PART IV: CONCLUSIONS

CHAPTER 12: CONCLUSIONS

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CONCLUSIONS

1. INTRODUCTION

(i) Overview of Economic Situation

The economic and social problems now confronting the country are extremely grave. This is particularly the case with regard to the labour market situation and the public finances.

Total employment in the economy declined at a rate of 11,000 per annum over the period 1980-85. Unemployment now stands at 18 per cent of the labour force, while in the year to April 1986 net emigration is estimated at 31,000 compared to a natural increase of 28,000.

Failure to make significant progress towards reducing the chronic imbalances in the public finances has resulted in a rapid growth in the size of the national debt. Total exchequer debt outstanding doubled over the period 1981-85 from £10.2bn or 94% of GNP to £20.4bn or 134% of GNP, a historically unparalelled figure and by far the highest in the OECD area. The servicing of this debt now amounts to one quarter of total current public expenditure.

While the current situation is grave, the Council is even more concerned at the fact that, without a change in present policies, the medium term prospects offer no relief. On the basis of likely developments in the international economy and the continuation of existing policies a set of medium-term scenarios for output growth for the economy are set out in Chapter 5. Under the optimistic scenario an annual average growth rate of GDP of 3 per cent is envisaged for the 1986-90 period. The pessimistic end of the range is a growth rate of under 2 per cent per annum.

Under the pessimistic scenario total employment in the economy is projected to fall by 23,000 over the period. The optimistic scenario envisages employment growing by 30,000 from its 1986 level. Neither scenario is likely to see a significant reduction in unemployment unless accompanied by higher rates of emigration or a greater fall in participation rates than was assumed in Chapter 6. Moreover, neither scenario gives rise to automatic correction

of the public finances imbalances. In fact under the pessimistic scenario the fiscal imbalances could deteriorate appreciably. This is the background against which the relevant policy choices must be formulated and decisions taken.

Since the Council initiated this report in early 1986 the overall economic and social situation has deteriorated even further. The 1986 Census of Population revealed net outward migration of 75,000 between 1981 and 1986. This, when viewed in conjunction with the growth in unemployment over this period provides the clearest evidence of deteriorating economic performance. The overrun on the public finances from the original budget position, which became evident as the year progressed, is also a matter of serious concern. This overrun is particularly disconcerting against the background of chronic imbalances in the public finances and given some of the favourable influences on the budgetary figures, such as the more benign inflation environment. Such overruns are due to excessive rigidity, particularly with regard to public expenditure and an associated inadequate control by Governments over the public finances.

Another major development since the Council initiated this report has been the sharp movement of interest rates and exchange rates. The Council is extremely concerned at the recent sharp upward movement of interest rates and at the overall volatility of the money and foreign exchange markets. The factors giving rise to these movements, in particular the drain of liquidity from the domestic monetary system, can only be tackled by adopting, as a minimum, the strategy put forward in this report.

The medium term prospects for the economy contained in Chapter 5 are based on a general assumption that the broad thrust of Government policies will remain essentially unchanged in the period to 1990. Both of the scenarios painted to 1990 are clearly unsatisfactory on any objective criteria. The continuation of existing policies is therefore not a viable option. The argument against a continuation of present policies is sometimes based on the consideration that discretion over economic and social policy would ultimately be removed from our control. However, a much more rapid and potent threat to the continuation of present policies arises from a possible erosion of domestic confidence in the economy.

(ii) The Central Problem

The two major issues identified in this report are the unemployment situation and the imbalances in the public finances. However, these problems cannot be viewed in isolation from one another or from the functioning of the economy more generally. They are in fact closely interrelated and their deterioration can be partly traced to a common origin. This common origin is the rate of growth of the economy. As argued in Chapter 7 it is the level of national output which determines both the level of sustainable employment

and the level of public expenditure which can be sustained by acceptable levels of taxation and prudent levels of borrowing.

Between 1981 and 1985 the level of GNP registered negligible growth in marked contrast to the 1976-80 period when real GNP grew by almost 4 per cent per annum. Similar trends emerge in respect of GDP with the respective growth rates for 1981-85 and 1976-80 being 2 per cent and 4.5 per cent. With the growth of productivity being broadly similar in the range 3-3½ per cent per annum over the two sub-periods the contrasting employment performance is accounted for by the difference in growth rates. This slowdown in growth in the 1980-85 period also exacerbated the structural difficulties inherent in the public finances.

One of the features of the current economic situation which gives particular cause for concern because of its implications for long-term growth is the fall off in the rate of investment. Gross fixed capital formation declined in volume terms by an average of 2 per cent per annum between 1980 and 1985 compared with an annual average increase of 8.5 per cent between 1975 and 1980. The decline in fixed capital formation in agriculture and manufacturing industry was considerably more rapid.

2. KEY ELEMENTS OF A SOLUTION

The Council believes that any strategy for economic recovery must contain three essential elements. The policy section of this report is built around these three elements. *Firstly*, since the low level of national output and the slowdown in the growth of national output in recent years is a central problem then the acceleration of output growth and consequently employment growth has to be a central feature of the solution.

However, and *secondly*, growth per se will not solve the imbalances in the public finances. Table 8.1 shows that growth rates even at the optimistic end of the range specificed are insufficient to result in automatic correction of the imbalances. It is essential to adopt a realistic approach to the constellation of variables impinging on the budgetary aggregates in the formulation of fiscal policy over the medium term.

Thirdly, the achievement of a more rapid and sustainable rate of growth and the correction of the chronic imbalances in the public finances will require a considerable degree of sacrifice from society. If such sacrifices are to be accepted without compensation being sought it is essential that they are shared equitably across all sections of society. A central element of any strategy must therefore be the removal of inequities from many aspects of our society ranging from the financial inequities inherent in the taxation and public expenditure systems to issues of access and opportunities in a more general context. As

argued in Chapter 7 the redistributive objectives of Government cannot be ignored even at a time when the economic environment suggests tough decisions. However, it must be emphasised that these objectives would be more readily attainable in a rapidly growing economy where balance had been restored to the public finances.

Against the background of these three essential elements the Council has, in this report, put forward an overall strategy for economic and social development. It contains four major pillars: (i) an integrated macro-economic policy addressed to correcting the imbalances in the public finances while at the same time promoting the development of the traded sectors through the provision of an appropriate environment; (ii) fundamental reform of the tax structure designed to enhance the efficiency and equity of the present system; (iii) the promotion of the traded sectors through the provision of an appropriate environment together with a set of improved sectoral policies in which state intervention is directed towards more effectively and efficiently addressing the structural deficiencies in the productive base of the economy, and (iv) the progressive removal of the major inequities in society.

The Council considers that failure to implement this four pronged strategy will consign the economy to a stagnation of employment coupled with higher unemployment and/or the persistence of high levels of emigration, continued deterioration of the public finances and, growing public disaffection with the economic and political system.

Derived from this four pronged strategy is a carefully balanced package of economic and social policy initiatives which are briefly outlined and summarised in this conclusions chapter and elaborated upon fully in the policy chapters of the report. The recommendations put forward are the absolute minimum necessary to restore balance to the economy and generate the conditions necessary for a restoration of confidence in the economy. One essential theme which runs through all the policy chapters is the complementarity between various policies and the need for consistency between the policy instruments. In fact failure to implement the various policies as an integrated whole will only exacerbate our present difficulties and keep us in the vicious circle which we currently occupy.

3. THE POLICY FRAMEWORK

This section outlines the policy instruments and the direction which they must take in order to underpin the four pronged strategy set out above. Macroeconomic policy, comprising fiscal, monetary and exchange rate policy, and policies with regard to the evolution of incomes, is designed to *simultaneously* address the central problem of low growth and its associated symptoms of imbalances in the public finances and growing unemployment.

Reform of the taxation system is concerned with improving resource allocation within the economy, thus leading to an acceleration of output and employment growth. Policies for the individual sectors are concerned with the provision of an appropriate environment and the removal of structural impediments to growth. Finally, removal of inequalities from society, particularly those inherent in the taxation and public expenditure systems, is essential if the tough decisions associated with the other strands of the strategy are to be accepted.

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(i) Macro-economic Policy

Fiscal policy

The Council believes that stabilisation of the debt-GNP ratio must now be a minimum objective of fiscal policy. Stabilisation is a first and necessary step towards the ultimate objective of reducing the ratio. While there may be short-term dislocation effects arising from stabilising the debt-GNP ratio this must be set against the even greater dislocation which would arise in the medium-term if action is not taken to stem the growth of the debt. Any adverse consequences must also be set against some of the more positive effects of stabilising the debt ratio and reducing the borrowing requirement. These positive effects derive primarily from an easing of interest rate pressures.

The fiscal policy implications of stabilising the debt-GNP ratio can best be considered by examining the necessary evolution of the non-interest balance on the Exchequer account, i.e. the sum of exchequer capital borrowing and the current budget deficit net of interest payments. In order to stabilise the national debt-GNP ratio at its end-1985 level a surplus of 2.7 per cent of GNP on the non-interest account would be necessary. Given that this account is likely to record a deficit of about 2 per cent in 1986 a shift towards surplus of between 4½ and 5 per cent of GNP is required.

In the Council's view it is neither feasible or desirable to effect the required degree of adjustment in the public finances through the medium of higher taxation. While the short term effects of rectifying the chronic imbalance in the public finances may be adverse, particularly if not accompanied by other policy changes, the extent of these adverse effects is likely to be greater if increases in taxation are used to effect the adjustment. Public spending reductions are therefore the most appropriate means of restoring order to the public finances if the encouragement of strong and sustainable growth is to be part of the medium-term strategy. In the Council's view the scale of the public spending reductions necessary is such that any savings arising from increased productivity, greater programme efficiency and better management will make only a partial contribution in the context of the overall adjustment that is likely to be required.

