NATIONAL ECONOMIC AND SOCIAL COUNCIL

Constitution and Terms of Reference

1. The main tasks of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government through the Taoiseach, on their application. The Council shall have regard, inter alia, to:

   (i) the realisation of the highest possible levels of employment at adequate reward.
   (ii) the attainment of the highest sustainable rate of economic growth.
   (iii) the fair and equitable distribution of the income and wealth of the nation.
   (iv) reasonable price stability and long-term equilibrium in the balance of payments.
   (v) the balanced development of all regions in the country, and
   (vi) the social implications of economic growth, including the need to protect the environment.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Members of the Government will meet regularly with NESC on their initiative or on the initiative of NESC to discuss any matters arising from the terms of reference and in particular to discuss specific economic and social policy measures and plans and to explore together proposals and actions to improve economic and social conditions. Any reports which the Council may produce shall be submitted to the Government, and shall be laid before each House of the Oireachtas and published.

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

   Six persons nominated by agricultural organisations;
   Six persons nominated by the Irish Business and Employers Confederation and the Construction Industry Federation;
   Six persons nominated by the Irish Congress of Trade Unions;
   Fifteen other persons nominated by the Government, including one from the National Youth Council, the Secretary of the Department of Finance, the Secretary of the Department of Tourism and Trade, the Secretary of the Department of Enterprise and Employment, the Secretary of the Department of Social Welfare and the Assistant Secretary, Office of the Tanaiste.
   Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairperson to regulate the numbers attending.

5. The term of office of members shall be for three years. Casual vacancies shall be filled by the Government or by the nominating body as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office.

6. The numbers, remuneration and conditions of service of staff are subject to the approval of the Taoiseach.

7. The Council shall regulate its own procedure.

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Strategy into the 21st Century

PUBLISHED BY THE NATIONAL ECONOMIC AND SOCIAL COUNCIL

Copies of this Report may be obtained from
THE NATIONAL ECONOMIC AND SOCIAL COUNCIL
Dublin Castle, Dublin 2.
or the Government Publications Sales Office.

Price £15.00

(Pn. 3115) ISBN 1-898724-00-8

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Mr. Kevin Hannigan (Economist)
Mr. Noel Cahill (Economist)
Ms. Catherine O'Brien
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PREFACE

Since the mid-1980s, the National Economic and Social Council has produced a periodic overview of economic and social policy. These reports – *A Strategy for Development* (1986), *A Strategy for the Nineties* (1990), and *A Strategy for Competitiveness, Growth and Employment* (1993) – have documented developments in the Irish economy and society, and constituted an input into the negotiation of the national social partnership programmes. The Council has now completed a fourth overview of Ireland's economic and social strategy. The key argument and findings of that study have recently been summarised in Report No. 98, *Strategy into the 21st Century: Conclusions and Recommendations.* The Council now publishes the main report from which those conclusions and recommendations were derived.

In presenting its ideas on an economic and social strategy to take Ireland into the 21st Century, the Council has arranged its work in four parts. Part I sets out the foundations upon which economic and social policy must now be based. These foundations are derived from a review of the Irish economy and Irish society since 1960. This long-time horizon, allows a clear perspective on the major challenges. It shows that the major economic challenge is to manage growth and lay the foundations for future competitiveness. The major social challenge is to reduce unemployment and start a long-term reversal of inequality. The third element of the foundations is a perspective on Irish policy in a global context. Globalisation places a premium on structural adjustment, and high levels of social cohesion co-operation.

Part II sets out the economic framework for Irish policy in the coming years. The maintenance of low inflation, reduction of public sector deficits and debt and transition to EMU provide clear guidelines for macroeconomic policy. Co-ordinated wage bargaining – in the context of a negotiated national programme – is the approach most likely to yield appropriate settlements across the economy.

Part III outlines a set of policy areas in which change is necessary in the coming years if Ireland is to strengthen its competitive position, reduce unemployment and strengthen social cohesion. These include policies for enterprise and competitiveness, enterprise-level partnership and training, action on unemployment and social exclusion, measures to enhance equality, new approaches to combating crime, reform of taxation and action to promote institutional change in the public sector.

In Part IV, the Council considers partnership and the policy process. This reflects the Council's belief that successful implementation is dependent on effective and extensive participation in social partnership and the monitoring of progress in negotiated programmes.

The Council commends its fourth *Strategy* Report to the Irish government, the social partners and the wider society. It does this in the belief that the widest participation in social life, economic activity and policy-making are inseparable and fundamental requirements for the well-being of Irish society.

ACKNOWLEDGEMENTS

The Council and Secretariat of the NESC acknowledge the co-operation and assistance of many individuals and organisations in the preparation of this report.

The Council is grateful to Dr. Tony Fahey, of the ESRI, who was commissioned to prepare a paper which was drawn upon in the preparation of Chapter 2, on Irish Society Since 1960. It is also grateful to Professor Bill Roche, of University College Dublin, and Professor Tom Kochan, of the Massachusetts Institute of Technology, who prepared a background paper on the development of partnership at enterprise level. Thanks are also due to Dr. Jonathan Michie of the Judge Institute, University of Cambridge, who provided material on social partnership in other countries. The Council is also grateful to Mr. Colm O'Reardon of Woolfson College, Oxford, who assisted in the preparation of Chapter 5.

Dr. Francis O'Toole (TCD) and Dr. Donal de Buitleir (AIB Group) provided valuable comments on earlier drafts of Chapter 11.

Officials of the Department of Finance, too numerous to record individually, and of other Government Departments provided great assistance to the Secretariat in the preparation of the report. Mr. Paddy Molloy of the Revenue Commissioners provided analysis of the Council's taxation proposals. Ms. Sara Cantillon, of the Department of the Taoiseach, provided considerable assistance in the preparation of Chapters 1 and 5.

The Administrative Staff of the Council's Secretariat – Ms. Catherine O'Brien, Ms. Jacqui Mullally and Ms. Tracy Curran – provided invaluable and patient support in the production of the various drafts of the report.

ABBREVIATIONS

CAP	Common Agricultural Policy
CRC	Central Review Committee
CSO	Central Statistics Office
EMS	European Monetary System
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESRI	Economic and Social Research Institute
FÁS	Training and Employment Authority
FEOGA	European Agricultural Guidance and Guarantee Fund
FIS	Family Income Supplement
GDP	Gross Domestic Product
GGD	General Government Deficit
GNP	Gross National Product
IBEC	Irish Business and Employers' Confederation
ICTU	Irish Congress of Trade Unions
IFSC	International Financial Services Centre
IPC	Irish Productivity Centre
LES	Local Employment Service
LRC	Labour Relations Commission
NAPS	National Anti-Poverty Strategy
NESF	National Economic and Social Forum
OECD	Organisation for Economic Co-operation and Development
PCW	Programme for Competitiveness and Work
PESP	Programme for Economic and Social Progress
PNR	Programme for National Recovery
PRSI	Pay Related Social Insurance
R&D	Research and Development
SME	Small and Medium-sized Enterprises
STIAC	Science, Technology and Innovation Advisory Council
SMI	Strategic Management Initiative
WTO	World Trade Organisation

PART I

Foundations

CHAPTER 1

THE IRISH ECONOMY SINCE 1960

1. INTRODUCTION

In formulating a strategic approach which can take Ireland successfully into the 21st Century, it is important to adopt a realistic view of Ireland's long-term successes and failures. This requires a long-term view, since recent experience tends to colour interpretation. Consequently, the *Strategy* report begins with a brief review of the Irish economy since 1960.

Section 2 provides a factual survey of the economy from 1960 to 1996. It focuses on the main economic indicators, growth, employment, unemployment, inflation, investment and developments in public finances. The survey divides the period since 1960 into four phases. The first encompasses the emergence of growth, from 1960 to 1973. The second covers the period of international crisis and Ireland's membership of the EC, from 1973 to 1979. A third phase is that of recession, disinflation and fiscal correction from 1979 to 1987. The final phase is that of recovery and employment growth, from 1987 to the present. Section 2 (v) places Ireland in an international context, by comparing key trends in Ireland with those in the OECD and OECD Europe.

Section 3 discusses Ireland's economic successes and failures as revealed in the trends surveyed in Section 2. Significant successes are identified under the heading of growth and structural adjustment. Taking the period since 1960 as a whole, it is clear that Ireland has generally achieved fairly strong growth. Assessing the enormous economic problems experienced since 1960, and those which lie ahead, it should not be forgotten that real GNP per head is almost 2½ times higher now than in 1960. The second success has been the dramatic structural adjustment of the Irish economy since 1960. This is evident both in the contraction of employment in agriculture and the adjustment of the non-agricultural economy to free trade and EU membership. A third achievement is labelled 'modernisation'. The period since 1960 has seen a strong increase in average living standards and expectations. These successes – in growth, sectoral adjustment and modernisation – occurred in a context which contained an underlying difficulty. Ireland's demographic pattern yielded a large increase in the labour force at a time of acute international and domestic economic difficulties. The resulting rise in the dependency ratio constituted a significantly increased demand on both public and private resources. A final success in the period since 1960 has been Ireland's attraction and use of inward investment.

Although the Irish economy achieved significant economic growth, adjustment, modernisation and inward investment since 1960, these successes are qualified in important ways. Growth was not handled well. Awareness of the international environment was incomplete. The adjustment of indigenous enterprises to international competition failed more often than it succeeded. Job creation was insufficient, at times old jobs were lost at a remarkable rate and unemployment increased. High levels of savings and corporate profits were not matched by investment in the Irish economy. Inevitable adversities were allowed to become divisive and produced delayed and insufficient responses. Overall, there was an insufficient appreciation of the interdependence in the economy – between the public and the private sectors, between the indigenous economy and the international economy, and between the economic and the political. A central argument of this chapter is that, reviewing the period since 1960, the problems listed above arose as much in periods of strong economic growth, as in periods of international recession.

Section 4 turns from the review of the past, to future themes. It draws on the review since 1960, to characterise where Irish policy stands now. While much attention is naturally focused on the contrast between the early 1980s and the period since 1987, this contrast may begin to lose some of it relevance. Viewing development since 1960, the current period is more usefully compared with a late 1960s and the 1970s. In short, the current problem is how to manage economic growth, not how to adjust to extreme adversity. The Council suggests that this requires an inclusive perspective, involving realistic expectations and a widely shared understanding of the key mechanisms and relationships in the Irish economy.

2. OVERVIEW OF ECONOMY 1960-1995

(i) The Emergence of Growth

The late 1950s witnessed a turnaround in the economic fortunes of the Irish economy. Between 1960 and 1973, the year of Ireland's entry to the EEC, real growth averaged 4.4. per cent per annum which was the fastest rate sustained up to that time. GDP per capita also rose with an average annual increase of 3.4 per cent between 1960-1973, compared with 2.2 percent for the previous decade (see Table 1.1).

While this surge in economic growth partly reflects the high growth rates sustained in Europe and in the wider OECD over the so called 'Golden

Age', it was also a consequence of changes in the domestic economy and policy arena, most notably in the gradual opening up of the economy, in the attraction of direct foreign investment and in changes in sectoral employment.

A significant feature of the 1960s was the opening of the Irish economy. This opening had two distinct attributes: the actual increase in the volume of trade and the diversification of trade. Exports as a percentage of goods and services rose from 31.8 per cent of GDP in 1960 to 38 per cent in 1973. Imports rose from 37.3 per cent to 44.8 per cent over the same period. The diversification of trade comprised a re-orientation from the traditional UK market to the wider arena of Continental Europe. In 1955, the UK market accounted for 89 per cent of Irish exports, by the time of Ireland's entry to the EEC this share had fallen to around 59 per cent. In contrast, the share going to the EEC rose from 5 to 17 per cent over the same period.

