POLICY ISSUES

In the final part of the report we consider the major policies issues which arise from the analysis undertaken in Parts II and III of the report. Chapter 13 outlines the overall or strategic approach to the European economic integration which, in the Council’s view, Ireland should adopt. The Council’s advocacy of advanced economic and monetary union informs its approach to other policy issues and, consequently, Chapter 13 is the core of this report.

In Chapter 14 we consider the appropriate corporate and public policy responses to the specific threats and opportunities indentified in Part III of the report. This chapter focusses on manufacturing and agriculture, since corporate and policy responses in the services sector were already considered in Chapter 10, and the appropriate policy approach to EC tax approximation was set out in Chapter 12. In Chapter 15 we consider both national and Community policies to achieve economic cohesion and convergence. While this involves a review of EC structural and regional policy it also includes an assessment of the significance of other policy approaches. From the material a number of policy issues arising for Ireland and the Community are identified and discussed.

Chapter 16 considers the social dimension of the internal market programme and of the Community. The content and meaning of the social dimension is explained and some important policy issues are identified. Drawing on the strategic approach to integration set out in Chapter 13 we outline how the social dimension of the EC should be viewed by Ireland.

Finally, in Chapter 17 the Council sets out its conclusions and recommendations. This chapter summarises our conclusions on the impact of EC membership to date and our assessment of the threats and opportunities which arise in the current phase of integration. It presents, in summary form, the Councils recommendations on general and specific policy issues.
1. INTRODUCTION

Early in its work on this report the Council decided that the range and depth of issues arising from the Single European Act were such that they required to be placed in the context of an overall approach to Ireland's membership of the European Community. This chapter sets out what the Council considers to be the correct long-term or strategic approach to European economic integration. There are essentially two elements to the argument. The first identifies what level of economic integration would be most desirable for Ireland. The second examines some important features of the process of integration so that these can be taken account of in formulating a strategic approach.

In Section 2 we define three models of integration — a customs union (CU), a common market (CM) and an economic and monetary union (EMU) — and explain which of these is nearest to the EC as it currently exists. In Section 3 we explain the analytical approach used in assessing the relative merits of the three models or levels of integration.

Section 4 begins this assessment by examining the regional distribution of economic activity and income likely to prevail in a customs union, a common market and an economic and monetary union. Here we encounter something which recurs throughout this analysis. There is a limit to what can be learned from comparison of these three textbook models of integration, since the EC cannot be accurately defined by means of them. Consequently, we frequently assess the relative merits of different levels of integration using a more dynamic view of the process of integration. Our conclusion is that the regional distribution of activity and income is likely to be more even in an economic and monetary union.

An important part of this argument is the idea that economic and monetary union must involve considerable development of the scope and ambition of Community policy, and that a greatly enhanced Community budget must play a significant role in inter-regional and inter-personal redistribution. This raises the general issue of the role of public finance in economic integration. In Section 5 we interrupt our assessment of the levels of integration in order to report the work of an important study group on the role of public finance in European economic integration. This account of the McDougall Report (1977)
2. THREE MODELS OF ECONOMIC INTEGRATION

In this section we set out three models of economic integration in order that we can consider the relative merits of different levels of integration. In later parts of this chapter some limitations of these textbooks models, and of the comparisons which can be made between them, will be introduced. It will be seen, however, that the conclusions reached in our comparison of the textbook models are upheld when a more realistic and dynamic view of integration is adopted.

(i) The Customs Union Model
In a customs union (CU) member states eliminate tariffs and quotas on trade in goods among themselves and, in addition, harmonise restrictions on trade in goods with non-member countries (see Chapter 2). This involves the adoption of a common external tariff. These trade policies are the only ones which are the subject of joint decision; each country retains complete control of fiscal, monetary, regulatory, industrial, regional, social and distribution policy.

(ii) The Common Market Model
A common market (CM) is usually defined as an area in which not only goods but also factors of production (labour and capital) are unrestricted in their movement (see Chapter 2). The benefits to the citizens of the participating countries are usually conceived as flowing from efficiency gains deriving from trade and factor movements. However, the creation of a genuine common market may involve not only the removal of tariff and other legal barriers to trade and factor movements, but also the removal of non-tariff barriers such as those arising from customs frontiers and other national regulations. It may also require that some national regulatory policies — such as those covering industrial standards, safety, competition, etc. — be replaced by common policies. The formulation and administration of these market-regulating procedures would require that a small amount of revenue be levied from each participating country. Such revenue might be raised from the common external tariff of the common market or a common indirect tax, or both.

In general, the CM model would leave all other economic policies — allocative, macroeconomic and distributive — in the hands of member states. However, subject to national control of macroeconomic policy, the countries of a common market may establish mechanisms to limit the volatility of exchange rates.

(iii) The Economic and Monetary Union Model
Economic and monetary union (EMU) will clearly involve internal free trade and free movement of labour and capital but, in addition, requires many measures of positive integration. In Chapter 2 we defined negative integration as the removal of barriers to the movement of goods, labour and capital.

Finally, in Section 10 we examine the recent Delors Committee’s Report on Economic and Monetary Union. We find that although the Committee identified most of the important issues it did not follow the logic of its own approach when defining the structure and functioning of a European economic and monetary union. In particular, its definition of economic union ignores many of the ways in which national policy interventions frustrate the achievement of a genuine common market and distort the macroeconomic functioning of Europe as a whole. In addition, though greater convergence is said to be necessary to EMU, no serious policy measures, or even policy frameworks, to enhance convergence are included in its proposals. Our conclusion is that the Delors Committee has defined EMU in a way which takes insufficient account of the true nature and requirements of genuine integration and which, consequently, differs sharply from the concept of economic and monetary union adopted and advocated by the Council.
Positive integration was defined as the establishment of common policies and institutions. Where negative integration is insufficient to create genuine economic integration, or where it actually creates new problems and distortions which prevent the union achieving its aims, then negative integration needs to be complemented by positive integration. To achieve their aims the countries involved need to integrate their economies and closely co-ordinate their policies. This has implications for two broad areas of economic policy.

First, most of the interventionist policies originally undertaken by the states are considered to be of some concern to the federation or union. This applies not only to market regulation, as in the common market model, but also to industrial, regional, social and welfare policies. But these matters of common interest can be administered only by a genuine common authority; thus EMU involves the formation of common institutions with significantly enhanced power. If these common institutions are to undertake these policies, or to co-ordinate national conduct of them, then this requires the existence of a substantial common budget. The raising of revenue for this purpose, and the further harmonisation of taxation, implies that member states’ fiscal autonomy is restricted.

Second, EMU implies such interdependence of the economies involved that a single macroeconomic stabilisation policy is necessary. Thus some form of monetary integration is required, which in turn implies the formation of strong common institutions. [This may involve the retention of national currencies — but having free convertibility with irrevocably fixed exchange rates and close co-ordination of the states’ macro policies.] Or, more convincingly, it may involve the transfer to a common institution of the power to create money, and consequently some limitation on the power of members states to issue debt and conduct deficit financing.

A range of institutional and administrative arrangements are available for the organisation of an economic and monetary union. While these are quite properly the subject of political analysis there exists an unavoidable economic dimension also. The theory of fiscal federalism — a branch of the economics of public finance — has been developed in an attempt to identify criteria which might be used in assigning functions to the common state and local levels of government. While these criteria will be discussed in some detail below we may report here the broad conclusions of the analysis in order to convey a picture of what a genuine economic and monetary union, with a rational system of government, might be like.

The analysis implies that definite public goods should be controlled and funded at the highest or common level of government. Likewise, any policy which affects the whole area should be the subject of common decision making at the highest level. In many other policy areas such as education, health, and social welfare, there are considerable arguments for state or other more decentralised control — subject to one proviso. It is widely argued by writers on fiscal federalism that policies for redistribution should be funded at the top level of government. Otherwise the redistributive policies may fail to achieve their intended aims (the reason for this will be explained below). But education, health, and many other policies have a distributional component and, consequently, if they are run at a decentralised level, for administrative or other reasons, there should be a system of central contributions to their funding. Consequently, as a concomitant of the limitations on the fiscal autonomy of the member states implied by the tax harmonisation, the imposition of central taxes, and the co-ordination of fiscal and monetary policy — there is likely to exist a system of inter-state transfers designed to equalise the fiscal capacity of regions and states.

The EC and Models of Economic Integration
It may be useful to identify what model of economic integration is closest to the EC. We can state unequivocally that it is at least a customs union; the completion of the internal market is intended to ensure that it becomes more of a common market. Yet there are reasons to fear that the internal market programme will be insufficient to make the Community a genuine common market. It has virtually achieved the degree of exchange rate co-operation that we associated with the common market model. At the same time it has developed institutions which have common authority and go well beyond the traditional diplomatic procedures of international co-operation (which might suffice for construction of a common market). The EC has established common policies in a significant number of areas and involves co-ordination of national policies in a further range of areas. These policies include some, such as regional and social policy and agricultural income support, which were previously undertaken solely by member states. Likewise, the Community has formally adopted convergence as one of its considerations and has, on occasion, committed itself to the creation of an economic and monetary union. In all these respects the EC is already something more than a common market. Overall then, it can be seen that the EC is in some respects less than a common market and in other respects more than a common market. We shall see as Part III of the report proceeds that this apparent paradox has two sources. On the one hand these models of integration are somewhat unsatisfactory because, in reality, it is impossible to separate the stages of integration so neatly from one another. But this is not the whole explanation. It is equally important that the European Community has developed in an unbalanced manner and has failed to see all the implications of integration.

Economic and Monetary Union and the Delors Report
The definition of EMU outlined above has been adopted by the Council on the
basis of its study of the modern literature on economic integration, the theory of public finance, and the structure of existing economic and monetary unions. This will become apparent in the course of this chapter. It is necessary to alert the reader to the fact that a very different definition of economic and monetary union has been adopted by the Delors Committee on EMU. In its report, submitted to the European Council in April 1989, this Committee defines EMU to involve a single market, irrevocably fixed exchange rates (or a single currency) and co-ordination of macroeconomic policy — but continual national control of most public policy interventions. It is of particular significance that the Delors Committee assigns almost no role to the Community budgetary mechanism in maintaining regional macroeconomic stability or in assisting regional convergence. The difference between this notion of EMU and the concept adopted by the Council should be kept in mind when considering the arguments of this report. The Delors Report is analysed in the final section of this chapter.

3. THE APPROACH TO ASSESSING DIFFERENT MODELS OF INTEGRATION

(i) Three Criteria by which to Judge Levels of Integration
In considering the relative economic merits of a customs union, a common market and an economic and monetary union we adopt three criteria (i) the regional distribution of production and income (2) microeconomic performance and management and (3) macroeconomic performance and management. To a considerable extent this comparison of three models of integration focuses on the nature and effectiveness of policy in addressing the problems which are likely to arise in each type of integrated area. There are certain concepts which are useful in conducting the analysis and in facilitating constructive discussion of the issue.*

(ii) Three Types of Policy
We can distinguish three ways in which public policy can influence the economy. It can affect the allocation of resources, the macroeconomic performance (stabilisation) and the distribution of incomes. These three roles of policy cannot be rigorously separated but the distinction is useful for certain purposes.

(iii) Three Criteria for Assigning Policy to Different Levels of Government
In undertaking a comparison we are in effect asking which level of integration would have the most effective system of policy formation and implementation. In defining what an EMU might be like we reported the conclusions of a particular branch of the theory of public finance — the theory of fiscal federalism. In order to analyse the relative merits of a CU, a CM and an EMU

*The conceptual framework outlined below was adopted also by Padoa-Schioppa in his recent presentation of a strategy for the evolution of the economic system of the EC (Padoa-Schioppa, 1987).

we need to spell out the criteria which this theory uses in considering the assignment of responsibility for particular policies to the local, regional, national and highest levels of government. These criteria are: economies of scale, externalities and spillovers, and political homogeneity. The reasons why these criteria are conventionally invoked can be easily shown (Robson, 1987).

Economies of Scale
If there are significant economies of scale in the provision of certain public activities then this provides a reason why these activities might be assigned to a higher tier of government, which can conduct them on a scale large enough to maximise efficiency. For example, there are likely to be economies of scale in the conduct of many market regulation functions and competition policy. Likewise, in the conduct of foreign aid policy or the provision of certain services decentralised provision is likely to be more expensive than centralised provision.

Externalities and Spillovers
The amount of externalities and spillovers are relevant because, other things being equal, it is desirable to make the benefits of a policy action and the incidence of costs for that action accrue to the same group of citizens. If a policy action helps the country at large there is an argument for its provision by a national rather than local tier of government; if its effects spill over to other member states there is an argument for its provision at the higher common level — so that the costs and benefits can be evenly shared. For example, if the provision of education or structural support by one regional authority had positive economic effects on other regions also, then this is a reason to consider conduct of these policies by a higher common authority. External effects and spillovers can, of course, be negative as well as positive; the provision of energy or industrial support by one authority may have adverse effects on neighbouring regions.

Political Homogeneity
Political homogeneity refers to the feeling of belonging to the same political grouping and sharing the same interests and destiny. The relevance of this criterion is that political homogeneity or cohesion within a given area strengthens the case for assignment of particular functions to the highest tier of government, while diversity of interests and perceptions between different areas is often considered to support the case that welfare will be maximised by decentralised provision of public functions. If the criteria of economies of scale and spillovers indicate that a certain function should be undertaken at, say, the highest tier of government, it has to be asked whether it is politically appropriate that this be done.

Conclusion
The broad conclusions of this approach in its most comprehensive
presentation, the theory of fiscal federalism, are that the resource allocation function should be shared amongst upper and lower tiers of government according to the particular 'public good' characteristics of the services to be provided and the homogeneity or diversity of the preferences for them. Both the redistribution function and the stabilisation function should be carried out at the highest level (Oates, 1977).

4. THE REGIONAL DISTRIBUTION OF ACTIVITY AND INCOME

(i) The Textbook View

In textbook discussions of this subject it is considered that the allocation of economic activity between the member states would differ depending on whether the states had formed a CU, a CM, or an EMU. This is because in the textbook approach the degree of mobility of goods or labour and capital is distinctly different in each model. For example, a customs union differs from a common market precisely because factors of production (labour and capital) are considered immobile between states in a customs union. This means that free trade can rearrange the production structure of each economy but not relocate capital or labour between states. Likewise a CM differs from an EMU in that, in a common market each state retains control of its exchange rate, whereas in a monetary union this autonomy is removed. This difference is often considered by some to have implications for the pattern of economic activity in different states of a monetary union. In particular, it has been argued that adherence to a single monetary standard will impose costs on economically weaker states and regions. We discuss this question in more detail later in this chapter. The relevant point is that given these textbook definitions the forces influencing the pattern of activity are likely to be different in the three cases — customs union, common market and economic and monetary union.

(ii) An Alternative View of the Regional Question in Integration

An Important Conclusion

There are a number of reasons why the effect of market forces in shaping the pattern of activity across various member states may not, in fact, be very different at different stages of integration. This is an important conclusion which emerges from our analysis of the regional question in Chapter II but which was not highlighted there. There are several strong arguments which support it and we briefly outline these here drawing, where necessary, on earlier material.

Three Arguments

It arises, first, because the actual stages of integration are unlikely to differ so sharply as in the textbook definitions. For example, it is unlikely that free trade would exist with no mobility of any factor of production (as in the customs union model). In fact, where there has been free trade in Europe there has usually been considerable, but by no means completely free, migration of labour and international investment. Consequently, the positive and negative regional effects of capital and labour mobility are likely to be experienced, to some extent, once a regime of free trade exists — even if the formal conditions for a textbook common market do not yet exist. We have seen in Chapter II that in certain circumstances the regional effects of capital or labour mobility can be substantial. Likewise, some of the features of monetary union may apply in a common market, or even where a genuine common market has not been completed.* In these circumstances some of the regional costs and benefits of monetary integration could arise in a customs union or common market — and certainly before a genuine economic and monetary union has been created. For these reasons the stages of integration, as they unfold in reality, may not differ so sharply, in their regional effects, as do a customs union, a common market and an economic and monetary union in their textbook definitions.

This argument is that the regional effects of international capital movements and labour migration can be experienced at various stages of integration and that the regional effects of monetary integration — or at least of fixed exchange rates — could also be experienced in a customs union or common market. But we have not yet identified the regional effects of fixed exchange rates. It has long been argued that adherence to fixed exchange rates can impose costs on weaker countries or regions (Corden, 1972b).

This argument has validity so long as a distinction is made between temporary or short-run costs and long run costs. Adherence to a fixed exchange rate can impose adjustment costs on a weaker country or region. In addition, thereafter short-run problems can arise due to asymmetric regional effects of external shocks or other changes. We discuss these issues further in later sections of this chapter — our immediate concern here being the proposition that the actual stages of integration are unlikely to differ to the extent presumed in textbook discussions and, in particular, that the effect of market forces in shaping the regional pattern of activity may not be very different at different stages of integration.

The second argument for this proposition derives from the fact that the relative costs and benefits of a CU, a CM and an EMU are usually assessed by applying to these textbook definitions the conventional theory of international trade. We have noted on a number of occasions that this traditional theory of trade is based on very restrictive assumptions, and that new approaches, allowing for economies of scale, external economies and the market power of firms, have

---

*That chapter addressed the specific question, whether the 1992 programme would start a process of regional convergence in Europe.

*For example, though the community does not yet have a genuine common market it has, through the EMS, established quasi-fixed exchange rates.
recently been developed (see Chapters 2, 3, 6 and 11). These new approaches alter somewhat our view of the gains from trade and integration. In general they indicate that the overall gains from trade and integration are potentially larger than in the conventional analysis. In addition, they provide some reasons why the costs and benefits may be more evenly distributed between regions, and some reasons why they may be much less evenly distributed — depending on the circumstances of the different countries. What is significant for our immediate comparison of the regional distribution of activity and income in a CU, a CM and an EMU is that allowing for economies of scale, etc., shows that even free trade can generate large and unevenly distributed costs and benefits in both the short and long run. This also tends to undermine the view that any costs of integration are confined to, or even arise primarily at, the stage of monetary integration.

Thirdly, and very significantly, many of the most important forces making for regional convergence and divergence (surveyed in Chapter 11) are likely to be operative regardless of whether a country is part of a customs union, a common market or an economic and monetary union. Indeed, many of them are inseparable from the internationalisation of economic activity which exists independent of the fact that countries embark on formal integration. These comments apply with particular force to small countries — so long as they have not chosen to isolate themselves from the international economy.

Conclusion
These three arguments support our general conclusion that the effect of market forces in shaping the regional pattern of activity need not be very different at different stages of integration. Consequently, in considering the likely distribution of activity and income in different models of integration we concentrate, from here on, on the impact of public policy in influencing this distribution.

(iii) The Regional Effects of Policy in Different Models of Integration

Customs Union and Common Market
In general, both the customs union model and the common market model would involve little consideration of redistribution within the market area. There are two reasons for this. First, the benefits of free trade and the gains from the formation of a customs union or common market are usually presented in terms of the traditional trade theory. Within that theory, trade and/or factor mobility tend, on certain assumptions, to bring about equalisation of factor incomes in each country and region. Thus, while working within these concepts there will appear to be little need for redistribution between member states. Second, within the common market model redistributive policies introduced on equity grounds are the responsibility of the nation states.

Of course the economics of trade in a common market could be analysed in a more realistic manner — allowing for economies of scale, external economies, etc., and we have noted above that this changes our view of the gains from trade somewhat. We have seen in Chapter 11 that the distribution of gains from trade is likely to favour those states or regions in which industries with economies of scale predominate and in which innovative activities are significant. However, in the context of this theoretical case of a common market there is little basis for establishment of redistributive policies (Dosser, 1982). Each member state retains complete autonomy in its monetary, fiscal and exchange rate policy and can use these to achieve its policy aims. In summary, on the criterion of the international pattern of economic activity and income neither the textbook form of the customs union model nor the common market model seem very attractive to a country with an economy like that of Ireland.

A More Realistic View of a Common Market
A further criticism of the common market model as a desired end point of integration has been advanced. The definition of a common market used, since the work of Balassa, in identifying stages of integration is unrealistic, since it is only applicable to a set of countries in which the only state involvement was commercial policy — i.e., customs and excise (Pelkmans, 1982). When we consider modern mixed economies it emerges that a genuine common market could not be achieved simply by negative integration, that is, removal of the obvious barriers to the free movement of goods and factors of production. It requires that many positive integrative steps be taken. We shall see presently that these positive steps include very many aspects of economic policy currently in the hands of the member states in the EC. Our concern here is solely with policies that influence the regional pattern of activity and income.

The view of integration which emerges from Pelkmans’ work suggests that a complete common market is not possible if different welfare provisions, different state pensions and non-recognition of labour qualifications, inhibits mobility of labour within the common market and distorts the signals which attract capital to different countries. It follows that a genuine common market will only exist if the economic and social policies of the member states are harmonised to a considerable extent. This co-ordination of policies requires the formation of common institutions, and the granting to them of authority, far beyond that usually envisaged in the common market model. In short, in order to achieve a genuine common market it would seem necessary to create an economic union.

Indeed, the central conclusion reached by Padoa-Schioppa’s group was that the Community’s recent agenda — completion of the market and monetary stability — is incomplete. In their view “Greater Community involvement in stabilisation and redistribution policies is the indispensable complement of the ambitious project of completing the internal market” (Padoa-Schioppa, 1987).
Economic and Monetary Union

What are the likely regional effects of policy in an economic and monetary union of the sort defined above? These turn out to be somewhat different from those in a customs union or a common market.

In a genuine economic and monetary union there is likely to be a substantial common budget. Application of the conceptual framework outlined above indicates that there are strong arguments for the involvement of the highest tier of government in a wide range of public policy. First, there are a number of public goods such as monetary stability, technical research, parts of education and social welfare and others which, on grounds of economies of scale or externalities and spillover effects, should be provided at the highest level. Second, many other allocative aspects of public policy will be provided by state or even local tiers of government, but will be part funded from a common budget — because they have a redistributive aspect as well as a public good aspect. It is important to stress that expenditure from the substantial common budget on provision of public goods will not necessarily be redistributive, either between persons or between regions (Dosser, Gowland, Hartley, 1987). However, if the common revenue is raised in a neutral or progressive manner then its expenditure is likely to be somewhat redistributive and the possibility exists for substantial redistributive impact. Pelkmans points out that “Federations and unitary states rely heavily on invisible and automatic transfers both between persons and between regions through the central tax system and the central social security system, acting as a powerful mitigation of income and activity differentials” (Pelkmans, 1982).

Third, when we turn to public policy which is explicitly intended to achieve redistribution, and when we invoke the conceptual framework outlined above, we see that there are very strong arguments for the assignment of functions to the highest tier of government. The argument is based on the fact that the attempt to conduct redistributive policy by lower tiers of government is likely to be unsuccessful because of the mobility of labour and capital (Oates, 1977; Heal, 1985). Thus either capital or labour could move from one state to another in order to avoid, or exploit, the effects of redistributive taxes, transfers and subsidies. It is sometimes said that while this analysis points unequivocally to the performance of the redistribution function by the highest tier of government in a nation state it does not apply to the EC; because the mobility of factors is more restricted (Robson, 1987; McDougall, 1977). In our view this point is of rapidly decreasing validity and the more fundamental argument derived from the analysis would be quite applicable to a European economic and monetary union.

This analysis shows that, subject to one further condition, some of the Community’s redistributive policies should be controlled, or at least funded, at the Community level. It does not, of course, provide any arguments as to what Community redistribution policy aims should be. In the context of an economic and monetary union a number of arguments for redistribution could be made and these will be considered presently.

Monetary Union and the Loss of Exchange Rate Autonomy

One important consideration in comparing the likely regional effects of public policy in a customs union and a common market is the loss of exchange rate autonomy in an economic and monetary union. Indeed, the possible cost of losing discretion over the exchange rate was, for many years, the major issue in analyses of the costs and benefits of economic and monetary union (Corden, 1972b; Coffey, 1977; Robson, 1987). It is clear that, to some extent, the issue of whether monetary union would impose costs on weaker regions turns on the question of whether exchange rate devaluation can address the real problems of these regions. Initially, this was widely thought to be the case. However, the effectiveness of devaluation was subsequently questioned for both theoretical and empirical reasons.* While both the theory and evidence on exchange rate changes has, once again, become quite uncertain it seems safe to reach the following conclusion. An adequately structured and rationally organised economic and monetary union would have a set of budgetary mechanisms which, because of their inter-regional redistributive effects, would cushion regions from macroeconomic fluctuations and shocks at least as effectively as exchange rate movements do. It follows from this that the comparison of regional effects of policy in a customs union and an economic and monetary union once again favours an economic and monetary union.

It is most important to realise that the arguments for the establishment of adequate budgetary mechanisms in an economic and monetary union do not depend on the argument that, in the absence of monetary union, exchange rate devaluation can generate an increase in output and employment in weaker countries and regions. It is sometimes thought that evidence of the limited effectiveness of exchange rate devaluation in increasing output and employment constitutes proof of the validity of the theory that the economy has a natural tendency to full employment and that balance of payments deficits are temporary and purely monetary phenomena. That idea is a logical fallacy.** Regardless of the effectiveness or ineffectiveness of exchange rate

---

*It is important to distinguish between the theoretically- and empirically-based scepticism about the ability of exchange rate devaluation to increase output and employment. The theoretically-based scepticism derived, in many cases, from adherence to the notion that the real economy in each country has a natural tendency to full employment and, consequently, it would be logically impossible for devaluation of the exchange rate, or any other macroeconomic policy, to increase output and employment. This is not the position which underlies the Council’s approach to exchange rate policy in this or previous reports (see Strategy for Developments 1986-1990, NESC Report No 83, pp. 173-80).

**The fallacy in this position can be seen by analogy with another, but similar, non-sequitur. There is a theory, adhered to by many, which says that because the economy has a natural tendency to full employment, observed unemployment cannot be due to a general deficiency of demand.
(a) Definition of Key Terms and Concepts

Economic Growth

Economic growth refers to the sustained increase in a nation's capacity to produce goods and services over time. It is a critical aspect of development, as it leads to improved living standards, reduced poverty, and greater opportunities for its citizens. Economic growth can be measured using indicators such as gross domestic product (GDP), which represents the total market value of all goods and services produced within a country in a given period.

Institutional Development

Institutional development encompasses the processes by which institutions and related regulations evolve within a society. It is essential for economic growth as it provides the framework within which businesses and individuals can conduct their activities. Effective institutions ensure that resources are allocated efficiently, that property rights are respected, and that legal frameworks promote fairness and predictability.

(b) Theoretical Framework and Methodological Choices

The study employs a mixed-methods research design, combining quantitative and qualitative approaches. Quantitative data from various sources, such as national statistical agencies and international organizations, is used to analyze trends and patterns in economic growth and institutional development. Qualitative insights, derived from interviews with policymakers, business leaders, and civil society actors, are used to complement and deepen the understanding of the complex interplay between economic growth and institutional development.

(c) Empirical Analysis

The empirical analysis involves the examination of historical data to identify trends and causal relationships. Statistical tools such as regression analysis are applied to test hypotheses related to the impact of institutional development on economic growth. The analysis also considers the role of other factors, such as education, infrastructure, and natural resources, to provide a comprehensive picture of the drivers of growth.

(d) Policy Implications

The findings of the study have significant policy implications. They suggest that investments in institutional development are critical for sustained economic growth. Policymakers should focus on strengthening institutions to create an environment that fosters innovation, entrepreneurship, and responsible governance. Policies that enhance transparency, accountability, and rule of law are particularly important.

(e) Conclusion

The study concludes by highlighting the importance of a dynamic and responsive approach to institutional development. Given the complexity of the relationship between institutions and economic growth, policymakers must be prepared to adapt and adjust their strategies in response to changing circumstances. By doing so, they can contribute to sustainable and equitable development, benefiting all members of society.
effects of policy in different models of integration our conclusion is that an adequately structured and rationally organised economic and monetary union is likely to yield a more even regional distribution of economic activity and income than a common market or a customs union. This is the first element of our assessment of what level of integration would be desirable for Ireland and the Community.

5. THE McDOUGALL REPORT ON THE ROLE OF PUBLIC FINANCE IN EUROPEAN INTEGRATION

(i) Aims and Methods
It will be noted that the nature and extent of Community policy figured prominently in our argument that regional distribution would be best in an economic and monetary union. In fact this issue of public finance and redistribution in economic integration was examined in great detail by a study group under McDougall, which reported to the Commission in 1977. The report of that group constitutes the point from which future consideration of these issues should start and consequently it may be useful to provide a summary of it at this point.

The aim of their work was to investigate the role of public finance, which they identified as the third major aspect of economic integration — the first two being free trade and monetary integration. They explicitly avoided any particular value judgement as to the degree of political union to be attained — confining their comments to the economic necessities that apply to any given stage of integration. Within this canvass they set themselves one particular task: to identify what system of Community public finance would be necessary in order to facilitate creation of a monetary union.

The McDougall group pursued two lines of economic inquiry, which at the outset were quite different, but which converged in their conclusions to a considerable degree. The first approach was to examine — largely on the basis of empirical case studies of relevant countries — the role of public finance in the macro-economic inter-relations between regions in existing federations and unitary states. This served to identify the kind of public finance characteristics that typically accompany other features of economic and monetary union. The second approach was to draw on the theory of public finance — and the theory of fiscal federalism in particular — in order to analyse what is the most suitable level of government to undertake the allocative, stabilisation and redistribution functions of public policy, as integration proceeds.

(ii) Existing Economic and Monetary Unions
Their in-depth study of the four largest EC states (Germany, France, Italy and the UK) and four federations outside the EC (Australia, Canada, Switzerland, and the US) revealed some very important facts. (1) Per capita incomes between the nine EC countries are at least as unequal as they are between the various regions of the countries studied (see Chapter 11 above). (2) The public finance systems of the countries studied provide a very substantial redistribution between regions. On average these systems reduce income differences by 40 per cent. (3) The redistributive power between member states of the Community’s finances, by comparison, is very small indeed (1 per cent) — partly because the Community budget is so small and partly because the expenditure and revenue of the Community have a weak geographical redistributive power per unit of account. (4) The instruments of inter-regional redistribution consist in all countries of the main public expenditure programmes. Thereafter a difference between unitary states and federations emerges. In the former, a large part of the total redistribution between regions arises automatically and is invisible. In federations, inter-governmental grants and tax sharing play a much more important part. Regional policy, narrowly and explicitly defined, provides only a minor component of the overall financial redistribution process. (5) These inter-regional flows tend to finance a current account deficit on the ‘balance of payments’ of poorer regions and to sustain current account surpluses in richer regions. (6) As well as redistributing income regionally on a continuing basis, public finance in existing economic unions plays a major role in cushioning short-term and cyclical fluctuations. Because the Community budget is so small, there is no such mechanism in operation between member countries of the EC and this forms an important obstacle to further integration by making monetary union impracticable.

Pre-Federal Integration
It is important to emphasise that the McDougall group did not take these facts as a blueprint for the design of the public finance system of the EC. Instead they used this survey to identify why central government expenditure absorbs 20-25 per cent of GDP in the countries studied and why inter-regional redistribution takes place on such a large scale in maturely integrated economies. Their aim was to identify what economic functions public finance fulfills in these countries, in order that the functional requirements of European integration be clearly understood. When it came to stating the implications of these investigations for the future of public finance in the EC, the group distinguished between three stages of economic integration:

(1) a federation with a large Community budget of 20-25 per cent of GDP — like the countries studied in their survey;
(2) a federation with a small Community budget absorbing 5-7 per cent of GDP;
(3) ‘pre-federal integration’, with a Community budget of 2-2.5 per cent of GDP.

In undertaking their second line of inquiry — using the theory of fiscal federalism — the group applied the three criteria (economies of scale,
spillovers, and political homogeneity) in such a way that their practical proposals concerned the development of public finance in the Community in a pre-federal stage of integration.

(iii) Application to the European Community

The second approach of the McDougall group was to analyse each public finance function using the criteria that emerge from the theory of fiscal federalism: economies of scale, spillovers, and political homogeneity. The broad conclusions of that theory — that the allocative functions should be shared between central and local tiers of government and that redistributive and stabilisation functions should be exercised at the highest level — could not be applied fully to the EC in its actual ‘pre-federal’ condition. Table 13.1 summarises their judgement on the three criteria for assessing the case for or against Community level involvement in public sector functions. Although there are strong economic arguments (based on economies of scale and spillovers) for Community level control of external trade negotiations, overseas development aid, defence, political co-operation and energy negotiations, further political developments are required before all of these functions are made the responsibility of the Community. Likewise, it was concluded that general public services, like public administration and law and order, which in theory should be the responsibility of the highest tier of government, should be assigned to the Community only as the functional responsibilities of the EC are increased.

The McDougall group considered that, at the time, there was not a case for significant Community involvement in the provision of social and welfare services such as education, health, social security, welfare and housing, which in most European countries absorb over half of public expenditure and 20 to 25 per cent of GDP. There are, in general, few economies of scale considerations favouring EC level activity, and in their view, the international spillovers and externalities arising from social and welfare policies are limited. However, the group stressed that this conclusion was premised on two conditions which held in 1977, but may not always hold: first, that the level of inter-state migration was slight and second, that the differences in the standards of public services are not so great as to constitute a real Community-level political issue. If these conditions ceased to hold then a case for Community involvement of some form, in providing finance for general purpose fiscal capacity equalisation, would exist.

It was in the areas of structural, cyclical, employment and regional policies that the McDougall group saw the main need for substantial expenditure at Community level. The reason for this was that there are transnational effects of national policies. Furthermore, there is the possibility for Community level intervention in regional, manpower, unemployment, and general inter-state redistribution policies to balance out the gains and losses from the general

| Table 13.1 |
| Criteria for Assessing the Case for or against Community Level Involvement in Public Sector Functions |

<table>
<thead>
<tr>
<th>Economies of Scale</th>
<th>Externalities or Spillovers</th>
<th>Political Homogeneity*</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Public Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>external non-defence</td>
<td>yes</td>
<td>adequate or under</td>
</tr>
<tr>
<td>(trade, aid, energy,</td>
<td>yes</td>
<td>negotiation</td>
</tr>
<tr>
<td>political co-operation)</td>
<td>yes</td>
<td></td>
</tr>
<tr>
<td>defence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>public administration,</td>
<td>some</td>
<td>no</td>
</tr>
<tr>
<td>law and order</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social and Welfare Services</td>
<td>little now,</td>
<td></td>
</tr>
<tr>
<td>education, health,</td>
<td>future yes</td>
<td></td>
</tr>
<tr>
<td>social security,1</td>
<td></td>
<td>no</td>
</tr>
<tr>
<td>housing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>market intervention</td>
<td>selective</td>
<td></td>
</tr>
<tr>
<td>functions (agriculture,</td>
<td>yes</td>
<td>adequate or under</td>
</tr>
<tr>
<td>fisheries, oil)</td>
<td>selection</td>
<td>negotiation</td>
</tr>
<tr>
<td>market regulation</td>
<td>selective</td>
<td></td>
</tr>
<tr>
<td>functions, (technical</td>
<td>some</td>
<td>adequate or under</td>
</tr>
<tr>
<td>norms, competition, etc)</td>
<td>yes</td>
<td>negotiation</td>
</tr>
<tr>
<td>advanced technology</td>
<td>yes</td>
<td></td>
</tr>
<tr>
<td>structural and cyclic</td>
<td>—</td>
<td>some now, future?</td>
</tr>
<tr>
<td>policies (regional,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>manpower, unemployment)</td>
<td>yes</td>
<td></td>
</tr>
</tbody>
</table>

1excluding unemployment compensation
2including unemployment compensation
*As seen at present under a “pre-federal integration” hypothesis. This political criterion is potentially subject to more change over time than the other two economic criteria.

integration process sufficiently convincingly to enable this process to go ahead further. They proposed a series of measures including increased EC participation in regional and social policy, a Community unemployment fund to which contributions would be made and unemployment compensation drawn, a limited budget equalisation scheme to raise the fiscal capacity of weaker member states to, say, 65 per cent of the Community average, and a system of cyclical grants. The net cost of these suggestions, allowing for savings, economies of scale, and mere transfers of expenditure from national
to Community level, should not increase total public expenditure in the EC at all levels of government as a proportion of real product.

Apart from setting out the conceptual framework for analysing the role of public finance in the process of economic integration, the McDougall report adopted a new approach to the achievement of redistribution. Although their main proposals were applied to a system of pre-federal integration (with a Community budget of only 2-2.5 per cent of GDP) the group used their study of existing unitary states and federations to identify which central government expenditures have the largest redistributive impact. From this they constructed a package of Community policies which, though amounting to a very small percentage of EC GDP, would have considerable ‘leverage’ in achieving redistribution. The package would result in an equalisation of only about 10 per cent of the then existing per capita income differentials — about one quarter of the equalisation that was observed in existing economic and monetary unions. This analytical approach — and also the practical approach of seeking to identify which expenditure categories have the greatest redistributive impact or ‘leverage’ — has been adopted by another study group, established by the Commission to review the Community’s economic system after the Single European Act (see Padoa-Schioppa, 1987).