The question of whether expenditure cuts should be concentrated on current or capital spending should be decided on the basis of protecting the long-term growth potential of the economy. There is a clear case for concentrating public spending cuts on current expenditure though, as indicated in Chapter 8, not all current expenditure programmes are devoid of long-term beneficial effects on the productive base of the economy. Equally not all capital projects enhance the long term growth rate of the economy. Notwithstanding this latter point the Council is concerned at the fact that the burden of adjustment that has been effected over the first half of the 1980s has been concentrated on a reduction in exchequer borrowing for capital purposes.

The objective of fiscal policy has been couched in terms of stabilising the debt/GNP ratio, which is consistent with a continuation of a current budget deficit. However, it is emphasised in Chapter 8 that stabilisation of the debt GNP ratio is a minimum requirement of fiscal policy and that when the ratio is stabilised there will continue to be an imbalance in the public finances. Stabilised at 134 per cent of GNP the National Debt would still be extremely high by international standards and unprecedented historically. Its magnitude, coupled with the proportion of Exchequer resources required to service it, would leave the public finances excessively vulnerable to interest and exchange rate movements. Stabilising the debt-GNP ratio therefore should be seen as the first step towards reducing it.

The means of stabilising the National Debt-GNP ratio embrace not only measures, such as Government spending cuts, which are designed to reduce Exchequer borrowing, but also measures which have the effect of increasing the rate of growth in GNP.

As outlined in Chapter 7, economic growth in a small open economy is powered by the internationally trading sectors. The Council's views on the most appropriate way to effect adjustment in the public finances have therefore been strongly influenced by the need to foster the growth prospects of the internationally traded sectors. While the determined pursuit of credible fiscal policy objectives can make a significant contribution in this regard through, inter alia, a reduction of interest rate pressures, this must be accompanied by compatible incomes and exchange rate policies.

One of the factors giving rise to the sub-optimal performance of the Irish economy in the first half of the 1980s was the inconsistency which existed between the various instruments of macro-economic policy. If policy is to be successful in achieving the twin aims of a reversal of the growth of unemployment and a reduction of the public finance imbalances then a consistent macro- economic policy, together with the other elements of the overall strategy, is essential. The fiscal element of macro-economic policy has been described above. The other main elements are exchange rate policy and incomes policy.

Exchange Rate Policy

In the context of a consistent macro-economic policy the role of exchange rate policy is to ensure an external value of the currency which provides a stable environment within which the internationally traded sectors can operate. The exchange rate is a powerful instrument in this regard given its role in influencing the domestic rate of inflation, the level of interest rates and the nature of the planning environment within which business decisions are taken. All these variables have a crucial bearing on the ability of the internationally traded sectors to generate rapid and sustainable growth.

In the context of inflation and income developments the role of exchange rate policy is twofold, firstly, through minimising imported inflation and secondly, through indicating to those involved in the cost-determining mechanisms that any increases conceded above those prevailing in our main trading partners cannot be compensated for by exchange rate adjustments. The discipline inherent in this strategy arises from the fact that such relative cost increases would rapidly erode the profit margins of the traded sectors with adverse output and employment effects. Chapter 8 demonstrates clearly the adverse consequences of using the exchange rate as a substitute for other policies which fail to ensure the competitiveness of the traded sectors.

Chapter 8 also indicates that an explicit non-accommodating exchange rate policy pursued through stability of the nominal effective exchange rate gives rise to expectations of a stable currency with associated beneficial implications for domestic interest rates. These interest rate implications, together with the stable planning environment are very important in reducing the cost of funds for investment and the degree of risk, with consequent beneficial effects on the confidence of investors.

The Council is acutely aware of the tensions inherent in our present exchange rate regime, which become particularly evident when sterling and the dollar diverge from the currencies participating in the EMS exchange rate mechanism. However, exchange rate policy must be formulated by reference to the entire economy. Hence decisions must be taken having regard to overall stability of the trade weighted nominal effective exchange rate.

Policies for Incomes

Policies in relation to incomes constitute one of the key instruments for ensuring the competitiveness of the internationally trading sectors. The appropriate operational objectives of all cost-determining mechanisms (for example, pay, interest rates etc.) should be that the average rate of cost increase in Ireland should not exceed the weighted average of cost increases in our main trading partners.

The policy instruments available to Government to achieve these objectives are primarily indirect. The most notable influence on the evolution of incomes

is the taxation system. A restructured taxation system along the lines suggested in Chapter 10 would provide a much more conducive background to wage negotiations and a growth of incomes more in line with our trading partners. Another influence on the evolution of income increases is the evolution of public sector pay. The role of a non-accommodating exchange rate as part of an integrated macro-economic policy is crucial in providing a low inflation environment within which the rate of domestic cost increase can be reduced to that of our trading partners. Finally, competition policy is a vital indirect instrument in promoting the rapid growth of the traded sectors through the promotion of competition within the economy, particularly in the sheltered sectors. It is imperative that Government policy be directed towards providing the environment most likely to generate a rate of cost increase which does not exceed the average of our main trading partners.

Consistency, continuity, credibility

A continuous theme running through the macro-economic framework has been that of *consistency* within and between the various elements of macro-economic policy. There are two other requirements for an effective economic strategy. One of these is *continuity*. The problems facing the economy which have been outlined in this report did not develop over a short period of time. Some have been building up from the mid to late 1970s. These problems are now such that their resolution will take a number of years, giving rise to the necessity for tough decisions and demanding many sacrifices. The consistent application of these policies must therefore continue over a period and take place within a medium term framework.

A firm commitment to the strategy on the part of Government is a necessary condition for the stabilisation of expectations and the restoration of confidence in the economy. This is the *credibility* requirement. To ensure the credibility of any strategy the targets adopted must realistically be capable of being achieved in the period specified. The choice must avoid a period which is either unrealistically short, or so long that action lacks urgency and credibility. The choice of target for the public finance adjustment, viz. the debt-GNP ratio, is also strongly influenced by the credibility requirement. This is based on the consideration that since debt service now forms such a significant proportion of Government expenditure, conventional budgetary targets are very sensitive to interest and exchange rate movements. Any adverse movements of interest and/or exchange rates would be likely to result in non-achievement of targets with adverse effects on confidence and credibility.

A policy which is derived from an overall framework characterised by the principles of consistency, continuity and credibility, is the one most likely to deliver on the growth, employment and public finance objectives set out in the report. These principles underpin the performance of a number of OECD countries, who have achieved a simultaneous improvement of key

economic variables. It must be emphasised of course that there is no unique strategy corresponding to the principles. The precise strategy can vary depending on the particular circumstances of each country.

The beneficial effects for the internationally traded sectors from a coherent macro-economic policy have already been outlined, e.g. the beneficial effects on output and employment of an improvement in cost competitiveness, reductions in interest rates etc. There is however, a beneficial effect over and above that, which is difficult to quantify, viz. the effects of an improvement in confidence. General improvements in confidence can provide a more conducive environment for investment due to stable expectations, it can reduce the interest rate premia required to cover exchange rate risk, it can provide a better environment for wage negotiations through offering a low inflation environment.

The general effects of an economic strategy based on these three principles are that the economy moves from a downward spiral of low investment, low growth, deterioration in unemployment and the public finances to a virtuous circle with improvements in some areas giving rise to and augmenting the improvements in others.

(ii) Tax Reform

Before discussing the issue of tax reform the Council wishes to emphasise two points, both relating to types of strategies which do not provide a solution to our present difficulties. Firstly, because of the present state of the public finances, across-the-board cuts in taxes cannot be regarded as a realistic option in the medium term. It would require significant reductions in public spending, greater than those necessary just to stabilise the debt/GNP ratio, before reductions in the overall tax burden can be contemplated. Secondly, the scope for selective tax reductions to boost activity in particular areas is limited relative to the size of the overall tax burden. Equally of course increases in taxation have been ruled out in the context of discussing the most appropriate mechanism for effecting adjustment in the public finances. Notwithstanding these constraints on the overall tax burden, reform of the tax system while maintaining the overall burden is a key feature of the Council's overall strategy.

The structure of the present taxation system is generally perceived as contributing to economic inefficiency through resource misallocation. Resource misallocation is an inevitable consequence of a tax system which has been built up by a process of accretion and which is not guided by any particular strategy. In this type of environment market signals to individuals and businesses in labour and capital markets are distorted and activities are pursued for the tax advantages which they confer. Use of the tax system as a vehicle for incentive provision also gives rise to a misallocation of resources.

From a labour market perspective the most disturbing feature in the Council's view is the fact that high marginal tax rates are reached at relatively low levels of income. This feature of the tax system is likely to give rise to a host of disincentive effects through its impact on, for example, competitiveness and poverty traps and through its effect on enterprise and risk taking generally. The differential between gross labour costs and disposable employee income (the 'wedge') also has adverse implications for efficiency.

From an equity perspective the present system also gives rise to serious concern in three important respects:

(i) the different treatment of employees and the self-employed;
(ii) the different treatment of income from different sources, for example PAYE income and income derived from capital gains;
(iii) the regressive distribution of certain discretionary reliefs.