TABLE 1.1

Key Indicators of Macroeconomic Performance 1960-1996

	1960-1973	1973-1979	1979-1987	1987-1996*
GNP	4.2	3.5	-0.3	4.0
GDP	4.1	4.3	1.5	5.0
GDP per capita	3.4	2.7	4.5	5.0
Inflation	5.9	15.0	10.7	2.6
Employment	+12,000	+78,000	-55,000	+172,000
Employment (annual % change)	0.1	1.2	-0.6	1.6
Unemployment	+2,000	+23,000	+45,000	-54,000

Source: CSO Revised Economic Indicators since 1960

* 1995/96 figures are provisional

Also underlying the turnaround in the growth rate from the late 1950s to the early 1970s, were significant changes in sectoral employment, with the share of industrial employment increasing in parallel to the fall in agricultural employment. The share of agricultural in total employment fell from 37 per cent in 1960 to 24 per cent in 1973. It is worth noting, however, that there was almost no increase in total employment in the period 1960-1973 with the increase in industrial employment being offset by the fall in agricultural employment (see Table 1.1).

Despite the decline in agricultural employment, agricultural exports, especially livestock and livestock products, rose significantly. This expansion was partly accounted for by the new policy of trade liberalisation (including the unilateral cuts in tariffs in 1963 and 1964, the Anglo-Irish Free Trade Area Agreement which took effect from mid 1966, and membership of GATT in 1967) but also by considerable improvements in the agricultural sector. Moreover, with the sustained reduction in the numbers employed in agriculture the real incomes of those remaining continued to improve.

Investment in the Irish economy rose from a 15 per cent share of GDP in the 1950s, to a 20 per cent share in the 1960s, financed primarily by the rise in domestic savings (see Table 1.2), but also by increasing foreign direct investment. The new policy of attracting foreign companies to establish in Ireland changed the composition of the industrial economy, with overseas firms accounting for over 60 per cent of industrial output and almost 33 per cent of total manufacturing employment in 1973.

TABLE 1.2

Investment, Savings and Interest Rates 1960-1994

	1960-1973	1973-1979	1979-1987	1987-1994
Investment as a % of GDP	20	26	23	16
Savings Ratio	11.6	20.2	16	11*
Interest Rates	–	11.7	14.2	10.5*

(* to 1993)

(ii) International Crisis and EC Membership

The major economic events of the 1970s for Ireland were the two oil crises, 1973 and 1979, and membership of the EEC. Joining the EMS on its establishment in 1979 was also of great significance.

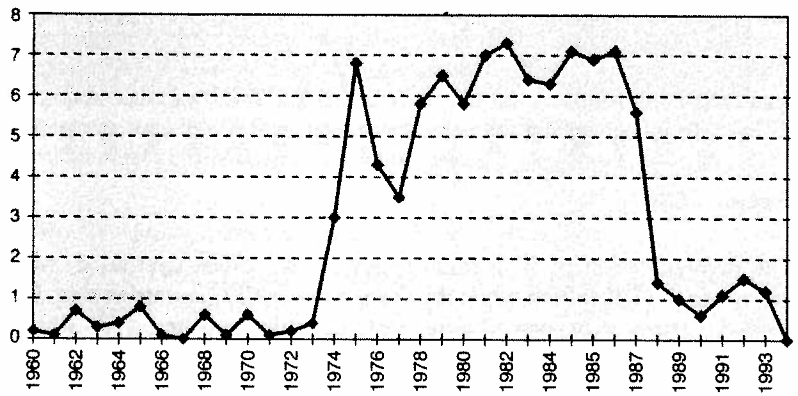
Despite the world-wide recession that followed the first oil crisis in 1973, Ireland's recovery was very strong, such that for the 1973-1979 period as a whole the annual average rate of growth in real GDP was just over 4

per cent, and thus roughly in line with experience in the 1960s. Annual GNP growth however averaged just under 3.5 per cent reflecting an increase in net factor outflows in turn reflecting the increase in profit repatriations of the new multinationals.

Much of the reason for the continued growth was the increase in government spending. The current budget deficit as a percentage of GDP rose from 0.4 per cent in 1973, to 6.8 per cent in 1975 (see Figure 1.1). While public borrowing fell in 1976 (4.4 per cent) and 1977 (3.6 per cent), it increased again in 1978 (6.1 per cent) and 1979 (6.8 per cent), with an average annual current budget deficit for the period at 5 per cent.

FIGURE 1.1

Budget Deficit Surplus 1960-94 (Per Cent of GDP)

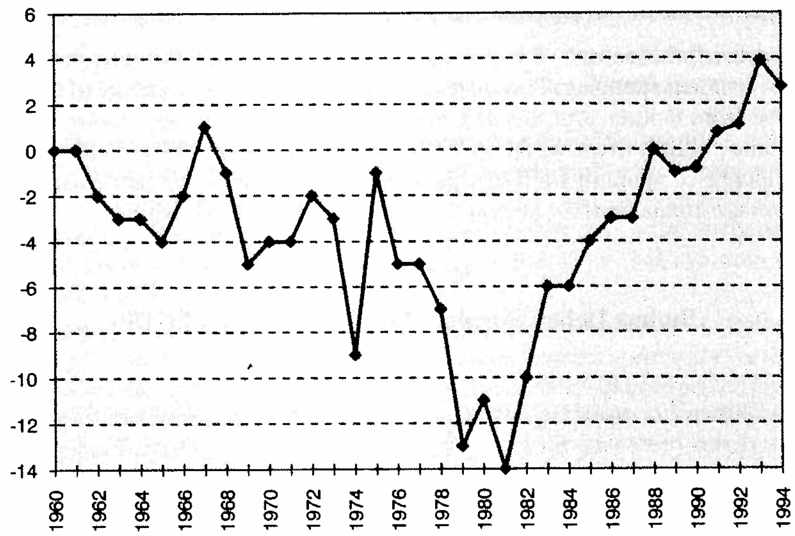


Source: Department of Finance

The impact of the oil crisis on both the balance of payments and on the general price level is evident in Tables 1.1 and 1.3. The impact of the deterioration in the terms of trade on the balance of payments (current account) as a percentage of GDP is most evident in 1974, but a generally declining trend in the current account continued for the remainder of the 1970s and the early 1980s (see Figure 1.2). From the early 1970s, Ireland, in line with most other European countries, experienced an acceleration in inflation with inflation averaging 15 per cent between 1973-1979, almost three times the average annual rate of inflation (5.3 per cent) between 1960 and 1973.

FIGURE 1.2

Balance of Payments Deficit/Surplus 1960-94 (Per Cent of GDP)



Source CSO.

The diversification of Irish trade begun in the 1960s continued, with exports to the UK falling while the share to other EEC countries rose. By 1979 the share of exports to other EEC countries accounted for 30 per cent of total exports, while the UK share had fallen to 47 per cent. The opening up of the Irish economy continued unabated, with the overall share of exports and imports as a percentage of GDP also continuing to increase. The share of exports rose from 38 per cent in 1973 to 50 per cent in 1979, while imports rose from 44.8 per cent to 66 per cent.

TABLE 1.3

Exports, Imports as a Per Cent of GDP 1960-1994

	1960-1973	1973-1979	1979-1987	1987-1994
Exports	36	46	58	72
Imports	35	56	63	62

Considerable industrial unrest was also a feature of this period. For most of the 1960s the annual average number of days lost in industrial disputes was 400,000. In 1970 the figure escalated to 1,007,714 (see Figure 1.5). For the 1973-1979 period the average annual the number of days lost to industrial disputes was close to 600,000.

The poor overall, as opposed to sectoral, employment growth experience in the 1960s and early 1970s improved somewhat in the period 1973-1979, with total employment rising from 1,067,000 to 1,145,000, an increase of 78,000. This employment growth was outpaced, however, by the increase in the labour force (from 1,132,000 to 1,233,000), with the result that the numbers unemployed increased from 66,600 to 89,600 over the period.

In 1979, Ireland joined the European Monetary System, thereby breaking the link with sterling which had lasted for nearly 150 years. One of the main incentives for the switch was to join the low-inflation EMS currencies. In the event, Irish inflation fell slowly in the early 1980s, much slower in fact than in the UK, with the result that devaluation became necessary and interest rates remained high. Inflation averaged 13 per cent over the 1979-1987 period, not significantly below the average rate in the transition period, 1973-1979, of 15 per cent. An important difference, however, was that inflation was falling in the later period. Indeed, 1983 was the last year of double digit inflation.

(iii) Recession, Disinflation and Fiscal Correction

The 1979-1987 period is recalled as one of very poor economic performance on almost all counts: slow growth, rapidly deteriorating public finances, stagnation of per capita disposable income, huge balance of payments deficits and industrial relations turmoil. The interpretation of this difficult period in Ireland's long-term economic development is discussed in Section 3 (ii) below.

There was much slower growth over the 1979-87 period than in the previous two periods reviewed. Annual GDP growth averaged 1.5 per cent, while average annual GNP growth was negative (-0.3). Gross national disposable income per capita contracted by around 0.4 per cent.

Government debt, which had begun to rise earlier in the 1970s in response to the 1973/4 recession and rising unemployment, accelerated during this period. The current budget deficit rose from 0.3 per cent of GNP in 1972, to 6.8 per cent in 1979, and to 7.9 per cent in 1986. The EBR as a percentage of GNP, averaged over 13 per cent for the 1979-1987 period. The government debt to GNP ratio rose from 85.7 in 1979, to a peak of 125 in 1987. The burden of servicing the national debt was aggravated by the rise in real interest rates. The ratio of interest paid on external debt to GNP rose from 0.3 per cent in 1972, to a peak of 4.9 per cent in 1985.

Table 1.4 illustrates the deteriorating trend in public finances from the mid-1970s to the mid-1980s.

TABLE 1.4

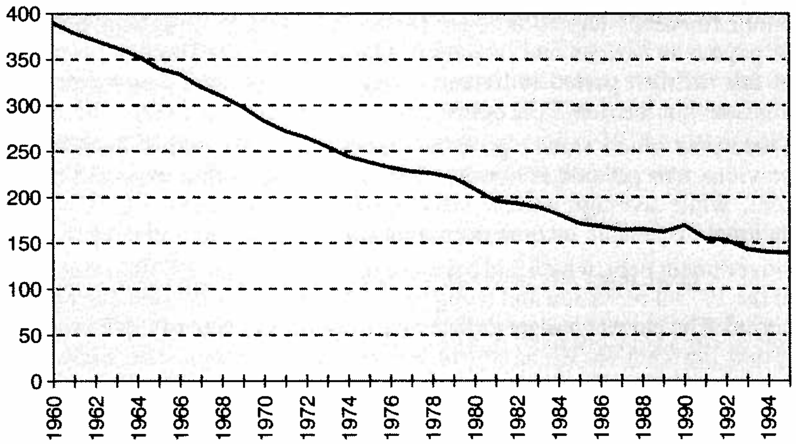
Budget Deficit and Debt as a Per Cent of GDP 1960-1994

	1960-1973	1973-1979	1979-1987	1987-1994
Budget Deficit/surplus	0.4	4.3	6.5	1.6
Debt	70.0	72.0	98.0	95.0

The changes in sectoral employment begun in the 1950s continued, with the numbers employed in agriculture falling from 221,000 in 1979 to 164,000 in 1987 (see Figure 1.3). The rise in non-agricultural employment was disappointing with a net increase of just 2,000 over the period (see Figure 1.4). Unemployment increased considerably with the numbers unemployed standing at 232,000 in 1987, compared with 88,000 in 1979. The factors which gave rise to this dramatic, and sustained, increase in unemployment are discussed in Section 3 (ii) below.

