

NESC REPORT NO. 44

**COMMENTS ON DEVELOPMENT FOR
FULL EMPLOYMENT**

Price: £2.60

**NATIONAL ECONOMIC
AND SOCIAL COUNCIL**

**Comments on
Development for Full Employment**

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 Minister for Economic Planning and Development, 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
Seven persons representing Government Departments comprising one representative each from the Departments of Economic Planning and Development, Finance, Agriculture, Industry, Commerce and Energy, Labour, and Local Government and one person representing the Departments of Health and Social Welfare.
5. 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.
6. 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.
7. The Council shall have its own Secretariat, subject to the approval of the Minister for Economic Planning and Development in regard to numbers, remuneration and conditions of service.
7. The Council shall regulate its own procedure.

Comments on Development for Full Employment

DUBLIN:
PUBLISHED BY THE STATIONERY OFFICE

To be purchased from
GOVERNMENT PUBLICATIONS SALE OFFICE, G.P.O. ARCADE, DUBLIN 1.
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CHAPTER 1

INTRODUCTION¹

- 1.1 The Government's Green Paper *Development for Full Employment* is a discussion document and the National Economic and Social Council have been informed that the Government wishes to have an active response from all interested parties on the proposals which it contains. In this context, the views of the Council on the Green Paper were invited by the Minister for Economic Planning and Development on 15 June 1978. This report sets out the Council's views; Chapters 2 to 7 contain summaries of the Council's comments.
- 1.2 The Council believes that active responses from all interested parties to Government planning documents and public policy proposals are necessary for the effective development of the planning process and for effective formulation of policy. An active response from interested parties will facilitate the efforts of Government to secure a sufficient degree of public consensus for the adoption of the strategic plans.
- 1.3 The Council wishes to record its support for the planned approach towards public policy formulation and resource allocation which is now emerging through the Government's planning cycle as announced in the White Paper *National Development 1977-1980* (published in January 1978) and the Green Paper *Development for Full Employment* (published in June 1978). It looks forward to the further development of this planning cycle in the years ahead and

¹This report, which was agreed by the Council at its meeting on 3 October, 1978, was drafted by the Council's Secretariat following meetings of the Economic and Social Policy Committees of the Council and of the Council itself during July, August and September.

believes that it will enhance the Administration's capacity for formulating and implementing sound public policies.

1.4 The Council supports the Government's strategic goals, outlined in the Green Paper, of reducing the numbers out of work, easing the pressure of inflation, increasing national output, and lowering the Exchequer borrowing requirement as a percentage of GNP. It acknowledges that, while these four goals are inter-related, the primary emphasis, at the present time, should be placed on action to increase employment. It notes that the Government considers that, in the present circumstances of our society, the elimination of unemployment must be viewed not only as an economic objective but also as a major contribution to social progress. The Council notes furthermore, in relation to social policy, that while the emphasis of the Green Paper is on economic objectives, it also discusses in some detail certain aspects of social policy. The Council has, therefore, decided to comment on these questions.

1.5 Subject to its general support, as expressed above, the Council wishes to question some of the specific policies and proposals in the Green Paper. It presents its views on these matters in Chapters 1-8 of this report—corresponding to the contents of Chapters 1-8 of the Green Paper.

1.6 Chapter 1 of the Green Paper deals with the current state of the economy. It concludes in paragraph 1.8 that :

"Provided the terms of the 1978 National Pay Agreement are observed and provided increases over and above the standard increases are given only when justified under the terms of the agreement by reference to the productivity criteria laid down or following adjudication by the Labour Court or Arbitration Board where this arises, the prospects are good for the continued success of the Government strategy. There are as yet no signs that the balance of payments is likely to prove a serious constraint, at least in the immediate period ahead. The external environment is sluggish but is expected to improve. The economic outturn at end 1978 should, therefore, provide a sufficiently

favourable climate in which to sustain continued progress towards the Government's targets in 1979 and 1980".

While in some respects developments and prospects are not as promising as when this was first written, the Council considers that there is no need as yet to question the validity of the general conclusion. The Council's comments on the assumptions underlying the economic targets are contained in Chapter 2.

CHAPTER 2

THE RESULTS SOUGHT

2.1 In this Chapter, the Council comments on the overall aims and on the underlying assumptions of the Green Paper.

The Overall Aims of the Green Paper

2.2 The Council agrees that the attainment of full employment, subject to the constraints regarding the public finances and balance of payments, is the single most important social and economic objective at the present time (Green Paper, Preface, paragraph 3). The Council agrees with the Green Paper's aims of reducing the numbers unemployed, of easing the pressure of inflation and of increasing the rate of growth of national output. The Council also agrees that the Exchequer borrowing requirement as a proportion of GNP should be reduced. While the above aims are inter-related and ideally can complement one another, the Council agrees with the Green Paper that priority should be given to the reduction of the level of unemployment. There are many reasons why this goal should be given priority—unemployment is demoralising for the individuals affected and for their families, it is a principal cause of poverty and of other social problems, it signifies a notable failure to use all the resources which are available to society, and it leads to involuntary emigration.

2.3 One of the aims of the Green Paper is a lowering of the Exchequer borrowing requirement as a percentage of GNP. The Council wishes to make two points in relation to this. First, it agrees that it cannot be considered as an aim which is independent of the others—the *actual* borrowing requirement will depend on the actual levels of output and of employment. Second, the Council views the need to reduce the borrowing requirement as a constraint on the achievement of the objectives. There is a further constraint on

achieving the aims of policy—the extent of the deficit on the balance of payments on current account, or more strictly the level of the external reserves. The White Paper (*National Development 1977-80*) recognises that the balance of payments deficit on current account might be a constraining influence. The Council believes that more attention should have been given in the Green Paper to the extent to which the balance of payments could be a constraint on the achievement of the policy objectives.

2.4 The Green Paper says that "... economic advance brings with it direct social benefits ...". Reductions in unemployment should, by themselves, help the achievement of the aims of social policy. Sustained increases in employment, for instance, not only raise living standards but directly result in a wider sharing of increased incomes and, by indirectly affecting the public finances, give rise to increased funds to deal with explicit social problems. The consultative process centered on the Green Paper offers a means of trying to reach, as far as possible, a consensus on the principles of sharing increases in incomes. However, increases in employment and output will not, of themselves, ensure that other desired aims are achieved—for example, greater equality of opportunity, more equal distribution of income and wealth, and meeting the needs of the under-privileged. Attention to these matters, and consideration of how the benefits of increased output ought to be distributed, need not await the actual realisation of a particular level of economic development. The strength of commitment to social policy ought not to be determined solely by the level of real income in the community. It is desirable, for example, that changes in levels of income maintenance should be such as to ensure that the recipients—who include pensioners, those unable to work through disability and head of families who have low incomes—share in the increases in the real income of the community. The Council considers that more specific attention should be given to the social dimensions of policy in the forthcoming White Paper.

2.5 A significant and sustained growth in employment is dependent on increased activity in those parts of the market sector of the economy which are unsheltered from external competition (Council Report No. 26, *Prelude to Planning*). These include State-sponsored bodies who

operate in accordance with normal commercial criteria. The Council agrees with the Green Paper (paragraph 2.5) that the extent to which public service employment, outside the commercial State-sponsored sector, can be increased must be related to the tax burden which the economy can bear.

The Underlying Assumptions of the Green Paper

2.6 While the Council wishes to concentrate on the broad policies rather than the detailed figures in the Green Paper, it nonetheless has considered it desirable to examine the assumptions which underlie the various targets in order to form an opinion on the realism of the targets themselves.

The Growth in Output

2.7 The target rate of growth for Gross National Product (GNP) in the Green Paper is a rate of 7 per cent per annum in the three-year period 1977-1980; a target is not specified for the rate of growth for the period beyond 1980. This can be compared with the growth rates achieved in the recent past. In the period 1960-1973, the average annual increase in real GNP was 4.3 per cent per annum.¹ While a growth rate of 7 per cent is not unattainable (the growth in 1968 was, in fact, 7.5 per cent), an average annual rate of growth in real GNP of 7 per cent over a three-year period is optimistic, on the basis of past performance.² The increase in economic activity since 1975 has been partly due to the normal process of recovery from a recession. In a recovery phase such as this, firms can increase output by using, at little extra cost, capacity which has been lying idle. But there comes a point beyond which supply constraints hold back the growth of output³—even though unemployment may remain relatively high. The question which arises is whether the increase in the growth of

¹Data for each single year since 1961 are contained in the Appendix to Chapter 2, Table 2.A.

²The highest rate of growth achieved in any three-year period was in 1966-1969, when an annual rate of growth of 5.8 per cent was achieved. That was a period when economic activity was increasing following a recession.

³One measure of capacity utilisation in manufacturing would indicate that the most recent peak occurred in the first quarter of 1974. The low point since then occurred in the second and third quarters of 1975; in 1977, capacity utilisation was approaching the peak of early 1974.

real GNP since 1975 is a transient one, or whether it can be transformed into sustainable growth at a rate which has not been accomplished heretofore.

2.8 The Council recognises that the increasing weight of the industrial sector in total output and the structural change which is continuing within Irish industry has added to the economy's potential capacity for higher growth than occurred in the past. The targets of the Green Paper imply that the share of industry in Gross Domestic Product would increase from 34 per cent in 1976 to 42 per cent in 1980. Earlier Council Reports have indicated the potential that exists, on the supply side, for growth in Ireland.⁴ The extent to which the potential for growth is achieved will depend on the policies and fulfilment of conditions which are discussed in Chapters 3 and 4 of this report.

2.9 An important influence on the sustainable growth rate is the growth of world trade. Forecasts for the volume of world trade, and of its manufacturing component, are that these will each increase by about 5 per cent in 1978 and by about 6 per cent in 1979.⁵ These would be lower rates of growth than those experienced in 1967-1977. For example, the average annual growth rate of world trade in manufacturing goods was 9 per cent in the period 1967-1977 (Appendix, Table 2.B). Thus, the world trade outlook for the immediate future is less favourable than it has been in recent years. Therefore, a continuation of the trend rate of growth of Irish exports would require a rise in Ireland's share of world trade,⁶ in fact the Green Paper target implies an increase in the trend rate of growth of Ireland's exports. Ireland's share of world exports increased between 1970 and 1977; its share of world manufacturing exports increased from 0.22 per cent to 0.44 per cent between 1970 and 1977.⁷ In view of the relatively small size of the Irish economy, further increases in Ireland's share of world

⁴NESC Report No. 26, *Prelude to Planning*: NESC, Report No. 31, *The Potential for Growth in Irish Tax Revenues*.

⁵*National Institute Economic Review* (NIESR, London) May 1978.

⁶Given the forecast growth for world trade, the target rate of growth of Irish exports means that Ireland's share of world trade would have to rise from 0.43 per cent in 1977 to 0.48 per cent in 1979.

⁷Data relate to share in dollar terms: Appendix, Table 2.C.

exports would be possible—given fulfilment of the necessary conditions which are outlined in Chapters 3 and 4 of this report.

2.10 A further influence on the domestic economy is the target reduction of the Exchequer borrowing requirements as a percentage of GNP*. The Council accepts the importance of reducing the Exchequer borrowing requirement as a proportion of GNP, for the following reasons. If there is a large borrowing requirement at a time of high economic activity, during a subsequent period of low economic activity there is little scope for counter-cyclical policy. Furthermore, the financing of the borrowing requirement can have an adverse effect on output. For example, if increases in the borrowing requirement were financed through increases in tax rates, this could precipitate demands for increases in money incomes as employees tried to maintain living standards, with resulting adverse effects on output and employment. High borrowing means high debt service costs which form a prior charge on revenues and reduce the scope for manoeuvre on fiscal policy—on the other hand, interest on domestic debt is subject to income tax, thus reducing the net impact on the Exchequer finances. The extent to which the level of borrowing is sustainable is partly dependent on the source of the borrowing. External debt involves a real transfer of resources from Ireland in order to pay interest and principal; most of the external Government debt is due to be repaid before 1983 (though the re-scheduling of part of these repayments could be undertaken). Excessive reliance on borrowing from abroad can lead to control over the domestic economy passing to the country's creditors. The extent to which the borrowing requirement is sustainable is also dependent on the composition of the resulting Government expenditure. While the financing of productive investment by debt creation is sustainable, the continual financing of public consumption by debt creation is not. Moreover, the latter severely hinders the operation of a counter-cyclical policy, as indicated above.

2.11 The impact of the reduction of the borrowing requirement on aggregate demand must also be taken into account. The borrowing requirement, expressed as a proportion of GNP, is budgeted to increase by 3 percentage points in 1978. The target for subsequent years is a

* While it is difficult to make comparisons with other countries, the borrowing requirement as a proportion of GNP is significantly higher than in other European countries.

reduction of 2.5 percentage points in 1979 and a further reduction of 2.5 percentage points in 1980 (Table 2.2). Table 2.1 shows that, given the Green Paper targets, and excluding debt servicing, there would be no real increase in current Government expenditure in the years 1979 and 1980.* This would follow the projected real increase of 9 per cent in current Government expenditure in 1978.

2.12 The target reduction in the ratio of the borrowing requirement to GNP means that the public sector's contribution to the level of demand in the economy in 1979 and 1980 would be less expansionary than at present. This reflects deliberate Government policy. The 1978 Budget specifically aimed at a fiscal boost to the economy in the expectation that private sector activity would be stimulated and that this would permit a lower rate of fiscal stimulus in later years. With this must be allied the Green Paper's insistence on the need to change attitudes to growth and job creation. The fiscal policy measures of 1978 will take time to achieve their full impact, since time lags in making plans and in effecting investment could be considerable. It is difficult at this stage to say whether, in the period up to 1980, the increase in private investment would be sufficient to offset the reduction in the fiscal stimulus in 1979 and 1980. If not, then the basic strategy of the Green Paper may have to be modified either in emphasis or in direction. Among the modifications which might be considered is lengthening the time-span for the proposed reduction of the Exchequer borrowing requirement as a proportion of GNP. Any adjustment of the borrowing constraint should, however, be consistent with the Green Paper's objective of virtually eliminating the current budget deficit by 1980. Furthermore, the relationship between employment creation and the

* In money terms, current Government expenditure is projected to increase by 21 per cent in 1978. The appropriate price deflator for current Government expenditure in 1978 is likely to be in the region of 11 per cent. (In the past, the price deflator of public authorities' net current expenditure in national accounts terms, which accounts for about half of the current Government expenditure, has risen faster than the Consumer Price Index or the GNP deflator—on average by about 1.5 percentage points per annum since 1970). The target growth in current Government expenditure other than debt service, in money terms, is an average annual rate of 8 per cent in the period 1978–1980. The appropriate price deflator for current Government expenditure is likely to be around 8 per cent for 1979 and for 1980.

TABLE 2.2

Exchequer borrowing requirement 1977-1980 inclusive: at current prices

| Year | Borrowing requirement (in current prices) | | Change in borrowing requirement £m. (3) | Change in borrowing requirement as % of GNP ((3) as % of GNP) (4) |
|------------------|---|-----------------|---|---|
| | Level £m. (1) | As % of GNP (2) | | |
| 1977 provisional | 545 | 10.1 | 39 | 0.7 |
| 1978 | 821 | 13.0 | 276 | 4.4 |
| 1979 | 751 | 10.5 | -70 | -1.0 |
| 1980 | 649 | 8.0 | -102 | -1.3 |

Source: Table 2.1.

rate of increase in employment costs relative to other countries is an important consideration.

2.13 The volume of investment which is needed to fulfil the targets, and the prospects of financing this investment, are now examined. Table 2.3 shows that the target for total investment is an annual volume increase of 12 per cent in the period 1977-80. A significant feature is the sharp rise in private investment. In volume terms, public investment would increase at an average annual rate of 8 per cent per annum in 1977-80, while private investment would increase at an average annual rate of 16 per cent. Public investment would increase as a percentage of total fixed investment would fall from 50 per cent in 1977 to 45 per cent in 1980.¹⁰ The targets imply that gross investment as a proportion of GNP would gradually rise from 23 per cent in 1976 to 31 per cent in 1980 (at 1977 prices).¹¹ The target share of private investment in the total is at variance with past trends.

¹⁰These data are based on the Public Capital Programme: Appendix Table 2D.

¹¹By comparison, the average ratio of gross domestic physical capital formation to GNP (at 1970 prices), was 23.9 per cent in the period 1970-1976.

Notes: (a) Figures for 1978 are Budget estimates contained in Budget 1978. (b) Of the £403 million debt service in 1977, about £90 million would be on foot of foreign borrowing. In estimating debt service for 1979 and 1980, an average interest rate of 10 per cent is assumed. (c) Part of current revenue comprises interest and dividends on Exchequer advances (which totalled £93 million in 1977 and are estimated at £108 million for 1978). (d) Figure for 1977 is a preliminary estimate. GNP forecast for 1978 is derived from Budget 1978 estimate that the total Exchequer borrowing requirement of £821 million would be 13.0% of GNP. The forecasts of GNP in 1979 and 1980 are contained in the answer to Parliamentary Question No. 17, Dáil Éireann 14 March 1978. Sources: Budget 1978: Economic Review and Outlook July, 1978 (for preliminary estimate of GNP, 1977); Development for Full Employment, Table 7.1.

| Category | 1977 | | 1978 | | 1979 | | 1980 | |
|--|-------|----------|-------|----------|-------|----------|-------|----------|
| | £m. | % change | £m. | % change | £m. | % change | £m. | % change |
| Current Budget of Government (a) | 1,958 | | 2,368 | 21 | 2,574 | 9 | 2,835 | 10 |
| of which: | | | | | | | | |
| Service of Public Debt (b) | 403 | | 497 | 23 | 580 | 17 | 660 | 14 |
| Other | 1,555 | | 1,871 | 20 | 1,994 | 7 | 2,175 | 9 |
| Total current revenue (c) | 1,757 | | 1,963 | 12 | 2,360 | 20 | 2,795 | 18 |
| Current deficit | 201 | | 405 | 101 | 214 | -47 | 40 | -81 |
| Capital Budget of Government (a) | 691 | | 790 | 14 | 930 | 18 | 1,053 | 13 |
| Capital resources | 347 | | 374 | 8 | 393 | 5 | 446 | 13 |
| Exchequer borrowing requirement for capital purposes | 344 | | 416 | 21 | 536 | 29 | 608 | 13 |
| Total current and capital expenditure | 2,649 | | 3,158 | 19 | 3,504 | 11 | 3,888 | 11 |
| Total Exchequer borrowing requirement | 545 | | 821 | 51 | 751 | -9 | 648 | -14 |
| GNP at current market prices (d) | 5,400 | | 6,315 | 17 | 7,150 | 13 | 8,100 | 13 |

TABLE 2.1 Budgetary trends 1977 and targets up to 1980: at current prices

TABLE 2.3

Changes in expenditure on Gross National Product at constant (1970) market prices 1960-1980 (b)

Growth rates, % per year (compounded annually) (a)

| Category | 1960-1973 (1) | 1960-1976 (2) | Target 1977-1980 (3) |
|---|------------------|------------------|----------------------------|
| Personal expenditure on consumers' goods and services | 4.0 | 3.4 | 6 |
| Net expenditure by public authorities on current goods and services | 5.0 | 5.2 | 3 |
| Total investment (c) | 9.6 | 6.6 | 12 |
| Exports of goods and services | 7.7 | 7.2 | 12 |
| Less imports of goods and services | 9.3 | 7.5 | 11 |
| Gross national product at constant market prices | 4.4 | 3.9 | 7 |

Notes: (a) Throughout this report, all references to growth rates and to changes which occurred in the "period 1960-1973" use 1960 as the base upon which to calculate the change in the first year. Thus, the growth in the "period 1977-1980" is based on implied changes which would occur in 1978, 1979 and 1980.