It is argued in Chapter 10 that tax reform may now be one of the most powerful instruments available to Government to promote faster growth in output and employment in the short to medium term. Frequently, when major reform is being contemplated in cases of Government intervention in the economy conflict arises between efficiency and equity considerations with complex trade-offs having to be weighed up before decisions are taken. However, in the case of tax reform, efficiency and equity considerations point in a similar direction. In Chapter 10 the Council sets out a programme of reform based on the principles underlying the reports of the Commission on Taxation.

In particular, the Council believes that the priority of taxation policy must be the widening of the tax base and the simultaneous reduction of tax rates. This is the only way in which tax rates can be significantly reduced in the medium term given the imbalances in the public finances. Widening of the base applies not only to personal income tax but to capital taxation, corporate taxation and to value added tax. It also extends to the taxation of property to which the Council has already committed itself in principle. Finally, the Council wishes to emphasise one point in regard to its tax reform proposals, viz. income gained from widening the tax base must not be used to increase the overall tax burden, thus becoming a substitute for public spending reductions.

(iii) Development Policies

The integrated macro-economic policy outlined earlier provides the environment within which the supply side of the economy will have to evolve over the medium term. However, as outlined in Chapter 11 with regard to both industrial and agricultural policies, consideration of the structural characteristics of the internationally traded sectors is required to ensure that they are consistent with ensuring sustained output and employment growth.

Industrial Policy

Chapter 11 outlines the two broad approaches to industrial policy. One approach considers that the overall economic environment is the major influence on the evolution of the industrial sector. A second approach emphasises the weaknesses of the industrial sector by reference to structural factors and the late development of the Irish industrial sector. The broad conclusion reached in Chapter 11 is that these approaches should be viewed as complementary, arguing that while the cost environment is undoubtedly an important influence on the evolution of industrial output and employment, there are many reasons why the provision of a favourable environment will not be a sufficient condition to generate rapid output and employment growth.

In the Council's view an appropriate or conducive cost environment is one in which the total cost of all inputs is equivalent to those faced by our trading partners. This comprises labour costs, interest costs, raw material prices, transport costs and charges for services. The integrated macro-economic policy together with the reform of the tax system is designed to bring labour costs and interest costs into line with our competitors. Competition policy (discussed in Chapter 8) has a key role to play in ensuring that costs emanating from the sheltered sector of the economy are supportive of the development of the traded sectors. In some cases competition is limited because monopoly power is statutory, primarily in the case of commercial state-sponsored bodies. In this context the use of performance indicators and the issue of clear and consitent objectives against which performance can be assessed is vital. The ultimate performance objective should be to bring prices for services into line with those prevailing in our trading partners.

While the Council has previously commented in detail on industrial policy many of these comments bear repitition. Chapter 11 details the major shortcomings of our industrial policy. These include the heavy reliance on overseas firms and a limited number of manufacturing sectors with all the attendant risks. In addition, the strategy has not resulted in the development of strong indigenous firms, particularly in the tradeable goods sectors. Another major shortcoming of industrial policy has been its failure to establish stronger linkages between the foreign-owned sectors and the rest of the economy.

The Council believes that to be effective an active industrial development strategy must be geared towards providing the maximum number of sustainable jobs in manufacturing industry. This will require:

(i) the maximisation of value-added in industry;
(ii) the maximum retention of the wealth thereby created for further employment-creating investment;
(iii) the development of strong indigenous firms;
(iv) the forging of stronger links between overseas firms and the rest of the domestic economy;
(v) the continued attraction of overseas firms.

The instruments required to achieve these objectives should be selective in that they should be focussed on the firms which offer the best possibility of eventually becoming strong self-sustaining internationally trading businessess and on the key cost disadvantages which prevent these firms from breaking into internationally trading businesses.

The more selective application of incentives was announced as an intention of Government policy in the White Paper on Industrial Policy. The White Paper also indicated that there would be a shift of State resources from fixed asset investment to technology acquistion, research and development, and marketing. However, the Council is concerned that declared objectives and intentions were not accompanied by any quantification. This shift in the allocation of resources is critical to the future success of industrial policy. Apart from the fact that it is in areas other than access to capital that indigenous firms face the most significant disadvantages, the use of captial grants distorts the allocation of resources towards capital intensive businesses and away from knowledge intensive businesses and also leads to a labour saving bias in manufacturing businesses.

As indicated earlier, the Council is particularly concerned at the fall off in investment over the last five years. One of the key elements in promoting the growth of investment is the establishment of a conducive environment. The macro-economic policy outlined above will have beneficial effects through an easing of interest rate pressures and the provision of a stable planning environment.

Not alone is there a need for concern about the fall-off in the overall rate of investment but also regarding the nature of the investment which is taking place. A number of considerations are germane here. Firstly, whether the investment is capital-deepening or capital-widening. Secondly, the sectors of the economy in which the investment is taking place and thirdly whether the investment is in physical or in other assets.

The essential difference between capital-deepening and capital-widening investment is that the former is a defensive reaction to an adverse situation and is usually associated with reductions in employment. There is ample evidence for this form of investment in the indigenous sector of Irish manufacturing industry. Capital-widening investment on the other hand is a positive response to market opportunities and is associated with employment growth. The overall strategy recommended in this report would give rise to a positive environment conducive to capacity-expanding investment.

The second issue mentioned above related to the sectors of the economy in which the investment is taking place. A consistent theme running through all the policy discussion has been the importance of the internationally trading

sectors. It is in these sectors that investment is required. The important role for Government here is to ensure that the myriad of interventions through taxation and public expenditure do not result in making the relative rate of return on investment in the non-traded sectors more attractive. One of the criteria in identifying the public spending cuts required as part of the fiscal strategy should be the extent to which various expenditure programmes support non-traded activities or bias the relative rate of return away from investment in the traded sectors. NESC Report No. 76 deals in detail with this issue.

The third issue relates to whether the investment is in physical or other assets. Arguments to the effect that the switch of state support away from fixed asset investment towards other forms of investment has a deleterious effect on overall fixed asset investment must be set against the industrial policy arguments in favour of this switch. In general, the Council believes that an over narrow definition must not be taken. In fact the most appropriate definition of investment is any expenditure which yields a rate of return beyond one year.

While the changes in industrial policy in regard to the mix of instruments and the allocation of resources across the various instruments should contribute to the development of a strong indigenous sector there may still be some factors which prevent the indigenous sector from realising its full potential. One of these factors relates to the inhibiting effect of the small size of the domestic market. Another, which is related to this, revolves around the existence of market opportunities which because of long lead times or high risk exposure are not undertaken by private investors.

Based on such considerations the Council believes that there is a need for more direct State involvement in the development of indigenous industry with particular emphasis being placed on the provision of State equity investment in existing and prospective enterprises which would otherwise experience severe difficulties in financing the development of new products and markets, and the acquisition of new technology. The National Development Corporation (NDC), set up by the Government in 1986, is a body whose remit includes these functions. Success by the NDC in achieving its objectives, particularly the achievement of a strong indigenous industrial base, will necessitate the taking of decisions based on commercial principles. It is imperative that investments by the NDC yield, *at least*, returns equal to the cost of borrowing.

If existing state-sponsored commercial enterprises are to contribute to sustained growth in the economy a clarification of their overall objectives and a financial structure geared to the attainment of these objectives will be necessary.

It is also argued in Chapter 11 that a crucial determinant of the success of industrial policy in attaining its objectives will be the effectiveness of

monitoring and control arrangements. These arrangements should revolve around three principal elements:

- an industrial policy budget
- regular published reviews of industrial policy achievements in relation to objectives (promised in the White Paper)
- the application of performance criteria to state agencies.

The food processing sector is a major source of manufacturing output and employment in Ireland. However, if the sector is to contribute to future employment and output growth in the economy a number of factors in both the external environment, i.e. the EEC, and internally with regard to its relationship with primary producers will have to be addressed. Given the likely continued evolution of the CAP the food processing sector may experience restricted supplies of raw materials. This will accentuate the need to re-orientate production towards higher value- added products.

In addition to the overall economic environment and the precise direction of industrial policy there are structural problems peculiar to the food processing sector which require attention. These relate principally to the relationship between the primary producers and the processors and to the existence of surplus capacity at the processing stage. Resolution of the difficulties which are inherent in this relationship will require better synchronisation between raw material supplies and market needs. This will necessitate a reduction in seasonality at the primary level and the institution of long term contracts between primary producers and processors.

The issues surrounding the food processing industry in Ireland have been the subject of numerous reports. However, apart from some individual projects no real progress has been made to solve the deficiencies identified. Because of the proposed changes to CAP away from intervention towards a more market oriented system, and the imposition of the quota system, there is now an urgent need for a national food production policy and programme.

While commercial realities and decisions will ultimately determine the type and scale of production and processing undertaken by farmers and processors the various state agencies supporting agriculture, properly structured, can significantly and positively influence the pace and type of market orientation that will evolve. Greater market-orientation may require that the State institutional support system be reviewed.

Agricultural Policy

The critical parameters for the future of agriculture are (i) the domestic environment, the principal indicator of which from the agricultural perspective, is the price/cost squeeze; (ii) the evolution of the CAP; and (iii) the evolution of the structural deficiencies in the sector. Not all the parameters, of course, are external to the farm enterprise. Efficiency improvements at the level of the individual farm are vital for a healthy agricultural sector.

As indicated in Chapter 2 one of the critical parameters for the future health of the agricultural industry is the likely path for the price-cost squeeze. The importance of the price/cost ratio can be gauged from the fact that the bulk of the observed annual changes in farm income over the 1980-85 period is accounted for by nominal variables, principally output and input prices. The price side of this equation is determined primarily by the EEC Commission and Council of Ministers. The cost side of the equation on the other hand is domestically determined and a close relationship exists between farm input costs and the domestic inflation rate. The integrated macro-economic policy recommended above would keep the domestic rate of inflation under firm control and would thus minimise any squeeze emanating from the cost side.