(iv) Macroeconomic and Monetary Union

Given the small size of the Community budget proposed by the McDougall group they did not consider that the Community budget should be used as an instrument for helping to stabilise short-term and cyclical fluctuations in economic activity. Use of the Community budget for this purpose would be hampered so long as member states retain separate currencies and monetary policies — given the close inter-relation which necessarily exists between fiscal and monetary policy. They were in no doubt that co-ordination of fiscal policies is a key element in any programme for European monetary integration.

It is most important to note, however, that the McDougall group did “not think that the extent to which convergence and compensation could be prompted by Community expenditure on the scale that we are assuming for the pre-federal integration could, in any case, be adequate to make major progress towards monetary union practicable” (McDougall, 1977, p.62, italics added). For this, a Community budget of at least 5 to 7 per cent of GDP which was very ‘high powered’ would be required. This budget would need to be high powered in the sense of fulfilling to a high degree the redistributive and macroeconomic policy functions that are to be expected of an economic union, but which at the same time aims at minimum Community level public expenditure, i.e., a minimum centralisation in the supply of goods and services (see also Coffey, 1977).

6. MICROECONOMIC AND MACROECONOMIC COMPARISONS

(i) Microeconomic Performance and Management

The Textbook Case

What differences in microeconomic performance can be identified between the customs union model, the common market model, and the economic and monetary union model? In the case of microeconomic and macroeconomic policy and performance it is not so easy to identify the implications for Ireland specifically. In most of what follows we discuss the effect of different degrees of integration on the policy and performance of the grouping or community as a whole. In the traditional approach to trade theory — with which the definition of these three models of integration is connected — it would, on certain assumptions, be deduced that a CM would yield greater welfare gains than a CU, because the former assured full mobility of labour and capital whereas a customs union only involved free movement of goods (Balassa, 1987). Beyond this there is not much that can be said about the relative microeconomic performance of a common market and an economic and monetary union.*

A Common Market of Mixed Economies

To make a more realistic evaluation of the relative microeconomic performance of a CU, a CM, and an EMU we may, following Pelkmans, note that the textbook account of alternative models is unsatisfactory. It is unsatisfactory because it involves the comparison of three model economies in which state intervention is very limited. Whereas, what is required for assessment of European integration is a comparison of different degrees of integration of modern mixed economies. This has many implications for the way integration is analysed. We confine ourselves at present to the implications for the relative microeconomic performance of a customs union, a common market and an economic and monetary union.

One of the central themes of Pelkmans’ work on integration is that establishing a genuine common market between mixed economies has many more profound implications than it was traditionally appreciated. First, product market integration requires not just the removal of tariffs and quotas but also a programme of eliminating border interventions. This requires removal of national technical specifications and some harmonisation of indirect tax. But the numerous domestic interventions of a microeconomic kind are, conceptually, similar in their effects to border interventions. So product market integration requires some approximate equalisation of public influences on competitive conditions in member states. This is very ambitious, since it would

*In the theory of optimum currency areas — which does indeed involve the comparison of a monetary union with other models of integration — ‘optimum’ is defined in terms of the macroeconomic goal of maintaining internal and external balance (Kawai, 1987).
cover sector regulations and sectoral aids, public aid to industry and to regions, public procurement and tendering, the deficit financing of public firms, etc. These are the problems of product market integration only. To achieve non-financial factor market integration requires the development of a single labour market. Further difficulties appear when financial markets are to be fully integrated. This would constrain domestic stabilisation and redistribution policies to such an extent that "its realisation seems to be entirely dependant on developments in macro-economic integration" (Pelkmans, 1982). In short, creation of a genuine common market involves creation of economic and monetary union.

This fundamentally important observation about the integration of modern mixed-economy democracies was well explained by Pelkmans and Robson in their review of the Commission's internal market White Paper:

An undiluted application of the principle of free movement for factors and products — which would involve not merely the negative abolition of restrictions but the elaboration of many 'positive' measures — would inevitably, through its impact on the 'effective jurisdiction' of Member States, drastically undermine the delicately balanced packages of public policy regulation, market intervention, income redistribution measures and macroeconomic policies that are at present determined at the level of national politics. Nevertheless, if markets are not subjected to a harmonization of public policy interventions that significantly affect competitive conditions in member states, the benefits from a common market will remain smaller than is technically feasible, and the operation of the market itself could be seriously impaired. In its absence, movements of goods, factors and services within the Community would respond to distorted price signals and the outcome would be an inferior allocation of resources (Pelkmans and Robson, 1987).

This puts in perspective what is involved in creating a genuine common market and implies that, to all intents and purposes, it requires creation of an economic and monetary union. Consequently, a comparison of the likely microeconomic performance of a common market and an economic and monetary union becomes very difficult, because the traditional definition of what would constitute a common market is undermined.

Comparing a Common Market and Economic and Monetary Union

We can make some progress by undertaking two separate comparisons. Consider first a common market, as traditionally defined — with a very limited range of common policies and few common institutions. The retention of national control of microeconomic policy, which is part of the conventional definition, is likely to be inferior to the microeconomic outcome produced by EMU. As Pelkmans and Robson say, the continuation of non-harmonised public policy interventions means that goods, factors and services would move in response to distorted price signals and the outcome would be an inferior allocation of resources.

Alternatively we can consider a more genuine common market in which domestic interventions have been harmonised or largely removed altogether. If microeconomic policy interventions in R+D policy, competition, industrial policy or social policy, are needed in the unified market then the microeconomic performance of a common market, with few common policies and common institutions, will be inferior to that of an EMU, which has a wider range of common policies and Community institutions. A classic illustration of this argument is provided by research and development. Because individual firms cannot fully reap the benefits of their own R+D the private sector may not undertake as much scientific research as society would desire. In this case there is an economic argument for some state intervention. If these external effects spill over national borders, or if there are economies of scale in research, then this state intervention should be undertaken by the common tier of government. The widespread recognition of this need in recent years amounts to a recognition of the fact that the European economy has suffered not only from a fragmented market but also from a fragmented state.

Of course a superior microeconomic performance of the Community as a whole, resulting in part from Community-level technology policy, industrial policy, transport policy or social policy, does not imply a superior performance for all regions or countries. Padoa-Schioppa is aware of the existence of conflicts in Community policy objectives. Technology policy aims mainly at a stronger competitive position in high-technology industries of the Community vis-à-vis other industrialised powers. However, single minded pursuit of this aim is likely to aggravate the problem of regional disparities. Consequently, he argues that in enhancing the scope and strength of Community microeconomic policies "attention has to be given to avoiding a bias in favour of the most developed regions" (Padoa-Schioppa, 1987).

*Microeconomic Effects of Unco-ordinated Macroeconomic Policy*

So far we have only considered the impact on relative micro-performance of differences in the *microeconomic* policy framework of a common market and an economic and monetary union. We have found that a suitably structured economic and monetary union is more likely to have a successful micro-economic performance, because the ineffectiveness and distorting effects of domestic policy would be compensated for by coherent common policy institutions and measures. But the differences between a common market (as conventionally defined) and an economic and monetary union are even more pronounced when it comes to *macroeconomic* policy. The single most striking difference is the retention of fiscal, monetary and exchange rate policy autonomy by states in a CM, and the operation of a single policy, or at the very
least close co-ordination, in an EMU. Putting aside, for the time being, the macroeconomic impact of this difference we note that it is likely to have important implications for the relative microeconomic performance. Both the conduct of trade and the allocation of productive resources like capital and labour are likely to be disrupted and distorted by the exchange rate and interest rate movements which seems to be inevitable in a common market where macroeconomic policy is unco-ordinated. This is the idea which underlies the widely held and totally justifiable point that rapid progress towards monetary and macroeconomic union is a necessary complement to the internal market programme.

On the basis of a mainly static comparison of our three models of integration, an economic and monetary union would seem likely to have a superior microeconomic performance.

(ii) Macroeconomic Performance and Management

The internationalisation of economic activity has reached a point where even very large economies must be seen as interdependent. For very small economies this interdependence can easily amount to dependence. For all economies, including the major world economies, interdependence poses new challenges of economic management.

Macroeconomic Policy in an Economic Union

Where a grouping of countries exists which is committed in voluntary treaties to “ever closer union” then it seems rational, at least in the first instance, to apply the concepts derived from the theory of public finance to the question — what tier of government should be given responsibility for macroeconomic policy? The answer to that question is the following. If the economies are structurally interdependent then there is a case for the conduct of macro policy at the Community level. If there exists policy interdependence between the economies then this strengthens the case for a common macro policy. There can be no doubt that the economies of the EC satisfy both these criteria. The essential argument is, once again, based on the spillover effects from one country to another; highly interdependent economies will find that that very interdependence thwarts them in their attempt to achieve their macroeconomic goals by means of domestic policy.

Although the theory of fiscal federalism leads to an unambiguous conclusion in the case of macroeconomic policy, there are a number of other considerations that need to be noted.

The first is that although it is clear that interdependent economies would probably benefit from a common rather than separate macroeconomic policies, it is by no means guaranteed that a common policy, or co-ordination of national policies, will easily be achieved or will be readily successful. Member states may differ on what the aims of the policy should be. The costs and benefits of pursuing a given policy may be unevenly distributed and this may threaten the consensus (Robson, 1987). These practical difficulties, which have lately become the subject of widespread research, are not discussed in any further detail here. Although they are undoubtedly difficult problems, it is not clear that this undermines, the position that co-ordinated macroeconomic policy is a necessity — given the degree of interdependence of the European economies.

Another objection to the allocation of macroeconomic policy to Community level would, of course, be that no macroeconomic policy, other than control of money supply, is necessary, since the economy has a natural tendency to full employment of all resources including labour. Despite being derived from unrealistic and unsound theory, this proposition has enjoyed a considerable revival in recent times. Although belief in this notion now shows clear signs of waning it may yet be used first, to try to resist the formation of common European macroeconomic policy and, if it fails in that, to influence the content of that common policy away from the achievement and maintenance of full employment by macroeconomic means. The Irish government has the greatest possible interest in resisting any such attempt to thwart the development of a common and suitable macroeconomic policy.

The theory of public finance — from which we derived the macroeconomic superiority of an economic and monetary union over a common market — is essentially static in that it indicates the best allocation of policy responsibilities in a completed unitary state or federation. Some general implications of this will be discussed presently; we are concerned here with its specific implications for the idea of a Community macro policy.

Dynamic Pressure to Advance to Monetary Union

Instead of considering the allocation of policy functions within a given state or federation we may examine, both theoretically and empirically, the way in which policy roles develop in the process of economic integration. One significant school of thought is that “advanced forms of economic integration give rise to problems of policy co-ordination and harmonisation that generate the need for new negotiations and agreements, which impose constraints upon the members and inevitably lead to more integration” (Dosser, Gowland, and Hartley, 1982). Specifically, it has been argued that once even a customs union has been formed, attempts by each country to determine its income and balance of payments by means of monetary and fiscal policy will lead to cyclical macroeconomic disturbances. This problem can be solved only be reverting to flexible exchange rates or advancing to policy co-ordination. It follows from this argument that a “customs union is not a form of static equilibrium which countries can freely choose to adopt but a stage within the dynamic process towards advanced integration” (Dosser, Gowland, and
Hartley, 1982). This view has been applied to the case of a common market also. It is argued that there is an unavoidable connection between a common market, which involves free mobility of capital, and a monetary union — so that countries that have formed a common market move naturally towards a monetary union, or at least will experience a pressure to do so. Indeed, the argument can be taken even further, since a monetary union will place restrictions on the fiscal arrangements and fiscal policies of member states far beyond the direct restrictions of monetary policy.

Indeed this need to co-ordinate virtually all policies was envisaged in the Marjolin Report on ‘Economic and Monetary Union’ (1975). The idea of an ‘integrative logic’ has long been an important component of the intellectual case for European union.* Its essential core consists of two observations. First, that the internationalisation of the causes of economic problems — which occurs not only because countries have embarked on the initial stages of integration but also because of autonomous changes in the economic system — requires the internationalisation of solutions and the exercise of policy at the supranational level. Second, that once integration has passed a certain point, agreement to co-ordinate policy in one area generates pressure for further co-ordination and further sharing of sovereignty.

The Current Position in the European Community
In assessing the programme for completion of the internal market Padoa-Schioppa was emphatic that a liberalisation of capital markets, in the context of fixed exchange rates, will alter the conditions for the conduct of domestic monetary policy in such a way that it requires either abandonment of fixed exchange rates or greater co-ordination of monetary policy. This proposition is defended with both theoretical and historical arguments. Macro analysis shows that ‘to seek to maintain open capital markets, stable exchange rates and autonomous macroeconomic policies is fundamentally inconsistent’ (Padoa-Schioppa, 1987). The attempt to conduct independent macroeconomic policies by a set of countries whose economies are in fact interdependent will, in general, impart a deflationary bias to the international system. An historical study of monetary unions and systems strongly supports the proposition that it is not possible to have at the same time free trade, freedom from capital restrictions, pegged exchange rates and autonomous macroeconomic policies. Padoa-Schioppa considered that monetary union is the ‘first best solution from an economic point of view’; but of course its establishment could pose several difficult transitional problems which need to be considered when devising the next steps in monetary integration.

There are, therefore, strong a priori reasons to believe that the macroeconomic performance and management of a genuine economic and monetary union will be superior to that of a common market or a customs union. Given this general and a priori conclusion in favour of economic and monetary union, the decision to actually construct it will turn on whether it seems capable, in a concrete set of circumstances, of providing sound overall economic management.

7. SUMMARY ON THE RELATIVE MERITS OF A CUSTOMS UNION, A COMMON MARKET, AND AN ECONOMIC AND MONETARY UNION

(i) The Desirable Level of Economic Integration
We have examined these three models of integration on the basis of three economic criteria: (1) the distribution of economic activity and income; (2) microeconomic performance and management; and (3) macroeconomic performance and management. On all three counts a suitably structured economic and monetary union emerged as likely to be the best option. In the case of our first criterion we have judged that the regional distribution of income, and in particular the possibility or redistributive policies, will be superior in an economic and monetary union from the point of view of a small, relatively under-developed, peripheral country. In the case of the second and third criteria it has not, in general, been possible to distinguish the interest of such an economy from that of the Community at large.

Much of the analysis which yielded this conclusion was static, in that it compared the likely performance of three models of integration on the assumption that each could exist in a relatively pure and stable form. It is to such completed formations that the criteria from the theory of public finance, for the assignment of policy functions, can be readily applied. But the various levels of government in the EC may not be wholly comparable to those of other unitary states or federations and this may limit the applicability of the assignment analysis in this instance.

Secondly, the orthodox analysis of fiscal federalism can throw little light on the dynamics of integration (Robson, 1987). Yet some of the most important aspects of integration probably arise from the process of moving from one stage to the next. Indeed, there are important dynamic aspects to the very issues that the theory of fiscal federalism deals with, namely the allocation of public policy functions. For example, a decision to allocate a particular function, say agricultural income support or regional policy, to the Community tier not only reflects the political economy of the EC but may actually modify it (Robson, 1987).

(ii) Political Homogeneity: A Condition for Development of Community Policy
In their use of the three criteria, economies of scale, spillovers, and political

*Below we will see some qualifications of this view that there is a completely inescapable ‘logic’ of economic integration.
homogeneity, the McDougall group tried to take account of these limitations. In particular, they viewed the third criterion, political homogeneity, as a necessary condition for the allocation of a given policy to the Community tier:

By political homogeneity is meant the degree of cohesion between member states that would enable a function to be dealt with at the Community level if other reasons existed for doing this (McDougall, 1977; emphasis added).

In all three categories of public policy, allocation, stabilisation and distribution, there were specific policy areas in which economies of scale existed and in which significant externalities or spillovers were likely — and which on these criteria should definitely be conducted (in part) at the Community level — but where the McDougall group considered there was not sufficient political homogeneity to enable the function to be allocated to the Community tier (see Table 13.1).

They pointed out that at any given moment the degree of political homogeneity is a matter of fact, defined by Community legitimacy under the treaties and current practice (both of which have changed substantially since the McDougall group reported in 1977). But, over a longer period it is something that changes and develops. As Forte says it “relatesto constitutional choices rather than to specific choices under a given constitution” (Forte, 1977). This has significant implications for a country which perceives its goals as most likely to be achieved in an economic union with a developed Community budget. Its strategic and tactical approach should be oriented to creating that ‘degree of cohesion between member states’ which would enable functions to be dealt with at the Community level, where there are already strong reasons for doing this. Furthermore, so long as the economic analysis of public finance, of the sort used by McDougall and in this report, is brought to bear on these matters, it will not be realistic to see cohesion, as Irish governments seem to have, as a purely economic phenomenon which can be achieved prior to or independently of ‘political homogeneity’. This is because the lack of sufficient ‘political homogeneity’ or ‘degree of cohesion between member states’ may then be cited as a reason not to allocate a given function to the Community; and yet the formation of a Community policy may be necessary for the achievement of ‘cohesion’, defined in its narrowly economic sense (Laffan, 1984). It is important to note that this conclusion emerges from an analysis which has not gone much beyond the static approach of the theory of fiscal federalism.

8. CAN THESE CONCLUSIONS SURVIVE A DYNAMIC ANALYSIS?

From a static comparison of the distribution of income, microeconomic performance and macroeconomic management in a customs union, a common market, and a properly developed economic and monetary union, we have concluded that an economic union is likely to be the best form of integration for a small peripheral economy. We have acknowledged that the comparison of the three models of integration was mostly static and that the analytical approach used — the theory of fiscal federalism — was of somewhat limited applicability in this situation. In reality, of course, the EC is evolving and cannot at any given moment be strictly defined as a customs union, a common market or an economic union. In Section 6 we have taken some account of the dynamic pressures — particularly in considering the macroeconomic management of each model of integration. But we have now to take more account of the process of integration and to ask whether our two conclusions — one, that economic and monetary union would be better for Ireland than a common market and two, that cohesion should be seen as including not only economic union but also ‘political homogeneity’ — are still valid in a dynamic setting. If these conclusions about the desirable degree of integration are confirmed we would then also ask what help the more dynamic analysis of the process of integration provides in devising a strategy to achieve that desired level of integration.

(i) The Integration of Mixed Economies

In standard economic theory the distinction between international co-operation and international integration does not matter, since the institutional decisions are taken as given. The theory concerns itself simply with the market reactions to a given policy change. A broader analysis, using political economy, is vital if the actual process of European integration is to be understood. Such an analysis reveals that co-operation and integration are very different. In Pelkmans’ view when mixed economies integrate the necessary and sufficient requirement is the believable and permanent constraint of at least some domestic policy instruments, combined with the irrevocable transfer of one or more important elements of national jurisdiction to a common institution. “The implication is an intense politicization, both of the initial bargaining leading to the basic integration treaty and of the ensuing process” (Pelkmans, 1982).

Thus, one of the conclusions we reached in our earlier static analysis has been confirmed, indeed reinforced, by an analysis which takes full account of two very important features of European integration — its dynamic nature and the fact that it involves democracies with modern mixed economies.

(ii) Integrative Logic

One of the most pervasive ideas about the nature and development of the EC is that there exists an ‘integrative logic’ which dictates that the achievement of one stage of integration will necessarily force onto the agenda the consideration of further integration (Pinder, 1968; Robson, 1987). In its most general formulation the idea is that spillover effects would occur which mean that the original goals can be assured only by taking further action (Franck, 1987). If due allowance is made for the particular environments, the particular actors,
and the particular strategies which existed in Europe at different moments since the early 1950s, then a case can be made for this idea that there is a logic which propels integration forward. This idea can be stated in economic terms — that the solution of common problems requires common policies — but it is not purely economic. For the heart of the argument is that to achieve a given degree of economic integration of mixed economies — say a common market — requires the establishment of supranational institutions, since numerous national interventions in the economy need to be mirrored at the Community level. But such institutions require to be democratically controlled, and this implies the establishment of other common institutions and procedures which further integrate the countries involved. For example, Pelkmans argues that genuine financial market integration is entirely dependent on developments in macroeconomic integration “which in turn, is a function of electoral politics changing itself from being national to being federal” (Pelkmans, 1982). In general, and very definitely in the current situation, the argument that there is an economic logic propelling integration tends to focus very much on money and macroeconomic policy integration (Emerson, 1982; Padoa-Schioppa, 1987).

**Integrative Logic and the Individual Member State**

If all countries and regions of the EC had identical interests then the fact that there is a genuine logic driving integration forward would imply that it was in the interest of all that integration proceed. If some region or country was sufficiently different from the others it could arise that the logic of integration did not apply to it. Subject to certain qualifications, which will be discussed presently, it would seem that the logic of further integration applies to Ireland. Thus, although the dynamic idea that we are considering here — that there is a logic which will continually raise the question of further integration — is distinct from the static idea we advanced earlier — that a state of genuine economic and monetary union would be better for Ireland than a common market — we can conclude that the dynamic analysis is consistent with the static one and therefore reinforces our earlier conclusion.

**The Member State and the Community**

Two other ideas emerge from the dynamic analysis of integration. One is that the effects of integration on an individual country are strongly conditioned by the way in which the domestic strategy accommodates Community policy and Community membership. Consequently, over time, very different experiences of membership are possible for different countries. The second observation is that once integration has passed a certain stage then national policies feed into and shape Community considerations. For example, the approach to social policy of one member affects the ‘common denominator’ of the Community approach. This observation can widen the conception of what a country’s influence in the Community consists of, and show that its particular social or economic successes can be contributions to the Community.

(iii) Some Factors to be Considered in Formulating a Strategy

Consideration of the actual process of integration reveals certain phenomena which serve to qualify the notion of inevitable integration. These qualifications are very informative in devising a strategy to achieve a desired degree of integration. They do not seem to alter the conclusion on what the desirable degree of integration is.

**Bias Towards Minimum Intervention**

The first is that the integration process of a group of democratic states will have a bias towards minimum Community intervention in the economy. This tendency is evident in the history of the EC (Kusters, 1987). It arises because each integration treaty or agreement represents the _lowest common denominator_ of willingness to cede power to the Community tier (Pinder, 1987).

**Possible Blockage to Integration**

Pelkmans has investigated this phenomenon in more detail and attempted to identify both its causes and its consequences. In his view there is a political reason why the early stages of economic integration tends to consist primarily of the liberalisation of product markets* This analysis was used to identify a ‘ranking of political resistance’ with respect to economic policy domains susceptible to transfer to the union level. He offers this as an explanation of why the assignment of policy functions in the EC differs from what is shown to be optimal by the theory of fiscal federalism.

One _implication_ of the fact that integration begins with limitation on governments’ use of microeconomic policies, is likely to be stronger utilisation of the economic competences that are still assigned to national rather than union public agents (Pelkmans, 1982). This can strengthen resistance to further integration — particularly attempts at positive integration. Indeed, Pelkmans formed the view that integration will have a tendency to reach a certain stage and then become _blocked_. Thus, despite a theoretical logic of further steps, “integration of mixed economies can be stable, yet incomplete in many respects and stalled in terms of progress” (Pelkmans, 1982). The degree of integration which will be achieved before a blockage is confronted is likely to include substantial (negative) integration of border interventions, modest advances in matters of domestic distortions and free intra-union direct investment. “Only under extremely integrationist assumptions can it be expected, however, that domestic politicians would permit the core of the mixed economy to be organised outside their electoral reach” (ibid).

---

*Politicians are more willing to yield control of the instruments of ‘constituency politics’ (policies in the microeconomic sphere such as industrial, competition, agricultural, regional and trade policy) than they are to yield the instruments of ‘electoral politics’ — the macroeconomic policies which they use to define their programme on employment, inflation and growth (Pelkmans, 1982).
To the extent that this view is valid it forms an important fact to be taken into account by a country which wishes to create a suitably structured economic and monetary union. It may have implications for the formulation of a strategy.

However, it has been pointed out that alternative or additional motivations can be posited which make the prospect for integration somewhat better (Constancio, 1982). Furthermore, it is possible that in certain countries politicians will not, as Pelkmans believes, prefer to retain control of macroeconomic policy and cede control of microeconomic interventions. This could occur either because they prefer to retain control of 'constituency politics' and yield control of 'electoral politics' or simply because they have found macroeconomic policy at the national level less effective than microeconomic policies. Again this implies that they may be willing to progress towards integration of macroeconomic policy and hence beyond the blockage identified by Pelkmans.

Integration and the 'Economic Order'
Another important implication of the fact that European integration involves a process of integration of mixed economies is that the question of integration becomes linked to questions about the 'economic order'. An economic order can be defined as a coherent set of laws, institutions and customs allocating economic decision-making to certain types of participants (Pelkmans, 1982). Although the societies of western Europe have adopted a broadly similar economic order — the mixed economy — it is not clear whether national preferences with respect to the detailed relationships and institutions of the economic order are sufficiently compatible for European economic integration to be possible.

This has a number of implications. First, it largely accounts for the fact that integration tends to begin with negative integration such as trade liberalisation. Positive integration measures would require detailed agreement on many of theallocative and possibly redistributive and stabilising functions of government in the economy. But Pelkmans is adamant that this lowest common denominator approach cannot long postpone the fundamental issue of the desirable economic order. For the process of negative integration will involve a change in the economic order of the more interventionist countries — while for the relatively less interventionist countries such constraints on domestic intervention are easily supported. This leads more interventionist states to build in constraints to integration in order to render the process politically acceptable. On the other hand, when the more interventionist states attempt to be consistent and wish to substitute union for national interventionism, the liberal countries are likely to resist. Thus "among integrating mixed economies the resistance to constraints by, or transfer to, the union tier of government is inextricably linked to the prior question, namely about the economic role of the state, whether union or national" (Pelkmans, 1982).

Given the connection between the process of economic integration and changes in the economic order it is scarcely surprising that periods of progress in integration give rise to debate on the desirable economic order for the Community. One view is that more interventionist and less interventionist states will tend to neutralise each other, with the result that neither deregulation nor integration will proceed very far. An alternative view, which seems to be borne out by the history of the EC, is that periods of progress and blockage alternate, such that, overall, integration advances — but in a halting and possibly unbalanced way.

(iv) The Costs and Benefits of Monetary Integration
So far our consideration of the process of integration has not undermined the conclusions reached in our comparison of the three models or states of integration. Instead it has revealed difficulties in the attainment of an advanced stage of integration and highlighted factors relevant to the formulation of a strategy.

Another important aspect of the dynamic process of integration is the nature and timing of the costs and benefits of monetary integration. The idea is that the adjustment costs to monetary or currency integration are private, borne by specific individuals and groups, and are incurred almost immediately. By contrast, the benefits of monetary integration are spread very widely and, furthermore, many materialise only in the long run. This combination clearly raises the possibility of concerted resistance to currency integration and, of course, raises a question about the desirability of economic and monetary union (Pelkmans, 1982).

Before considering this point about the costs of monetary integration it is important to make clear how it relates to our earlier arguments in favour of economic and monetary union. Our earlier argument was concerned primarily with the relative long-run merits of a common market versus an economic and monetary union; the point cited here concerns the short-run or adjustment costs of achieving monetary union. To make this absolutely clear let us recap the long-run argument.

*If politicians' motivations go beyond their relationship with their electorate, narrowly defined, and include the position of their country or state in the world context, then they may be willing to overcome the blockages identified by Pelkmans. At a later stage this motivation may hinder integration since it may imply a role for the nation state which is incompatible with full economic and monetary union.

*The analysis of the process of integration also shows that in conducting such debate it cannot be validly argued that the existing set of, mostly negative, integration measures necessarily reflects the democratic judgement of the Community at large on the desirable economic order for the Community. It may do so; but the analysis suggests that all it reflects is the fact that it is a set of democratic states which are being integrated.
Arguments about the Long-Run Merits of EMU

In assessing the relative merits of a CM and an EMU we considered the view that monetary union would impose significant long-run costs on weaker regions through the deflationary effect of adherence to a uniform monetary standard and uniform monetary growth rate. While this view is a serious one we did not consider that it was sufficient to undermine the argument for economic and monetary union as a strategic objective. This was for several reasons:

(i) an adequately structured and rationally organised economic and monetary union would have a set of budgetary mechanisms which, because of their inter-regional redistributive effects, would cushion regions from macroeconomic fluctuations and shocks at least as effectively as exchange rate movements do;

(ii) without necessarily challenging the notion that monetary integration, specifically adherence to a hard currency peg, can impose costs on weaker regions, a modern and flexible approach to trade and integration qualifies traditional views of the pattern and timing of the overall costs and benefits of integration. Specifically, it suggests that even free trade can generate large and unevenly distributed costs and benefits in both the short and long run. At the very least this takes the emphasis off monetary integration as the step which raises problems for weaker economies;

(iii) many of the major forces which cause long-run regional concentration and diffusion will operate on an open economy regardless of the monetary regime in place.

These points contributed to our argument that in general the regional distribution of activity and income, the microeconomic efficiency and the macroeconomic performance of an economic and monetary union could be superior to those of a common market.

The Short-Run Costs of Monetary Integration

The idea that the nature and timing of the costs and benefits of monetary integration may be uneven seems perfectly valid. Adherence to a harder currency link is likely to impose immediate costs on particular individuals and groups in particular countries — specifically those in high-inflation and low-productivity countries whose business and employment is dependent on international cost-competitiveness. Conversely, the benefits of monetary integration consist in the convenience of using a uniform money in gathering information and undertaking transactions, and in the predictable and, probably, low inflation which would prevail. All these benefits are spread widely and almost certainly take some time to materialise.

Do these points undermine our argument for economic and monetary union? These are two reasons why they do not:

(i) the involvement of the Community in a wide range of policies and the budgetary mechanisms which are a natural, rational and necessary part of economic and monetary union can play a role in cushioning the undoubted adjustment costs to monetary integration. Indeed, thereafter they should continue to play a central role in cushioning particular member states or regions from short-term shocks which frequently have asymmetric effects on different regions;

(ii) a significant degree of monetary integration has already been undertaken and this must alter how we look at adjustment to monetary union and its short run costs and benefits, though it cannot alter our analysis of its long run merits or demerits.

In conclusion, these valid observations about the short-run costs and benefits of monetary union in no way undermine our argument for economic and monetary union. Given the tremendous benefits which could flow from it, the task facing the Community is to devise a means of achieving the degree and kind of economic integration which is necessary to sustain monetary integration in the new context of the internal market.

9. IS IT REALISTIC AND USEFUL TO ADOPT A STRATEGIC APPROACH?

(i) Clarification of Policy Objectives

The formulation of a more explicit, coherent and fully articulated European policy or strategy has the advantage that it forces a clarification of policy objectives. The EC impinges on the economy and society in so many ways, and a more developed Community would do so even more, that the formulation of a European policy involves, first, identification of policy objectives and, second, ranking them in order of importance. It is then necessary to consider what trade-offs between these objectives are likely to exist in an economic union. For example, it would be perfectly rational for a given country to sacrifice possible efficiency gains from economic integration if, in its own judgement, the migration which was necessarily implied by integration was more socially harmful than those efficiency gains.

In assessing what trade-offs are likely to exist between desirable objectives in a given state of integration it must be remembered that the EC does not exist only to achieve an efficient allocation of resources. Furthermore, just like a nation state its economic objectives may be in conflict with one another. For example, it is almost certainly the case that convergence of the regions of the Community and totally free factor movements are two aims which conflict with one another. Furthermore, the EC's aims are not given once and for all (see Chapter 17). A particular difficulty in assessing the chance of achieving national objectives in different types of economic union arises because the
possibility of influencing the objectives of the union exists, and may not be the same in all types of integration.

Having identified and weighted national objectives, and identified the Community's objectives, there remains the task of assessing the nature of the trade-offs which are likely to exist. This involves the task of identifying correctly the economic laws that will prevail. Not only must a realistic view of the economics of integration and trade be adopted, but also realistic theories of regional development, employment, output, inflation, technical change and migration.

(ii) Practical Benefits of a Strategic Approach
It may be asked whether there is anything practical to be gained from the adoption of a more developed strategy of integration. There are several reasons why adoption of a clear conception of what one wishes for the Community to be may be highly beneficial.

First, the history of the EC shows that on a number of occasions the Community has stalled because of the lack of a sufficiently motivating view, and the resumption of progress depended crucially on the elaboration of clear and ambitious conceptions of European integration. There was a considerable void after the failure of the European Defence Community (1954) and the plan for a European Political Community (1952-54) (Kusters, 1987). The emergence of a strong will to go forward and the impact of enlargement negotiations restarted the Community's progress in the early 1970s, culminating in the statement and adoption of the aim of Economic and Monetary Union at the Paris summit of 1972 (Franck, 1987). This plan failed due to various unforeseen events and, as the seventies ended, the lack of an overall framework was an important contributor to the degeneration of the Community (Tugendhat, 1986). Finally, and most strikingly, it was formulation of a conception of European Union by the European Parliament, and its support by a number of member states, which effectively relaunched the Community in recent years (Schmuck, 1987; Keating and Murphy, 1987; Corbett, 1987; and Pryce, 1987).

It may be argued by some that adoption of a long term or strategic aim ignores the true nature of the Community; that the EC is just an intergovernmental organisation in which heads of governments negotiate deals in pursuit only of what they identify as their immediate national interest. This view is wrong on two counts. First, it is a matter of fact that the Community is much more than an intergovernmental organisation. Second, the way in which members conduct business at the European Council and the Council of Ministers is not immutable and, in particular, is not independent of the conception of the Community which prevails. It is widely agreed that after the mid-seventies — when events conspired to undermine the clear programme set out at the Paris summit of 1972 — there was no established framework within which member

states and the Commission could work, and no point at which a balance could be struck between all the differing and conflicting interests to be found within the Community. In explaining this Tugendhat puts his finger on most important point. He says "In the absence of an agreed overall view of how the Community should develop and what it should be trying to do, everyone not unnaturally pursues their own interests" (Tugendhat, 1986, p.133, emphasis added).

We noted that on a number of occasions clear conceptions of the possible nature of the EC were formulated or supported by member states. There is no evidence that the adoption of this strategic approach harmed these countries, or even narrowed their options in bargaining at the Community level — even when the actual development of the EC fell far short of the plans that they had advanced. Indeed, one of the major differences between integration or coordination on the one hand, and international co-operation on the other, is the existence in integration of binding commitments which are adopted in a collegiate manner; it follows that agreements in the EC frequently consist of packages. In this context the adoption of a vigorous pro-integration position is likely to enhance the position of a country in practical negotiations.

(iii) Long-Term Aims and Incremental Development of the EC
While the statement of a clear commitment to European integration has on a number of occasions started or restarted progress, that progress itself has frequently tended to consist not of radical transformations of the Community system but rather of limited measures of a functionalist nature addressed to specific policy aims (Pryce, 1987). However, it is widely agreed, and was specifically intended by Monnet and other architects of the Community system, that the gradual accretion of measures leads to qualitative transformation of the Community. A national policy approach which took its style from the day to day business of the Community would have the serious drawback that it would possibly be unaware of, and probably unprepared for, the qualitative shifts which occur (Laffan, 1985). In addition, progress in the Community will, on occasion, occur by means of a discrete or radical jump, and many would argue that the Single European Act is precisely such an event.

Another possible objection to the idea of adopting a strategic position in favour of a suitable economic and monetary union is that it is pointless — given the existence of a minority of sovereign states opposed to such a degree of integration. However, it has been pointed out that this minority has not been a compact block and both its composition and behaviour may well change in the future, as national governments change and their policies evolve. Indeed, Pryce has recently argued that the greater problem at present, and throughout the history of the Community, is the building and sustaining of a majority of member states committed to, and determined to achieve, closer union. Without exaggerating the significance of Ireland, this indicates that if suitably
structured economic and monetary union is considered superior to a common market, then an incentive exists to adopt it as an explicit long-term goal.

(iv) Long-Term Aims and the Conduct of European Policy

Derogations and the Veto

The adoption of genuine economic and monetary union as a strategic aim has a number of consequences for the way in which Ireland’s European policy is conducted. The first concerns the role of derogations and, ultimately, the veto. If the arguments advanced earlier in this chapter are accepted then the development of the EC along the lines of the common market model would be considerably less beneficial to Ireland than its development into a rationally structured economic and monetary union. If the Irish government conceives of the Community as evolving to ultimately be a common market, then there is a certain logic to wishing to see the veto retained and, less drastically, in using Ireland’s negotiation efforts to seek derogations from Community policies which are considered to cause difficulties.

The essential element in seeking a derogation is to establish to the satisfaction of the other Community partners that the country is sufficiently exceptional in some respect. What has to be considered is the impact of this approach first, on the content of specific packages of measures and, more significantly, on the development of the Community itself. If, on the other hand, the Irish government sees the Community becoming an economic and monetary union (as defined earlier in this chapter) then this strategy, especially if it is shared by others, makes the resort to derogations, and particularly the veto, seem in general an unattractive option. Within the context of an evolving genuine economic and monetary union, macroeconomic mechanisms, equalising tax and expenditure mechanisms, and structural policies, would be part of the normal functioning of public policy. In this situation it is those who oppose progress on these fronts who would be seeking to be considered exceptional. In short, the concept of what is ‘communautaire’ is totally contingent on what conception of the nature of the Community is shared by the participants.

During the transitional period to membership it was natural that the new members should adopt Community policies and measures gradually — or, put another way, that they be given temporary derogations. It is possible that this period established a public perception in which the formation of Ireland’s European policy was seen largely in terms of assessing the need for, and the likelihood of, derogations from measures which existed in the Community of six and were, therefore, proposed by others. While Ireland must continue to examine each measure in the light of its particular social and economic capacity, there is no need for the public to see Community policies as measures proposed by others.