(b) The data are based on national accounts data compiled on the method which is described in *National Income and Expenditure* (NIE) 1975.

(c) Gross domestic fixed capital formation plus value of physical changes in stocks.

Sources: Col. (1): NIE 1975.

Col. (2): NIE 1975 and data from CSO.

Col. (3): *National Development 1977-1980* (Pr. 6836), 1978.

2.14 The capital-output ratio compares fixed investment with the additional output which occurs in a certain period.¹¹ A feature of the targets in the Green Paper is the reduction in the capital-output ratio which they

¹¹The capital-output ratio is used as an indicator of trends in investment and output. However, its use does not imply that the investment is the sole reason for the increased output. Furthermore, it is an approximate indicator only, since there can be a lag between the investment put in place and the output which occurs as a result of this.

imply by comparison with that obtaining in the period 1970-1976—that is, a much greater increase in output is expected per unit of investment¹² over the coming years. It may be that this increase reflects an assumption of technical change which would make it possible. Without this, a higher level of investment may be required.

2.15 The question then arises as to whether the resources required to finance the target increase in investment are likely to be forthcoming.¹³ Although the Green Paper expects that there will be a significant increase in real personal consumption of 6 per cent per annum in the period 1977-1980, the targets imply that personal and company savings should make a significant contribution to financing the increased investment. It is estimated that the targets imply that these savings would be 20 per cent of GNP in 1980, about the same proportion as in 1976 (Appendix, Table 2.E). Additional resources for investment would be forthcoming through the target reduction in the current deficit on Government budget and, temporarily, through a widening in the balance of payments current deficit.

The Target Growth in Employment

2.16 The Green Paper target is that by the end of 1980 the number out of work would decline to 80,000—this would mean an unemployment rate of 7 per cent of the labour force. By the end of 1983, the unemployment estimated by the Green Paper would be 65,000 or 5 per cent of the labour force. This is on the basis of the policies which are outlined for agriculture, industry, services and infrastructure in Chapters 3, 4 and 5 of the Green Paper. The Green Paper states (paragraph 6.5) that it is possible, through the additional job creation

¹² The gross incremental capital-output ratio (i.e. the ratio between the volume of fixed investment in a period and the change in the volume of output in that period) which is implied is about 3.5 over 1977-1980 compared with 7.1 in the period 1970-76. This is based on the following data: the average ratio of gross fixed investment to GNP (at 1970 prices) was 22.8 per cent in the period 1970-1976, and the average growth of real GNP (at 1970 prices) in this period was 3.2 per cent per annum. The incremental capital-output ratio is obtained as the quotient of 22.8 by 3.2.

¹³ The sources of finance for investment are savings (whether by persons, by companies or by the public authorities), the provision for depreciation and net foreign disinvestment (i.e. a deficit on current account in the balance of payments).

policies which are outlined in Chapter 6, to provide jobs for these 65,000 unemployed. In other words, the aim is that by 1983 there would be zero unemployment.

2.17 The Council's understanding of the Green Paper's proposal to achieve zero unemployment is that those able-bodied people who were unemployed and were receiving financial assistance from the State would be offered opportunities for training or temporary employment. Those who did not accept such offers would not receive any payment from the State and would not be classified as unemployed. Hence "unemployment benefits or assistance would no longer be needed" (Green Paper, paragraph 6.22).

2.18 It is the Council's view that the objective in the Green Paper of equating full employment with zero unemployment is too ambitious and may not be practicable (although the Council does appreciate that much can depend on the particular definition used for "full employment"—see the preceding paragraph). For instance, no allowance is made for the existence of "frictional" unemployment. The Live Register is not an unchanging body of people—about a third of males on the Live Register obtain a job after a period of three months or less on the Register.¹⁴ In any dynamic economy, there will inevitably be workers who are temporarily unemployed as they leave one job in search of a better one, or there will be persons in search of a first job. The Council would query the practicability of offering these people temporary training or temporary employment, and not regarding them as temporarily unemployed. Frictional unemployment is usually of relatively short duration, and people in this category would probably not all be suitable for inclusion, or willing to be included, in the training and re-training schemes and the "residual" job creation schemes which are envisaged in the Green Paper.

¹⁴This is based on the most recent information concerning the duration of persons on the Live Register. It is based on the number of males on the Live Register on 26 November 1976, who had been continuously registered for 13 weeks or more, expressed as a ratio of the total number of males on the Live Register on 27 August 1976. (Source: *The Trend of Employment and Unemployment in 1976*).

2.19 There are some indications that workers are tending to take more time while changing jobs—the higher level of income support during unemployment makes it possible for people to wait until they have found the new job that suits their requirements and gives them greater opportunity for realising their potential. This development can be beneficial and could of itself contribute towards faster economic growth. It bears out the view that, even if "full employment" were achieved, benefits or assistance would still be desirable where people were out of work.

2.20 The *Report on Full Employment* of the National Industrial Economic Council (Report No. 18, 1967) took an unemployment rate of 2 per cent as being consistent with full employment. The two NESCs reports, which projected the growth in employment needed in order to reach full employment, used an unemployment rate of 4 per cent.¹⁵ The wide dispersion of the labour force and the low population density outside urban areas—which would lead to a higher frictional unemployment than would otherwise be the case—were reasons for choosing a rate such as 4 per cent in these calculations.

2.21 With regard to the particular targets for job creation which are contained in the Green Paper, the annual target of 29,000 for job creation outside agriculture can be broken down as follows. Job creation outside agriculture is needed for three reasons:

- (i) To meet the projected increase in the labour force¹⁶ of 9,000 a year in the period 1977–1980.

¹⁵NESC, *Population and Employment Projections: 1971–86*, Report No. 5, 1975; *Population and Employment Projections 1986: A Reassessment*, Report No. 35, 1977.

¹⁶There is an assumption of zero net emigration for the period 1976–81. Underlying the Green Paper is an assumption that the labour force participation rate of males falls from 79 per cent in 1975 to 76 per cent in 1981, and that the female rate remains the same, at 28 per cent. For age groups 15–19 the assumption is that male participation rates would fall from 48.0 per cent in 1975 to 44.1 per cent in 1981; for females in this age group the rate would fall from 42.0 per cent to 38.3 per cent in this period.

(ii) To reduce unemployment¹¹ by about 16,000 a year—from 128,000 in mid-April 1977 to 80,000 at the end of 1980.

(iii) To offset a decline of 4,000 per annum in the numbers engaged in agriculture.

2.22 This gives a derived target for the required increase in employment outside agriculture in the period 1977-1980 of 29,000 a year. Of these jobs, existing policies are expected to produce 22,000 per annum or 76 per cent of the total (Table 2.5). These existing policies include those introduced or extended through the 1978 Budget.

2.23 The magnitude of the task which job creation at an annual rate of 29,000 poses can be indicated by comparing the results expected

TABLE 2.4
Labour force and employment 1977-1980
('000)

| | 1977 Level (1) | Average Annual Change implied by Green Paper targets 1977-1980 (2) |
|------------------------|----------------------|---|
| Total Labour Force (a) | 1,164 | 9 |
| Total Employment | 1,036 | 25 |
| of which: | | |
| Agricultural | 236 | -4 |
| Non-Agricultural | 800 | 29 |
| Unemployment (a) | 128 | -16 |

Note (a) Includes 20,000 persons seeking regular work for the first time. The (earlier) estimate of the labour force which underlies the Green Paper is 1,179 thousand.

Sources: Col. (1): *Economic Review and Outlook*, July 1978; *National Development 1977-1980*.

Col. (2): *National Development 1977-1980*.

¹¹Unemployment in mid-April 1977 is estimated to have comprised 108,000 persons on the Live Register and 20,000 persons seeking regular work for the first time (Table 2.4).

from these policies with those achieved from broadly similar policies in the past. Tables 2.5 and 2.6 put the employment targets in perspective by comparing them with attainments since 1960. Total employment declined from 1,055 thousand in 1960 to 1,036 thousand in 1977. In that period, employment in agriculture, forestry and fishing declined by 154,000, while employment outside agriculture increased by 135,000. Since the early 1970's, the impact of job creation in new manufacturing industries has been offset by job losses due to the freeing of trade and due to the recession of 1974 and 1975. Together with a growing labour force (which in turn was mainly a result of a reduced rate of net emigration) this resulted in substantial increases in unemployment. The target increase of 29,000 per annum in non-agricultural employment compares with an average annual increase of 10,200 which was achieved in the period 1960-1973. It is apparent that major new initiatives would be required to achieve the employment targets in virtually all sectors. The Council agrees with the Green Paper that "excessive income increases will seriously damage attempts to create more employment" (paragraph 8.5): indeed, existing employment could be jeopardised. The extent to which income increases can be judged to be "excessive" depends on the relationship between income increases and the underlying trend of productivity increases relative to those of our competitors. This reference to excessive income increases applies to the incomes of all groups.

2.24 The Green Paper expects that unemployment would fall from 80,000 at the end of 1980 to 65,000 at the end of 1983. Implicit in the Green Paper is an increase in the labour force which is expected to be higher in the period 1980-1983: 11,000 per annum, compared with 9,000 per annum in 1977-1980¹². This labour force increase is conditional on an assumption of zero net emigration in 1981-1983 and on certain assumptions on labour force participation. The target reduction in un-

¹²This is consistent with projected trends in an earlier NESCC Report. If the 'low' labour force projections of NESCC Report No. 35 are taken, then the projected annual increase in the male labour force is 10,400 in the period 1981-86, which is higher by 3,300 per annum than the projected annual increase in 1976-1981. (Brendan M. Walsh, "Projections of Labour Supply, 1976-1986", in NESCC, Report No. 35).

TABLE 2.5

Changes in employment, 1960-1980

| Sector | ('000) | | | | |
|--|--------------------------------------|--------------------------------------|-----------------------------------|--|--|
| | 1960-1977: average annual change (1) | 1960-1973: average annual change (2) | Green Paper forecast for 1978 (3) | Green Paper targets 1977-1980: average annual change (4) | Expected to result from existing policies: average annual change (5) |
| Industry of which: | | | | | |
| Manufacturing and Building and Construction | 3.6 | 5.8 | 15 | 17.2 | 12.6 |
| Other (a) | 2.2 | 3.5 | 10 | 13.5 | 10.0 |
| Services | 1.2 | 2.0 | 5 | 3.3 | 2.2 |
| | 0.2 | 0.4 | (b) | 0.4 | 0.4 |
| | 4.3 | 4.3 | 9 | 11.8 | 9.0 |
| Total employment outside agriculture, forestry and fishing | 7.9 | 10.2 | 24 | 29.0 | 21.6 |
| | -9.1 | -10.0 | -4 | -4.0 | (b) |
| Total Employment | -1.1 | 0.2 | 20 | 25.0 | (b) |

Notes: (a) This sub-sector comprises: mining, quarrying and turf production; and electricity, gas and water.

(b) A figure is not given in the Green Paper.

Sources: Cols. (1) and (2): *The Trend of Employment and Unemployment; Economic Review and Outlook July, 1978* (for 1977 data).

Col. (3): *Development for Full Employment*, paragraph 1.2.

Col. (4): *National Development 1977-1980*.

Col. (5): *Development for Full Employment*, page 19.

TABLE 2.6

Growth rates of output, productivity and employment by sector 1960-1980 (a)

Growth rates, % per year (compounded annually)

| Sector | 1960-1976 | | 1960-1973 | | Green Paper Targets 1977-1980 | |
|---------------------------|------------|--------------|------------|--------------|-------------------------------|--------------|
| | Output (b) | Productivity | Employment | Productivity | Output | Productivity |
| Agriculture | 1.5 | 4.5 | -2.9 | 1.6 | 4 | 5.8 |
| Industry of which: | | | | | | |
| Manufacturing | 5.3 | 3.9 | 1.3 | 6.3 | 11 | 5.7 |
| Building and Construction | 5.5 | 4.5 | 1.1 | 6.4 | 13 | 6.5 |
| Services | 6.3 | 4.4 | 1.8 | 8.7 | 9 | 4.4 |
| Total | 3.8 | 3.9 | -0.1 | 4.3 | 7 | 4.6 |

Notes: (a) These sectors do not correspond with the sectors whose contribution to Gross Domestic Product is given in *National Income and Expenditure*. (No data on Gross Domestic Product are published for manufacturing, nor for building and construction.)

(b) The data for agricultural output for the periods up to 1976 consist of Net Agricultural Output (including value of changes in livestock numbers); the targets relate to Gross Agricultural Product (value added on farms), but Net Agricultural Output is a proxy for Gross Agricultural Product. The data for manufacturing output are based on the volume of production index for manufacturing. The data for output in building and construction are based on gross domestic fixed capital formation in that sector. Output targets are calculated from the targets which relate to productivity and to employment.

Sources: *Irish Statistical Bulletin*; NIE; *Irish Statistical Bulletin*, June 1977; *National Development 1977-1980* (targets for productivity and employment, 1977-1980).

employment per annum after 1980 is lower than that for 1977-1980". The likelihood of the target reduction in unemployment actually occurring would partly depend on the growth rate of output that could be achieved in 1980-1983.

2.25 With regard to the population projections which underlie the Green Paper, the assumption is that there would be zero net emigration over 1976-1981 for the population as a whole, and that there would be net emigration of 6,200 per annum in age groups 15-64 between 1976 and 1981. This pattern of net emigration by age is in line with the estimated trends in 1971-1976. But if job creation occurs on target then it is possible that the emigration of those of working age would decline, and that some past migrants of working age would return. The net emigration of those of working age is likely to be responsive to relative economic activity in Ireland and other EEC countries. Because of this, and because of the responsiveness of the labour force to economic activity, any targets for specific reductions in unemployment in Ireland are likely to be more difficult to attain than targets which relate to increases in employment.

2.26 The sensitivity of the employment targets to changes in the underlying assumptions can be tested in two directions. First, it is possible that there would be a higher net emigration than is allowed for in the Green Paper, and that the unemployment rate at "full employment" would be greater than zero. While it is desirable that involuntary emigration be stemmed, emigration of a voluntary and temporary character is in a different category. Thus, the implications of net emigration of those aged 15-64 being 3,000 per annum higher than in the projections which underlie the Green Paper, are assessed.²¹ In the period up to 1980 the annual target for employment creation would be 22,000 rather than 25,000, and in 1980-1983 this target would be 13,000 per annum rather than 16,000 per annum which is implied by the

²¹The target reduction is 5,000 per annum in the period 1980-1983 compared with 16,000 per annum over 1977-1980.

²²This would imply net emigration of 9,200 (rather than 6,200) per annum in 1976-1981 and 8,600 (rather than 5,600) per annum in 1981-1986.

Green Paper.²¹ Furthermore, if an unemployment rate of 4 per cent were the unemployment rate at "full employment" in 1983, then the numbers unemployed at the end of 1983 would need to be reduced from 65,000 to 50,000 to reach the target (a reduction of 15,000), rather than the reduction from 65,000 to zero which is implied by the Green Paper. Second, the implications of higher labour force participation rates are assessed, while maintaining all the other assumptions of the Green Paper. If the labour force which is projected in Council Report No. 35 corresponding to the higher set of labour force participation rates were assumed, then the annual increase in the labour force would be 3,000 higher than in the Green Paper projections. Thus, there is a high degree of responsiveness of employment targets to changes in assumptions about labour force participation rates.

2.27 Next, the relationship between the targets for employment, output and productivity is examined. A target rate of growth in employment must be consistent with the assumed rate of growth in output and in productivity. Analysis of the relationship between output growth and employment growth suggests that every 1 percentage point increase in the rate of growth of output over and above 3.6 per cent per annum leads to a 0.6 percentage point increase in the rate of employment growth in manufacturing.²² On the basis of this relationship (established over the period 1963-1973), a rate of growth of output of 13 per cent per annum in manufacturing is consistent with a rate of growth of employment of about 5 per cent per annum. This is not out of line with the annual employment growth of 5.9 per cent in manufacturing which underlies the Green Paper. There is a qualification that, between 1953-1963 and 1963-1973, there was a shift in the relationship, and in the latter period a higher growth of output was needed to maintain the level of employment. If this shift has continued, then the employment growth associated with any output growth would be lower.

²¹The simplifying assumption is made that most of the emigrants in this age group are in the labour force.

²²Kieran A. Kennedy and Anthony Foley, 'Industrial Development', in: *Irish Economic Policy: A Review of Major Issues*, The Economic and Social Research Institute, 1978.