The CAP has had a high degree of success in achieving many of the objectives originally set for it. One of the most notable successes has been with regard to ensuring security of supply of agricultural commodities. However, this success has given rise to some problems, notably the budgetary cost of the policy, most of it in recent years related to financing market surpluses. One of the fundamental constraints now facing Community agriculture is that expenditure cannot grow at rates comparable with the past.

Aside from the overall growth of expenditure the pattern of such expenditure is noteworthy. In the early 1970s it was envisaged that about one quarter of the agricultural budget would be committed to structural policies. This, however, has never materialised and the proportion spent on structures has now fallen below five per cent. Partly as a consequence of the greatest degree of support being directly related to production, there is a maldistribution of support both between farm businesses of different size and across member states. On either a per unit area or per holder basis, Dutch, Danish and Belgian producers retain the top positions in terms of support. Notwithstanding this unequal distribution, Ireland has been a substantial net beneficiary from the Community budget since accession. The level of agricultural support received by Ireland is of strategic importance to the Irish agricultural sector, being equivalent to 64% of gross agricultural product at market prices in 1985.

In considering the most appropriate Irish stance in the context of European negotiations regarding the future of the CAP it is necessary to firstly acknowledge that the reform of the CAP is necessary. If we persist in defending what is economically and politically unsupportable within the EEC we may fail to increase support for common policy measures which may be beneficial to us. It is essential to be clear on one issue at the outset, viz. nationalisation of agricultural policy within the EEC would fundamentally threaten Irish interests.

Having accepted that the CAP is in need of reform it is necessary to consider what are acceptable EEC policies and secondly how the prospects of Irish agriculture can be enhanced within an acceptable EEC framework. It is

essential that Ireland try to build consensus across the Community around a number of key issues.

In the view of the Council the first such issue is the necessity for an international dimension to the solution of worldwide surplus agricultural production. In particular, the Council believes that sacrifices by Community producers in restraining production should be matched by similar sacrifices from other major world food exporters.

However, this would not remove the need for a serious tackling of the Community's internal agricultural problems. In attempting to seek some consensus across the Community on the means of restraining EEC production the Council believes that the future evolution of common prices must have regard to the fact that high food prices entail a cost to the consumer as well as a benefit to the producer. Moreover, reform of the CAP should be used as an opportunity to reorientate the policy to address the low income problem in farming. Finally, in seeking consensus Ireland must adopt an approach which acknowledges the very real difficulties now facing the CAP. This involves acceptance of the fact that Ireland must participate in the adjustment inherent in reform of the CAP. However, sacrifices must be determined by reference to the importance of agriculture in the individual states, the structure of agriculture in each state and the nature of the objectives in the Treaty.

As part of adopting a realistic approach it must be acknowledged that price policy within the Community must have regard to the cost to the consumers and to the surplus production situation. Price policy must also have regard to costs of production within the Community, including any costs associated with the peripheral location of some regions. Chapter 11 of course points out that a restrictive price policy has been in operation for a considerable number of years.

The Council, however, emphasises that it would not wish price policy to be the only instrument used to bring about greater market balance. Greater equilibrium in agricultural markets will therefore necessitate quantitative restrictions. As part of the strategy of building community wide agreement around a reform of the CAP, reform should incorporate the objective of dealing more effectively and systematically with the problems of low income farmers. Preferential access to production opportunities may have to be devised in order to achieve this objective. This strategy could be relatively favourable for Ireland.

It is essential, in the view of the Council, that any reform of the CAP must have regard to the fundamental objectives of the Community as articulated in the Treaty of Rome. In particular, the Council would be concerned to ensure that community agricultural policy continues to fulfil the objective of assuring a fair standard of living for the agricultural population. In this

context the Council would wish to see the distribution of support across the Community more attuned to the disparities between the various agricultural regions. This would be partly achieved through a reorientation of support towards alleviating the low income problem in farming.

As with the industrial sector the agricultural sector is also beset by structural deficiencies. These are detailed in Chapter 11. With regard to structural issues the Council would emphasise the desirability of a new land use policy taking account of the changed production and marketing environment within the EEC. The move in the EEC towards quota restrictions on milk and declining real price support generally reduces the scope for increasing output and for development generally. There is therefore a changed context within which land use policy must be considered. This, however, does not diminish the need for more efficient and effective use of land. If anything it increases the premium on effective land use in both conventional and non-conventional enterprises. The precise instruments to achieve efficient land use have, however, to be tailored to the new environment.

(iv) A More Equitable Society

The implementation of the economic policies outlined above are not intrinsically antagonistic to the pursuit of social objectives. On the contrary the constraints on the public finances present a renewed opportunity for, and heighten the arguments in favour of, more effective and more equitable social policies. Such policies should have a number of strands.

Firstly, policy should be more selective, not only in the contined use of means tests, but in the sense of identifying very specific priorities and allocating resources accordingly. The Council has therefore recommended for instance, that the relatively generous treatment of the owner occupied sector should give way to a more targetted use of public resources on those whose housing needs are extreme (such as travellers and the homeless). Similarly in social welfare; a more redistributive and adequate system of payments will evolve if it is recognised that some recipients have more pressing claims, and if this recognition is carried through into decisions about increases in social welfare payments. The Council has also argued in Chapter 9 that the financing of third level education and private health care should be made more redistributive, and that expenditure and taxation policies in these areas should be reformed.

Secondly, policy should be more coherent in that the links between different areas of policy and different services should be brought into focus. The unintended social policy consequences of aspects of the complex system of tax allowances, and the 'tax expenditures' to which they give rise, for example, are to create an implicit, and inequitable array of subsidies which disproportionately benefit middle and higher income groups. Social and equity

considerations in health, housing and other areas converge with the compelling arguments in favour of a comprehensive, efficient and simple taxation system, on the strategy of limiting tax allowances. Of particular importance is the need to have coherent links between economic objectives and social programmes. As the Council has pointed out in Chapter 9, efficiency implications in terms of employment, savings and investment, may arise from the level and structure of social provisions; these implications should be an explicit part of the agenda of social policy formulation.

Thirdly, policy should have some continuity and stability, against a background of regular, public review and analysis. Thus, the Council has indicated that the real value of higher education grants has gyrated over the period since their inception: significant increases in one year followed by a sequence of declines, but no explicit official criteria for determining the nature of higher education financial support and no overall official analysis of policy despite a clear need for review. The housing system embodies a plethora of grants, subsidies and incentives with continual modifications and additions being made in a policy vacuum. Clear, specific statements of policy, effectively implemented on a continuous basis and subject to public review should be the basis of social policy formulation.

The limits of social policy should not be ignored. In Ireland today the single most important contribution to social development would come, not from more comprehensive and equitable social provisions, necessary though these are, but from significantly reduced unemployment and the development of a dynamic economy. Sustained economic growth and structural development of the economy will bring, not only higher output but also greater employment, higher incomes for those who become re-employed and a reduction of the poverty and social ills associated with unemployment. The 'economic' policies required to bring this state of affairs nearer are also, therefore, 'social' policies. Social services such as payments to the unemployed, pensions to those who are elderly, and health and housing services to those who need them can mitigate the problems caused by lack of employment, low incomes and inadequacies in housing and health. However, the Welfare State's policies in these areas will always be seriously compromised if it must continuously sustain one sixth of the labour force.

4. CONCLUDING REMARKS

The economic and social problems now confronting policy makers are grave. The continuation of existing policies is not a viable option. It would give rise to continued emigration, further deterioration of the public finances and continued reduction in the flexibility of policy makers. It would also lead rapidly to an erosion of confidence in the economy.

While the problems are severe they are not intractable. The Council believes that the determined pursuit of the above strategy will ultimately bring desirable

results. However, the nature of the problems is such that remedial action is possible only in a medium term context with individual decisions continuously related to the medium term framework. The return of confidence to the economy is crucial for any economic and social strategy to be successful. Confidence is created if markets and individuals believe in the overall strategy.

Another major requirement for a successful strategy is acceptability. This requirement relates particularly to those who are called upon to make sacrifices to facilitate the attainment of targets. It is particularly important that the burden of adjustment is not borne by the less advantaged members of society.

Sacrifices will be accepted if some return can be demonstrated and if major inequities are removed from our economic and social system. This highlights the importance of the simultaneous pursuit of the four elements of the Council's strategy. For example, failure to reduce inequities while undertaking public spending cuts will consign the entire strategy to failure. It will fail because the burden of adjustment will not be accepted by those on whom it is being placed because of a perception of inequities in the system. Demands for compensation will be made with the entire planning process becoming socially divisive and inimical to the long term interests of the economy.

Finally, while the Council has reached broad agreement on the measures which are necessary to confront the present economic and social difficulties it is of the view there is a need to foster a greater degree of consensus in Irish society if these measures are to be implemented without giving rise to conflict. This consensus is necessary both on the national level and the level of the workplace. The Council intends to pursue this issue further, through examining the institutional arrangements for economic and social planning in a number of European countries and particularly at the mechanisms in place for the achievement of consensus.

