public service pay agreement was a headline for private sector settlements.

1.57 In 1983, with the relatively late conclusion of the public service pay deal, the Government's primary influence on the 23rd round was through its

9. The average tax rate is defined here as the share of the employee's total income taken in tax and PRSI contributions. The calculations refer to persons in receipt of average industrial earnings who are liable for standard PRSI contributions.

10. The cost of employment is defined to include gross earnings and employers' PRSI contributions.

budgetary strategy. One of the main objectives of budgetary policy in 1983 was:

"to achieve the necessary moderation in pay policy so that we can reverse the decline in competitiveness which so endangers our employment levels" (Financial Statement of the Minister for Finance, 9 February 1983).

Subsequent to the budget the Government issued a statement urging that the pay negotiations should "lead to a pay pause carrying into the Autumn and an increase in low single figures thereafter" (Statement issued by Government Information Services, 10 March 1983).

1.58 In the light of this Government statement it is interesting to examine the trend in pay settlements in the private sector and to compare this trend with developments in the public sector. The public service pay agreement provides for a pay pause of six months, a cumulative basic increase of 8.15% for fifteen months and phased payment of certain special increases. About one third of private sector pay agreements contained a pay pause of around three months with an average duration of agreement of 13.5 months and a cumulative increase in wage rates of 10.9% (11).

1.59 The effect of the 23rd round on earnings in 1983 is estimated at about 4% in the private sector and 2% in the public sector. The following table provides estimates of the effects of the 23rd pay round on average earnings in the private and public sectors.

	Private Sector	Public Sector
Effects of 23rd pay round on Earnings in 1983	4%	2%
Carryover into 1984 (a)	5-6%	8%
Overall increase in average earnings in 1983 (b)	9-10%	12%

(a) On the basis of commitments under the 23rd round and taking no account of the impact of any new agreements in 1984.

(b) Taking account of carryover from previous agreements.

1.60 The previous paragraphs have concentrated on employee earnings since data on this category of income are more readily available. Information on income developments in other areas must be treated with caution. The areas covered are: income from self-employment; agricultural incomes;

11. Private sector figures are based on an analysis of 655 pay agreements by the FUE. It should be noted that approximately one third of the pay pauses in the private sector contained lump sum payments in return for the pay pause.

interest, dividends and rent; and current transfers. The estimated evolution of the various components of personal income is:

	1982 (£m)	1983 (£m)	Change %
Agricultural incomes	1,050	1,115	+ 6.2%
Wages and salaries	7,000	7,720	+ 10.3%
Self-employed income	875	985	+ 12.6%
Interest dividends and rent	545	540	- 1.0%
Current transfers	2,211	2,531	+ 14.5%

Source: ESRI, *Quarterly Economic Commentary*, August 1983.

### Exchange rate policy

1.61 The decision to participate in EMS represented a commitment by the Irish authorities to the pursuit of a stable exchange rate policy. However, difficulties were posed by the non-participation of the UK, (given that, in the event, sterling proved volatile), and in the first few years by the large balance-of-payments deficits associated with the expansionary stance of domestic fiscal policy.

1.62 In the period 1979-82, the Irish pound's effective exchange-rate index fell by approximately 13 per cent, reflecting, in the main, depreciations against sterling and the US dollar. Within EMS a "middle course" was adopted in most realignments resulting in devaluations against the Deutsche Mark and Dutch Guilder and revaluations against the French Franc, Italian Lira, Danish Kroner and Belgian Franc.

1.63 In the period from the break in the sterling link to early 1981, there was an appreciation of sterling of approximately 33 per cent. There followed a period of relative stability, during which the Irish pound fluctuated between 77p and 84p sterling. However, from about end-October 1982 to mid-March 1983, sterling weakened and the Irish pound appreciated against it by about 16 per cent.

1.64 The dollar/pound exchange rate remained broadly stable between the beginning of 1979 and the middle of 1980. However, the rate began to fall in the third quarter of 1980 and has been on a consistently declining trend since then. The rate fell from 2.06 in the second quarter of 1980 to 1.27 in the second quarter of 1983, a decline of 38 per cent.

1.65 As sterling depreciated during the last quarter of 1982 and the first quarter of 1983, the Irish pound's overall value rose sharply. A general realignment of EMS currencies took place in March 1983. In order to offset the sharp rise in the overall value of the currency, the Irish pound was devalued within the EMS, which resulted in a fall of approximately 4 per cent

in the pound's effective exchange rate. In the period to September since the realignment, the Irish pound's effective exchange-rate index fell further by almost 8 per cent, reflecting the sharp appreciations of sterling and the US dollar in recent months.

1.66 Ireland's exchange rate policy is based on membership of the European Monetary System (EMS). The general aim of policy is to help to bring the domestic rate of inflation into line with that of Ireland's main trading partners. In a small open economy, this may be achieved through pursuit of stability for the exchange rate such that changes in world prices are reflected in domestic costs and prices. (The close link between import prices and the rate of inflation is highlighted in Chart 1.2). If other policies are not consistent with the pursuit of stability for the exchange rate, there may be adverse effects on output, employment and the balance of payments. Exchange rate devaluation does not provide a solution to such problems since domestic prices and wages will tend to respond quickly to a fall in the exchange rate, thereby eroding any initial competitive advantage. \*

### Monetary policy

1.67 The *monetary policy outturn for the 1982 monetary policy year* showed the increase in total private-sector credit and in lending to the personal sector to be within their respective guidelines. One of the principal features of 1982 was the slowdown in total domestic credit expansion which fell to 29% by comparison with 42% in 1981. This was mainly attributable to: (i) a significant fall in bank lending to the non-government sector due to the combined effects of the recession and the generally high rates of interest which prevailed throughout the year (ii) the decline in the share of monetary financing of the EBR to 70% from 84% in 1981. Despite the lower level of monetary financing by the exchequer in 1982 the Government share of domestic credit expansion increased from 59% in 1981 to 67% in 1982. Another feature of 1982 was the relatively high rates of interest, both in nominal and real terms.

1.68 The guideline for the growth of private sector credit for 1983 is 11%. During the eight months of the monetary policy year to mid-August, the growth of private sector credit subject to the guideline, at 3.5 per cent, was relatively slack. The depressed state of the credit market confirmed the continuance of the recession and it suggests that credit growth for the year as a whole may be well within the increase allowed under the guideline.

1.69 Interest rates peaked around the EMS realignment of March 1983 but have fallen back significantly since then. Following the realignment, money market pressure eased gradually and by early July 1983 nominal interest rates were generally back to the levels prevailing during the final quarter of

1982. During the third quarter of 1983 the improving external balance facilitated a further easing of pressures in the domestic money market which led to a fall in Associated Bank interest rates. This was the third such fall since the March EMS realignment, bringing the prime lending rate of the Associated Banks down to 12.75 per cent, its lowest level since 1978.

## CONCLUDING REMARKS

1.70 The economy is beginning to adjust from the fundamental disequilibrium of recent years. However, much of the adjustment is recession induced and some of the familiar constraints may reappear with any pick-up in the economy. The adjustment is particularly visible in living standards, the balance of payments and the public finances. While this adjustment is necessary the pattern of adjustment is a cause for concern. The imbalance in the public finances has been partially corrected by means of increased taxation with adverse implications for incentives on both the demand and supply side of the labour market and for competitiveness. The process of adjustment has also been marked by a large fall off in private investment. In the manufacturing sector the adjustment to cost pressures and weak demand has resulted in a reduction in employment.

1.71 The growth of output and employment in the medium term will depend on the strength and pattern of the world economic recovery and the extent to which the domestic economy responds to the opportunities presented. The pattern of structural adjustment in the economy will primarily determine the response of the economy to those opportunities. In this respect the Government must design a strategy which is constrained by very high taxation on a narrow base and the continued imbalance in the public finances. The Council's recommendations on this issue and on the overall pattern of adjustment in the economy are contained in Chapter 3.

## CHAPTER 2

### REVIEW OF SOCIAL POLICY DEVELOPMENTS

#### Introduction

2.1 The decline in Ireland's economic growth in recent years poses severe problems for the social services. The resources available for public expenditure, including the social services, are being squeezed at a time when the demands on the social services are increasing. Clearly, the resumption of economic growth, and particularly the creation of employment which would alleviate these difficulties, must be the main objective of economic and social policy. This chapter includes a review of recent important developments in social services in the context of the social policy principles already enunciated by the Council (1). The review also provides an opportunity to compare recent events against one of the stated objectives of the 1983 Budget i.e. "to minimise the effects of recession and of the necessary adjustment policies on the low-paid and on those on low incomes generally" (2).

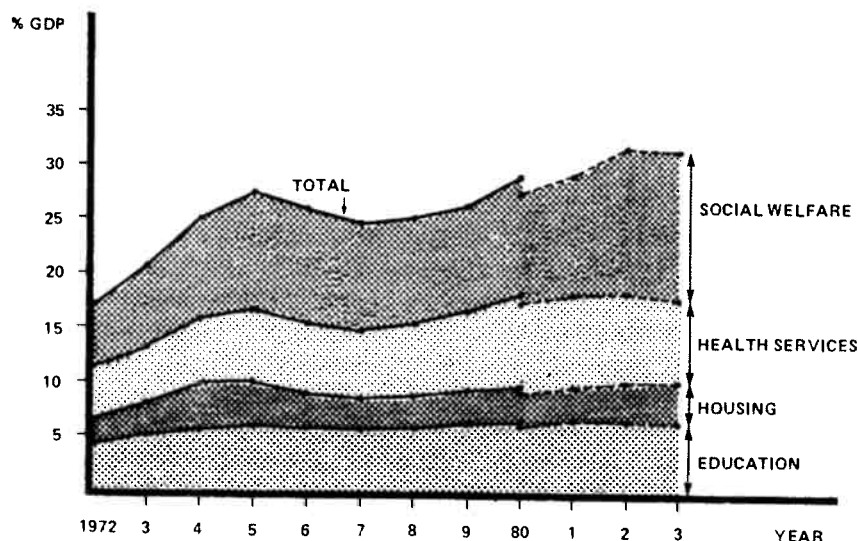
2.2 Public expenditure (capital and current) on the social services, defined here to include education, health services, social welfare and housing (3) has increased sharply over the past decade, from just under 17% of GDP in 1972 to 32% in 1982. Most of the increase occurred between 1972 and 1975 after which combined social expenditure fell back slightly until around 1979 when it began to increase again. The 1983 estimates show combined social service expenditure maintained at approximately 1982 level (Chart 2.1).

2.3 The contribution of the different social services to combined social expenditure growth varied considerably over the period. Up to 1980 the health services and social welfare contributed equally to the overall growth

1. For a discussion of this definition see *Irish Social Policies: Priorities for Future Development*, NESC Report 61.
2. *Budget Booklet 1983*, page 7.
3. The data includes only direct public expenditure on housing and thus does not take account of the significant implicit expenditures involved in the form of income tax relief on mortgage interest repayments and stamp duty exemption for new houses - for further details see Report on *Housing Subsidies* NESC Report 23 and *Economic and Social Policy: Aims and Recommendations 1981* NESC Report 70.

CHART 2.1

**PUBLIC EXPENDITURE (CURRENT AND CAPITAL)  
ON MAJOR SOCIAL SERVICE PROGRAMMES  
AS % GDP, 1972 – 1983**



Note: The series breaks in 1980 as shown. The 1972 – 1980 data is drawn from *National Income & Expenditure 1981* and the 1980 – 1983 series is based on the tables in this report.

but social welfare accounted for virtually the entire post-1980 increase. At 32% of GDP, the combined social services now account for just over half of public expenditure.

### HOUSING

2.4 Housing completions are projected to fall in 1983 for the second year in succession; from almost 29,000 in 1981 to just under 27,000 in 1982 and to around 26,000 in 1983 (Table 2.1), the lowest level since 1977. This decline is due entirely to a drop in private completions. Local authority completions have levelled out at just under 6,000 in recent years after having declined from a peak of almost 9,000 houses per annum in 1975. The number on the approved waiting list for local authority dwellings, however, has grown by about 1,000 to approximately 31,000 in 1983(4).

2.5 The maintenance of a steady level of local authority house building has involved real increases in public capital expenditure on housing of some 3%

4. Parliamentary Records 19/5/1983 column 1732.

in 1982 and the 1983 estimate shows an increase of under 1% (Table 2.2). Local authority housing will account for almost 60% of public capital expenditure on housing in 1983, compared with 52% in 1981. The other main constituent in public capital expenditure on housing is house purchase and improvement loans and grants, whose share had increased from 23% in 1977 to 38% in 1982, with a slight fall back evident in 1983 to 36% (5).