‘Multi-Speed’ Europe and ‘Variable-Geometry’ Europe

This question of derogations is related to the concepts of a ‘multi-speed’ Europe and a ‘variable-geometry’ Europe. Again the adoption of a long-run European strategy greatly helps in assessing the merits of these concepts. Take first the idea of a ‘multi-speed’ Europe, which appeared first in the Tindemans Report on European Union in 1975. The idea was that if certain countries could persuade the Council and the Commission that a particular integrative measure posed special problems for it, then the time-scale for its adoption of the common policy could differ from that of the rest. This idea is clearly a reaction to undoubted economic, social and developmental differences between member countries. However, in general, it does not seem an appropriate response to these differences because it has implicit within it a notion of catching up which is at variance with evidence. The Tindemans’ advocacy of the idea was coupled with the proposal that states which could not proceed at the same speed should receive aid from the other states to enable them to catch up. But, in the context of a multi-speed Europe it seems unlikely that sufficient cohesion would exist to make this materialise. In our view a different set of responses to the social and economic disparities is required.

The ‘variable-geometry’ idea is that in the case of certain European projects participation would be limited to those countries whose governments wish to join. Since the pattern of participation could differ in many projects this idea has been called a variable-geometry Europe. A strategic aim of genuine economic and monetary union would lead to scepticism about the value of this partial approach to integration; a study of the process of integration would reinforce this. As Matthews says, by emphasising the principle of juste retour with respect to individual projects rather than the overall package, the variable-geometry concept would make redistributive financial transfers less likely (Matthews, 1985). Similarly, the use of the variable-geometry approach in the case of the exchange rate mechanism of the EMS shows that it can create considerable problems for certain member states. However, if a position in favour of genuine economic and monetary union is adopted, a binding rejection of variable geometry would be unwise, for this would amount to a binding commitment to unanimity. The history of the European union shows clearly that there can arise situations where it is necessary for a number of countries to proceed with integration, thereby presenting reluctant states with the option of joining or leaving.

Conflicts in Ireland’s European Policy

An active role in discussion of the future of the Community would also help to clarify the conflicts in objectives which are bound to exist. Two examples are the conflict between the short-run and the long-run and between the general and the particular. In general, and therefore most fundamentally, Ireland’s interest lies in the provision of the intellectual support for the eventual establishment of Community redistributive mechanisms and enhanced
structural policies. Consequently, it belongs, in this respect, in an alliance with other less developed countries. However, in particular situations in the short run it can find itself in competition with those countries for receipts from a given amount of Structural Funds. The existence of these two interests needs to be acknowledged, so that a balance between them can be struck in conducting European policy. Of course, the provision of the intellectual and policy support for the development of the Community's redistributive role does not imply alliance with poorer member states only. This is so for a number of reasons. Our study of different models of integration has shown that, both rationally and practically, the existence of substantial redistributive mechanisms in an economic union is conditional on both monetary integration and political cohesion (and monetary integration is, in turn, conditional on redistributive mechanisms). Consequently, Ireland belongs in alliance with all countries that favour these dimensions of integration.

(v) The Relation between National Policy and Community Policy

The adoption of a more clearly articulated long-run view in the formulation of Ireland's EC policy helps to clarify the respective roles of national and Community policy. The arguments advanced above, in favour of economic and monetary union, may create the impression that we are advocating that solutions to Ireland's economic problems can be found in the EC, which we have failed to find ourselves. Such an impression would be wrong. Even in a much more developed Community system Ireland would still face the task of devising solutions to its own problems. Our study of membership to date yielded the general finding that membership of the Community does not diminish the need for a national ability to identify solutions to national problems — even where those solutions require Community policies and action (see Chapter 7). This point is valid in all contingencies. A firm national grasp of how to solve a problem strengthens the argument for adoption of a common or Community policy. It helps enormously when agreement to adopt a common approach is achieved. In the case where a Community policy is not achieved, a member country is on its own, and must have well worked out solutions to its problems — or fail to solve them.

Clear thinking about the desired degree of integration and the actual process of integration may help us to avoid adopting a set of positions which, when combined, leave policy makers powerless in the face of serious problems. For example, it is sometimes argued, on the one hand, that ambitious projects for European union should be ignored in favour of the pursuit of the national interest in immediate bargaining. It is simultaneously said that certain measures, which may be desirable in themselves, cannot be undertaken domestically because they would conflict with a common EC policy. But this combination of positions negates the fact that Ireland must either retain sufficient powers to solve its central problems, or share those powers in a Community which is capable of addressing those problems. The combination of views under consideration implies powerlessness because there is neither sufficient integration to solve the problems by Community means, nor sufficient autonomy to address them nationally.

Some concrete examples of the difficult relationship between national and Community policy can be given. In the area of industrial policy it was always accepted that an active national policy be pursued, despite the fact that the Community had many common policies which impinge indirectly on this, and had Structural Funds which influence it directly. Although membership of the Community profoundly influenced industrial development, the successes and failures of the policy can be attributed to a considerable degree to the policies adopted domestically. It could not reasonably be suggested that pursuit of an active Irish industrial policy was incompatible with membership of, or commitment to, the EC.

However, in other policy areas the roles of national policy and Community policy do not seem to have been chosen so well. In regional policy successive Irish governments resisted the increased role for the Commission. Though this may have reflected valid disagreements with the Commission on specific issues, it does not seem to have arisen from worked out general approaches to the development of the Community or from strongly held beliefs about how to promote regional development. If too much national control of regional policy was sought, it would seem that too little control of agricultural policy was retained. Our study of this revealed that the CAP could not have been expected to address some of the particular problems of Irish agriculture — in particular the serious structural problems. In this situation there needed to be a national agricultural policy. Yet, in contrast with the case of regional policy, the adoption of a Community policy was seen as requiring virtual abandonment of a national policy (see Chapter 7).

Sectoral Autonomy in Community Policy Making

In Chapter 7 we noted that to date there has been considerable sectoral autonomy in Community policy making. The continuation of a system of separate Councils of Ministers is likely to mean that other sectoral policies, as they are developed, will be conducted less coherently than they should be. This will have the effect of fuelling scepticism about the Community. Ultimately it implies the need for change in the institutional system of the EC, so that policy making at the Community level reflects and resolves the tensions between different positions, in the same way that it normally does at present in the member states. This once again underlines the need for active involvement by Ireland in all discussions on the development of the Community. But involvement in many of these discussions is only feasible on the basis of a clear long-run opinion on the Community's future.
10. ECONOMIC AND MONETARY UNION AND THE DELORS REPORT

(i) Introduction
The central thrust of this chapter and of this report is the argument that Ireland should adopt a strategic approach to European economic integration, and that the strategic approach adopted should be the objective of creating economic and monetary union (EMU). At its meeting in Hanover in June 1988 the European Council established a Committee chaired by Mr Delors, President of the European Commission, to study and propose concrete steps leading towards economic and monetary union. The Committee was made up of the governors of European central banks, in their personal capacities, and a number of independent experts. In April of this year this Committee submitted its report (hereafter referred to as the Delors Report) to the European Council.

Given the significance of the Delors Report, readers of our report are likely to ask two main questions:

(1) What is the relationship between the NESC's advocacy of EMU and the argument in the Delors Report?
(2) What policy advice does the NESC give to Irish policymakers on the main issues arising out of the Delors Report?

This final section of the chapter addresses these two questions.

(ii) The NESC's Approach to EMU
In this report we define EMU as involving:

(1) a completed internal market with free movement of goods and factors of production (labour, financial capital and investment capital);
(2) an irreversible locking of exchange rates or a single currency;
(3) Community level management of macroeconomic policy;
(4) Community level management of a wide range of interventionist and market-regulating policies currently undertaken by the member states — and, in general, an allocation of policy functions to the Community, the member state and the local authority, based broadly on the principles of public finance.

This definition of EMU was adopted on the basis of:

(1) The modern integration literature, which stresses that national control of the wide range of market-regulating and other interventionist policies in fact undermines the common market by altering price signals, incentives and the mobility of labour and capital (e.g. Pelkmans 1982);
(2) the theory of public finance as applied to federal structures;
(3) the structure of existing economic and monetary unions (as reported by both McDougall, 1977 and Padoa-Schioppa, 1987).

The arguments for seeking to build such an EMU were:

(1) the microeconomic performance would be superior to a common market (see Section 6 of this chapter);
(2) the macroeconomic performance would likewise be superior (see Section 6);
(3) the regional pattern of income and activity would be superior because structural policies would be complemented by: (a) a growth-oriented common macroeconomic policy, (b) substantial inter-personal, inter-regional and inter-state redistribution through the normal budgetary mechanism of taxation and expenditure.

An important element which underlay these three arguments was the idea that the effects of market forces in shaping the regional pattern of activity (i.e. creating regional equalities or disparities) may not be very different in a customs union, a common market and an EMU (see Section 4). This view emerges from a detailed study of the forces making for regional concentration and diffusion (Chapter 11), from application of the modern analysis of international trade, from a realistic study of the actual stages of economic integration, and is consistent with the approach to exchange rate and monetary management adopted by Ireland and its EMS partners in recent years.

Resulting Policy Position on EMU
Based on these analyses our conclusion is that both Ireland and the Community as a whole would have a lot to gain from moving to an economic and monetary union of the sort outlined above. This would ensure that the 1992 programme creates a genuine common market, would secure the monetary stability and macroeconomic progress established in recent years, and would greatly enhance the Community's ability to bring about convergence in living standards.

It is of great significance to the NESC that this approach is one which not only deals with Ireland's requirements but also addresses the major tasks facing the Community and, indeed, is based ultimately on the logic of economic integration.

(iii) The Delors Committee's General Approach
The Need for Economic and Monetary Union
The Delors Committee argues convincingly that the completion of the internal market will increase the interdependence of the European economies and consequently, will reduce the room for independent policy manoeuvre and amplify the cross-border effects of developments originating in each member country (p.5). An important implication of this is that the “success of the internal market programme hinges to a decisive extent on a much closer co-ordination of national economic policies, as well as on more effective
Community policies. This implies that in essence a number of the steps towards economic and monetary union will already have to be taken in the course of establishing a single market in Europe*. Indeed, the Committee says that EMU is at once a ‘natural consequence’ of the commitment to create a market without frontiers and a ‘quantum jump’ which goes beyond the single market programme.

The Committee also draws attention to the very close link between genuine financial market integration and close co-ordination of monetary policy. This is another way of making a point we emphasised several times in this chapter: that legally free financial flows cannot be considered to be genuine financial market integration, or even a free market in capital, while national macro-economic policies manipulate both interest and exchange rates.

A very significant aspect of the Delors Committee’s report is its insistence that “economic union and monetary union form two integral parts of a single whole and would therefore have to be implemented in parallel”. This is an important and well founded rejection of the extreme view that all that is required is monetary union and that this, plus the financial markets, will impose sufficient fiscal policy discipline on the governments of member states.

**Economic Union**

On the side of economic union the Committee also begin with the 1992 programme and insist that “Community policies in support of a broadly balanced development are an indispensable complement to a single market”. Furthermore, in explaining the more advanced integration associated with EMU it is stated — in accordance with the principle of ‘subsidiarity’ — that “all policy functions which could be carried out at national (and regional and local) levels without adverse repercussions on the cohesion and functioning of the economic and monetary union would remain within the competence of the member countries”. Indeed, it is said that in order to create an EMU the single market would have to be complemented with, among other things, “arrangements...to design an overall economic policy framework for the Community as a whole”.

On the cohesion and functioning of the Community economy the Committee is quite clear that the “adjustment and restructuring set in motion” by the 1992 programme “is unlikely to have an even impact on different regions” (p.13). Indeed, it is agreed that historical experience suggests that economic and monetary integration generally can, in the absence of countervailing policies, have a negative impact on peripheral regions. In explaining this they cite some of the same arguments which were used in our analysis of the regional dimension (see Chapter 11). These tendencies would expose the economic union to ‘grave economic and political risks’ unless sufficient consideration were given to regional imbalances. Indeed, it is stated bluntly that “the process of achieving monetary union is only conceivable if a high degree of economic convergence is attained” (p.9).

From these points it can be seen that there is a considerable degree of congruence between general ideas in the Delors Report and the analysis undertaken by the Council in this report. However, some very significant differences emerge when the Delors Committee’s precise definitions of economic and monetary union are considered.

**(iv) Definitions of Monetary Union and Economic Union**

The Delors Committee defines monetary union to include (among other things):

- complete liberalisation of capital transactions
- irrevocable locking of exchange rates

and defines economic union in terms of four basic elements:

- the single market within which persons, goods, services and capital can move freely;
- competition policy and other measures aimed at strengthening market mechanisms;
- common policies aimed at structural change and regional development; and
- macroeconomic policy co-ordination, including binding rules for budgetary policies.

Once the report sets out what is envisaged under each of these headings it becomes clear that while the definition of monetary union, being fairly technical, is similar to that adopted by the Council, the definition of economic union is very different. As a result, the overall vision of economic and monetary union in the Delors Report is quite different from that used in this report and advocated by the Council. Below we outline the elements of the definition of economic union and state the Council’s position on each of these.

**Assignment of Policy Functions**

Despite invoking the principle that policy functions will be carried out at national level so long as they have no adverse repercussions on the cohesion and functioning of the EMU, the Delors Report says that most of the main components of public policy in such areas as security, justice, social security, education and “hence the level and composition of government spending, as well as many revenue measures, would all remain the preserve of member states even at the final stage of economic and monetary union” (p.16). The need “to design an overall economic policy framework for the Community as a whole” is never developed or elaborated.

*A similar position is taken by Padoa-Schioppa. 1987.*
In the Council's view the extent of economies of scale and, particularly, intra-
Community spillover effects from public policy are such, and will be such, that
many more functions will have to be shared between the Community and
national tiers of government than is envisaged by the Delors Committee.

Policies for Regional Balance in EMU
Despite the argument that integration can reinforce tendencies to regional
divergence, and the emphatic statement that "the process of achieving
monetary union is only conceivable if a high degree of economic convergence
is attained", virtually the only countervailing policy measures proposed to deal
with this are structural policies. Indeed, it is said that the "foundations for a
more effective Community role in general regional and structural development
has recently been established". The Committee adds that "depending on the
speed of progress, such policies might have to be strengthened further after
1993 in the process of creating economic and monetary union".

A realistic view shows that convergence will not be attained by the internal
market plus the existing Structural Funds (see Chapters 11 and 15).

Types of Regional Support
In the Delors Report it is explicitly said that "the principle objective of regional
policies should not be to subsidise incomes and simply offset inequalities in
standards of living, but to help equalise production conditions through
investment programmes..." (p.15).

Our analysis, and that of others who have studied the subject, suggests that
achievement of convergence requires four types of policy measures; Structural
Funds, macroeconomic co-ordination, differential application of Community
policy, and inter-regional redistribution through an enlarged Community
budget. Indeed, analysis and plain observation suggest that, as in existing
economic and monetary unions, the greatest contribution will arise from the
tax and expenditure system (this argument is developed in more detail in
Chapter 15).

A Community System of Macroeconomic Management
Despite identification of the close link between monetary and fiscal policy, the
Delors Committee envisages that the Community can have a coherent mix of
fiscal and monetary policy with a single binding Community monetary policy
but a very small Community budget (which will therefore "not be available for
cyclical adjustments") and national control of all the main spending and
revenue decisions.

Besides describing an implausible system of macroeconomic management this
ignores the role, highlighted by McDougall, which the central budget plays in
maintaining regional macroeconomic balance in existing economic and
monetary unions. The point has been well made by Robson:

In these contexts, what limits the impact of adjustment problems and
provides a mechanism for their alleviation although regions, like the member
states in a monetary union, cannot devalue, is not the fact that foreign
currency deficits and surpluses cannot arise, but the inter-regional fiscal
adjustment mechanism that is built into their systems of public finance as
a result of the combined operation of progressive taxation and the character
of public expenditures. Such a mechanism would be absent in a monetary
union unless at the same time there were a strong community fiscal authority
disposing of a relatively large budget and significant tax powers. Since the
emergence of asymmetrical adjustment problems can never be excluded,
complete monetary union may thus be recommendable and feasible only if
it is accompanied by a degree of fiscal integration that would suffice for
dealing with them (Robson, 1987).

It is important to note that these mechanisms serve to maintain macro-
economic stability not only for regions experiencing 'balance of payments'
deficits, or the equivalent, but also for regions experiencing surpluses, which
would be unsustainable in the absence of balancing mechanisms.

Approaches to Economic and Social Adjustment
Despite assigning remarkably few policy decisions to the Community tier in
EMU the Delors Committee, rather oddly, lays down that in the system of
economic management envisaged "Governments... would refrain from direct
intervention in the wage and price formation process".

This is to succumb to a very narrow, and highly questionable, view of the
approaches which are available for macroeconomic adjustments or for
achieving other economic and social aims. It is a particularly restrictive
proposition in a situation where exchange rate policy is to be voluntarily but
irrevocably abandoned, where forces making for regional divergence are
acknowledged to be at work, but where balancing inter-regional budgetary
mechanisms are not to be available.

(v) Conclusions
The approach adopted by the Delors Committee is similar in many respects to
the analysis in this report. Yet the definition of economic and monetary union
which emerges is very different in ways which have been outlined above. There
would seem to be two reasons for this difference. First, where the analytical
approach is similar to ours, the Delors Committee has not followed that
approach to its logical conclusions and has thus taken insufficient account of
the requirements and implications of genuine economic integration. This goes
some way to explaining the Committee's view on the assignment of policy
functions in EMU, the policies to counteract regional divergence, the types of regional support to be used and the system of macroeconomic management. Second, our report contains a number of investigations additional to those found in the Delors Committee report. In particular, we have drawn heavily on new approaches to the analysis of trade, we have undertaken a more detailed investigation of the forces making for regional convergence and divergence, and we have explored the potential of different policy approaches to achieve convergence (this last theme is discussed in Chapter 15).

The Council's Position
This combination, of pushing the basic approach (shared by the Delors Committee) to its conclusions and undertaking additional investigations, has yielded a policy position which has the following properties. It is very favourable to the creation of genuine European economic and monetary union and yet takes full account of the particular position of Ireland. Indeed, the general need for real convergence plays a very important part in the overall approach. By combining consideration of the implications of the internal market, the need for continuation of stable exchange rates and macroeconomic management, and the need for greater real convergence, the Council's case has the great strength that it addresses the needs of the Community as a whole. Indeed, ultimately it is concerned with what is required for and implied by genuine integration.

A Policy Position Based on the Delors Report
We may contrast this with the position the Council would have to adopt if it were confined to the arguments that are found in the Delors Report. The Report stresses that the process of moving to EMU is only conceivable if a high degree of economic convergence is achieved; yet the internal market and the Structural Funds will certainly not be adequate to create convergence in the foreseeable future. In these circumstances the Council, and indeed member states, if they followed the logic of the Delors Report, would have to see monetary union as a very distant prospect.

The weakness of the Delors Report is most graphically illustrated when this policy position is examined critically. While this position is likely to find favour with those who are opposed to EMU, ironically it addresses none of the issues which emerge in the arguments for economic and monetary union. First, the Delors Committee quite correctly argues that progress towards EMU is a 'natural consequence' of the internal market programme, and that "a number of steps towards EMU will have to be taken in the course of establishing the single market in Europe". But the policy position outlined above, though it is derived from the arguments in the Delors Report, makes no allowance for the fact that some moves toward EMU are needed sooner rather than later. Second, a central thrust of the Council's argument for economic and monetary union was that genuine EMU is the context in which convergence and cohesion are most likely to be achieved and, indeed, they are unlikely to be achieved if the Community's ambitions stop at a common market. The policy position under consideration, though it is the only one that is available on the basis of the Delors Report, quite misses this aspect of the argument for EMU. Most significantly, if the Council's arguments are correct, pursuit of that policy by the Community is unlikely to achieve the convergence required and so progress to EMU will remain 'inconceivable'.

The Council's Response to the Delors Report
The weakness of the policy position the Council would have to adopt if it were confined to the arguments in the Delors Report, in comparison with the Council's actual policy position, indicate that while many points in the Delors Report can be welcomed it must be said that the report does not consider all aspects of EMU. Consequently, the Council would wish to see the argument widened to include a more adequate analysis of the role of public finance in economic and monetary integration.

The intellectual case for widening the argument is found in the analytical approach used throughout this report. The practical case for widening the argument is encapsulated in the proposition, established above, that whatever about those who are opposed to EMU, those who favour integration can scarcely be happy with the idea that we confine ourselves to structural measures and then postpone monetary union until significant structural differences have disappeared.
1. INTRODUCTION

The analysis in this report runs along two related tracks. One concerns the broad question of European integration following the Single European Act and the role Ireland should play in this. The other concerns the specific threats and opportunities arising from the completion of the internal market by 1992. The strategic approach to integration advocated in the previous chapter constitutes the Council's view on the question of Ireland's role in European integration. This chapter returns to the specific threats and opportunities identified in Part III of the report. It considers the corporate and public policy responses necessary to minimise the threats and make the most of the opportunities.

Since the corporate and public policy response to the likely changes in the services sector have been discussed in Chapter 10 this chapter considers the responses which are particularly relevant to manufacturing industry. However, its relevance is not confined to manufacturing, and several of the corporate and policy approaches advocated are relevant to most of the economy.

Section 2 considers corporate responses under the headings of business strategy, innovation, and mergers and acquisitions. It will be appreciated that it would be both impossible and inappropriate for the Council to offer a comprehensive or detailed recommendation to businesses on their preparation for the completion of the internal market. Consequently, our discussion of corporate responses should be seen as an identification of some of the main issues which will arise for firms and as a guide to a wider audience. It also serves to draw out some of the implications of the economic analysis in the rest of the report.

Section 3 considers public policy responses to the threats and opportunities under the headings of the economic environment, industrial policy and competition policy. Other aspects of public policy response are discussed in Chapters 7, 10, 12, 15 and in our conclusions and recommendations.
2. CORPORATE RESPONSES

(i) Business Strategy

General Requirements
The first step for any firm in its planning for 1992 is to identify what is the key determinant of competitive advantage in the sector in which it is operating. Several different ways of categorising business/markets and defining competitive advantages were referred to in Chapter 8. The OECD (1987) proposed the 5-fold classification on the left, while Jacquemin and Buiges (1988) identified the 4 different business environments on the right.

1. Resource-intensive
2. Labour-intensive
3. Scale-intensive
4. Differentiated goods
5. Science based

1. Mass-production
2. Specialised/differentiated
3. Fragmented
4. Impasse

It is important to note that particular segments within a given industry may be very different from the industry as a whole. It is, therefore, important that these questions be asked both of the industry as a whole and of the particular segment occupied by the firm.

Whenever classification of industries is used (Jacquemin and Buiges' mass-production, differentiated, fragmented, impasse, or the OECD's 5 categories) it is vital that those devising a sectoral/firm strategy correctly identify which type of industry they are in. For example, if it is thought that a given firm is in a specialised/differentiated industry, and a strategy is devised accordingly, but really the firm is in a mass-production/scale-intensive industry, then the strategy will certainly fail.

A second general point of great significance was already noted in Chapter 8 and requires to be restated here. The terminology of 1992 ('unified internal market', 'single market') and the hype ('market of 320 million people') have misled many into the belief that most product markets will be genuinely unified between now and 1992. However, much of the fragmentation of European markets has little to do with non-tariff barriers and, consequently, many markets will continue to be fragmented after 1992 (Kay, 1989). This important point is underlined in studies of attempts by various British and continental firms to penetrate European markets. Even large international firms have made the expensive mistake of trying to supply the whole of Europe with a uniform product. In doing so they have ignored the different patterns of demand and distribution which are found in European countries.

However, it is important to note that the existence of separate or fragmented markets, because of cultural or other differences, does not mean that no foreign penetration of these markets is possible. Indeed, the imperatives which make exporting necessary for survival (see Chapters 8 and 9) apply also in these sectors. What it does mean is that somewhat different products must be designed, created and supplied to each national market. The possibility of doing this is being greatly enhanced by the availability of new technologies, which provide both the informational requirements and the flexible design and manufacturing facility. But, as noted above, the pursuit of this strategy requires considerable management ability, technical skills and, possibly, significant financial resources.

Having identified the nature of the business environment and the size of the relevant market the next step is to devise a strategic response to the threats and opportunities of 1992. The Council cannot provide a detailed account of business strategy in general or of appropriate corporate responses to 1992. However, in the following sections some aspects of business strategy are reviewed. We begin by considering international developments and then consider the specific situations which face Irish firms.

International Development in Business Strategy
Although business strategy is by definition industry-specific it has been argued that certain common elements can be identified in the strategic responses of successful firms after the crises of the seventies and eighties and to the technological changes which are occurring now. In this section we briefly discuss these common elements. One corporate response is to diversify out of industries which face substantial adjustment pressure. Although this response is widespread, research strongly suggests that successful diversification out of weak market positions and into completely new businesses is extremely rare.

It this escape route is barred, then firms must respond to the challenges of the major markets in which they operate. Research suggests, first, that even in industries where competitive pressures are greatest, viable corporate strategies do exist and, second, these strategies share a number of common elements, though the balance between those elements varies with industry and firm characteristics. The corporate strategies of successful firms in manufacturing industries where competitive pressure is greatest seem to centre on three interrelated objectives:

(a) to reduce market vulnerability, i.e., the risk of the firm losing market share to lower cost or technically superior rivals;
(b) to increase manufacturing flexibility;
(c) to minimise capital risk, i.e., the firm's vulnerability to reduction in aggregate demand.

In order to achieve these three objectives such firms tend to try to do four things:

*This section draws heavily on Ergas (1984).
— to strengthen and integrate their technology base;
— to use this base to achieve greater product differentiation and customisation;
— to co-ordinate this product policy more closely with manufacturing, especially through ‘focused’ manufacturing strategies;
— and to specialise their operations in their areas of greatest strength, through greater recourse to subcontracting and joint ventures, etc.

Strengthening the technology base means essentially increasing R + D, or at least increased access to technology but, at the same time, a more focused and concentrated approach to technology. As part of this rationalisation of their product range, firms frequently divest of subsidiaries in unrelated fields and only undertake diversification in closely related fields.

Product differentiation or market segmentation is what is hoped will result from strengthening the technology base. Product differentiation, which confers major benefits on the firm, is achieved by concentrating sales on growth segments, developing close links with clients and distributors and, of course, by developing high quality innovative products.

The great drawback of the segmentation strategies outlined above is that they make the firm vulnerable to changes in product specification or customer’s requirements and that, because of the inevitable small volumes involved in a particular market segment, they prevent the use of large-scale production techniques and thus undermined the firm’s relative-cost position and hence its profitability. This is where ‘focused manufacturing’ comes in. Developments in manufacturing technology, and in thinking about manufacturing, have drastically reduced these drawbacks and thus increased the attractiveness and viability of niche strategies. They have done this by reversing the trend towards more cost-efficient but inflexible production units.

The pursuit of the strategies outlined above has implications for the way in which firms specialise. In particular how they view vertical integration, and how they treat capacity expansion. Many firms have succeeded by devising contractual alternatives to vertical integration in the form of long-term contracts, joint development projects, or horizontal joint ventures for the development and supply of components.

The changing economic environment has increased the risks associated with capacity expansion. As a result some strategies attempt to transfer capacity expansion risks onto third parties. Several options for doing this are available ranging from arms-length relationships, transferring both risk and control, through joint ventures, which share risk and control, to arrangements which transfer risk but retain control.

Many aspects of these strategic responses will not be available to Irish firms but a certain knowledge of them is valuable since they are the kinds of strategies likely to be adopted by the firms with which Irish companies will compete and form contractual relationships.

Strategies for Irish Firms
The business strategies required of Irish firms are very largely strategies for entering foreign markets. The appropriate strategy for achieving this depends on the type of market which it is hoped to enter or develop.

A few Irish firms have been and will be in a position to develop pioneering products. Where this is possible it has great advantages. In particular, it affords the opportunity to build large scale ahead of the competition. However, even pioneers are likely to require some co-operative arrangement with foreign firms.

Genuinely pioneering products are rare, and many firms will in fact be lucky to be early followers in high growth markets. Entering a market early in its development has some of the advantages of pioneering a market; but one critical difference is that the imperative to enter early often rules out internal development as a way of generating new products or businesses and, instead, promotes the use of acquisitions. But acquisitions, while they can be very successful, are expensive, risky and hard to manage well.

Irish firms are, in fact, more likely to be late entrants into relatively mature markets. This is acknowledged to be by far the weakest starting point because the aspiring entrant has first to overcome the barriers to entry that often surround mature markets, and then to win market share away from entrenched competitors. At least five possible barriers to entry can be identified: capital requirements, economies of scale, product differentiation, access to distribution, and proprietary knowledge. These barriers will, of course, vary in height and significance across industries.

The strategic task is to identify the situation correctly and devise a way of overcoming or circumventing the entry barriers. Where there are large scale economies it seems virtually impossible for Irish producers to develop a competitive advantage. However, capital requirements, and some other dimensions of scale, can be overcome by co-operative ventures. It is very difficult to overcome the important barier of product differentiation — since the new entrant must spend a lot to establish a product. In this case it seems necessary to circumvent the competition by arranging to sub-supply to an established firm with a brand name. There is both a price to be paid for, and

*This section draws heavily on Lambkin (1989).
**Baileys Irish Cream’s link with Grand Metropolitan has given it access to a worldwide distribution system.
a risk associated with, being in this position. Changes in the distribution sector internationally mean that gaining access to distribution systems has become a very significant task for Irish firms. Gaining such access can require a number of different characteristics which are hard to combine, including product design and quality, cost competitiveness and ability to supply large quantities to strict deadlines. Two strategies are available in the case of proprietary technology. One is to find products where the patents have expired; the other is to licence the technology or engage in joint ventures with patent holders.

(ii) Corporate Response: Innovation

Within the strategic responses outlined above process and product innovation played an important role. Research on the use of new technology in relatively mature industries has revealed some important factors which should be taken account of in devising strategies. First, it confirms that viable strategies do exist, even where competition from low-wage countries is severe. Second, where there is potential for technological and managerial innovations, then dramatic recovery of market position by more developed economies may be possible. Third, pursuit of a strategy of product differentiation through innovation requires, more than anything else, substantial improvements in the quality of management (OECD, 1988). Management seems crucial both to the evaluation of technological options and to the successful pursuit of either product or process innovation.

The OECD suggests that this finding has implications for the design of government policies to promote development of new technological applications and their diffusion through industry. It suggests that the focus of any such policies need not be on the financing requirements involved but rather on assistance to companies to enhance the 'intellectual' and engineering capabilities that are required by the new technology (OECD, 1988).

Two other general points about innovation in these sectors should be noted. Research shows that in mature industries most process innovations derive from outside the firm that uses them. By contrast, product innovations can be developed by the producer of the final product. Furthermore, the majority of the product innovations, whether of a more or less important kind and whether they concern consumer or intermediate products, take place around existing conventional products which remain basically unchanged. Secondly, research shows a close connection between innovation in products and processes and innovations in other functions, especially management and marketing. This highlights once again the crucial role which management plays in the innovation process as a whole.

An emphasis on management emerges consistently from our consideration of responses to the threats and opportunities of 1992. Management is one resource which transcends all the functional areas and which is indispensable to the continued success of any organisation. It is the job of management to combine the various functional areas of an organisation, to define the segments in which the business can develop and sustain competitive advantage, to devise and implement the strategies which the business will utilise to compete, and to continuously monitor and adapt to a changing environment. Brophy (1985) has argued that while great strides have been made in recent years, the standard of Irish management is poor relative to our international competitors. In 1983 the European Management Forum ranked Ireland 16th out of 23 OECD countries in terms of management talent. In a recent report the Advisory Committee on Management Training concluded that "the level of commitment to management development in Ireland is unacceptably low, given the economic challenges that face the country". In this report we have not assessed the issue of managerial talent and we have not commented in our sectoral analysis on the quality of the managerial resources. However, we would argue that in the general context of investment in intangibles, investment in the managerial resource should command priority across the various sectors. Such an investment on the part of businesses could also be supported by a programme of investment in management education by government. The Advisory Committee referred to above, recommended that both business and government increase their commitment to management development. The Council endorses this recommendation.

(iii) Mergers and Acquisitions

Our framework for analysis in Chapter 8 leads us to believe that removal of non-tariff barriers will, through two different channels, lead to a restructuring of industries and firms. One aspect of this general restructuring has already begun. Major mergers and acquisitions have made headlines in the financial pages. A recent survey has shown a significant jump in the number of cross-border take-over bids in Europe in recent years.

One general point about mergers and acquisitions helps to narrow the field of strategic options. Studies of take-overs unrelated to or only tenuously related to the original core business indicate that such diversifications have been very disappointing. For example, Porter (1987) studied the diversification records of 33 large prestigious companies over the 1950-86 period and found that most of them had divested many more acquisitions than they had kept. In particular, it was found that corporations divested their acquisitions (including joint-ventures and start-ups) in new industries and in entirely new fields. The track record of acquisitions in unrelated fields is even worse — the average divestment rate was almost 75 per cent (see also Geroski and Jacquemin, 1985).

If we confine our consideration to mergers and acquisitions within the area of the firm's core business, the question that arises for Irish firms is the following: is the use of mergers and acquisitions an appropriate strategy for entering, or making further inroads into, the European market? There is no doubt that it
is a potential weapon in a company’s strategic armoury but the situations in which it is useful need to be carefully assessed. For example, in fragmented industries which lack major distribution barriers, acquisitions may not be necessary since it is possible to build a market position by expansion through direct exports and local distributors. In highly concentrated industries on the other hand, in which there are significant entry barriers, acquisitions or joint ventures may be the only feasible way to penetrate foreign markets. This conclusion is even more appropriate when the industry is a mature, slow-growth one. A prime example of this is the food industry, where mergers and take-overs are the most popular means of acquiring brands and market share. This confirms that the appropriate entry strategy depends on a host of circumstances, ranging from the specific characteristics of the industry and the market segment, to the nature of the target country and of the firm itself.

3. PUBLIC POLICY RESPONSE: MANUFACTURING

(i) The Economic Environment
The Council has previously drawn attention to the importance of the overall economic environment, as represented by costs of production, interest rates, exchange rates and levels of taxation, in facilitating industrial prosperity and industrial development. The research undertaken in this report has provided independent confirmation of this view. In particular, it is considered that changes which increase the exposure of the economy to external forces must be complemented by measures which increase the internal efficiency of the Irish economy. In many cases this amounts to saying that removal of non-tariff barriers to trade in manufactured goods should be accompanied by a vigorous implementation of the internal market programme in services such as banking, insurance, transport, etc. In other cases the creation of an efficient internal economy, to support firms in maximising the opportunities and minimising the threats of the internal market programme, would seem to require positive steps such as the improvement of infrastructure and training.

Most important of all, perhaps, the strengthening of the economic environment requires that the current consensus between the social partners and government be maintained. The Council is very strongly of the view that the continuation and, indeed, deepening of this consensus is an absolutely essential element in Ireland’s response to the threats and opportunities of the coming phase of European integration. This will be discussed again in our conclusions and recommendations (Chapter 17).

(ii) Industrial Policy
Does the completion of the internal market alter the considerations which have previously been cited when assessing the need for an industrial policy and defining the objectives and instruments of policy? In Strategy for Development (NESC Report No. 83) three basic features of the Irish economy were highlighted in establishing the case for an active industrial development strategy: the small size of the domestic market, its distance from large and concentrated centres of population and its technological backwardness relative to the more advanced economies of North America, Europe and Japan. By further integrating Ireland into the international economy the completion of the internal market reinforces the significance of each of these basic features and therefore increases the relevance of the Council’s view on the need for industrial policy.

When we turn to the objectives and instruments of industrial policy we again find that the major recommendations in the Council’s previous work are confirmed — though the analytical approach used was different in this report. In its previous work on industrial policy the Council approached the question by considering the structure of each industrial sector and devised policy measures which would address the key barriers to entry facing Irish firms. In this report we have assessed threats and opportunities by considering the changing economic environment which will face all firms in Ireland — focusing especially, but not exclusively, on changes brought about by the completion of the internal market.

The latter approach has confirmed the importance of indigenous firms and reinforced the significance of economies of scale, innovation and management. In many respects the policy proposals which derive from these considerations would build on proposals previously made by the Council. Industrial policy is discussed briefly here, and also in Chapter 14 which considers structural and regional policy in a Community context.

Scale
Our analysis of trends in manufacturing after Ireland’s accession, and of the way in which removal of non-tariff barriers is likely to work, has revealed that the small scale of many plants and firms may be a cause for some concern. The trends in the size structure of manufacturing firms in Ireland have not been in accordance with those experienced in some other countries. We have seen in Chapter 6 that instead of large Irish producers eliminating or absorbing small Irish producers as they oriented themselves to the larger market, the size structure of manufacturing industry has become less concentrated. This would suggest that the larger Irish producers were in fact part of the small scale ‘tail’ which one would expect to be eliminated in the process of concentration that follows a reduction in trade barriers. Indeed, the new theory of trade can encompass this possibility since it allows that in industries with economies of scale, the size of the domestic market can be an important determinant of export performance (Krugman, 1987b).