FIGURE 1.3

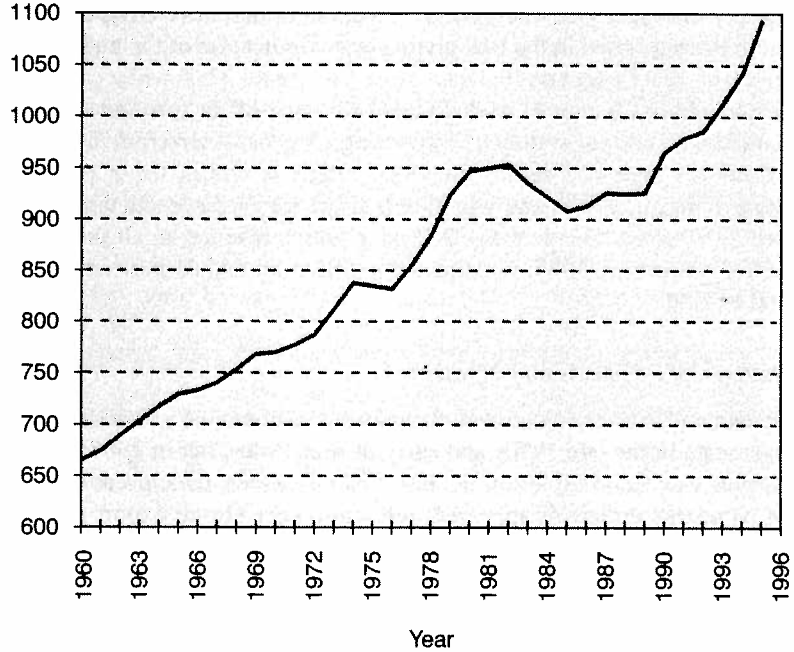
Employment in Agriculture, Forestry and Fishing 1960-1995



Source: Labour Force Survey.

FIGURE 1.4

Non-Agricultural Employment (000s)



Source: Labour Force Survey.

(iv) Recovery and Employment Growth

Over the period 1987-1996 the Irish economy has achieved a period of strong growth with an annual average increase in GDP of over 5 per cent, the highest rate yet sustained by the Irish economy.

Public Finance

Further steps in fiscal correction were taken in 1987, with a very tight budget and the reduction of the budget deficit to 1.8 per cent of GDP. Budgetary discipline over several years, coupled with the adherence to the criteria for EMU established at Maastricht in 1992, resulted in a huge improvement in public finances over the 1987-1995 period as a whole (see Chapter 4). The current budget deficit as a per cent of GNP, which was 6.2 per cent in 1987, had fallen to 1.1 per cent in 1995. The exchequer borrowing requirement fell from 9.4 per cent of GNP in 1987 to an estimated 1.9 per cent in 1995 (forecast 2 per cent in 1996), while the public sector borrowing requirement fell from 10.8 per cent in 1987 to 2.4 per cent in 1995. The general government deficit (GGD), now the main measure used in the EU, gives a better indication of the underlying trend of the budgetary balance than the EBR. This wider measure (explained in Chapter 4) tends to level out once-off factors and is partly based on an accrual system of accounting. A general government deficit of 2.4 per cent is forecast for 1996, which is within the 3 per cent Maastricht guidelines and which will allow for further reduction in the debt/GNP ratio. The debt to GNP ratio, which reached an all time high of 125 per cent in 1987, is estimated to fall to around 85 per cent by the end of 1996.

Balance of Payments and Inflation

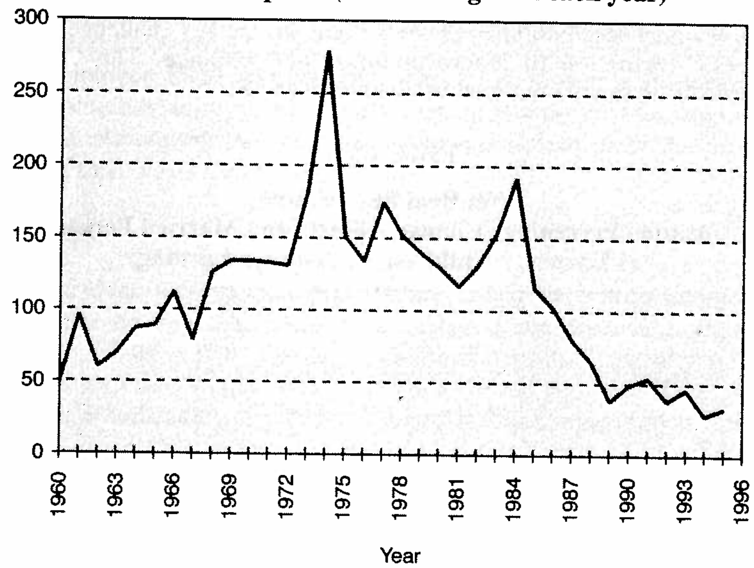
Severe deficits characterised the current account of the balance of payments in the late 1970s and early-to-mid 1980s, but in 1987 a small surplus was recorded. From the late 1980s onwards, the current balance of payments deficit disappeared, reflecting very strong export growth, favourable terms of trade (arising from low oil and other commodity prices) and an improvement in Ireland's overall competitive position. With the exception of the 1992/3 exchange rate crisis, consumer prices remained relatively stable over the period 1987-1996, with the average rate of inflation at around 2.5 per cent, comparing very favourably with our European partners.

Industrial Unrest

The period since 1987 has seen industrial disputes reduce dramatically (see Figure 1.5). The trend in days lost in industrial disputes has also been downward since 1987, with an acceleration in the trend since 1993. There were 85 disputes in 1987, compared with 33 disputes in 1995.

FIGURE 1.5

Industrial Disputes (number begun in each year)



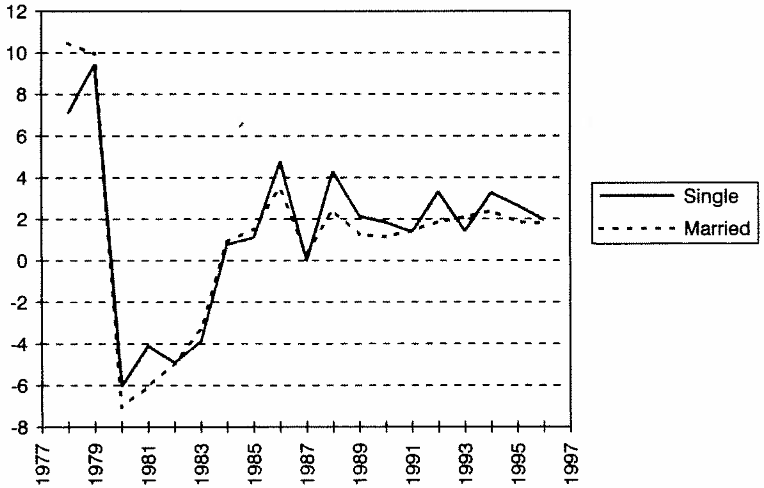
Source: CSO.

Employment Growth

One of the key features of the last period under review, and, in particular, the latter half of the period, has been the unprecedented growth in employment. On a Labour Force Survey basis, initial figures indicate that total employment grew by 136,000 between mid-April 1993 and mid-April 1996. Non-agricultural employment grew by 144,000, with most of the increase in employment in the private sector. Between mid-April 1993 and mid-April 1996 – excluding the increase in participation on state-sponsored schemes (+23,000) and the rise in public sector employment (+12,000) – private sector employment grew by 109,000. A substantial part of this increase (around 45,000) in employment occurred in 1996. This increase in employment is leading to lower unemployment. On a Labour Force Survey basis, unemployment fell by 40,000 in the three years to mid-April 1996. At end-August 1996, the standardised unemployment rate was 12.5 per cent. The unemployment rate forecast for the year is 11.4 per cent, compared with an EU average of 10.4 per cent in 1996. This fall is particularly encouraging, insofar as it reflects a pick-up in the numbers in employment, rather than a resumption of large scale emigration. However, there remains justified concern at the continuing high level of unemployment, particularly long-term unemployment. While the 1996 Budget introduced a number of initiatives aimed specifically at the long-term unemployed, including a re-focusing of the Community Employment schemes, unemployment remains the key challenge to any overall evaluation of macroeconomic performance. The Council proposals on this are outlined in Chapters 6 and 8.

FIGURE 1.6

Net Real Pay 1978-96
Annual Percentage Change – Single and Married Person (1 Earner, 2 Children) on Average Earnings



Source: Department of Finance.

Real Take-Home Pay

Despite the continued high levels of nominal growth, real take-home pay was declining in the early 1980s, so that by the mid-1980s the issue of tax reform was high on the political agenda. Figure 1.6 shows the change in real take-home pay of both a single and married (one earner, two children) worker on average manufacturing earnings (and see Table 5.1). In 1978, real take-home pay of a married worker increased by over 10 per cent, and by around 7 per cent for a single worker. In 1979, the increase in real take-home pay was around 10 per cent for both categories of worker. In 1980 both groups of workers received a very sharp fall in their net real take-home pay. The increase in real take-home pay remained negative for the first half of the 1980s. The mid-1980s shows an increase in real

take-home pay, with single workers faring marginally better than their married counterparts. From 1989 onwards, there has been a steady, if moderate, increase. Much of the net effect of pay increases has been accounted for by reductions in direct taxes, including income tax, levies and employee PRSI contributions. The fairly moderate increases in take-home pay in a period of very high economic growth should be considered alongside the rapid increase in employment, particularly, over the last three years (see Section 5 (ii)).

Summary

What distinguishes the latest period from earlier ones is not a significant difference on any one measure of economic performance – indeed, average annual growth rates are quite similar in three out of the four periods reviewed – but rather the combination of good results across a number of indicators. The 1987-96 period is thus unique in its harmony of high growth, low inflation, impressive employment growth, improved public finances and balance of payments surplus. The interpretation of these developments is discussed in Section 3 below.

(v) International Comparison

Growth

Table 1.5 summarises the performance of the Irish economy relative to that of the UK, the EC, the OECD(Europe) and the OECD. As the volatility of growth rates makes comparisons over long periods difficult, we compare Ireland's GDP growth, GDP per capita, inflation and unemployment over the period 1960-1994, using the same sub-periods discussed earlier in the text.

The tables illustrate a downward trend in total OECD growth. While Ireland has followed this downward trend, it achieved a much higher annual growth rate in both the 1973-79 and 1987-93 periods. In the earlier of these two periods, Ireland's relatively high growth was achieved at the cost of heavy government borrowing, increased public debt and large balance of payments deficits. This is not the case in the latter period, making the Irish annual average rate of growth – over twice that of the total OECD – an impressive achievement. Another striking feature of the tables is that, throughout the entire 1960-1994 period, Ireland's annual average growth rate exceeded that of the UK.