### Owner occupied sector

2.6 The number of non-local-authority completions grew continuously from 1976 to just over 23,000 dwellings in 1981. Completions fell to just over 21,000 in 1982 and will fall to around 20,000 in 1983. This decline is partly due to downward movements in real personal disposable income in each year since 1980 (see Table 1.9) despite the financial incentives which have been introduced to encourage owner occupancy; notably the £1,000 new house grant scheme (since 1977), the mortgage subsidy scheme (since 1981) and the Housing Finance Agency (since 1982). In addition there are substantial inducements offered by the tax relief on mortgage interest repayments and the exemption of new houses from stamp duty. The cost to the exchequer of these schemes, excluding the self-financing Housing Finance Agency, will be £107m in 1983 (6).

2.7 The price of entry to the owner occupied sector, as measured by the deposit and the average mortgage repayments relative to average industrial earnings, remained high in 1982 (7). These barriers to entry, however, were significantly eased, firstly, by the Housing Finance Agency which provides mortgages whose repayments are income related, and secondly, by the mortgage subsidy scheme which could be used to either reduce the average deposit required or to reduce mortgage repayments. The mortgage subsidy scheme originally supplied £3,000 over 3 years but was changed in late 1982 to cover 5 years with a maximum subsidy of £1,000 in the first year. The effect of the scheme in reducing mortgage repayments depends mainly on the income tax rates faced by the relevant mortgagee (8). The combination of tax relief and the mortgage subsidy scheme could reduce yearly mortgage repayments on an average price house from £4,000 to

5. *Quarterly Bulletin of Housing Statistics*, Department of the Environment, March 1983.

6. The figure of £107m is made up as follows:

New house grants	£8.5m
Mortgage subsidy scheme	£14.3m
Mortgage tax relief	£56.0m
Stamp duty exemption	£28.0m
	<b>£106.8m</b>

7. Monthly mortgage repayments increased from 42% of average industrial earnings in 1976 to 58% in 1979 and 1980, 50% in 1981 and 53% in 1982 NESC Report 70, Table 3.7, 3.8 updated by Secretariat.
8. Under the conditions of the scheme, the mortgage subsidy plus tax relief cannot exceed loan repayments, hence the effect of the scheme also depends on the level of loan repayments.



between £1,600 (at a 35% marginal tax rate) and £600 (at a 65% tax rate) approximately.

2.8 The Council has drawn attention on a number of occasions to the regressive impact of the system of income tax relief for mortgages. The Council has recommended that consideration be given to "confining tax relief on interest payments to tax at the standard rate only or for a limited period or the fixing of a lower maximum on loans eligible for relief" (9). In the 1983 Budget, the maximum value of the mortgage interest repayments which can be set against income tax, was reduced from £2,400 to £2,000 for single persons with pro-rata reductions for married couples (10). As income tax rates increased, the cost of this scheme has increased from £20m in 1979-80 to £56m in 1983-84. As the general level of taxation on mortgages increases, it becomes more difficult to remove the relief without causing financial difficulties. The Council however considers that the mortgage interest tax relief scheme is unjustifiable on grounds of both equity and efficiency.

#### Local authority sector

2.9 The total number of houses rented from local authorities has varied little in recent years (11) despite the continuation of house building by local authorities. Of an approximate 285,000 dwellings constructed to date by local authorities, 105,000 are rented and 170,000 have been sold (12). The level of sales has declined below the level of completions in recent years, so that the stock of local authority dwellings is now increasing slowly.

2.10 The cost of building local authority houses has increased sharply in recent years. The current average cost is in the region of £35,000 (13). Average rents have remained extremely low in the local authority sector at just over £6 per week in early 1983, while the average public subsidy (based on local authority current expenditure) was over £22 per week. Thus an average rent of some £27 per week would be required for the local authority rent receipts to match expenditure. Even for first lettings of new houses, the average rent in early 1983 was £9.50 per week. Taking an average cost of £35,000 for a new local authority house, the effective initial state subsidy

9. *Report on Housing Subsidies* NESC Report No. 23, paragraph 22, see also *Economic and Social Policy: Aims and Recommendations, 1982*, NESC Report No. 70, page 35.

10. The Minister for Finance in the 1983 Budget speech stated "that the limiting of tax relief to the standard tax rate" is not a feasible option at this stage for a number of practical and administrative reasons.

11. See *Economic and Social Policy: Aims and Recommendations, 1982* NESC Report No. 70, (Table 3.10)

12. *Budget Booklet 1983*, page 160.

13. *Ibid*, see also *Parliamentary Debates. Dail Eireann*, 17 May 1983 for details of available data on local authority dwelling costs 1973-1982. The figure of £35,000 is derived by dividing total public expenditure on local authority construction of dwellings by the number of dwellings completed. There is thought to be a wide variation around this average.

(based on the cost of servicing an investment of £35,000) amounts to over £90 per week.

2.11 Rents are low in local authority dwellings for several reasons:

Firstly, under the 1983 differential rents scheme, the maximum rent chargeable is 5.25% of the original all-in-cost (updated by the CPI). This would put the maximum rent for a new house at just over £35 per week.

Secondly, very few tenants would earn enough to be liable for such maximum rents. A male earner with wife and three children would have to have a net income of £200 per week (close to £300 per week gross) to be liable for £35 maximum rent (14).

Thirdly, rents can be increased only by a maximum of £4 per week in respect of each subsidiary earner with the result that multiple income households may pay proportionately less of their income in rent than single income households.

2.12 An examination of local authority rents in relation to income levels (Table 2.3) shows that the differential rents scheme did not, in 1980, operate in a way which related rents systematically to ability to pay. Rents accounted for an average of under 6% of disposable income of local authority tenants but the highest income group paid less than 2% of their incomes in rent. The Council urges reorganisation of the local authority rent system in such a way that rents are related more closely to ability to pay and that the position of low income families is protected.

2.13 The costs of maintenance and management also demand scrutiny since these costs absorb over one third of local authorities' expenditure and account for around half of the average subsidy per dwelling of £22 per week. There is some evidence that maintenance costs for local authority dwellings exceed those of privately owned dwellings (15). The Council considers there is scope for examination of alternative, less costly arrangements.

2.14 The Council has repeatedly (16) drawn attention to the likely regressive aspects of sales of local authority houses to tenants at substantial

14. Total income of employed tenants is not taken into account for rent assessment as overtime, shift allowances and bonuses are excluded. Just over 21,000 tenants are in maximum and restricted maximum rents, according to the Department of the Environment.

15. Based on the *Household Budget Survey 1980* (CSO) repairs and decorations cost an average of £2.50 per week for all houses, compared with £6.80 spent on maintenance and management of local authority dwellings. Maintenance and management costs had risen to over £57m by 1982 according to the *Quarterly Bulletin of Housing Statistics*, which worked out at over £10 per house per week.

16. *Report on Housing Subsidies*, NESC Report No. 23, *Irish Social Policies: Priorities for Future Development* NESC Report No. 61.

discounts which can range from 50% to 75% of the value of the house (17). Assuming a 50% average discount the subsidy involved would amount to some £50m in 1981 (18). The Council considers that this scheme requires reappraisal.

### **Private rented sector**

2.15 Rents in the private rented sector are significantly above those in the local authority sector; at an average of £11.50 per week in 1980 compared to £4.50 in local authority rented houses and £3.50 for those tenants purchasing their houses from local authorities (19). Indeed rents in the private rented sector are similar to the average level of mortgage repayments once tax relief on the latter is taken into account. It is notable that the private rented sector receives very little subsidisation compared with either the owner occupied or the local authority sector. The proportion of households in this sector has declined from 26% in 1946 to 13% in 1971 and 11% in 1980.

2.16 In the context of Ireland's expected demographic growth it is unlikely that the owner occupied and the local authority sectors will be able to cater for the entire housing needs of the future. It follows that the private rented sector has an important role to play and that housing policy should take account of the different requirements of the various groups presently housed in this sector. The Council considers that there is scope for experimentation with alternative forms of assistance for the private rented sector, perhaps in the form of state aid to housing associations and housing cooperatives. Organisations of this type successfully administer and rent older houses in parts of the UK (20) and may be particularly appropriate in encouraging renovation of older houses for rent in inner city areas. Assistance to the private rented sector at present takes three forms: social welfare rent allowances for formerly controlled tenancies, (estimated to cost £10.5m in 1983), income tax allowance for rent on private tenancies for the elderly and tax incentives for the construction or conversion of rented dwellings of specified quality.

### **The homeless**

2.17 There are no accurate estimates of the number of people who are homeless, although the main voluntary body dealing with the homeless has

17. The discount includes up to 30% for length of tenancy. The estimated sales value is underestimated by the use of the CPI. The purchaser is allowed the full value of all new house grants. Loans are made available at fixed interest rates which are below market rates.
18. Sales of local authority houses have slowed to around 4000 in 1982 and 3500 in 1983.
19. *Household Budget Survey 1980*. Because of the inclusion of the formerly controlled rent tenancies, the average rent for privately rented dwellings is understated. Average household size and number of rooms per household is smaller in the private rented sector than in any of the other sectors.
20. *Housing Economics*, D. MacLennan p. 234-35 (London 1982) see also *Housing Cooperatives*, John Hands (London 1975).

put the figure at between 1000 and 2000 (21). A considerable proportion of admissions to both psychiatric hospitals and prisons have been classified as homeless. The quality of many of the available shelters is poor and the situation has been aggravated by the tendency for County Homes to cease provision of over-night accommodation for the homeless. Since it is not clear which public agency has responsibility for providing aid to the homeless, the Council considers that responsibility should be delineated quickly and effective action taken to remedy the plight of this particularly disadvantaged group (22).

2.18 The report of the Travelling People Review Body, presented to the Government in February 1983, highlighted the problems of a particular group whose numbers contain a high proportion of the homeless and the badly housed (23). It is estimated in the report that to meet the housing needs of the travellers would require 275 houses per year up to 1987, a total of 1,380 houses. The report argued that the existing law, which obliges local authorities to provide housing to those in need, is adequate. The report did suggest that a fresh approach was required by both the Minister and the Department of the Environment. The Minister for the Environment has stated that a special review body composed of Ministers of State has been established to consider the recommendations of the report and to monitor progress in their implementation (24). The Council considers it imperative that traveller families who wish to settle be provided with housing.

### **Operation of the overall housing system**

2.19 The Council, while acknowledging the dramatic improvement in the average level of Irish housing in the past decade (25), believes that there is an urgent need for a fundamental and comprehensive review of the role of the

21. *Housing: An agenda for Action*, Simon Community, 1982.
22. An ad hoc committee, representative of the Departments of Health and the Environment, health boards and local authorities was stated in February 1983 to be examining the position with a view to delineating the division of responsibilities between health boards and local authorities for providing accommodation for homeless people. The Minister for Health stated that he expected the committee to report very soon. (Parliamentary Debates, 16 February 1983, Column 340/341).
23. *Report of the Travelling People Review Body*, SO, 1983. Of the over 2,500 families classed as travellers in 1981, 46% were living in houses or chalets, 52% were in caravans and a further 50 families were in barrel wagons, huts or tents. The number of families more than doubled between 1961 and 1981 with the rate of increase accelerating in the late 1970s. The growth in the Greater Dublin area has been particularly sharp: from 85 families in 1960 to 570 families in 1980, just under one quarter of all families. Only 14% of traveller families in Dublin were housed and the record in Wicklow, Kildare and Meath is similar. Some two thirds of those living on the roadside have stated that they wish to be housed. Most of the adults are illiterate and only half the children attend school, with very few continuing beyond 12. The kinds of illness from which travellers suffer are those normally associated with poor and overcrowded accommodation. The Report also noted that a small number of travellers have been successful as traders and scrap dealers.
24. Minister for the Environment, Estimates speech, *Parliamentary Debates, Dail Eireann*, column 1130, 12/5/83.
25. Approximately one third of Ireland's housing stock was constructed in the last decade. For examination of the persistence of a housing problem see *Housing Requirements and Population Change 1981-1991*, NESC Report No. 69, P. 43 and P. 44.

state in the national housing system (26). General financial support for housing should be clearly separated from that aimed at the most needy, low income families and individuals. At present this separation does not apply. General financial assistance should not unduly favour any one sector as each has an important role. The stimulation of owner occupancy requires reassessment, particularly in Ireland which has one of the highest rates of owner occupancy internationally. There is some evidence that incentives to owner occupancy have had a greater effect on prices than on quantity of houses built (27). Local authority rent subsidies, which are not related systematically to ability to pay, have increased dramatically. The private rented sector provides much needed flexibility but at considerable cost to tenants, due partly to its relatively unsubsidised position. It is difficult to find a single scheme in the housing system which redistributes income to the lower income groups, except perhaps the social welfare rent allowances. For this reason alone any proposals to reduce social service expenditure should start with a critical examination of housing subsidies, both capital and current.