Inflation

2.28 The White Paper target (for the Consumer Price Index) is for an end of year rate of inflation of 7 per cent in 1978, and 5 per cent in 1979 and 1980. There are a number of imponderables regarding inflation, including future European monetary arrangements, the likely inflation rate in Britain, and the options on tax rates and subsidies which are discussed in the Green Paper. Because of these imponderables, the Council is not in a position to comment on the likelihood of the inflation targets being achieved.

The Impact on Relative Income Shares

2.29 Table 2.7 gives broad estimates of the implied changes in certain components of real personal income^a over the period 1977-1980 which would derive from the GNP and employment targets of the Green Paper. In real terms, personal income per head for employees outside agriculture would rise by about 3 per cent per annum, for those self-employed in agriculture it would rise by about 8 per cent per annum, and social welfare benefits would remain about constant. The implied changes in relative incomes could, of course, be affected by changes in taxes and transfers which would affect disposable personal income. Similarly, the differences in real disposable income per head between non-agricultural wage and salary earners and recipients of social welfare benefits could be affected by changes in taxes and transfers. The divergence between per capita income in real terms in the agricultural and the non-agricultural sectors reflects the decline in employment in agriculture compared with the increase in employment outside agriculture. If account were taken of the much higher taxation which is borne by wage and salary earners than by those engaged in agriculture, then the differences in growth rates of real disposable income per head between those engaged in agriculture and non-agricultural wage and salary earners could be even greater.

2.30 While Table 2.7 deals with very broad categories, there is need to be concerned with the way in which the increased income generated by increased output will be shared between all sectors of the community. Full employment would not directly solve the problems of those

^aThese components account for most of personal income before direct taxes.

TABLE 2.7

Implied growth in certain components of personal income, 1977-1980
Growth rates, % per year (compounded annually)

| | In money terms | | In real terms | |
|--|----------------|------------|---------------|------------|
| | Aggregate | Per capita | Aggregate | Per capita |
| Domestic wage and salary earnings, outside agriculture | 14 | 10 | 6 | 3 |
| Agricultural income from self-employment and other agricultural trading income | 13 | 15 | 6 | 8 |
| Current transfer payments which comprise social welfare benefits | 7 | 7 | 0 | 0 |

Notes:

1. This Table is an indication of the implied changes in certain components of personal income.
2. The basis for the estimate of wage and salaries earnings in aggregate money terms is the increase of 6 per cent per annum in personal consumption in real terms projected in the White Paper. Given a constant savings ratio, and assuming that the deflator for personal consumption rises at a rate of around 7 per cent per annum, then the total personal income after direct taxes would rise at a rate of about 13 per cent per annum. It is assumed that there is a rough constancy in the share of disposable personal income which is accounted for by domestic wage and salary earnings outside agriculture, and by agricultural income.
3. Agricultural income from self-employment (as defined in *National Income and Expenditure*) includes the value of changes in the numbers of livestock on farms, and includes no deduction for interest on capital.
4. The figure for transfer payments on social welfare benefits is based on a *per capita* figure, and derives from paragraph 2.12 of the Green Paper. The assumption is that social welfare benefits increase in line with the consumer price index. It is assumed for the purpose of this Table that the consumer price index increase is 7 per cent per annum. The figure for aggregate social welfare benefits is a tentative one, since this depends on the number of persons receiving benefits. While the Green Paper targets mean that those in receipt of unemployment benefit and assistance would decline in number, the numbers in non-active age groups are projected to increase (NESC Report No. 36). It is assumed therefore that there is a rough constancy in the numbers of persons in receipt of social welfare benefits.
5. In order to obtain the flows in real terms, the deflator used is that for personal consumption, which is assumed for the purpose of this Table to rise at a rate of 7 per cent per annum.
6. In order to obtain the *per capita* flows (apart from social welfare benefits), the following figures are used: the number at work in non-agricultural activity which is implied by the Green Paper targets is 887,000 in 1980; the implied agricultural employment in 1980 would be 224,000. It is assumed that the increase in employment in the non-agricultural sectors occurs in proportion to the present division between employees and self-employed.

who are on the fringe of or outside the labour market, and hence there is need to be concerned with the levels of social welfare benefits. Unless the Government takes countervailing measures, Table 2.7 indicates that those dependent on social welfare benefits would be relatively worse off, in per capita terms, in 1980 relative to the rest of society.

The Balance of Payments

2.31 The White Paper projected a deficit in the balance of payments on current account of over £500 million in 1980. The projected deficit has now been revised to £400 million, which implies that the ratio of the deficit to GNP would be 5 per cent in 1980.²⁴ The balance of payments constraint on growth is indicated by the fact that, in the period 1960-1976, the growth rate of imports was 1.5 times the growth rate of final demand (consumption, both personal and public, plus gross investment plus exports). But for the period 1977-1980 the target growth of imports is 1.3 times final demand. This may be difficult to realise, since even if there were a shift of 3 per cent of total consumption away from imports through the Guaranteed Irish Campaign, this would reduce the growth of the volume of imports by only one percentage point. If the growth of imports maintains its past relationship with final demand, and if the target growth of exports were achieved, then the implied deficit on merchandise trade would be some £200 million higher than the revised White Paper projection of about £1,000 million.²⁵ More significantly, the target growth in real personal consumption of 6 per cent per annum could lead to a less tolerable composition of the deficit, it would represent a lower proportion of imports of producers' capital equipment.

²⁴Over the period 1970-1976 inclusive, the average ratio of balance of payments deficit on current account to GNP, was 3.5 per cent.

²⁵In the period 1960-1976, the growth rate of imports in real terms was 1.5 times the growth rate of real final demand. This broad relationship can be used to estimate a possible deficit on merchandise trade in 1980. Given the target increase in final demand, the above ratio of 1.5 would imply imports of £5,400 million in 1980. Given the target for exports, this would imply a deficit on merchandise trade of £1,200 million in 1980. (This calculation assumes an average annual increase in import prices in the target period of between 7.5 and 8 per cent). It must be acknowledged that, if there was a widening in the balance of payments deficit, this would imply a lower level of GNP and in turn this would have implications for the level of imports.

Summary

2.32 In relation to the principal aims of the Green Paper, the Council's views are as follows:—

- (i) The attainment of full employment, subject to the constraints on the public finances and on the balance of payments, is the single most important social and economic goal at the present time.
- (ii) The aims of reducing the numbers unemployed, increasing the rate of growth of national output, easing the pressure of inflation, and reducing the Exchequer borrowing requirement as a proportion of GNP (subject to the point made under (iv) below) are appropriate policy goals at present.
- (iii) Priority should be given to reducing the level of unemployment. However, the Council considers that the objective in the Green Paper of achieving zero unemployment is too ambitious and may not be practicable. No allowance is made in the Green Paper for frictional unemployment. There are some indications that workers are tending to take more time between jobs, and this development can be beneficial. The Council feels that, even if full employment were achieved, benefits or assistance would still be needed where people were out of work.
- (iv) The reduction of the Exchequer borrowing requirement as a proportion of GNP is a constraint on the attainment of the objectives. The extent to which the level of borrowing is sustainable is dependent both on the proportion of the borrowing which must come from abroad, and on the composition of the resulting Government expenditure between current expenditure and capital expenditure.
- (v) The balance of payments on current account may be a constraint on the achievement of the objectives of the Green Paper, especially if the relation between the growth of imports and the growth of final demand is as it has been in the recent past.

(vi) In the forthcoming White Paper, more specific attention should be given to the social dimensions of policy. Changes in the level of income maintenance payments should ensure that the recipients—who principally comprise those who are outside the labour force—share in the increases in the real income of the community.

2.33 In relation to the targets of the Green Paper for the growth of output, their achievement will partly depend on the achievement of a higher growth rate of exports (in volume terms) than has occurred in recent years. In view of the relatively small size of the Irish economy, a further rise in Ireland's share of world exports would be possible—given fulfilment of the necessary conditions which are outlined in Chapters 3 and 4 of this report.

2.34 Another influence on the growth of output will be the target reduction of the Exchequer borrowing requirement as a proportion of GNP. Much will depend on whether the increase in private investment—the target for which is at variance with past trends—will be sufficient to offset the reduction in the fiscal stimulus in 1979 and 1980. If it is not sufficient, then the basic strategy of the Green Paper may have to be modified. Among the modifications which might be considered is lengthening the time-span for the proposed reduction of the Exchequer borrowing requirement as a proportion of GNP. Any adjustment of the borrowing constraint should, however, be consistent with the Green Paper's objective of virtually eliminating the current budget deficit by 1980.

2.35 In relation to the underlying assumptions on the growth in employment, existing policies are expected to generate almost 80 per cent of the target growth in employment. The results which were attained by similar policies in the past are such that the targets imply a marked break with past trends. The Council agrees with the Green Paper (paragraph 8.5) that excessive income increase would adversely affect the attempts to create more employment.

2.36 The implications of the Green Paper targets for certain components of personal income are that, in real terms, personal income per

head for employees outside agriculture would rise by about 3 per cent per annum, for those self-employed in agriculture it would rise by about 8 per cent per annum, and social welfare benefits would remain about constant. This is a comparison of relative income shares without taking account of changes in disposable personal income which could occur through policy on taxes and transfers.

CHAPTER 3

AGRICULTURE

Introduction

3.1 The Council has already put forward a set of recommendations on agricultural policy in Report No. 42, *Report on Policies for Agricultural and Rural Development*. Leading up to that report a series of background studies had been carried out, at the request of the Council, with the aim of identifying the main obstacles to agricultural and rural development. The following comments should therefore be seen as supplementing and clarifying where necessary the recommendations put forward in Report No. 42, in the light of the options presented in the Green Paper.

The Targets

3.2 The Green Paper refers to the targets for the agricultural sector adopted in the White Paper of January 1978 which were:

- (i) An increase of 25 per cent in gross agricultural output over the four years 1977-1980 or 5.7 per cent annually over that period.
- (ii) A rise of 40 per cent in agricultural exports in the same period.

It is estimated that the volume of gross agricultural output rose by almost 10 per cent in 1977. This means that an average rate of about 4½ per cent will be needed over the next three years to get an overall increase of 25 per cent during the period 1977 and 1980. Given favourable conditions, this is likely to be achieved.

3.3 However, even if the forecast annual rate of increase in agricultural output is achieved during the period 1977-1980, it is not likely that such a high growth rate will continue beyond 1980 on a long term basis unless major policy changes are introduced. In the short

term, the rate of growth in gross agricultural output can sometimes be a misleading indicator of the real rate of progress in the agricultural sector. In the longer term, it was estimated in Council Report No. 40 *Policies to Accelerate Agricultural Development* that, with present policies, a real rate of growth in agriculture in excess of 3 per cent is unlikely to be achieved.

3.4 The level of productivity in Irish agriculture is still well below that in most other European countries. Moreover, in Council Report No. 34, *Alternative Growth Rates in Irish Agriculture*, it was estimated that, if an annual growth rate of 5 per cent in agricultural output and a high level of processing intensity could be achieved, the rate of decline in on-farm employment could be reduced, employment in the processing sector could increase substantially and these factors would result in further indirect and induced employment. The Council therefore concluded in Report No. 42 that "the benefits to be derived from a significant increase in the agricultural growth rate are worthwhile and important . . . (but) faster growth in agriculture will not materialise with unchanged policies" (paragraphs 4 and 5).

3.5 While opinions differ on the factors which influence the rate of growth in agricultural output, it is likely that the very high growth rate in 1977 has been due, at least in part, to the significant improvement in agricultural prices and farm incomes in recent years. But the rate of price increase experienced since EEC accession is unlikely to continue. In these circumstances farmers will need to be motivated by means other than high price increases. The Green Paper rightly, therefore, places its main emphasis on non-price measures.

The Development Options

3.6 As the Green Paper acknowledges, whether or not the options it puts forward are taken up will have little bearing on the out-turn before 1980. The nature of agricultural production is such that the individual decisions of farmers, which will determine whether or not the forecast figures will be realised, have for the most part already been taken. There is little, if any, connection between the targets set out in the White Paper and the options discussed in the Green Paper.

3.7 Proposals similar to the options put forward in paragraphs 3.3 to 3.23 of the Green Paper have already been discussed in Council Report No. 42. There are, however, a number of recommendations in that report which differ somewhat from the options in the Green Paper. There are also some proposals in the Council report which have not been taken up in the Green Paper, to which the Council wishes to draw attention.

3.8 How to motivate farmers who may not be able or willing to respond to favourable market conditions is one of the most important issues in Irish agriculture. The Council regards the proposals in the Green Paper for the introduction of the concept of "payment by performance" into the schemes of grants for farmers, the extension of farm planning to all farmers, and the reorganisation of the Advisory Service (all of which have already been endorsed by the Council) as being of major importance. The re-organisation of the Farm Modernisation Scheme has been discussed almost since it was introduced in 1974 while the Advisory Service has been under continuous review since the mid 1960's, but very little has yet been done to effect practical changes.¹ If the impact of these changes is to be reflected in improved performance from the early 1980's onwards, they must be effected without any further delay. Efforts to evoke a better response from Irish farmers need not be confined to measures by Government. Non-Government agencies, such as cooperatives, can also contribute much in this respect.

3.9 The Green Paper proposes that fees should be charged for services provided by the Advisory Service to commercial farmers. The Council has already called for an expansion of the Advisory Service in Report No. 42. It would be important to ensure that the adoption of the proposal in the Green Paper would not run counter to the desired objective of improving the availability of advisory services to developing farmers.

¹Proposals for changes in the Farm Modernisation Directive have been submitted to the EEC Commission who have presented proposals on this matter to the Council of Ministers. In regard to the Advisory Service, the Agriculture (An Comhairle Oiliúna Talmhalochta) Bill, 1978, which provides for a re-organisation of agricultural advisory and education services was published in May 1978.

3.10 The on-going training of those who are already involved in the business of farming and the education of young people who intend to take up farming in the near future are essential for agricultural development, as the Green Paper points out in paragraph 3.11. The Council is concerned that no additional provision is considered necessary for formal agricultural training and education and that no specific proposals are put forward for the expansion of the scheme of vocational training under EEC Directive 161.

3.11 With regard to the options on resource tax discussed in the Green Paper, the Council draws attention to the recommendations on taxation in paragraphs 12 to 15 of Part I to Report No.42.² The text of these paragraphs is given in the Appendix.

3.12 The Green Paper puts forward no specific options in relation to the Disadvantaged Areas Scheme other than propose that a study of the Scheme be carried out. The Council, therefore, draws attention to paragraph 8 in Part I of Report No. 42, in which it recommended that "if EEC regulations permitted, or could where necessary be amended, farmers with resources above a certain minimum and receiving payments under the Disadvantaged Areas Scheme might be required to undertake planned development". It was also proposed that "in addition, more stringent conditions should be applied in determining eligibility for Smallholders' Unemployment Assistance (farmers' "dole"), for example, by adopting a more realistic multiplier for assessment. The resultant saving in expenditure on the Smallholders' Unemployment Assistance Scheme might possibly be used to increase the level of payments under the Disadvantaged Areas Scheme". It would certainly be desirable that funds made available in this way should be used to stimulate increased production.

3.13 In paragraphs 3.25 to 3.43 of the Green Paper, individual commodities are dealt with. A disappointing feature of the proposals is the omission of any reference to commodities other than beef, dairying and horticultural products. The Council recognises that prime importance should be attached to the dairying and beef sectors since, together, they account for over two thirds of gross agricultural out-

²The IFA wishes to reserve its position on these recommendations.

put. Nonetheless, tillage crops, sheep, pigs, and poultry are still important agricultural products and have considerable development potential.

Planning for Agricultural and Rural Development

3.14 The Green Paper does not specify output and employment targets for individual sectors. The identification of production and employment targets, and the market outlets for the increased output, are essential if the farming community is to be sufficiently motivated to achieve the desired increase in output growth. It would also be desirable, at a further stage in the planning process that, where possible, national targets should be broken down on a regional or county basis as appropriate, so that the implications of the national targets for the Advisory Service, co-operatives and other development groups, and the individual farmer, can be clearly recognised. This does not mean that these targets should be inflexible. Targets, if they are to be realistic, must be regularly assessed and if necessary modified in the light of experience and this applies particularly in the agricultural sector. This planned approach to agriculture would of course require a change in attitudes. The Green Paper has already called for such a change from other sections of the community. It is reasonable, therefore, to expect a change in the Government's approach to planning for agriculture.

3.15 In the context of agricultural planning, the Council has already recommended, in Report No. 42, that the Department of Agriculture be restructured to give it a greater capacity for policy formulation and planning, and has called for the establishment of a broadly based advisory body representative of all the interests involved in agricultural and rural development⁴. In relation to agricultural development, this body would have an important role to play in identifying targets for expansion to which the plans of individual farmers could be linked and aligned through the Advisory Service. It would also be an important function of this body to advise on the appropriate strategy for achieving adopted targets and to assess the targets and strategies in the light of experience.

⁴The IFA expressed a reservation in relation to this proposal in Council Report No. 42.

3.16 The main concern of the Green Paper is to increase the rate of growth of agricultural output. However, agricultural growth is not synonymous with the broader goal of rural development. Council Report No. 41, *Rural Areas: Change and Development* has shown that agricultural development can widen the social and economic disparities between certain sections of the farm and non-farm populations and between one rural area and another. While the income of larger farmers now compares favourably with that of industrial workers, the income gap between larger and smaller farmers is increasing. Overall agricultural growth conceals an expanding and a stagnating sector. Existing policies consolidate the economic viability of those farms and regions already well favoured; the remainder decline both in demographic structure and economic performance, and some land is withdrawn into low-intensity usage. Rural areas may have a combination of poor natural resources, a history of heavy out-migration, an abnormal demographic structure and inadequate public facilities and services.

3.17 Accordingly, policies to promote rural development must be viewed in a wider context than that of agricultural development alone. The promotion of rural development, to be successful, also requires policies aimed at tackling the problems of maintaining rural population and employment levels, regional and local development, income maintenance and the reduction of income inequalities and the provision of adequate social services. The inadequacy of existing policies to break the vicious circle in which certain farmers find themselves, highlights the need to shift the focus away from purely technically orientated advice and to give more attention to socio-economic considerations. The Council regrets the absence of a discussion of these issues in the Green Paper and urges that, in the interest of balanced economic and social development of rural areas, consideration be given to its recommendations in this regard in Report No. 42.