APPENDIX 1

THE COMPONENTS OF FARM INCOME CHANGES

The observed annual changes in farm income may be decomposed into the following additive elements:

$$D\%FY = (1/1-S_{FY})\,[(D\%P_q - S_i D\%P_i) + (D\%Q - S_i D\%I) + S_s D\%S - S_L D\%L - S_K D\%K - S_W D\%W]$$

where,

- D% = annual percentage change,
- FY = nominal value of farm incomes,
- P_q = price of farm output,
- P_i = price of farm inputs,
- Q = volume of farm output (Gross Agricultural Output),
- I = volume of farm inputs,
- S = nominal value of subsidies not related to sales,
- L = nominal value of production levies
- K = nominal value of depreciation of fixed capital,
- W = nominal value of farm employee wages

S_{FY}, S_i, S_s, S_K, S_W = share of nominal farm income, farm input costs, cost of levies, cost of depreciation and employee wages, respectively in the value of Gross Agricultural Output.

The terms ($D\%P_q - S_i D\%P_i$) and ($D\%Q - S_i D\%I$) are variants of the familiar price-cost squeeze and input productivity respectively.

The use of the input share as a weighting factor provides a more complete picture of the influence of nominal and real factors on the evolution of the nominal value of agricultural incomes.

*See Boyle, G: "Measures of Real Farm Income. A Note", *Irish Journal of Agricultural Economics and Rural Sociology*, Vol. 10, No. 2, 1985.

APPENDIX 2
ASSUMPTIONS UNDERLYING POPULATION AND LABOUR FORCE PROJECTIONS

(i) Population

The assumptions regarding survivorship and the proportion of females married are the same as those use in the CSO publication *Population and Labour Force Projections 1986-1991* (April 1985).

The assumptions on fertility are the same as the high fertility assumption used in CSO (1985).

It has been assumed that net outward migration of 25,000 per annum will occur over the remainder of the decade yielding a total net outflow of 125,000 between 1986 and 1990. The assumed distribution of this outflow by age is broadly the same as that used in CSO (1985).

(ii) Labour Force

The age and sex-specific labour force participation rates projected for 1991 are detailed in Table A2.1

Table A2.1
Labour Force Participation Rates 1991

	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65+
	(percent)										
Males	34.0	86.0	96.5	96.5	95.0	95.0	91.0	91.0	80.1	58.0	9.0
Single Females (1)	30.0	85.0	87.0	87.0	75.0	75.0	55.1	55.1	34.0	34.0	4.0
Married Females	35.0	48.0	44.0	26.0	22.0	25.0	24.0	17.0	13.0	8.0	2.0

(1) Including widows

APPENDIX 3
WOMEN AND SOCIAL POLICY

1. INTRODUCTION

The Council, cognizant of the important and changing role of women in society, the widespread awareness of discrimination against women, and the domestic and international initiatives in pursuit of sexual equality* commissioned in 1982 a study "Women and Social Policy".** This study reviewed progress over the decade since the publication in 1972 of the Report of the Commission on the Status of Women. The Government published a similar report to that of the NESC consultant, entitled "Irish Women: Agenda for Practical Action", and referred to hereafter as the Working Party Report.

A comparison of the two reports, as provided in summary form in Table A3.1, shows their similarity in the topics examined and in the broad thrust of their recommendations. Generally, the same topics are discussed in each report, and they both contain around 80 proposals. There is broad agreement in each chapter on the main issues discussed: the main differences relating to additional sections. The additional sections in the Working Party Report outline developments in official policy and advocate further research; in the NESC consultant's report the additional sections deal with issues such as equal pay legislation, family planning and housing policy which are not the subject of recommendations in the Working Party report.

A summary and brief discussion of the proposals and recommendations in the Working Party report is given in Section 2. As it is the Council's view that the social, demographic and economic aspects of female labour force participation are crucial to the analysis of women and social policy, and that these issues were not sufficiently addressed in the Working Party or consultant's report, a brief discussion of these issues is given in Section 3.

*For instance EEC Directives 75/117/EEC, 76/207/EEC, 79/7/EEC, OECD Report, 1979, on Equal Opportunities for Women, and OECD Report, Women and Employment: Policies for Equal Opportunities, 1980, adoption in 1981 of UN Convention on the Elimination of all Forms of Discrimination against Women, establishment of a Dail Committee on Womens Affairs, appointment of a Minister of State for Women's Affairs

**Copies of the NESC study, which was prepared by Ms Eithne Fitzgerald, are available on request from the NESC

Table A3.1
Women and Social Policy, Summary of Proposals

Topic	Working Party Report	NESC Consultant
1 *Employment*		
No of Proposals	19	18
Broad Agreement on	Training, part time work, inclusion of part employment/family commitments	
Main Differences.	Discussion EC harmonisation	Pro legislative action on equal pay
2 *Education*		
No of Proposals	3	5
Broad Agreement	Thrust of official policy in outlined in Programme for Action in Education	
Main Differences		Positive discrimination
3 *Health Services*		
No of Proposals	12	16
Broad Agreement	Health education, maternity service provision, extended eligibility for wives of insured workers	
Main Differences	Additional sections on smoking/alcohol violence, occupational health, home help services	Additional section on family planning
4 *Child Care Facilities*		
No of Proposals	10	12
Broad Agreement	Day care provision, play groups, creches	
Main Differences.	Advocates tax deductible child care expenses and aid to needy parents	
5 *Social Welfare/Social Protection*		
No of Proposals	5	9
Broad Agreement	Exploration of social insurance credits re-work in the home, changes in the prescribed relatives allowance	
Main Differences	Additional sections child support, occupational social security, single women work in the home	Additional sections widows pensions, separated spouses, mortgage protection, marriage preparation, family home
6 *Rural Women*		
No of Proposals	7	none
7 *Women in the Home*		
No of Proposals	7	12
Broad Agreement	Planning of residential areas and facilitation of women with prams re-footpaths and public buildings	
Main Differences	Additional sections on research, social welfare entitlements, support self help and re-entry programmes	Additional sections on housing needs, community facilities
8 *Single Parents*		
No of Proposals	17	3
Broad Agreement	Need to rationalise social welfare support, including improved aid for accommodation	
Main Differences	Promote research and publicity	
9 *Family Law Reform*		
No of Proposals	2	2
Broad Agreement	Family law courts	
Main Differences.	More detailed discussion of progress	
10 *Women's Status*		
No of Proposals	5	3
Broad Agreement	Promotion of women on public bodies and extension of anti-discrimination regulations to cover goods and services	
Main Differences	Additional Sections on attending official forum, publication of information on women in labour force, examination of reform of administrative structures	
Total Recommendations	87	88

2. PROPOSALS AND RECOMMENDATION

(i) Employment Related Recommendations

The Working Party report made a number of employment related recommendations, which are listed in Table A3.2.

Table A3.2
Summary of Employment Related Recommendations

	Estimated Cost
A Training	
(i) training in science and technology in second level education for all students (para 2.18)	not costable
(ii) welcome existing training facilities for women and girls and recommend a strengthened approach	Nil
(iii) urge women's organisations to suggest special women's projects for ESF funding (2.29)	Nil
(iv) encouragement of training of women entrepreneurs (2.34)	Nil
(v) welcomes the Social Employment Scheme and its impact on women who have been long-term unemployed (2.37)	Nil
B Working Conditions	
(vi) review age limits for entry competitions to public service (2.47)	Nil
(vii) admission of women to entry competitions for army and Aircorps (2.51)	Nil
(viii) support present review of equality legislation	Nil
(viv) consideration by wider public sector employers of measures like flexible working hours, job sharing and career breaks (2.59)	Nil
(ix) welcome modifications of protective legislation regarding women doing shift work and working underground (2.65)	Nil
(x) favour collective bargaining over the scope for transfer of pregnant women to alternative work (2.70)	Nil
(xi) exploration of adoption leave (2.73)	Nil
(xii) recommend changes in appointment procedures for subordinate posts in Government Departments (2.75)	Nil
(xiii) recommends review of apprenticeship age limits (2.76)	Nil
(xiv) recommends creche facility costings be included in ESF applications (2.77)	Nil
(xv) recommends giving practical effect to Government proposals on implementing employment equality (2.89)	Nil
(xvi) welcomes civil service initiatives and recommends same to other public and private sector employers (2.91)	Nil
C Other	
(xvii) increased funding of child care facilities (5.27)	£½m
(xviii) consideration of provision of tax credits for child expenses (5.27)	not costable
(xix) review, training and research on occupational health issues (4.97)	Nil
(xx) provision of training and extension of work flexibility schemes to health service employees (4.112)	not costable
(xi) labour force re-entry programmes for women (8.18)	not costable
(xxii) special attention to the needs of rural women in relation to training and employment (7.29)	not costable

Of these 22 recommendations few would qualify as likely to have significant impact on the employment decisions of married women. Many of the proposals are tentative, involving reviews, consideration, and welcoming of recent developments. Four which have cost implications might be identified, however, as likely to affect married womens' decisions:

- the provision of increased funding of child care facilities for working parents in need with a suggested outlay of £0.5m
- tax credits for parents with child care responsibilities (which is said to be non-costable)
- career breaks, job sharing and flexible working time in the wider public sector (not costed)
- labour force re-entry programmes for married women.

The Council notes that both of the last two proposals are being implemented, in that career breaks are currently widely available throughout the public sector and ANCo has initiated a number of re-entry programmes. The Council believes that both of these developments should be carefully monitored for their effects on employment and the labour market generally. The Council does not support the proposal concerning tax credits nor the proposal regarding state financed child care facilities for working parents on a selective basis. However, the Council supports the broad thrust of the other recommendations to do with improvements in training, entry to particular occupations and further research and information on women in the labour market.