In devising a framework for analysis of the effects of market completion in
Chapter 8 we drew attention to the fact that there are sharply differing views concerning the significance of scale economies and, therefore, concerning the way in which removal of NTBs will affect firms. One view expects that, because of existence of economies of scale, there will be further concentration of industry. The other view doubts whether economies of scale have been or will be that significant, and sees the major effect of market completion being an increase in competition and a consequent spur to innovation and product variety. In Chapter 8 we undertook a brief assessment of the arguments in support of each of these views and, without in any way dismissing the idea of a spur to innovation, we concluded that economies of scale are likely to play a significant role in firms' responses to 1992.

Though we cannot extrapolate past experience, a process of concentration in European industry would in all probability pose some threat to parts of Irish manufacturing, and create additional barriers to the entry of new Irish firms. Consequently, the issue of scale must be a concern for industrial policy. Having said this, an important distinction must be made between industries in which scale of production of mass-production is the key competitive advantage, and industries where it is not the key source of advantage, but in which certain economies of scale exist. We are concerned here with the latter group. Few, if any, indigenous manufacturing firms occupy mass-production market segments.

The objective of industrial policy in this area must be to assist firms to devise strategies to avoid the threats posed by the scale advantages of larger rivals in other countries. In some cases the rival's scale advantage cannot be overcome and so must be avoided. This suggests strategies such as product development and product differentiation. Industrial policy can assist the pursuit of such strategies. In other cases the advantage of scale will be confined to one dimension, for example, access to capital for marketing. In these cases the specific disadvantage of the small producer could be overcome by industrial policy measures addressed to these specific obstacles, without having to undo the discrepancy in firm size. However, in other cases the economies of scale will be multidimensional, or at least so intrinsic to the firms' activities, that market success or even survival will be virtually impossible without overcoming the difference in scale itself. In these cases it would seem that one objective of industrial policy should be to assist firms to reach the required scale.

Innovation-Oriented Industrial Policy

Our survey of the threats and opportunities facing Irish industry as the internal market is completed revealed that innovation is central to competitive success in many sectors. Research in other countries on the regional pattern of innovation has shown that firms in peripheral regions undertake significantly less innovation, especially product innovation, than firms in more central regions. Given the increasing importance of innovation and these regional differences in its incidence, there has in recent years been attempts to develop innovation-oriented industrial/regional policy in several countries.

In our view there is a strong case for attempting to inject an innovation orientation into Irish industrial policy. The developing Community interest in research and high technology makes this more urgent (since other regions will receive increasing assistance of various sorts) but also, perhaps, more feasible (since Ireland can seek assistance from various EC programmes).

Design of an innovation-oriented industrial policy would require detailed study of the reasons for slower innovation in the periphery than in central regions. On the basis of the features of the innovation process, which have emerged during our analysis of the threats and opportunities facing Irish firms and the regional dimension of the integration process, several possible types of innovation-oriented industrial policy suggest themselves.

The current wave of technical change is based to a considerable extent on the application of microelectronics and information technology. An important necessary, though not sufficient, condition for the widespread adoption of information technology is the availability of adequate telecommunications infrastructure. It is not possible for us to say whether Ireland's substantial recent investment in such infrastructure has made it adequate for the rapidly evolving usages. Nor, indeed, can it be said — without further research — that the infrastructure has even been a constraint on the adoption, production, or sale of information technology products or services. The adequacy of the telecommunications infrastructure should be reviewed on a regular basis.

A second aspect of innovation is the central role of management in both identifying opportunities for innovation and in negotiating the set of complementary changes in many aspects of the firms' activities. Indeed, it is possible that regional differences in innovation partially reflect regional differences in management. If that is the case then any industrial policy which enhanced management ability would, perforce be an innovation-oriented industrial policy.

Thirdly, industrial policy could be aimed at stimulating the innovation process itself. Design of such a policy would require detailed information on the nature of the different types of innovation process. But this would not be enough. If stimulus to creative activity is to be translated into actual product and process

*This is discussed in more detail in Chapter 15.
innovations then it has be oriented closely to the actual role which innovation is hoped to play in firms, i.e., oriented closely to corporate strategies. It is corporate strategies which should decide questions such as: how much of the industrial policy support for innovation be directed to fundamental research and how much to novel applications of materials or technologies developed elsewhere.

(iii) Competition Policy

*Industrial Policy and Competition Policy*

We have looked at mergers from the perspective of the strategic choices open to individual businesses. However, given the likelihood that cross-frontier mergers and take-overs will become an increasingly important feature of the corporate landscape we need to look at the issue from the perspective of government policy—particularly competition policy. At present each member state has its own competition policy. Member states are also subject to EC competition law, the main provisions of which are Articles 85 and 86 of the Treaty of Rome. Article 85 prohibits, and declares void, agreements and concerted practices which have the object or effect of preventing, restricting or distorting competition within the common market and which affect trade between member states. Restrictive agreements or practices must be notified to the European Commission, but exemptions may be sought. Article 86 deals with market dominance. It prohibits the abuse of a dominant position within the common market (in so far as it may affect trade between member states) and, in particular, strikes at practices such as unfair trading and the limitation of production, markets or technical development.

The relative roles of European and domestic competition policies must be reconsidered in the context of a unified internal market. Mergers cannot be judged by reference only to domestic markets—they have to be evaluated in the context of the total European market. This applies to mergers with a 'European dimension'. For mergers with a primarily 'domestic dimension' (i.e., where a major proportion of the combined turnover within the Community is in one country), then the issues will still be primarily domestic. Quite separate from the relative roles of domestic and European authorities in the area, an issue which arises for the domestic authorities is the implication of cross-border take-overs and acquisitions for the nationality of ownership. The attractiveness of Irish firms as take-over targets in the lead-up to the completion of the internal market may increase. This is likely for a variety of reasons: (i) to provide an entry to the Irish market in cases where exporting from a home base is not feasible, (ii) where entry barriers to the Irish market can best be surmounted through take-over, (iii) where Irish firms are strong in various export markets which the predator wishes to enter. The question which arises for policy-makers is: should they be indifferent to whether a company is taken over by a domestic or foreign firm?*

*There are a number of factors which justify an industrial policy oriented primarily towards indigenous firms. In NESC Report No. 64 it was argued that no country has succeeded in developing high levels of industrial income without developing a strong indigenous sector. A second and related dimension of the distinction between foreign and indigenous firms is the degree of linkage with the domestic economy. Foreign industry is generally less rooted into the domestic economy than the indigenous sector. Although there has been some improvement in the linkages which the foreign sector in Ireland has with the rest of the economy. These arguments provide the rationale for the Council's view that industrial policy resources should be concentrated on the indigenous sector.*

The Effects of Takeover on the Domestic Economy

Given this view, why might policy-makers be concerned about foreign take-overs of indigenous companies? The most frequently expressed concern is that enforced changes in the activities and organisation of the acquired company will be harmful to the domestic economy. More specifically, as the activities of the merged company are rationalised and/or centralised, there may be a diminished requirement for the technical and managerial strata of the acquired company. These changes, along with any variations in the demand for material inputs and services, may produce significant responses such as out-migration. Staff remaining in place following a reduction in functions may be required to work at a lower skill level, with the result that previously acquired skills atrophy and disappear. In certain cases, of course, the domestic economy may gain through the existing functions being performed more efficiently. The loss to the domestic economy of the technical and managerial strata could further affect the performance of the economy in a number of ways. For example, the rate of new firm formation could be reduced, since there is evidence of a positive correlation between the location of managerial skills, the degree of education of the labour force and the birth rate of companies (Gudgin, 1978). Similarly, a net loss of skills might affect the rate of innovation, new product development, application of new technologies and investment.

Is there any evidence on the effects of external take-overs on local linkages and corporate functions? Some research on this issue has recently been undertaken in Scotland. Ashcroft (1988) has identified the effects of external take-over of the largest Scottish manufacturing companies acquired during the period 1965 to 1980. Companies were asked to assess the effects of take-over on their

*While some small countries, including Ireland, have succeeded in creating sustainable employment and exports through the attraction of foreign-owned companies, advancing beyond this to higher income-generating projects is very rare. Among multinational corporations, key business functions, defined as those which are crucial to the competitive success of the business as a whole, will continue to be located close to home or in major markets. Key research and development, marketing and applications engineering activities will be located in centres which are close to home, in countries with large markets, or where skills are comparable to or better than those at home.*
demands for Scottish materials and other inputs, on managerial posts and promotional opportunities within the Scottish firm, and on key operational functions such as R + D and marketing. The main conclusion was that changes in the composition of demand were to the detriment of Scottish suppliers, particularly professional services. With regard to organisational changes, nearly all the companies lost some relevant functions in varying degrees while some, but a lesser number, gained functions. The relevant functions can be divided into management and financial control, on the one hand, and operating functions on the other. In regard to the former, more than half of the companies reported that autonomy was totally lost or substantially reduced. There was a net loss of key operating functions, such as R + D and marketing, following acquisition. However, the study notes that the loss is not as marked as might have been anticipated. Ashcroft also qualifies these conclusions by stressing that, for many of the functions, a frequent outcome was no change at all.

**Effects of Take-over on Company Performance**

These concerns, and Ashcroft’s research, relate to the effects of foreign take-over on the wider regional economy. It is also relevant to consider the effects of take-over on the internal performance of the acquired company. In making a judgement on the net benefit or cost of external take-over to the Irish economy such internal effects must also be taken into account. This should also, if possible, incorporate some assessment of what would have happened in the absence of acquisition.

The effect of take-over on the acquired firm is an issue about which there is significant disagreement. One view is that take-overs enhance economic efficiency. The theoretical basis for this view is that whereas competition in input and product markets may fail to weed out firms that are not achieving cost minimisation and profit maximisation, a well-functioning market for corporate control will do so. In cases where companies are free from strong external market pressure, the separation of ownership and control allows managers to pursue investment and cost-paddling strategies that fail to maximise shareholder value. The market for corporate control, it is argued, allows others, who perceive that profits would be higher if alternative strategic choices were made, to bid on the stockmarket for a firm and implement these alternative strategies. Take-overs thus serve as an incentive device for management to perform in the shareholder’s interest. In a recent symposium on take-overs two conflicting positions emerged. Jarrell et al (1988) conclude that “the evidence is consistent with the notion that these corporate transactions reflect economically beneficial reshufflings of productive assets.” On the other hand, Scherer (1988) found that, on average, targetted firms were indeed under-performers, relative to other firms in their home industry, but that take-overs did not significantly improve their economic performance (see also Geroski and Jacquemin, 1985).

In addition to the general question of how take-overs affect performance, a more specific question must be asked in the Irish context. This is, whether a foreign take-over of an indigenous company can give that company the ability to overcome some of the key competitive disadvantages and barriers which it faces. Examples of such barriers are lack of access to distribution channels, marketing skills, financial resources, production know-how and technical expertise. This issue is inextricably bound up with the scale issue discussed earlier. Foreign take-over of indigenous firms may, in some cases, be the only way of ensuring that some businesses realise their growth potential. To place a ring-fence around the Irish stockmarket to prevent take-overs of indigenous companies by foreign companies, in order to avoid the adverse economic effects outlined earlier would, therefore, be extremely short-sighted. Not only would it exclude the possibility of some Irish businesses getting access to the competitive strengths required to be internationally competitive but it might also inhibit the market for corporate control and, as a result, lessen the incentives for Irish management to maximise shareholder value.

**Conclusion**

In conclusion, therefore, the Council considers that Ireland cannot be indifferent to foreign take-overs of indigenous business. Each case must be examined on its merits and a decision reached based on the balance of likely effects. This will require a very close relationship between mergers policy and industrial policy. There is no doubt that some rationalisation of domestic and European competition policy will be required — with the latter becoming involved in issues with a European dimension. However, in the Council’s view the Irish dimensions of merger policy must be retained with a strong public interest clause. Under such a public interest clause the investigating authorities would be required to examine the likely external economic effects of any proposed take-over and to balance these against internal effects on the individual businesses, having particular regard to Ireland’s industrial policy objectives.

### 4. Public Policy Response: Agriculture

(i) **Problems in the Agricultural Sector Since Accession**

In our study of the period since Ireland’s accession we identified three problems in the agricultural sector (see Chapters 4 and 7):

(i) The reversal of much of the progress made between 1973 and 1978 and the consequent slow annual average growth of farm incomes in the period since accession;

(ii) The persistence of very low and volatile farm incomes for a sizeable segment of Irish farmers;

(iii) The slow rate of development of the food industry.
(ii) Development of Farm Incomes and Reform of the CAP

The reversals in the agricultural sector in the late seventies and parts of the eighties mean that in the period since accession, taken as a whole, average farm incomes have not grown as much as was hoped. In Chapter 7 we saw that this was explained by two factors: the continuation of high inflation in Ireland despite the pegging of the Irish pound in the EMS and restrictions on agricultural prices and production as a result of advancing reform of the CAP. The domestic inflation rate is now consistent with the position of the Irish pound in the EMS, and other factors which contributed to the price-cost squeeze, such as interest rates, are far more favourable. Consequently, much of the income problem after 1978 can now be viewed as a once-off episode from which the relevant lessons have been learned (see Chapter 7). However, reform of the CAP is likely to continue and this is a major factor conditioning the development of the Irish agricultural sector.

There are two reasons why further reform of the CAP is virtually inevitable. First, from within the Community pressure for reform of the CAP will continue, driven by budgetary limitations and the unacceptable cost of large-scale subsidised storage and disposal of excess production. Second, in recent years pressure has built up outside the Community because of the trade implications of EC agricultural expansion. As a result agricultural supports are now a major topic in the Uruguay round of GATT negotiations taking place in Geneva. It seems to be accepted that sooner or later the Community will have to agree to greatly reduce its subsidised disposal of large surpluses onto world markets. In the run the issue for the Community, and therefore for Ireland as a member of the Community with a great interest in agriculture, is what method should be adopted to achieve market balance.

In Strategy for Development the Council reviewed the broad options available for reform of Community agricultural policy. We identified these to be the following:

(i) Co-responsibility levies — in which the artificially supported price is only guaranteed for production up to a specified guaranteed threshold;
(ii) Direct supply management — in which a high price is guaranteed for a fixed quota of production and a severe (‘super’) levy is charged on production in excess of the quotas;
(iii) Establishment of market clearing prices by means of free trade with some form of income support.

Having evaluated the merits and demerits of each of these approaches the Council advocated the following domestic stance. A realistic price policy is necessary in the Community but price policy should not be the only instrument used to bring about greater market balance. If pricing policy is not to be the only instrument utilised in bringing demand and supply for agricultural products into greater equilibrium, then quantitative restrictions will be necessary. However, such quantitative restrictions should be viewed as an interim approach rather than a long term solution. Given that price support to farmers goes mainly to those with high levels of output and incomes, and hence is ineffective in dealing with the low income problem in farming, there were two other elements in the domestic stance advocated by the Council in Strategy for Development. In general, support from the Community should be directed more towards solving the low income problems in farming. Specifically, in allocating production opportunities or quotas, preferential access must be devised in order to improve the income distribution between both member countries and individual producers.

The Council reiterates these views on the reform of the CAP. In Strategy for Development it advocated that the Community initiate a series of multilateral trade negotiations to be carried out under the aegis of the GATT. It notes that since then such negotiations have indeed taken place. Broadly speaking the Council shares the Community's rejection of the 'free trade' solution advocated by the United States. In favours instead a solution which derives from the Community's traditional approach to market adjustment — that is, an approach which recognises the social dimension of markets and the social costs and benefits which are generated by adjustment to the exigencies of market forces.

However, the Council also stresses that there are great advantages to achieving an agreed global approach to the reform of agricultural support systems. The Community's approach in global negotiation must strike a balance between the European approach to market adjustment and the European judgement on the desirable pattern of rural economy and society, on the one hand, and the advantages of achieving an agreed global reduction in artificially high agricultural prices on the other.

In this section we have been concerned primarily with future reform of the CAP as a system of support to commercial farming and a system of food production and supply. In the next section we discuss the problem of low farm incomes. But the reform of the CAP and the socio-structural policies to address the problem of low farm incomes cannot be kept rigorously separate from one another. Other things being equal, the reduction in institutional prices and the restriction of output, which are implied by reform of the CAP, combined with technological change in the sector, will make smaller farms more marginalised and widen regional disparities. Strict limitation on the output of milk, for example, is bound to push some producers into less profitable products and hence push some from the commercial to the non-commercial category. It is for this reason that the Council previously advocated that in reforming the price support system the problems of low incomes in farming be given greater priority. But in addition to this particular approach to prices and markets policy there is a need for a switch in emphasis towards
socio-structural policies at both the national and Community level. Such policies are capable of alleviating some of the effects of more restrictive prices and markets policy.

The medium to long run adjustments in European agriculture present a profound challenge to the Community and to the member countries. The Community's rejection of the United States' proposed free trade solution is only tenable on the basis of a new balance between prices and markets policies and socio-structural policies. The greater is the pressure on systems of agricultural price support worldwide the more the Community will have to view these two strands of policy as parts of an integrated whole. But this has important implications for Ireland's approach to agricultural policy. The existing large Guarantee policies of the EC are inevitably set uniformly at Community level (though preferential elements can be introduced); but the currently much smaller Guidance or structural policies are much more dependent on national input.

Given the virtual inevitability of long run adjustment, and hence of a different balance between strands of agricultural policy, Ireland has the greatest possible interest in being a leader in the analysis and solution of these problems. This interest derives from the necessity of devising new Community approaches to securing the prosperity of Europe's rural regions. Such leadership can only be achieved on the basis of a proven ability to foster rural economic development in the broadest sense.

(ii) Low Farm Incomes
The persistence of a segment of Irish agriculture showing low farm incomes is related to the existence of structural problems. In Chapter 4 we saw these to be the small size of many holdings, the age and educational profile of their occupants, and the rigidity of the land tenure system. These structural problems prevented a large proportion of farms from responding to the incentives offered by the CAP and so sharing in what prosperity was available. In Chapter 7 we identified three reasons why these structural problems were not significantly reduced in the years since Ireland's accession to the EC. First, the Community's funding of socio-structural policy, when compared with its fundings of prices and markets policy, has been altogether inadequate. Second, the Community's substantial prices and markets policy is unlikely to have been neutral with respect to structural characteristics; it may have somewhat exacerbated the structural problems by widening the dichotomy between the commercial and non-commercial layers of Irish agriculture. Third, national socio-structural policy has been virtually non-existent and, in particular, there has been no coherent land policy.

Solution to the problem of low farm incomes, and of other problems in the agriculture and food industries generally, requires that greater progress be made in solving these structural weaknesses. This in turn requires new approaches at both Community and national level.

At Community level the main requirement is further increases in the role of socio-structural measures. The Community has adopted the broad objective of maintaining the social fabric of rural areas and accepted that this implies, among other things, maintenance of a viable rural population depending on a combination of agricultural and non-agricultural income. But given this objective, and given that prices and markets policy does not and cannot achieve it, the Community's socio-structural policy seems quite underdeveloped. In particular, there is a strong case for a Community role in the policies of direct income aid which are necessary for maintenance of a viable rural economy in many areas of the Community including parts of Ireland.

In identifying this need for increased Community involvement in direct income aid the Council does not wish to question the role of Community policy in improving productive structures in the rural economy. The ultimate objective of structural policy is, of course, to foster genuine economic development and thereby make income support unnecessary. However the Community's rural development policy is largely dependent on approaches devised and suggested at national and regional level. This brings us to national policies to deal with structural weaknesses and their attendant problems.

In Chapter 7 we noted that four general types of agricultural policy can be identified: price policy, productivity policy, structural policy and programmes outside agriculture (Matthews, 1987). We also noted that only the first of these policy areas is fully circumscribed by the existence of the CAP. In formulating a new combination of productivity policy, structural policy and programmes outside agriculture, the guiding principle must be cost efficiency and the effective use of land. Contrary to what is sometimes believed, the restrictions on overall agricultural output growth created by tightened CAP prices and markets policy make efficiency in the primary sector more rather than less important.

There have been many measures of productivity policy in the past (input subsidies, heage payments, interest subsidies, the Farm Modernisation Scheme, the Farm Improvement Programme, disease eradication programmes and decisions on taxes and rates) and these have had varying degrees of success. The major requirements for the future are that such policies become much more cost effective and that the recent movement towards concentration on human resources be continued.

In the case of structural policy a more thorough re-evaluation is required. We noted in Chapter 7 that, in practice, socio-structural policy in Irish agriculture has been virtually non-existent. This despite the fact that the major problem
in the agricultural sector — low farm incomes — and a major problem in the economy in general — the poor development of the food processing industry and the lack of manufacturing industries based on national resources — are related to structural problems in agriculture. Part of the problem in this area would seem to arise because of conflicts within the stated objectives of structural policy. On the one hand structural policy, and indeed agricultural policy in general, has been aimed at achieving a desired pattern of ownership and farming. The desired pattern was the maximum number of family farms, and this implied official opposition to the growth of large-scale farming. On the other hand structural policy aims to bring about improved land use by encouraging the transfer of control of land to those most likely to make efficient use of it. It is clear that in certain circumstances there will be a conflict, and in most circumstances a tension, between these two objectives.

The formulation of an effective structural policy therefore requires that the objectives of the policy be clarified. They can only be clarified at national level. The Community’s rejection of the Mansholt objective ‘of economic production units’ in favour of maintaining a viable rural population does not resolve the conflict in structural objectives for Ireland. In the Council’s view, future Irish structural policy should give priority to achieving effective land use rather than to maintaining the maximum number of holdings. But it recommends this structural priority only within the context of complementary productivity policies and non-agricultural programmes.

Two broad types of non-agricultural programmes are available: the creation of off-farm employment and direct income aids. The increase in part-time farming in recent years constitutes a major structural change. The continuation of this trend depends on the success of general rural development programmes. The importance of off-farm employment in improving the income position of many households, and the difficulties for others in finding such employment, highlights the importance of educational and training measures in the overall package of productivity policies.

But off-farm employment cannot solve the income problems of some farmers, and cannot completely solve the income problems of others. It is in this situation that there is a strong case for direct income aids. To date there have been two main schemes of this kind: social security and the Disadvantaged Areas Scheme. These schemes have the disadvantage that they may conflict with productivity, efficiency and structural objectives and may only partly achieve their equity objective. For example, in the Disadvantaged Areas Scheme, payments are related to the number of livestock units held. This may conflict with the objective of encouraging farm retirement and agricultural restructuring. The Council strongly believes that the payment of direct income aids by the state, or by the Community, or both, should give the state, as the agent of society at large, a say in the use of the land which is occupied by those in receipt of income support. To exercise this say the state will clearly need a well formulated land-use policy as advocated above.

(iv) Development of the Food Industry

There is both an industrial and an agricultural dimension to the disappointing progress in the development of Ireland’s food processing industry. The industrial constraints are those which face all indigenous firms and which require industrial policies of the type advocated by the Council in this and previous reports. The agricultural constraints on the development of the food processing industry derive from insecurity, seasonality and non-uniformity of supply of primary agricultural products and from the incentives created by the prevailing prices and markets policy.

There has, in recent years, been increased concentration in the food processing industry. This is vital if Irish food processing firms are to be capable of competing internationally. However, the process of restructuring may not be complete yet and may require Irish firms to form alliances of various sorts with other producers (see Chapters 9 and 13).

We are concerned here with the agricultural constraints which inhibit the development of the Irish food industry. We saw in Chapter 7 that the incentives created by the prices and markets policy of the CAP have not favoured adding value to agricultural produce in Ireland. Some of the anomalies in the system of agricultural support have eventually been sorted out (for example MCA). Others, such as the UK variable premium scheme, remain and may take many years to be dealt with.

A very important problem which remains is the insecurity, seasonality and non-uniformity of supply. There are three aspects of this problem that are important in devising a solution. First, the seasonality of supply derives in part from the climatic conditions in Ireland. But modern technology can now overcome these climatic effects to a considerable extent. This brings us to the second important ingredient of the problem. Farmers seem not to have the incentive to bring forth the necessary winter supplies, nor to enter into long term supply contracts with processors. These incentives can be altered not only by a change in the overall prices and markets regime, which is a difficult and slow process, but also by improvement in the supply and cost of the inputs necessary to even out the seasonality of supply. This highlights once again the importance of the cost and regulatory environment in transport and insurance. But continued seasonality is not independent of the third aspect of the problem — the structural problems in the agricultural sector. As in any other business the use of the available technology depends on the strength and structure of individual farm businesses. Likewise the ability to enter into the fulfill long term contracts, covering not only quantity but also quality of supply, is conditional on a high level of management skill, the resources
available and the scale of the operation. This implies that overcoming the insecurity, seasonality and non-uniformity of supply requires a strengthening of the structures of Ireland's farm business. Given the nature of the market for land this can only occur under the guiding hand of a clear and much more vigorous national structural policy. Once again we stress that this must be complemented by productivity policies — especially those which focus on the development of human resources — and non-agricultural programmes aimed at employment creation and income support.

(v) General Conclusion on Irish Agriculture in the EC
The essential difference between the Irish industrial and agricultural sectors in the EC has been that the Community system from 1973 to the early eighties was one which made adjustment in industry unavoidable, whereas the Community system in agriculture was one which made adjustment partially avoidable — while at the same time rewarding strong more lavishly than the weak. This had one unfortunate consequence. It could conceal the need for a range of long term national policies concerning the role of agriculture in the overall development of the economy and the need for national policies to achieve agricultural objectives which were not, and probably could not be, addressed by the CAP. The need for such policies is the single most important finding on agriculture in this study. Consequently, the Council recommends that a national agriculture programme, including rural development and the requirements of a competitive good sector, be devised and implemented.

1. INTRODUCTION
For many citizens of the European Community, the regional dimension of its policies is of paramount importance. The regional effects of the EC arise from a number of aspects of its policies and institutions. The most obvious of these, but perhaps not the most significant, is the Community's own regional policy, in existence since 1975. Second, the Community pursues other structural policies — social and agricultural — which have distinct regional effects. Third, other Community policies have a differential impact on different regions. Important examples are the creation of a common internal market, the Common Agricultural Policy, and moves towards economic and monetary union. Finally, the Single European Act has revised the Community's treaties in three ways which may alter the overall regional impact of Community policies. It has placed the existing regional policy on a firmer treaty basis; it has strengthened the Community's commitment to reducing disparities between regions; and it introduced new policies — for research, technological development and the environment — which are likely to have regional effects.

Much of this report has been devoted to an assessment of the impact of Community policies on a single region, Ireland. The whole of Part II, on Ireland's experience since accession, can be seen as an attempt to identify the impact of three key Community policies on this region: the policy of free internal trade, the Common Agricultural Policy and monetary policy. Chapter II is explicitly devoted to analysis of the regional impact of integration generally, and the completion of the internal market specifically. This analysis is further developed in Chapter 13 — which considers the likely assignment of public policy power and responsibility at different stages of integration, and focuses especially on policies which assist regional convergence.

This chapter deals with those Community policies which are explicitly intended to address regional problems. It first identifies the nature of those policies and quantifies the overall resources devoted to them. The resources directed to Ireland are then examined. The changes in Community regional policy in the years since its inception are briefly examined. Finally, some policy issues arising for Ireland and the Community are identified and discussed.
### Table 15.1 Structure of the Community Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>EU Expenditure</th>
<th>% of GDP</th>
<th>% of Community GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>76.2</td>
<td>69.7</td>
<td>42.2</td>
</tr>
<tr>
<td>1983</td>
<td>75.0</td>
<td>69.7</td>
<td>42.2</td>
</tr>
<tr>
<td>1984</td>
<td>74.0</td>
<td>69.7</td>
<td>42.2</td>
</tr>
<tr>
<td>1985</td>
<td>73.0</td>
<td>69.7</td>
<td>42.2</td>
</tr>
<tr>
<td>1986</td>
<td>72.0</td>
<td>69.7</td>
<td>42.2</td>
</tr>
</tbody>
</table>

### Structure of the Community Budget

The Community budget is composed of several components, each representing different aspects of European policy. The budget is allocated based on specific priorities and objectives set by the European Union.

#### Key Components

- **Agriculture and fishing**: A significant portion of the budget is dedicated to this sector, ensuring support for farmers and fisheries.

- **Regional policy and structural funds**: This includes Structural Funds and the Cohesion Fund, aimed at reducing disparities and economic development across regions.

- **Transport and energy**: Funds are allocated to improve transport infrastructure and energy efficiency.

- **Mediterranean programmes**: Specific programmes aimed at the Mediterranean region, focusing on economic development and cooperation.

The Community budget is crucial for achieving the EU's objectives of economic stability, social cohesion, and equal opportunities across member states.

### Financing

The budget is financed through contributions from member states, which are calculated based on a formula that takes into account each country's economic capacity. Contributions are revised periodically to adjust for changes in economic conditions.
provided by the Community varies across the three policies and has changed over time.

**Member State's Role**

These two common features — small scale and co-financing — are related to a third. The Community's structural policies have to date left considerable control in the hands of member states in devising approaches to structural problems. However, as we will see in the case of regional policy, the Community has acquired a greater role in policy formulation in recent years.

**(ii) Distribution Between Member States**

**European Social Fund**

In order to receive support from the ESF, public or private bodies must formulate applications which are processed and submitted to the Commission by the member state. Receipts from the ESF are determined by the number and size of such applications approved at Community level. In formulating the policy, the Community sets down the criteria for eligibility which are applied to all applications. These criteria have changed over time as the Community has undertaken a number of substantial reforms of the ESF.

Ireland has been a significant recipient of support from the ESF. Table 15.2 shows the distribution of appropriations paid to each member state in selected years.

| Table 15.2 | Shares of European Social Fund Spending¹ Per Cent |
|---|---|---|---|---|
| Ireland | 8.3 | 9.8 | 15.0 | 9.1 |
| Germany | 12.0 | 10.9 | 9.1 | 4.8 |
| France | 11.2 | 26.6 | 15.8 | 15.0 |
| Italy | 28.3 | 26.4 | 24.8 | 20.0 |
| Netherlands | 2.5 | 0.7 | 1.4 | 1.9 |
| Belgium | 2.1 | 1.6 | 2.3 | 2.1 |
| Luxembourg | 0 | 0 | 0 | 0 |
| United Kingdom | 32.3 | 21.7 | 27.4 | 21.9 |
| Denmark | 3.0 | 2.0 | 1.6 | 1.2 |
| Greece | — | — | 2.3 | 5.6 |
| Spain | — | — | — | 11.5 |
| Portugal | — | — | — | 7.0 |
| Total EC | 100 | 100 | 100 | 100 |

¹Payment Appropriations

Source: Official Journal of the European Communities.

This shows that Ireland has been a significant recipient of support from the Social Fund, having received support that varies between 8 and 15 per cent of total ESF outlays. A detailed account of the usage of these receipts by various public and private bodies can be found in Laffan (1985).

**Guidance Section of the Agricultural Fund**

Receipts from this fund are also determined by the number of proposals from the member state which are deemed eligible by the Commission. The eligibility criteria are established in the normal manner of Community decision-making and, therefore, reflect the agreed position of the Council of Ministers after consultation with the Commission and the European Parliament.

Given the size of the structural problems in Irish agriculture (see Chapters 4 and 7) it is not surprising that Ireland has also been a significant recipient of funds from the Guidance Section Fund. Table 15.3 shows receipts by each member state as a per cent of total Guidance Section outlays in selected years.

This table shows that Ireland on occasion received over 10 per cent of total Community outlays on structural problems in agriculture. It also shows the very high percentage of structural support which goes to French and German farmers.

| Table 15.3 | Shares for Guidance Section Spending¹ Per Cent |
|---|---|---|---|---|
| Ireland | 4.9 | 6.7 | 13.2 | 10.0 |
| Germany | 23.4 | 23.9 | 16.8 | 14.8 |
| France | 19.9 | 22.4 | 26.2 | 27.5 |
| Italy | 11.6 | 16.4 | 19.6 | 16.9 |
| Netherlands | 6.7 | 4.4 | 5.0 | 1.9 |
| Belgium | 5.6 | 4.2 | 2.8 | 2.2 |
| Luxembourg | 0.7 | 0.2 | 0.2 | 0.5 |
| United Kingdom | 22.0 | 17.5 | 10.6 | 9.4 |
| Denmark | 4.9 | 4.1 | 3.2 | 1.8 |
| Greece | — | — | 2.3 | 9.0 |
| Spain | — | — | — | 2.4 |
| Portugal | — | — | — | 3.3 |
| Total EC | 100 | 100 | 100 | 100 |

¹Payment Appropriations

Source: Official Journal of the European Communities.
Table 15.4
European Regional Development Fund: National Quotas

<table>
<thead>
<tr>
<th>Member State</th>
<th>1975-78</th>
<th>1978-80</th>
<th>1981-84</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>1.5</td>
<td>1.39</td>
<td>1.11</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.3</td>
<td>1.20</td>
<td>1.06</td>
</tr>
<tr>
<td>France</td>
<td>15.0</td>
<td>16.86</td>
<td>13.64</td>
</tr>
<tr>
<td>Greece</td>
<td>—</td>
<td>—</td>
<td>13.00</td>
</tr>
<tr>
<td>Ireland</td>
<td>6.0</td>
<td>6.46</td>
<td>5.94</td>
</tr>
<tr>
<td>Italy</td>
<td>40.0</td>
<td>39.39</td>
<td>35.49</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.1</td>
<td>0.09</td>
<td>0.07</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.7</td>
<td>1.58</td>
<td>1.24</td>
</tr>
<tr>
<td>UK</td>
<td>28.0</td>
<td>27.03</td>
<td>23.80</td>
</tr>
<tr>
<td>West Germany</td>
<td>6.4</td>
<td>6.00</td>
<td>4.65</td>
</tr>
</tbody>
</table>

Source: Commission of the European Communities.

that it was initially agreed that receipts from the ERDF be allocated on the basis of fixed national quotas. This meant that areas eligible for receipt of Community support were defined as those designated by member states for their own national regional policies. Table 15.4 sets out these national quotas for selected periods.

This shows that the effect of the adoption of national quotas was to ensure that every state, regardless of its level of prosperity, received some support from the ERDF. For example, Germany was allocated a quota of over 6 per cent of the fund from 1975 to 1978.

The ERDF has been the subject of a number of rounds of reform — and some features of these will be discussed presently. One feature of the reforms has been to reduce progressively the role of national quotas in the distribution of ERDF moneys. After 1979, and largely as a result of sustained argument by the Commission, the whole of the ERDF was no longer distributed according to fixed national quotas. A non-quota section of the ERDF was introduced which was allocated by the Commission in accordance with agreed Community regional policy priorities. Indeed, eventually the quota section was abolished and replaced by a set of quota ranges. Table 15.5 sets out the quota ranges for 1984-85 and 1986.

In the latest reform of the ERDF, following the Single European Act, the process of reducing the significance of national quotas has been continued. Instead, the Community has defined more thoroughly its policy priorities and used these to establish objective criteria which will determine a region's potential receipts from the ERDF. These new priorities and criteria are discussed in more detail below.

<table>
<thead>
<tr>
<th>Member State</th>
<th>1984-85</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>0.9 - 1.2</td>
<td>0.6 - 0.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.5 - 0.7</td>
<td>0.3 - 0.5</td>
</tr>
<tr>
<td>France</td>
<td>11.1 - 14.7</td>
<td>7.5 - 10.0</td>
</tr>
<tr>
<td>Germany</td>
<td>3.7 - 4.8</td>
<td>2.6 - 3.4</td>
</tr>
<tr>
<td>Greece</td>
<td>12.4 - 15.7</td>
<td>8.4 - 10.6</td>
</tr>
<tr>
<td>Ireland</td>
<td>5.6 - 6.8</td>
<td>3.8 - 4.6</td>
</tr>
<tr>
<td>Italy</td>
<td>31.9 - 42.6</td>
<td>21.6 - 28.7</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.06 - 0.08</td>
<td>0.04 - 0.06</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.0 - 1.3</td>
<td>0.7 - 0.9</td>
</tr>
<tr>
<td>Portugal</td>
<td>10.7 - 14.2</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>18.0 - 23.9</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>21.4 - 28.6</td>
<td>14.5 - 19.3</td>
</tr>
</tbody>
</table>

Note: For the years 1985 and 1986, the first figure denotes the lower limit available, the second figure denotes the upper limit available.

Source: European Regional Development Fund

Ireland has, in general, received a smaller share of ERDF outlays than it has of ESF or agricultural Guidance Section expenditure (see Table 15.6). This initially reflected the use of quotas and in recent years reflects the accession of Greece, Spain and Portugal to the Community.

Details of Financial Assistance to Ireland
In this section we briefly report the details of the financial assistance received by Ireland from the ESF, the Guidance Section of EAGGF and the ERDF. In addition to these, structural supports grants and loans from the EC have been received through three other financial instruments: EMS interest subsidies, support measures to R+D projects and support for projects in the energy sector. For the sake of comparison, we report receipts under these headings also.

Table 15.7 shows the details of grants, subsidies and loans received by Ireland in each year since accession to the Community. The detailed information in this table is summarised in Table 15.8.