Processing

3.18 In the dairying sector, the greatest scope for increasing the labour intensity of processing is through diversifying away from the intervention products, butter and skimmed powder, towards non-intervention products. The Green Paper is not very specific on how

this desired diversification can be brought about. In the Council's view, finding profitable markets for non-intervention products is the crucial factor for successful diversification. Existing marketing incentives for these products should, therefore, be exploited to the full. If existing schemes, when fully availed of, should prove inadequate their revision should be considered. In the development of new ranges of processed agricultural products, it should be recognised that the domestic market can be a useful testing ground for marketing new products where the cost of developing foreign markets might initially be prohibitive.

3.19 No estimate of the potential for additional employment through increasing processing intensity is given for the beef industry. Council Report No. 34 estimated that between 4,000 and 6,000 jobs could be provided in the industry by this means. Besides additional jobs, it should be remembered that intensification of processing also generates further added value, which can be very substantial in the case of highly processed beef cuts. In 1977 over 450,000 cattle were exported live from this country, and live exports in the current year are running at an even higher level. It is necessary to reduce this unacceptably high level of live exports. Where live exports result from the normal operation of market forces it is desirable that the meat industry should do everything possible to compete more effectively. Some of the exports are, however, encouraged by Community or possibly national arrangements. In these instances, the Council would urge that every effort should be made to remove or offset any such arrangements that operate to encourage live exports.

3.20 There is an urgent need to remove those anomalies in the monetary compensatory amounts system which discourage the export of some processed beef products to certain markets, particularly the United Kingdom, and indeed, in the case of at least one type of product, also have the effect of favouring imports for sale on the home market. The Council understands that efforts have been and continue to be made to resolve the difficulties that obtain, but in view of the employment implications, it would urge that some positive effective action should now be taken at Community level to remove the disability suffered by the meat processing industry. There is also a need to

remove anomalies which inhibit the export of some processed products in other sectors. The Council recognises that there are complex issues involved here which require a delicate balancing of advantages and disadvantages in different export markets. Nonetheless, due recognition should be given to those processed products which, although not at present important in absolute terms in our overall pattern of production and trade, do have considerable potential, particularly for providing increased employment.

3.21 Much can also be done to improve the industry through effective marketing. There has been a tendency in the past for beef exporters to concentrate on the UK market and in recent years there has been an unhealthy dependence on sales to intervention. Diversification requires not only more vigorous marketing but also the improvement and adaptation of quality standards to market needs. The dairying industry has shown the value of centralised marketing and group effort, which could be used to advantage in the beef trade. The Council supports the proposed strengthening of the role of CBF with more financial support from the industry and the State. However, since the obligations imposed by membership of the European Community limit the extent to which the State can become involved, the response must come mainly from the industry.

Disease Eradication

3.22 No reference is made in the Green Paper to bovine disease eradication. This is a surprising omission for a number of reasons. Up to 1977, State expenditure on the schemes for the eradication of the two main diseases, brucellosis and bovine tuberculosis, totalled more than £250 million at 1977 prices. The scheme for the eradication of bovine tuberculosis began in 1955. Yet, according to figures published by the Department of Agriculture, the incidence of this disease was worse in 1977 than it was in 1965. The scheme for the eradication of brucellosis began in 1964 but a start has yet to be made on the eradication of the disease in the 10 southern counties where, on average, 28 per cent of all herds are infected. The enormous expenditure on these schemes combined with slow progress in the elimination of the disease must raise serious questions about the effectiveness of the measures taken. In view of the role which disease eradication

development. This study is expected to be completed before the end of the year and the Council will then present its recommendations on future forestry policy.

Summary

3.26 The development options put forward in the Green Paper are broadly in line with a number of the recommendations made by the Council in Report No. 42 and are, in general, acceptable to the Council. The Council has already stated its belief that existing policies will not achieve the rate of agricultural development which is desirable and possible. It is, therefore, important that new policies for the agricultural sector be introduced without delay. The Council also welcomes the reference made in the Green Paper to forestry and fisheries, it believes both of these areas have potential for development.

3.27 There are, however, some important omissions and shortcomings in the Green Paper. Agricultural education, advice and training are not given sufficient attention. No reference is made to a number of important commodities. There is no indication of a new approach to agricultural planning. Disease eradication has not been mentioned specifically although measures designed to speed up eradication have recently been announced by the Minister for Agriculture. Finally, the Council has already pointed out that, while the acceleration of agricultural development will contribute to the development of rural areas, this latter objective needs to be viewed in a wider context. The Green Paper has not, however, acknowledged this distinction between agricultural and rural development.

can play in improving agricultural production, the absence of any discussion of policy options in this area is to be regretted. It is noted that changes in the main disease eradication schemes have recently been announced by the Minister for Agriculture.

Fisheries

3.23 Developments in the fisheries sector, as in agriculture, must be shaped within the constraints of EEC policy. The full potential of this sector for increased production and employment in this country has yet to be exploited. There need be no conflict between the realisation of this potential and the evolution of an adequate conservation policy within the European Community, and every effort should be made to have the special problems of the Irish fishing industry taken account of in the determination of EEC fisheries policy. Unless there are significant changes in Irish fisheries policy in the immediate future it is unlikely that the targets for output and employment set for the industry will be achieved. Better co-ordination of fishery enterprises, particularly in processing and marketing, is long overdue.

3.24 In the proposed study, referred to in paragraph 3.44 of the Green Paper, the Council would wish to see the following points examined: the accelerated expansion of the Irish fleet to the catching capacity already agreed within the EEC; the expansion and strengthening of the role of Bord Iascaigh Mhara and its encouragement to take a more active part in the processing and marketing of fishery products; the expansion of the role of co-operatives in this area; the further development of processing in this country not only the fish caught by Irish boats but also those of foreign trawlers and, finally, an evaluation of the fact that, while aquaculture has not yet proved to be an economically viable proposition on a large scale, results so far indicate that a stepping up of research and experiment in this area could prove valuable.

Forestry

3.25 The Council agrees with the Green Paper that "forestry is clearly an area with potential for development" (paragraph 3.50), and has commissioned a study which is intended to explore the possibilities for increasing this industry's contribution to economic and social

CHAPTER 4

INDUSTRY AND SERVICES

Introduction

4.1 Chapter 4 of the Green Paper is correct in pointing to the key role of the manufacturing sector in relation to the achievement of the Government's overall target for employment. It is in this sector that the highest rate of growth in output and employment is projected for the period 1977-1980. However the importance of this sector is not measured solely by its direct contribution to growth in output and employment. Any expansion in this sector works through to other sectors of the economy thereby further contributing to the growth in output and employment. The balance of payments position, for instance, is also helped by an export-led expansion in the industrial sector. There is the added advantage that employment once created in the industrial sector is generally self-supporting as compared with job creation in the public sector which largely requires a continuous commitment of public funds. In its report, *Prelude to Planning* (NESC, No. 26), the Council emphasised that the basis for faster and sustained economic growth lies in the health of those activities, industrial, agricultural and others, that are open to external competition.

The Targets

4.2 The industrial sector is expected to make the main contribution to the achievement of the employment targets in the Green Paper. Of the total target of 29,000 jobs per annum in non-agricultural employment, 17,200 are expected to come from the industrial sector. This compares with an annual average increase of 5,800 in industrial employment achieved during the period 1960-1973, or one-third of the annual target set for the period 1977-80. Of the total annual target of 17,200 for the industrial sector, the manufacturing sector is expected

to provide 13,500 jobs each year. During the period 1960-73 the average annual net increase in manufacturing employment was 3,500 which is less than one-third of the annual target for the period 1977-80. Clearly, the target for job creation in the industrial sector is ambitious when compared with past experience. Much will depend on the success of the industrial promotion programmes of the Industrial Development Authority. Although these succeeded in generating 37,500 new manufacturing jobs in the period 1973-76, the rate of job loss was such that there was an overall net decline in the numbers in manufacturing employment during that period. In the IDA industrial plan for 1977-80, it is estimated that a target 47,000 new manufacturing jobs will be achieved through its programmes. Since the plan was published last January, various measures to intensify the programme have been announced which would suggest an upward revision of the target. In estimating the net job creation in the manufacturing sector of 40,000 over the four-year period or 10,000 per year, the IDA have assumed a net annual job loss of around 2,000 per year.¹ In assessing the feasibility of the targets the job loss assumption is therefore a key one. One of the assumptions underlying the Green Paper targets is that the annual total number of job losses will be 5,000 over the period 1977-80 compared with 9,000 over the period 1970-75. It might be reasonable to expect that the annual rate of job loss will be lower in the second half of the decade than it was in the first half, for two reasons. First, the period 1970-75 was one of relatively rapid adjustment to free trade conditions, particularly within the European Community. Second, the recession during 1973-75 had an adverse impact on industrial expansion. Despite the fact that the most serious effects of these two developments have already been felt, some doubt must attach to the assumption of a much reduced annual rate of job loss of 5,000 for the rest of the decade.

4.3 The target employment increase in the service sector is 2.4 per cent per annum, or 11,800 per annum over the period 1977-1980, of which 7,700 are to be provided on the private sector. This is out of line with past trends. Between 1965 and 1977, almost all of the addi-

¹This was calculated as the difference between estimates for total job loss and for new jobs created which are not related to the activities of the IDA. However, information is not available on what these individual estimates were.

tional service jobs were in the public sector. By contrast, 65 per cent of the target increase in employment in services over 1977-1980 is expected to come from the private sector (Appendix Table 4.A). Private services is a heterogeneous sector, with both declining and growing components. The component which had the most rapid growth in employment in the period 1961-71 was "finance, insurance and business service", but the annual average employment increase in this sector over the period was only 800. This was in a relatively favourable period, because these services were comparatively underdeveloped prior to 1961, and since the 1961-71 period pre-dated many of the moves towards greater capital intensity in financial services.

4.4 An increased rate of job-creation in private sector services may, of course, be generated by the spin-off from the increased activity in the agricultural and industrial sectors projected in the Green Paper. Further employment may also arise from the expected expansion in tourism and from the development of the various export based service industries which are referred to in paragraphs 4.29 and 4.30 of the Green Paper. However, the Council has doubts as to whether the various options put forward in the Green Paper will lead to the full realisation of the targets set for this sector.

The Direction of Industrial Policy

4.5 What is of concern to the Council is that, although a radical break with past experience in regard to job creation in the industrial (and services) sector is sought in the Green Paper, there appears to be an implicit assumption that adjustments or extensions in existing policies will achieve the desired results. Apart from the intensification of some existing policies which can, of course, be considered as an important option, no major options regarding industrial policy appear to have been considered and presented in the Green Paper. In relation to the options whose discussion forms the main part of the Chapter on industrial policy, the Green Paper states that "in view of the intensity of the measures already being taken to promote industrial employment, these individual options are expected to result more in incremental than in major additions to the numbers at work". Any review of industrial policy which has as its basis an attempt to identify means by which the annual level of job creation in manufacturing industry would

be raised substantially above that achieved in the past must clearly take a much broader view than that encompassed by present policies. The Council has already initiated and published a series of studies on agriculture which have attempted to assess the potential for development in that sector. It is the intention to carry out, as soon as possible, a similar project in relation to industrial policy. Meanwhile, the following paragraphs outline the Council's views on various matters regarding the role of industrial development in relation to the Green Paper's aims.

4.6 A necessary condition for the expansion of manufacturing industry is competitiveness in external markets and the capacity to compete with imports on the home market. Competitiveness is largely determined by what happens within Ireland and can be endangered by what is happening in other sectors of the economy. Unless Irish industry is competitive, the potential for growth in output and employment that is described in the Green Paper will be seriously diminished.

4.7 It will be important in the years ahead, when the emphasis is rightly placed on creating employment, to avoid any measures which would cushion or maintain inefficiency. New investment in existing firms, for example, has often been associated in the public mind with a reduction in employment in the firms that undertook it. This, however, is too superficial a view. Without investment in modernisation, more jobs would ultimately have been lost. Moreover, new investment generally creates better jobs—jobs that are more productive and that can support higher real incomes without jeopardising the enterprise in the years ahead.

4.8 The increase in productivity which is required, if employment is to be maintained in the longer term, need not necessarily take the form of substituting capital for labour. Existing schemes, with their emphasis on capital grants, may result in a certain bias towards more capital intensive types of industry. While the Council is aware that in the implementation of industrial promotion schemes the achievement of increased employment in the economy is the primary consideration, the restructuring of investment incentives to encourage further the adoption of a technology which has a higher labour-capital ratio and yet is efficient should be considered.

4.9 In the Council's view, an industrial modernisation programme should be embarked upon so as to maximise the increase in sustainable employment. Re-equipment grants, for example, should not be a permanent feature of a healthy industrial sector; these grants, as they are administered at present, should be phased out over a fixed period of, say, five years. If, on examination, the continuation of some form of re-equipment grants system is considered necessary, such a system should be operated on a selective basis. Grants should be made available only when the need for this type of assistance has been very clearly demonstrated. The general strategy should be to work towards replacing modernisation grants by incentives applied through the status of technical training.

4.10 For tax purposes, manufacturing profits earned from export sales are treated more favourably than profits earned from sales on the home market. The distinction between export and home sales had meaning when the home market was protected; it has less meaning in free trade conditions. In this context, a reappraisal of the present system of company taxation would therefore be desirable. In any such reappraisal it should be recognised that export tax relief has a special attraction for international companies who use Ireland as a base for exports. The variation in tax has also helped to direct the interest of Irish firms towards exporting where they may otherwise have concentrated unduly on the home market. It would be important to ensure that these benefits of the present system should be retained in any new system which might be introduced, and that unfair competition on the home market be avoided.

Manpower Policy

4.11 A more active and more comprehensive manpower policy should be an integral part of any industrial strategy. It is regrettable that manpower policy is only mentioned in Chapter 6 of the Green Paper in the context of residual job creation. An aim of manpower policy should be to provide the workforce with sustainable skills through the training of those who have not yet entered the labour force and re-training of those who require new skills. The Council is aware of reports of developing shortages of various skills which, unless rectified quickly, could seriously restrict growth and employment. The Council

recommends strongly that the whole issue of ensuring adequate skills for national development and employment should be examined, as a matter of urgency, by the relevant authorities in close co-operation with employers and unions, and the necessary corrective measures taken.

4.12 The deterioration in the skill supply position underlines the need for a more active manpower policy generally and for more effective co-ordination between the relevant official agencies, as already recommended by the Council (Report No. 6). The Council appreciates that the active support of employers and trade unions is necessary for the solution of the skilled labour problem and for the development of an active manpower policy generally. The Council looks to the representative Manpower Consultative Committee, at present being set up under the chairmanship of the Minister for Labour, to identify quickly what has to be done so that whatever measures are needed will be taken in good time by Government, employers and trade unions. In particular, special attention should be given to how the balance in our second-level educational system might be adjusted to improve the status of technical training.

The Employment Incentive Scheme

4.13 The evidence would suggest that the take-up under the Employment Incentive Scheme has, so far, been disappointing. Taking account of the revenue from direct taxation and the savings in unemployment payments, schemes like the Employment Incentive Scheme are not a major burden on the Exchequer. A review of the Scheme should therefore be carried out to examine how it might be made more effective. Consideration should be given to linking the Scheme with some form of training scheme in order to encourage employers to take on more of the burden of training. The condition in the Scheme, that a grant is paid in respect of the employment of people on the Live Register only, should also be re-considered.

Small Firms

4.14 Small firms can play a significant role in job creation and in nurturing enterprise. The creation of three or four thousand jobs a year in these firms would be important in terms of overall job creation.

But small firms can be at a relative disadvantage, since they must spread overhead costs (for example, of specialised services) over a smaller volume of output. Moreover, the costs of preparing grant applications, for example, and of dealing with them, can be a good deal more onerous for the small firm. Furthermore, tax collection by small firms (for example, VAT) can bear relatively more heavily as a percentage of unit costs.

4.15 Thus, if existing small firms try to expand or move into a new field of production, they should not be put at a disadvantage because of their smallness *per se*. Advisory services provided by existing State agencies (such as the Irish Productivity Centre, the IDA, and SFADCO) should continue to be concentrated on the smaller firms. A higher degree of risk in aiding these firms should be accepted. This is offset at least in part by the lower cost per job of creating employment in these firms.

The Public Sector

4.16 The Council welcomes the statement in paragraph 4.12 of the Green Paper that "Further investment will be encouraged by the Government, especially where it will provide additional employment and where a reasonable return on that investment can be expected . . . existing State-sponsored bodies that have the necessary commercial management and technical expertise will be encouraged to expand and diversify their operations under conditions similar to those which apply to private sector firms and . . . new bodies may be established for new undertakings wherever suitable projects can be identified. Joint ventures between State and private interests might also provide an appropriate means of expansion where the financing required and the risks involved are beyond the resources of the private interests".³

4.17 An efficient public service can make easier the task of providing extra jobs in other sectors of the economy. Some reference might, therefore, have been made in the Green Paper to the importance of

³The Irish Congress of Trade Unions considers that the aims set out in paragraph 4.12 of the Green Paper can best be achieved by the setting up of a National Development Corporation. Congress submitted proposals for a National Development Corporation to the Minister for Industry, Commerce and Energy in November, 1977.

re-organisation of the public service. The Public Service Organisation Review Group was set up in 1966 and reported in 1969. While a wide-ranging programme relating to public service re-organisation, designed to achieve the objectives of the Review Group, is understood to be on hands under the aegis of the Minister for the Public Service, the Council considers that the pace of progress has been slow and disappointing. The importance of pushing ahead as rapidly as possible with re-organisation in the public service designed to increase productivity and efficiency, to increase the availability of expert advice and to improve the effectiveness of the planning system, cannot be over-emphasised.