## EDUCATION

2.20 Combined current and capital public expenditure on education in 1983 is estimated at just over £890m or 6.5% of GDP. This represents a slight fall on the 1982 figure of 6.6% of GDP, due to a fall in capital expenditure. Capital expenditure, which accounts for just under one tenth of combined educational expenditure, has been subject to considerable cyclical fluctuation in recent years (Table 2.4). The projected capital expenditure of £87m in 1983 implies a sharp drop of 14% in real terms. The Minister for Education has outlined three main objectives of the investment programme in education (28):

- (i) to meet the growth in enrolments arising through population growth as well as population shifts;
- (ii) to replace unsatisfactory and uneconomic accommodation;

26. In reply to a question on whether the Government would publish the White Paper on Housing which the previous Government had announced as due in December 1982, the Minister for the Environment stated that "as to whether it would be appropriate to develop and issue a comprehensive statement of policies in the form of a White Paper, this is something I will keep under examination in the period ahead" Parliamentary Debates Dail Eireann 26 May 1983.

27. A recent econometric study has strongly suggested that the existing (to 1976) array of policies have had the effect of stimulating house prices rather than quantity — see *A Preliminary Econometric Investigation of the Irish Housing Market 1969-1976* M Kenneally, J McCarthy in *Economic and Social Review*, October 1982.

28. *Parliamentary Debates, Dail Eireann* 17 June 1983, column 2128.

- (iii) to replace, as speedily as possible, the prefabricated accommodation provided in the late 1960s and early 1970s to meet the bulge in the demand for places.

2.21 Current public expenditure on education (Table 2.5) has been increasing in real terms at rates varying from 7% in 1981, 3% in 1982 and an estimated 4% in 1983. Salaries, allowances and superannuation payments comprise 82% of non capital expenditure. A recent examination (29) of the components of growth in expenditure on education between 1961 and 1979 showed increases in cost per student to have predominated in primary schools while enrolment increases accounted for most of the growth in vocational education. Expenditure (measured as % GDP) grew most rapidly in the universities over the same period and was due equally to increases in enrolments and cost per student. A study by the Council has projected an increase in overall enrolments of between 6.3% and 13.8% by 1991 with the greatest growth in post compulsory education and particularly at third level where increases of between 22% and 51% are forecast (30).

2.22 In late 1982 the Minister for Education took a number of policy initiatives to reduce by 2% the originally projected 1983 expenditure on education. The changes which accounted for the bulk of the savings were:

- an increase in pupil teacher ratios at second level of around 5% plus a reduction in ex-quota teachers to yield a total saving of £4m;
- imposition of school transport charges of £1 to £2 per week for secondary school students whose parents did not qualify for medical cards, to yield a saving of £4m;
- a reduction of £6m in the capital budget.

In addition a number of changes, mainly at third level, were announced with estimated savings of £5m.

2.23 The Council, having previously urged that priority be afforded to compulsory education (31), notes that the policy changes outlined above were concentrated at second and third level and in the case of school transport ensured that low income families were not penalised. The Council, in previous reports, has drawn attention to the high state subsidies at senior

29. *Components of Change in the Growth of Educational Expenditure in Ireland 1951-1979* J O'Hagan, P Kelly *Economic and Social Review* (forthcoming), and calculations by the Secretariat.

30. *Education: The Implications of Demographic Change*, D Murphy, NESR Report 71.

31. *Irish Social Policies. Priorities for Future Development*, NESR Report 61.

cycle second level and at third level (32) which, combined with disproportionately higher participation rates by the higher income groups, entail large regressive subsidies. The resources devoted to schemes of positive discrimination in favour of the underprivileged remain minimal at £0.4m in 1983. By contrast £25m has been allocated for assessment units and schools for young offenders.

2.24 The Council has also recommended that serious attention be given to policies designed to increase participation by low income families beyond the minimum school leaving age (33). There is also a strong case to be made for positive discrimination in education with the aim of helping to redress educational inequalities. The Minister for Education has stated that she hoped to provide extra assistance to national schools in deprived areas, using firm guidelines as to what constitutes deprived areas (34).

2.25 The Council has previously suggested that the method of financing third level education should be reconsidered due to the regressive distributional implications of providing courses to students at fees which are equivalent to less than one quarter of the total cost. While the Council recognises that aspects of higher education can contribute to social and economic development, it believes that the costs of third level education should be financed more than they are at present by the recipients who gain substantial financial benefits as a result. Increases in fees however should be accompanied by consideration of the optimal mix of grants and loans. Ireland, it should be noted, is unusual in being one of the few western countries, along with the UK, which does not have a state system of student loans(35). The Council believes there is merit in further consideration of a loans scheme which might be privately financed, with perhaps appropriate state guarantees. A recent study, *Student Loans: Lessons from Recent International Experience* (36), has shown that student loans can produce significant savings in the long run without increasing the barriers to participation by low income groups or women.

## THE HEALTH SERVICES

2.26 Total (capital and current) public expenditure on the health services is estimated at £1066m in 1983 or 8.2% of GDP, compared with 8.6% of

32. *Economic and Social Policy 1983*, NESC Report 70, Tables 3.15 and 3.16. For 1982 and 1983 data on per pupil costs see Parliamentary Records 28/6/1983, column 533

33. *Irish Social Policies, Priorities for Future Development*, NESC Report 61, Page 49. See also NESC Report No. 12, *Educational Expenditure in Ireland* and NESC Report No. 53, *Economic and Social Policy 1980-1983*.

34. *Irish Times*, 14/9/83.

35. Except the loans schemes operated by the commercial banks which involve relatively small amounts and often require parents to act as guarantors.

36. Institute for Fiscal Studies (London) Paper 605, 1982, P. 51.

GDP in 1982. Capital expenditure, having increased in real terms at a compound rate of almost 14% p.a. between 1976 and 1981, grew by 0.5% in 1982 and is estimated to fall by 1.1% in 1983, (Table 2.6).

2.27 Current expenditure, which accounts for 95% of total public health service expenditure, is estimated to fall by 1.4% in real terms in 1983 (Table 2.7). Increases of 10% and 17% were recorded in 1978 and 1979 and increases of between 1% and 3% occurred in each of the years 1980 to 1982. The estimated reduction in 1983 expenditure is due almost entirely to a 10% reduction in real expenditure on the Community Health Services.

2.28 The main policy changes introduced by the present Minister have involved the abolition of the previous Government's plan to introduce public ward and out-patient hospital charges, at a cost of £13m. Savings amounting to £23m on the original estimate were projected, based mainly on savings on drug costs. Compared with 1982, expenditure in 1983 on the general practitioner service (including prescribed drugs) will fall from £92m to £88m (nominal prices). A larger saving is projected with the Drug Subsidy Scheme, whose projected expenditure will fall from £12.5m to £8m, due to raising the threshold at which individuals can claim refunds.

2.29 The Minister for Health has recently outlined as priorities in health service development (37):

- the need to bring the accommodation and facilities for geriatric patients up to acceptable standards and levels of provision;
- a continuation of the planned programme of improvement schemes in district psychiatric hospitals. Health Boards are being asked to give serious consideration to the concept of redirecting resources to the psychiatric services within the totality of the health services;
- maintenance of the existing level and high standard of mental handicap services, including provision of staff for centres being built;
- concentration on the development of community care and personal social services, which it was stated would not be possible without a switching of funds from the hospital programme.

2.30 A forthcoming Council study (38), has argued that hospital provisions in Ireland are high relative to the levels of provision in England, Scotland, Wales and Northern Ireland. Ireland has a considerably higher overall bed provision per 1,000 persons than any of the UK countries (Table 2.8). The same study noted that there is no evidence of significantly greater need for health services in Ireland as measured by the various proxies for morbidity,

37. *Parliamentary Debates*, Dail Eireann 2 June 1983.

38. *Health Services: The Implications of Demographic Change*, NESC Report 73, (forthcoming).

adjusted for age and sex. Expenditure on all hospitals (general, psychiatric, residential mental handicap and geriatric) accounts for just over 70% of current public expenditure on the health services. The Council considers that there is need for detailed examination of the scope for switching resources from hospital provision to alternative forms of care in the context of the present constraints on public expenditure.

### SOCIAL WELFARE

2.31 Gross public expenditure on social welfare (Table 2.9) in 1982 was almost £1,620m compared with £1,190m in 1981, an increase in real terms of just over 20%. The estimated 1983 expenditure is £1,870m, an increase in real terms of between 5% and 7%. Gross Social Welfare expenditure is financed approximately 40% by social insurance contributions and 60% by the exchequer. Insurance contributions are credited to the social insurance fund. The proportion of the social insurance fund that is financed by the exchequer has fallen sharply in recent years: from 31% in 1981 to 28% in 1982 and an estimated 22% in 1983. The proportion accounted for by employers' contributions will increase from 44% in 1982 to 55% in 1983 and the employees' share will increase from 23% to 26%. The decline in the exchequer contribution to the social insurance fund in 1983 position is due mainly to the 37% increase in the PRSI ceiling for contribution purposes, from £9,500 to £13,000.

2.32 An important issue from a social policy view point concerns the extent to which the increase in social welfare expenditure is cyclical (i.e. directly related to the recession). If cyclical, then that expenditure would be expected to fall automatically with a resumption of growth. Trends in expenditure by major client group in real terms are shown in Chart 2.2. Increased expenditure on unemployment payments accounted for just under 40% of the increase in gross social welfare expenditure between 1980 and 1983, with significant shares also accounted for by increased expenditure on families, the aged and the ill. Thus, the growth on social welfare expenditure in real terms is only partly cyclical and is also substantially due to other trends, principally improvements in levels of payments.

#### Old age pensions

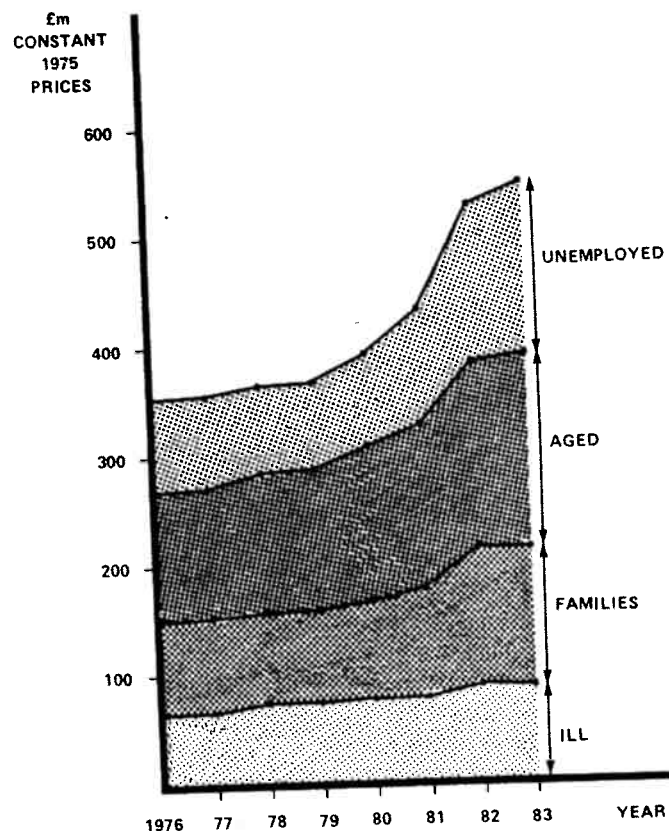
2.33 Public expenditure on old age pensions has increased rapidly in recent years from 3.4% of GDP in 1980 to 4.0% in 1982. Disaggregation of this growth shows that the value of payments, rather than the number of elderly people or the eligibility requirements for pensions, has accounted for practically all the growth (39). A notable feature has been the increased

39. *Components of Change in the Growth of Income Maintenance Expenditure in Ireland 1951-1979* M Maguire, *Economic and Social Review* (forthcoming), and updated by secretariat.

share of old age contributory pensions, which now account for 38% of total old age pension expenditure.