This shows very clearly that over the whole period from accession to 1986, Ireland's receipts from the EC have been dominated by agricultural fund payments and this, in turn, has consisted mainly of guarantee expenditure. In contrast, ERDF grants have accounted for only 7.1 per cent of Ireland's total support from the EC, while ESF support has made up 9.6 per cent.
Table 15.6
Shares of ERDF Spending
Per Cent

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>6.5</td>
<td>9.6</td>
<td>7.7</td>
<td>5.3</td>
</tr>
<tr>
<td>Germany</td>
<td>4.8</td>
<td>6.9</td>
<td>3.3</td>
<td>2.9</td>
</tr>
<tr>
<td>France</td>
<td>10.4</td>
<td>13.7</td>
<td>14.9</td>
<td>12.3</td>
</tr>
<tr>
<td>Italy</td>
<td>40.7</td>
<td>34.2</td>
<td>32.2</td>
<td>22.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.9</td>
<td>1.1</td>
<td>1.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.2</td>
<td>0.9</td>
<td>0.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>31.9</td>
<td>32.0</td>
<td>22.0</td>
<td>20.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.4</td>
<td>1.3</td>
<td>2.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Greece</td>
<td>—</td>
<td>—</td>
<td>16.0</td>
<td>11.6</td>
</tr>
<tr>
<td>Spain</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>13.6</td>
</tr>
<tr>
<td>Portugal</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>8.8</td>
</tr>
<tr>
<td>Total EC</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

1Payment Appropriations
Source: Official Journal of the European Communities

(iii) Usage of ERDF Receipts in Ireland

It was noted above, that in its early years, Community regional policy consisted largely of an element of EC support for the national regional policies of the member states. At the foundation of the policy it was decided that the whole of Ireland was to be treated as a single region for EC regional policy purposes. These two facts meant that Community regional policy was part of national development policy and that, in Ireland, central government had control of the use of funds received from the ERDF, so long as they were spent in line with the eligibility criteria.

Given that the ERDF was defined, at Community level, as primarily a source of capital grants it meshed easily with the development policies of successive Irish governments (Yuill and Allen, 1983). A major part of Irish development policy has been the provision of capital grants for the establishment of manufacturing industries dispersed widely throughout the country. Consequently, a substantial proportion of Ireland's receipts from the ERDF were used to provide grants for the establishment of new manufacturing projects.*

Another important element of Irish development policy has been the provision of infrastructure through the Public Capital Programme. The regulations governing the ERDF defined infrastructure projects as eligible and a significant proportion of Ireland's grants have been used to fund such projects.

*For a detailed account of the operation of Community regional policy in Ireland, see Hart (1985).
Table 15.8
EC Grants and Subsidies to Ireland
1973-86

<table>
<thead>
<tr>
<th></th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAGGF — Guarantee</td>
<td>73.6</td>
</tr>
<tr>
<td>EAGGF — Guidance</td>
<td>5.5</td>
</tr>
<tr>
<td>ESF</td>
<td>9.6</td>
</tr>
<tr>
<td>ERDF</td>
<td>7.1</td>
</tr>
<tr>
<td>EMS Interest Subsidies</td>
<td>3.2</td>
</tr>
<tr>
<td>Other</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: as for Table 15.7

Table 15.9
Breakdown of ERDF Grants to Industry/Services and Infrastructure Projects in Ireland
% of Total ERDF Receipts

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry/Service</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>73.3</td>
<td>26.7</td>
</tr>
<tr>
<td>1976</td>
<td>36.7</td>
<td>63.3</td>
</tr>
<tr>
<td>1977</td>
<td>42.3</td>
<td>57.7</td>
</tr>
<tr>
<td>1978</td>
<td>42.9</td>
<td>57.1</td>
</tr>
<tr>
<td>1979</td>
<td>32.9</td>
<td>67.1</td>
</tr>
<tr>
<td>1980</td>
<td>13.1</td>
<td>86.9</td>
</tr>
<tr>
<td>1981</td>
<td>18.2</td>
<td>81.8</td>
</tr>
<tr>
<td>1982</td>
<td>26.3</td>
<td>73.7</td>
</tr>
<tr>
<td>1983</td>
<td>12.6</td>
<td>87.4</td>
</tr>
<tr>
<td>1984</td>
<td>31.0</td>
<td>69.0</td>
</tr>
<tr>
<td>1985</td>
<td>38.9</td>
<td>61.1</td>
</tr>
<tr>
<td>1986</td>
<td>25.0</td>
<td>75.0</td>
</tr>
<tr>
<td>1987</td>
<td>17.4</td>
<td>82.6</td>
</tr>
<tr>
<td>1988</td>
<td>17.7</td>
<td>82.3</td>
</tr>
</tbody>
</table>

Source: Department of Finance.

Table 15.9 gives a summary of how the Irish government has used receipts from the ERDF. This shows that infrastructure projects have taken an increasing share of Ireland's ERDF grants. When account is taken of the fact that ERDF grants to Ireland were much larger in later years, when a high proportion was used for infrastructural projects, then it can be appreciated that, taking the period since 1975 as a whole, infrastructure has absorbed much more ERDF funds than industrial or service sector projects. However, the predominance of infrastructural projects in ERDF allocations is even higher in some other member states.

The overall significance of Community regional policy, and the ERDF, can be judged from the fact that ERDF receipts have risen from 0.37 per cent of the Irish Public Capital Programme in 1975 to 4.7 per cent in 1986. Indeed, much of the increase in this percentage in recent years has arisen due to contraction of the Public Capital Programme rather than increases in ERDF grants. This small scale should be kept in mind when considering decisions concerning the design and administration of Ireland's regional developments plans and programmes.

3. THE DEVELOPMENT OF COMMUNITY REGIONAL POLICY

(i) The Origin of the Regional Fund

The enlargement of the Community in 1973 to include the United Kingdom, the Republic of Ireland and Denmark provided an important stimulus to the development of a Community regional policy. After difficult and protracted negotiations, a Community regional policy came into being with the establishment of the European Regional Development Fund in 1975. The Community’s regional policies have developed along three main lines: first, the co-ordination of the national regional policies of member states to ensure their conformity with the treaties; second, an attempt to make other Community policies and financing instruments more sensitive to regional disparities; third, the establishment of specific Community regional policy instruments (see Mawson, Martins and Gibney, 1985). The content of the policy agreed under these three headings in 1975 was the outcome of a negotiation process and, since this process has continued, there has been considerable development in the policy since then.

We have already noted the main features of Community regional policy at its inception. These were: its small scale, its reliance on national determination of regions eligible for support, and its distribution of ERDF moneys on the basis of fixed national quotas. These aspects of the policy meant that its effectiveness in removing regional disparities was severely limited (Armstrong, 1983). These limitations were apparent from the outset and as a result there has been consistent and partially successful pressure for a change.

(ii) Pressures for Change in Community Regional Policy

We can identify three related sources of pressure for change in Community regional policy. First, both the Commission and the European Parliament were quite unhappy with several aspects of the policy. Second, if the enlargement of 1973 prompted the creation of the ERDF, the enlargements of 1981, to include Greece, and 1986, to include Spain and Portugal necessitated reform of the policy. Third, there has been consistent pressure from less developed member states, including Ireland, for both reform and expansion of Community regional policy.
Both the Commission and the European Parliament identified the following drawbacks in early Community regional policy: (1) the total ERDF was too small in relation both to the scale of regional problems and to the level of regional expenditures by member states; (2) the system of national quotas meant that the funds were spread over too many Community regions; (3) the three Structural Funds were not adequately co-ordinated and, in general, other Community policies had substantial regional effects which needed to be checked for consistency with the Community's regional policy objectives; (4) the ERDF could respond only to national initiatives in regional policy, and payment of funds to member states meant that direction of policy was too centralised; (5) one of the effects of this system of payments was that it was difficult to ensure that Community funds were truly additional to national regional aid (see Armstrong 1978; Mawson et al 1985; Robson, 1987).

To overcome these problems, the Commission has, since 1975, put forward many proposals for reform of the ERDF. These are worth stating since they have set the direction, if not the exact path, in which Community regional policy has moved in a series of reforms — the latest of which has only just been completed. The changes proposed by the Commission included the following: (1) the Commission should have a more active role in regional policy; (2) the role of set national quotas should be reduced and more of the ERDF distributed according to Community rather than national priorities; (3) funds should be allocated to development programmes rather than projects; (4) the regional impact of other Community policies should be monitored and taken into account; (5) Regional development programmes should be 'integrated' — by which it meant that the various Community structural and financial instruments, together with national and sub-national resources, be used in a co-ordinated way.

The enlargements of 1981 and 1986 created pressure for change in Community regional policy because it brought many additional severely disadvantaged regions within the Community. Given the tight limits on the Community's own resources, and the budgetary problems arising from growing CAP outlays, this worsening of the overall regional profile of the Community greatly strengthened the case for concentration of ERDF expenditure on the most disadvantaged regions (Tugendhat, 1986).

The third source of pressure for change in regional policy was argument within the European Council by less developed member states. While this pressure for a larger and more focused Regional Fund was fairly constant it tended to be successful at times of general budgetary and policy change in the Community. The most significant instance of this is the emphasis on social and economic cohesion, and subsequent changes in regional policy, which accompanied the Treaty revisions introduced in the Single European Act.

The changes in regional policy advocated by the Commission and pressed for by less developed member states have proved to be extremely controversial in the Council of Ministers. Member states consistently resisted the Commission, first by refusing to agree to its proposals and second by refusal to comply, in anything more than a purely formal way, with those regulations which were accepted (Poetschki, 1987). Mawson et al argue that the major motivation for this resistance was the Commission's requirement that sub-national bodies of some sort be closely involved in preparation of new regional development programme documents (Mawson et al, 1985). Others say this opposition arose because certain member states considered it could be the beginning of an independent Community policy (Wilson, 1980). Nevertheless, changes in this important aspect of Community policy have been introduced in a series of disputed and belated reforms. In 1979, a non-quota section was introduced and, though small initially, this has accounted for a larger and larger proportion of the ERDF in the years since then.

In 1984 another set of reforms was adopted. These involved increased co-ordination of member states' regional policies, replacement of national quotas by a system of indicative ranges (see above), greater Community influence over member states' use of ERDF expenditures, an increase in the proportion of ERDF funding that was provided through co-ordinated multi-annual programmes jointly agreed by the EC and the member state involved, and finally, greater emphasis on 'integrated' development schemes that depend on several agencies and draw not only on the ERDF but also the ESF, the EAGGF Guidance Section and loans from the European Investment Bank.

(iii) The Recent Reform of the Structural Funds
These long-standing arguments for change and their partial realisation in a number of reforms provide the background against which the most recent development in Community regional policy should be seen. We have seen in Chapter 1 that the Single European Act (SEA) not only provided the mechanisms to ensure the completion of the internal market but also made provisions to address some of the regional tensions which could arise from more intense competition and greater mobility of labour and capital.

The Act strengthened the Community's objective (previously in the Preamble to the Treaty of Rome) of reducing disparities between regions (Article 130A). It specified the ERDF as an instrument designated to this task (up to then the Regional Fund did not have explicit status in the Treaty). The Single Act also called on the Commission to submit a comprehensive proposal to the Council concerning amendments to the Structural Funds which would classify their tasks and increase their effectiveness in reducing disparities (Article 130D).

In August 1987, the Commission presented the Council with its view on how the Structural Funds could be made more effective. It proposed that the
Structural Funds were doubled by 1985. It argued that the resources should be concentrated on a set of five specified objectives, which would focus the funds on areas most in need of support. It envisaged a more active role for the Commission in the design and implementation of structural policies. Plans and programmes rather than projects were specified as the main means to be submitted to and funded by the Commission. Finally, the Commission advocated that the different levels of government — the Commission, the member state, and sub-national authorities or bodies — all be involved in the preparation, financing, monitoring and assessment of development programmes.

It will be recognised immediately that these proposals were not new. They reflected the Commission's long-standing views about reform of Community regional policy. Once again, these proposals proved controversial in the Council of Ministers and once again the outcome was a compromise between the Commission, member states supporting most of its proposals and member states who, at least at present, see a minor role for Community structural policy in reducing regional disparities in Europe.

In February 1988, the European Council agreed to adopt the major elements in the Commission's package of reforms. In June 1988, the 'Framework Regulation' governing the Structural Funds was approved by the Council, and in December of the same year, detailed 'Implementing Regulations' were agreed. The more important elements of the package agreed by the Council are briefly explained here.

The objectives and tasks of the Structural Funds are defined as follows:

1. Promoting the development and structural adjustment of the less developed regions;
2. Converting the regions, employment areas and urban communities seriously affected by industrial decline and facilitating restructuring of declining industries;
3. Combating long-term unemployment;
4. Facilitating the occupational integration of young people;
5. With a view to reform of the Common Agricultural Policy, (a) speeding up the adjustment of agricultural structures and (b) promoting the development of rural areas.

The various funds are assigned to these objectives. The rates of support or 'intervention' provided by the Community were increased to a maximum of 75 per cent of the total outlay, and to at least 50 per cent of public expenditure by member states in priority regions. In addition, some private sector investment is now eligible for support.

Development plans and programmes have been required for ERDF support in the past but it is widely accepted that member states did not devote great energies to the design of these (Poetschki, 1987; Matthews, 1986). The most recent reform accords regional development plans and programmes a more central role in the application for and disbursement of funds from the ERDF. It would seem that the Commission intends that member states applying for support for a particular programme of, for example, infrastructural investment, will be required to show how such investment will stimulate or facilitate economic development. The new package of regulations provides for a 'partnership' between the Commission, the member state and the relevant sub-national bodies at regional or local level. However, the appropriate sub-national bodies and authorities are to be those 'designated by the member state'.

Probably the most significant aspects of the ERDF regulations are the size of the total fund and the criteria governing the distribution of funds between regions and member states. The recent reform, following the Single European Act, introduced some significant changes in each of these regulations. The adoption of the first objective outlined above implies the specification of a set of 'priority regions'. These have been defined as all those with a GDP per head of less than 75 per cent of the Community average, and include both Ireland and Northern Ireland. At the recommendation of the Commission it was decided in the European Council that the overall Structural Fund allocations to these regions be doubled by 1992 (in comparison with 1987). In addition, it was agreed that a 'particular effort' be made to assist the least-prosperous regions within this list of priority regions. Finally, it was agreed that in administering the policy, the Commission should try to ensure that 80 per cent of all ERDF resources will be allocated to the priority regions. Finally, although national quotas have been formally abolished, in order to assist member states in drawing up regional development programmes it was agreed that the Commission should, as a guide, draw up on a quota basis a share out between member states which contain 'priority regions'. This 'indicative' share-out is to cover 85 per cent of the ERDF. The allocation between member states is based on objective socio-economic criteria typifying the structural backwardness of these priority regions.

**Implications of these Reforms for Ireland**
The financial implications for Ireland of these changes are not completely clear yet. Ireland has been included in both the initial list of 'priority regions' (objective 1) and in the list of 'least prosperous regions' for which a special effort is to be made. There is a commitment that the total Structural Fund allocations to these regions will, as a general rule, be doubled by 1992 — provided they submit suitable plans and programmes. It is not clear that this implies a doubling of funds to all individual regions. Even if it does imply a doubling of Structural Funds to Ireland it is not clear whether this will come from the ERDF, the ESF or the Guidance Section. To some extent, this depends
on the precise objective socio-economic criteria which are used in making the initial indicative share-out of 85 per cent of the ERDF. If these criteria were such as to give Ireland less than a doubling of its ERDF allocation, then ground would have to be made up from the Social Fund and/or the Guidance Section. A similar uncertainty exists because the funds that will be received by Ireland depend on how the new intervention rates and other new elements of the regulations are actually applied by the Commission.

More generally, the commitments adopted in the new regulations governing the Structural Funds may not bring about as much increased concentration of the funds on the most disadvantaged regions, as might appear at first sight. While precise calculations of the degree of concentration likely to emerge in the five year budgetary period 1988-1992 are hard to come by it seems likely that the proportion spent on priority regions may increase from 65 per cent to around 70 per cent. Furthermore, the overall objective is to double the Structural Funds by 1993. Consequently, doubling the funds to priority regions by 1992 does not represent a major change in the focus of Community structural policy (Matthews, 1986).

4. POLICY ISSUES ARISING FOR IRELAND AND THE COMMUNITY

(i) Introduction

In this section, we consider what policy issues arise at both the domestic and Community level concerning regional and structural policy in the Community. We begin with the most general issues and proceed to the more specific.

(ii) The Role of Community Structural Policy in Creating Convergence

In Chapter 13 we have seen four kinds of Community policy which may assist convergence and cohesion.

(i) Structural policies.
(ii) Macroeconomic co-ordination.
(iii) Budgetary or fiscal transfers.
(iv) Differential application of other Community policies, such as agricultural policy or internal market policy.

It is important that both member states and the Community take a broad and realistic view of what can be, and is likely to be, achieved by each of these types of policies in the attempt to pursue economic and social cohesion.

Community Structural Policy

Despite the objective in the Preamble to the Rome Treaty, and despite the special Protocol concerning Ireland included in the Treaty of Accession, the Structural Funds did not succeed, between 1975 and 1986, in narrowing the disparities between regional incomes in the Community. First, Community Regional Policy had a number of features which weakened its impact. Among these were the system of national quotas and the wide dispersal of funds it created, national determination of eligible regions, and funding of projects rather than programmes. Second, from its inception the ERDF was significantly smaller than was intended by the Commission and those who advocated the development of Community regional policy. This reflected the development, or lack of development, of the Community budget. In short, the aspiration in the Preamble to the Treaty of Rome and the Declaration of 1971 did not prevent what Padova-Schioppa has called 'tokenism' in the scale of intervention in the Community's regional and social policies. Thus, on the evidence of the past, there is little reason to believe that the Structural Funds will bring about convergence.

However, the Community's structural policies will not be identical in the future. We have seen that following the review called for in the Single European Act, the Structural Funds are to be doubled in size, to be somewhat more concentrated on priority regions and objectives, and to be administered on the basis of more rigorous regional development plans. These reforms certainly create the possibility that these Community policies could have greater impact than they did during the period 1975 to 1986.

However, even after their recent doubling the Structural Funds will still represent less than one half of one per cent of Community GDP. We have argued in Chapter II that the benefits and costs of the completion of the internal market are likely to be distributed unevenly and to exacerbate regional inequalities. Taking all these factors into account, it seems necessary to conclude that the Structural Funds as currently constituted will not be sufficient to create convergence, let alone establish equality in regional economic structures and income.

It is important to note that this conclusion does not arise only because of the size of the funds. Knowledge of the nature and processes of regional development has not yet reached the stage where plans capable of really reversing regional decline, or initiating regional growth, are available to member states or the Commission. This implies that a major task facing the Community is to develop the knowledge on which to build more effective regional development plans. When such plans have been developed then significantly larger Structural Funds are likely to be necessary to implement them.

Macroeconomic Co-ordination

It is sometimes argued that the key to regional convergence is the pursuit of
sound macroeconomic policies by less developed member states. While sound macroeconomic policies are warranted to avoid inflationary, balance of payments and fiscal problems there is no validity in the notion that the independent pursuit of low inflation, current account balance and fiscal balance by member states will reduce regional disparities. Indeed, independent pursuit of these objectives is likely to lend a deflationary bias to overall macroeconomic management in Europe — and this tends to make reduction of regional disparities more difficult.

While this point is of considerable significance it is important that its meaning be correctly understood. Sustained growth of the European economy requires, among other things, Community level growth-oriented management of macroeconomic policy. In general, and over the long run, rapid growth of the Community economy is more conducive to the reduction of regional disparities than is slow growth or stagnation. However, it does not follow, either logically or historically, that rapid growth of the European economy, however achieved, is sufficient to bring about a significant reduction in regional disparities (see Chapter 11).

Consequently, when reviewing policies available to pursue cohesion there are very strong arguments for the co-ordination of macroeconomic policy. However, statement of these arguments, and implementation of co-ordinated macroeconomic policy, does not undermine the case for other policies to reduce regional disparities.

**Budgetary Transfers**

The limited ability of either structural policies or co-ordinated macroeconomic policy to achieve convergence naturally focuses attention on the possibility of regional redistribution by means of Community taxes and expenditures. Examination of this subject reveals two striking facts. First, there are very strong arguments, in the principles of public finance, for development of the Community budget and re-assignment of policy functions between the tiers of Community government.

Second, in existing economic and monetary unions, normal budgetary contributions and expenditures constitute much the most significant redistributive mechanism between persons, regions and member states. Consequently, there are very strong arguments, on integration, macroeconomic, public finance and equity grounds for considerable and early development of the Community budget. This is one of the central conclusions of our analysis of Ireland’s role in the long run development of the European Community (see Chapter 13). That analysis shows that the limited scale and ambition of Community policies is likely to frustrate the achievement of its major objectives. Consequently, the extension of Community policy, and the development of the common budget

which is the necessary corollary of this, constitutes the major challenge facing European integration. It is for this reason that it figures so prominently in the strategic approach to integration advocated by NESC.

**Differential Application of Other Community Policies**

From as early as 1977 attention was drawn to the marked regional impact of certain Community policies which were not explicitly concerned with regional matters. By far the most important of the policies cited was the Common Agricultural Policy. It was demonstrated that in general the CAP increased rather than decreased regional disparities within the Community (Cuddy, 1982). It could be argued that the common market programme also has distinct regional effects — given the way in which free trade and integration work. However, since the Community does not determine the outcome of the common market, in the direct way in which it sets the agricultural regime, this regional dimension of Community policy has never received equivalent attention.

In any event, only limited progress has been made in having the regressive regional impact of the CAP, and the unknown or uncertain regional impact of other Community policies, taken into account.

However, Article 130B of the Treaty states the following:

Member States shall conduct their economic policies, and shall co-ordinate them, in such a way as, in addition, to attain the objectives set out in Article 130A. The implementation of the common policies and that of the internal market shall take into account the objectives set out in Article 130A and in Article 130C and shall contribute to their achievement.

This raises the possibility of Community policies being formulated and applied in a differential fashion in order to assist cohesion and convergence. To date, this has occurred to a quite insufficient degree.

In the Council’s view, there are a number of policy areas where it is possible, and extremely desirable, that the cohesion objective be taken into account by means of differential implementation of Community policy. Examples are the allocation of agricultural quotas, the implementation of transport regulation and deregulation, the implementation of competition policy (especially the monitoring of regional aid), and the allocation of resources for technological research and development. It should be noted that in some cases the implementation of these policies in a differential fashion will merely serve to make equal the regional impact of Community policy. A good example was provided by Padova-Schioppa. The attempt by the Community to stimulate European R+D is likely, other things being equal, to favour firms in the more advanced regions (Padova-Schioppa, 1987).

*See some of the arguments presented to the ad hoc Committee for Institutional Affairs, as noted in the report of that Committee to the European Council, the ‘Doode Report’ (1985).

*This is by no means an exhaustive list of policies which could be applied in a differential manner in order to fulfill the Treaty obligation to ‘take into account’ and ‘contribute to the achievement’ of the objectives set out in Article 130A and in Article 130C.
However, the Council is of the belief that there is a definite but finite number of policy areas where it is feasible or advantageous to seek differential application of Community policy under Article 130B. In particular, the major elements of the internal market programme cannot be applied in a differential fashion without frustrating the Community’s basic aims. Furthermore, a widespread application of this or other policies on a differential basis would ultimately amount to a ‘two-speed’ or ‘variable-geometry’ Europe and, as argued in Chapter 13, neither of these is in Ireland’s interest.

Conclusion on Policy Approaches to Achieve Convergence

In conclusion, the Council believes that all four policy approaches — structural policy, macroeconomic policy, public finance policy and differential implementation — should be pressed for by Ireland. Ireland should be aware, however, that the greatest direct contribution to convergence is likely to arise from the development of the Community budget.

It must also be noted that if Ireland is to argue that regional convergence is a shared Community objective and responsibility, and to advocate that Community policies to achieve it be adopted on a realistic scale, then Ireland must be capable of making a leading contribution to the formulation of those policies. Both the objective and the policies to achieve it must be advocated by argument of the highest quality.

(iii) Future Development of Community Regional Policy

The recent reforms have determined the size and nature of the Community’s regional policy for the next few years. However, as in the past, debate on the nature of regional and social policy, and on the resources to be devoted to them, will undoubtedly continue. What position should Ireland adopt in this debate?

In the Council’s view, the broad thrust of the Commission’s proposals for regional policy — which enhance the role of the Community institutions vis-à-vis the member states — is in the long term interest of Ireland and other peripheral regions. We are thinking, for example, of the abolition of the national quotas, the development of European level responsibility for regional policy aimed at convergence, much stronger control of the national regional supports adopted by wealthier member states, serious consideration of the regional impact of the CAP and of other common policies, and intense Community study of the nature of regional problems and design of the policy instruments which might solve them. Ireland has an unambiguous interest in progress along these lines and consequently the Council strongly recommends that Ireland supports movement in these directions.

(iv) The Content of Regional Policy

Much of our comments so far have been on the scale of structural policy in the Community. However, it should be clear that the content of regional policy is at least as important as the amount of money spent. In this section we outline some considerations which should inform the developmental policy pursued in Ireland in the run up to the completion of the internal market. We begin by discussing the choice between industrial and service sector projects, on the one hand, and infrastructural projects on the other. We then examine in more detail, some directions in which industrial and infrastructural policy should move.

The Basic Perspective: Developmental Constraints

It is important that structural policy measures, funded jointly by the Community and the national government, should be aimed at removing the constraints in the development of the Irish economy, rather than being designed in response to the eligibility criteria set down by the Commission. This perspective applies both to the basic choice between industrial and service sector programmes and infrastructural programmes, as well as to the choice of specific policy measures within each category. We are concerned here with the first of these choices.

The Council has previously undertaken extensive and important work on Irish industrial development policy. In the Council’s overall conclusions on industrial policy, infrastructure was not identified as one of the key constraints on the development of Irish industry (NESC Report No 66).

Consider first transport infrastructure. Viewed over the long run, neither the difficulties experienced by indigenous industry in resisting imports and in achieving exports, nor the ease with which foreign-owned enterprises export the vast majority of their output, and import most of their inputs, lends support to the idea that transport infrastructure, or the lack of it, has played a determining role.

A similar conclusion emerged from the Council’s investigation of this subject some years ago. The consultants who wrote NESC Report No. 59 The Importance of Infrastructure to Industrial Development in Ireland (1981) considered that deficiencies in infrastructure were most serious in telecommunications, next most serious in roads, and least serious in water supply. They did, indeed, produce four types of evidence of deficiencies in infrastructure: (1) international comparisons point clearly to under-provision in Ireland; (2) assessment of growth in supply in relation to growth in demand — the former had generally fallen well behind the latter in the decade 1970-80; (3) complaints by industrialists — although industry does suffer disadvantages the consultants’ interviews indicated that these “were much less significant than has been widely supposed”; (4) there exists a possibility of internationally mobile projects being lost to Ireland because of infrastructure problems — though evidence on this was inconclusive. In assessing the economic costs of the deficiencies revealed by this evidence, the consultants, writing in 1981,
doubted that "the costs to industry, direct or indirect, of an inadequate physical
infrastructure have as yet become significant". However, it should be noted that
the consultants identified "very severe transport problems in the Dublin area" and,
more generally, endorsed the government's Road Development Plan for the 1980s
in its proposal that the volume of resources invested in roads should be
significantly higher in the 1980s than in the 1970s.

While the Council adheres to its earlier views concerning the basic constraints
on the development of industry it notes that, due to subsequent events, a
number of new factors must be taken into account. First, the severe fiscal and
economic crisis of the 1980s has meant that public infrastructural investment
has fallen below its long run trend, and fallen below the level advocated by the
consultants cited above. Second, in this context, the imminent completion of
the internal market places a particular premium on the internal efficiency of
the Irish economy and its accessibility to the rest of the Community. Third,
developments in information technology have, internationally, created a need
for substantial infrastructural investment of a new sort. It is the Council's
opinion that when the effects of the particular fiscal and economic crisis of the
1980s, the requirements of completion of the internal market and the demands
of information technology, are taken into account then a strong case emerges
for allocating some structural policy resources to infrastructural programmes.
In a later section, we outline some aspects of infrastructural programmes which
must be taken into account.

In summary, our first conclusion on the content of structural policy in the
current context is that it should involve a balance between investments in
industrial and rural development policy and investments in infrastructure. We
now consider each of these approaches in more detail indicating the broad
directions in which policy should be developed.

Developments in Industrial Policy
In international research and in policy institutions in many countries, conven-
tional regional policy — essentially grants towards capital costs of location in
designated areas — has come under considerable criticism. Some of this is a
consequence of a return to the belief that regional problems will solve
themselves — a position for which there is no rational foundation. Among
those who take regional problems seriously, two new directions of regional
policy are widely discussed. The first is the idea that emphasis be placed on
indigenous enterprises and resources rather than attracting mobile investment
projects from outside. The second is that regional policy should aim to increase
the innovation potential of assisted regions.

Policy for Indigenous Development
A number of considerations have each independently led researchers and policy
makers to be sceptical of the value of using regional policy funds to attract
mobile manufacturing projects to designated regions. Prolonged recession has
meant that the effectiveness of conventional regional policy in influencing the
location of manufacturing industry was greatly reduced since there were few
mobile investments available (Martins and Mawson, 1982; Armstrong and
Taylor, 1985). Analysis of changes in the world economy indicate that there has
been a secular slowdown in demand for standardised manufactured products
and that the success of regional policy in the 1960s was probably contingent
on a set of conditions which no longer hold (Ewers and Wettman, 1980).
Research on the economic impact of grant-aided branch plant investments on
the regions in which they are located demonstrated that they had not greatly
stimulated industrialisation (NESC Reports No. 56 and 64). Work in development
economics and economic history revealed that industrialisation depended in large part on the indigenous social and economic structure
(Bagchi, 1987; Kriedte, 1981). Together, these developments have stimulated
interest in what has been called an 'indigenous' growth approach, to regional
policy (Wadley, 1986).

The concentration on indigenous firms in problem regions involves identification
of the barriers to entry which they face and design of policy interventions
to overcome them. Not surprisingly, emphasis on indigenous firms frequently
implies emphasis on small firms, and the switch towards an indigenous growth
approach to regional policy has coincided with increased interest in the small
firm sector. Consequently, many countries, including Ireland, now have
industrial policies designed specifically to help small firms (Kennedy and
Healy, 1985). While there is no doubt that such policies help to redress the
balance in regional and industrial policy, there is reason to be sceptical of some
of the exaggerated claims for the potential impact of small firms on the
economy. An objective examination of the facts alone indicates that small firms
can make a limited impact on the unemployment problem (Armstrong and
Taylor, 1985; Kennedy and Healy, 1985). Careful analysis shows that in Japan,
the US and other countries the presence of numerous small firms should not be
identified as necessarily the source of industrial dynamism. It is these consi-
derations which led the Council, in its comments on industrial policy and in
Strategy for Development, to stress the importance of building some structurally
strong Irish enterprises in internationally traded sectors. It is an emphasis
which is strongly confirmed in the analysis of Ireland's experience since
accession, undertaken in Part II of this report.*

This move towards the indigenous growth approach to regional policy has been
reflected in Community regional policy and, to an extent, in Irish industrial
policy also. The Council reiterates its opinion on the significance of indigenous
resources in overcoming Ireland's relative underdevelopment.

*And see our discussion of the role of small firms in Chapter 8 above.
The second new direction in regional policy internationally is innovation-oriented regional policy. This was also promoted by a number of developments in the real economy. The most important of these developments was the rise of the high-technology sector, which has been characterized by rapid growth and by the development of new products and processes. This has led to a number of changes in the structure of the economy, including the emergence of new industries and the growth of existing ones. The result has been a shift in the focus of regional policy from one of economic development to one of innovation and entrepreneurship.

Innovation-oriented regional policy is aimed at stimulating the development of new and innovative industries and at promoting the growth of existing ones. This can be done through a number of different policies, including the provision of financial incentives, the development of a supportive infrastructure, and the provision of training and education for the workforce. The aim is to create an environment in which businesses can flourish and in which innovation can be encouraged.

Innovations of this kind require a close relationship between government and industry. This is because innovation is often a complex and costly process, and it is difficult for individual firms to undertake it on their own. Government can play an important role in this context, by providing the necessary support and by creating the conditions in which innovation can be more easily undertaken. This can be done through a number of different mechanisms, including the provision of financial assistance, the development of a supportive infrastructure, and the provision of education and training.

Innovations of this kind also require a close relationship between government and the scientific community. This is because many innovations involve the development of new technologies, and it is important that these technologies are developed in a way that is consistent with the needs of the economy and the society. Government can play an important role in this context, by supporting research and development, and by ensuring that the results of this research are made available to the wider community.

Innovation-oriented regional policy, therefore, is a complex and multi-faceted area of policy, one that requires a close relationship between government and industry, and between government and the scientific community. It is a policy that requires careful planning and execution, and it is one that requires a commitment from all levels of government.

Indeed, the emphasis on telecommunications and information technology, as well as on the development of new products and processes, has led to a new focus on regional policy. The aim is to create a region in which businesses can flourish and in which innovation can be encouraged. This requires a close relationship between government and industry, and between government and the scientific community. It is a policy that requires careful planning and execution, and it is one that requires a commitment from all levels of government.
innovation in peripheral regions are likely to yield benefits only in the long run (Armstrong and Taylor, 1985).

Infrastructure: General Considerations
We have argued above that in current circumstances there is a strong case for the allocation of a proportion of structural policy resources to the development of Ireland's infrastructure. In this section, we outline some general considerations that should be noted when choosing programmes and projects. It is important that infrastructure not be equated with transport infrastructure alone. Telecommunications, water and drainage, and other environmental structures can, in certain circumstances, be equally or, indeed, more important.

In considering possible programmes it must be noted that each type of infrastructure influences firms' operations and potential in a different way. A shortage of transport infrastructure is likely to directly increase costs of various sorts. A weakness in telecommunications infrastructure may increase costs, but may have a more significant impact on firms' access to the right quantity and quality of information. In embarking on infrastructure programmes, the desired impact on firms and individual operations should be considered and, as far as possible, it should be clear that this impact will overcome a genuine and significant barrier to commercial development.

In current circumstances there are strong arguments for considering measures of an environmental nature. Internationally, there is some evidence that the quality of the urban environment influences economic prospects. In the revival of the collapsed economy of New England, the preservation and development of city centres played a significant role in establishing these as international high technology centres. Similarly, the remarkable success of cities in the UK such as Edinburgh and Cambridge would seem to be partly explained by retention of the quality of urban fabric (Hall, 1986). If there is a tendency for a spatial hierarchy of economic functions to form, then the quality of urban environment, in the widest sense, may be an important determinant of whether Ireland attracts higher order functions. This observation may point to innovative directions for infrastructural regional policy.

Infrastructure: Access Transport
In surveying the pattern of regional disparities in Europe, we cited work done for the European Commission by Keeble, Owens and Thompson of Cambridge University (see Chapter 11). They showed not only that there were persistent regional disparities, but found that accessibility to economic activity was an independent influence on regional economic structure and performance. This suggests that improved access to economic activity can increase the economic potential of a region or, what is the same thing in this analysis, reduce its peripherality. To this extent, the analysis confirms the wisdom of focussing on improving access. However, this analysis, by defining the various dimensions of peripherality, also indicates a number of different ways in which peripherality may be reduced, or potential increased, and this needs to be carefully considered before embarking on expensive infrastructural programmes.

The analysis of 'peripherality', 'accessibility' or 'potential' shows that anything which increases the income of other regions, especially those close to the home region, increases economic potential. More significantly, anything which increases the region's own income also reduces its peripherality; this highlights the obvious, but often neglected fact that the best way to cease being peripheral is to become rich! To these neglected dimensions of peripherality we can now add the often cited one — the cost of access to foreign markets.

It is clear that anything which decreases the cost of access to other regions increases economic potential — as defined in the analysis of Keeble, Owens and
Thompson (1982). By definition distance costs are equal to the distance multiplied by the cost of travelling the distance. The distance is a fixed constant. The costs of travel are a function of road quality and speed in the home region and in other regions, fuel costs, vehicle costs, insurance costs, sea-crossing costs, labour costs, etc. In devising policy to decrease distance costs, and thereby increase economic potential, we are faced with two questions: (1) which of these elements is most significant? (2) which of them is amenable to regional or other policy influence? Depending on the answers to these questions the reduction in access costs will require either infrastructural investment or other regulatory or economic measures, or some combination of policy approaches.

These issues arise in a very concrete way in Ireland’s surface transport access to Europe. Ireland’s surface transport with other Community countries, and especially through the UK, is a subject of some concern to the Council. There are three main corridors for trade with the UK:

(i) The Northern corridor — Northern Ireland ports to the UK;
(ii) The Central Corridor — Dublin/Dun Laoghaire to Liverpool/Holyhead;
(iii) The Southern Corridor — Rosslare/Waterford/Cork to Fishguard/Pembroke.

The relevant data for unitised cargo is as follows.

<table>
<thead>
<tr>
<th>Corridor</th>
<th>No. Units</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Corridor</td>
<td>515,368</td>
<td>58</td>
</tr>
<tr>
<td>Central Corridor</td>
<td>236,274</td>
<td>27</td>
</tr>
<tr>
<td>Southern Corridor</td>
<td>131,117</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>882,759</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Of the total unitised trade, 58 per cent went through the Northern Corridor and 27 per cent through the Central Corridor. The significance of these data is that it is estimated that a significant portion of trade through the Northern Corridor is potentially Central Corridor trade. It was argued above that the access ports must have the capacity to handle freight and passenger movement efficiently and competitively. Before investment in facilities is contemplated it is necessary to ascertain the reasons why the Northern corridor is carrying potential Central corridor traffic. Transport policy must encompass not only investment in transport infrastructure but also the efficient management of major transport facilities.