Marketing

4.18 It is dangerous to identify and isolate particular functions and give them key roles in a firm's survival or expansion. Marketing, however, is a function that requires more attention than it has received in the past. Additional resources devoted to marketing Irish products, both agricultural and industrial, could be as effective in creating new jobs as their use in creating new physical assets or in other ways. Even the most vigorous sales effort will not market the unsaleable. Marketing must be seen as involving the design and development of saleable products as well as directly selling products on the market. In Irish circumstances, there must be emphasis both on export marketing and on selling Irish goods aggressively on the home market in competition with imports.

4.19 The first requirement in exporting is to be able to communicate to potential foreign customers in their own language. There are still far too few Irish people operating in this country, and indeed abroad, with the competence to do so. There is a strong case for more continuous and effective use of the equipment now available in educational and training institutions for raising the linguistic competence of businessmen.

Training for Industry

4.20 The Green Paper makes no reference to the need to improve the quality of management, nor to management training and education.

The Council Report No. 43, *Productivity and Management* emphasises the importance of this issue. The report shows the extent to which productivity in Ireland has continued to lag behind continental European countries, and that the potential for increases in productivity is considerable. There is also a complementary need to encourage the training of trade union officials and shop stewards. To ensure that this training takes place with the urgency and on the scale that is required, a larger proportionate contribution from State funds would be desirable.

Research and Development

4.21 Research and Development was introduced in the Green Paper in the context of options in the directly productive sectors—industry, agriculture and services. The Council believes that Research and Development has a wider role than this. Science and technology make a vital contribution to, and support economic growth. The Council believes, however, that the National Board for Science and Technology needs to be selective in its work. If it spreads its efforts too widely and too thinly, it will not be able to reach the critical minimum effort necessary for success, in all the projects in which it involves itself. The new Board must establish priorities and concentrate its resources. It is particularly important that the Board establishes and nurtures close relationships between researchers and research institutions and those enterprises which are capable (or could be made capable) of translating new ideas, techniques and products into new jobs. While its activity in this respect will be wider than manufacturing industry, it is an important feature of the contribution the Board can make to industrial development.

Summary

4.22 While appreciating the need for selectivity and the treatment of priorities in a central planning document, the Council would, nonetheless, have welcomed a more comprehensive treatment of policy on industry and services in the Green Paper. Developments in the industrial sector will determine, to a great extent, whether the output and employment targets in the Green Paper are achieved. The targets set for the industrial and service sectors require a significant

improvement on past performance. Yet the options discussed in the Green Paper do not reflect this. Little attempt has been made to evaluate existing policies which, with intensification, are accepted as being able to meet the challenge. The options regarding new policies contained in the Green Paper are presented only in the context of seeking marginal additions to the total level of employment in the sectors. The Council emphasises that, irrespective of what policies are followed, unless Irish industry is competitive there can be little hope of achieving the targets set for the sectors.

4.23 Re-equipment grants, as they are administered at present, should be phased out over a fixed period of, say, five years. If, on examination, it is thought necessary to continue some form of re-equipment grant, this should be operated selectively. With regard to export profits tax relief, the distinctions between export and domestic sales has less meaning now, with free trade.

4.24 The deterioration in the supply of skilled labour, relative to demand, shows that a more active manpower policy is required, and that there is need for more effective co-ordination between the relevant official agencies. The take-up under the Employment Incentive Scheme has been disappointing. Consideration should be given to linking the Scheme with an encouragement to employers to take on more of the burden of training; the condition that a grant is paid, only for employment of those on the Live Register, should be re-considered.

in this country. In recent years, expenditure on some facets of infrastructure has lagged behind the provision of funds for this purpose in the public capital programme. For planning to be effective, there must be a commitment over a number of years to a certain minimum level of real expenditure.

CHAPTER 5

INFRASTRUCTURE

The Role of Infrastructure

5.1 The Green Paper recognises that "a faster pace of development in agriculture, industry and other activities would need to be underpinned by additional investment in economic and social infrastructure" (paragraph 5.1). The Green Paper says that investment in internal transport, telecommunications and sanitary services "has been constrained over the years by the need to compete with many other demands on the Exchequer's resources and there is now widespread recognition that the services may not be supporting development to the extent needed" (paragraph 5.2). It is proposed to increase public capital expenditure on infrastructure as a percentage of GNP from 3.7 per cent in 1977 to 4.0 per cent in 1980.

5.2 Deficiencies in infrastructure are a serious impediment to balanced economic development throughout the country. The Council believes that if, as a means of dealing with the contingency which is contemplated in paragraph 2.12 of Chapter 2, the Exchequer borrowing requirement as a proportion of GNP is reduced over a somewhat longer time period than is envisaged in the Green Paper, the funds thus made available should be used in order to remedy deficiencies in telecommunications, transport and sanitary services, rather than for other purposes. Further increases in activity could be achieved by more expenditure on housing and on community amenities.

5.3 There is no intrinsic conflict between economic and social goals in developing the infrastructure of the country. The provision of telephones, transport, housing and sanitary facilities meets both economic and social needs.

5.4 Investment in infrastructure must be planned, executed and then maintained over a very long time period. This has not been the case

5.5 The location of many of the new economic activities should depend on the improvement of the existing infrastructure and on the location of new infrastructure. Because of the changing structure of employment, the proportion of the population living in urban areas will continue to increase, this will have implications for the need to invest in infrastructure and to make effective use of existing infrastructure in urban areas. This, in turn, illustrates the need for an effective and explicit regional policy which would be consistent with the main aims of the Green Paper. The Council has noted that a review of the regional aspects of public administrative procedures is being undertaken by the Government, but regrets the absence of any treatment of regional policy in the Green Paper. It recommends that regional policy should receive explicit attention in the forthcoming White Paper.

5.6 There are a number of general points about infrastructural development. First, the legal controls over the activities of local authorities can inhibit their role in infrastructural development. In 1971, the White Paper, *Local Government Reorganisation* (Pr. 1572), stated the intention to provide for a general restatement, in broad terms, of the permissive powers of local authorities. The White Paper stated that legislation for the purpose "could take the form of a general provision empowering local authorities to spend money on the betterment of their areas or in the interests of the inhabitants of their areas . . ." (paragraph 14.2.1). The Council would welcome the introduction of such legislation. Second, while recognising the need for effective control of land use, the extent to which the planning legislation might be impeding industrial development should be considered.

Transport

5.7 The Council hopes to have completed, early in 1979, a study of the principles which should underlie transport policy in Ireland. The

Council does not therefore propose to comment in this report on the sections on internal transport in the Green Paper (paragraphs 5.5 to 5.12).

Telecommunications

5.8 The Green Paper refers to the Telephone Capital Act, 1977 which provided for the investment of a further £350 million in the telephone system over a period of five years (paragraph 5.13). Under a five-year plan prepared in 1977, it is expected that annual telephone connections would increase from 42,000 in 1977 to 64,000 in 1980, and that there would be improved telex facilities. There is no discussion of the adequacy of the target provision of 64,000 connections in 1980. The Green Paper suggests that the plan might be accelerated, but no specific options are put forward as to how this might be done.

5.9 The Council finds it difficult to understand how the provision of telephones, for which households are prepared to pay an economic price, should perennially be in short supply. The provision of good telephone and telex services may be as important as the level of industrial grants to a prospective industrial investor in this country. It is striking that the waiting list for telephones in Britain is around 90,000 while it is over 50,000 in Ireland, despite a population ratio of 18 to 1 between the two countries. The Council believes that the Green Paper objective of increasing connections to 64,000 in 1980 is inadequate¹. Not only should the number of connections be increased, but the quality of the existing telephone service must also be improved.

Sanitary Services

5.10 The Green Paper refers to the impact which "a major increase in real terms in the capital allocation of almost £34 million" for the current year would have on the provision of sanitary services up to 1980 (paragraph 5.14). However, there is no firm commitment to spend-

¹In March 1977 there were 15.3 telephones per 100 inhabitants in this country. Present Government plans are expected to increase the ratio to 20 per 100 by 1980. In 1974 some EEC countries had reached or were approaching 40 phones per 100 inhabitants.

Source: Eurostat 1977.

ing this money. The Council wishes to stress the importance of the provision of these facilities if industrial and employment policies are to succeed. While there is no evidence available to suggest that, in the past, industrial projects have been lost due to a lack of sanitary facilities, there is widespread concern that water and sewage facilities in many parts of the country have not kept pace with industrial and domestic requirements.

5.11 The Green Paper lists the four priorities for investment in sanitary services as follows: schemes to serve new housing and new industry, to make good deficiencies in existing services, to serve group development in rural areas, and to prevent or abate pollution. No mention is made of the need to examine priorities on a regional basis. In planning the provision of sanitary services the aim should be, first, to provide adequate facilities for existing and future needs, and then to ensure that these facilities are used in the most efficient way. The Green Paper does not indicate, except by listing broad priorities, what the needs are. Neither does it propose any means by which the various needs can be identified. The Council recommends, therefore, that a thorough assessment, on a regional basis, of existing and anticipated industrial and domestic requirements for sanitary services be undertaken. On the basis of this, plans for priority allocations by region could be drawn up. With regard to the usage of existing water and sewage facilities, the Council would like to see consideration given to methods of encouraging the more efficient use of these services, for example, by ensuring that the charges on industries for the abstraction of water are related to the costs of the service.

Housing: The Private Sector

5.12 The Green Paper states that "policy is to ensure that as many people as possible are able to purchase their own homes rather than have to rely on rented accommodation" (paragraph 5.16). A successful policy of encouraging home ownership must ensure that increases in the supply of housing match the increases in demand.

5.13 All the evidence suggests that it is not possible to increase the supply of housing quickly, due in part to shortages of serviced land and of skilled craftsmen.

5.14 With regard to the demand for housing, in the 12 months ended March 1978 the particular impetus to house purchase, given by the £1,000 grant for first time purchasers of new dwellings and the abolition of rates on domestic dwellings, caused a sharp, short-term increase in the demand for houses which could not have been matched by a corresponding increase in supply. The result has been a very rapid increase in the price of housing. Between calendar year 1976 and 1978 (first quarter), new house prices rose by 44 per cent, while the index of house building costs rose by 25 per cent and the Consumer Price Index by 18 per cent².

5.15 An important determinant of the demand for housing is the flow of loan finance—especially the flow of building society advances. The flow of advances by building societies is dependent on their net inflow of funds, which in turn is dependent on the flow of deposits. This can result in considerable oscillations in the flow of advances. The Green Paper recognises that the Government's policy requires "an adequate supply of mortgage finance available in an appropriate form" (paragraph 5.16). But if the adopted policy is to rely primarily on the owner-occupied market, then there is need for a smoother flow of building society advances. For example, a stabilisation fund³ would help to achieve a better match between the supply of, and the demand for, building society funds. This would benefit potential purchasers by moderating price rises, and would help the building industry by dampening the major cyclical fluctuations which it now experiences.

²The basic data on house prices do not relate to a fixed 'bundle' of houses: the houses can vary in comparability from one year to another. The data are the average gross price of new houses for which loans were approved by all agencies. The house building cost index relates solely to labour and material costs, which should normally not exceed 65 per cent of the total price of a house. Source for the house price index and for the house building cost index: Department of the Environment, *Quarterly Bulletin of Housing Statistics*.

³The aim of a stabilisation fund is to cushion the impact which fluctuations in building society deposits have on subsequent advances by the building societies. In periods of high liquidity, the building societies could contribute to a reserve fund, which would be drawn on in periods when the flow of deposits was markedly below its trend, in order to smooth out the flow of advances.

5.16 The Council agrees with the Green Paper (paragraph 5.17) that house purchase should be made easier for some potential house-buyers, in particular, for those on relatively low incomes. The Green Paper suggests measures for diverting a greater proportion of funds from the lending agencies to lower income borrowers (paragraphs 5.17-5.19); a crucial test of how effective these measures will be is whether they will induce those who would otherwise rely on local authority housing to purchase their own houses instead. There is a considerable initial deposit required for houses purchased with local authority loans⁴. Consideration should be given to further increasing the limits on the size of local authority loans and the income limits for eligibility for these loans⁵. More use might be made of the guarantee provisions of the Housing Act, 1966 to encourage the provision of housing to lower-income borrowers⁶. It is important that the insurance companies and banks play a greater role in the housing market, particularly for moderately-priced housing. The possibility of using a portion of pension funds as a source of funds for housing finance could also be examined.

5.17 The Council agrees with the Green Paper that the additional option of a "real value mortgage" could make house purchase easier for some families. The Government proposes to discuss this with agencies other than the building societies (paragraph 5.17). Admittedly, the real value mortgage system is more attractive to institutions which attract long-term savings than to building societies, which borrow short and lend long. Nevertheless, it should be possible to persuade the building societies to consider devising attractive policies for medium-term investors in order to avoid a disruption of their net inflow arising from the introduction of a real value mortgage.

⁴In the first quarter of 1978, the average deposit required was £7,100. If the loan limits which came into effect on 1 September 1978 had been in force, the average deposit required would have been £4,600.

⁵With effect from 1 September 1978, the limit for local authority loans increased from £4,500 to £7,000. The limit on the annual income of applicants for these loans has remained at £3,500 since it was increased to this level with effect from 26 May 1977.

⁶Section 42 of the Act enables local authorities to guarantee housing loans made by other agencies.

5.18 The Green Paper says that "the price of building land is being examined in the light of the Kenny Report and other more recent developments" (paragraph 5.20). The Council would welcome action such as that recommended in the Kenny Report which was published in 1974. The delay in taking any action on this matter has meant that no effective measures have been introduced for controlling the price of land required for housing and for ensuring that the increase in the value of land attributable to the operations of public authorities is secured for the community.

5.19 The Green Paper says that "it is desirable to avoid an undue concentration by the construction industry on providing houses at the upper end of the housing market" (paragraph 5.16). The undue concentration on higher-priced housing is partly a reflection of the existing pattern of housing subsidies⁷, which affects the demand for these houses. The Council has already suggested a number of options on housing subsidies which, if effected, could result in more resources being directed away from housing at the upper end of the market⁸. These options could be considered together with the loan ceiling which lending agencies could be asked to introduce for persons who have previously secured mortgages, proposed as an option in the Green Paper (paragraph 5.19)⁹.

Local Authority Housing

5.20 The Green Paper states that: "In conjunction with the steps already taken by the Government . . ., adoption of the suggestions listed in preceding paragraphs should contribute greatly to advancing the goal of increased owner-occupation and so of reducing the need

⁷See paragraph 28 of NESC, Report No. 23, *Report on Housing Subsidies*.

⁸NESC, Report No. 23, paragraphs 39-42.

⁹A Government directive of 16 August 1978 required building societies, in allocating the funds available to them in the period ending 31 March 1979, to restrict advances as follows:

- (i) 60% of the funds to be allocated in providing mortgages for house purchasers whose mortgage requirement do not exceed £13,000.
- (ii) a further 20% of the funds to be allocated in providing mortgages for house purchasers whose mortgage requirements are in excess of £13,000 but do not exceed £16,000.
- (iii) Certificate of Reasonable Value to be furnished by all applicants for mortgages not exceeding £16,000 before their applications are approved.

for local authority house building. The Government, therefore, propose to undertake a reassessment of local authority housing needs . . . local authority needs have lessened in many areas. At present, in many areas, they are being met almost as they arise . . ." (paragraph 5.21). While there has been an improvement in the quality of housing in recent years¹⁰, the Council does not accept that the need for local authority dwellings will decline in the immediate future. The only evidence which the Green Paper points to is the growing proportion of families of three persons or less on the waiting list in Dublin; the points system for local authority housing implies that this evidence is not an adequate indication of dwelling need¹¹. The degree of dwelling need can vary between geographic areas; due to the increasing urban population and the fact that local authority loans mainly benefit those living in rural areas¹², the pressure for local authority dwellings is likely to be concentrated in urban areas. There is little evidence of a significant aggregate decline in the needs for which local authority dwellings are provided—that is, families who live in unfit or in overcrowded dwellings, those who cannot afford to house themselves adequately, and categories such as the aged and the disabled¹³. The rise in the average price of new houses relative to average earnings¹⁴ has hardly led to a diminution in the number of families who are in the queue for local authority housing. Unless there is a significant switch of housing finance towards lower income households, many would-be house purchasers will continue to seek local authority housing provision.

5.21 The Green Paper states that an examination is under way of "the level of activity in the local authority housing programme and/or

¹⁰See Chapter 6 of NESC, Report No. 25, *Towards a Social Report*, 1977.

¹¹For example, a family of three persons which is sharing a dwelling of poor quality is in need of re-housing.

¹²This is because of the effective income eligibility for those engaged in agriculture, and the lower cost of sites in rural areas.

¹³See the two most recent estimates of dwelling need: NESC, Report No. 14, *Population Projections 1971-1986: The Implications for Social Planning—Dwelling Needs*, and Department of the Environment, *Monograph on Housing Forecasting and Planning in Ireland*, April 1978.

¹⁴Between March 1977 and March 1978, the average weekly earnings of males on adult rates in transportable goods industries rose by an estimated 17 per cent, compared with the rise in new house prices of 31 per cent between these two quarters.

the extent of Exchequer subsidies (for this housing)" (paragraph 5.22). Local authority dwelling completions declined by 28 per cent between 1975 and 1977. While it is preferable that changes in housing subsidies should encompass all subsidies—rather than those for local authority housing alone—if a choice has to be made between the level of activity in building local authority dwellings and the level of subsidies, then the level of activity should at least be maintained in the immediate future.

5.22 The Green Paper refers to the "substantial current public expenditure in the form of a continuing annual subsidy for each unit of rented accommodation" (paragraph 5.22). This subsidy is partly due to the costs of building land, of construction and of maintenance, which are imperfectly reflected in maximum rents. With regard to costs, in urban areas there are higher than average land compensation and building costs, and paragraph 5.18 above indicates the need to control the rising cost of land in these areas. With regard to rent income, in Report No. 23 the Council has already suggested options which could result in rent maxima being more closely related to costs of building and maintenance, would reinforce the progressive nature of the differential rents scheme, and could lead to a reduction in the annual subsidy per unit of accommodation.