CHART 2.2

SOCIAL WELFARE EXPENDITURE, 1976 - 1983, BY BROAD CLIENT GROUP, CONSTANT 1975 PRICES



#### Unemployment

2.34 Expenditure on unemployment payments has increased from 1.3% of GDP in 1970 to a peak of 2.4% GDP in 1981 and 3.1% in 1982, with the increase being shared equally by increased numbers unemployed and increased payment levels (40). Expenditure on the pay-related unemployment benefit scheme, which accounts for some 8% of expenditure on unemployment compensation, is projected to fall sharply in 1983 to £37m compared with £45m in 1982, due to the Governments' decision to reduce the maximum payments from 40% to 25% of reckonable past earnings.

40. Ibid.

2.35 The Minister for Finance, in announcing reductions in the maximum amounts of pay related benefit, argued that "the work incentive is suffering and there is an unacceptable inducement to exploit the social welfare system" (41). The changes in the pay-related benefit scheme will have little effect on higher replacement ratios. Replacement ratios rise sharply as the number of children increases and ratios are particularly high for those with low earning potential (42). The effects of the reduction of the maximum pay-related benefit payable are thus confined mainly to small families. The hypothetical replacement ratios (Table 2.10) confirm this and show that ratios in excess of 100 are still possible for larger families and particularly those with low income earning potential. The Council reiterates its recommendation that measures be considered that would improve the relationship between the income tax and social welfare codes which give rise to this problem (43).

### Family income support

2.36 Expenditure on family income maintenance (44), which accounts for one fifth of gross social welfare expenditure or £380m in 1983 is made up largely of two items, Childrens' Allowance, £165m, and Contributory Widows' and Orphans' Pensions £163m. Expenditure on Childrens' Allowance expressed as percentage of GDP, has increased in recent years, from 0.8% of GDP in 1980 to 1.0% in 1981 and 1.2% in 1982 and 1983. Although child tax allowances have been reduced, notably in the 1982 Budget, they still cost £31m in tax revenue foregone in 1982. Ireland is unusual among the countries of the European Community in having relatively low childrens' allowance payments combined with relatively high social welfare payments for child dependents(45). One result of this combination is that large families can experience high replacement ratios. The Council has previously recommended increases in the level of Children's Allowances and the abolition of child tax allowances as a means of remedying the high replacement ratios referred to above.

### Illness support

2.37 Disability Benefit accounts for almost 90% of expenditure on income maintenance schemes for the ill, which in turn comprise around 15% of social welfare expenditure. The number who received Disability Benefit fell to

41. *Budget Booklet* 1983, p. 37.

42. See *Economic and Social Policy 1982: Aims and Recommendations*, NESR Report 70, paragraph 3.51, pages 48 and 49 for discussion on this point.

43. A family income supplement scheme was announced in the 1983 Budget, (*Budget Booklet* 1983, P. 38) and the proposed scheme was postponed in July 1983 (*Government Press Statement*, 20 July, 1983).

44. Defined here to include only: Maternity Allowance, Maternity Grant, Widows' Contributory Pension, Orphans' Contributory Allowance, Deserted Wives' Benefit, Childrens' Allowance and Widows' and Orphans' Non-contributory Pension.

45. *Child Support in the European Community*, J Bradshaw, D Piachaud, occasional Paper No. 66, Bedford Square Press 1982.

281,000 in 1982, continuing the declining trend evident since the 1978 total of 342,000. There is evidence of increased monitoring of the operation of Disability Benefit, as evidenced by a continuing increase in the number summoned for a second medical opinion, and a reduction in the proportion judged capable of work by the second opinion. (46)

2.38 Policy changes in 1983 in relation to Disability Benefit have involved both a reduction in the maximum levels of pay related supplements and the extension of the waiting period from 12 to 18 days. Expenditure on pay related disability benefit supplements is projected to fall from £26.4m in 1982 to £20.6m in 1983.

2.39 In its report last year, the Council drew attention to the exceptionally high Disability Benefit claim rate for married women. The number of claims from working married women was equivalent to one third of the total number in this group. The claim rates by sex and marital status for 1982 show no significant change (47). Changes in the pay-related scheme would not affect the high claim rates for married women if, as suggested by preliminary analysis in the Department of Social Welfare, very few of the married women were eligible for the pay related supplement. Only between one quarter and one third of all disability benefit claimants receive the pay related supplement (48), which suggests that many claimants do not have the requisite work or earnings record to become eligible. The Council reiterates its belief that there is a need for examination of the causes of the high claim rates for married women.

## TAXATION

2.40 The increases in personal income taxes in 1983 have had the effect of sharply reducing family disposable income for each prototype family (see Table 2.12) (49). Compared with previous years the extent of the reduction is considerable and its equal application to each prototype is unusual. Turning to the relation between the disposable income of different families and that of an average industrial worker (Table 2.12), the relative position of senior

46. 26% of all claimants were summoned for a second medical opinion in 1982 and 14% of those summoned, or some 4% of all claimants, were deemed capable of working. 45% of those summoned or 11.5% of all claimants did not attend the second medical opinion. *Parliamentary Debates, Dail Eireann* Column 479 5/7/1983.

47. See Table 3.40 in *Economic and Social Policy 1982: Aims and Recommendations* NESR Report 70 and update by Secretariat.

48. *Ibid.*

49. The four prototypes used are a married couple with two children earning average salaries for senior management (i.e. according to the IMI survey, senior management post in a company with over 1000 employees), and executive officer in the civil service, and an average industrial worker, an unemployed family and a family of two old age pensioners. Further details appear in *Economic and Social Policy 1982: Aims and Recommendations*, NESR Report No. 70 (1982).

management will continue to deteriorate in 1983. The relative position of the unemployed and pensioner prototype families, having improved markedly between 1981/82 and 1982/83, will remain largely unchanged in 1983/84.

2.41 High marginal tax rates increase the incentive to minimise tax liabilities by means of discretionary tax allowances and reliefs. The most important of these is tax relief on loan interest which will cost the exchequer £81m in 1983/84 in revenue foregone (50). The distributive consequences of the system of allowances and deductions within the income tax system, generally designated as fiscal welfare, is of particular concern. In terms of revenue foregone on the principal allowances and reliefs in the income tax system, their total value in 1981/82 was over £1,000m (Table 2.14). This is a substantial sum when compared to the amount of public expenditure devoted to social programmes. As tax rates have increased, the cost to the exchequer, in terms of revenue foregone, has increased. Further, as tax reliefs become more valuable to individuals and families, it becomes more difficult to alter them without precipitating hardship.

2.42 The Council, in a previous report has recommended that the distributive impact of the overall tax system, including tax expenditures, should receive greater attention in the development of social policy. There is limited information available on the distributive implications of taxation. This is an issue which the Council intends to explore in more detail in a study which it is currently undertaking on the distributive implications of public expenditure and taxation. A recently published analysis of the effects of the total tax system on households with different incomes in 1980 concluded that the "tax system as a whole was generally regressive" (51). Direct taxes were shown to be progressive but their effects were outweighed by the regressive impact of indirect taxes.

### CONCLUDING REMARKS

2.43 Expenditure trends in the social services showed significant changes in 1982 and 1983 over 1981. The increase in the share of education, housing and health services in GDP has been halted, and has fallen slightly in the case of education and more so in the health services. The share of social welfare in GDP grew sharply in 1982 by some two percentage points and a further growth of 0.5 percentage points is estimated for 1983.

50. The cost of loan interest tax relief has increased sharply in recent years from £30m in 1979. Three quarters of this is accounted for housing mortgages. The 1983 Budget ended tax relief for loans other than those to do with housing.

51. *Redistributive Effects of State Taxes and Benefits on Household Incomes in 1980* (CSO) 1983 P. XIV.

2.44 Policy changes in 1983, while of relatively small significance in expenditure terms, did attempt to minimise the effects of adjustment on the lower income groups generally. The exemption of medical card holders from school transport charges provides an example, which may have application to other programmes in ensuring the position of lower income groups is safeguarded. The Council recommends that, given the multiplicity of means-tested services, consideration should be given to the introduction of a standardised approach (52).

2.45 The Council believes that the thrust of *educational policy* should be to maintain expenditure on compulsory schooling. In this context the range of subsidies and grants to post-compulsory schooling should be more systematically related to the social and economic needs of the country. The sharp increases in fees at third level in recent years have shifted only a small part of the costs on to the individuals who benefit.

2.46 In the *health services*, while expenditure has been restrained on all programmes, one programme has been subjected to policy changes, namely the drugs scheme both in the GMS and in the Drugs Subsidy Scheme. While it is difficult to assess fully the effects of restricting the list of GMS drugs, the savings on the Drugs Subsidy Scheme are at the expense of the higher income groups. The main potential area of savings in the health services, however, is the general hospital services where there has been little progress in recent years.

2.47 The main policy innovation in *social welfare* has been the lowering of the maximum rates of pay-related supplements to those claiming Unemployment Benefit and Disability Benefit. Since the payment of such supplements flows mainly, by definition, to the unemployed and the ill in proportion to their incomes, this policy change would appear to be preferable from a social policy perspective than cuts on the general level of payments. The Council is concerned that the policy changes effected will have little impact on the particular problems faced by the large families whose head is either unemployed or earning a low income.

2.48 There has been little change in *housing* policies over the last year despite increasing evidence of the undesirable regressive distributional effects of many policies. The Council considers that there is a need for a fundamental review of housing policies and their effectiveness in relation to social and economic objectives. The Council believes it would be appropriate for the Government to publish a comprehensive policy statement on housing policy.

2.49 There is a need to change the tax system on the grounds of its inequity. The scope for change is inevitably constrained by the current high

52. For discussions of this issue see *Irish Social Policies: Priorities for Future Development*, NES Report No. 61, P. 55, 56.

levels of taxation. The scope for change without increasing the overall burden, however, was considered by the Commission on Taxation. The first report of the Commission proposed the adoption of a much more comprehensive definition of income which, the report claimed, could enable the same amount of income tax to be raised at a considerably lower rate. The Minister for Finance, however, has stated that costing of the Commissions' proposals has shown that this proposal was "not a practical proposition at this time because of the loss to the Exchequer" (53). Whether or not the Government intends to implement the recommendations of the Commission on Taxation, the Council recommends that the inequitable aspects of the taxation system should be addressed without delay.

2.50 The forthcoming discussion paper on the health services, the proposed statement on education policy together with the reports of the Commission on Social Welfare and the recommended statement on housing policy, would provide useful means of outlining strategy for the social services. It would also provide a basis for consultation which could maximise the possibility of consensus. In relation to the recent policy changes which were implemented with a view to controlling public expenditure, the Council considers that the frequent policy changes were indecisive and poorly argued. The Council suggests that future changes be presented as part of a general strategy to redress inequality and improve the effectiveness of the services.

53. *Budget Booklet 1983*, p. 21.

## CHAPTER 3

### FUTURE POLICY (1)

#### Introduction

3.1 The Council believes that the priority objective of economic and social policies should be to provide sustainable employment opportunities for the country's growing labour force. The pursuit of this objective will require a coherent policy framework to address major constraints to the growth in output. In particular, it will be necessary to ensure that the exchequer borrowing requirement is reduced to sustainable levels while minimising any possible deflationary impact and to ensure that the rate of inflation is brought into line with that of our main trading partners.

3.2 Faced with a combination of a rate of inflation higher than that of our main trading partners, a continued priority being given to restrictive policies by them and an unsustainable exchequer borrowing requirement, there is little scope for improvement in Irish living standards over the next few years. It is the Council's view that, in those areas where increased output is achieved, the benefits should, in so far as possible, be directed to increasing employment rather than to increasing the living standards of those in employment.

3.3 Three years ago, the Council, in a review of economic and social policies, expressed concern about the deteriorating employment situation. With growth in output and employment as an objective, the Council recommended policies to address the problems of inflation, borrowing and the current account deficit on the balance of payments. It concluded that a fall in living standards was an inevitable result of the policies which would be required to redress the serious imbalance between output and expenditure in the economy.

3.4 There has been limited success in tackling the problems facing the economy. Some of the lack of success can be traced to the prolonged and severe nature of the international recession. The major cause, however has been the persistence of excessive borrowing levels, a factor which the

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



Council believes is a reflection of the lack of a coherent and planned national economic and social strategy. The following sections begin with a brief review of developments over the past three years including the impact of a commercial oil find. In the final sections the Council presents its recommendations on future policy. The recommendations present an outline for a medium term economic and social strategy and the implications of this strategy for the 1984 Budget.