TABLE 1.5

Growth of GDP, Inflation, Unemployment
(Average Annual Per Cent Change)

1960 – 1973	GDP Volume	GDP per head	Inflation	Unemployment (as a % of labour force)
Ireland	4.5	3.8	6.4	5.3
UK	3.2	2.7	5.5	2.0
Total EC-12	4.7	4.1	4.7	2.5
OECD – Europe	4.9	4.0	5.0	3.1
OECD – Total	4.9	3.8	4.3	3.3

1973 – 1979	GDP Volume	GDP per head	Inflation	Unemployment (as a % of labour force)
Ireland	3.9	2.3	15.0	7.6
UK	1.4	1.4	15.6	4.2
Total EC-12	2.5	2.2	10.4	4.8
OECD – Europe	2.5	1.9	11.4	5.1
OECD – Total	2.7	1.9	10.0	5.1

1979 – 1987	GDP Volume	GDP per head	Inflation	Unemployment (as a % of labour force)
Ireland	2.2	1.6	10.7	13.0
UK	1.8	1.6	7.6	9.5
Total EC-12	1.7	1.4	7.7	9.2
OECD – Europe	1.8	1.3	8.4	8.8
OECD – Total	2.5	1.8	6.5	7.3

1987 – 1993	GDP Volume	GDP per head	Inflation	Unemployment (as a % of labour force)
Ireland	5.2	5.2	2.9	15.9
UK	1.7	1.4	5.4	8.3
Total EC-12	2.2	1.8	4.4	9.5
OECD – Europe	2.3	1.7	7.0	9.0
OECD – Total	2.5	1.8	6.4	7.1

Source: OECD *Economic Outlook*, *Historical Statistics*, various years.

Ireland's growth in GDP per head has been similar to, or in excess of, both EC and total OECD growth. In the 1987-1994 period, annual average growth in GDP per capita was more than twice that of the EU-15 and three times that of the UK.

Inflation

Inflation in Ireland was consistently higher than in European and other countries, with the exception of the latest period under review. In the 1960s, Irish inflation was around 2 percentage points higher than that prevailing in the EEC and OECD, and around 1 percentage point higher than that in the UK. While the rate of inflation in Ireland remained relatively high in the mid-1970s, it came closer to that in other countries. By contrast, in the later 1970s and early 1980s the difference widened again, with a three percentage point difference between Ireland and the average rate in the EC and UK.

The picture changed dramatically in the early-to-mid 1980s, with the Irish inflation rate taking a steady downward path. For the period 1987-1994 as a whole, the average rate of inflation in Ireland was below that for the EU, and well below that for the UK.

Unemployment

At present, Ireland has one of the highest unemployment rates in the EU. Looking at the rate of unemployment over the various periods allows us to see how this situation emerged. Even in the 1960-1973 period, the average rate of unemployment in Ireland far exceeded that in the UK or the EEC. In the world recessionary period following the oil crisis in 1973, the Irish rate of unemployment did not increase as much as that of its European counterparts. Thus, while Irish unemployment was still higher, the difference was not so wide. In the third period, 1979-1987, there was much less variation in the increase in unemployment, with almost all countries experiencing large increases in unemployment. Thus, Ireland's relatively small increase in the former period was more than outweighed by the increase in the latter period. Even in the high growth period since 1987 unemployment – particularly long-term unemployment – remained higher than in other European countries, although the gap has been narrowing.

Investment

Investment is an important indicator of economic trends and a foundation of growth. Table 1.6 shows investment as a percentage of GDP for Ireland, the UK and the EU-12 from 1960-94. Irish investment rates were consistently above UK levels from 1960 to 1987, and above EU levels from 1973 to 1987. While these higher Irish rates are to be expected in terms of 'catch up', the difference is quite small, suggesting to some that Ireland may have been under-investing (O'Gráda and O'Rourke 1995). Moreover, in the later period, Irish investment rates were below both UK and EU levels. The significance of this falling share of investment in total output is not easily ascertained. Consequently, the Council is currently undertaking a separate study of Irish investment. The conclusions of this study, and the Council's recommendations on policy, will be made public in later months.

TABLE 1.6

Investment as a Per Cent of GDP 1960-1994

	1960-1973	1973-1979	1979-1987	1987-1994
Ireland	20.2	25.2	23.2	16.4
UK	18.3	19.4	17.1	17.4
EU-12	23.1	22.4	20.1	19.7

Source: European Economy, No 58, 1994.

3. SUCCESSES AND FAILURES

(i) Growth and Structural Adjustment

Economic Growth

Taking the period since 1960 as a whole, it is clear that Ireland has generally achieved fairly strong economic growth. In three of the four periods considered in this chapter, real GDP has grown at an annual average rate of 4 per cent or more. In the period from 1960 to 1973, this strong growth of real GDP implied a strong upward trend in gross national disposable income per capita. Through much of the 1970s and 1980s, however, growth in real GDP allowed much more modest growth in disposable income per head. This reflects demographic developments, the role of inward investment in the Irish economy and the repayment of foreign debt. However, since 1987 the resumption of economic growth has been sufficient to yield growth of gross national disposal income per capita of over 3 per cent per annum. In assessing the enormous economic problems experienced since 1960, it should not be forgotten that real GNP per head is almost 2½ times higher now than in 1960.

Structural Adjustment

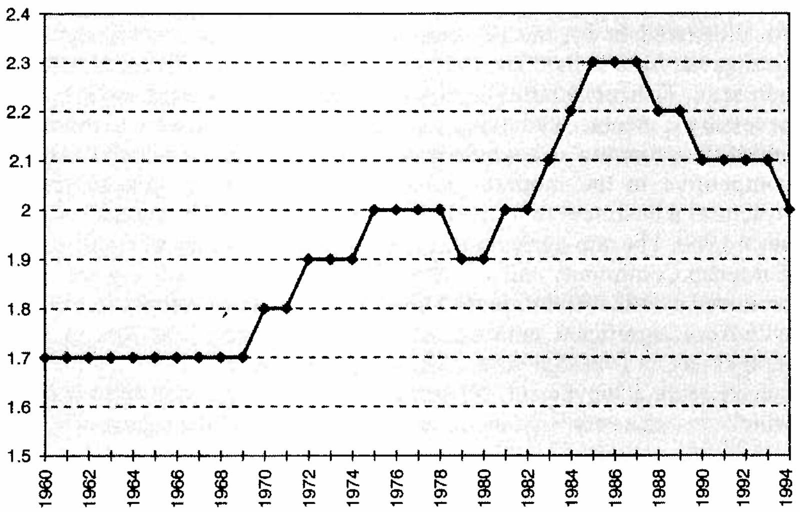
A second dimension of long-run economic achievement is the dramatic structural adjustment of the Irish economy. In 1960, agriculture, forestry and fishing accounted for almost 37 per cent of all employment. By 1995, this had fallen to 11 per cent, reflecting very rapid productivity growth. As illustrated in Figure 1.3, employment in agriculture, forestry and fishing fell from 390,000 in 1960 to 140,000 in 1995, a fall of almost 65 per cent. This constitutes a major structural adjustment, which was necessary if incomes and living standards in agriculture were to increase, and if the economy as a whole was to adopt a structure which could be competitive in the modern global economy. Indeed, this enormous structural adjustment in agriculture was only part of the transformation since 1960. The non-agricultural economy adjusted to membership of the European Community and a greatly liberalised world trade regime. This produced a dramatic shift in the structure of industrial activity in Ireland, with very significant numbers of jobs created and jobs lost in both indigenous and foreign firms. This structural adjustment constitutes a considerable achievement. Nevertheless, it arose in a domestic context which created a very large increase in unemployment, the legacy of which is still with us today (see below).

Modernisation

These long-term achievements – growth and structural adjustment – were accompanied by a third, which is best labelled 'modernisation'. The period since 1960 has seen a strong increase in living standards and expectations. Incomes, wages and welfare provisions converged on those of the UK and, in some cases, surpassed them. The quantity, quality and range of consumer goods increased strongly. Central to this process of modernisation was increased investment in, and access to, education. Subsequent events strongly vindicate the investment in education undertaken since the late 1960s (see Chapter 2, below). These successes – in growth, sectoral adjustment and modernisation – occurred in a context which contained an underlying difficulty. While most European countries experienced increased labour force growth at a time of relative labour shortage – in the 1960s – Ireland's demographic pattern yielded increased numbers in the late 1970s and 1980s. Internationally, this was a period of economic difficulty and, particularly, the virtual collapse in demand for unskilled labour in the developed world (Wood, 1994). Ireland's employment dependency ratio – defined as the number of non-working persons per person at work – increased from 1.7 in 1960, to 2.3 in 1985-87 (see Figure 1.7). This indicates the significantly increased demand on both public and private resources.

FIGURE 1.7

Dependency Ratio 1960-94
Number of Dependants Per Person at Work



Source: CSO.

Attraction of Inward Investment

Another important feature of Ireland's economic performance since 1960 has been a heavy reliance on inward investment. While opposition to inward investment was very limited, the country's heavy reliance on it was seen as a weakness in overall economic strategy and performance. This was underlined in numerous studies which highlighted the large differences between the foreign-owned and indigenous sectors (see NESC Reports Nos. 56, 64, 66, 67, 83, 89, 93, 94 and 96). It has long been argued that inward investment, on its own, will be insufficient to sustain the Irish economy. While this is undoubtedly true, the longer term perspective which is now available suggests two observations. First, it is now clear that the Irish economy became accustomed, relatively early, to attracting and using inward investment; this is a factor which many other peripheral and regional economies (in the UK and elsewhere) are only now struggling to accommodate. To some extent, Ireland's earlier weakness has now become something of a strength. Second, while it remains true that inward investment is insufficient – and indigenous

development remains crucial – the meaning of these statements requires clarification and further exploration (see below).

(ii) Competing Claims, Unemployment and Indigenous Development

Although the Irish economy achieved significant economic growth, adjustment, modernisation and inward investment since 1960, these successes are qualified in important ways. Growth was not handled well, giving rise to inconsistent claims on the Irish economy. Awareness of the international environment was incomplete. The adjustment of indigenous enterprises to international competition failed more often than it succeeded. Job creation was insufficient, old jobs were lost at a remarkable rate and unemployment increased. High levels of savings and corporate profits were not matched by investment in the Irish economy. Inevitable adversities were allowed to become divisive and produced delayed and insufficient responses. Overall, there was an insufficient appreciation of the interdependence in the economy – between the public and the private sectors, between the indigenous economy and the international economy, and between the economic and the political.

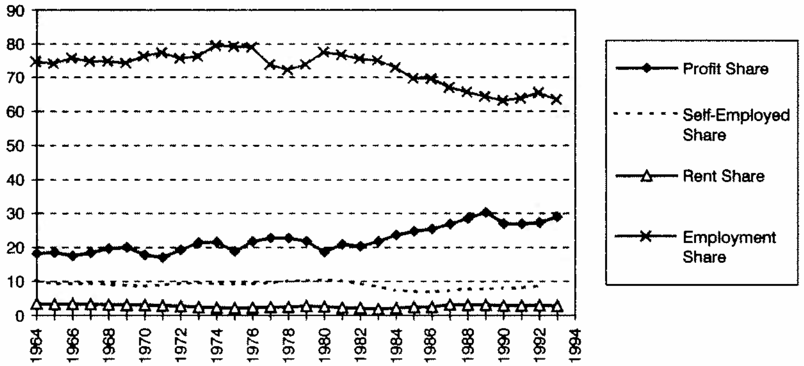
A core argument of this chapter – which informs the whole report – is that these problems arose as much in periods of strong economic growth, as in periods of international recession. An understanding of these weaknesses, and the possibility of repeating them in a period of high growth, is critical in current circumstances.