5.23 The Council hopes that the present policy of maintaining and rebuilding inner city areas will be continued. The development of the inner city serves social and economic needs apart from housing. Given an effective policy towards controlling the price of building land, inner city housing renewal is an attractive option. It is not valid to refer to the cost of building dwellings in some central city areas (as the Green Paper does in paragraph 5.21) unless mention is made of the fact that, to the building cost of a new suburban dwelling must be added a due share of the infrastructural costs—new schools, health centres, shops, roads, transport, and other community facilities—which are largely borne by public authorities. Corresponding costs do not arise in building in established communities, though site development and construction overhead costs can be higher than in suburban areas.

5.24 The Council has already referred to the barriers to mobility which exist within the local authority housing sector (Council Report No. 38, *Universality and Selectivity: Social Services in Ireland*). Labour mobility should not be discouraged. Administrative rules, relating to the transfer of local authority tenants from one area to another, should be reassessed by reference to this criterion.

Private Letting Housing Sector

5.25 The Council believes that the private letting sector has a role to play in giving a degree of flexibility in housing, aiding labour mobility and assisting the fullest utilisation of dwellings. Options for aiding the provision of accommodation in this sector and assisting some of its tenants were discussed in Council Report No. 23.

Construction Industry

5.26 One of the striking features of the construction industry is the high proportion of output which is accounted for by the public capital programme—45 per cent of the total in 1977. If there is to be an efficient construction industry, there is need for more stability in construction than has been the case in the past. An assurance of some minimum stable level of activity is required. This would yield the confidence that would result from a continuing volume of work being available over time. Although demand policy may at times suggest that there should be changes in expenditure on construction, sharp fluctuations in demand—whether increases or decreases—need to be avoided, since these work against the provision of sustainable capacity, and sustainable employment, in the industry. They also discourage the growth of specialist firms which would produce plant and equipment for the industry.

5.27 Unless action is taken to ease supply constraints in the construction industry, increases in demand are likely to result in increases in prices rather than in the volume of output. This emphasises the importance of long-run planning in construction—not just indicating to a spending agency that funds will be available over a period of years, but ensuring that resources—e.g. land, skilled labour—are available to provide the output of construction that is needed.

5.28 The Green Paper refers to the existence of "shortages of skilled and semi-skilled workers in certain trades" (paragraph 5.23). Smaller fluctuations in demand for construction would help to counter the shortages of certain skills which have often been a feature of this industry. But existing agencies and traditional attitudes do not always work towards foreseeing skill shortages and easing them quickly when they occur. The Green Paper says that "the problem of shortages of semi-skilled workers will be dealt with by AnCO but . . . a vigorous campaign under the Resettlement Allowance Scheme . . . to attract emigrant skilled workers home from the UK may be necessary" (paragraph 5.23). The Council would prefer to see the effort concentrated on training and re-training workers, even though this policy could take a few years to reach fruition, but the Resettlement Allowance Scheme should be used to meet short-term shortages.

Summary

5.29 If the Exchequer borrowing requirement as a proportion of GNP is reduced over a somewhat longer time period than is envisaged in the Green Paper, the funds made available should be used in order to remedy deficiencies in infrastructure. There should be a commitment over a number of years to a certain minimum level of real expenditure on infrastructure. There is also need for an effective and explicit regional policy which would be consistent with the main aims of the Green Paper.

5.30 With regard to telecommunications, efforts should be made, not only to increase the number of connections, but also to improve the quality of the existing service. For sanitary services, the Council recommends that a thorough appraisal be made, on a regional basis, of existing and expected requirements. Consideration should be given to methods of encouraging the efficient use of water and sewage facilities.

5.31 With regard to the Green Paper's aim of ensuring that as many people as possible are able to purchase their own homes, there is need for action on moderating the rise in the price of building land, and on ensuring a smoother flow of loan advances for house purchase. The

Council suggests policies for consideration which could make house purchase easier for those on relatively low incomes, and policies which could achieve the aim of the Green Paper of avoiding undue concentration by the construction industry on providing houses at the upper-priced end of the market. The Council does not accept that the need for local authority dwellings will decline in the immediate future. The Council has already suggested policy options in relation to rents for these dwellings. The Council hopes that the present policy of maintaining and rebuilding inner city areas will be continued.

5.32 With regard to the construction industry, an assurance of some minimum stable level of activity is required. Long-run planning in construction should ensure that resources are available to provide the output of construction that is needed, without inflationary pressures. Shortages of skilled workers should be remedied by concentrating on training and re-training workers.

CHAPTER 6

FURTHER ACTION ON EMPLOYMENT

Policy Options

6.1 The policy options in the Green Paper are principally concerned with the provision of an additional 7,000 jobs per annum which are needed in order to raise employment creation from 22,000 per annum—which is expected from existing policies—to the target of 29,000 per annum. If the policy options discussed in Chapters 3, 4 and 5 of the Green Paper were put into effect, they would be expected to contribute about 4,500 jobs in each of the years 1979 and 1980. This would leave a shortfall between projected achievement and target of 2,500 jobs in each of the years 1979 and 1980 which, combined with a shortfall of 5,000 in 1978¹, would mean a shortfall in jobs of 10,000 in all or 3,300 per annum in the period 1977-1980. With regard to the period beyond 1980, the Green Paper indicates that existing policies, together with the bringing into effect of policy options on agriculture, industry, services and infrastructure, would lower unemployment from 80,000 at the end of 1980 to about 65,000 at the end of 1983.

6.2 The policy options which are suggested in Chapter 6 of the Green Paper are put forward as a means of reducing unemployment to zero by 1983. The options are :

- (i) work-sharing;
- (ii) a further programme of Government-induced job creation.

These two options are discussed in the following paragraphs.

Work-Sharing in General

6.3 "Various possibilities involving significant changes in employment patterns . . . are generally classified as work-sharing arrangements"

¹Non-agricultural employment is expected to increase by 24,000 in 1978 (Green Paper, paragraph 1.2).

(Green Paper, paragraph 6.7). The Green Paper says that "while the primary aim must be to create the maximum number of jobs through growth and development, work-sharing could nonetheless make a major contribution to reducing unemployment" (paragraph 6.7).

6.4 The extent to which work-sharing is appropriate to the resolution of the problem of unemployment varies between countries, depending on their state of development. In a highly developed economy it may be appropriate to place emphasis on work-sharing as a means of combating unemployment arising from rapid advances in technology. Given the relative underdevelopment of Ireland, its relatively high unemployment level and its inadequate economic and social standards compared with other countries of the EEC, policies should be concentrated on attaining full and productive use of all resources including manpower. The Council believes (as indicated in paragraph 5.2) that job creation by means of measures to improve infrastructure should be the primary means of making up for any shortfall in employment. If there were still a shortfall in employment after these improvements, and after resources had been spent on training and re-training workers, then specific aspects of work-sharing could be studied. The use of work-sharing is only appropriate in relation to residual unemployment when maximum development has been achieved. To the extent that work-sharing is seen as a means of redistributing income, this could more appropriately be done by taxation and transfers.

The Specific Options on Work-Sharing

6.5 The first possibility which is mentioned in the Green Paper is "a reduction in the incidence of overtime, and the substitution of additional workers to cope with peak demands" (paragraph 6.9). Over a period of years there has been a steady increase in the incidence of overtime working. In industries where women are predominantly employed, relatively little overtime is worked. But in industries in which men predominate, overtime is generally being worked. In about a quarter of industries, the average amount of overtime worked by males exceeds 6 hours per week.² Since this is an average figure, it is evident that a considerable amount of overtime is being worked in

²Of the forty-six transportable goods industries, there are twelve where the average amount of overtime worked exceeds 6 hours per week (Appendix, Table 6.A).

particular firms, by particular workers. In the industrial sector, therefore, despite a decline of 2.5 hours in the standard work week in the past twelve years, the actual hours worked by males has remained about the same³. Overtime is prevalent in the building industry, where in 1977 the average amount of overtime worked was about 4.5 hours per week—but here a good deal of overtime is probably concealed in the "lumping" system. Paid overtime is also common in the public sector, although data are not readily available on its extent.

6.6 There are a number of reasons why employers use overtime work rather than hire additional workers. First, certain industries have seasonal fluctuations in demand, which can be flexibly accommodated by overtime. Second, there is evidence that there have been persistent shortages of certain skilled workers, for example craftsmen and technicians. Third, in the early stages at least of a sustained increase in demand, employers will tend to react by letting the work week lengthen. This is akin to an insurance, since the increase in demand might be a temporary one. Additional workers will be taken on after a time-lag. Finally, employers are subject to certain fixed costs when they hire workers—specifically, the costs of recruitment and of training, and of employers' social insurance contributions. These costs are not borne when overtime is used.

6.7 On the part of workers, much of the overtime worked is voluntary, and is regarded by them as a supplement to "standard" earnings. Overtime payments can form a substantial part of pay—for a worker on a basic wage of £60 a week who does 8 hours a week overtime at, say, time-and-a-half, almost a quarter of his total earnings would come from overtime. Some of the overtime working occurs in industries where earnings are below the average.⁴ Paid overtime also frequently occurs among lower paid non-manual workers.

³In 1965, the average hours worked by males aged 18 and over in transportable goods industries were 45.8. In 1977, the average hours worked by males on adult rates were 45.0. The "standard" work week has declined from 42.5 hours in 1965 to 40.0 hours in 1977. Thus, the average amount of overtime worked by males on adult rates has increased from about 3.3 hours to 5.0 hours per week in this period.

⁴Appendix, Table 6.B shows the extent of overtime working in those industries where average hourly earnings are less than the average for all transportable goods industries.

6.8 These underlying reasons for the persistence of overtime work suggest that it would be difficult to obtain a voluntary reduction in overtime. Even if it were possible to obtain a reduction in overtime, this would not necessarily lead to an increase in employment, for the following reasons. If there is a constraint in the form of a shortfall in the supply of skilled workers, then a reduction in overtime is not the remedy. If there were no shortage of skilled workers, a reduction in overtime would still not necessarily justify the hiring of additional workers. This is because a critical minimum of work would be required to justify the taking on of additional workers—this would especially be the case for skilled work. Moreover, a reduction in overtime in capital-intensive industries could be accommodated only by more shift-working.

6.9 Nevertheless, the Council recognises the possibility that, in certain industries, overtime can be "excessive"—in the sense that it implies an inefficient use of the labour force. There should be a gradual winding down of this excessive overtime. This is a task which management and trade unions must tackle in the years ahead. To this end, legislative support (for example, up-dated legislation fixing a maximum amount of hours worked) would be desirable. So also would action to curb abuses of the "lumping" system. But the increase in employment which would result from these policies would be unlikely to be large, especially if the same weekly payment were made for a lesser number of hours, since that would lead to an increase in unit labour costs. The reduction in overtime working, however, could be accompanied by some increase in labour productivity. The Green Paper does not mention the possibility of some increase in shift work: this could allow better utilisation of machinery, and could help the reduction of excessive overtime.

6.10 The second possible method of work-sharing which is discussed in the Green Paper is through early retirement: "a phased reduction in the retirement age for men from 65 to 60 over a period of years could release several thousand jobs for younger workers" (paragraph 6.10). The Green Paper concedes that "in practice it might be felt that any such scheme should operate on a voluntary basis, in which case the number of posts available would be considerably reduced" (paragraph 6.10). The Council agrees that a voluntary scheme would have little

effect in accelerating retirement, unless attractive financial incentives were given to those who retired voluntarily. Moreover, many workers who retire voluntarily may subsequently seek and find employment—at least of a part-time nature—which is not caught within the statistical measures of numbers at work. Indeed, they might continue to swell the numbers of registered unemployed.

6.11 Other considerations suggest that early retirement would not be an effective option. Many employers would not replace a high proportion of workers who retired early. The extent to which they would replace these workers would depend partly on demand conditions for their products. The number of jobs which would be provided by early retirement would be relatively small, because of the number of workers in the age groups involved, and because of the fact that not all workers who retired early would be replaced by younger workers. It should also be noted that early retirement would be likely to increase the dependency ratio (which is already high in Ireland) and would impose additional costs on the Exchequer. The lower the rate of replacement of those who retire, the greater the cost to the Exchequer.

6.12 The alternative suggestion on retirement in the Green Paper is that there would be "a system of partial working by older people rather than an abrupt retirement, in which case the net number of new jobs would again be reduced" (paragraph 6.10). This scheme would be more difficult to implement. It could also involve more cost to the Exchequer, since two workers in part-time employment could pay less income tax than one in full-time employment. There is also more scope for tax evasion (and avoidance) by those in part-time employment.

6.13 The Council believes that there is need for careful reconsideration of the present standard life-cycle, which is segmented into three distinct blocks: education, work and abrupt retirement. The long-run aim should be a much more flexible range of possibilities, including release from the job during working life for retraining, up-dating of skills or education, and gradual withdrawal from the labour force during the last years of employment. Consideration should be given to the provision of paid leave of absence from work for educational purposes.

6.14 The third possible method of work-sharing which is discussed in the Green Paper is "a reduction in the length of the standard working year . . . this could take the form of either a shorter working week or more paid holidays" (paragraph 6.11). This option would lead to a rise in unit labour costs—unless there were improvements in efficiency—and it would not be easily reversible. This must be seen in an international context, particularly that of the EEC as a whole. For instance, if there were reductions in the standard working year in all EEC countries, there would be a lower increase in relative unit labour costs between Ireland and other EEC countries; but there would be an increase in unit labour costs between the EEC as a whole and third countries.

6.15 The effect of a reduction in the standard working week would depend on what happened to overtime. There is likely to continue to be an incentive for workers to increase overtime in order to supplement wage earnings. There would also be a tendency on the part of employers to use more overtime (paragraph 6.6).

6.16 The conclusion is that a reduction in the standard working week would be unlikely to have a significant effect on employment, unless there were explicit measures taken to restrict overtime. This, however, may not be true in the case of certain services. A reduction in the standard week would not lead to an increase in employment of skilled workers who are in short supply. Finally, if the reduction in the work-week were accompanied by an increase in labour productivity, there could be even less effect on employment.

6.17 A reduction in the standard work year through more paid holidays is likely to improve the well-being of workers (whether through increases in leisure or in real incomes, assuming increases in productivity) rather than to increase employment. It is unlikely that a significant increase in employment would result, since there would probably be either more overtime worked or else increases in labour productivity.

Programme of Government-Induced Job Creation

6.18 The Green Paper discusses the option that the Government "take the initiative in launching a further special job creation pro-

gramme" (paragraph 6.14). This programme has four elements: "(a) an increase in services employment consequent on the introduction of a residence-related employment scheme, (b) greater short-term and temporary placement of workers by the National Manpower Service, (c) expanded training and work experience schemes, and (d) an extension of community services" (paragraph 6.14). The Council discusses the individual elements of this programme in the following paragraphs.

6.19 In the first element, "the suggestion would be to allow payments for a wide range of jobs in the area of residence-related employment such as decorating and repair work, as a deductible expense for income tax purposes . . . Tax reliefs would not alone act as an encouragement to the householders who provide this work to increase expenditure on improvement of their properties but would also help to ensure that a greater proportion of these jobs go to people who are seeking employment, thus helping to reduce the number of unrecorded full-time or part-time employees" (Green Paper, paragraph 6.15). This scheme could result in some increase in hiring (by those on high marginal tax rates), and would lead to a reduction in the number of unrecorded workers (whether full-time or part-time). The disadvantages of the scheme, however, relate to its practicality (for example, the price quoted for these jobs could be affected); the regressive effects on income distribution if deductions were allowed as a tax allowance;⁵ and its effect on registered unemployment. With regard to the latter effect, the proposals could result in no more than ensuring that the income of all those who do these jobs at present would automatically be subject to income tax, with little impact on conventional measures of unemployment.

6.20 The second element would be "the more active use of the National Manpower Service, by more vigorous and positive placement work, and by canvassing employers to take on more workers" (Green Paper, paragraph 6.16). The Council believes that this scheme has potential.

⁵But if deductions were allowed only as tax credits, then the benefits to the "employer" would be limited to the lowest income tax rate.

6.21 The third element would comprise "a substantial expansion of industrial and vocational training facilities, together with the development of work experience schemes" (Green Paper, paragraph 6.17). These measures would temporarily increase employment, if training is defined as employment. But it must not be forgotten that, at the end of the period of training or of experience, a job must still be provided. The Council would welcome expanded training and work experience schemes, which should be seen as part of the more comprehensive manpower policy which is needed. But it is important that the training and work experience programmes be designed in such a way that the skills of the workers are enhanced. These schemes should not be designed only to "mop up" a pool of unemployed workers. In paragraph 6.4 the Council has emphasised the importance of using productive resources to the fullest. The aim of these schemes should be to provide workers with durable skills.

6.22 The fourth element is an extension of community services. "The services envisaged . . . would be additional to those at present undertaken by the public service and would be operated by local authorities, health boards or community groups. They would probably have to be financed entirely by the State" (Green Paper, paragraph 6.18). The services would include "the provision of social centres and recreation facilities, general improvement of the environment and the provision of care for needy families or persons" (Green Paper, paragraph 6.18). The Council recognises the need to develop community services and the value of community-orientated work, particularly for young people. Such schemes would result in an improvement in living conditions and in the health of the community. The Council favours the introduction of a programme which would effectively develop community service schemes and which would impart durable skills to the workers involved. Subject to its earlier recommendation in paragraph 6.4 that the remedying of deficiencies in infrastructure should have priority, the Council would recommend giving priority to the community services scheme among the four possible elements of Government-induced job creation.

6.23 The net financial cost to the Exchequer would put some limit on the extent to which *continual* increases in employment—as distinct

from maintaining a certain level of employment—could be obtained through training, work experience and community services programmes. The tentative calculations in the Green Paper suggest that the net cost to the Exchequer of the total residual job creation programme would be around £270 million at 1978 prices in the period 1979-1983 inclusive, and that expenditure under the scheme in 1979 would be around £15 million net (paragraph 6.19). It is difficult to reconcile these figures with the data on job creation in paragraph 6.14 of the Green Paper (that the orders of magnitude for the additional employment would be 7,000 in 1979, and further additional employment of 58,000 in the period 1980-1983 inclusive). If, for example, £15 million net is required to create 7,000 jobs in 1979 and must be repeated in each following year to maintain the jobs, then the cumulative net cost in the period 1979-1983 inclusive would seem to be in the region of £345 million instead of £270 million.