### **Economic and social trends 1980-83**

3.5 Falling *living standards* over the past three years have been reflected in the declining real value of personal disposable incomes rather than in the value of publicly provided goods and services. To the extent that people perceive the movement in their real disposable incomes more acutely than changes in the benefits to them from public expenditure, the decline in living standards will have appeared all the more severe.

3.6 Total *central Government expenditure* has grown from 56.0% of GNP in 1980 to a forecast 63.4% in 1983. It is estimated that the ratio will have fallen from a peak of 65.3% in 1982 as a result of the decline in capital expenditure and the marginal increase in current expenditure in 1983. The rapid increases in taxation over the period have not been sufficient to fund the total expenditure growth over the three years. As a result the exchequer borrowing requirement has remained at an unsustainable level (2). Official Government foreign debt is now equivalent to 42% of GNP. The cost of interest and capital repayments on this debt is likely to be equal to 6.5% of GDP in 1983.

3.7 The successful development of the internationally traded sectors will be the critical factor in future growth. In recent years, however, much of the burden of adjustment has been borne by these sectors. An environment of weak demand and rising cost pressures has resulted in a continuous decline in industrial employment. At the same time much of the sheltered sector has been relatively unscathed by the recessionary influences. The growth of the public sector is a case in point.

3.8 Over the period 1979 to 1983, taxation rose rapidly from 33% to 41% of GDP. The increased level of taxation has been reflected in a widening of the gap between the cost of hiring labour and the income received by employees. The calculations presented in Appendix A show how the changes in direct taxation and PRSI rates have affected the situation of typical income earners. The impact of the very high marginal tax rates, which

2. The level of EBR has been increased cyclically by the impact of the recession. However, even allowing for this, the level is still unsustainable in terms of the future drain on resources.

now apply to a large number of tax payers, on the gap between take-home pay and employment costs is also shown.

3.9 The most worrying trend over the past three years has been the continued growth in *unemployment*. A steady decline in total employment combined with the rapid growth in the labour force has resulted in an increase of over 100,000 in the numbers unemployed. Two aspects of this trend which are of particular concern are the level of job losses in manufacturing industry and the recent acceleration in the level of youth unemployment.

3.10 For the most part, *social services* provision has been maintained and even expanded in some areas. Expenditure on the major social services was shown in Chapter 2 to have increased significantly since the onset of the recession. Total public expenditure on social welfare, health services, education and housing rose from 26% of GDP in 1979 to 32% of GDP in 1982 and will be maintained at this level in 1983. The Council has questioned, however, whether expenditure on the social services (education, health, housing and social welfare) has been channelled to those in greatest need.

3.11 About two thirds of the increase in social services expenditure over the three years has been accounted for by social welfare expenditure. Less than a quarter of this increase in social welfare expenditure was due to the increase in the numbers unemployed. Thus increased social welfare expenditure was only to a limited extent directly related to the recession and was mainly due to increases in the value of social welfare payments. During the period the value of most social welfare benefits increased relative to average industrial earnings. Table 2.12 shows the improvement in the income position of a household for whom unemployment benefit is the principal source of income, relative to the income position of a household in receipt of average male industrial earnings.

3.12 There are a number of economic indicators which appear to offer more positive signs than was the case three years ago. The rate of *inflation* has been halved and the *balance of payments deficit* on current account has declined from a high of 13.5% of GNP in 1981 to a forecast 2.5% in 1983. There is no room for complacency about these trends, however. The rate of inflation is still very high relative to that of our main trading partners. While improvements in the terms of trade have had a significant impact on the current account deficit, another key factor has been the sharp fall in the volume of domestic demand. A significant upturn in the latter would be likely to result in an expansion of the deficit unless it was paralleled by a corresponding growth in exports.

3.13 There are also signs that a *world economic upturn*, led by the US economy, is underway. However, present indications are that the recovery is either weak or patchy in a number of our most important export markets. The extent to which Irish producers will benefit, will depend on their competitiveness in home and in export markets. In the early stages of a demand upturn the most competitive suppliers are likely to benefit most. It is only at later stages, when demand pressures face capacity bottlenecks, that marginally competitive suppliers will benefit.

#### **The impact of an oil find**

3.14 There is optimism that the recent *oil find* off the Waterford coast is likely to be developed as the country's first commercial oil field. The successful exploitation of oil reserves would result in additional revenue flows to the Exchequer. It is important, however, to appreciate that this revenue is not likely to materialise at the very earliest until the second half of the decade and even then will not, on present finds, constitute a significant addition to Exchequer funds. Policy decisions which are now to be taken will determine the extent and the means by which the benefits will flow to the community.

3.15 In previous reports on land-based minerals and on energy resources the Council has suggested that the objective should be to maximise the revenue of the State in respect of publicly owned national resources. In the context of the recent oil exploration, it notes that some commentators have suggested that there should be changes from the contracts negotiated in respect of the previously agreed licensing terms with petroleum companies engaged in off-shore exploration. In its recent report, *Irish Energy Policy*, the Council expressed the view that the petroleum licence terms introduced in 1975 (3), provided a fair deal for the oil companies. This view was supported by the fact that the terms were accepted by practically all the leading oil companies in the world. The participants in the licence covering the area which has now yielded promising results have, in fact, accepted these terms on several different occasions since 1975. Significant signature bonuses (i.e., cash down-payments) have also been paid to acquire licences with these terms.

### **RECOMMENDATIONS**

#### **An economic and social strategy**

3.16 The Council believes that the benefits of any growth of output should, in so far as possible, be directed at increasing the numbers employed. This will require an acceptance of an additional burden of the adjustment by

3. The terms and conditions which apply to the granting of the exploration licences are contained in *Ireland Exclusive Offshore Licensing Terms*, Stationery Office, April 1975.

the stronger sections of the community, in particular by those in employment. In this context, it is reasonable for individuals and groups to seek consultation on how their acceptance of restraint will facilitate the implementation of a coherent strategy for eventual increases in output and employment.

3.17 *The Council recommends* the publication by Government of an economic and social strategy for the next five years. It recommends that the published strategy should be used, inter alia, as a basis for consultation with individuals and groups who will have a major role to play in the successful achievement of the targets set (4). The Council also recommends that the published strategy should include a discussion of the investment needs of the economy and the implications for the distribution of income between the corporate, public and personal sectors. In addition future expenditure on the social services should be outlined with any changes in expenditure patterns argued for within a social policy framework.

3.18 *The Council recommends* that the economic and social strategy of Government should include a framework for the development of incomes. The objectives should be set in the context of the overall objective of improving the employment situation. The strategy should take into account the impact on equity, while having regard to the maintenance and expansion of the traded sectors of the economy. The policy framework should provide for a broad perspective on incomes. It should also take into account the impact of taxation and the contribution of publicly financed goods and services to individual incomes and living standards. Taxation and public expenditure policies have a major role in the promotion of equity.

3.19 *The Council recommends* that greater support for enterprise and risk taking should be part of an economic and social strategy. It believes that it would be desirable to reduce the gap between the cost of employment and net earnings, and that this should include raising the level at which high marginal rates of tax apply. *The Council recommends* that a central objective of the 1984 Budget should be to moderate the rate of growth in the costs of employment and to provide the environment for a moderate pay settlement in the 1984 pay round. Measures for increasing total investment are discussed in paragraphs 3.32 to 3.34.

4. There are several channels available to the Government for communication and for consultation on an economic and social strategy, including the Oireachtas, the media and various advisory and representative organisations. The effectiveness of the operation of the final group might now also be reviewed. In a memorandum recently submitted to the Taoiseach (June 1983), the Council recommended a critical reappraisal of the role of the increasing number of committees set up to advise the Government on economic and social issues.

## **The public finances**

3.20 *The Council recommends* that having regard to overall economic and social objectives there should be a significant reduction in the EBR as a proportion of GNP in 1984. It believes that the present levels of borrowing are unsustainable. The failure to reduce borrowing would jeopardise any hopes of sustained growth in output and employment.

3.21 A key dilemma to be faced in the 1984 Budget is the need to minimise the adverse effects on unemployment of the reduction in the EBR. The existence of this dilemma underlines the importance of the way in which budgetary strategy is designed and, in particular, the form which the reduction in the EBR takes.

3.22 In examining whether the adjustment should take place through changes in expenditure or in taxation, a number of points should be noted. The tax burden in Ireland has risen very rapidly, from 33% of GDP in 1979 to 41% in 1983. There is also a relatively narrow tax base on which high marginal tax rates are quickly reached. In addition to having a dampening effect on enterprise, the recent increases in tax rates have significantly increased the incentive to evade tax and will have undoubtedly contributed to the growth of the informal economy. The most serious adverse effect of increased taxation in recent years, is likely to have been on competitiveness, both directly through increasing the cost of employment and also to the extent that subsequent nominal wage settlements cushion the declines in employees' real disposable incomes that would otherwise take place.

3.23 *The Council recommends* that the burden of the reduction in the EBR should be borne by appropriate expenditure restraint. While the Council believes there is unlikely to be scope for increasing the yield from the current main sources of taxation, there may be scope for widening the tax base. This could be undertaken along the lines of the more comprehensive definition of income suggested in the First Report of the Commission on Taxation. Moves to widen the tax base would be unlikely to lead to immediate large increases in revenue. *The Council believes*, however, that a start must now be made to serious reform of the tax system. The narrowness of the present tax base is a severe constraint to developing a system which would be more equitable and which would provide greater incentives to enterprise and wealth generation.

3.24 *The Council recommends* that reductions in public expenditure should take into consideration their distributive implications with a view to minimising their impact on the weaker sections of the community. The Council accepts that, given the need to make significant reductions in total public expenditure, it may be necessary to reduce the real value of public expenditure on the social services. Its views on immediate priorities in the

social services are set out in Chapter 2. The medium term growth of the social services is central to a series of studies being undertaken by the Council on the implications of Ireland's rapidly growing population. These studies show that, in the absence of significant changes in the organisation and delivery of the social services, the costs will continue to grow rapidly. Without a clear overall strategy this growth will inevitably lead to an ad hoc reordering and cutting of resource allocations. There could be a tendency for the old and established services to benefit at the expense of newer and possibly more effective alternatives.

## **Revenues from an oil find**

3.25 *The Council believes* that the main benefits to the Irish people from the commercial exploitation of an oil find will be the revenues accruing to the State, through taxation, fees, royalties and from State participation in accordance with the current licencing agreements. The recent oil discovery is likely to encourage increased exploration activity in the Irish offshore areas. *The Council recommends* that there should be no negotiation or concessions by the Government in respect of the licence terms already agreed with the oil companies. It also believes that there should be no dilution of the form of the State participation incorporated in the individual licences (5). The Council considers that it would not be in the national interest to take less than full contractual rights in return for early production. The Council believes that the Government should ensure that early production is not at the expense of the full exploitation of proven recoverable reserves on the basis of the 1975 licencing terms. It is of particular importance to ensure that objective analysis of the various options and expert advice are available to guide policy makers. The Council also considers that the State-take regime should be reviewed by the Government on a regular basis to ensure that the optimum proportion of the benefits to the State is maintained.

## **Current and capital expenditure**

3.26 In addition to considering the distributive implications of cuts in public expenditure, a decision must be made regarding the extent to which there should be reductions in current public expenditure or in the Public Capital Programme. The Council believes that it should be an overall objective to bring about an increase in productive capital expenditure either through direct State investment or through facilitating an increase in private investment.

5. There have been some misleading statements to the effect that the right of State participation involves an unjustifiable risk for the State and that it should therefore be surrendered by the Government. The licencing terms make it clear that there is, in fact, no risk for the State. All of the commercial risks must be borne by the other parties. The position of the State is simply that it takes, in addition to taxation and royalties, 50% of the output without investing any funds. In the report *Irish Energy Policy*, Report No. 74 the Council strongly supported the principle of State participation for the purposes of revenue earning and for other strategic reasons.

3.27 *The Council recommends* that productive public capital expenditure, rigorously evaluated in terms of future returns, should receive priority over current public expenditure. It would be too simplistic, however, to recommend that a policy to reduce the Exchequer Borrowing Requirement should not impact on the Public Capital Programme, given the obviously poor economic return on much investment in this area in the past.

3.28 The main reductions in public expenditure announced in Budget 1983 were in the area of capital expenditure. The main impact on the current budget deficit was through tax changes. The Minister for Finance stated that the Government had insufficient time to decide on the fundamental re-adjustments in expenditure which were desirable. The Council notes the Minister's statement that expenditure adjustments would be the primary focus of Government attention during 1983. The Council believes that this should not obscure the continuing need to identify appropriate opportunities for investment through the Public Capital Programme.