The costs of access transport will also be influenced by moves to indirect tax harmonisation. Under the Commission’s original proposals of harmonised excise duties and approximated VAT rates there would be no role for duty-free shopping. The sale of duty-free items would end and travellers would be free to bring unlimited quantities of duty-paid goods across national borders within the Community. The primary impact of the reduction in duty-free trade would be on the financing of airlines, airports and ferries.

It is estimated by the airlines for example that the loss of duty-free sales would add considerably to the price of an air ticket. The consequences would be similar for Aer Rianta and for the sea ferries. There is, in addition, the implications for fares arising from the imposition of VAT on passenger transport and on freight. These implications must be taken into account when devising an appropriate response to the Commission’s indirect tax proposals.

Conclusions on the Content of Structural Policy

There are, therefore, strong arguments that in the current situation, structural policy in Ireland should strike a balance between industrial and service sector projects, on the one hand, and infrastructural projects on the other. Industrial and service sector measures must, as far as possible, be designed to address the constraints which inhibit enterprises in Ireland. The Council considers it important that the increased emphasis on indigenous development be continued. It also believes that recent development in the international economy highlight the importance of innovation, and recent research reveals the possibility of regional disparities in innovation potential. Consequently, it believes that attention be given to injecting an innovation orientation into Irish developmental policy. It also points out that the innovation potential of the economy can be enhanced by approaches other than industrial policy — in particular by willingness to modify education and training systems, industrial relations and public institutions.

A range of infrastructural projects should be considered, covering not only transport but also telecommunications, and the development and preservation of the urban and rural environment. The most important consideration is that infrastructural investment be used as part of a wider package of developmental measures. This point is well made in a recent expert report to the Commission on The Contribution of Infrastructure to Regional Development:

It must be stressed again, that infrastructure is but one category of the whole range of instruments which can be used to aid regional development. This implies that infrastructure should not be used as an isolated instrument, but always as an integrated part of a comprehensive development strategy. For example, the improvement of accessibility only, via the building of roads, railways or airports, may have the effect that foreign producers will profit from a reduction in long distance transportation costs and will thereby be able to become even more competitive in the backward regions (Commission, 1986)*

*In a survey of EC regional policy, Pinder identified a “growing view that transportation improvements do not guarantee more equitable centre-periphery balance. Polarisation, rather than trickling down, may be accentuated by the reduction of regional isolation, especially if other aspects of regional economic overhead capital investment remain unsatisfactory” (Pinder 1983). For an historical version of this argument see Bagchi (1982).
Consequently, it is vital that, simultaneously with the improvement in access to foreign markets, the ability of domestic firms, and individuals, to respond to market opportunities is enhanced by industrial and other policies.

(v) Institutional Structures for Economic Development
It was noted that a consistent part of the Commission's package of reforms of Community regional policy was the proposal that some sub-national bodies or authorities be involved in the “preparation, financing, monitoring and assessment of operations” (Com (87) 376 final 12). At the outset of Community regional policy in 1975, a decision was made by the Irish government, and accepted by the Commission, to treat Ireland as a single Community region for policy purposes. The NESC considers that this decision was, and remains, an appropriate one.

The fact that Ireland is a single Community region means that a large element of any structural policy, and now any regional development plan, will necessarily be drawn up by the national government. Thus, the treatment of Ireland as a single region limits the relevance of some of the Commission’s argument for the involvement of sub-national bodies — arguments which definitely apply to larger member states which contain several Community regions, only some of whom are eligible for Community regional support.

The Council agrees with the treatment of Ireland as a single Community region, and accepts the consequent role of national government in the formulation of structural plans and policies for the country. The Council has, in the past, devoted considerable effort to investigation of the constraints on the development of Ireland’s economy and society and has proposed policies and strategies for development. However, there are possible institutional constraints which remain to be researched. The Council intends to investigate the relationship between policy formation (and implementation) and economic performance in Ireland and in several comparable small European economies. Among many other aspects of policy and performance, the Council notes that several small countries with very successful social and economic performance, have adopted less centralised institutional structures for policy formation and implementation than Ireland has. The Council looks forward to consideration of these and other institutional issues and notes that the outcome of this investigation may have implications for the way in which Community structural policy is planned and executed in Ireland.

1. INTRODUCTION
The social dimension is an aspect of the internal market which is open to interpretation, negotiation and development. At this early stage in its evolution the meaning and implications of the social dimension can only be explored. In this chapter the social dimension is firstly put in the context of the background, origins and development of the EC’s social policy. This comprises Section 2. In Section 3 the specific proposals in, and discussions of, the social dimension in official EC documentation are reported and analysed. A wide view of the topic is then given in Section 4, where the relationship between the process of economic integration and the social dimension is considered. This section links the analysis of the social dimension to the central questions of the effects of, and the policy response to, economic integration which underpin the report throughout. A conclusions section, Section 5, contains the Council’s views on the social dimension. A brief discussion of the ways in which the completion of the internal market could affect the main social programmes in Ireland is given in the Appendix.

2. EC SOCIAL POLICY — BACKGROUND AND DEVELOPMENT
An analysis of the social dimension reveals that it is to a significant extent a continuation of the EC’s social policy. This policy was originally stated in Article 117 of the Treaty of Rome, as follows:
Member states agree upon the need to promote improved working conditions and an improved standard of living for workers, so as to make possible their harmonisation while the improvement is being maintained. They believe that such a development will ensue not only from the functioning of the common market, which will favour the harmonisation of social systems, but also from the procedures provided for in this Treaty, and from the approximation of provisions laid down by law, regulation or administrative action.

Article 118 of the Treaty stated that it was the task of the Commission to promote close co-operation in the social field, particularly in matters relating to:
— employment;
— working conditions;
— labour:
— social security;
— occupational safety and health;
— training;
— the right of association and collective bargaining.

The effective responsibility for these policies is vested in the Directorate General for Employment and Social Affairs (DGV).

In the first decade or so after the Treaty of Rome there was considerable support for the Community's social policy from the Commission, which was anxious to establish its credibility and the credibility of the EC, and from Italy which had a particular interest in policies for migrant workers and labour mobility. During the early years significant steps were taken to implement the policy on labour movement, a policy on equal pay was adopted, and considerable discussion and research took place on employment issues. However, to quote from an observer of EC social policy, "it is difficult to avoid the conclusion that social policy hung fire" (Collins, 1985, p. 267).

A second phase in the development of social policy commenced in the late 1960s. As a result of growing international awareness of the persistence of poverty and disadvantage, and the attractiveness of a concerted social policy to prospective new members of the Community, an impetus was given to the development of social policy. At the Hague Conference in 1969, interest was expressed in the further pursuit of common political and economic goals, in the more active development of social policy, and in the reform of the Social Fund. The summit Conference in Paris in 1972 reaffirmed the importance of member states attached to action in the social field. The need for a Social Action Programme was agreed. This programme was subsequently formulated by the Commission and adopted by the Council of Ministers in 1974. Ireland played a significant role in the establishment of the Social Action Programme (SAP).

Three themes informed the SAP: employment and training, improvements in living and working conditions, and encouragement of workers to participate in the EC's decision making and in decisions affecting their own firms. The Commission funded a range of action and research projects in deprived areas of the Community and pressed ahead with its commitment to equal pay and opportunities for women. However, events on the economic front, and in particular employment difficulties increasingly overshadowed the SAP and by the end of the 1970s the SAP had faded in importance.

A third phase in the development of the Community's social policy commenced in the mid-1980s. This phase is distinguished from its predecessors by the growing awareness in the Community of the link between social policy and economic policy. In particular, the initiative to revitalise the Community and complete the internal market recognised the potential role of social policy in facilitating market completion. Additionally, the extensions of Community membership to include Greece, and later Spain and Portugal, heightened the importance of policies to redress regional imbalances and improve the living conditions of the poorer citizens of the Community.

The interventions of the Community in the social field to date have been of three types. First, minimum standard setting. A wide range of directives and guidelines have been drawn up, especially in the area of occupational health and hygiene. The equal pay directive was a particularly significant intervention of this type. Secondly, the Community has supported investigatory research and experimental initiatives. The European Anti-Poverty Projects under the SAP's auspices is an example. Further examples are the 'European Institutes' located in various parts of the Community and established to advance study and research in specialised areas (the European Foundation for Living and Working Conditions in Dublin, for instance). Thirdly, much of the Community's efforts have been promotional. This promotion has often taken the form of cost sharing and financial assistance from the Social Fund.

The Community's social policy, however, has been limited. It has been comprised, as Collins has suggested, of "a miscellany rather than a social policy informed by a few compelling themes" (Collins, 1985, p. 281). The source of the limitation lies to a considerable extent in the exercise by member states' governments of their prerogatives and preferences. Social policy in the member states is still overwhelmingly expressed in the domestic policy programmes of social security, health, housing and education. There has been no interest in sharing these policy responsibilities with Community institutions, and there would have been little rationale for such a step as these policy domains have not, until recently, impinged on the operation of the Community as a whole. 'Social policy' at Community level has therefore had a different agenda. It has been concerned centrally with the impact of economic change, with working conditions and with training.

The Community, and its member states, do have scope, however, to develop a social policy for the Community. That the Treaty of Rome is diffuse in its social policy statement and that it does not contain specific commitments or a timetable is not a permanent obstacle to social policy development. Significant scope for social policy development lies in the potential for increased harmonisation, regulation and administrative action.
3. EC SOCIAL POLICY — THE SOCIAL DIMENSION

The paragraphs below summarise the main contents of the relevant Commission documents.* Before discussing these documents, however, their general thrust should be observed. A strong and necessary interplay between the 'social' and the 'market' dimensions is stressed by the Commission. The Commission deems it necessary to incorporate social elements into the market completion programme. This necessity derives, in the Commission's analysis, from the logic of integration. For example, integration will require freer movement of labour and, therefore, more harmonised social security and other provisions; the more uniform cost environment required for free competition will necessitate less diversity in the social/regulatory framework. In the Commission's analysis, therefore, the analytic connection between the process of integration and its social framework and consequences is undeniable and strong. This perspective on the social dimension, which sees it as a necessary extension of the internal market is consistent with the analysis of integration which informs this entire report. In Table 16.1 below the role of the social dimension in relation to the internal market is summarised, and the policy instruments to be applied are listed. In the right hand column of the chart, tentative questions and observations are noted.

(i) Cohesion
Cohesion is one of the social dimensions. Cohesion, to quote from the Commission:

has not been defined precisely, it clearly does not simply mean greater equality in regional incomes, which would be achieved simply through transfer programmes, but rather greater equalisation between levels of development and employment in the various regions.

Further,
economic and social cohesion... is basically to be obtained by lending impetus to the most backward areas' potential for internally generated development. Contributing to this is the chief task assigned to the Structural Funds since their reform (Marin Report, p. 18).

The enhanced Structural Funds are seen by the Commission — and by some member states — as having a major role in the attainment of greater cohesion. Two issues arise regarding the Structural Funds. First, the scale of the funds: even the proposed doubling of the funds does not offer the potential to address the economic differences between the centre and the regions. This brings into play the importance of the more general issue of central budgeting. Structural Funds whatever their objective merit are specific, visible, earmarked funds and seen as such. Automatic re-allocations of resources between regions through

An additional instrument in the pursuit of cohesion is greater approximation in working conditions. This process would be both 'social' in that it would pertain to the rights and conditions of employees, and 'economic' in that the approximation would arguably facilitate market completion, by equalising the labour/social framework in which employees and employers operate throughout the Community. The Commission President put the point this way:

'I should like to emphasise here that it is not a question, as claimed by some, of an obsessive wish on our part to introduce a social ingredient into every policy area. Rather, we are attempting to demonstrate that, if the social cohesion of the common area is not consolidated, then there will be no internal market. Why? Quite simply because firms, like workers, depending on their location, will not enjoy the same opportunities for access to this market, with the result that the whole machinery of integration will soon start to hiccup.' (Speech to ETUC, 1988).

The process of harmonising social and working conditions will unfold in a particular context. Less developed, lower income economies may have difficulty absorbing the costs of improved conditions. However, in the more advanced economies there will be an unwillingness to 'lower' standards in the interests of uniformity ('social dumping' in current EC parlance). In the advanced economies there may in fact be a preference for improving the conditions in poorer economies, as a wide variation in such conditions may 'pull' investment and employment towards those 'low-cost' regions. A realistic assessment of this situation must surely recognise the necessity to improve social standards throughout the Community and to offer practical support to member states to effect these improvements. Failure to develop policies in this area, or an attempt to equalise 'downwards', will run counter to the redistributive and cohesion objectives, as well as market completion objectives of the Community.

The Commission President's view is very clear: convergence of trends and social policies must be effected in an upward and progressive direction. This is the direction and the mission dictated by the Treaty and what it means in practice is that those countries with the lowest social standards will be invited gradually to raise them, while those countries where levels are higher will be able to continue improving them. In this way, rather than stopping the social convoy in order to enable those in the rear to catch up, the Community would help those who are lagging behind to speed up their pace and achieve the rhythm necessary to join the convoy. Social adjustment would take place in dynamic fashion — making use, among other things, of the structural funds — rather than by resorting to social dumping (Speech to ETUC, 1988).

To date progress on the question of living and working conditions has been made in the general area of occupational hygiene, health and protection, and a number of Commission proposed Directives have been drafted and forwarded to the Council of Ministers. Other specific issues which have been raised and which have not so far met with agreement include standard work contracts, a common European working week, a charter of workers' rights and similar proposals. Clearly, development in this area is contingent on co-operation between member states and between the social partners, and on the exact type of harmonisation which is attempted. For example, it may be significantly easier to reach agreement on minimum standards while still permitting variation above the minimum.

The third instrument of social cohesionadverted to by the Commission concerns training. In this area also, proposals have been drafted concerning improved on-the-job training, special training leave for employees and other detailed aspects of training. Significantly increased resources through the structural funds will be made available for training. The emphasis in the Commission's thinking is on vocational training and, in particular, on the retraining needs which will arise in the context of employment losses and restructuring. In Ireland, as in other member states, it will be necessary to assess the training and retraining needs which may arise in particular regions or sectors affected by market completion. Additionally, there may be implications in the long term for the second and third level education systems in the Commission's Directive on Cross-Community recognition of diplomas and qualifications. To date the harmonisation has entailed the adoption of a Directive on the recognition of professional education and training.

(ii) Facilitating Market Completion
The social dimension of the market arises in particular because of the assumed role of labour mobility in the overall process. In the Commission's analysis the link between labour mobility and the social dimension is as follows: a free market for goods, capital and labour is the objective of market completion; there are obstacles to the attainment of a full free market for labour; these obstacles lie in the social domain of social security, residence rights, employment related entitlements and so on; policies must be pursued to improve and harmonise this area of policy to allow and encourage greater mobility.

At Community and national level much of the focus on labour mobility has been on the administrative framework which facilitates it. Two relatively *The social partners and the Commission are broadly in agreement on the need for increased training and for a Community policy on Vocational training. See CECFOP Conference Report, The 1992 Perspective: The Role of the Social Partners in Vocational Training and Continuing Training, Berlin, 1988.

**This Directive applies only to professions which require a minimum of three years post secondary training. It sets out a framework whereby members of these professions can gain recognition to practice in member states other than their original State.
neglected questions must be posed, however. First, to what extent do obstacles to mobility lie in taxation and earnings differentials, or in the cost and availability of accommodation rather than in the administrative treatment of worker mobility? The analysis of worker mobility and its determinants is at a very early stage. If, for example, taxation and earnings differentials are the key to mobility then the policy prescriptions would be somewhat different to those currently on the agenda.

Secondly, the link between policy intervention and labour mobility is circular. Mobility may change in scale and nature as an outcome of the general integration process, and this might eventually require policy response in the form of harmonised social security and other arrangements. Conversely, if increasing mobility is defined as a necessary sub-objective of market completion then the regulatory and social frameworks in member states might be actively manipulated to encourage labour mobility. Further detailed research is required on these issues, as the policy strategy must hinge to a considerable extent on the perspective adopted in relation to the significance and role, and determinants of labour mobility. It is important that the development of labour market policies and related social policies receive attention, as such policies will be necessary to ensure that those in the labour force can fully avail of wider opportunities in the European labour market.

(iii) Solidarity

This concept is used in the Marin document on the social dimension and serves as a sub-head for a number of separate programmes, but without any apparent theme. Under the solidarity heading the document includes action to increase local economic development, programmes of support for the long-term unemployed, measures to increase solidarity with marginal groups* in society and to promote the employment of women. There is a role at this stage for the member states to coherently define and develop this aspect of the social dimension.

An example of the absence of coherence are the three sub-programmes under the “solidarity” headings:

— Analysis of the problems of an ageing population;
— Completion of the programme to combat poverty and initiation of a third programme (1989-1993) based on new principles and more positive action;
— Promoting the social and economic integration of disabled people.

These three areas could all command the support of government, but they do not form a programme or a policy linked in some underlying way with the integration process. These sub-programmes are continuations or extensions of pre-existing Community policies or interventions. They illustrate the somewhat marginal role of Community social policy noted earlier, as they consist simply of research, experimental or promotional type initiatives. Arguably, the first item concerning ageing populations would be of less interest to Ireland, at least in the short and medium term, and would be reflecting the preoccupations of those States with ageing populations. The second item is directly pertinent to Ireland, as the Combat Poverty Agency has a remit to develop and implement locally based projects with marginal groups. A strong argument could be made that the EC resources for this activity should be significantly increased. These projects receive only minute funding from the EC, and as the only projects which directly and explicitly include the most marginal members of the Community their expansion would represent the cohesion/solidarity aspect of the internal market.

A potentially interesting proposal is the “action programme for local economic development”. This consists, to date, of analysis of locally based development initiatives and experiments. The rural extremes of the periphery, whose economies have greatly diverged from the dynamic centralising core of the Community’s economy, may have much to benefit from integrated, local and innovative approaches to development. This programme therefore merits close examination, and possibly direct implementation, in Ireland.

The Commission’s expressed intention to “promote the employment of women” repeats the historical concerns of the EC in furthering the integration of women into the economy and society. The social dimension documents, however, do not mention specific aspects of this policy, or advert to particular instruments of policy, or state short-term goals. EC developments in this area will presumably take place as part of the Second Action programme on equal opportunities for women (1986-1990) which has been adopted by the Council of Ministers. Key issues in this area are the participation of women in the labour force and the contribution they make to the development of the Community.

Female participation rates in the labour force in Ireland are low, although they have increased significantly in the last decade. This increase is in part attributable to the impact of EEC related legislation — the Anti-Discrimination (Equal Pay) Act of 1975 and the Employment Equality Act, 1977. Other legislative provisions arising under EEC sponsorship which impinge on women’s economic status are the Social Security (Equal Treatment of Men and Women) Act of 1986 and the Directive regarding Equality of Treatment in Occupational Pensions Schemes.* In commenting on the

*The three key sets of Community Equality Law in force are Article 119 concerning the principle of equal pay for equal work, the Council’s 1975 Directive on the approximation of laws concerning equal pay for men and women (75/117/EEC), the Council Directive on the implementation of equal treatment for men and women in employment, training, etc.
development of women's participation in the economy the Council has noted 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 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.


In the light of the repeated commitment of the EC Commission to pursue the question of women's participation in the labour force, the important issues for Ireland are to determine what particular policies are now most likely to be effective and what policies will require, or justify, European financial support. The first question must depend to some extent on further analysis and research.* However, existing studies suggest that improved policies in the area of child (day) care — such as legislation and inspection of facilities, selective provision by Health Boards/Local Authorities of day care services, tax relief for child care expenses incurred by parents, or child care facilities provided by employers — are a matter of priority (McKenna, 1988).

The second issue concerns the role of the EC in mitigating the potential costs which might arise (for the State or for employers) from further initiatives. This is simply an instance of the general problem of harmonising working and living conditions referred to earlier. Ireland could conceivably incur disproportionately higher costs in conforming to Community initiatives, because of its economic and demographic structure. The prospective role of the structural funds should therefore be examined. For example, Ireland at present has virtually no direct public provision and management of child day care, in contrast to many other EC countries, and the social security/parental leave regime in Ireland is less comprehensive. A valid case can therefore be made that countries such as Ireland with less developed, more vulnerable economies, which are attempting to accelerate the development of the social framework of the labour market, should do so with some Community financial support.

*76/207/EEC, and the Council Directive on the implementation of the principles of equal treatment for men and women in social security (79/7/EEC). Proposals for Directives have been drawn up concerning occupational social security schemes, parental leave for men and women, and equal treatment of women in self employment.

(iv) Dialogue/Industrial Relations
This set of issues is an extension of those which arise in connection with the harmonisation of working and living conditions. However, a specific range of problems lies in the industrial relations area. The discussion by the social partners of European wide standards in work related matters leads to questions of possible European wide institutions within which developments can take place. At Community level such questions as a European Company Statute, and a Community Charter of Social Rights have been raised.

In the case of the Charter of Social Rights, the Economic and Social Committee of the EC has adopted an initial opinion (Economic and Social Committee, 1989). The Committee re-iterated basic social principles and rights in the social security, industrial relations and related areas (for example, the right of freedom of association or the right to protection in the event of individual or collective dismissal), it recognised that many of these principles and rights are already spelt out in international conventions, codes and agreements and called for the eventual incorporation of these principles and rights into the Community's legal system.

It should be noted that the Single European Act contains a commitment to social dialogue:

The Commission shall endeavour to develop the dialogue between management and labour at European level which could, if both sides consider it desirable, lead to relations based on agreement. (Article 118 B). This dialogue will be essential to the development of policies in the industrial relations area. Clearly, there are differences of view within and between member states on a wide range of issues in this area — differences which may in part derive from divergent political and ideological stances. It may be difficult therefore to give effect to the SEA's aspiration in regard to social dialogue.

An added dimension of the difficulties with social dialogue is the worker-employer dimension. The Community as a whole has two routes it can follow in pursuing a harmonised, improved social framework: collective bargaining, or a "normative" approach through the formulation and implementation of Directives (the latter approach would, of course, entail prior consultation with the social partners in the member states). Which route is most likely to prove appropriate in particular instances is not clear, but the absence of some harmonisation of social rights may obstruct market completion, especially if labour mobility is important in that process. New forms of dialogue, and a commitment to a consensual approach will be necessary to address these difficulties. A European wide forum to develop social dialogue in the context of the internal market has emerged in the form of joint discussions between employers and unions (in January 1989), discussions in which Irish employers and unions participated. It has been pointed out that effective social dialogue

506

507
can only take place when it is pursued at a number of levels. To date that has only been at European level, but structures and contexts must evolve to facilitate social dialogue at sectoral, regional and also company level (ETUI, 1988).

(v) The Social Dimension and EC Social Policy
As outlined above the social dimension is essentially a continuation of the EC’s social policy in two respect. First, the context of the social dimension reflects the traditional mix of research, pilot and experimental interventions and promotion of general social objectives. Secondly, the social dimension is relatively small scale in terms of resources and activities. However, a new ingredient in EC social policy is observable — a recognition that the full development of the Community and the completion of the market will require a more coherent and substantial set of policies. This recognition has yet to be developed and translated into agreed policies and programmes.

4. SOCIAL DIMENSION AND ECONOMIC INTEGRATION
The general perspective adopted on the internal market in this report is based on integration: the analysis examines the likely impact on the Irish economy of the qualitative shift in the level of integration being brought about under the market completion programme. In Chapter II, consideration was given to the likely impact of market completion on the relative economic performance of regions within the Community. Competing arguments about the relative economic positions of developed and underdeveloped regions were assessed and the evidence of recent research was outlined. The conclusion was that:
the long run benefits of market completion are likely to be distributed unevenly — with the greatest benefits accruing to regions in which industries with economies of scale and highly innovative activities are most prevalent. Ireland is not such a region. (Chapter II).

The further point was made that the unequal dispersion of the gains from market completion will not be counter-balanced by the structural funds:
it is not plausible that the structural funds as currently constituted can create convergence let alone establish equality in regional economic structures and incomes. (Chapter II).

This analysis of the differential regional impact of integration has significant implications for that crucial aspect of Irish economic and social policy — unemployment. All policies, whatever their administrative designations, which affect the levels of unemployment have social as well as economic dimensions. A key social dimension of the internal market, therefore, is the extent to which market completion affects the level of employment in Ireland.

(i) The Regional Impact, Employment, and the Social Dimension
The levels of economic growth required to significantly improve employment levels — both in Ireland and in the Community as a whole — will require a suitable regime of co-ordinated macroeconomic policies. Such a regime, because of its potentially beneficial effects on growth, and hence employment levels, would constitute a “social” policy. The fundamental economic rationale for macro co-ordination has been outlined earlier (see Chapter 13, A Strategic Approach to European Integration); the structural interdependence of the Community’s economies and the policy interdependence of these economies provide strong a priori grounds for co-ordination. That the achievement of this co-ordination may be difficult should not obscure the particular significance for Ireland of macroeconomic policies which sustain and regenerate employment. There is a sense, therefore, in which the “economic” and “social” dimensions of the internal market are intertwined.

A second aspect of employment related policies concerns the possible employment losses in instances of restructuring. It is possible that in particular sectors or regions employment losses may be significant as a result of the restructuring of markets. This raises the issue of the possible “trade off” between the ‘social’ and ‘economic’ dimensions of market completion. To pursue the point; if a particular region/sector in the periphery of the Community stands to lose employment, to what extent should the economic and social effect of this prospective employment loss be used as an argument to prevent particular market completion provisions being implemented or to adjust market completion provisions? Efficiency and growth considerations would imply the unhindered operation of the completed market. However, a concern to minimise unemployment and prevent a widening of the economic gulf between the centre and the regions (cohesion, in the terminology of the SEA) might suggest a slowing down — conceivably an abandonment in specific instances — of the market completion process.

The issue here is not that a generalised conflict need emerge between the employment needs of the periphery and the integration imperative, but rather that specific and complex situations may arise where ‘economic’ and ‘social’ criteria need to be explicitly balanced. At present, there does not appear to be a policy framework at Community or national level which allows these potential contradictions to be analysed and resolved.*

*The identification of regions/sectors which may be vulnerable has been addressed by the Commission. General criteria such as the degree of concentration, differences in productivity, existence of non-tariff barriers have been used by the Commission to identify “vulnerable” sectors and sub-sectors. This kind of analysis, if extended and applied in detail, could reveal particular instances in which significant employment losses might result and could highlight the social/employment consequences of market completion in these instances. Special edition of Social Europe: The Social Dimension of the Internal Market, EEC Commission, 1988.
(ii) Economic Integration, Public Finance and the Social Dimension

The central argument of Chapter 13, A Strategic Approach to European Economic Integration, is that further integration in the direction of an economic and monetary union, subject to the fulfillment of certain conditions, is now the appropriate direction for the Irish economy within the EC. A number of fundamental arguments support an integrationist stance for the Community as a whole — superior microeconomic performance, enhanced macroeconomic performance, greater monetary stability and more harmonious socio-political development. The development of an economic and monetary union, however, brings into sharp relief the theoretical relationship between the EMU and its redistributive mechanisms, and also brings into focus the empirical evidence on the role and effectiveness of different redistributive mechanisms in existing economic unions (see Chapter 13, Section 2 (i)). In Chapter 13 it was shown that there are strong technical reasons in an EMU for allocating certain functions to the highest (i.e., the Community) tier of government. It was also shown that existing monetary unions achieve significant inter-regional, as well as inter-personal redistribution, through central budgets and central taxes and transfers.

A central aspect of the social dimension is the objective of cohesion to be attained in part by a narrowing of inter-regional income gaps in the Community.

It is important therefore to consider the policy strategies which are necessary to achieve inter-regional redistribution. The two key strategies are the structural funds and centralised budgetary and fiscal arrangements.* The argument in earlier chapters regarding the structural funds is that they will not achieve a significant degree of economic convergence between the regions. In relation to centralised fiscal and budgetary arrangements, public finance theory and the theory of fiscal ‘federalism’ (reviewed in Chapter 13) suggests that the existence of externalities, technical monopolies and spillover effects, etc., between regions justify a central budgeting/allocation process. This theoretical rationale combined with the inherent limitation of the structural funds amounts to a significant justification for an enhanced centralisation of taxes and expenditures in the Community. It must be acknowledged, however, that the attainment of such centralisation may itself be contingent on a high degree of political cohesion, and that the centralisation of any specific expenditure programme would depend on the political appropriateness of such an initiative.

The arguments above in favour of centralised taxes and expenditure merits some qualification. The issue of ‘fiscal federalism’ is one of degree and timing and not one of principle. The McDougall Report in 1977 (see Chapter 13 and Table 13.1 of this report), for instance, identified different scales of federalism and, in particular, the report developed proposals for a “pre-federal” form of central budget, entailing 2-2.5% of Community GDP. In the McDougall analysis there was then ample justification for limited federal financing of the “pre-federal” type: the specific proposals entailed substantial Community expenditure on regional, manpower and unemployment programmes, and a limited “budget equalisation” programme to improve the fiscal base of weaker Community regions. Significantly, McDougall did not argue for Community level involvement in mainstream social expenditure areas such as education, health, welfare and housing in the postulated pre-federal stage.

In currently considering the social dimension of the SEA a central question is the relevance of the specific McDougall argument for a “pre-federal” form of financing. That analysis pointed, in particular, to one assumption which underpinned their analysis — that the level of inter-state migration was slight. If a significant increase in migration results from the completion of the market then this would logically imply a higher order of Community budgeting than the McDougall “pre-federal” scenario. A significant degree of migration of workers and citizens would give rise to the spillover effects and externalities which justify a degree of federalism. For example, if migration from Ireland (or other peripheral regions with Ireland’s unemployment/demographic profile) to other member states occurs on a significant scale, then the ‘destination’ states will benefit from the education, family support costs, etc., incurred by the ‘origin’ state in rearing and training the mobile worker. Ireland should therefore continue to monitor its migration experience. As a result of the trade and associated employment effects of EC membership, Ireland has already carried additional labour market and income maintenance costs. Further migration and unemployment as a result of the internal market will reinforce the argument for some centralisation of these social expenditure programmes.

Finally, education expenditures in particular (approximately 6% of GNP in Ireland) affect the human capital of potentially mobile workers. Economies such as Ireland and Spain with a demographic imbalance towards the young and high levels of unemployment, could therefore be unintentional net contributors to the Community’s education and training budget,* if migration from these economies intensifies. The important issue here is to determine the nature and exact scale of migration which would warrant a significantly centralised Community Budget. At this point it may be noted that the Commission has not hazarded an assessment of the likely future scale of labour mobility. The Commission has pointed out that until now there has not been significant transnational migration within the Community, that the obstacles to mobility are deep rooted and complex, and that further mobility-inducing measures will be necessary.

*In the reform of the structural funds there has been a limited extension of eligibility for the funding of capital expenditures in education.

*Macro policy co-ordination and Article 130B provisions also have a role here.
(iii) The CAP and the Social Dimension

The EC’s Common Agricultural Policy has always been a very significant aspect of Ireland’s membership of the Community. This significance continues despite the modifications to the CAP effected in the 1980s through the application of commodity quotas and a more restrictive commodity price regime. Historically, the objectives of the CAP have related to the promotion of productivity and technical progress in the sector, availability of supplies, and the stabilisation of markets. The problem of low incomes in agriculture and the associated social and structural problems have also been on the agenda of the CAP and of domestic agricultural policy.

This latter aspect of the CAP has not had a significant impact. Little progress has been made in Ireland in redressing the structural imbalances in agriculture. The NESC’s research and other studies have documented the widening income gaps within agriculture and the increasing marginalisation of small scale, low income farms (NESC, 1978; ESRI, 1979). CAP policies, hitherto effected largely through price supports, are associated with a reinforcement and worsening of the low income and ‘social’ problem in agriculture. Structural measures within the CAP have commanded only a modest share of the total CAP budget. Domestic policies in this area have also been ineffective.

The Single European Act does not embody any significant shifts in agricultural policy, as the main lines of the CAP’s evolution had been settled since the reforms of the mid-1980s. Current policy in relation to rural areas is couched in terms of:

— the central importance of family farms;
— the need to “contribute to the maintenance of the socio-economic fabric and to the safeguard of the environment and the countryside”; and
— the necessity to adopt a comprehensive ‘rural development strategy’ (A Future for Community Agriculture, 1986, p. 3).

There are three general points regarding the social/structural problems in agriculture worth noting for the future. First, as the Council has already pointed out in A Strategy for Development 1986-1990, the constrained pricing/market context of the CAP does not diminish the necessity for structural policies, in particular land structure policies:

From a structural perspective any strategy for the agricultural sector must incorporate instruments to encourage effective land use. Structural change is the key to the growth of any sector with resources being reallocated from less efficient to more efficient usage, with consequential growth in the sector as a whole. While ceilings on the growth of the sector as a whole or particular segments of it change the context within which an efficient land use policy must be developed, they do not remove the rationale for such a policy (NESC, Report No. 83, A Strategy for Development 1986-1990, p. 298).

Secondly, although the SEA does not per se entail new initiatives of a social/structural nature, the recent enlargement of the Community to include Greece, Spain and Portugal provides a different context for social/structural policies in agriculture. In the EC as a whole, the scale and diversity of the social/structural problem in agriculture is now much greater. Ireland along with these newer members of the EC might benefit from a concerted, unified attempt at Commission level to procure resources to address the structural issues and thereby contribute to the Community’s cohesion objectives. Finally, progress in dealing with the low income problem and related problems in agriculture must depend, in part, on domestic policy.

5. CONCLUSIONS ON THE SOCIAL DIMENSION

In the Council’s view, the development of the social dimension of the single market merits considerable and more urgent attention. For small, less developed economies such as Ireland the social dimension is especially significant. Furthermore, the active development of specific policies which are implicit in the social dimension would contribute to the stability and cohesion of the Community as a whole.

It is clear from the discussion in this chapter that the Commission and other EC institutions have not yet formulated a ‘social dimension’ in a concrete way, and to date have discussed it at the levels of either general principles or relatively vague commitments.

The Council emphasises that the social dimension cannot be seen simply as a separate set of regulations or expenditure programmes. On the contrary, the social aspects of the internal market are inextricably linked with the process of economic integration. Policies which are intended to implement a social dimension should be based, therefore, on an analysis of the effects of integration on Ireland and of the nature of the tax and expenditure functions in integrated economies.

Throughout this report as a whole the focus has consistently been on economic integration: Ireland’s experience of the integration process since EC accession (Part II, Chapters 3-7) and the prospective consequences of integration under the terms of the Single European Act (Part III, Chapters 8-12). The Council’s analysis of Ireland’s recent experience of integration since 1972 was summarised as follows:

In the Council’s view, Ireland’s experience since 1973 confirms that economic integration is a complex process which both reflects and reinforces existing advantages and disadvantages. Consequently, negative integration — the removal of tariff and non-tariff barriers to trade and factor movements — cannot be expected to automatically create convergence or to remove all barriers to economic development. This requires both national
and Community measures of positive integration — the establishment of common institutions and Community policies — and it is only this combination of approaches that the Council considers to be a genuine move towards European union. These facts are not yet fully understood throughout the European Community. (Chapter 7, Section 8 (vi)).

The social dimension of the internal market is an important aspect of positive integration. As the economies of the EC become more integrated, it will be necessary to adopt positive integration measures, if the integration process is to proceed fully. For example, the various regulatory and social aspects of employment in member states entail costs which vary across the Community and this variation may need to be addressed. Mobility of labour within the EC is an indispensable aspect of integration and barriers and disincentives to mobility will have to be surmounted. These barriers may arise in part in the social domain — social security, health, education and housing. Furthermore, a key aspect of member states' social provisions — education and training — has a direct bearing on the economic system and on the labour market in particular. A unified integrated labour market will require positive policies to co-ordinate and possibly harmonise training and education systems.

To participate successfully in the more integrated European economy, regions with lower levels of development will need significant support to improve their levels of development and broaden their fiscal base. The attainment of convergence in living standards, and hence cohesion, cannot be seen solely as an outcome of the market completion process. It is important to instigate the 'social dimension', in the form of substantial policies to redress imbalances in income and levels of development, before the completely integrated market is in place. This point has been recognised in the Delors Committee's report on economic and monetary union.

Economic and Monetary Unions

In the European context there are two distinct, but related aspects of the social dimension. There is, first, the question of inter-regional equity and redistribution. The accepted view within the Community on this question is that a combination of the enhanced structural funds and the enlarged internal market will bring about an equalisation of production conditions and a narrowing in the levels of development of the Community's economies. No direct redistribution of living standards is being envisaged. However, the analysis in this report points unequivocally, in the Council's view, to a role for central, Community arrangements to automatically redistribute incomes between regions.