Inconsistent Claims on Irish Output

In every economy output is subject to competing claims which must be resolved, one way or another. In economic terms, the gross output of the private sector must be divided among the state (via taxes), foreign suppliers (import costs), workers in the private sector (post-tax wages) and firms (post-tax profits). Even in periods of strong economic growth – 1960-73 and 1973-79 – inconsistent claims on Irish output were allowed to develop and were resolved in ways which created major economic problems. In the context of the 1960s, these problems were evident in inflation and industrial conflict. In the 1970s, inconsistent claims were resolved by inflation and increased government spending financed by borrowing. In the 1980s, inconsistent claims were resolved by a combination of expenditure cuts, unemployment, public borrowing, tax increases and a squeeze on profits (see Figure 1.8). Only in the period since 1987 has there been little evidence of inconsistent claims on Irish output. Even then, one major claim has not been adequately met: that of the unemployed and those living in poverty.

FIGURE 1.8

Factor Shares 1964-93
Per Cent of Non-Agricultural Income



Source: *National Income and Expenditure,* various issues.

Incomplete Awareness of International Competition

Viewed from a current perspective, it is clear that Ireland had a very incomplete awareness of the international environment which was entered in the 1960s and 1970s. Many actions – in business, public policy and industrial relations – would seem to have been based on a very incomplete appreciation of just how competitive the international economy was becoming. Ireland handled certain aspects of EC membership – the Common Agricultural Policy and Structural Funds – relatively successfully. But the wider policy and economic approach was inadequate. Although significant consolidation was achieved between 1983 and 1986, by 1987 Ireland's hope of participating successfully in the EC and the international economy was in some doubt. A striking feature of the approach since 1987 has been a shared understanding of both the macroeconomic and competitive requirements for success in the global economy.

Disappointing Indigenous Development

While Ireland achieved a significant structural adjustment of the economy since 1960, the role of indigenous enterprises in that achievement has been disappointing. From the mid-1960s, Irish industrial policy aimed both to attract inward investment and reorient indigenous firms. However, it achieved far greater success in the first of these aims. By default, Ireland's economic strategy became one which relied heavily on inward investment. Previous work by the Council and others has documented the way in which buoyant domestic growth in the 1960s and 1970s – funded by foreign borrowing in the late 1970s – postponed the day of reckoning for parts of indigenous manufacturing industry. However, the 1980s – combining international recession, fiscal correction and disinflation – induced a major shake-out of indigenous enterprises and employment. Nevertheless, as in earlier periods, the loss of jobs in some indigenous enterprises was accompanied by considerable job creation and dynamism in others. Such was the extent of this attrition, that the indigenous manufacturing sector now consists of an almost entirely new population of enterprises; this is less true in the food manufacturing sub-sector, although considerable rationalisation has taken place. Paradoxically, this now raises some questions about the true nature and extent of the 'weakness of the indigenous sector', which has been a major theme in economic analysis and policy discussion for the past twenty years (Sabel, 1996).

Unemployment

The most striking failure in the Irish economy since 1960 is, undoubtedly, the increase in unemployment. Irish unemployment, which had been somewhat higher than that in the UK and elsewhere in Europe for most of the twentieth century, increased relatively little in the period 1973 to 1979. At present, however, relatively high unemployment is a characteristic of the EU economy and society as a whole with the standardised unemployment rate for the EU at 11.0 per cent, compared to 11.75 per cent in Ireland in 1996. Although the increase in Irish unemployment occurred primarily in the 1980s, it partly reflected factors shaped earlier. These included the need for a sharp fiscal correction, the decline and disappearance of numerous indigenous manufacturing enterprises, the increased tax wedge and a rapidly increasing labour force. While a general economic downturn and increased labour supply would inevitably increase unemployment, it might be expected to fall again with the resumption of economic growth and employment creation. However, two striking features of Irish unemployment have been its persistence and the high proportion of long-term unemployment. To understand these features it seems necessary to take note of the extent of labour force growth, the loss of jobs in indigenous manufacturing, the changing skill requirements of the economy, inequality of educational outcomes, increased labour force participation of women and the international mobility of the Irish labour force. These factors mean that a general increase in economic activity and labour demand tends to have a limited impact on unemployment, particularly long-term unemployment.

Insufficient Domestic Investment of High Irish Savings

Another economic failure would seem to be the inability to create sufficient investment opportunities to use Ireland's relatively high savings within the country. In common with many other countries, Ireland has experienced a significant slowdown in the growth rate of capital stock. In many OECD countries, this slowdown in investment dates from 1973, and can be explained by a compression of profitability, an increase in risk and an increase in real interest rates. It is important to consider whether the reduction in Ireland's investment rate is a cause for concern. A study of investment being undertaken for the Council will throw some light on this issue (see Chapter 6).

Inevitable Adversities Became Divisive

The adversities which Ireland faced since 1960 proved divisive, and frequently produced delayed and insufficient responses. The oil price increases of 1973 and 1979 constituted increased foreign claims on Irish output which had to be absorbed sooner or later. It was entirely appropriate for Ireland to grow its way out of the 1974 recession, but some of the fruits of growth had to go in foreign payments. Ireland's handling of the difficulties of 1974 and of subsequent strong growth, greatly increased the problems it faced after 1979. The build-up of public debt and the second oil price rise created new claims on national output at the same time as a deep international recession. Adjustment to these claims proved highly divisive, yielding conflict over taxation, public expenditure and pay. At the same time, membership of the ERM altered the way in which inconsistent claims would be resolved. Though inflation had yet to fall, enterprises in the traded sector had much more limited scope for price rises. Government raised taxes, unions sought these back in pay increases, and employers were squeezed between the two. The consequent weak economic performance – in which living standards fell, unemployment more than doubled and national indebtedness increased – has been well documented.

The severity of this experience altered perceptions of the Irish economy. Expectations of medium and long-term prosperity became extremely weak, which encouraged rent-seeking and profit-taking behaviour. This is evident in periods of capital flight and the tendency for various government incentives to produce rent-seeking financial manipulation, rather than increased business initiative. The emergence of the so called

'black hole', and the coincidence of growing exports with falling living standards, produced fears that the Irish economy was fundamentally fictitious and unresponsive to virtually any policy measure. All policy instruments seemed to do no more than generate dead-weight and displacement (Breen, 1990). This period also gave rise to a number of major studies exploring the sources of Ireland's 'economic failure' (Crotty, 1986; O'Malley, 1989; Kennedy *et al*, 1988; Lee, 1989; Girvin, 1989; NESC, 1992). In retrospect, much of these perceptions of the economy seem somewhat over-stated. Some of them reflect the fact that traditional accounting categories were certainly becoming insufficient in an economy as open, and as reliant on inward investment, as Ireland. Others reflect the fact that dead-weight and displacement are inevitably significant in a stagnant economy with weak expectations. Policy may have significant effects in a more buoyant environment. In retrospect, it seems that the large scale studies of Ireland's 'failure' were somewhat coloured by the extreme difficulties of the 1980s.

Insufficient Appreciation of Interdependence

The common factor in each of these failures would seem to be insufficient appreciation and acceptance of the inter-dependence in the economy and society. Three aspects of inter-dependence seem particularly important: between the private sector and the public sector; between the indigenous economy and the international economy; and between the economic and the political.

Failures seem to have arisen – in periods of both growth or recession – when there was insufficient recognition that the cost and efficiency of the public sector impacted strongly on the competitiveness of, and burdens on, the private sector. The dramatic structural adjustments have been borne primarily by private sector employers, workers, and, most of all, the unemployed. While significant adjustment has occurred in some areas of the public sector – for example, health – further adjustment in public services, education and public utilities seems necessary for the overall good of the Irish economy and society. Any loss of focus on the inter-dependence between the public and private sectors – whether in growth or recession – seems sure to damage economic and social performance.

Failures also seem associated with insufficient recognition or the inter-dependence between the traded and non-traded economies. Like many other countries, Ireland has painfully discovered the extent to which domestic economic and social arrangements are exposed to international competition. This exposure has increased significantly since Ireland's first decision to adopt an outward looking and export oriented economic strategy. A paradoxical effect of globalisation is an *increase*, rather than decrease, in the significance of local and domestic factors. In a global economy, it is vital to have effective internal economic, political and social arrangements (see Chapter 3). Weaknesses in these arrangements will be cruelly exposed and punished by international competition. A striking feature of the past ten years has been a shared understanding of the requirements – in macroeconomic policy, income distribution, micro policies and public sector management – of competition in the international economy. Irish policy-makers and economic actors can surely now be in little doubt of the way in which inefficient, ineffective or costly non-traded activities will damage overall economic performance.

Failures since 1960 seem to have arisen when sight was lost of a third inter-dependence: that between the economic and the political. By this is meant the idea that inconsistent claims on national output, and damaging actions, can arise from *either* economic actors or policy-makers, or from the interaction between them. The areas of taxation policy and exchange rate policy illustrate this graphically. Success requires that both economic actors and policy-makers adopt a strategic, long-term, and mutually consistent approach. Opportunist behaviour in either sphere can damage economic performance directly. In addition, short-term or narrow action in one sphere tends to prompt similar responses in the other. A key requirement of national strategy is to adopt an approach which ensures a long-term orientation of both public policy and private economic actors, and which achieves consistency between the two. Later sections of this report identify how this requirement can best be met.

4. CHARACTERISING THE CURRENT CONTEXT: MANAGING GROWTH

It is useful, in the light of developments since 1960, to characterise where Irish policy stands now. While much attention has naturally focused on the contrast between the early 1980s and the period since 1987, this contrast may begin to lose some of its relevance. Viewing development since 1960, the current period is more usefully compared with the late 1960s and the 1970s. In short, the current problem is how to manage economic growth, not how to adjust to extreme adversity.

Since the late 1980s, it is clear that Irish policy-makers and private economic actors can respond to extreme crisis and adversity. However, this may not be such a great achievement since, as the Council's 1986 *Strategy* Report said, fiscal correction and other policy changes were then

imperatives, not choices. Extreme adversity (as in the mid-1980s) produces extremely low expectations. The challenge now is to maintain effective and consistent approaches outside of a crisis context. This would seem to require an inclusive perspective, involving:

- Realistic expectations;
- A widely shared understanding of the key mechanisms and relationships in the Irish economy.

Both of these requirements have precise meanings. Realistic expectations is not a euphemism for low expectations. It is natural, and inevitable, that economic growth should create expectations of improvement in living standards, business prospects, employment opportunities and public services. Seeking consistent or coherent behaviour through destroying expectations – mimicking the atmosphere of crisis – is unlikely to work. Furthermore, it is dangerous. Upward expectations are a vital driving force in a market economy; Ireland's recent history shows graphically the damaging effects of collapsed expectations. An inclusive perspective requires that:

(i) Every*one* is taken into account;
(ii) Every*thing* is taken into account.

Taking every*one* into account implies that each economic and social group must take account of the unemployed, those dependent on social welfare, conditions in various traded and non-traded sectors, and the relative experience of enterprises, employees and the self-employed. Taking every*thing* into account implies noting not only pay, but also changes in taxation, public services, employment creation, interest rate reductions and the relative benefits and costs of a strong exchange rate. The final point is significant. A strong exchange rate is an unambiguous benefit to those who work in non-traded activities, whether in the public or private sector. For traded sectors, it has both positive and negative dimensions. Realistic expectations require that note be taken of the many ways in which the fruits of growth are distributed.

The experience since the 1960s strongly underlines the importance of a shared understanding of key mechanisms and relationships in the economy. These require to be re-examined, restated and widely disseminated. It is easy to ignore or under-estimate the power of prevailing ideas. Important recent examples include the European internal market, the preference for low inflation and the new attitude to fiscal management which have spread across the countries of Europe. Within Ireland, successful management of current growth, future challenges and inevitable future adversities, requires a widely shared understanding of the context within which the Irish economy operates and the social and economic inter-dependencies discussed above. These inter-dependencies are further explored in Chapter 2. The core elements of Ireland's approach to economic and social policy – and the shared understanding which this requires – are outlined in Chapter 3.