Summary

6.24 In view of the relative underdevelopment of Ireland, policies should aim to achieve the full use of all resources, including manpower. Job creation by means of measures to improve infrastructure, rather than work-sharing, should be the primary means of making up for any shortfall in employment. To the extent that work-sharing is regarded as a means of redistributing income, this could more appropriately be done by taxation and transfers. The specific possibilities for work-sharing which are discussed in the Green Paper are not likely to achieve the aim of making a major contribution to reducing unemployment. It would be difficult to obtain a voluntary reduction in overtime and its replacement by extra employment; early retirement is not likely to be an effective measure for reducing unemployment; a reduction in the length of the standard working year could affect unit labour costs, and would affect unemployment only if there were also a reduction in overtime. Notwithstanding these considerations, the Council does feel that employers and trade unions should work towards the elimination of excessive overtime. Furthermore, in relation to retirement, the Council believes that there should be a more flexible range of options available to employees, including release from the job during working life, and gradual withdrawal from the labour force

rather than sudden retirement. Consideration should be given to the provision of paid leave of absence for purposes of education.

6.25 As regards the programme of Government-induced job creation, the Council believes that the scheme, whereby there would be more active use of the National Manpower Service, has potential. The Council would welcome expanded training and work experience schemes, but would like to see these formulated in the context of a comprehensive manpower policy rather than a policy aimed solely at reducing unemployment. The schemes should, therefore, be designed to provide workers with sustainable skills. The Council also recognises the desirability of developing community service schemes which would provide the workers involved with durable skills. Subject to its recommendation that the remedying of deficiencies in infrastructure should have priority, the Council would recommend giving priority to the community services scheme among the four possible elements of Government-induced job creation.

CHAPTER 7

FINANCIAL IMPLICATIONS

Introduction

7.1 Chapter 7 of the Green Paper examines the implications for Government revenue and expenditure of adopting measures to achieve the sought-for reduction in public expenditure as a proportion of GNP, from 50 per cent in 1978 to 48 per cent in 1980, and the lowering of the borrowing requirement from 13 per cent of GNP in 1978 to 8 per cent in 1980. In Chapter 2 the Council has already given its view on the pursuit of these objectives. It wishes in this Chapter to comment on the proposed broad strategies for achieving these objectives.

7.2 The proposed Green Paper strategy has two aspects. On the revenue side, moderate increases in taxation, together with greater buoyancy arising from the projected expansion in economic activity, are expected to raise current budgetary revenue from 31 per cent of GNP in 1978 to 34½ per cent of GNP by 1980. On the expenditure side, the aim is to combine a generally more restrictive policy on Government expenditure with a reduction or phasing out of specific publicly financed programmes.

Taxation Policy

7.3 Although taxation is, of course, a major instrument of demand management and economic development, it has other functions to which the Green Paper makes little reference. For instance, taxation is a means of redistribution of wealth and income, and of financing the State's obligations to provide for the collective needs of the community. As the Council states in an earlier report, "in assessing the broad economic and social implications of any tax system, achieving equity, reducing inequality and promoting greater economic efficiency and growth, are key considerations" (Council Report No. 2, *Comments on Capital Taxation Proposals*, paragraph 36).

7.4 The Green Paper states that "the Government do not intend to take tax measures which would adversely affect the favourable economic climate that now exists" (paragraph 7.5). However, it has been shown in Chapter 2 of this report that current revenue is expected to increase by £397 million or 20 per cent in 1979 and £435 million or 18 per cent in 1980. These are substantial increases, especially if the tax base remains as it has been. Furthermore, since non-tax revenue is likely to rise more slowly than total revenue,¹ the rate of increase in tax revenue will have to be greater than that of total revenue. In each of the years 1979 and 1980, the tax burden, defined as the ratio of tax receipts to GNP, would increase at a faster rate than that indicated for total revenue in the Green Paper.²

7.5 The form which increased taxation will take over the planning period is not indicated in the Green Paper, nor is the extent to which the required increase in tax revenue will come from higher tax rates as opposed to revenue buoyancy. If, however, tax allowances and tax bands are adjusted regularly, the scope for buoyancy will be diminished. The Green Paper does not indicate specifically that it is intended to spread the tax burden more equitably, although it does accept the need for increases in taxation to be equitably distributed (paragraph 7.5).

7.6 The Council believes that as part of the planned evolution of taxation policy, there is an urgent need for a comprehensive re-examination of the entire tax system. This re-examination should include, but not be confined to, the Council's recommendation that "the progressive integration of the present system of direct taxation with the arrangements for income maintenance should be examined" (Council Report No. 37, *Integrated Approaches to Personal Income Taxes and Transfers*, pages 10-11). In that report, the Council drew attention to the problems which had arisen because of the separate evolution of the two kinds of direct taxation on persons—income tax and social welfare

¹It is expected that the ratio of non-tax revenue to GNP will be constant in 1979 and 1980, at its 1978 ratio.

²The ratios for tax revenue to GNP in the period up to 1980 are (in percentages): 27.4 in 1977, 26.0 in 1978, 27.9 in 1979 and 29.4 in 1980. (Appendix, Table 7.A).

contributions. In particular, the effective tax rate for those taking up low-paid employment, especially those with large families, can be relatively high. The Government's proposals for pay-related social welfare and health contributions will help solve part of the problem. But if the real value of personal tax free allowances were to fall, this, combined with the relatively high marginal tax rates that are a part of the income tax code, would result in a heavier burden of direct taxation on low to medium income earners.

7.7 The income tax code and the social welfare code are still evolving separately. Three options for integrating the two codes were discussed in Council Report No. 37:

- (a) A non-refundable tax credit scheme which would go some way towards the integration of the two tax codes, but which would not significantly help low income families outside the tax net, and would not reduce the high effective tax rates on low income families.
- (b) A refundable tax credit scheme which would reduce the effective "marginal tax rate" on income from low-paid employment, particularly for families with dependent children; its main disadvantages would relate to those outside paid employment, the self-employed and those on social assistance.
- (c) An individual grant and tax scheme which would integrate fully the existing direct tax and social welfare codes and which would largely avoid or resolve all the problems associated with the existing direct tax and social welfare codes and with the schemes at (a) and (b) above.

In the Council's view, these options, while they would involve an extra cost for public finances (in the case of options (b) and (c)), present "a framework within which discussion (and indeed action) about the relationship between income tax and social welfare could develop fruitfully" (Council Report No. 37, page 11).

7.8 The Council agrees with the Green Paper that there can be anomalies in the treatment for tax purposes of income from short and

long-term social welfare benefits (paragraph 7.21). However, it considers that the taxation of short term benefits should preferably be viewed in the context of an integrated approach to income tax and social welfare payments. Developments which would increase the tax burden on low incomes, or the marginal tax rate for those taking up low-paid employment, should be avoided.

7.9 It is stated in paragraph 3.23 of the Green Paper that "the increase in farm incomes in recent years has not been matched by a proportionate increase in the direct taxation yield of farmers." If farmers' direct taxation were in line with the average, there are some indications which suggest that the benefit to the Exchequer could be substantial, although opinions differ on what is the proper basis of comparison and on what taxes should be brought into the reckoning. A crude comparison of relative tax levels might be as follows. In 1977, over 15 per cent of Schedule E wages and salaries was paid in income tax. A comparable figure for farmers' income is not available; it is, however, known that 1 per cent of agricultural income from self-employment was paid in income tax in 1977. The percentage in terms of farmers' income liable to taxation (e.g. after allowances) is obviously higher than this. The Council therefore wishes, once again, to draw attention to the recommendations on the taxation of farm incomes contained in Council Report No. 15, *The Taxation of Farming Profits*³.

Expenditure

7.10 The Government intends to seek more stringent control of the costs of public services and to phase out or reduce publicly financed schemes which are no longer appropriate to the attainment of priority objectives (paragraph 7.2 of the Green Paper). Examples of schemes to be phased out or reduced are, however, confined to the social area. In the view of the Council, it is important to keep all Government expenditure under close scrutiny. This should apply particularly to schemes of long standing, which can be shown to have outlived their usefulness.

³The representatives of the IAOS, ICMSA and IFA did not support these recommendations.

7.11 In view of the need to ensure the most effective allocation of scarce resources, it is surprising that the Green Paper does not discuss the problem of the efficient allocation of priorities within the social services. Given our high birth rate, increasing population and high dependency ratio, priorities need to be identified in the social services to try to ensure that there will be orderly and systematic progress towards meeting needs.

7.12 The proposed budget strategy over the Green Paper period is that social expenditure (current and capital) expressed as a percentage of GNP would fall by 2.1 percentage points between 1977 and 1980, and the share of spending on productive and infrastructural purposes as a proportion of GNP would increase by 0.6 percentage points. (Table 7.2 of the Green Paper). The reduction in the ratio of social expenditure to GNP is to be achieved by holding the level of social welfare payments constant in real terms (paragraph 2.12), and by measures suggested in Chapter 7 such as cutting back on the local authority housing programme, taxing children's allowances and short-term payments, and increased charges for private and semi-private care and increased university fees. While some of these measures are progressive, others clearly are not, e.g. the curtailment of the local authority housing programme, and holding constant the real value of welfare payments. For example, it can be derived from the Green Paper targets that social welfare payments as a share of total personal income would fall from 11.4 per cent in 1978 to 9.6 per cent in 1980.

7.13 While the Council recognises that there would be enormous social advantages if full employment were achieved, it feels that it is not adequate to hold constant the level of social welfare payments in real terms, especially when real incomes in the community are increasing. It is widely accepted that poverty is about relative, not absolute deprivation. The Council would wish to see a real increase in per capita income maintenance payments although it accepts that this would require additional taxation.

Children's Allowances

7.14 Because children's allowances are paid to all families, regard-

less of income, the Green Paper suggests that the scheme offers scope for an element of selectivity by treating the allowances as taxable income. The Council feels that this issue should be discussed in the wider context of income support for families. Because of its concern in this area, it has commissioned a study to investigate alternative methods of family income support.

7.15 The effect of making children's allowances subject to tax is to distribute an extra £8 million away from families with children. In view of the fact that the income tax child allowance did not increase since 1976, and the fact that children's allowances were not increased in the 1978 budget, what is involved in the proposal is a further disimprovement in the relative overall position of families with children, compared with single persons or childless couples. However, the rearing of children brings with it financial burdens which society as a whole should share.

Social Security

7.16 The Council would welcome the introduction as soon as possible, of a national income-related pension scheme and of obligatory social insurance for the self-employed (paragraph 7.13 of the Green Paper). The extension of social security would give greater protection to more people against loss of livelihood due to illness and old age. A national income-related pension scheme, in particular, would increase mobility in the workforce and would provide protection against a severe fall in income on retirement. A further advantage of extending social security would be the greater acceptance of the principle of access to social services as a right acquired by personal contribution. Finally, it would achieve a more equitable sharing of the cost of social protection for all.

7.17 In relation to means tests, Council Report No. 38, *Universality and Selectivity: Social Services in Ireland* drew attention to the different ways of treating people in the same objective financial circumstances, according to the category of benefit they are receiving, e.g. the treatment of housing expenses for social assistance and the

unreliability of rateable valuation as an indicator of actual farm income. The Council would welcome action to remove these anomalies.

7.18 The Council condemns abuses and frauds in the social welfare system. Nevertheless, reservations must be entered that there is insufficient evidence of the precise extent of fraud in relation to social welfare benefits, and that this is not the only kind of fraud affecting public income and expenditure.

7.19 Measures to combat abuse of the social welfare system were announced in the 1978 Budget, where it was estimated that a saving of £2.5 million would be achieved in the current year from the measures. It is not clear whether the Green Paper feels that annual savings in excess of this amount can be achieved. Measures to achieve savings through combating genuine instances of abuse in the social welfare system should be matched by corresponding pursuit of tax evasion. It would, of course, be undesirable that savings should be sought by curbing the limited and valid discretion which exists in some areas for dealing with borderline and hardship cases.

Health

7.20 The Council notes the discussion on health expenditure in paragraphs 7.22 and 7.23 of the Green Paper. It agrees with the Green Paper that, "while the problems in financing our health services should not be exaggerated, rising health costs cannot be allowed to pose excessive problems in the context of our general economic and public finance policies" (paragraph 7.23).

7.21 The Council welcomes the emphasis on increased activity in the fields of health education and the prevention of ill-health. While it is important to publicise the dangers inherent in smoking and excessive drinking of alcohol, the role of taxation in reducing consumption, for example by influencing the price of cigarettes and alcohol relative to the Consumer Price Index, needs to be examined. The Council suggests that, in the development of policies to promote good health, special attention should be given to occupational health and to measures for preventing illness and diseases associated with work.

7.22 Because of our high birth rate and the need to prevent ill-health from the start of life, the Council are concerned with the options for developing the maternity and child health services. Irish perinatal mortality figures, which have fallen rapidly over the years, are still high by comparison with the best European figures.⁴ The take-up rate of the maternity and infant care scheme is low by comparison with the numbers eligible for the scheme.⁵ While health boards are obliged to make health examination and treatment available for children under six and national school children, the operation of the services is at present confined to centres with population of 5,000 and over, and to new entrants and selected pupils of national schools. The Council will be commissioning a study to examine the options for developing services in this area in the near future.

7.23 The Council notes the intention of the Government (paragraph 7.29 of the Green Paper) to eliminate the anomalies of the limited eligibility category, and the recent proposals of the Minister for Health to replace the present system of flat rate health contributions by pay-related contributions and to revise the categories of people eligible for hospital services. These measures will simplify and clarify the existing limited eligibility criteria and procedures as recommended in Council Report No. 29, *Some Major Issues in Health Policy* (paragraph 18). The extension of eligibility for hospital maintenance and treatment charges, and for refunds of part of the cost of prescribed medicines, to everyone, regardless of income, is an extension of the existing limited eligibility scheme to the entire population recommended in Report No. 29 (paragraph 19).

Education

7.24 The Council agrees with the Green Paper that given "the prospective increase in the numbers of pupils at all levels of education, reduced overall spending cannot realistically be expected" (paragraph 7.31). The Council believes that expenditure on education will have to increase in real terms due to the projected increase in population

⁴E.g. in 1975, the Netherlands and Denmark had perinatal death rates of 12.9 and 13.4 respectively. The provisional Irish figure for that year was 21.6.

⁵NESC, Report No. 38, *Universality and Selectivity: Social Services in Ireland, 1978*.

and the increase in participation rates at second and third level. This increase in participation rates may be greater than previously anticipated if the labour force participation rates underlying the Green Paper (paragraph 2.21 above) come about. The Green Paper assumes a fall in the labour force participation rate among the age group 15-19. Accordingly, there may be a sharp rise in the numbers in this age group in full time education or training. There will be rapid increases in per pupil costs due to the declining contribution of religious orders, the increasing technological emphasis in secondary education, the effects of equal pay and the rising cost of teaching due to the difficulty of achieving productivity increases.⁵

7.25 The Green Paper does not refer to the need to give priority in educational expenditure to primary and junior cycle secondary schooling. The Council has already recommended in Report No. 12, *Educational Expenditure in Ireland* that increased expenditure is needed on education for "compulsory" age groups, i.e. ages 6-15. The quality of education received by children during these years is of fundamental importance to their progress in later years. In addition, the Council endorses the argument that "scarce resources available for education should be reserved, in general, for those aspects of schooling which benefit society as opposed to the individual and in particular Irish society; and for the less advantaged". As schooling between 6 and 15 years of age is regarded as a public benefit and therefore is compulsory, public funds should be concentrated on this age group.

7.26 The Green Paper argues that the "introduction of free second level education has socially progressive and far-reaching egalitarian consequences for the development of Irish society", (paragraph 7.32). The Council accepts that in principle this is the case but that in practice the scheme can be criticised because it substituted a very large amount of scarce public funds for existing private funds. Only a small fraction of public money spent on the free scheme actually increased resources available to education⁶. Furthermore, the scheme

⁵A. Dale Tussing, *Irish Educational Expenditures—Past, Present and Future*, ESRI, 1978.

⁶Tussing, *op. cit.* page 175.

⁷Tussing, *op. cit.* pages 167-168.

does not take into account the income lost to a family when children remain in school beyond the compulsory age. Since no grant or scholarship scheme is available to students or their families to help them bear the indirect costs of remaining in education beyond this age, there is an obvious disincentive to children of low-income or large families to stay on in school, and this, in turn, reduces the chances of such children continuing education to third level.

7.27 In order to direct resources in education to where they are most needed and to ensure that no one is denied access to education at this level through inability to pay, the Council has already recommended that grants for student support at senior level (i.e. age 15 and over) and a mixed system of loans and grants at third level should be examined, as should the possibility of a graduated fee system where the payment of fees is related to the ability of a student's family to pay (Report No. 12, page 24).

7.28 The Council welcomes the commitment in the Green Paper to review the financing of third level education so that fees reflect the economic cost of this education and the high income potential of graduates (paragraph 7.33). A mixed system of fees, loans and grants would be appropriate. The Council welcomes the suggestion in the Green Paper that higher education grants be improved. The existing income limits and grant levels have not kept pace with increases in the Consumer Price Index and the operation of the scheme at present favours some farmers and others in the self-employed sector compared with employees.

7.29 The Council agrees with the suggestion of the Green Paper that there is a case for placing teacher training college students on the same basis as other third level students by charging for board and accommodation (paragraph 7.34). The money saved in this way could be used to increase the level of fee and maintenance grants to those who need them. The Council urges that any significant changes in schemes of financial support for third level education be considered in the context of priorities in the educational system as a whole. Those recommendations which require additional expenditure might be finan-

ced by a reallocation within the existing expenditure on education (Report No. 12, page 23).

Subsidies

7.30 The Council accepts that expenditure on moderating price increases may not be the most effective use of public funds. Subsidies are indiscriminate in that they reduce prices for the better off as well as for the poor. However, expenditure on items such as milk, butter, bread and flour take up a greater part of the expenditure of people on low wages or in receipt of welfare payments. The high cost of adequate diets for old people on low incomes in Dublin has been highlighted by the National Prices Commission.⁵ The removal of subsidies on food, combined with the fact that income maintenance payments, as outlined in the Green Paper (paragraph 2.12), will not maintain their value relative to other incomes, would mean a significant fall in the relative standard of living of those on low incomes. If the Government decides that these subsidies are to be phased out, the Council believes that those on lower incomes should be compensated in other ways.