The second aspect concerns inter-personal redistribution: such redistribution is, at present, effected through member states' programmes of social security, health, education and social services generally. Currently, these programmes are funded nationally and their character and standards are determined nationally. The Council considers that the future of these expenditure programmes should be considered in the light of the public finance principles appropriate to an integrated economy. On this basis there may be grounds for part Community financing of domestic programmes. In particular, unemployment compensation and labour market services have already borne costs as a result of the experience of integration. Part of the rise in unemployment in Ireland since accession is attributable (see Part II, Chapter 7) to the trade effects of EC membership. Further integration in the future may also create costs in the form of higher unemployment and the associated income maintenance and re-training burdens. At this point in the evolution of the Community, as a unified labour market emerges, there are grounds for communal sharing of the costs of unemployment compensation. This argument is related to the logic of integration. A further argument concerns the role of labour mobility. If greatly increased labour mobility is a necessary element of the internal market, then some harmonisation of social security systems (particularly payments related to labour market status) may be necessary. In turn harmonisation may generate costs for some member states and it would facilitate this harmonisation if its costs were shared across the Community as a whole. Similar considerations may arise in the future regarding education, as was pointed out earlier.

Clearly, the Council is not advocating immediate and complete centralisation of social policy programmes. The essential point is that the principles of public finance dictate the levels in the Community at which activities and services are funded. Such principles would suggest that there are now grounds for partial centralisation of specific programmes. This point is of particular relevance to the social dimension as it is in the area of social and labour market provisions that these questions most directly arise.

The Council considers that the view of the Delors Committee on the respective financing responsibilities of the Community and its member states in an economic and monetary union may be illogical. On the one hand the Committee's report states that most policy areas such as justice, education, health and social security "would remain the preserve of member states even at the final stage of economic and monetary union" (Delors Committee Report, 1989, p. 16). On the other hand, the report adverts to the principle of 'subsidarity' and suggests that:

all policy functions which could be carried out at national and (regional and local) levels without adverse repercussions on the cohesion and functioning of the economic and monetary union would remain within the competence of the member countries (emphasis added).

The Council's analysis (see Chapter 13) is precisely that the 'cohesion and functioning' of the EMU necessitates a significant tier of Community budgeting in respect of general public expenditure programmes.
In the comments above the Council has focused on the fundamental links between the social and economic aspects of the single market, on the general question of the budgetary structures in the Community, and how they impinge on the social area. There are, finally, and more specifically, a number of social measures which have already been highlighted by the Commission and on which action should now proceed. The first of these concerns the Commission's intention to promote "solidarity measures" affecting the most marginal groups in the Community. At present, the Community's funding of the European Poverty Projects is one element in this policy. The Community's direct commitment of resources to these projects, however, is extremely modest. A greater commitment to these projects in terms of European funding would be an effective contribution to the development of solidarity. Ireland's interest in these proposed measures cannot be overstated. The level of social deprivation in Ireland is significant due to a high and chronic level of unemployment, extensive long-term unemployment, chronic underdevelopment in the rural economy in some areas and high levels of demographic dependency. In these circumstances extensive solidarity measures based on enhanced EC support for Community-based, self help projects should be sought.

A related proposal is that contained in the main document, concerning "local economic development". The Commission indicated its plan to inaugurate programmes of local economic development. Such programmes would have particular relevance to Ireland: isolated, poorer regions of the Community, such as exist in parts of rural Ireland, will require comprehensive programmes of renewal and development. The government should therefore formulate integrated development programmes for rural areas and urban renewal programmes for cities, and initiate a European commitment to activating the concept of local economic development. It should be realised that area-based economic development — in contrast with direct income transfers — can deal with the underlying economic causes of poverty and deprivation. The social security system in Ireland accounts for approximately 15% of GNP and deals largely with the symptoms of poverty. However, developmental programmes in local areas and communities are a necessary complement to the mainstream income maintenance and other social services.

The promotion of women's participation in the economy is adverted to by the Commission as one element of the social dimension. The Council regards this question as significant and will formulate specific policies when its research on labour markets in Ireland has been completed. In general, the Council recognises that labour market participation is a key element in strategies to abate poverty and income inadequacy. Family poverty is relatively more significant in Ireland and policies which facilitate family members to participate in the labour force can contribute to labour market functioning and to improved family incomes. EC initiatives which provide a more positive framework for labour market participation should therefore be adopted.
The term ‘private’ in the context of the Irish health care system can only be used loosely because of the complex institutional and financial arrangements involved.

**At the time of writing the role of the VHI in health insurance and the merits or otherwise of a liberalised health insurance market are the subject of some public discussion.

*For the basic arguments and concepts about the economics of health care systems and how they apply to Ireland see Tussing, 1985.
financial institutions competing in the mortgage market: would policy makers extend the current arrangement with the Irish Building Societies and the Associated Banks whereby lending is available to low income borrowers formerly catered for through local authority loans? More generally, however, the tendency in Irish policy to subsidise owner occupation may require reappraisal in the light of the EC's competition and tax harmonisation policies. Finally in relation to housing, the contrast between the Irish (and UK) housing system and its European counterparts should be noted: the Irish system has a significantly higher level of owner occupation than countries with higher incomes. The increased labour mobility (inwards and outwards) which is envisaged as part of the completed market may be less likely under a housing regime of owner occupation with a limited and moribund private rental tenure.

Social Security
The largest social programme in Ireland's welfare state is in the Social Welfare (income maintenance) system — expenditure now totals about 15% of GNP. To date no specific measures or Directives have been mooted in this area. However, if the Community's market completion process continues, then the variation in countries' social security regimes must surely be put on the Community agenda. In the absence of any indications as to specific changes which might be proposed, a number of general issues should be noted.

Unemployment payments are now the largest single programme of expenditure in the social welfare system (£653m or 25% of the total in 1987). The McDougall proposal of a Community unemployment fund may have greater relevance in the context of the unified market and the implications of the McDougall proposal (and variants on this proposal) should now be re-examined. More generally, greater harmonisation between member states' social security systems may (as in the tax approximation area) invariably diminish the policy options for the social security system as a whole. The continental European systems are insurance-based and there is a strong commitment to social insurance. In Ireland and in other countries there has been a questioning of this basis for income maintenance, and a growing literature on possible alternative systems. The greater harmonisation of social provisions may commit all of the member states to a particular model of provision at a time when the debate about these models is beginning. At the very least an early attempt should be made to discern what degree of social security harmonisation will be required, and what range of diversity will still be acceptable. The Commission's recent statement on this question should be noted:

If the conclusion is that the systems of social security will not be harmonised tomorrow, it is clear that a progressive convergence should be instigated and that this convergence should be flexibly adapted to the needs and aspirations of the countries concerned (Social Europe, 7/88).

* A limited degree of co-ordination already exists between member states' social security systems.
CONCLUSIONS AND RECOMMENDATIONS

1. INTRODUCTION

In this chapter the Council presents the overall conclusions and recommendations which emerge from the study. The chapter is structured as follows. Sections 2, 3 and 4 present our conclusions on the effect of economic integration on Ireland. Specifically, Section 2 summarises our conclusions on the effects of EC membership on Ireland from 1973 to the present, as analysed in Part II of the report. Sections 3 and 4 are concerned with future integration. Section 3 reports our findings on the effects of the completion of the internal market on the regions of Europe, while Section 4 identifies the specific threats and opportunities facing Ireland.

The remainder of the chapter is concerned with Irish and Community responses to the current phase of European integration and specific policy responses to threats and opportunities posed by completion of the internal market. Section 5 explains the context in which national and Community responses must be set. A major element of Ireland’s response must be the formulation of a strategic approach to European integration. This is set out in Section 6. Section 7 presents the Council’s view on the actions which the Community must take to secure the current phase of integration. One specific challenge facing the Community is the task of economic convergence, and this is addressed in Section 8.

In Section 9 we turn to the details of the necessary domestic response to the threats and opportunities presented by the completion of the internal market. Among the issues addressed in that section is the Council’s approach to tax approximation. Sections 10, 11 and 12 discuss agriculture, the social dimension and institutional arrangements, respectively. Finally, Section 13 contains some concluding remarks.

2. THE EFFECTS OF EC MEMBERSHIP ON IRELAND

On surveying the period since Ireland joined the Community it emerged that, overall, Ireland’s economic performance compares unfavourably with that of other member countries. Both income and consumption have grown less than the average for the Community. Taking account of the job requirements of each

*In this chapter, as elsewhere in the report, the word Council refers to Ireland’s National Economic and Social Council (NESC), and not to the European Council or the Council of Ministers.
country it is seen that Ireland has done very badly — the increase in
unemployment between 1973 and 1985 was the second highest in the
Community and Ireland now has the second highest unemployment rate.
Ireland’s relative employment record is somewhat better — being slightly above
average for the EC. Finally, this poor relative performance — in every area
except total employment — has only been achieved at the cost of a very serious
build-up of national debt.

In Part II of the report we have analysed these developments in order to
identify the forces which were at work. One feature which was noted was that
the period since 1973 was not homogeneous. On many dimensions, Ireland’s
economic performance was better than the Community average in the years
from 1973 to around 1980, but much worse than the average in the period 1980
to 1986 (see Chapter 5). Consequently, in interpreting Ireland’s experience in
the Community we initially analysed these two periods separately before
seeking threads common to each.

However, an important aspect of our findings is that, on detailed investigation,
the performance of the economy, and of manufacturing industry in particular,
in the early years of Ireland’s EC membership was not so strong as it might
appear at first sight (see Chapter 7).

Despite the apparent difference in economic performance in the two periods
mentioned above, the Council considers that there were in fact important
factors common to both periods. First, there can be no doubt that much of
the stagnation of the eighties was directly related to the need to correct the public
sector and balance of payments deficits of the late seventies.

Second, our study of trends in employment, output, industrial structure, and
trade in Chapters 4, 5 and 6 strongly indicate a process of specialisation and
adjustment in the Irish economy — which occurred continuously once
protection was removed. This process consisted of Ireland’s specialisation out
of a long list of exposed manufacturing industries, and their continual
replacement by foreign firms in a narrow range of manufacturing activities (see
Chapter 7). This pattern of adjustment between industries differs from that
found in most other EC countries in the initial stages of integration. The
development of the Community and, indeed, the growth of trade in the post-
war period, has, in general, been characterised by specialisation within
industries.

Third, this adjustment between industries has coincided with a significant
alteration of the size-structure of indigenous manufacturing industry. Many of
the industries which Ireland has specialised out of were those internationally-
traded sectors in which larger Irish producers were once found. At the same
time, much of the employment growth in manufacturing was in small-scale
activities which benefit from an element of natural protection because they
serve very local markets. This is an important finding given the prediction,
which has been confirmed in several other Community countries, that
integration will stimulate a process of concentration — in which larger
producers will eliminate their small domestic rivals in order to exploit the scale
economies available once access to a wider international market is provided by
Community membership.

Lessons from the Period 1973 to 1987
Part II of our report concluded with a statement of a number of lessons which
the Council considers to emerge from its analysis of Ireland’s experience in the
Community to date (see Chapter 7). We summarise these here.

(i) Domestic macroeconomic policy did not take sufficient account of the
greatly increased interdependence of Ireland and other EC economies.

(ii) Domestic macroeconomic policy was, for a considerable period,
consistent with the decision to join the EMS. But, successful
membership of the EMS required not only a correct macroeconomic
approach, but also a high degree of consensus on earnings and taxation.

(iii) The reduction in the macroeconomic policy autonomy of the member
states, which was an unavoidable implication of economic integration,
has not been adequately replaced by Community level responsibility for
the management of the macroeconomy.

(iv) Although the commitment of Ireland to Community membership was
very strong, this was not matched by detailed study of the likely effects
of economic integration. In particular, it was not appreciated that the
effects of integration can take considerable time to work themselves out.
Adjustments to membership of the EC were experienced in the 1980s as
well as the 1970s.

(v) The greatest single difference between the regime of protection, such as
that which prevailed in Ireland for several decades, and membership of
the Community is the necessity of specialisation in a free trade
environment. Ireland did not immediately set about identifying fields in
which she could specialise on the basis of genuine, sustainable and
renewable competitive advantages. The very pronounced specialisation
which did occur, did not provide a foundation for indigenous economic
development.

(vi) Economic integration does not, of itself, bring about regional
convergence. Indeed, it tends to reflect and reinforce existing regional
advantages and disadvantages. This fact was not adequately understood
in the Community — as shown by the underdeveloped state of the
Community’s structural and redistributive policies.

Since 1987 the Irish economy has begun to perform in line with those of other Community
countries and this can be identified as a third phase, or at least the first signs of a third phase,
of Ireland’s experience in the Community.
(vii) The developmental policies pursued by Irish governments did not sufficiently, consistently or systematically address some key structural constraints on Irish economic development. It is important that this factor is kept in mind when considering the divergences from average European growth in the late seventies and eighties. Because it is this which provides the link between what is known, and agreed, about weaknesses in macro-management, and what is known, partly as a result of the NESC's work, about the long-run structural weaknesses of the Irish economy.

(viii) During a significant portion of the period since Ireland's accession to the EC, priority was given to short-term goals by both government and society.

(ix) The balance between national and Community policy has not always been correct. In some cases, for example agriculture, the existence of a Community policy was seen as virtually precluding national policy. In other cases, for example regional policy, an increased Commission role was viewed with ambivalence - but not on the basis of a superior national grasp of regional development planning.

(x) Membership of the Community does not reduce the need for clear Irish policy aims and methods.

Our next task was to turn our attention from the past to the future, and to consider the likely effects of the next stage of European integration. This required two things: first, analysis of the general effects of completion of the internal market on the various regions of Europe; second, identification of the specific threats and opportunities.

3. THE REGIONAL DIMENSION OF EUROPEAN INTEGRATION

(i) The Regional Impact of Market Completion

In Chapter 11 we asked the question: how is completion of the internal market likely to affect the regions of Europe?

After consideration of all the arguments, our general conclusion must be that the long-run benefits of market completion are likely to be unevenly distributed - with the greatest benefits accruing to regions in which industries with economies of scale and highly innovative sectors are most prevalent. Ireland is not such a region. Consequently, completion of the internal market should not be expected to narrow the income disparities between regions in the EC, let alone bring about convergence. This is a fundamental conclusion which informs the rest of the report.

The argument presented in the 'Cecchini Report', that smaller member states and regions in newer member states will gain the most from completion of the market, is questionable because it is based on an inaccurate and incomplete account of the theories of international trade and integration. The proposition should, therefore, be seen as no more than an assertion (see Chapter 10).

(ii) Community Structural Funds and their Ability to Achieve Convergence

It was also argued in the 'Cecchini Report' that the transitional and structural measures agreed in the Community could integrate the regions of the Community "in such a way that the current dichotomy between dynamic centre and lethargic peripheral areas is gradually replaced by a more even pattern of trade and activity".

How plausible is the view that the Structural Funds will gradually bring about equality in regional economic structures and incomes?

Our answer to this question is derived from three facts: (1) even after their recently agreed doubling, the Structural Funds will still represent less than one half of one per cent of Community GDP; (2) in the past the Structural Funds have failed to achieve a narrowing of the disparities between regional incomes; (3) the recent reform of the Structural Funds is certainly likely to increase their effectiveness, but does not mark a dramatic increase in their concentration on the most disadvantaged regions. Therefore, it seems necessary to conclude that the Structural Funds, as currently constituted, will not be sufficient to create convergence, let alone establish equality in regional economic structures and incomes. The implications of this for the overall approach to the achievement of social and economic cohesion are considered below, when responses at both the national and Community level are discussed (see also Chapter 15).

4. THE SPECIFIC THREATS AND OPPORTUNITIES FACING IRELAND

(i) A Framework for Analysis

In order to analyse the likely impact of completion of the internal market on the Irish economy, we have devised a framework that can be applied to various sectors and sub-sectors of industry and services. This framework is based on identification of the direct and indirect effects of the removal of non-tariff barriers to trade and is spelt out in Chapter 8.

Two direct effects of market completion were identified: cost reductions following the removal of non-tariff barriers, and price reductions resulting from increased competition due to improved market access of firms across national borders. These direct effects are likely to initiate two processes which create substantial indirect effects. The first involves the exploitation of economies of scale. Larger, low-cost, producers will eliminate smaller high-cost firms, possibly leading to a major restructuring of industry. The second indirect effect is the stimulus to innovation provided by increased competition. This leads to the expectation that completion of the internal market will have

526

527
a major dynamic impact on those sectors in which current non-tariff barriers are high and technological development is significant.

There is a clear tension between the view that further concentration of industry is likely (because of economies of scale) and the view that increased innovation (especially by small and medium sized enterprises) will be the predominant indirect effect of market completion.

This is of considerable significance in assessing the likely effects of market completion on Ireland. On evaluating the issue upon which this argument turns, we conclude that economies of scale remain relevant in many industries and will play a significant part in the competitive response to completion of the internal market. Even where economies of scale are not significant, and where the innovation argument has more validity, it does not follow that the threats to Irish industry are less and the opportunities greater. The strategy of being more innovative than larger competitors is a viable but highly demanding one. Consequently, an internal market with increased competition, stimulating innovation by small and medium sized firms, may be different from an internal market with competition based on scale economies, but may be only marginally less difficult for Irish firms (see Chapter 8).

(ii) Threats and Opportunities facing Manufacturing Industry
On applying this analytical framework to manufacturing industry we reached the following conclusions:
(i) The direction and size of the direct and indirect effects of market completion depend on very specific characteristics of industries, products and, indeed, firms;
(ii) The direct effects of market completion are likely to be positive for most, but not all, parts of manufacturing industry in Ireland;
(iii) Possible threats come to light when the indirect effects are considered. These indirect effects constitute threats wherever manufacturing in Ireland is vulnerable to competition based on scale economies, or to intensified competition based on innovation. It is these which will give rise to restructuring of industry throughout Europe. The net effect for manufacturing in Ireland will depend on the success with which the beneficial direct effects are turned into dynamic gains based on new or enhanced competitive advantages;
(iv) The indirect effects are likely to be more substantial than the direct effects;
(v) In many sectors the wave of technical and organisational change currently sweeping the world economy will be more significant than completion of the internal market.

The detailed analysis from which these general conclusions are derived can be found in Chapter 9.

(iii) The Services Sector
The effects of market completion per se are likely to be much more prevalent in the services sector than in the manufacturing sector. This is because international market penetration in services is quite low by comparison with penetration in goods. One of the main reasons for this is the continuing existence of barriers to trade in services throughout the Community. In effect, therefore, many service sectors will now face what the manufacturing sector faced in 1973, when Ireland joined the Community.

Distribution and Transport
Very significant changes are likely in the distribution, transport and financial services sectors. The latter two will arise because of changes in the regulatory regimes brought about by the internal market programme. In distribution, the abolition of economic borders and the tendency for European prices to converge is likely to lead to a reorganisation of the sector, particularly in the importing/wholesaling sub-sector, as retailers deal directly with producers and as Ireland as a whole is treated as one region for distribution purposes. In road-haulage, the regulatory changes will lead to an intensification of competition, as entry into the sector is facilitated. In aviation, the liberalisation of the regulations, particularly in regard to market access and capacity controls, should initially benefit smaller carriers with small domestic markets — allowing them to achieve economies of scale. Further changes are, however, required if smaller airlines are not to lose out in the restructuring of the industry.

Financial Services
Some financial markets are already international in nature, hence little change can be expected. An example of this is wholesale banking. In other market segments, such as retail banking (including mortgage finance), increased competition is likely, and price reductions can be expected. Given that scale is not a critical factor determining success, Irish institutions should not be handicapped by virtue of a small domestic market. Since the Irish financial market has not been as protected as the financial sectors of other European countries some opportunities are likely to exist abroad. With the appropriate corporate and public policy response (discussed later), the major Irish financial institutions should be able to defend their domestic markets and make some inroads abroad. However, certain sub-sectors, such as building societies, which have generally concentrated on one market segment and which have been less exposed to foreign competition, may face greater difficulties in the completed internal market.

5. IRISH AND COMMUNITY APPROACHES TO THE CURRENT PHASE OF EUROPEAN INTEGRATION
In the Council's view, the current phase of European integration presents
The Council has taken the opportunity to stand back and consider the question of European integration. The formulation of an overall strategy for economic and social policy, at the national and Community level, is in the new round of negotiations, requires informed by an overall concept of what European integration consists of and where it is going.

(i) The Desirable Level of Integration

A crucial distinction which has been used throughout this study is between positive and negative integration. Positive integration refers to the amount of goods and services which are traded across national borders, while negative integration refers to the amount of goods and services which are not traded across national borders. Positive integration is desirable for Ireland. This must be combined with knowledge of the processes which move, or inhibit movement, of European from one stage of integration to another.

In order to identify the desirable level of economic integration we have examined what is known as the common market. This can be divided for the purposes of analysis into three different stages of integration: the customs union, the monetary union and the economic and monetary union.

The customs union involves the elimination of tariffs and other barriers to trade. The monetary union involves the elimination of exchange rate differences. The economic and monetary union involves the elimination of differences in economic policies, such as fiscal and monetary policy.

(ii) The Regional Level of Integration

In analysing these levels of economic integration, we must take into account the following factors:

(a) The regional distribution of economic activities and income.

(b) The degree of integration already achieved.

(c) The impact of integration on national economies.

In examining these three levels of economic integration we adopted the following criteria:

(1) The regional distribution of economic activity and income.

(2) The degree of integration already achieved.

(3) The impact of integration on national economies.
microeconomic performance and management; and (3) macroeconomic performance and management. We were particularly interested in how performance under these three headings would affect a small peripheral region in the relevant integrated area.

This investigation led us to two conclusions: First, on all three criteria, an economic and monetary union emerged as likely to be superior for Ireland than either a customs union or a common market. We stress, of course, that by economic and monetary union we mean a Community which has developed sufficient policy competence — that is, sufficient positive integration — to provide effective macroeconomic management, microeconomic regulation, and balancing redistributive mechanisms. The potential benefits of monetary union to the Community at large, or to Ireland, would not materialise if the technical element of monetary union — a single currency or irrevocably fixed exchange rates — was established without the development of the necessary Community policy competence. In this regard we must emphasise that our advocacy of economic and monetary union does not imply support for the views stated in the recent Delors Committee report on EMU. It will be shown in Section 7 that the Delors Committee adopted a very different conception of economic and monetary union.

Our second important conclusion is that establishment of substantial Community policies, especially redistributive and macroeconomic policy, is contingent upon the creation of a significant degree of ‘cohesion’ or ‘political homogeneity’ (see Chapter 13).

(ii) The Process and Dynamics of European Integration
This analysis of what would be the desirable level of integration is an important contribution to the formulation of a strategic approach to Community membership. However, it is not sufficient on its own to constitute a strategy. The reason for this is that much of the analysis of the desirable level of integration was necessarily static. But integration is a dynamic process and many of its most significant features and effects derive from this. We had to ask whether the apparent superiority of an economic and monetary union survives a dynamic analysis and whether such an analysis throws up new information which is relevant to the formulation of a strategic approach.

Two important conclusions emerge from this.

First, the dynamic analysis of the integration process supports the conclusion of our static comparison of different levels of integration: Ireland’s strategic objective should be for the building of a European economic and monetary union as defined in this report.

Second, such an analysis reveals that to date the EC is developing in a very particular and, in our view, unbalanced manner. There has been considerable progress in the area of negative integration — for example, the removal of tariffs and, by 1992, the removal of non-tariff barriers — but much less progress in positive integration. This is true in two senses.

(i) The removal of tariffs and many obvious non-tariff barriers is not sufficient to create even a genuine common market. This is because of the numerous ways in which all member states naturally intervene in the economy. These national interventions almost certainly affect the competitive conditions in member states and inhibit the movement of goods, direct investment and financial capital. It follows that achievement of a genuine common market requires the elaboration of many more positive measures at Community level, in order to harmonise these effects on economic activity.

(ii) The achievement of cohesion and convergence require a considerable Community role in redistributive, structural and macroeconomic policy. These policies are part of positive rather than negative integration. Consequently, their achievement requires that positive integration now be developed to parallel the negative integration achieved so far. The strategic aim of creating an economic and monetary union amounts to the aim of greatly enhancing the element of positive integration and, therefore, involves the intention to substantially deepen European integration.

Is it Realistic and Useful to Adopt this Strategic Approach to European Integration?
In the final section of Chapter 13 a number of advantages which may follow from adoption of a strategic approach are outlined.

The adoption of a long term aim regarding European integration will assist the conduct of Ireland’s European policy. The second, and much more important, point is that adoption of a strategic view in favour of European economic and monetary union may make it easier for Ireland to achieve her central objective of convergence — even if the actual development of the Community falls somewhat short of the level of integration advocated. The essential reason for this is that such an approach allows this objective to be made consistent with the objective of other member states and with the goals of the Community.

The EC has several objectives, some of which, like the creation of a common market, were defined in concrete terms, others of which were more vaguely formulated. Even some of the concrete and immediate aims of the Community have not been achieved. To establish a given objective as an actual Community priority, it must be made consistent with the resolution of the major problems facing the Community in general. There is clear evidence that concentration of any one member state on any one objective is liable to jeopardise the
achievement of even that one objective, and certainly undermine the ability of the Community as a whole to address its problems. In the Council’s view the adoption of the strategic objective of economic and monetary union provides a framework within which Ireland’s objectives can be successfully pursued.

(iii) Three Fundamental Conclusions
We thus have three fundamental conclusions concerning integration, which informed our consideration of all the detailed policy issues which arise from the impending completion of the internal market.
(1) Economic integration in the narrow sense — the removal of tariff and non-tariff barriers — will not serve to reduce regional disparities and may unleash forces which tend to reinforce existing advantages and disadvantages.
(2) The European Community has developed in an unbalanced manner: the considerable degree of negative integration has not been balanced by sufficient measures of positive integration. This inhibits both the achievement of genuine economic integration and of regional convergence.
(3) Ireland’s strategic approach to the European Community should be based on the objective of creating a genuine European economic and monetary union, which would have the characteristics which suit Ireland’s social and economic needs and aspirations.

The derivation and explanation of these three conclusions constitutes one track of our report — as explained in the Preface. The second track starts from a more detailed assessment of the threats and opportunities facing the Irish manufacturing and service sectors and the public finances. It then involves consideration of the possible responses by policy makers and private economic agents.

7. THE COMMUNITY’S APPROACH

(i) The Development of the Community
Our analysis of the approach which Ireland should adopt to the process of European integration has yielded a perspective on the development and current position of the Community as a system. From that perspective it can be seen that the Community has achieved much, but also that there are major omissions in its social and economic structures.

The Council considers that the Community should vigorously implement the provisions of the Single European Act in pursuit of its original aim of ‘ever closer union’. However, in saying this we stress that implementation of the Single European Act implies not only completion of the internal market, but also:

- Co-operation in Economic and Monetary Policy (Economic and Monetary Union)
- Development of Community Social Policy
- Measures to advance Economic and Social Cohesion
- Research and Technological Development
- Development of policy to protect the environment.

Indeed the Council is strongly of the opinion that correct analysis of economic integration shows that these other elements cannot validly be considered as separate from, or additional to, completion of the internal market. This is because the achievement of genuine economic integration requires harmonisation of numerous public policy interventions in the economy. Harmonisation of these requires the formation of common policies in the specific areas being harmonised but, in addition, requires pooling sovereignty in other connected areas and, most significantly, a pooling of revenue and expenditures.

The inclusion of economic and monetary union, social policy, economic and social cohesion, research and technological development and environment, in the Community’s treaties provide implicit confirmation of the unavoidable connection between genuine economic integration and social and monetary integration. However, the Council considers that in its actual practice the Community has lost sight of these connections and is, consequently, developing in an unbalanced manner. Progress on negative integration — the removal of tariffs and, by 1992, the removal of non-tariff barriers to the movement of goods, capital and labour — is not being balanced by progress in positive integration. But measures of negative integration are not sufficient to create a genuine common market and, furthermore, frequently create new problems and distortions which prevent the achievement of Community objectives. In the current situation the failure to establish the necessary measures of positive integration — the establishment of policies, mechanisms and institutions at Community level — will have two serious implications: it will prevent achievement of a genuine common market — and the benefits which were hoped for from this — and it will prevent the Community achieving its objectives of cohesion and convergence.

In the Council’s view two particular developments are urgently required in the Community. The first is the creation of a Community macroeconomic and monetary system. The second is the development of a wider and more effective set of measures to achieve convergence.

(ii) Macroeconomic and Monetary Union
All serious analysis yields the clear conclusion that European integration limits the macroeconomic policy autonomy of the member states, and highlights the fact that national macroeconomic policy is inadequate and must be enhanced
by Community-level responsibility for the management of the macroeconomy. The eventual resumption of growth in the Community in recent years in no way diminishes the argument for co-ordinated macroeconomic policy. The establishment of a stable macroeconomic climate in the context of the removal of exchange controls requires movement towards monetary union. The stability of an economic and monetary union, and the effectiveness of a common macroeconomic policy, depend on the existence of a Community budget which can assist in evening out regional fluctuations and shifts in economic activity. The development of a much larger Community budget is a functional requirement of economic and monetary union and exists independently of any cohesion or convergence objective. The move towards economic and monetary union will greatly assist the creation of a genuine common market, not only by its macroeconomic effects, but also by assisting the removal of numerous microeconomic distortions.

(iii) Cohesion and Convergence
The Council's work has revealed that the existing policies and arrangements of the Community will, in all probability, be quite inadequate to create even a sustainable trend of convergence. In addition to the enhanced Structural Funds, convergence requires four other types of action at Community level. First, it requires that, where possible, the objective of cohesion and convergence be taken account of in the design and implementation of Community policies. Second, it requires a growth-oriented Community macroeconomic policy. Third, and most significantly, it requires considerable development of the Community budget through the creation of a Community system of taxation and expenditure. Fourth, it requires that the Commission undertake and sponsor study of the regional impact of the completion of the internal market and of integration in general, with a view to identifying the combination of structural policy, macroeconomic policy and public finance policy which is most likely to create convergence. The Council stresses that a broad and realistic analysis of the economics of integration — which it has strived to apply in this report — reveals that several of these measures are also necessary for the achievement of a genuine common market, an economic and monetary union and, ultimately, a European union. The Council believe that the Community will sacrifice these objectives if it continues to avoid these requirements of economic integration.

(iv) The Delors Report on Economic and Monetary Union
Given the Council's strong support for creation of a European economic and monetary union (EMU) readers will naturally wish to know the relationship between our advocacy of EMU and the argument of the recent report presented to the European Council by the Delors Committee. This is answered in detail in Chapter 13 and we summarise the main points here.

The Council's Overall Position
While there is a considerable degree of congruence between general ideas in the Delors Report and the analysis undertaken by the Council, the definition of economic union which emerges in the Delors Report is very different. As a result the overall vision of economic and monetary union in the Delors Report is quite different from that used in this report and advocated by the Council.

The Council's Approach to Economic and Monetary Union
To understand this statement it is necessary to appreciate the precise nature of the Council's case for economic and monetary union. In Chapter 13 we emphasised that we defined EMU as involving not only monetary and macroeconomic policy union, but also Community-level management of a wide range of interventionist and market-regulating policies currently undertaken by the member states — and, in general, an allocation of policy functions to the Community, the member state, and the local authority based roughly on the principles of public finance. We also show in Chapter 13 that this definition of EMU was adopted on the basis of the modern integration literature, the theory of public finance, and the structure of existing economic and monetary unions. The arguments for seeking to build such an EMU were based on analysis of the likely microeconomic performance, macroeconomic performance and, most significantly, the likely regional pattern of income and economic activity (see Chapter 13). Based on these analyses our conclusion is that both Ireland and the Community as a whole would have a lot to gain from moving to an economic and monetary union of the sort specified in this report. This would ensure that the 1992 programme creates a genuine common market, would secure the monetary stability and macroeconomic progress established in recent years, and would greatly enhance the Community's ability to bring about convergence in living standards.

The Delors Committee's Approach
The Delors Committee correctly stress that the success of the internal market hinges to a decisive extent on progress towards monetary and macroeconomic union. The report insists, with complete justification, that economic union and monetary union form two integral parts of a single whole. It also emphasises that in EMU, policy functions would continue to be carried out at national, regional or local level — so long as this did not have adverse repercussions on the cohesion and functioning of the economic and monetary union. The Delors Report is clear that integration can, in general, exacerbate regional inequalities and stresses that progress towards EMU must be accompanied by policies to assist regional convergence.

Yet when the Delors Committee proceeds to more precise definitions of economic and monetary union these valid and important ideas are not followed to their logical conclusion:
In describing EMU, the Delors Report assigns far more policy functions to the national tier of government than the Council thinks is feasible — given the extent of economies of scale and intra-Community spillover effects from public policy; 

Despite the Committee’s recognition of the uneven regional impact of integration, virtually the only countervailing policy measures proposed to deal with this are structural measures. Indeed, it is said that “the foundations for a more effective Community role in general regional and structural development has recently been established”. In addition, the Committee explicitly rejects the development of non-structural regional policy mechanisms. A realistic view shows that convergence will not be attained by the internal market plus the existing Structural Funds (see Chapters 11 and 15); 

In specifying a system of macroeconomic management for a European EMU the Delors Committee completely ignores the role that the central budget plays in maintaining macroeconomic balance in existing economic and monetary unions. Our analysis throughout this report strongly suggests that it is these inter-regional fiscal adjustment mechanisms which ameliorate the asymmetric adjustment problems which inevitably arise in the process of economic change.

Overall, the Delors Committee’s definition of EMU differs from the NESC’s primarily because, though its analytical approach is similar to ours, the Committee has not followed that approach to its logical conclusion, and has thus taken insufficient account of the requirements and implications of genuine economic integration. Secondly, our report contains a number of investigations additional to those found in the Delors Report or in other recent reports on the completion of the internal market.

Policy Position on EMU
This approach has led the Council to a policy position which is very favourable to the creation of a genuine European economic and monetary union, yet which takes full account of the particular position of Ireland. This is so because the Council’s approach has been to ask what is required for and implied by genuine integration.

The Council has, for the purpose of comparison, identified the position it would have to adopt if it were confined to the arguments found in the Delors Report. The Delors Report stresses that the process of moving to EMU is only conceivable if a high degree of economic convergence is achieved; yet the internal market and the Structural Funds will certainly not be adequate to create convergence in the foreseeable future. In these circumstances the Council, and indeed member states, if they followed the logic of the Delors Report, would have to see monetary union as a very distant prospect.

When this policy position is examined critically it is seen to have several serious weaknesses. In particular, it addresses neither the short-run nor the long-run arguments for economic and monetary union (see Chapter 13). Whatever about those who are opposed to EMU, those who favour integration can scarcely be happy with the idea that the Community confine itself to structural measures and then postpone monetary union until significant structural differences have disappeared. The weakness of this policy position, in comparison with the Council’s actual policy position, indicate that while many points in the Delors Report can be welcomed, it must be said that the report does not consider all aspects of EMU. Consequently, the Council would wish to see the argument widened to include a more adequate analysis of the role of public finance in economic and monetary integration.

8. THE TASK OF ECONOMIC CONVERGENCE
We now outline the policy issues and conclusions that arise for Ireland and the Community when devising ways to achieve convergence with Community levels of income and social provision.

(i) The Role of Community Policies in Creating Convergence
It is important that both Ireland and the Community take a broad and realistic view of what policies are available to achieve convergence. In Chapter 13 we identified four kinds of Community policy which may assist convergence and cohesion.

(i) Structural policies.
(ii) Macroeconomic co-ordination.
(iii) Budgetary or fiscal transfers.
(iv) Differential application of other Community policies, such as agricultural policy or internal market policy.

In Chapter 15 we evaluated the potential for each of these to assist convergence. Our fundamental conclusion was that all four are necessary. One of the main reasons for this conclusion was the fact that the Structural Funds did not succeed, between 1975 and 1986, in narrowing the disparities between regional incomes. The central reason for this is what Padua-Schioppi has called ‘tokenism’ in the scale of intervention in the Community’s regional and social policies. The recent reform of the Structural Policies has, indeed, increased their size and is likely to increase their effectiveness. However, taking everything into account it seems necessary to conclude that Structural Funds, as currently constituted, will not be sufficient to create convergence. We stress in Chapter 15 that this conclusion does not arise only because of the size of the funds. Knowledge of the nature and processes of regional development has not yet reached the stage where plans capable of really reversing regional decline are available to member states or the Commission.
Steady growth of the Community economy, which depends on a growth-oriented Community macroeconomic policy, is a necessary but not a sufficient condition for convergence.

The greatest contribution to social and economic convergence is likely to be made by the redistributive mechanisms inherent in a much more developed Community budget. In existing economic and monetary unions, the central system of tax and expenditure constitutes much the most significant mechanism ensuring balance between persons, regions and member states.

The differential application of Community policies, which, since the Single European Act is provided for in Article 130B of the Treaty, is capable of assisting convergence. However, there is a definite but finite number of policy areas where differential application will be beneficial and will be consistent with the pursuit of the Community's other objectives (see Chapter 15).

Our conclusion is that Ireland must press for action on all four of these fronts, while being aware that the greatest contribution to convergence is likely to arise from the development of the Community budget. But, given the logical connection between the development of the Community budget and the creation of a stable economic and monetary union, this opens a wide and very topical field in which this case can be made.

Making the Case for Policies to Achieve Convergence
Our study of the nature and evolution of the Community tells us that the process of determining Community priorities occurs not only in the European Council, but also in the Commission, the Parliament and, most importantly, in the Society at large. A perfect example of this is the priority given to the internal market in recent years. The case for giving priority to one Community objective over another is never definitively established and never irredeemably lost. It turns not only on general principles but also on circumstances. It follows from this that the objective of regional convergence, like other objectives, to be accepted as a Community priority must be advocated by argument of the highest quality and in the widest possible forum. Ireland, both its Government and its people, must play a leading role in this debate.