CHAPTER 2

IRISH SOCIETY SINCE 1960[1]

1. INTRODUCTION

This paper parallels for the social sphere the review of the economy since 1960. It is concerned with changes in social resources and capabilities which have been part of Ireland's development in recent decades and which provide the context for future progress. It confines its attention to a limited number of key issues which are important to the strategic concerns of national development.

The first theme of the analysis is that there has been substantial advance in many basic social resources and capacities in recent decades, to the extent that the domestic social bases for national development are now relatively good. The second theme is that the developmental impact of these advances has been greatly reduced by their uneven distribution across social groups. There are many forms of such mal-distribution, but social class inequalities have been especially important, in particular, those associated with the emergence of a pervasively marginalised segment of the working class.[2] The growth of this group in the 1980s not only damaged the life chances of those directly involved. It amounted to the main social-structural weakness in Irish society and exacted costs on all segments of the population.

The review concludes that recent economic and social progress, even if it were to continue at a rapid pace in the years ahead, does not automatically guarantee a reduction in inequality nor a solution to the problem of marginalisation. It does, however, create as favourable a basis for tackling these problems as is likely to be found in the foreseeable

1 This chapter is based on a working paper prepared for the Council by Dr. Tony Fahey of the ESRI.

2 The concept of the pervasively marginalised working class has parallels with the concept of 'underclass' as used in other countries, especially the United States. However, the term 'underclass' has connections with race, urban ghettos, lone parenthood and various kinds of sub-cultural distinctiveness which do not fully apply to Ireland and which have been questioned in other countries as well. This warrants a different term being used to describe Irish circumstances (Whelan (1996), Breen and Whelan (1996)).

future – if solutions cannot be found now in the good times there will hardly be found when the downturn comes in the future. This chapter thus echoes a theme already raised in the review of the economy – Ireland's challenge is not only to learn how to cope with adversity but also to manage success so as to address structural weaknesses and strengthen the basis for long-term development.

The review begins in Section 2 with the topic of *population recovery*, an important element of social change since 1960 and a distinctive concern for Ireland given its unique prior history of demographic decline. This section sketches in three features of Ireland's population recovery – (i) resurgence in overall population numbers (much of which is concentrated in the active age-groups), (ii) improvements in population survivorship from birth to adulthood and (iii) recent reductions in dependency levels.

Section 3 deals with education and human capital. It points to a key contradictory feature of human capital growth since 1960. On the one hand, that growth has been of impressive dimensions, it has been one of the key planks of social and economic development over the period and has enabled Ireland to adjust with some success to the rapid structural transformation of the economy. On the other hand, human capital accumulation has been unevenly distributed across society. While the majority have benefited, a minority have not. That minority has been heavily drawn from the working class which, in addition to its relative failure in educational terms, has witnessed the erosion of its traditional occupational base both in Ireland and in those countries which formerly provided an emigration outlet for surplus Irish workers. As a result, large segments of that class have been pervasively marginalised in Irish society. While patterns of education have not been the only cause of this social polarisation, they have been one of the main mechanisms by which it has come about. Thus, though education and consequent human capital growth have provided much of the means for major advances in social and economic development, they have also contributed to the main social – structural weakness which is present today in Irish society.

As well as assessing tangible resources – population and education – it is important to consider other resources and capacities; those which reside in social relationships between people and which at a more general level constitute a resource for social development. These qualities include such things as trust, mutual supportiveness, shared norms and understandings, and some degree of commitment to social relationships as goods in

themselves rather than as means to individual ends. The discussion of these resources and capacities in Section 4 reinforces the central theme in the earlier analysis of human capital. Trends in social resources since 1960 have in general been positive and have led to a net rise in the average level of social capacities. However, there also has been a profound unevenness in the social distribution of those capacities, so that localised crises of social resources have occurred as part of the general advance. The section illustrates this theme by reference to three areas which can claim to be counted as significant repositories of social resources in Ireland – family, changing gender roles and community.

Section 5 provides a summary and conclusion.

2. POPULATION RECOVERY AND DEVELOPMENT

(i) Resurgence in Numbers

Just as population decline was the outstanding symbol and measure of Ireland's failure in the century up to 1960, population recovery has been a sign of Irish society's return to a developmental path since then. It is true that in many ways population recovery has been halting, incomplete and uneven. Population growth rates over the whole period have been modest, at an annual average of 0.7 per cent from 1960 to 1993. Net emigration persisted over much of the period, albeit at lower levels than in the past, and the brief recurrence of high emigration in the late 1980s carried echoes of the massive population haemorrhage of the 1950s. However, in the light of Ireland's long history of demographic decline, the post-1960s turnaround was enough to halt the erosion of national self-confidence and to put in place a reasonably strong demographic foundation for future development. Since demographic change shows its

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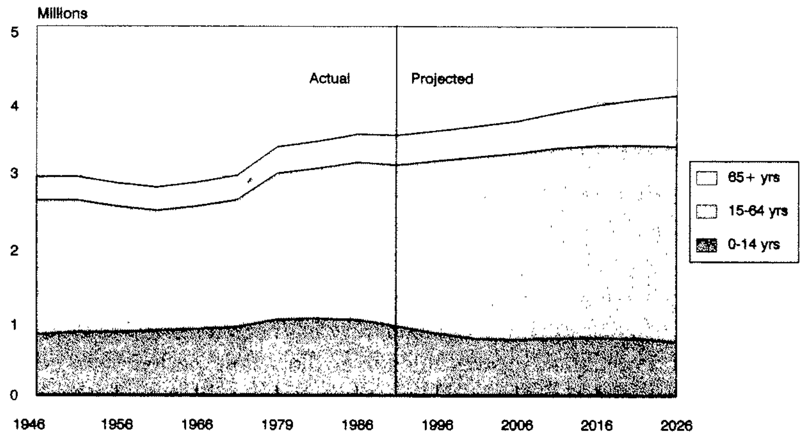
3 James Coleman (1988) uses the term 'social capital' to refer to such resources and defines it as a 'master resource' in that it has to be present to allow other forms of capital – financial, physical or human – to be accumulated and deployed. He illustrated it by reference to the extent and quality of relationships within the family and the impact these had on the educational attainment of children. He argued that where social capital in the form of family commitments is weak, other capital such as the financial or educatioanl resources of parents fail to have the expected impact on children's education. Conversely, where social capital of this kind is strong, it can compensate for the family's financial or educational limitations in determining children's educational outcomes. While social capital is often difficult to identify precisely, the concept is nevertheless useful in directing attention to a range of social issues which are often neglected in talking of social and economic development but which could be regarded as profoundly significant in that area.

full effect only over the longer term, Figure 2.1 places overall population performance since 1960 in the context of the immediately preceding demographic history (since 1946) and of the demographic prospects up to 2026.

FIGURE 2.1

Population by Broad Age-Group, 1946-2026



Source: Population Census and CSO (1995).

As this figure shows, demographic decline prior to the 1960s had a particularly damaging character, in that it consisted mainly in a contraction of population in the active age-ranges (due to emigration). The demographic recovery in the 1970s turned that pattern around, in that the active-age ranges showed the greatest growth, fuelled in part by a net inward migration of almost 50,000 35-54 year olds between 1971 and 1981. Those in-migrating adults also brought some 50,000 children with them and that, combined with a marriage surge and a consequent fertility surge, raised the population of children from 877,000 in 1961 to above the million mark from the mid-1970s to the mid-1980s.

The record since the mid-1980s and projections for the coming decades suggest that growth in the numbers of active-age adults will continue to dominate Ireland's demographic performance, to a degree which is

unprecedented in Ireland's modern history.[4] It is also unique among present-day western countries, where relative (if not absolute) decline in the size of the active age group is the norm. Having grown by half a million from 1961 to 1991, the population of 15 to 64 year olds in Ireland is projected to grow by a further half a million up to 2026, amounting to an increase of almost two-thirds over the whole period. The child population by contrast, having shown strong growth in the 1970s, is projected to decline from the mid-1980s peak of over one million to between 600,000 and 700,000 by 2026 (the extent of the projected decline depends on the fertility rates one assumes for the future). After some decades of almost zero growth, the elderly population is projected to grow to around 700,000 by the same year, an increase of 70 per cent over present levels. Much of the growth in the elderly population, however, will not take place until after 2006. Even at that, the strong growth among adults in the active ages will preserve a reasonably favourable dependency balance. By comparison both with its own past and with the present prospects for many other western countries, Ireland is thus placed in an unusually favourable demographic position for the years ahead.

(ii) Improved Population Survivorship

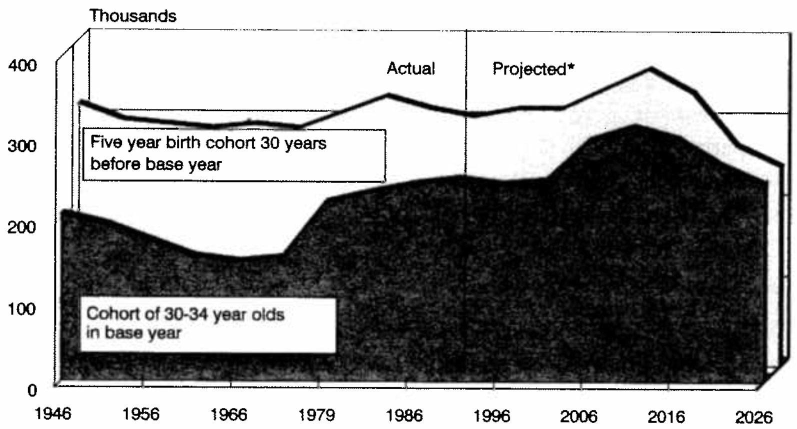
The inward migration of the 1970s and the fertility surge of the 1970s and early 1980s which contributed so much to the population recovery of that period were temporary factors. By the late 1980s, fertility had fallen below replacement levels for the first time on record, there has been no recurrence of the heavy net inward migration of the 1970s, and population forecasts do not envisage either a resurgence of fertility or the return of net inward migration in the foreseeable future. Nevertheless, population trends remain reasonably strong. This is so because a marked improvement in population survivorship from birth to adulthood is now taking over from either high fertility or inward migration as the basis of future Irish population vitality. ('Survivorship' in this context means both the absence of death and of net emigration). Figure 2.2 presents such a measure in the Irish case by focusing on one age-group in the prime of adulthood – those aged 30-34 – and examining changes over time not only

4 The preliminary report from the 1996 Census (CSO 1996) indicates that the actual population in 1996 was almost 33,000 greater than the higher of the projections made by the CSO in 1995. The disappearance of emigration in the first half of the 1990s was the main cause of this better-than-expected performance. In the light of the 1996 Census results, the positive population scenario outlined above is more likely to be an understatement rather than an overstatement of what is likely to happen.

in the size of that age-group but also in the number of births required to produce it. The size of the gap between the two is a simple measure of the wastage of birth cohorts through emigration (and, to a lesser extent, death) as they grow to adulthood. The trend-line for the 30-34 year old age group in Figure 2.2 refers to the period 1946-2026, while that for the corresponding birth cohorts refers to thirty years previously, that is, the birth cohorts of 1912-1916 through to 1992-96.

FIGURE 2.2

Survivorship to Age 30-34 in Ireland, 1946-2026



* Projected survivorship to age 30-34 in base year arising from actual five-year birth-cohorts 30 years previously

Source: *Vital Statistics, Census of Population,* CSO (1995).