7.31 Paragraph 7.37 of the Green Paper says that the fall in consumption which would arise from the removal of subsidies on milk and butter would not have adverse economic effects for producers. There would certainly be a fall in consumption due to the removal of subsidies. However, it seems somewhat inconsistent that, while the implication of paragraph 3.28 of the Green Paper seems to be that dependence on intervention should be avoided, paragraph 7.37 suggests that intervention could be used to absorb any fall in consumption. The Council has already supported the call for market diversification and would prefer to see producers being able to dispose of their products in other ways than through intervention. For this reason, it would be important that any removal of subsidies should be phased in such a way as to minimise the likelihood of increased dependence on intervention.

⁵National Prices Commission, *Monthly Report No. 58*, January 1977, Chapter 7, *Some Economic Aspects of the Dietary Intake of Old People*.

Budgetary implications

7.32 It is noted that although the various policies examined in Chapter 7 of the Green Paper are presented as options, there is only one set of budgetary projections which clearly assumes the implementation of the policies. Any deviation from this assumption would, therefore, require an adjustment of the projections. The Council acknowledges that some of the recommendations it has put forward in this and earlier chapters would require additional public expenditure. In putting forward these recommendations, the Council is of the view that any additional expenditure which would not result in a direct addition to the economy's productive resources should not be financed by borrowing; where possible other expenditure should be reduced and, if there still remains a gap, taxation should be increased.

7.33 Subject to a number of important qualifications outlined in earlier chapters, the Council agrees with the aim of reducing the Exchequer borrowing requirement as a proportion of GNP and of doing so by reducing the current budget deficit and so making possible an increase in the capital budget. However, the implications of the Green Paper projections are that progress towards the elimination of the current budget deficit may involve a smaller contribution on the expenditure side than on the revenue side. The Council feels that greater dependence on increased taxation rather than on moderating the rise in expenditure would not be a desirable long-term trend. Of course, the requirements for pay and increased staff, and for service of the public debt, limit the moderation attainable in current budget expenditure, at least in the short term.

Summary

7.34 The Council comments on the Government's proposed strategy for reducing the growth of public expenditure and the borrowing requirements as a percentage of Gross National Product. With regard to Government revenue, Council believes that the tax strategy proposed may lead to the tax burden increasing significantly during 1979 and 1980. The Council considers that, in the context of the Green Paper taxation policy, there should be discussion of how the tax burden might be distributed more equitably and draws attention to Council Reports No. 15, *The Taxation of Farming Profits* and No. 37, *Integrated Approaches*

to *Personal Income Taxes and Transfers* in which are put forward recommendations relating to the system of income taxation.

7.35 On the expenditure side, the Council agrees with giving priority in public spending to productive investment. It does not, however, accept that the moderation of current expenditure on publicly financed schemes should be confined to the social area; there are other schemes of long-standing which merit attention.

7.36 Specifically in relation to social welfare, the Council would wish to see some real increase in per capita income maintenance payments but any increased expenditure should be financed from taxation. It is also felt that the proposal to tax children's allowances should be re-examined. The proposals to introduce a national income-related pension scheme and on social insurance for the self-employed are welcomed. The Council also agrees with the aim of combating abuses in the social welfare system, but suggests that it is equally important to tackle other types of abuse, such as tax evasion, which affect public revenue and expenditure.

7.37 The Council broadly agrees with the overall approach on health policy in the Green Paper, although concern is expressed about the options for developing the maternity and child health services. The approach on education is also generally welcomed. The Council believes that expenditure on education in real terms should increase and that education for those in "compulsory" age groups should be given greater priority. In relation to second and third level education the Council calls for a re-distribution of resources to achieve a better balance of opportunities. With regard to the proposal to remove consumer subsidies, the Council believes that those on lower incomes should be compensated in other ways if the subsidies were removed.

7.38 Subject to its comments in paragraph 2.12 above, the Council agrees with the Green Paper's overall budgetary strategy of reducing the ratio of the Exchequer borrowing requirement to GNP, and reducing the current budget deficit.

CHAPTER 8

KEY ISSUES

8.1 The Council agrees with the Green Paper statement that "... discussion should centre not on whether full employment can be achieved but on the best means by which to achieve it" (paragraph 8.10). It acknowledges that there are many factors which can influence performance and numerous contributions that each section of the community can make to ensure success. The Council agrees with the Green Paper that "there are a number of key issues relating to incomes, investment and industrial relations on which some understanding must exist if the drive to achieve full employment is to succeed" (paragraph 8.4).

8.2 The Council has referred to incomes and investment in Chapters 2 and 4 above. With regard to industrial relations, the Council welcomes the establishment of the Commission on Industrial Relations. It notes that this Commission "will undertake a major review of the Irish system and will recommend on changes seen to be desirable" (paragraph 8.8). Because of the importance of a peaceful industrial climate for employment and economic growth the Council believes that the Commission should make every effort to conclude its deliberations as quickly as possible. In the meantime, every opportunity should be availed of, through co-operation between the various parties concerned, to improve the climate for good industrial relations which can greatly enhance our development efforts.

APPENDIX TO CHAPTER 2

TABLE 2.A

Annual growth in real GNP, 1960-1976
(%)

| Year | Growth |
|------|--------|
| 1961 | 4.9 |
| 1962 | 3.1 |
| 1963 | 4.1 |
| 1964 | 4.9 |
| 1965 | 2.2 |
| 1966 | 1.0 |
| 1967 | 5.1 |
| 1968 | 7.5 |
| 1969 | 5.0 |
| 1970 | 2.6 |
| 1971 | 4.6 |
| 1972 | 5.4 |
| 1973 | 5.4 |
| 1974 | 2.7 |
| 1975 | -0.2 |
| 1976 | 2.7 |

Growth rates, % per year (compounded annually):

1960-1976: 3.8%
1960-1973: 4.3%

Note: Data are averages of output and expenditure data.

Sources: *National Income and Expenditure* 1974, 1975; information from Central Statistics Office.

TABLE 2.B

Growth in volume of world trade, 1967-1977

(%)

| Year | World trade | World trade in manufactured goods |
|------|-------------|-----------------------------------|
| 1968 | 13.7 | 15.7 |
| 1969 | 10.8 | 14.8 |
| 1970 | 8.7 | 7.5 |
| 1971 | 6.0 | 8.0 |
| 1972 | 9.4 | 9.3 |
| 1973 | 12.1 | 13.6 |
| 1974 | 3.8 | 10.4 |
| 1975 | -3.7 | -4.7 |
| 1976 | 10.8 | 11.3 |
| 1977 | 3.5 | 3.8 |

Growth rates, % per year (compounded annually):

1967-1973
1967-1977

10.1
7.4

Note: Volume of world trade is the mean of UN indices for imports and exports.
Source: *National Institute Economic Review*.

TABLE 2.C
Irish share of world exports, 1970-1978

| Year | Irish share of world exports (%) | | |
|------|---------------------------------------|--------------------------------------|---|
| | Irish share of world exports of goods | Irish share of OECD exports of goods | Irish share of world manufactured goods exports |
| 1970 | 0.37 | 0.53 | 0.22 |
| 1971 | 0.42 | 0.53 | 0.26 |
| 1972 | 0.43 | 0.55 | 0.27 |
| 1973 | 0.41 | 0.53 | 0.29 |
| 1974 | 0.34 | 0.49 | 0.31 |
| 1975 | 0.40 | 0.57 | 0.28 |
| 1976 | 0.37 | 0.53 | 0.31 |
| 1977 | 0.43 | 0.61 | 0.44 |
| 1978 | n.a. | n.a. | 0.40 |

Notes: 1: First quarter.

n.a.: Not available at time of writing.

Sources: *Trade Statistics of Ireland; Statistical Abstract; UN, Monthly Bulletin of Statistics, June 1978; OECD, Statistics of Foreign Trade: Monthly Bulletin, Series A; OECD, Main Economic Indicators.*

TABLE 2.D
Gross domestic fixed capital formation 1977-1980 inclusive at current prices

| 1977 (preliminary) | 1978 (estimated) | | 1979 | | 1980 | |
|---|---------------------|----------|-------------------|----------|-------------------|----------|
| | % of GNP increase | % of GNP | % of GNP increase | % of GNP | % of GNP increase | % of GNP |
| 1,327 | 25 | 1,613 | 20 | 27 | 2,307 | 28 |
| 659 | 12 | 766 | 17 | 13 | 1,030 | 15 |
| Public Capital Programme of which: Public Capital Programme | 12 | 16 | 17 | 12 | 15 | 13 |
| Public Capital Programme as % of Gross domestic fixed capital formation (%) | 50 | 47 | 46 | 45 | | |

Notes: Gross domestic fixed capital formation in 1978-80 inclusive is based on an average annual volume increase of 12 per cent, together with an estimated price deflator for investment which is obtained as the arithmetic average of the estimated GNP deflator and import price deflator over 1978-80. The Public Capital Programme for 1979 and 1980 is derived by taking the percentage of GNP devoted to public capital expenditure (Table 7.2 of Green Paper), and by assuming that non-programme outlays are the same proportion of GNP as is projected for 1978. Sources: *Economic Review and Outlook July, 1978; Budget 1978.*

TABLE 2.E

Savings 1976, 1980, at current prices(a)

£ million

| Category | 1976 | 1980 |
|---------------------------|-------|---------|
| Personal | 784 | } 1,616 |
| Companies | 156 | |
| Public authorities | -181 | |
| Net foreign disinvestment | 138 | |
| Other (b) | 161 | 400 |
| Total | 1,058 | 381 |
| | | 2,377 |

Notes: (a) The current Budget deficit of £40 million in 1980 would suggest public authorities' dissaving in national accounts terms of about £20 million. "Other" savings are estimated by reference to their recent relationship to gross domestic physical capital formation. Personal and company savings in 1980 are obtained as a residual—by subtracting the sum of all other components of savings from gross domestic physical capital formation.

(b) Provision for depreciation, together with adjustment for stock appreciation.

APPENDIX TO CHAPTER 3

COUNCIL RECOMMENDATIONS ON TAXATION IN REPORT NO. 42

"Taxation

The Council recommends that a major aim of taxation policy for agriculture—as for other sectors of the economy should be to maximise development. In an earlier report (NESC, Report No. 15, *The Taxation of Farm Profits*), the Council recommended, with respect to the taxation of farming profits, that 'the objective should be to determine the income tax liability of farmers on the basis of actual accounts', while accepting that the notional income option should be retained for a limited period to give reasonable time to farmers to develop accounts for income tax purposes. The Council also recommended (a) the phased extension of income taxation of farmers by reduction of the valuation threshold and (b) the phased increase in the multiplier adopted for notional assessment to bring it more closely into line with the national average'. Since the publication of that report, the valuation threshold has been reduced and the multiplier increased, but the option of notional assessment has been continued without time limit.

The consultants have argued that the system of income taxation of farming needs to be complemented by a resource tax, i.e. a tax whose burden does not vary directly with income. Taxes which fall into this category are rates, capital acquisitions tax, and capital gains tax; wealth tax, abolished in the 1978 Budget, could also be regarded as a resource tax. For most farmers the resource tax of greatest relevance is rates, and in this report the Council confines its remarks to this form of resource tax.

¹The representatives of the ICMSA, the IFA and the IAOS did not support these recommendations.

The Council accepts the following arguments in favour of a resource tax that :—

'A tax system, especially in the Irish situation of few natural resources, should also serve to promote efficient resource use. Viewed in relation to this objective, the resource tax has the advantage of penalising under-utilised resources and favouring well-utilised resources. This is, therefore, a potentially valuable tool in the pursuit of accelerated development . . .'²

The Council also favours the recommendation that farmers participating effectively in a development plan should be exempt from any resource tax. A modification of the concession introduced in the 1978 Budget whereby rates can be offset against income tax should also be made; developing farmers³ would have no need of this concession since they would not be liable to rates, and non-developing farmers whose income tax liability exceeds their liability for rates should not be entitled to a concession which, in effect, exempts them from rates. At present the Agricultural Grant operates to reduce the burden of rates of those farmers entitled to the grant. Subject to the view expressed in the preceding paragraph, it would be in keeping with the concept of rates as a resource tax that, after reasonable advance notice, the Agricultural Grant would be progressively reduced and terminated. This, however, might cause particular hardship for certain small farmers not capable of participating in a development plan, and it may, therefore, be necessary to introduce certain interim compensatory measures to alleviate this hardship. Nonetheless, it would be important that any such interim measures would not impede the essential objective of ensuring that all land is used to its maximum potential."

² Paragraph 6, Chapter 4 of NESR Report No. 40, *Policies to Accelerate Agricultural Development*.

³ Defined as farmers participating not only in a development plan under EEC Directive 159, but in any development plan agreed with an agricultural adviser.

APPENDIX TO CHAPTER 4

SERVICE EMPLOYMENT TARGETS 1978-80

Table 4.A shows that the target for the services sector is a growth rate of 3.0 per cent in employment in private sector services, together with a growth rate of 1.7 per cent in employment in public sector services (widely defined). The expected rise in employment in the public services is 12,300 over the three-year period 1977-80. In the Budget of February 1978 it was stated that, in addition to a carry-over into 1978 of about 2,700 public sector posts (which had been approved in 1977), financial provision was being made for the creation of a further 6,560 posts in 1978. It is not clear from the Budget statement what the cost to the Exchequer of the increased employment will be, or what the actual number of jobs created will be in 1978. About 5,500 to 6,000 of these 9,300 (2,700 plus 6,560) approved posts could be filled in 1978. This would leave 3,300 to 3,800 jobs to be created in the period 1978-80, and the need to create a further 3,000 public sector posts in that period if the target of 12,300 is to be achieved.

APPENDIX TO CHAPTER 6

TABLE 6.A

Transportable goods industries where hours worked equalled or exceeded 46 hours per week, 12 months ended September 1977: Males on adult rates.

| Industry | Average Weekly Hours Worked |
|--|-----------------------------|
| Mining, Quarrying and Turf | 47.1 |
| Creamery butter and other edible milk products | 47.5 |
| Grain milling and animal feeding stuffs | 49.7 |
| Bread, biscuit and flour confectionery | 46.4 |
| Manufacture and refining of sugar | 51.5 |
| Malting | 47.5 |
| Brewing | 55.0 |
| Aerated and mineral waters | 47.3 |
| Soap, detergents and candles | 48.9 |
| Structural clay products, asbestos goods, etc; cement | 46.1 |
| Ship and boat building and repairing | 48.9 |
| Other vehicles (i.e. other than mechanically propelled road and land vehicles) | 48.8 |

Source: Quarterly Industrial Inquiry.

TABLE 4.A

Service employment, compared with industrial employment, 1977-1980

| Sector | Base in 1977 ('000) | Green Paper targets 1977-1980 inclusive | |
|-----------|---------------------|---|---|
| | | ('000) | Growth rate, % per year (compounded annually) |
| Industry | 310 | 17.2 | 5.2 |
| Services | 490 | 11.8 | 2.4 |
| of which: | | | |
| Private | 251 (a) | 7.7 | 3.0 |
| Public | 239 (b) | 4.1 | 1.7 |

Notes:

(a) This estimate is derived as a residual.

(b) This estimate is obtained as follows: In NESR Report No. 28 (*Service-type Employment and Regional Economic Development*, Table 2.20), public service employment in 1976 is given at 265,800. The figure for 1977 would be about the same—265,000. From this there is a deduction of 20,000—an estimate of employment in industrial semi-State bodies—and a deduction of 6,000 which is an estimate of industrial employment in the rest of the public service.

Sources: *Economic Review and Outlook July, 1978*; *National Development 1977-1980; Development for Full Employment*.

TABLE 6.B

Transportable goods industries where average hourly earnings were less than 90 per cent of the average hourly earnings for all industries in September 1977, together with average hours worked: Males on adult rates

| Industry | Average weekly hours worked, 12 months ended September 1977 |
|---|---|
| Coal, turf production and bog development | 46.2 |
| Grain milling and animal feeding stuffs | 49.7 |
| Bread, biscuit and flour confectionery | 46.4 |
| Miscellaneous food (including fish) | 42.6 |
| Aerated and mineral waters | 47.3 |
| Linen and cotton | 38.6 |
| Boot and shoe (wholesale factories) | 40.3 |
| Clothing (wholesale factories) | 41.2 |
| Made-up textile goods (except apparel) | 42.9 |
| Wood and cork (except furniture) | 42.8 |
| Furniture and fixtures; brushes and brooms | 42.0 |
| Manufactures of leather and leather substitutes | 40.0 |

Source: As for Table 6.A.

APPENDIX TO CHAPTER 7
TABLE 7.A

Current Budgetary revenue 1977, and targets up to 1980: at current prices

| 1977 (provisional) | 1978 | 1979 | 1980 | Tax revenue | | Non-tax revenue | | Total revenue | |
|-----------------------|------|------|------|-------------|----------|-----------------|----------|---------------|----------|
| | | | | £m. | % of GNP | £m. | % of GNP | £m. | % of GNP |
| | | | | 1,482 | 27.4 | 275 | 5.1 | 1,757 | 32.5 |
| | | | | 1,641 | 10.7 | 322 | 17.1 | 1,963 | 11.7 |
| | | | | 26.0 | 5.1 | 1,995 | 21.6 | 2,360 | 20.2 |
| | | | | 27.9 | 5.1 | 413 | 13.2 | 2,795 | 18.4 |
| | | | | 2,382 | 19.4 | 29.4 | 5.1 | 34.5 | |

Note: Tax revenue in the period 1978-1980 is projected on the basis that non-tax revenue bears the same relationship to GNP in those years as it did in 1977. If the estimate for 1978 in the February 1978 Budget (that non-tax revenue in 1978 would be 4.9 per cent of money GNP) was used, then total tax revenue would be estimated to be £15 million higher in 1979 and £16 million higher in 1980.

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