3.29 The benefits from maintaining the growth in current public expenditure have included the preservation of employment levels in the public sector and the continued growth of the social services. Some of the benefits will prove transitory to the extent that they have absorbed resources which would otherwise have supported greater wealth generation and the provision of more sustainable employment opportunities. The immediate impact on employment of a reduction in current public expenditure could be mitigated by relatively lower employment-related taxes and/or used to stimulate higher levels of investment.

3.30 The necessary reduction in total current public expenditure would involve a reduction in the level of services provided and in the numbers employed in the public sector (6). In this report the Council is not specific on where current expenditure should be reduced. It is clear, however, that where there is a reduction or redeployment in the numbers employed, the public must also expect cuts in the level of service provided to them.

3.31 The policy of controlling public sector numbers through restrictions on recruitment has been partly offset by declines in staff turnover (7). While the impact on total numbers of the partial ban on recruitment appears small, its general applicability without regard to resignations and retirements has resulted in significant staff reductions in some programme areas. The impact

6. The Council hopes to provide more detailed recommendations on the control of public expenditure in a report which it is currently preparing on the evaluation of current expenditure.
7. The control of total numbers through the curtailment of recruitment has also been effected by policy decisions to exempt, from the general policy, the Garda Síochána, by demographic factors in the teaching area and by certain other exemptions, e.g., youth training.

of the recruitment embargo is accentuated by relatively low levels of mobility within the public sector (8). *The Council recommends* a reappraisal and intensification of policies for the promotion of mobility within the public sector and between the public and private sectors.

### **Investment**

3.32 The 19% decline in total investment over the period 1980-1983 is cause for serious concern. The risks of relying primarily on reductions in the Public Capital Programme to reduce the exchequer borrowing requirement have already been referred to. The very large decline in private investment, and the likelihood that it will take some time to recover, underline the important role which appropriate public investment could play in increasing output and employment. An improvement in the profitability of investment opportunities is the main factor necessary to bring about a reversal in the fall-off in privately financed investment. Investment can also be stimulated by improving the confidence of investors in the future development of the economy. Confidence can be boosted by a coherent planning framework and profitability can be strengthened by minimising the cost increases which must be borne by industry, e.g. payroll taxes.

3.33 It is further cause for concern that a relatively low share of private investment is flowing to the traded sectors on which the development of the economy depends. The successful development of the Irish industrial base will require the development of profitable high value-added businesses with competitive advantages on international markets. Much of this development will require high levels of investment over a number of years, before profitability will be secured. Those with funds for investment have, however, reacted to the current spread of opportunities. The extensive opportunities for, and attractive returns which have been available from investment in Government gilts and in property development are in stark contrast to the profile of high risk and low returns in many traded sector projects.

3.34 *The Council recommends* that it be an objective of policy to reverse the balance of incentives for privately financed investment in favour of the traded sectors. The policy options which should be considered in order to increase the flow of private investment to the traded sectors should include measures to facilitate increased profitability in traded sector projects. The reduction of incentives to invest in the sheltered sectors and the encouragement of ways of improving the efficiency of the channels of funding to traded sector business should also be considered (9).

8. The Public Service Advisory Council (PSAC) has criticised the lack of mobility within the public service on several occasions. A scheme of lateral mobility, i.e. mobility at in or around the same grade and salary level, was welcomed on its inception by the PSAC in 1979. In the 1982 PSAC report the 25 recorded instances of lateral mobility were described as 'disappointing'.
9. This is an issue on which the Council will comment on in more detail in a forthcoming report on the relationship between the financial system and the traded sectors.

3.35 The cost of services to the traded sector is an important element of the overall competitiveness of that sector. It is essential that the absence of foreign competition does not allow inefficiencies and excessive prices to be charged for services provided by the sheltered sector. *The Council recommends* a critical appraisal of the existence of competition throughout the services sector. The extent to which current legislation supports an efficient and competitive services sector should be examined (10).

### CONCLUDING REMARKS

3.36 The improvement in the world trading environment is an encouraging development for a country as dependent on overseas commerce as Ireland. Considerable structural adjustment in the Irish economy will be needed if full advantage is to be taken of the world economic recovery. Should the recovery prove to be weaker and more short-lived than now expected, the need for adjustment will be all the more urgent.

3.37 The Council believes the Government should publish an economic and social strategy, setting out its approach to economic adjustment in the context of its main economic and social objectives. The Council believes that the first element in an adjustment strategy must be that of securing closer convergence between Irish inflation rates and those of our major trading partners. Inflation in the OECD area is expected to stabilize at around 6% in 1984. In the UK and the advanced countries of Western Europe, an even lower rate of inflation could prevail. It is essential that no action be taken on the domestic front which would jeopardise the achievement of convergence between price and cost trends in Ireland and those in markets abroad where Irish producers must compete. The prospect of economic recovery has done nothing to blunt the sharpness of competition in these markets.

3.38 The second element must be to ensure that progress in closing the public sector deficit is maintained. The need to reduce the exchequer borrowing requirement places a severe constraint on the nation's choice between different policies. The incidence of taxation is already very high on a narrow tax base. As far as income tax is concerned, Ireland has got very much out of line with other EEC countries in imposing marginal tax rates of 60% or more on a relatively large number of taxpayers. Average and marginal tax rates on average industrial earnings are also much higher than those in neighbouring countries. Any further increase in taxation would be damaging to the incentive to work and would exacerbate the many anomalies in the income tax system detailed by the Commission on Taxation.

10. The main policy instrument for the promotion of competition in the services sector is the Restrictive practices Commission (RPC). The present mandate of the RPC specifically exempts large parts of the services sector. The Central Bank has also an important role through its relationship with the banking system.

The possibilities of adding to tax revenue through increases in indirect taxation are likewise unpromising. Higher indirect taxes mean higher prices; divergence from rather than convergence to lower inflation. The intense sensitivity of the Irish public to the amount and incidence of taxes is very understandable in the light of the rise in the ratio of tax revenue to GDP from 33% in 1979 to 41% in 1983, a rise of one-third in the space of four years.

3.39 A third element in the adjustment process must be to address the structural constraints to the further development of the internationally trading sectors. The continued growth in agricultural and industrial exports will require policies which address these constraints. In the area of industry, the Council has stressed the need to address the relative lack of indigenous companies with the size, function and financial strength to gain an increased share of high value-added markets. The development of these companies will depend, inter alia, on the building of competitive advantages in non-wage areas such as quality, design, marketing skills and service. The Council has recently set out its detailed views in its review of industrial policies and it notes the Government's intention to publish a White Paper on industrial policy in the near future (11).

3.40 The Council believes that the burden of the reduction in public sector borrowing must be borne by expenditure restraint. This is not to say that the Council is unaware of the many anomalies and vertical and horizontal inequities in the tax system. On the contrary, it urges that these defects should be addressed and sees no necessary conflict between the implementation of tax reform, the preservation of tax revenues and the provision of adequate incentives to work and enterprise. Nor is the Council lacking in awareness of the measures taken to control expenditure in the course of 1983. The process of reining back public sector expenditure must be maintained into next year and for a considerable period thereafter.

3.41 The Council is not specific in its recommendations as to where precisely expenditure cuts should be implemented. The objective must be to cut public expenditure in such a way as to minimise any adverse effects on the level of activity and the amount of investment in the traded sector. An effort must also be made to minimise the effects on employment of restraints in government expenditure. The Council recognises that the condition of the economy requires measures to be taken which will be unpalatable in the short-run for virtually all sections of the community. It is unfortunate that such measures should be necessary. Failure to continue on the path of adjustment, however, would lead to even more acute problems in the near future.

11. The Council's views were set out in NESCC Report No. 66, *Policies for Industrial Development: Conclusions and Recommendations*.

## APPENDIX A

### THE IMPACT OF DIRECT TAXES AND TRANSFERS

1. The rapid growth in taxation, from 33% to 41% of GDP between 1979 and 1983 has been marked by increased reliance on direct taxes on personal incomes. This appendix shows (i) the widening gap between the income received by an employee and the actual cost to the employer and (ii) how the changes in taxation have affected the relative position of households at different income levels.

#### 2. **The cost of a pay increase**

The cost to the employer of a pay rise which results in a £1 increase in take-home pay for an employee will, in addition to the £1, include the additional tax and PRSI payable by the employee and the increase in the employer's PRSI contributions. Table A1 shows the cost to an employer of a £1 increase in an employee's income at different income levels. It shows that for a single person in receipt of average male industrial earnings, an employer would make a total payment of £3.06 (with £2.06 accruing to the Exchequer and the Social Insurance Fund). For a married person at the same income level with two dependent children, the cost to the employer would be £1.98. The impact of narrow taxation bands is also evident, with the cost of the increase to the employer rising to £4.06 for a single person at one and a half times average industrial earnings.

#### 3. **The effects on prototype families**

(see also paragraph 2.40 and table no's 2.11 and 2.12)

Family disposable income as a proportion of earned income has declined sharply for each prototype family (Table 2.11) since 1980-81. (The characteristics of the prototypes, and the assumptions used are given below). The greatest decline has been for senior management prototype families, from 72% in 1980/81 to 65% in 1982/83 and to an estimated 59% in 1983/84, a fall of 13 percentage points over the three years. The next largest decline was for the industrial worker prototype family whose disposable income fell from 84% of earnings in 1980/81 to 78% in 1983/84, a fall of 6 percentage points. The executive prototype family experienced a similar decline of 5 percentage points over the same period, from 78% to 73%.

4. Turning to family disposable income for each prototype relative to the industrial worker's prototype family, neither the senior management nor the executive prototype showed much change. The relative position of the unemployed prototype family improved from 50% of the industrial workers disposable earnings in 1980/81 to 61% in 1983/84. The pensioner prototype (no children) also showed an increase; from 44% of the industrial worker's family disposable earnings in 1980/81 to 56% in 1983/84.

#### Assumptions on household characteristics

5. Each of the prototype families, with the exception of the contributory pensioner, is assumed to have two children in respect of whom childrens' allowances are payable. The tax allowances assumed are the standard personal allowances, and the allowances for PAYE and PRSI (for the years these allowances were in operation). The income earners are assumed to be covered by Class A for PRSI. The households are as follows:

*Senior Management:* the median earnings of managers, taken from the IMI survey of management earnings,

*Executive:* the civil service higher executive officer salary scale with standard rate of social insurance contributions,

*Industrial worker:* the average of male transportable goods industrial earnings, (CSO data)

*Unemployed:* unemployment benefit rates are used, on the assumption that no pay-related benefit is received,

*Old age pensioner:* contributory pension rates for those under 80 are used. It is assumed that there is an adult dependent aged under 67 years and no other dependents.

In all cases estimates have been made for 1983/84 based on the most recent macroeconomic forecasts.

#### Different measures of disposable income

6. A number of different measures of disposable income are used throughout the report. The measure adopted in individual instances depends upon the purpose for which it is being used. Overall disposable income in the economy is a national accounts concept and is most appropriate for forecasting movements in personal consumer expenditure. This measure includes: remuneration of employees; income of independent traders; interest, dividends and rent; and current transfers to households (Table 11 of National Income and Expenditure) less taxes on personal income and wealth (Table A.8 of National Income and Expenditure).

7. Post-tax earnings as used in the report refer only to transportable goods industry or manufacturing industry and are therefore only a component of the remuneration of employers' element of personal disposable income. Earnings

as used in the report is an 'average' figure while personal disposable income is a 'total' figure. The movements in the two series compare as follows:

	1979	1980	1981	1982	1983(f)
Real disposable income	100	97	96.1	93	90.8
Real post-tax average industrial earnings	100	98	92	86	81

Table A.1

The cost to the employer of a £1 increase in net pay for an employee 1983/84

Income level (a)	Increase in gross pay required	Total payment by employer (gross pay + PRSI)
<u>Single person</u>		
Two thirds average wage	1.77	1.98
Average wage	2.74	3.06
Average wage x 150%	3.64	4.06
<u>Married person with two dependent children</u>		
Two-thirds average wage	1.50	1.68
Average wage	1.77	1.98
Average wage x 150%	2.11	2.35

Note: (a) The income used is based on an estimate for average industrial earnings of £8,500 for 1983/84. Two thirds of the average is £5,670. One and half times the average is £12,750.