This graph shows that up to the 1970s reasonably high fertility yielded comparatively small numbers of adults. The cohort which reached age 30-34 in the mid-1960s represented the low point. In 1966, that cohort numbered only 146,600, which was only half of their birth cohort (the birth cohort of 1932-1936, which numbered 295,000). Death in childhood and early adulthood had accounted for a certain portion of the loss, but the bulk of it was accounted for by emigration. In 1991, by contrast, the 30-34 year old age group, at 249,100, was 70 per cent larger than it had been in 1966, even though the birth cohort from which it was drawn was virtually the same size. Even at that, however, the 30-34 year olds of that year amounted to only 82 per cent of their birth cohort, which had numbered 305,000.

The CSO projections assume zero migration after 2006, which would mean that population survivorship from birth to adulthood would approach 100 per cent from 2026 onwards.[5] The five-year birth cohort of the early 1990s will be entering adulthood during this zero-migration scenario. It will represent a decline from the short-term bulge in 30-34 year olds which will occur in the first two decades of the next century but will nevertheless be larger than that cohort was at any time in the present century. It will thus represent quite a reasonable performance in population replacement, despite the new degree of lowness in the fertility rate on which it is based. In summary, population recovery since 1960 represents not just a reversal of the long previous history of falling population totals but also a transition from the high-fertility, high emigration patterns of the past to the low fertility, low emigration patterns of today and the years to come.

In other western countries, below-replacement fertility raises the novel prospect of zero population growth and perhaps even population decline, a radical break with the long and almost unbroken history of demographic expansion in those countries in modern times. For Ireland, by contrast, there would be nothing new about stagnant or declining population totals, since they were such a long-standing reality of the past. Below-replacement fertility in Ireland clearly will not bring about rapid population growth, but in the early decades of the next century it will be associated with a reasonable population performance by Irish historical standards. It thus can be read as part of the escape from past demographic failures rather than as a harbinger of future demographic difficulty.

(iii) Reductions in Dependency

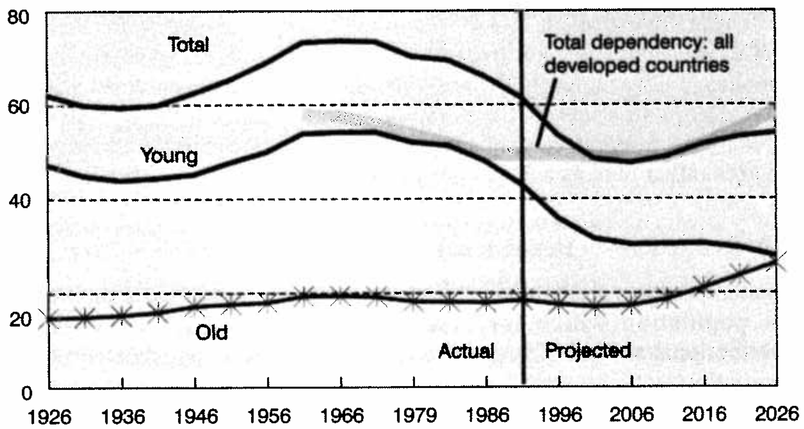
Population recovery can have short-term effects on the age structure of the population which increases dependency levels and imposes distributional strains. Figure 2.3 illustrates this issue by translating the population data presented earlier in Figure 2.1 into age-dependency ratios. As a result of the heavy emigration losses in the active age ranges in the 1950s and early 1960s, age-dependency rose in the 1960s to levels that were exceptionally high both by Irish standards of earlier decades and by comparison with contemporary patterns in other developed

5 As already mentioned, the 1996 Census has shown that emigration unexpectedly disappeared in the 1991-96 period. This means that the zero-migration scenario has arrived much earlier than the CSO had assumed in its projections of 1995. If this scenario persists over the coming years (as it is quite likely to), Figure 2.2 above understates the improvements in population survivorship which we can expect between now and 2006.

countries. Despite growth in the child population, these levels began to decline slowly in the 1970s because of simultaneous recovery in the size of the active population. After 1986, continued growth in the active population, coupled with decline in the child population and an elderly population that grew only slowly, set age-dependency trends on a more sharply downward slope. This downward movement is projected to continue until 2006, after which it will be driven upwards again by growth in the numbers of older people. However, the slowness in the increase in age-dependency after 2006, coupled with the low base from which it will then start out, mean that in 2026 it will be far below the peaks which were reached in the 1960s and somewhat below present levels. In short, age dependency levels will be lighter over the next three decades than they have been over the last three decades, and they will become especially favourable in the early years of the next century.

FIGURE 2.3

Age-Dependency Ratios, 1946-2026

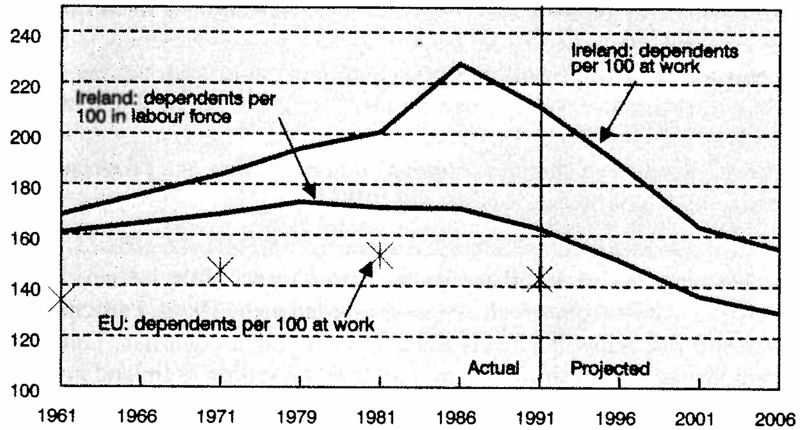


Source: CSO (1995), United Nations (1995).

Figure 2.4 gives a somewhat different representation of dependency trends by focusing on economic dependency ratios. The key indicator here is the number of dependants per 100 workers. As with age dependency measures, this indicator reached exceptionally high levels in Ireland in the past. In contrast to the age-dependency ratio, the peak in economic dependency occurred in the 1980s rather than in the 1960s, largely because of growth in unemployment in the 1980s. Since 1986, however, this indicator has been moving sharply downwards and is projected to continue to do so for at least a further decade. This is due to the combined enlargement of the labour force and reduction in unemployment which has occurred in recent years. The trend in dependants per 100 in the labour force is also included in Figure 2.4. This indicator is significant since it shows that, even if we focus on the numbers in the labour force and discount the present positive effect of declining unemployment on economic dependency, the downward movement in economic dependency is still present, albeit at a more modest rate.

FIGURE 2.4

Economic Dependency, 1961-2006



Source: *Labour Force Surveys;* CSO (1995); Eurostat.

In summary, population recovery and improved survivorship from birth to adulthood in Ireland since 1960 initially led to burdensome age-dependency ratios. This was so because the initial surge in the numbers of children had to be supported by an adult population that was seriously depleted by the emigration of the 1950s. As age-dependency began to improve in the 1980s, a particularly adverse combination of low labour force participation rates and high unemployment led to a serious worsening of economic dependency. It is only in the 1990s that age-dependency and economic dependency have moved together in a consistent downward direction. The prospect is that this improvement will continue for at least the next decade. Any subsequent disimprovement is likely to be mild compared to the that which Ireland experienced at various points over the last thirty years. On this front as well, therefore, present prospects in Ireland are unusually good, particularly by comparison with the crisis years of the 1980s.

3. HUMAN CAPITAL

(i) Growth in Human Capital

Quantitative recovery in population since 1960 has been elevated into qualitative population development by the sustained increase in human capital investment which has occurred over the same period. The expansion of the education system which was the means of this increase has been remarkable. The numbers in second level education grew from 132,000 in 1965 to almost 370,000 in 1993/94 and the rate of retention of second level pupils to Leaving Certificate standard has risen from 20 per cent in 1960 to over 85 per cent today. The present government target is to raise the completion rate of second level education among 16 to 18-year olds above 90 per cent by the year 2000. Third level student numbers increased from 18,500 in 1965 to almost 91,000 in 1993/94 and now 40 per cent of the age-cohort of school-leaving age progresses to third level (Department of Education 1995).

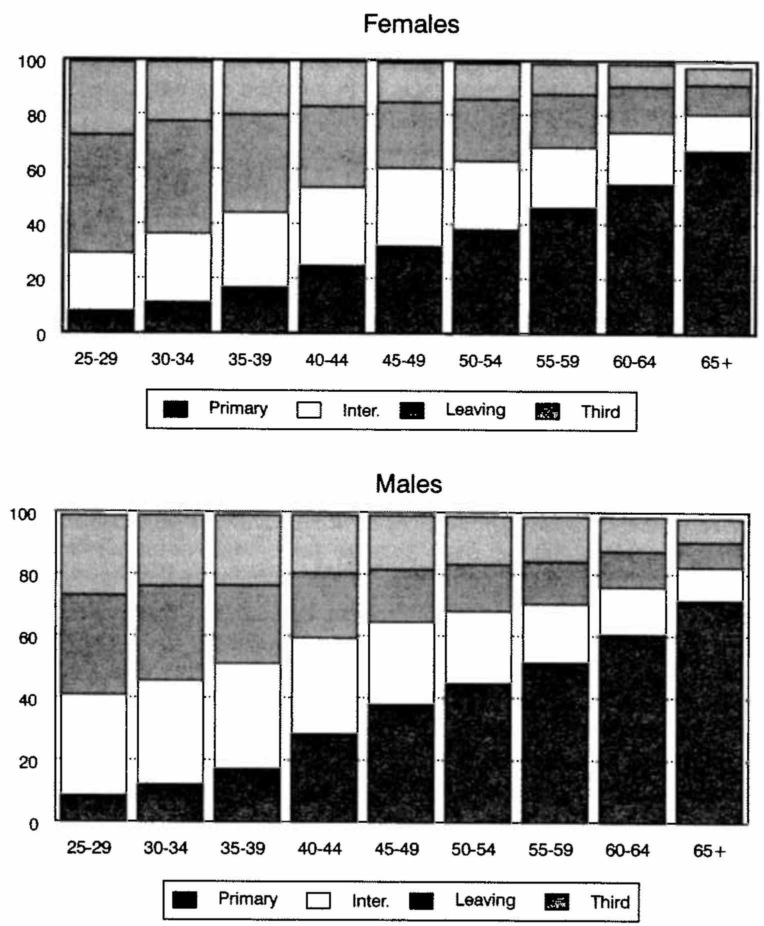
While the growth in educational participation represented by these figures has been impressive, it still carries the consequences of the lowness in the educational base from which expansion started in the 1960s. Participation rates still fall below the levels found in many other countries. Thus, for example, the participation rate in third level education in Ireland in 1991 ranked fourth from the bottom in a recent comparison of 15 western countries (Interim Report of the Technical Working Group of the Steering Committee on the Future Development of Higher Education, 1995). The widely touted view of young Irish people as exceptionally well educated owes more to their over-supply in a weak labour market, and their consequent ready availability to employers, than to a genuinely favourable comparison with educational standards in the majority of other western countries.

Given the low starting point in the 1960s and the long time it takes for subsequent improvements in educational attainment to feed through into the adult population, human capital growth has yet to exert its full effect. Figure 2.5 shows that the educational profile among those aged over 25 worsens dramatically as age increases and is quite low among the older age groups. For example, less than a third of men aged 55-59 have complete secondary education or better. It is worth recalling that the first

beneficiaries of free second level education (introduced in 1966) are still only in their early forties, while the surge of graduates which emerged from the rapid expansion of third level education in the 1980s are still aged under 30. Unemployment, and especially long-term unemployment, among older adults is high simply because their formal schooling took place too long ago to benefit from the educational expansion of recent decades.