(ii) Recommendations about Support Services for Women with Children

Both the Working Party report and the NESC consultant's report contain lengthy sections on health and child care services and also on women in the home, with no less than 29 of the Working Party recommendations dealing with these topics.

The main recommendations in respect of health services entail the following:

- improvements in ante-natal and maternity services;
- extension of social insurance treatment benefit to wives of insured workers (the 1985 Budget extended dental care eligibility to pregnant wives of insured workers);
- health education programmes to include pregnancy, parenthood, and child welfare (already being developed);
- promotion of awareness of health risks for women including cancer, alcohol, smoking, occupational hazards and family violence;
- development of home help services; female representation in health service administration.

The recommendations of the Working Party report related to childcare deal with:

- public regulation of private child care facilities (which is included in the recently published Children's Bill);
- support to the playgroup movement;
- negotiations between the social partners on the provision of workplace creches;
- use of schools for after-school child care.

Finally, the recommendations on women in the home cover the following:

- research on women working in the home;
- examination by the Commisson on Social Welfare of the scope for inclusion of homeworkers in social insurance and of social assistance for accidents in the home;
- improved physical design of residential areas to take account of the needs of women and children.

With the exception of the recommendations to do with extension of social insurance treatment benefits to wives of insured workers none of these proposals have significant cost implications, being aimed rather at rationalising and improving the present provision of services. The cost of extending Dental and Optical Benefit to the spouses of insured persons would amount to an estimated £6.27m or an extra PRSI contribution of 0.12% (in 1985). The Working Party considered that extension of full eligibility of spouses be "pursued in the light of the prevailing public finances situation over time" (p131). The Council supports the broad thrust of the proposals aimed at improving the main support services, including the health services, child-care and home and environment, as suggested in the Working Party Report. However, the Council notes the analysis of the Commission on Social Welfare in respect of the general extension of social insurance to women in the home: the Commission did not reach agreement on "either the case for extending social insurance to housewives or on the appropriate means of doing so".*

(iii) Issues Relating to One Parent Families

The Working Party report has 15 recommendations in this area, eight of which relate to the rationalisation of social welfare support, three refer to aiding voluntary agencies dealing with single parents and the remainder refer to research, taxation, day care and training. The NESC consultant's study is less detailed on these topics.

* Report of the Commission on Social Welfare, Stationery Office, Dublin, 1986, pages 243-245

Three of the Working Party recommendations on social welfare involve referral of proposals to the Commission on Social Welfare for consideration. These include ways of eliminating anomalies, means of resolving problems to do with maintenance payments to deserted wives, and examination of different age restrictions on widows and deserted wives. The other social welfare proposals in the two reports are as follows:

- wider discretion to Social Welfare deciding officers in paying assistance to wives;
- consideration of means of harmonising payments for child dependents;
- examination of means of improving administrative procedures to do with 'cohabitation';
- higher rent allowances to single parents reliant on Supplementary Welfare Allowance;
- More generous 'disregards' policy with respect to earnings of single parents so that there are incentives to earn.

Table A3.3 below lists these proposals and summarises the Council's views on these issues — the latter in turn are a general endorsement of the Commission on Social Welfare's proposals.

The three recommendations to do with voluntary agencies are as follows:

- priority should be given to increasing the funding of single parent housing by increasing the grants from local authorities within the constraints on public finances to the relevant voluntary bodies;
- the Departments concerned should keep under review the services provided by the various single parent voluntary organisations, including counselling of persons in need;
- funding should be provided through one of the Departments concerned to one of the single parent voluntary bodies to launch a publicity and information programme.

The cost implications of these proposals, although unclear, are very modest except perhaps for the proposal to do with funding housing, which is qualified by reference to the public finance constraints. The Council supports these proposals.

The remaining four proposals are:

- drawing together data on single parents and examination of implications;
- improved tax allowances/relief for single parents;
- greater availability of nurseries for children of single parents;
- particular attention by training and employment agencies to the needs of single parents.

The Council endorses the above recommendations with the exception of the taxation proposal. In principle the Council are of the view that financial

support to one parent families should be directed through the social welfare system.*

(iv) Other Issues

Under this fourth heading may be grouped the following chapters in the Working Party Report:

- Education (the chapter broadly endorses the thrust of official policy against sexism)
- Social Welfare (refers several suggestions for sexual equalisation to the Commission on Social Welfare)

Table A3.3
One Parent Families and Social Welfare

Working Party/Consultant	Commission on Social Welfare Endorsed by NESC
Working Party Referred to Commission: Anomalies	Payments for all one parent families should be the same:
Maintenance Payments	State, where necessary, should pay deserted wives payments and procure maintenance directly.
Age Restrictions on Eligibility	Childless applicants for all schemes should have the same age criterion.
Other Issues Wider discretion in paying assistance to wives ("split payments")	If legally permissible, personal rate of payment plus child dependant additions payable to spouse with child responsibilities; D.S.W. to review.
Harmonise Child Dependant Additions	Child Dependant additions to be the same for all recipients of social welfare.
Higher Rent Allowance under Supplementary Welfare Allowance	Housing costs to be supplemented by means of a nationally uniform, statutory housing benefit consistent with differential rent criteria.
More generous means testing of earnings of one parent families	No differentiation in means tests between different categories of recipient.
Improvement of procedures to deal with co-habitation	Cohabiting couples treated as married couples in respect of the unit of payment for social welfare.

*This view is accepted by the Commission on Taxation and the Commission on Social Welfare

— Rural Women (advocates improved training, education and participation)
— Family Law Reform (reviews work in progress and advocates Ireland's accession to the UN Convention on Elimination of all Form of Discrimination Against Women)
— Other Issues (recommends the appointment of more women to public bodies, an anti-discrimination policy in goods and services, and administrative reforms to promote sexual equality).

The Working Party's five proposals in relation to social welfare are that:

— the level of support provided by Children's Allowance should not be diminished with the introduction of the new Child Benefit;
— there should be an urgent response to the draft EEC proposal regarding equality in occupational pensions;
— the framework for a National Pension Plan should examine the possibility of giving credits for time spent on care within the family;
— the Commission on Social Welfare's recommendations should recognise the social value of work in caring for relatives at home;
— the Commission on Social Welfare should support the payment of Prescribed Relatives Allowance to the carer rather than the cared and that, as resources permit, the allowance should be increased.

It is clear that the above proposals are mainly at the level of exhortation and as such have neither quantifiable employment or public finance implications. There is considerable overlap between the Working Party and the the NESC consultant's report, particularly in relation to the promotion of care in the home. The Council views the above issues in the light of the Commission on Social Welfare's analysis and endorses the Commission's approach as follows: a structure of child income support based on a combination of child dependant additions, childrens allowances and Family Income Supplement, the payment of prescribed relatives in their own right through a reformed social assistance scheme: the Commission did not refer to the draft equality directive on pensions which, the Council notes, has now been signed by the Government.

With regard to rural women, the working party made six recommendations (excluding that pertaining to the IDA referred to above) which are as follows:

— Curriculum and Examinations Board to give particular attention to agricultural subjects;
— ACOT to adopt an equal opportunities programme;
— That "there could be merit" in the abolition of the stamp duty in relation to the transfer of a farm into joint ownership of spouses.
— consideration should be given to the possibility of granting independent insurance rights to married women who share the running of a family farm or business;

— community organisations should encourage greater participation by rural women;
— the major farming organisations should encourage women to become more actively involved at all levels in their organisations. Once again there do not appear to be any strong implications either for employment or public finance in these proposals. The Council sees these proposals as desirable.

Although there is an extensive discussion of Family Law Reform in the Working Party Report, particularly on reforms which are in progress, the only recommendation made is that Ireland should accede to the UN charter on the Elimination of all forms of Discrimination against Women, with reservations as necessary.

On education there are three proposals:

— welcoming the committment to equality and maintaining the pace of reform;
— pursual of specific proposals to ease existing financial barriers in further education;
— provision of creche facilities in adult education should be pursued by the women themselves with the school authorities.

The Council endorses these general proposals.

On the miscellaneous category "other issues" the following recommendations are made:

— appointment of women by Ministers to boards under their aegis;
— appraisal and amendment of the format of official forms by state agencies;
— publication of information and analysis of women's labour force activity by CSO and Office of Minister of State for Women's Affairs;*
— consideration of the issue of discrimination in the area of goods, facilities and services;
— establishment of a small working party to examine the best administrative structures for implementing a programme of reform.

The Council endorses these proposals also.

3. BROADER ISSUES

(i) NESC Study and Working Party Report

In this section brief reference is made to the wider aspects of female labour force participation which were not central to the Working Party Report or the NESC consultant's report.

*The Council welcomes the initiative of the Employment Equality Agency in publishing Women in the Labour Force, a Statistical Digest (Employment Equality Agency, Dublin, 1986)

(ii) Female Labour Force Participation in Ireland

There has been a significant change in female labour force participation in Ireland in the past decade, and most of this change is attributable to a rise in the participation rate of married women. Their numbers in the labour force grew from 79,000 in 1975 to 135,000 in 1985. These important changes notwithstanding the traditional relativities between the participation rates of males and females persist, with male rates higher at all ages.

(iii) Determinants of Female Labour Force Participation

An analysis of female labour force participation should distinguish the supply and demand aspects. On the supply side a variety of interrelated economic, social, demographic and cultural trends are associated with increased female labour force participation — higher educational qualifications, lower fertility, increased desire for women for financial independence, a need for a career as a financial buffer against marital instability or divorce, and the substitution by households of market produced commodities and services for home produced commodities and services, with an increase in the "opportunity cost" of housework.