Table 1.1

Expenditure on GNP 1976-82  
percentage change over previous year

	1977	1978	1979	1980	1981	1982
Private consumption	5.4	6.9	4.5	0.8	0.0	-5.2
Public consumption	3.6	7.0	7.0	6.5	1.8	3.3
Gross fixed capital formation	4.4	19.8	12.5	-5.6	5.5	-8.4
Total domestic demand	6.9	8.1	8.2	-2.4	1.7	-3.5
Exports of goods and services	14.0	12.3	6.9	6.2	1.6	4.0
Imports of goods and services	13.0	15.6	14.7	-4.4	1.8	-4.4
Gross domestic product	6.8	5.8	3.4	3.7	1.6	1.2
Gross national product	6.0	5.1	2.9	3.3	1.1	-1.4
<u>Memorandum Items</u>						
Foreign demand for manufactures(a)	7.9	10.1	9.5	2.2	1.7	3.8
Growth of GDP;						
EEC	2.4	3.3	3.3	1.1	-0.5	0.3
OECD-Europe	2.4	3.0	3.2	1.4	-0.2	0.4
OECD	3.8	4.0	3.1	1.2	1.6	-0.2(b)

Note: (a) Based on the growth of import volumes in Ireland's export markets, weighted on the basis of manufacturing trade flows in 1981.

(b) GNP

Sources: Economic Review and Outlook, Summer 1983; OECD, Economic Outlook, July 1983.

Table 1.2  
Manufacturing Industry: output, exports and employment, 1976-82  
annual average change

	1977	1978	1979	1980	1981	1982
Volume of output (% change)	7.6	7.7	6.7	-1.9	+2.4	0.1
Employment (% change)	3.1	2.0	4.0	-0.9	-3.4	-3.4
Output per person employed (% change)	4.4	5.5	2.6	-1.0	6.0	3.4
Volume of exports (% change)	20.9	11.5	14.1	8.0	10.6	11.2
Net change in employment	6100	4000	8300	-2000	-7200	7000

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

Table 1.3

Manufacturing output by sector, 1979-82  
annual average change

	1980	1981	1982
Non metallic minerals	-8.5	-3.7	-7.4
Chemicals	-4.2	13.0	-3.1
Metals and engineering	+3.9	+8.3	+3.8
Food	-2.7	-3.1	+7.7
Drink and tobacco	2.4	3.6	-2.4
Textiles	-15.8	-3.4	-12.3
Clothing and footwear	-4.5	-2.4	-2.9
Timber and furniture	-12.0	-1.2	-1.1
Paper and printing	4.2	-4.7	-9.0
Miscellaneous	-2.4	-8.5	-1.4
Total	-1.9	+2.4	+0.1

Source: CSO, Industrial Production Index.

Table 1.4

Agricultural trends 1977-82  
percentage change over previous year

	1978	1979	1980	1981	1982
Output prices	13.1	5.9	-2.7	18.8	9.0
Input costs	4.2	12.5	14.3	14.8	10.2
Price/cost ratio	8.5	-5.8	-14.9	3.4	-1.1
Volume of gross output (a)	6.5	-0.8	-0.6	-2.3	3.3
Volume of net output (a)	1.9	-9.6	6.4	-6.7	5.4
Volume of farm materials	18.1	18.8	-12.6	6.8	-0.6
Income from self employment	12.1	-12.0	-8.3	14.4	22.7

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

Source: CSO, Agricultural Output 1982, Estimated Quantity and Value.



Table 1.5  
Employment performance by sector, 1975-83 (a)

(000)

	1975	1977	1979	1980	1981	1982	1983 (e)
Agriculture	238	228	221	212	201	196	192
Industry	337	336	365	372	360	352	326
Services	498	519	559	579	590	598	599
Total employment	1073	1083	1145	1163	1151	1146	1117
Unemployed	73	89	74	76	113	137	186
Unemployed (including those seeking first job) (b)	88	104	89	91	133	157	206
Total labour force (excluding those seeking first time job)	1146	1172	1219	1239	1264	1283	1303
Unemployment rate	6.4%	7.6%	6.1%	6.1%	8.9%	10.7%	14.3%
Unemployment rate (including first job seekers)	7.6%	8.8%	7.2%	7.3%	10.3%	12.0%	15.6%

Notes: (a) Figures refer to mid-April

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

(e) estimate

Sources: Economic Review and Outlook, Summer 1983, Department of Finance.

Table 1.6  
Trends in personal income 1975-83

	Real personal income \$ change	Real disposable personal income \$ change
1976	-0.4	-2.7
1977	+5.9	+5.6
1978	+9.6	+10.3
1979	+4.5	+3.9
1980	-0.5	-3.0
1981	-0.3	-0.9
1982(e)	-1.5	-3.2
1983(f)	0.0	-3.0

Note: (e) Estimate  
(f) Forecast

Source: CSO National Income and Expenditure 1981

Table 1.7  
Unit wage costs in Irish pounds 1975-82

	Earnings hour	\$ change	Output man hour	\$ change	Unit Wage Costs	\$ change
1975	100	-	100	-	100	-
1976	118	18.0	109	9.0	108	8.0
1977	137	16.1	113	3.7	122	13.0
1978	157	14.6	119	5.3	132	8.2
1979	181	15.3	122	2.5	148	12.1
1980	219	21.0	124	1.6	177	19.6
1981	255	16.4	132	6.4	194	9.6
1982	292	14.5	139	5.3	210	8.2

Source: Economic Review and Outlook, Summer 1983.

Table 1.8  
Relative unit wage costs (a) 1975-82

	Irish unit wage costs relative to weighted average of trading partners		Irish unit wage costs relative to weighted average of EMS partners	
	Domestic currency	Common currency	Domestic currency	Common currency
1975	100	100	100	100
1976	101.5	93.0	103.7	92.5
1977	103.7	91.9	107.8	87.9
1978	103.5	92.3	111.4	88.9
1979	107.3	95.5	120.4	95.8
1980	112.0	96.2	131.5	104.8
1981	114.3	89.1	135.5	107.1
1982	118.1	91.1	138.7	109.9

Note: (a) An increase in the ratio indicates a disimprovement in competitiveness.

Source: Central Bank of Ireland, unpublished data.

Table 1.9  
Price/cost ratio in manufacturing 1978-82

	Manufactured export prices	Average earnings	Price/earnings ratio	Unit wage costs	Price/cost ratio
1978	100	100	100	100	100
1979	109.3	115.3	94.8	112.1	97.5
1980	122.8	139.5	88.0	134.1	91.6
1981	139.2	162.4	85.7	147.0	94.7
1982	154.5	185.9	83.1	159.0	97.2

Source: Central Statistics Office; Table 1.7.

Table 1.10  
Current budget deficit and exchequer borrowing 1977-82

	1977	1978	1979	1980	1981	1982
Current deficit						
(1) £m	201	397	522	547	802	988
(2) As % of GNP	3.7	6.3	7.1	6.3	7.9	8.4
Exchequer borrowing						
(1) £m	545	810	1009	1217	1722	1945
(2) As % of GNP	10.0	12.9	13.8	14.1	16.8	16.5
Government foreign borrowing(a)						
(1) £m	201	323	459	583	1255	1130
(2) As % of GNP	3.7	5.1	6.3	6.7	12.2	9.6

Notes: (a) Includes sales of securities to non-residents.

Sources: Annual Budget Books etc.

Table 1.11

Financing of exchequer borrowing requirement, 1979-82

	1979	1980	1981	1982
Net sales of securities to:				
(1) domestic non-bank public	256	319	204	504
(2) non-residents	- 50	17	-30	-18
(3) commercial banks	104	243	120	250
Small savings	27	52	76	83
Borrowing from Central Bank	100	-	-	48
Government net foreign borrowing	509	566	1285	1148
Other	63	20	67	- 70
<b>Total exchequer borrowing</b>	<b>1009</b>	<b>1217</b>	<b>1722</b>	<b>1945</b>
Current budget deficit (£m)	522	547	802	988
as share of exchequer borrowing (%)	52	45	47	51
Foreign financing of exchequer borrowing (£m) (a)	459	583	1255	1130
as share of exchequer borrowing (%)	45	48	73	58
External Government debt (£m)(b)	1542	2207	3794	5290
as % of GDP	20.6	24.9	35.8	42.5

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

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

(b) Excludes securities held by non residents

Sources: Annual Budget Booklets; Central Bank of Ireland, Quarterly Bulletin (2) 1983.

Table 1.12

Change in Government expenditure (a), 1978-83

	1979	1980	1981	1982	1983(e)
<b>\$ Changes: nominal values</b>					
Transfer payments	20.1	26.8	34.9	32.5	13.7
Expenditure on goods and services	22.8	28.3	19.2	19.9	11.7
Government current expenditure	21.4	27.5	27.2	26.8	12.9
Government capital expenditure (b)	25.1	30.1	34.9	21.1	-11.5
<b>Total Government expenditure</b>	<b>22.1</b>	<b>28.0</b>	<b>28.7</b>	<b>25.6</b>	<b>8.2</b>
<b>\$ Changes: real values (1975 prices)</b>					
Transfer payments	5.9	6.9	12.3	13.2	2.7
Expenditure on goods and services	6.1	5.5	-0.8	6.3	3.0
Government current expenditure	6.0	6.3	6.1	10.1	2.8
Government capital expenditure	8.8	10.4	18.8	10.4	-17.6
<b>Total Government expenditure</b>	<b>6.5</b>	<b>7.0</b>	<b>8.4</b>	<b>10.2</b>	<b>-1.0</b>

Notes: (a) National Accounts classification.  
 (b) Government capital expenditure also includes a transfer element  
 (e) Estimate.

Deflators: Transfer payments (private consumption expenditure deflator)  
Expenditure on goods and services (public consumption expenditure deflator)  
Capital expenditure (fixed capital formation deflator)

Source: Annual Budget Booklets

Table 1.13

Individual taxes and total taxation as % GDP 1974-83.

	1974	1975	1976	1977	1978	1979	1980	1981	1981(a)	1982	1983
Income tax	8.46	8.90	10.05	9.51	9.41	9.79	11.41	11.77	11.8	11.7	13.6
S. Insurance	3.69	4.42	4.70	4.66	4.54	4.69	5.13	5.31	5.3	5.3	5.8
YEA levy	--	--	--	--	--	--	--	--	--	0.3	0.6
Customs and excise	8.79	8.74	9.43	8.35	7.78	7.98	9.49	10.05	10.6	9.6	9.3
VAT	5.12	4.71	5.53	5.84	6.45	5.63	4.85	5.37	5.9	7.6	8.2
Corporation tax	0.84	0.71	0.65	1.41	1.65	1.74	1.58	1.89	1.9	1.9	1.5
Stamp duties	0.49	0.41	0.42	0.49	0.59	0.62	0.59	0.71	0.6	0.7	0.8
Motor vehicle	0.85	0.73	0.82	0.57	0.27	0.25	0.26	0.35	0.4	0.6	0.7
Rates	2.66	2.33	2.46	2.10	1.35	1.28	1.23	1.03	1.0	0.8	0.5
Capital taxes and estate duties	0.53	0.46	0.35	0.31	0.23	0.21	0.20	0.17	0.2	0.2	0.2
Resource tax and ag. levies	0.05	0.02	0.02	0.02	0.00	0.14	0.05	0.00	0.0	0.1	0.1
Res. property tax	--	--	--	--	--	--	--	--	--	--	0.1
Other	0.17	0.06	0.09	0.9	0.13	0.13	0.36	0.20	--	--	--
EEC taxes	0.03	0.74	1.18	1.34	0.91	0.67	1.02	1.06	n.a.(1)	n.a.(1)	n.a.
Total	31.80	32.21	35.69	34.68	33.33	33.13	36.18	37.91	37.65	38.7	40.8

Notes: (1) Largely included under VAT  
n.a. not available.

Source: National Income and Expenditure, 1974-1981  
Budget Booklet and Estimates Volumes, 1981(a) 1982, 1983.

Table 2.1

House completions 1975-83

	(1) Total completions	(2) Of which local authority completions	(3) (2) as % of (1)	Approved Waiting list for LA dwell- ings
			%	
1975	26,892	8,794	32.7	n.a.
1976	24,000	7,263	30.3	n.a.
1977	24,548	6,333	25.8	25,900
1978	25,444	6,073	23.9	27,400
1979	26,544	6,214	23.4	25,900
1980	27,785	5,984	21.5	27,700
1981	28,917	5,681	19.6	29,000
1982	26,198	5,686	21.7	30,000
1983	26,000(e)	5,800	22.3	31,000

Notes: n.a. not available  
(e) estimated

Sources: Quarterly Bulletin of Housing Statistics, March (1983);  
Information received from the Department of Environment.