(ii) Future Development of Community Regional Policy
The recent reforms have determined the size and nature of Community regional policy for the next few years. However, as in the past, debate on the nature of regional and social policy, and on the resources to be devoted to them, will undoubtedly be re-opened at some stage. What position should Ireland adopt in this debate?

*An example in the past is the EMS and the exchange rate instability of the 1970s; a possible future instance might be the demographic circumstances in which the internal market is being completed and the consequent need for some fiscal burden-sharing in education and training.

In the Council's view, the broad thrust of the Commission's proposals for regional policy — which enhance the role of the Community institutions vis-à-vis the member states — is in the long term interest of Ireland and other peripheral regions. We are thinking, for example, of the abolition of the national quotas, the development of European level responsibility for regional policy aimed at convergence, much stronger control of the national regional supports adopted by wealthier member states, serious consideration of the regional impact of the CAP, and intense Community study of the nature of regional problems and design of the policy instruments which might solve them. Ireland has an unambiguous interest in development along these lines and, consequently, the Council strongly recommends that Ireland supports movements in these directions.

(iii) The Content of Structural Policy
The Basic Perspective: Developmental Constraints
The central requirement is that structural policy measures are aimed at removing the constraints on the development of the Irish economy. In the Council’s extensive previous work on Irish industrial development policy, infrastructure was not seen as one of the key constraints on the development of Irish industry (NESC Report No. 66).

However, in the current situation three new factors must be taken into account: the severe fiscal and economic crisis of the 1980s, the completion of the internal market and developments in information technology. When these are taken into account, along with the long-term developmental problems, structural policy should, in the Council’s view, involve a balance between investments in industrial and rural development and investment in infrastructure. In Section 9 we summarise the Council’s views on the direction which industrial policy should take.

The Range of Economically Relevant Infrastructure
A wide range of infrastructure programmes should be considered: not only transport but also telecommunications, water and drainage, and environmental programmes — particularly the preservation and development of the urban environment.

Internal Transport
The development of transport infrastructure has as much to do with enhancing the internal efficiency of the economy as with reducing the cost of access to foreign markets. For example, some of the strongest economic arguments for road improvement are based on the needs of passenger traffic rather than freight.
Access Transport
In devising measures to reduce the cost of access to foreign markets, a particular effort must be made to identify which elements of cost — infrastructure quality, fuel costs, vehicle costs, insurance costs, operating costs — are responsible for high relative cost of transport. Depending on the outcome of this investigation the reduction in access costs will require either infrastructural investment or other regulatory or economic measures, or some combination of policy approaches.

Transport Infrastructure: A Warning
In advocating this approach the Council stresses that the improvement of transport infrastructure pursued in isolation could do more harm than good — a conclusion confirmed by a recent report to the Commission. It is vital that, simultaneously with the improvement in access to foreign markets, the ability of domestic firms, and individuals, to respond to market opportunities is enhanced by industrial and other policies.

9. THE NECESSARY DOMESTIC RESPONSE TO THE THREATS AND OPPORTUNITIES

(i) Corporate Responses
In Chapter 14 we considered the desirable corporate response to the completion of the internal market. The central finding of our analysis of the threats and opportunities was that the effects of market completion will depend on the specific structure of each industry and on the exact position of firms and products within it. In addition, it should be reiterated here that 1992 is only one of the environmental changes affecting businesses. For some businesses, other factors such as technical change will be far more important than 1992. It follows from this that no general corporate response can be prescribed in these conclusions. Nevertheless, a number of general points can be made.

Ask the Right Questions
In Chapter 8 we devised a framework for analysis of the effects of market completion. This set out a number of questions which firms must ask themselves. The answers to these questions will help to identify the threats and opportunities. It is vital that corporate strategies are based on a correct reading of the kind of environment in which the firm exists and its position within it. In Chapter 14 we have presented alternative ways in which markets can be categorised and competitive advantages defined. In that chapter we also address the choice of entry strategy to foreign markets. The state development agencies have a key role to play in offering advice and helping companies design appropriate corporate responses in the light of the answers to the above questions.

A preliminary evaluation of the likely impact of 1992 on different categories of Irish industry and on the broad sectors of manufacturing is presented in Chapter 9. Because of the nature of this report it has not been possible to undertake a detailed examination of all sub-sectors. The Council recommends that the Sectoral Development Committee should carry out this work, based on the preliminary examination and the framework for analysis outlined in this report.

Key Role of Management
Management is a key resource in all strategic options. In a recent report, the Advisory Committee on Management Training concluded that “the level of commitment to management development in Ireland is acceptably low, given the economic challenges that face the country”. The Committee recommended that both business and Government make improvement of this situation, within three years, an urgent national priority. The Council endorses this recommendation.

(ii) The Economic Environment
Lessons of the Past
Our study of the experience since Ireland’s accession showed clearly that, despite the openness of the economy to external influences, general domestic economic policy can seriously damage the overall economic environment. Equally, the experience of the past two years illustrates how the correct policy approach can improve that environment. The Council states emphatically that the response to 1992 will not succeed without a continuation of sound economic management and acknowledges the role of the social partners in maintaining this.

The New Situation
However, correct manipulation of the macroeconomic levers which influence interest rates, costs and inflation will not be sufficient in future. The completion of the internal market means that other policy measures — which were previously considered of mainly domestic relevance — will now influence the economic environment in Ireland relative to that in other countries. The increased mobility of goods, people, investment, and financial capital, means that such measures will increasingly affect the level and pattern of economic activity. The parts of economic policy which will now become more relevant include both direct and indirect taxation, corporate taxation, taxation of savings, welfare provisions, the regulation of financial institutions and environmental regulation.

Need for Continued Consensus
The Council is strongly of the opinion that the maintenance of an economic environment conducive to growth, and the implementation of other measures
in preparation for 1992, requires that the current consensus between the social partners and Government be continued and, indeed, deepened.

(iii) Industrial Policy
The work conducted on manufacturing industry in this report confirms the correctness of the basic thrust of Ireland's industrial policy in recent years, viz the placing of emphasis on indigenous enterprises rather than the attraction of mobile foreign investment, the identification of the barriers to entry which these enterprises face, and the design of policy interventions to overcome these barriers. However, our extensive study of economic integration suggests two modifications of industrial policy.

Role of Scale in Competitive Success in Traded Activities
Our study of Ireland's experience since joining the Community showed that instead of larger Irish producers eliminating or absorbing small producers as they oriented themselves to the expanded market — a process observed in other Community countries — the size structure of Irish manufacturing industry became less concentrated. In addition, our research indicated that economies of scale will probably play a significant part in the competitive response to completion of the internal market.

As a result, scale must become a more important concern of industrial policy than hitherto and policy should pay particular attention to:
(i) assisting firms in reaching the required scale where the absence of scale means that survival is not possible;
(ii) providing support in overcoming the size disadvantage where it relates to a single dimension of the business, for example, production scale; or
(iii) assisting firms in identifying market segments where they can escape the scale factor — e.g. a niche strategy where product differentiation can be pursued.

An Innovation Orientation in Industrial Policy
One of the important indirect effects of completion of the internal market will be a spur to innovative activity. Many industries are already undergoing a major wave of technical change which is likely to continue for some time. Research in other countries has shown that firms in peripheral regions undertake significantly less innovation, especially product innovation, than firms in more central regions. There is a strong case for attempting to inject an innovation orientation into Irish industrial policy. While we have not worked out the details of such a policy the Council believes it should focus on the following:
(i) the development of the telecommunications infrastructure as a basis for the widespread adoption of information technology;
(ii) the role of management in identifying opportunities for innovation and in implementing changes in firms' activities;
(iii) stimulation of the innovation process itself.

(iv) The Services Sector
A competitive service sector is essential for the efficient functioning of the economy. Achievement of this requires vigorous implementation of the internal market programme in services such as banking, insurance, transport, etc. Seeking derogations from the trade liberalisation measures is unlikely to be in Ireland's best interests in the long term. Seeking exemptions would not only preserve an uncompetitive domestic structure, but it would also prevent Irish domestic enterprises from adopting an international orientation and seizing the opportunities presented by the liberalisation of regulatory environments.

With the opening up of previously regulated sectors to competition, competitive pressures will intensify and individual businesses in sectors such as transport, distribution and financial services will have to develop corporate strategies for competing in the new environment.

Financial Services
In regard to financial services, particularly banking services, relative efficiency levels between competing institutions will be crucial. A second key requirement for remaining competitive in the financial services market is product innovation, the scope for which is developing rapidly with technological advances. Penetration of foreign markets in financial services is likely to be more successful if undertaken through merger/acquisition, or various types of alliances, rather than through direct export or greenfield establishment.

Given the heavily regulated nature of this sector, the actions taken by Government are as important as the actions taken by the institutions themselves. Ireland's indigenous institutions must not be handicapped in defending their domestic market, or in launching offensives in new markets, by the domestic taxation and regulatory environment. Two related issues need to be addressed urgently if the indigenous institutions are to position themselves to meet the full rigours of international competition:
(i) the nature of the regulatory structure in an international comparative context;
(ii) the specific taxation of financial institutions and products to ensure a level playing field internally and competitive success externally.

In order to reduce uncertainty, the Council recommends that the Government should review and publish its intentions in regard to these issues.

Transport and Distribution
Regulatory and taxation issues are also crucial in the case of transport and distribution. The position adopted on indirect tax approximation, particularly the differentials between Ireland and the UK, must take account of the implications for the Irish distribution sector. Likewise in the road haulage sector, differences of excise duties on inputs such as fuel and vehicles would
have very severe implications for Irish businesses. In the aviation sector, despite some liberalisation, major constraints still exist in regard to market access, capacity controls and the ability to engage in strategic alliances without affecting entitlement to operating rights. These are particularly onerous on smaller carriers with small domestic markets.

These are particular examples of a general point to emerge from this study: that all domestic policy interventions must be re-evaluated in the light of the further integration of the Irish economy into Europe. This re-evaluation should take place immediately. Ground lost now by businesses in preparation for 1992 cannot be made up later. For many businesses uncertainty is a problem at present — uncertainty in regard to what 1992 implies but also uncertainty in regard to the intentions of Government. While acknowledging that the Government itself is constrained because some issues are not yet clarified at Community level, there are many areas where the broad lines of policy are clear and where the Government could thus set out its own position.

(v) Competition Policy
Cross-border mergers and take-overs are likely to become a much more significant feature of the corporate landscape in the run-up to 1992. In the context of a unified internal market, the relative roles of European and national competition policies will have to be reconsidered. An issue which arises for the domestic authorities is the implication of cross-border takeovers and acquisitions for the nationality of ownership. The attractiveness of Irish firms as take-over targets in the lead-up to the completion of the internal market may increase. The key question which arises for policy-makers is: should they be indifferent as to whether a company is taken over by a domestic or a foreign firm? What are the implications for industrial policy? These questions are addressed in Chapter 14.

It is concluded that Ireland cannot be indifferent to foreign take-overs of indigenous businesses. However, no general policy prescription can be offered. Each case must be examined on its merits and a decision reached based on the balance of likely effects. This will require a very close relationship between mergers policy and industrial policy. It was indicated earlier that some rationalisation will be required between domestic and European competition policy. The Irish dimension of merger policy must be retained with a strong 'public interest' clause. In any investigation of proposed foreign take-overs, the investigating authorities would be required to examine both the likely external effects of the proposed take-over, under a 'public interest' clause, and balance these findings against 'internal' effects on the individual businesses, having particular regard to Ireland's industrial policy objectives.

(vi) Economic Integration and Tax Approximation
The Council accepts the European Commission's argument that removal of physical frontiers is a necessary step in the process of economic integration. The Council also agrees with the Commission that approximation of VAT rates is necessary for the removal of obstacles to trade in the Community. In the case of VAT, the Commission's original harmonisation proposals and the considerations underpinning domestic tax reform, as previously indicated by the Council, are mutually supportive. Such is not the case with the revised set of proposals. In addition, the 'market forces' approach to VAT approximation would be likely to result in a significant loss of VAT revenue. With increasing pressure for approximation of direct taxes on highly mobile factors such as labour, it would be inappropriate to make up for this revenue loss from VAT through increased direct taxation. This highlights the need to proceed simultaneously with tax harmonisation and the extension of the fiscal role of the Community (discussed below).

With regard to excise duties, the technical and administrative arguments of the Commission for approximation are not so compelling. In the Council's view, retention of some differentials in excise duties is consistent with the removal of frontiers. This would require an administrative control system based on physical marking of the products. It would also require approximation of duties between Ireland and the UK to minimise the costs associated with cross-border shopping. There are sound economic and social reasons for retaining high excise duties on drink and tobacco. The general thrust indicated in the Commission's revised proposals on tax approximation appear to be broadly in line with this position.

The Council agrees with the Commission that the removal of barriers to the movement of persons is necessary to genuine economic integration. The measures proposed as part of the internal market programme, such as the mutual recognition of qualifications will, significantly increase the mobility of persons in the Community. This scenario will greatly increase the existing pressure for approximation of direct taxes on highly mobile factors of production such as labour, if distortionary tax-induced migration is to be minimised. This amounts to pressure to reduce high average and marginal rates of tax on earned income. The direct tax system at present bears most heavily on the most mobile segments of the labour force and also the most valuable in terms of education and skills. Against this background, the Council recommends that domestic tax reform should concentrate on shifting the burden of taxation away from mobile factors, such as labour, to immobile factors such as property.

The internal market programme will expose many sheltered sectors of the economy to competition and will, therefore, require that indirect taxes on inputs into production in Ireland be brought into line with the European
average. Specific examples are duties on mineral oils and taxes on the total tourist product.

The completion of the internal market forces attention onto the public finance system of the Community. Restraint on the indirect taxes which can be levied by a member state will impel it to utilising direct taxation for policy purposes. However, simultaneously, the increased mobility of labour and capital will place a restraint on some of the rates of direct tax it can levy. Thus, overall there is pressure towards uniformity of several major sources of tax revenue across member states. However, since there is not uniformity in the public expenditure requirements of member states, this uniformity of taxation could force some states into budgetary imbalance or into inappropriate cuts in public expenditure. For example, the pressure to equalise major revenue raising taxes — which the Council accepts as an unavoidable concomitant of integration — could frustrate the pursuit of adjustment or regional policy objectives.

Pressure for more uniformity of several major revenue sources in Community countries, in the context of non-uniformity of expenditure requirements, will both prevent the achievement of a genuine common market — by exacerbating the distortions created by spillover effects — and make even less likely the achievement of other Community objectives such as cohesion and convergence — by limiting the pursuit of structural and redistributive policies in poorer member states.

In view of all these considerations, the Council considers that moves towards tax harmonisation should be accompanied by an extension of the fiscal role of the Community. What the Council proposes is the development of a permanent system which facilitates integration by balancing the moves towards a common tax system with moves towards a shared expenditure base. This will involve the Community developing a role in certain expenditure programmes — chosen by reference to the most rigorous principles of public finance — in which the Commission is not currently involved.

10. AGRICULTURE

(i) Problems in the Agricultural Sector Since Accession

In our study of the period since Ireland's accession we identified three problems in the agricultural sector (see Chapters 4 and 7):

(i) The reversal of much of the progress made between 1973 and 1978 and the consequent slow annual average growth of farm incomes in the period since accession;

(ii) The persistence of very low and volatile farm incomes for a sizeable segment of Irish farmers;

(iii) The slow rate of development of the food industry.

In Chapter 14 we outlined the broad approaches required at national and Community level to address these problems. Here, we summarise the conclusions and recommendations which emerge from our discussion of agriculture in Chapters 4, 7 and 14.

(ii) Development of Farm Incomes and Reform of the CAP

Some of the reversal of growth in farm incomes experienced in the late 1970s and parts of the 1980s can now be viewed as a once-off episode from which the appropriate lessons, especially concerning the macroeconomic policy requirements of EMS membership, have been learned (see Chapter 7). However, reform of the CAP is likely to continue and this is a major factor conditioning the development of the Irish agricultural sector.

In Strategy for Development 1986-1990 the Council reviewed the broad options available for reform of Community agricultural policy. Having evaluated the merits and demerits of various approaches, the Council advocated the following domestic stance. "A realistic price policy is necessary in the Community, but price policy should not be the only instrument used to bring about greater market balance. This implies that some quantitative restrictions will be necessary. However, such quantitative restrictions should be viewed as an interim approach rather than a long term solution". Furthermore, given that price support to farmers is ineffective in dealing with the low income problem in farming, the Council advocated that, in general, support from the Community should be directed more towards solving the low income problem. Specifically, the Council argued that in the allocation of production opportunities or quotas, preferential access should be devised in order to improve the income distribution between both member countries and individual producers.

The Council reiterates these views on the reform of the CAP, and notes that since the publication of Strategy for Development multilateral trade negotiations have been carried out under the aegis of the GATT. Broadly speaking, the Council shares the Community's rejection of the 'free trade' solution advocated by the United States. It favours instead a solution which derives from the Community's traditional approach to market adjustment — that is, an approach which recognises the social dimension of markets and the social costs and benefits which are generated by adjustment to the exigencies of market forces. However, the Council also stresses that there are great advantages to achieving an agreed global approach to the reform of agricultural support systems. The Community's approach in global negotiations must strike a balance between the European approach to market adjustment, and the European judgement on the desirable pattern of rural economy and society, on the one hand, and the advantages of achieving an agreed global reduction in artificially high agricultural prices on the other.
In the next section we discuss the problem of low farm incomes. However, the reform of the CAP and the socio-structural policies to address the problem of low farm incomes cannot be kept rigorously separate from one another. The Council has previously advocated that in reforming the price support system, the problems of low incomes in farming be given greater priority. But, in addition to this particular approach to prices and markets policy, there is a need for a switch in emphasis towards socio-structural policies at both the national and Community level.

The medium to long run adjustments in European agriculture present a profound challenge to the Community and to the member countries. The Community's rejection of the United States' proposed free trade solution is only tenable on the basis of a new balance between prices and markets policies and socio-structural policies. The greater is the pressure on systems of agricultural price-support worldwide, the more the Community will have to view these two strands of policy as parts of an integrated whole. But this has important implications for Ireland's approach to agricultural policy. The existing large Guarantee policies of the EC are inevitably set uniformly at Community level (though preferential elements can be introduced); but the currently much smaller Guidance or structural policies are much more dependent on national input.

Given the virtual inevitability of long run adjustment, and hence of a different balance between strands of agricultural policy, Ireland has the greatest possible interest in being a leader in the analysis and solution of these problems. This interest derives from the necessity of devising new Community approaches to securing the prosperity of Europe's rural regions. Such leadership can only be achieved on the basis of a proven ability to foster rural economic development in the broadest sense.

(iii) Low Farm Incomes

The persistence of a segment of Irish agriculture showing low farm incomes is related to the existence of structural problems. In Chapter 4 we saw these to be the small size of many holdings, the age and educational profile of their occupants, and the rigidity of the land tenure system. In Chapter 7 we identified three reasons why these structural problems were not significantly reduced in the years since Ireland's accession to the EC. This was explained by the nature of Community agriculture policy and the virtual non-existence of national socio-structural policy. In Chapter 14 we set out our preferred approach to the solution of this problem; we summarise that approach here.

Solution to the problem of low farm incomes, and of other problems in the agriculture and food industries generally, requires that greater progress be made in solving these structural weaknesses. This in turn requires new approaches at both Community and national level.

At Community level the main requirement is further increases in the role of socio-structural measures. Given its objectives for the structure of a rural society and economy, and given that prices and markets policy does not and cannot achieve them, the Community's socio-structural policy seems quite underdeveloped. In particular, there is a strong case for a Community role in the policies of direct income aid which are necessary for maintenance of a viable rural economy in many areas of the Community including parts of Ireland*.

Turning to national policy, we noted in Chapters 7 and 14 that four general types of agricultural policy can be identified: price policy, productivity policy, structural policy and programmes outside agriculture. We also noted that only the first of these policy areas is fully circumscribed by the existence of the CAP. In formulating a new combination of productivity policy, structural policy and programmes outside agriculture the guiding principle must be cost efficiency and the effective use of land.

The major requirements for improved productivity policy are that such policies become much more cost-effective and that the recent movement towards concentration on human resources be continued.

In the case of structural policy a more thorough re-evaluation is required. We noted in Chapter 7 that, in practice, socio-structural policy in Irish agriculture has been virtually non-existent. This despite the fact that the major problem in the agricultural sector — low farm incomes — and a major problem in the economy in general — the poor development of the food processing industry and the lack of manufacturing industries based on national resources — are related to structural problems in agriculture. Part of the problem in this area would seem to arise because of conflicts within the stated objectives of structural policy (see Chapter 14). The formulation of an effective structural policy therefore requires that the objectives of the policy be clarified. They can only be clarified at national level. The Community's rejection of the Mansholt objective of 'economic production units', in favour of maintaining a viable rural population, does not resolve the conflict in structural objectives for Ireland. In the Council's view, future Irish structural policy should give priority to achieving effective land use rather than to maintaining the maximum number of holdings. But it recommends this structural priority only within the context of complementary productivity policies and non-agricultural programmes.

Two broad types of non-agricultural programmes are available: the creation of

*In identifying this need for increased Community involvement in direct income aid the Council does not wish to question the role of Community policy in improving productive structures in the rural economy. The ultimate objective of structural policy is, of course, to foster genuine economic development and thereby make income support unnecessary.
off-farm employment and direct income aids. The importance of off-farm employment in improving the income position of many households, and the difficulties for others in finding such employment, highlights the importance of educational and training measures in the overall package of productivity policies.

But off-farm employment cannot solve the income problems of some farmers, and cannot completely solve the income problems of others. It is in this situation that there is a strong case for direct income aids (see Chapter 14). The Council strongly believes that the payment of direct income aids by the state, or by the Community, or both, should give the state, as the agent of society at large, a say in the use of the land which is occupied by those in receipt of income support. To exercise this say the state will clearly need a well formulated land-use policy as advocated above.

(iv) Development of the Food Industry

There is both an industrial and an agricultural dimension to the disappointing progress in the development of Ireland’s food processing industry. The agricultural constraints on the development of the food processing industry derive from insecurity, seasonality and non-uniformity of supply of primary agricultural products and from the incentives created by the prevailing prices and markets policy. We saw in Chapter 7 that the incentives created by the prices and markets policy of the CAP have not favoured adding value to agricultural produce in Ireland. Some of the anomalies in the system of agricultural support have eventually been sorted out, while others remain and may take many years to be dealt with.

A very important problem which remains is the insecurity, seasonality and non-uniformity of supply. There are three aspects of this problem that are important in devising a solution to it. Although the seasonality of supply derives in part from the climatic conditions in Ireland, modern technology can now overcome these climatic effects to a considerable extent. However, farmers seem not to have the incentive to bring forth the necessary winter supplies, nor to enter into long term supply contracts with processors. These incentives can be altered not only by a change in the overall prices and markets regime, which is a difficult and slow process, but also by improvement in the cost and regulatory environment in transport and insurance. But continued seasonality is not independent of the third aspect of the problem — the structural problems in the agricultural sector (see Chapter 14). This implies that overcoming the insecurity, seasonality and non-uniformity of supply requires a strengthening of the structure of Ireland’s farm businesses. Given the nature of the market for land this can only occur under the guiding hand of a clear and much more vigorous national structural policy. Once again we stress that this must be complemented by productivity policies — especially those which focus on the development of human resources — and non-agricultural programmes aimed at employment creation and income support.

(v) General Conclusion on Irish Agriculture in the EC

The essential difference between the Irish industrial and agricultural sectors in the EC has been that the Community system from 1973 to the early eighties was one which made adjustment in industry unavoidable, whereas the Community system in agriculture was one which made adjustment partially avoidable — while at the same time rewarding strong more lavishly than the weak. This had one unfortunate consequence. It could conceal the need for a range of long term national policies concerning the role of agriculture in the overall development of the economy, and the need for national policies to achieve agricultural objectives which were not, and probably could not be, addressed by the CAP. The need for such policies is the single most important finding on agriculture in this study. Consequently, the Council recommends that a national agricultural programme, including rural development and the requirements of a competitive food sector, be devised and implemented.

This suggests that the criterion by which Ireland’s membership of the Community be assessed should primarily be the kind of economy which evolved as a result of EC membership and only secondarily whether a particular strategy maximised receipts from the Community. Furthermore, it suggests that the conception of what is meant by Ireland’s European policy should be broadened, from reference to the strategic and tactical positions it took at the European Council and the Council of Ministers, to include the set of domestic policies devised, or not devised, in the light of the common policies adopted at EC level.

In Chapter 7 we noted that the Community system of specialised Councils of Ministers gave rise to a certain sectoral autonomy in Community policy-making and weakened the possibility for coherence between different policies. This sectoral autonomy was greatest in the case of agriculture and was found not only in the Community but also in the member states. This insulation of agricultural policy from general economic policy may have been of little significance for most member states. But it had profound implications for Ireland — which was, and still is, faced precisely with the need to develop an indigenous manufacturing sector based on agricultural raw materials and, therefore, with the need for the closest possible integration of agricultural policy with industrial and other economic and social policies.

11. THE SOCIAL DIMENSION

The further integration of the European economies, following the Single European Act, will inevitably highlight issues such as the income disparities between rich and poor regions, the social framework of labour market activity,
and the nature and standards of social services. The analysis of economic integration in this report shows that it is entirely appropriate, indeed logically necessary, that integration consist not only of negative integration but also of many measures of positive integration. The Social Dimension of the internal market will be an important aspect of positive integration.

The Council is of the view that an indispensable ingredient of the successful evolution of the single market is the development of accompanying social policies. Community-wide measures will be necessary to narrow the income disparities between central and peripheral regions, to enhance the labour force prospects and participation of unemployed men and women throughout the Community, and to standardise the social and regulatory framework within which the Community’s labour market will operate. Policies in these areas are both economic and social: they contribute to the efficient functioning of the economy and effect a degree of redistribution and social protection.

In the Council’s view, there are two fundamental social policy issues which supercede the details of particular aspects of the Social Dimension. First, Ireland must contribute positively to formulating the agenda for the Community’s social policy discussions. This is necessary because Ireland, and other peripheral economies, may have different social policy preoccupations to the wealthier, central economies. In the absence of continuous analysis and input from Ireland there is a danger that the priorities and content of the Community’s social policies will be determined without reference to the needs and constraints of Ireland. In these circumstances Ireland may find itself in the role of a reluctant and belated adherent to EC social policy initiatives.

Second, the issue of central budgetary arrangements has arisen throughout this report as a logical extension of the analysis of economic integration. That analysis has shown that conditions may develop in the integrated European economy which logically necessitate some degree of centralised Community budgeting. In Ireland, about 30 per cent of GNP is allocated to social expenditures — an allocation which arises in part from very high levels of unemployment and a demographic imbalance towards a young, economically dependent population. The Council suggests that it is in this area of public expenditure that the question of Community budgeting arrangements may arise in acute form.

It would not be appropriate for Ireland to seek, on an opportunistic basis, Community funding for existing domestic social policy programmes. However, in keeping with the unfolding logic of economic integration and with the need for positive integration, past and future developments in the Community should be carefully studied to observe the point at which more centralised social policy budgets become justified. For example, greater transnational use of educational facilities or health care technologies, significantly increased labour mobility, or considerable standardisation of some expenditure programmes or social provisions, would provide logical grounds for partial Community financing of some expenditure programmes or social policies. An integrated European economy with a unified labour market and a common currency may also inescapably require some integration of the Community’s Welfare States.

12. INSTITUTIONAL ARRANGEMENTS

The Council has argued in this report in favour of adopting a strategic approach in formulating policy towards the European Community and has outlined the major elements of such an approach. If this broad strategic approach of the Council is adopted then many operational decisions will have to be guided by that strategic perspective. These day-to-day decisions will grow in importance as the European Community influence becomes much more pervasive across all government departments as a result of the internal market programme.

Co-ordination of individual departmental responses can only be achieved if a strategic perspective is adopted. In addition, covering operational decisions with a strategic overview requires that appropriate institutional mechanisms be in place.

The Council has also pointed out that argument of the highest quality will be necessary in order to put the Irish perspective on general Community issues and indeed on the evolution of the Community itself. The Council believes that this will also require that consideration be given to the institutional arrangements and the resources required for the formulation and co-ordination of Ireland’s European policy.

Consideration should also be given to procedures which would facilitate interaction between officials and outside experts so that policy making can both draw on and influence the flow of research results.

13. CONCLUDING REMARKS

In 1985 the NESC was very concerned at the evolution of the economic and social situation over the first half of the 1980s and was extremely apprehensive at the continuation of the policies then in place. This was the background against which the Council published its report Strategy for Development 1986-1990. The main motivating force for that work was the necessity for sharp corrective action to bring the economy back to a sustainable position. In fact, many of the policy recommendations were not really in the nature of voluntary choices at all — in the report they were described as imperatives.
The Council’s overall strategy was composed of four main elements:

(i) an integrated macroeconomic strategy designed to correct the imbalances in the public finances and provide a favourable environment for the international trading sectors;
(ii) reform of the tax structure to enhance the efficiency and equity of the system;
(iii) the removal of major inequities in society;
(iv) long term policies directed towards resolving structural problems in industry and agriculture.

The Government, together with the social partners, then agreed on a Programme for National Recovery to tackle the imbalances which had emerged. The principles governing the Programme for Recovery were those which had been developed in *Strategy for Development 1986-1990*.

This approach has engineered a significant turnaround in the economic environment and a resumption of economic growth. Desirable changes have taken place in many economic policies, though some features of the economy have yet to respond. The four pillars of *Strategy* are still appropriate as guiding precepts for economic and social policy. With regard to the public finances it should be remembered that the objective of the stabilisation of the debt/GNP ratio (which has now been achieved) was simply a first step on the road towards reducing the ratio. With regard to the other three pillars, the changed external environment will strengthen the necessity for proceeding on all three.

The imperatives which gave rise to *Strategy for Development 1986-1990* are now joined by the imperative of competing in a unified European market. The essential result of completion of the internal market is that the Irish economy will become more integrated into the European economy. Inefficiency will now be penalised as never before. With the increase in mobility of goods, labour, investment and financial capital, all policies and activities must be considered in a new light. Changes which increase the exposure of the economy to external forces must be complemented by measures which enhance the internal efficiency of the Irish economy. This requires changes by all elements of our society.

The Council is absolutely clear that Ireland’s future lies in the fullest participation in the European Community. The central argument in this report is that full economic, monetary and social integration is in Ireland’s best interest. However, the Council is well aware of the problems and difficulties that have been, and will be, experienced in the process of integration. Indeed, this report provides detailed empirical and theoretical analysis of these problems. Having considered the benefits of advanced integration, and the difficulties which can arise at various stages of integration, the Council has concluded that there are two prime requirements for Ireland:

(i) a clear national strategy for European integration which will provide a guide to external negotiations and domestic decision-making;
(ii) continued consensus among the social partners, at the national level, and at the level of the firm, to ensure a swift and flexible response that is most conducive to the objectives of fuller employment, higher living standards and a better social framework.

The Council is confident that if these requirements are met, Ireland should be well placed to maximise the developmental opportunities of the current phase of European integration. Otherwise, there is a strong likelihood that Ireland’s performance over the next decade will show little improvement over that of the 1972-86 era.
BIBLIOGRAPHY


Brock, C. (1968), 'Public policy and private industrial development' in Economic Policy in Ireland, eds. J. A. Bristow and A. A. Tait. Dublin: IPA.


Hannon, D. (1979), Displacement and Development: Class, Kinship and Social Change in Irish Rural Communities, General Research Series, no. 96, Dublin: ESRI.


House of Commons (1984), Select Committee on Trade and Industry, The Growth in the Imbalance of Trade in Manufactured Goods between the UK and Existing and Prospective Members of the EEC. H. C. 461/329. London: HMSO.

House of Lords (1983), Select Committee on the European Communities (Session 1983/84), The United Kingdom's Changing Trade Patterns Subsequent to Membership of the European Community. London: HMSO.


McAleese, D. and Martin, J. (1972), 'Ireland’s manufactured exports to the EEC and the common external tariff', Economic and Social Review, July.


Perez, C. (1983), 'Structural change and assimilation of new technologies in the economic and social system', Futures, no. 15.


<table>
<thead>
<tr>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Comments on Capital Taxation Proposals</td>
<td>July 1974</td>
</tr>
<tr>
<td>7. Jobs and Living Standards: Projections and Implications</td>
<td>July 1975</td>
</tr>
<tr>
<td>15. The Taxation of Farming Profits</td>
<td>Feb. 1976</td>
</tr>
<tr>
<td>16. Some Aspects of Finance for Owner-Occupied Housing</td>
<td>June 1976</td>
</tr>
<tr>
<td>22. Institutional Arrangements for Regional Economic Development</td>
<td>July 1976</td>
</tr>
<tr>
<td>and Dutch Agriculture</td>
<td></td>
</tr>
<tr>
<td>26. Prelude to Planning</td>
<td>Mar. 1977</td>
</tr>
<tr>
<td>28. Service-type Employment and Regional Development</td>
<td>April 1977</td>
</tr>
<tr>
<td>29. Some Major Issues in Health Policy</td>
<td>July 1977</td>
</tr>
<tr>
<td>34. Alternative Growth Rates in Irish Agriculture</td>
<td>Oct. 1977</td>
</tr>
<tr>
<td>37. Integrated Approaches to Personal Income Taxes and Transfers</td>
<td>Mar. 1978</td>
</tr>
<tr>
<td>38. Universality and Selectivity: Social Services in Ireland</td>
<td>June 1978</td>
</tr>
<tr>
<td>40. Policies to Accelerate Agriculture Development</td>
<td>Sept. 1978</td>
</tr>
<tr>
<td>41. Rural Areas: Change and Development</td>
<td>Sept. 1978</td>
</tr>
<tr>
<td>43. Productivity and Management</td>
<td>Dec. 1978</td>
</tr>
<tr>
<td>44. Comments on Development for Full Employment</td>
<td>June 1979</td>
</tr>
<tr>
<td>45. Urbanisation and Regional Development in Ireland</td>
<td>Sept. 1979</td>
</tr>
<tr>
<td>46. Irish Forestry Policy</td>
<td></td>
</tr>
<tr>
<td>47. Alternative Strategies for Family Income Support</td>
<td>April 1980</td>
</tr>
<tr>
<td>49. Enterprise in the Public Sector</td>
<td>May 1980</td>
</tr>
<tr>
<td>Handicapped Persons</td>
<td>July 1980</td>
</tr>
<tr>
<td>51. Personal Incomes by Region in 1977</td>
<td>Nov. 1980</td>
</tr>
<tr>
<td>54. The Future of the National Economic and Social Council</td>
<td>Nov. 1981</td>
</tr>
<tr>
<td>Economic Community</td>
<td></td>
</tr>
<tr>
<td>59. The Importance of Infrastructure to Industrial Development in</td>
<td>Oct. 1981</td>
</tr>
<tr>
<td>64. A Review of Industrial Policy (A Summary of this report is available separately)</td>
<td>Oct. 1982</td>
</tr>
<tr>
<td>65. Farm Incomes</td>
<td>Nov. 1982</td>
</tr>
<tr>
<td>Recommendations</td>
<td>Oct. 1982</td>
</tr>
<tr>
<td>67. An Analysis of Job Losses in Irish Manufacturing Industry</td>
<td>June 1983</td>
</tr>
<tr>
<td>68. Social Planning in Ireland: Its Purposes and Organisational</td>
<td></td>
</tr>
<tr>
<td>Requirements</td>
<td></td>
</tr>
<tr>
<td>70. Economic and Social Policy 1982: Aims and Recommendations</td>
<td>August 1983</td>
</tr>
<tr>
<td>71. Education: The Implications of Demographic Change</td>
<td>April 1984</td>
</tr>
<tr>
<td>72. Social Welfare: The Implications of Demographic Change</td>
<td>April 1984</td>
</tr>
<tr>
<td>73. Health Services: The Implications of Demographic Change</td>
<td>April 1984</td>
</tr>
<tr>
<td>74. Irish Energy Policy</td>
<td>April 1984</td>
</tr>
<tr>
<td>76. A Review of the Implications of Recent Demographic Changes for</td>
<td></td>
</tr>
<tr>
<td>Education, Social Welfare and the Health Services (Background Paper)</td>
<td></td>
</tr>
<tr>
<td>77. The Role of the Financial System in Financing the Traded Sectors</td>
<td>Oct. 1984</td>
</tr>
<tr>
<td>78. The Criminal Justice System: Policy and Performance</td>
<td>Feb. 1985</td>
</tr>
<tr>
<td>79. Information for Policy</td>
<td>Oct. 1985</td>
</tr>
<tr>
<td>80. Economic and Social Policy Assessment</td>
<td>Jan. 1985</td>
</tr>
<tr>
<td>81. The Financing of Local Authorities</td>
<td>Nov. 1985</td>
</tr>
<tr>
<td>82. Manpower Policy in Ireland</td>
<td>Jan. 1986</td>
</tr>
<tr>
<td>84. Community Care Services: An Overview</td>
<td>Nov. 1987</td>
</tr>
</tbody>
</table>