The demand for female labour has been affected by: the expansion of sections of the services sector which employ mainly women; the growth of specific areas of the public sector (education, health, social services) with high proportions of female employees; the increase in part time employment and short term and casual employment which are also largely the domain of women.* The latter trends are discussed in the policy literature in terms of 'internal' and 'external', or 'primary' and 'secondary', labour markets; in these discussions married women are analysed as part of a wider group with less than complete attachment to the labour force. This group enters and leaves the labour force in response to changing opportunities and to their evolving domestic, education and social circumstances. Employers use this segment of the workforce as a 'secondary' labour force which enhances their flexibility in conditions of changing product demand. However, this analysis is probably relevant to a sub segment of the female labour force only. A significant proportion of married females are employed in professional, skilled and semi skilled occupations and are not part of the 'secondary'or 'external' labour market.

(iv) Policy Issues Affecting the Rate of Change in the Labour Force Participation Rate of Married Women

Any discussion of public policies in this area needs to distinguish those factors which are amenable to policy change from those which are not. Thus, aside

*In the Irish case regular part time employment grew by 99% from 1977 to 1983, married women comprise 54% of regular part time employees, family responsibilities is the most common reason given by married women for engaging in part time employment (A. Vaughan, The Social Insurance Implications of Part Time Employment, M.Sc. Thesis, Trinity College, 1985)

from economic factors, the decisions of women about labour force participation will be shaped by their educational backgrounds, attitudes to their relative roles as spouses and employees, availability of fertility control, and a host of other such factors. These factors are not directly amenable to policy manipulation. However there are also a range of economic variables which impinge on labour force participation decisions some of which may offer, in principle at least, some scope for policy movement.

The participation of females in education

The evolution of the labour force participation rates of married women must depend to some extent on the participation rates of single women and on trends in the rate of educational participation at senior cycle second level and at third level. In the short term the growing participation of females in the upper tiers of the educational system will reduce the labour force participation rate of young women in the 15-19 age group, and to a lesser extent the 20-24 age group. Over the ten years from 1975 to 1985 the labour force participation rate of single women aged 15-19 declined from 43.2% to 33.1%; simultaneously the educational participation rate for all females over 15 years rose from 20.6% to 27.4%. Among married women, participation in the labour force rose considerably; for instance the participation rate in the 20-24 age category increased from 24.0% to 40.5%, and the corresponding increase for the 25-44 category was from 14.7% to 23.6%.

There is therefore a complex interplay between the educational participation of females on the one hand, and the labour force status of married and single females on the other. In an arithmetic sense the effect of increased participation in education by females is to reduce the labour force participation of females in younger age groups. However, an increasingly educated female population is likely to have a stronger labour force attachment. Firstly, higher educational status will raise the 'opportunity cost' of withdrawal from the labour force and secondly, improved educational standards among women will indirectly strengthen labour force participation through its effect on expectations, fertility levels, and desire for economic independence.

Conditions of employment which facilitate family responsibilities

The 1970s were marked by legislative changes towards ameliorating employment conditions, prompted largely by the EC as noted above. The marriage bar in the public sector was removed with the result that considerable (but unknown) numbers of women remained at work after marriage and motherhood, particularly in teaching and nursing. The adoption of equal pay legislation, particularly by the public sector, no doubt accelerated this process, as did the introduction of paid maternity leave, while employment equality legislation may have contributed to making continued employment more feasible.

Although it could be argued that further moves towards facilitating employed women in combining family responsibilities would further increase the number of married women remaining in employment, (for example paternal leave and workplace creches), it seems likely that the impact of these schemes is likely to be much less than those discussed above, particularly equal opportunity legislation and maternity leave. The remaining disincentives are likely to be weaker and action to remove them may be more to do with rationalising existing arrangements for women already employed.

Absolute and relative pay levels
It has been shown econometrically in the UK that both absolute and relative pay levels have significant effects on household decisions, and particularly on the birth rate.* Dual earner and single earner families (i.e. man, wife, with or without children) respond differently to changes in pay. Real pay increases, it is argued, tend to encourage single-earner families to have extra children. By contrast, increases in real and or relative pay raises the opportunity cost for employed married women to have a child, thus reducing this group's fertility. The above does not imply that couples decide to have children solely on the basis of such rational decision-making; rather that on average, over time, such factors appear to influence fertility.

No such detailed work has been done in Ireland on the determinants of fertility (which for historical and other reasons may be less controllable in any case), However, the advent of equal pay legislation, and the increase in the number of employed married women may have depressed fertility for this group. The effect of taxation however on disposable income may also be a significant factor.

The income tax treatment of married women
From the point of view of each employed individual, the transition from single status to married makes no difference in income tax liability. However, from the point of view of the married couple, their tax liability varies dramatically according to whether one or both are employed. Essentially this is due to the fact that married couples have virtually the same tax free allowances and rate bands regardless of whether one or both are employed. Since higher tax rates come into force at relatively low levels of income, from the point of view of the household, the net gain from the wife remaining employed is much reduced by the higher tax rates.

It seems clear that the sharply progressive nature of Irish income taxation constitutes a financial disincentive to employment for married women. This disincentive, however, is presumably counterbalanced by the social, cultural and demographic changes which are associated with increased participation.

*J Easterlin, The Political Economy of Demographic Change, London, 1981

This is reflected in the fact that considerable numbers of married women have chosen to remain in full-time employment, despite the taxation regime, presumably choosing to work for very low net incomes over the period before their children enter primary school. Policy developments which would reduce further the disincentive to remain in employment might include career breaks and reform of income taxation towards a single rate of income tax, as proposed by the Commission on Taxation.

Public Child Minding Facilities
Probably the main proposal which would facilitate married women combining employment and family responsibilities would be improved public provision of child-minding facilities, particularly for younger children. At present it appears that such facilities are mainly provided informally.* The thrust of public policy appears to be towards regulation of the quality of that care rather than direct provision.** To the extent that such care is currently part of the informal economy, its incorporation into the formal, taxable economy may increase the prices charged for such services. Presumably for this reason both the Working Party Report and the NESC consultant's report suggest that the approach of the public authorities should be flexible in order to ensure that regulation does not drive the sector further underground.

Social Security Provisions
A number of aspects of the social security system which may affect the labour force decisions of married women require analysis: at present Child Benefit is paid, non taxable, to all mothers without any differentiation between working and non working mothers; the disposable annual income of a family exclusively dependent on social welfare may be higher than that of a low paid employee's family because of the non taxation of short term social welfare payments; one of the effects of the implementation of the Equality of Treatment legislation in social welfare will be to alter the manner in which a spouse's earnings are considered for purposes of determining the amount of unemployment payments to a family; the general exclusion from social insurance contributions of part time employees, the majority of whom are married women, will raise the disposable income/gross income ratio above what it would be for full time employees, but this effect may be diminished by their exclusion from social insurance benefit entitlements.

(v) Concluding Comments

The analysis above has shown that a range of very fundamental factors — economic, social, demographic, as well as institutional arrangements and public policies affect the role of women in the economy, and in the labour force

*The age of entry of children to primary school may also be a consideration

**A small number of employers with significant numbers of female employees now provide child minding facilities, the Universities and Art Rooms for instance

in particular. It is clear that there are countervailing trends and policies: on the one hand a range of social, demographic, and cultural trends and public policies which implicitly or explicitly encourage female labour force participation, and on the other hand public policies (notably income taxation of married women, absence of public provision for child care) which must act to some extent as disincentives to female labour force participation. The questions arise therefore as to what the goals and the instruments of public policy in this area should be: potential policy instruments range across taxation, family income support, social security coverage, child care policies and other areas. A comprehensive discussion of these issues, however, requires an overall analysis of the labour market in general, an analysis which to date has not been undertaken. In future work therefore, the Council will be examining more fully the labour market in Ireland and analysing the female labour force, and other segments of the labour force, in the context of labour market policies as a whole.

APPENDIX 4
RECOMMENDATIONS OF THE COMMISSION ON TAXATION TO BE IMPLEMENTED IN THE FIRST PHASE OF REFORM

INCOME TAX

(i) Extension of the tax base

- taxation of short-term social welfare benefits;
- charging to tax of foreign pensions;
- repeal of artists' exemption;
- repeal of tax exemption on profits of certain sweepstakes;
- abolition of medical insurance relief;
- abolition of relief in respect of permanent health insurance premiums;
- withdrawal of reliefs for new covenants;
- withdrawal of relief in respect of life assurance premiums;
- realistic assessment of the value of fringe benefits;
- repeal of relief for individual investors in certain companies.*

(ii) Lump-sum receipts and windfalls

The following items to be liable for tax at a single rate of 30 per cent:

- compensation payments for loss of office;
- lump-sum retirement benefits;
- payments under the Redundancy Payments Act;
- that part of compensation payments for injury attributable to income loss;
- prizebond and sweepstake winnings;
- net gambling winnings.

(iii) Reform of personal income tax structure

- adoption of the family as the unit of personal taxation;
- replacement of income tax allowances by tax credits;
- abolition of the general exemption limits;
- introduction of a universal child benefit to replace the income tax child allowance and the social welfare childrens' allowances;*
- abolition of most secondary allowances and their replacement by direct payments.

*Repealed in 1981 Budget

*Broadly similar measure announced in 1986 Budget

(iv) Reduction in tax rates

- the maximum marginal rate of tax not to exceed 50 per cent;
- widening of the rate bands.

(v) Adjustments for inflation

- Schedule D taxpayers to be brought onto a current year basis of assessment;
- the Schedule E (PAYE) tax free allowance to be abolished;
- indexation of personal income tax structure;
- substantial increase in the exemption limit for bank deposit interest;
- withdrawal of deduction for interest paid in full (mortgage interest).