Table 2.2

Public capital expenditure on housing, 1976-83

	Public capital expenditure		Constant (1975) prices(1)		Proportion for local authority housing (%)
	Current prices	Total	Total	% Increase on previous year	
	£m	£m			
1976	105.4	84.1	-----		62
1977	99.9	67.9	- 19.3		71
1978	128.4	79.3	+ 16.9		59
1979	169.2	90.1	+ 13.7		53
1980	216.5	93.4	+ 3.6		53
1981	277.2	100.4	+ 7.5		52
1982(2)	326.1	103.7	+ 3.3		55
1983(2)	358.6	104.2	+ 0.5		58

Notes: (1) Using the House Building Cost Index  
 (2) The 1982 and 1983 figures include the Housing Finance Agency. If the Housing Finance Agency is excluded expenditure in constant prices would fall by 1.7% in 1982 and 9.3% in 1983.

Source: Quarterly Bulletin of Housing Statistics, March (1983).

Table 2.3

Local authority rents as % disposable income classified by income level, 1980

1	2	3	
Mean direct household Income £ per week	Mean disposable household Income £ per week	Mean rent £ per week	Mean rent as % disposable Income
under 10	40.16	2.28	5.7
10 and under 30	49.94	2.14	4.3
30 and under 50	70.51	3.48	4.9
50 and under 70	74.78	4.58	6.1
70 and under 90	80.12	6.30	7.9
90 and under 120	95.32	7.21	7.6
120 and under 200	131.11	6.64	5.1
200 +	263.37	4.99	1.9
	78.15	4.47	5.7

Note: - due to the magnitudes of the standard deviations in the mean rent categories, the results should be taken as indicative only.

Source: - derived from a special analysis of the Household Budget Survey 1980, provided by the Central Statistics Office.

Table 2.4  
Capital expenditure on education 1976-83

	(1)		
	At current prices £m	At constant (1975) prices £m	% Increase on previous year
1976	27.2	23.2	-
1977	37.4	27.3	+17.2
1978	46.9	31.2	+14.3
1979	53.1	30.5	- 2.2
1980	60.8	29.0	- 4.9
1981	81.9	34.3	+18.3
1982 (p)	93.3	35.4	+ 3.2
1983 (e)	86.7	30.3	-14.3

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

Source: Public Capital Programme various years; Department of Education.

Table 2.5  
Current public expenditure on education 1976-83

	(1)		
	Current prices £m	Constant (1975) prices £m	% Increase on previous year
1976	242.2	208.8	-
1977	271.3	205.8	- 1.4
1978	315.3	216.0	+ 5.0
1979	392.4	232.5	+ 7.6
1980	481.4	234.0	+ 6.5
1981	617.2	249.8	+ 6.8
1982(p)	718.5	257.6	+ 3.1
1983(e)	805.7	267.5	+ 3.8

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

Source: Appropriations Accounts, various years; Book of Estimates, various years; Department of Education.

Table 2.6

## Health services capital expenditure 1976-83

	Capital expenditure current prices (£m)	Constant (1975 prices) (£m) (1)	% Change on previous year
1976	11.2	9.6	-
1977	16.0	11.7	+20.6
1978	21.5	14.3	+22.2
1979	27.5	15.8	+10.5
1980	35.0	16.7	+ 5.7
1981	44.5	18.6	+11.4
1982	49.2	18.7	+ 0.5
1983(e)	53.0	18.5	- 1.1

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

Sources: Book of Estimates; Department of Health.

Table 2.7

## Current public expenditure on health services 1976-83

	Current prices (£m)	Pay as % of total	Constant 1975 prices (£m) (1)	% Change
1976	275	61.5	237	-
1977	328	62.0	249	+ 5.0
1978	400	64.0	274	+10.1
1979	540	66.1	320	+16.8
1980	666	65.4	324	+ 1.2
1981	823	63.6	333	+ 2.9
1982(p)	951	64.1	341	+ 2.4
1983(e)	1,013	65.5	336	- 1.4

Notes: (p) = provisional  
(e) = estimate  
(1) deflated by implicit price index of Public Authorities net current expenditure.

Source: Book of Estimates; Department of Health.

Table 2.8

## Occupied (1) beds in hospitals and residential centres, numbers per 1,000 population, UK countries and Ireland 1979

	England	Wales	Scotland	Northern Ireland	Ireland
Acute specialties (2)	2.1 (2.8)	2.1 (3.1)	2.5 (3.5)	3.5 (4.2)	3.2 (3.8)
Maternity beds per 1,000 births (3)	32	34	41	32	25
Psychiatric mental illness mental handicap, (4)	3.1 (3.5)	3.1 (3.4)	4.7 (5.1)	3.8(7) (4.6)	5.2
Geriatric per 1,000 persons aged 65+, (5)	24.7	31.3	30.7	33.3	39.5
Other (6)	-	-	-	-	0.4
Total beds per 1,000 population	9.1	10.3	11.9	11.4(7)	13.5

Notes: (1) "Occupied" rather than "available" bed population ratios have been used because data on the latter are not collected in all cases. The figures in brackets show ratios for "available" beds, where possible.

(2) UK data from Regional Trends 1982, HMSO, Table 4.4

Ireland's data from Statistical Information Relevant to the Health Services 1981, Table G1, excluding maternity, psychiatric and geriatric assessment beds, all district hospitals, cottage hospitals and all private hospitals.

(3) Data supplied by the Department of Health.

(4) UK data by combining Table 4.4 and 4.15 Regional Trends 1982.

Ireland's statistic was derived by combining Health Board Psychiatric Hospitals and Units, Special Psychiatric Hospitals, acute psychiatric beds, Special Residential Centres for the Mentally Handicapped.

(5) UK data as for (4). Ireland's statistic was derived by combining acute geriatric assessment beds, longstay District Hospitals and the 1980 data on Health Board Geriatric Units (including private and voluntary Hospitals and Homes) in Statistical Information Relevant to the Health Services, 1982.

(6) "Other" comprises Short Stay District Hospitals and Cottage Hospitals, which do not fit easily into any of the other categories

(7) Northern Ireland's statistic excludes mentally handicapped

Table 2.9

Current public expenditure on social welfare 1976-83

Year	Current prices (all schemes plus administration)	Constant 1975 prices			
		Deflator (1)		Deflator (2)	
		£m	% Change	£m	% Change
1976	447	385	-	371	-
1977	511	388	0.6	383	3.2
1978	582	399	2.8	404	5.5
1979	681	403	1.2	407	9.1
1980	890	433	7.3	450	10.5
1981	1186	480	10.9	487	8.1
1982	1617	580	20.8	591	21.4
1983(e)	1870	621	7.1	621	5.1

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

Source: Department of Social Welfare.

Table 2.10

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

Average industrial earnings (2) £165pw in mid 1983

	Single		Married		Married		Married	
			2 children	4 children	6 children	8 children	6 children	8 children
UB Replacement Ratios	33	47	60	72	82	91	82	91
UB and PRB (3)	57	68	81	85	85	91	85	91
UA Replacement Ratio	27	41	53	62	71	78	71	78

2/3 Average industrial earnings = £110 in mid 1983

	Single		Married		Married		Married	
			2 children	4 children	6 children	8 children	6 children	8 children
UB Replacement Ratio	44	63	81	97	110	122	110	122
UB and PRB Ratio (3)	61	78	85	97	110	122	110	122
UA Replacement Ratio	36	55	71	84	95	105	95	105

Notes: (1) Tax rebates are excluded from the analysis.  
(2) Transportable Goods Industry earnings.  
(3) The so called 85% Rule limits pay related supplement so that its payment will not lead to replacement ratios in excess of 85%.

Source: Department of Social Welfare.



Table 2.11

Family disposable income as % earned income, various prototype families, various years

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84(e)
Senior management	69	70	66	66	72	71	65	59
Executive	76	78	79	79	78	77	77	73
Industrial worker	84	82	84	84	84	82	82	78
Unemployed	-	-	-	-	-	-	-	-

Note: (e) estimated.

Source - See Appendix 3.2 In NESO Report No. 70.

Table 2.12

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

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84(e)
Senior management	190	183	196	179	201	202	203	200
Executive	137	125	125	123	126	126	122	122
Industrial worker	100	100	100	100	100	100	100	100
Unemployed	50	48	47	47	50	53	59	61
Pensioners	42	40	39	40	44	48	54	56

Note: e = estimate

Table 2.13

Cost to the exchequer of tax expenditures, various years

Allowance or relief	1979-80	1980-81	1981-82	1982-83	1983-84
(a) and (b)					
Personal allowances(1)-					
Married	275.5	255.8	272.0	416.0	n.a.
Working wife	7.6	Not applicable	Not applicable	Not applicable	n.a.
Single and widowed	177.8	186.4	194.1	306.0	n.a.
(c) One-parent family allowance	1.0	3.0	3.8	7.7	8.7
(d) Child (Income tax) allowance(2)	52.0	53.4	54.1	30.9	32.0
(e) Dependent relative allowance	3.6	3.0	2.7	2.8	2.3
(f) PAYE allowance	39.0	117.0	180.0	206.0	215.0
(g) Housekeeper allowance(3)	0.45	0.4	0.3	Not applicable	-n.a.
(h) Loan interest relief	30.0	36.0	52.5	66.0	81.6
(i) Superannuation contribution by employees	10.0	14.0	17.5	21.7	n.a.
(j) Life assurance	8.0	10.0	10.5	12.0	13.5
(k) Medical insurance	5.0	6.0	6.5	9.5	11.5
(l) Children's (social welfare) allowance	12.8	19.5	24.0	41.3	-n.a.
(m) Deposit interest exemption(4)	3.0	3.5	4.5	5.0	-n.a.
(n) Capital allowances - buildings, plant and machinery	80.0	99.0	115.0	Not available	-n.a.
(o) Stock relief(5)	15.0	9.0	11.0	13.5	-n.a.
(p) Export sales relief	86.0	93.0	106.0	Not available	-n.a.
(q) PRSI allowance	----	----	----	86.5	84.0
Total	806.75	909.0	1054.5	n.a.	n.a.

Notes: (1)The cost of the married, working wife, single and widowed allowances is included in (a). The working wife allowance was abolished with effect from 6 April 1980.

(2)The drop in the cost of child allowance from the year 1982-83 was caused by the reduction in the standard child allowance from £195 for 1981-82 to £100 for 1982-83.

(3)The housekeeper allowance was abolished with effect from 6 April 1982.

(4)The relief costed under item (n) is the exemption provided (up to certain limits) for interest arising on deposits with the Post Office and Trustee Savings Banks and certain specified commercial banks.

(5)The cost of stock relief is available by calendar year only. The figure shown for 1979-80 is for the year 1979 and so on.

Source: Parliamentary Debates, Dail Eireann, 5/7/1983 Columns 1453, 1454, and 14/6/1983, Columns 1301, 1304.

Table 3.1

The cost of a £1 increase in net pay 1983/84

Income level (a)	Increase in gross pay required	Total payment by employer (gross pay + PRSI)
<u>Single person</u>		
Two thirds average wage	1.77	1.98
Average wage	2.74	3.06
Average wage x 150%	3.64	4.00
<u>Married person with two dependent children</u>		
Two-thirds average wage	1.50	1.68
Average wage	1.77	1.98
Average wage x 150%	2.11	2.35

Notes: (a) Income earners are assumed to be covered by PAYE, class A PRSI and receive only the standard tax allowances.

(a) The income used is based on an estimate for average industrial earnings of £8,500 for 1983/84. Two thirds of the average is £5,670. One and half times the average is £12,750.

## NATIONAL ECONOMIC AND SOCIAL COUNCIL PUBLICATIONS

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1.	Report on the Economy in 1973 and the Prospects for 1974	April	1974
2.	Comments on Capital Taxation Proposals	July	1974
3.	The Economy in 1974 and Outlook for 1975	Nov.	1974
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5.	Population and Employment Projections 1971-86	Feb.	1975
6.	Comments on the OECD Report on Manpower Policy in Ireland	July	1975
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38. Universality and Selectivity : Social Services in Ireland	June	1978	75. Economic and Social Policy 1983: Aims and Recommendations		
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42. Report on Policies for Agricultural and Rural Development	Sept	1978			
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44. Comments on Development for Full Employment	Dec	1978			
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