CAPITAL GAINS TAX

- extension of range of chargeable assets;
- abolition of many of the existing reliefs;
- treatment of death as a disposal;
- abolition of roll-over relief;
- allowance of real losses;
- repeal of the exemption of small gains;
- capital gains should be charged at a single rate;
- this single rate of CGT to be adjusted downwards as the maximum rate of income tax is reduced;
- all new Government securities to be treated as chargeable assets.

CAPITAL ACQUISITIONS TAX

- the family should be adopted as the unit of taxation, transfers between spouses to be exempt;*
- aggregation of all gifts and inheritances received by a beneficiary from all sources to determine tax liability;
- the rates of tax to be reduced from their existing levels, and further reduced as progress is made in reducing the top rate of income tax;
- relief for productive assets should be replaced by the adoption of fair market value at existing use;
- reduction of tax thresholds for the immediate family given the exemption of inter-spousal transfers.

CORPORATION TAX

- introduction of witholding tax on distributions accompanied by an increase in the rate of imputation on distributions;**
- abolition of special rate of tax on small companies;

*Exemption of inter-spousal transfers granted in 1984

**Withholding tax effectively instituted with introduction of ACT in 1983

- close companies to be charged to tax on a partnership basis;
- income arising in the form of capital gains in companies should be charged to tax at the same rate as other company income;
- reduction of the rate of corporation tax in line with income tax rates;
- the cost of sales adjustment to be extended to all business sectors.

SOCIAL INSURANCE CONTRIBUTIONS

- abolition of separate health contribution and the youth employment levy;
- income tax credits should be allowed against liability to employees' social insurance contributions;
- single rate of social security tax to be levied on all income;
- employer's social insurance contributions to be phased out and replaced by the contribution at the employee rate on the income of self-employed persons and on income which arises in the first place to companies.

TAXES ON EXPENDITURE

(i) Value-added tax

- all goods and services to be subject to VAT at a single rate;
- the transition to a single rate of VAT to be effected as quickly as is feasible;
- consequential changes in the incidence of VAT to be monitored and compensatory increases in social welfare payments to be made as appropriate.

(ii) Excise duties

- reduction in level of taxation on certain items where prices are significantly in excess of those obtaining in Northern Ireland;
- indexation of specific excise duties;
- reduction of betting duty from present levels.

(iii) Stamp duties

- progressive rates should apply to the excess of value over the value thresholds rather than the total value of the property;
- subsequently, housing transactions should be charged at a single rate.

INCENTIVES

- reduction of accelerated capital allowances in respect of multi-storey car parks and new purpose-built moderate-cost rented accommodation;
- abolish special tax concessions for schemes to encourage profit sharing;
- introduce direct aid for expenditure on market development.

LOCAL PROPERTY TAX

- a local property tax on all residential, industrial and commercial property (except land) should be introduced on a self-assessment basis;
- the rate of property tax should be related to the average rental yield on houses and the (eventual) single rate of income tax.

APPENDIX 5

THE AGRICULTURAL SECTOR AND THE MACRO-ECONOMY

The income difficulties experienced by the primary sector in the past few years and the poor medium-term outlook for agriculture projected in Chapter 5 will have repercussions beyond the farm gate. The primary sector interfaces with the macro economy in a number of key ways*:

(i) the agricultural sector is a major net exporter and it thereby contributes to easing the balance of payments constraint on Government policy;
(ii) it provides raw materials for the food processing industries, and
(iii) it purchases raw materials, capital inputs and services from the manufacturing and service sectors.

In summary, therefore, the significance of a buoyant agriculture can be seen by (a) its contribution to the evolution of GNP and (b) the related issue of agriculture's impact on employment and unemployment.

In a very preliminary but useful way we can examine the contribution which the agricultural industry makes to economic activity through household expenditure, capital formation and exports. Estimation of the role of these channels and the sectoral contribution to employment are furnished in Table A5.1.

Because of the absence of readily available data this table excludes the impact contribution of expenditure by agents in the food processing sector and also the extent of capital formation in these industries. Agricultural exports (including food) accounted for around 14 per cent of GNP for the period 1980-1985. These data are subject to two sets of factors which bias the estimated impact contribution of the sector to national economic welfare in opposing directions. The contribution is understated since the agricultural export figure which are typically cited are net of EC transfers which would not have accrued in the absence of exports. These subsidies could account for up to three per cent of GNP. The ratio of exports to GNP overstates the impact contribution to the overall economy since the consumption of imports is required in the production of the exports. Moreover, in comparison to other sectors of the economy, the import content of agricultural exports is relatively low and repatriation of profits is not an issue as with other high

* The argumentation in this section follows the discussion of Cox et al (1981, pp 16-25)

Table A5.1
Indicators of agriculture's role in the macro-economy, 1980-1985

	1980	1981	1982	1983	1984	1985
1. Estimated expenditure of farm households (£m)(1)	531	629	785	891	1054	952
2. Capital formation (£m)	246	346	319	270	274	276
3. Agricultural exports (£m)(2)	1432	1484	1568	1781	2134	2290
4. Primary sector employment ('000)(3)	209	196	193	189	182	n.a.
5. Employment in the food industries ('000)(4)	47	45	44	41	40	37
6. (1) as % of GNP	6	6	6	7	7	6
7. (2) as % of GNP	3	3	3	2	2	2
8. (3) as % of GNP	16	14	13	13	14	15
9. (4) + (5) as % of total employment(5)	22	21	21	20	20	n.a.

Notes: (1) "Income from self employment and other trading income" less an assumed 20 per cent for savings
(2) These data comprise exports of the primary and food sectors. The figures are net of EC subsidies, which Henry (1983-84) estimated to be worth £156 million in 1982. Assuming a similar proportionate value for other years, the economic contribution of agricultural exports would be as follows (net of estimated trade and transport margins)

Year	1980	1981	1982	1983	1984	1985
(£million)	1690	1751	1850	2101	2518	2701

(3) Labour Force Survey basis
(4) NACE Code 411 - 421. December data except for 1985 which refers to June
(5) Labour Force Survey basis

Sources: Irish Agriculture in Figures (An Foras Talúntais), Economic Review and Outlook, 1985 (Dept. of Finance), Irish Statistical Bulletin (CSO), Central Bank of Ireland Reports

export growth industries. Before discounting imports and ignoring expenditure by households in the food sectors, we can say that at best one fifth of GNP is supported by the agriculture and food sectors.

One in every five working persons are dependent on the primary and food sectors for employment. These data understate the impact contribution to total employment since they ignore the employment content of the industries which service the primary and food processing sectors. Such activities would include the numbers engaged in the fertiliser industry, in the retailing and wholesaling trades and especially the building industry all of which tend to be highly labour intensive. The trend in employment in the primary and processing sectors is downwards in common with many other countries. This

trend has been steady (at least up to 1984) and not unduly affected by buoyant growth periods. It is the inevitable consequence of the introduction of labour-saving technologies. While the adjustment process is highly disruptive for the individuals immediately affected, the changes are necessary to enhance agriculture's wealth creation role in the economy generally. While jobs are likely to continue to be lost in the primary and processing sectors the capacity of these industries to generate employment in remoter sectors is a key concern of policy.

Thus far we have ignored the contribution to GNP and employment of the industries upstream of the primary and processing sectors. Also ignored are the induced effects on GNP and employment of the household expenditure stimulated by activity in these industries. A key *datum* for policy intervention is the likely consequences for economic growth and employment in the economy as a whole of a disruption in the growth of agricultural exports. To trace the full effect of *changes* in agricultural exports on *changes* in these variables we need to employ the methodology of input-output (I-0) analysis*. The most recent analysis available is for 1982 (Henry 1983-84). The key parameters in I-0 analysis are the GNP and employment multipliers which attempt to show the relationship between a one unit change in economy GNP and employment attributable to the GNP and employment content of the agricultural and food export complex. Henry (1983-84, pp 122-3) gives the following estimates for 1982:

GNP Multiplier	Employment Multiplier
1.32	1.5

Thus these data suggest that every £1 million of GNP in the agriculture and food complex (this includes the direct and upstream GNP effects) supports an additional 0.32 million GNP elsewhere in the economy. The employment multiplier indicates that every two jobs in the agriculture and food sectors "... could be considered to support or generate one job or man-year elsewhere throughout the economy" (Henry 1983-84, p 123). An increased level of agricultural exports is unlikely to be accompanied by commensurate employment gains in the primary or processing sectors and hence the employment multiplier must be treated with some circumspection. Nonetheless it is probably reasonable to conclude that a healthy industry is necessary to at best maintain the employment *status quo* in these sectors. Apart

*The use of the method of I-0 for the stated purpose is fraught with many difficulties and hence interpretation of the outcome of such analysis needs to be cautious. Matthews (1981-84) provides a good critique on the agricultural context. Despite the deficiencies in the I-0 methodology it is really the only adequate means available to comprehensively explore the issues addressed in this section

from labour demand, the supply of labour from the primary industry can impinge significantly on unemployment in the economy generally. A buoyant agriculture will reduce the pressure on low income farmers to seek off-farm employment. Efforts to reduce unemployment in the off-farm economy are more likely to be successful if income conditions in the primary sector are such as to not induce people to partake in off-farm employment creation programmes. The upshot of the multiplier estimates is that a diminution in the rate of growth of agricultural exports will have serious negative implications for living standards and employment growth in the economy as a whole.

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