FIGURE 2.5

Educational Attainment by Sex and Age-Group, 1994



Source: *Labour Force Survey* 1994, special tabulations.

(ii) Educational Disadvantage

The data in Figure 2.5 also make it clear that poor educational attainment is by no means only a matter of the past or of older people. It is still present among a significant minority of young adults, and especially among young men. Among the youngest age-group in Figure 2.5 – those aged 25-29 – 40 per cent of males and 30 per cent of females have only an Intermediate Certificate or less. Over 8 per cent of both males and females in that age group have primary education only. While educational performance among those now in school will yield an eventual improvement on those figures, there remains a hard core of educational disadvantage among school pupils which is unlikely to disappear easily. Using a notion of educational disadvantage based on a combination of reading difficulties among 14 year olds, early school leaving, low incomes and material deprivation, Kellaghan *et al* (1995) conclude that about 16 per cent of the present school population could be considered as suffering from serious educational disadvantage.

The persistence of a substantial degree of educational disadvantage is the key weakness in the education record since 1960. While educational inequality exists in all western countries, it has a particular significance in Ireland since employers in Ireland rely to an unusual degree on educational credentials as a screening device in hiring employees. This is so partly because the extensive over-supply of labour in Ireland makes rule-of-thumb screening devices necessary and partly because credentials such as the Leaving Certificate have such a widely accepted standing. This means that the link between educational disadvantage and employment disadvantage is exceptionally close and exacerbates the many other negative consequences of poor educational performance as young people make the transition to adulthood (Hannan and Ó Riain 1992).

(iii) Education, Occupations and Social Class

Social differences in the distribution of educational disadvantage has profoundly shaped the social restructuring which has accompanied economic change since 1960. It has especially influenced the social impact of the changing occupational profile which has been a major feature of economic structural adjustment. This changing profile can be summed up as the decline of employment in agriculture and in unskilled/semi-skilled manual occupations and the rapid expansion of white-collar employment.

Farm families have responded to problems for the farm sector which this changing profile has represented by grasping at the opportunities for their children offered by the expanding education system. This is revealed especially by the high rates of participation in third level education among

the children of farmers. Participation rates in the poorer farm areas are especially high and the best single predictor of county-level variation in participation in university education is the proportion of the population engaged in farming (Clancy 1995). The consequence is that, because of their effective use of the education system, the children of farmers have been particularly successful in entering the expanding white-collar occupations. This had negative side-effects in that many rural areas have been drained of numbers and of human capital as a result. But the positive outcome for farm families is that their children have adapted well to the new economic realities (Hannan and Commins 1992).

The decline in unskilled and semi-skilled jobs has paralleled the decline in farming. But the unskilled and semi-skilled working class have not shown the capacity to adapt through education which has been common among farm families. Working class participation in education has long been and remains distinctively poor. This is reflected in, among other things, the low participation rates in third level education in urban areas, especially Dublin (Clancy 1995). As a result, working class families have been relatively unsuccessful in placing their children on the route to white-collar employment. In fact, the relative social immobility of the working class is one of the main reasons why social class mobility as whole in Ireland is lower than in many other western countries (Breen and Whelan 1996).

The differences in adaptability to the new occupational structure between the farmers and the working class undoubtedly reflects long-established patterns of relative advantage and disadvantage. Farmers have long been property owners and the significance of family in the farming community has been enhanced by the family-based nature of the farm enterprise.[6] In addition, farming and the farm family have long occupied a privileged position in the national pantheon, a regard which has been notably absent in social attitudes towards the urban working class. This has enhanced farmers' stake in the social system even as the system began to re-structure itself away from agriculture.

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6 Humphreys (1966) research into Irish family patterns in the late 1940s led him to conclude that the issue of inheritance, which was central to business and professional families as well as farm families, lent a peculiar character to family culture in those classes and made it quite different from that of either the working class or the lower middle class where inheritance was less of a concern. It enhanced the authority of parents over their children. It made parents more concerned to control and direct their children's behaviour and career choices (in both jobs and marriage) so as to enhance both the children's social success and the family's standing and good name. This may have done little to enhance the personal quality of relationships – in fact, Humphreys suggests that it made them more fraught and authoritarian. But is did provide strong inter-generational backing for upward social mobility. Half a century on, class differences in family culture may still be present and may account in part for the differential social class response to educational opportunity.

Whatever about its causes, the differential response to educational opportunity between the classes most affected by economic change has yielded the principal social structural defect in modern Irish society – the creation of large segments of the working class which have lost their traditional occupational base, have been unable to find new occupational outlets, have had their children poorly integrated into the full range of the education system and have been progressively marginalised as a result. Whelan (1996) estimates that in 1987, such households amounted to about 11 per cent of non-elderly and non-farm households in Ireland. In a certain sense, educational inequality has not been a prime cause of this outcome. Rather, it has been the mechanism by which other inequalities in resources have been brought together and reproduced in the emerging new social order. Nevertheless, the role of education as an agent of this polarising outcome rather than as a mechanism which might have prevented it is the major defect in the education record in Ireland since 1960.

4. SOCIAL RESOURCES AND CAPACITIES

The main issues reviewed in previous sections – population recovery and human capital growth – relate to tangible and obvious social resources. This section turns to a different category of resources, those which reside in social relationships between people. It focuses on three clusters of such relationships – those centred on family, gender and community. It asks whether and to what extent we can talk of progress or decline since 1960 in the social resources which these sets of relationships represent and assesses the basis they provide for future social development. In this exercise, it is possible to rely to some extent on hard evidence. However, much depends on judgement as to what should count as resources in these areas and interpretation of inadequate data on trends over time. Nevertheless, the issues are important for social development, so that some assessment is worth attempting.

(i) Family

The family is a central institution of population reproduction and so might have been thought to deserve some of the credit for the overall improvement in population survivorship outlined in the last section. In fact, much of the public discussion of family life in Ireland today is dominated by the themes of crisis and decline, particularly in connection with child-rearing and child welfare. The increase in unmarried motherhood and in marital breakdown are most often pointed to as evidence in support of these themes. In the early 1960s, only one birth in

thirty took place outside of marriage and marital breakdown simply did not exist as a socially recognised problem (though it may have been present in some form as a hidden reality for many families). Today, one in five of all births takes place outside of marriage, one-third of *first* births (that is, of new family formations) takes place outside of marriage, and divorce is being introduced in response to a steadily rising incidence of marital breakdown.[7] Violence and abuse within families may always have existed but it has now been acknowledged to a new degree, and child sexual abuse in particular has been 'discovered' as a much more extensive problem that had ever been realised before (see Box 'The Discovery of Child Sexual Abuse'). The high profile exposure of extreme instances of family pathology which has been provided by a number of recent cases (the Kilkenny incest case, the west Limerick farmer case, the Kelly Fitzgerald case) has contributed to the sense of decline, even though in some instances it was the past tradition of silence and evasion about abuse which has proved to be as shocking as the abuse itself. These cases may have done nothing more than reveal a side of domestic life that was always present in Ireland, but that does not mitigate the shattering effect they have had on the nation's image of the present condition of the family.

In spite of the widespread malaise about the family which these concerns reflect, it is possible to point to many counter-balancing positive trends and to suggest that we could well speak of net improvement rather than decline in the social resources and capacities represented by family life in recent decades. This is evident, for example, in the overall advance in the condition of children, much of which is due to higher levels of material and emotional investment in children on the part of parents and, underlying that, to a transformed view of children's rights and of what children require to develop into well-rounded, socially competent adults. We have already seen one indicator of this in the rapid growth in children's educational attainment. Educational success among children depends heavily on family support, not just in money and other material resources but also in parental commitment. Rapid educational progress in Ireland since 1960 has rested on a level of parental effort on behalf of children which fits poorly with notions of a general decline in social resources in the family.

7 No comprehensive, reliable data are available on the rate of marital breakdown in Ireland. Census data on the numbers of separated persons provides a measure of the stock of those currently in the separated but this does not allow for an estimate of rates of breakdown. Court-based data on family law proceedings provide an alternative but equally limited source of information. It would appear from the information available that while the rate of marital breakdown has increased over the last two decades, it is still reasonably low by international standards and is less important than unmarried parenthood as a route into lone parenthood (Fahey and Lyons, 1996; McCashin, 1996).

A less tangible but none the less important sign of increased commitment to children both inside and outside of families is the greater concern for the personal rights and needs of children which has emerged since the 1960s. That has entailed a corresponding de-emphasis on subordination, deference, silence and service to adults in cultural definitions of children's place in life. It has led to a growing disapproval for the use of physical beatings, intimidation, ridicule, fear and shaming as devices for disciplining children – in short, to a rejection of many of the standard child-rearing devices routinely used in the past, both by parents and others who were in authority over children. The new ideals of respect for children which these changes entail and which have become strongly embedded as cultural values may not always be fulfilled in practice. But they have generated a set of norms and ideals about child-rearing within families which amounts to a powerful new dimension of family resources.[8]

How then might we reconcile this positive assessment of trends in the family with the popular malaise about the family? We can do so by shifting attention from average patterns of family behaviour to the question of differences and inequalities in family conditions. The majority of families have at least preserved, if not improved, the quality of their family environment. They live reasonably stable and satisfactory lives, rear their children well and enjoy a degree of supportiveness and intimacy in their internal relationships that was often absent in the past. A certain portion of what are often called 'problem' families, such as those headed by lone parents, are also likely to have a good quality of domestic life, and in many cases may even have gained that quality by escaping from damaging forms of standard family arrangements.[9] If we focus on this majority of families, it is possible to sustain a quite positive picture of family progress over recent decades.

At the same time, some families undoubtedly have a poor quality of domestic life, and it is the salience of these families which give rise to the

8 The recent introduction of the 'Stay Safe' programme in primary schools is one of many concrete indicators of this change. Though this programme has attracted most attention because of its role as a safeguard against child sexual abuse, it has a much more general objective of empowering children to assert and defend their own dignity and self-respect, even against parents and teachers where necessary.

9 The heavily publicised pathological cases of family life mentioned earlier (the Kilkenny incest case, etc.) had nothing to do with lone parenthood, marital breakdown or any other novel family problem. Rather, they occurred in families which outwardly had a standard, non-problematic two-parent form. It is reasonable to assume that the quality of life for the victims of abuse in those cases would have been improved if the families involved had been broken up sooner rather than later.

pessimistic views on family trends. It is hard to determine in any absolute sense if the proportion of families in that situation has increased or declined, since many forms of family inadequacy are difficult to quantify. However, this minority exists. Furthermore, its circumstances worsen as the circumstances of the majority of families improve simply by virtue of changing relativities. The *absolute* circumstances of families in difficulty may be no worse than before, and may even be better in many ways, but their *relative* position declines because of the uneven nature of the advance.

The notion of relative as opposed to absolute standards of family well-being is most familiar in connection with poverty and the material economy of family life. We can account for at least some social inequalities in the qualitative dimensions of family life by reference to trends in material circumstances. Families were the major victims of the distributional failures which arose from the economic stresses of the 1980s and children in particular emerged at that time as the main category of the population in poverty. The poverty rate among children in Ireland in the late 1980s was the worst in Europe (Rainwater and Smeeding 1995) and was markedly worse than it had been in Ireland in the early 1970s (Callan *et al* 1989). Widening social gaps in patterns of education and employment also had implications for family life. The combination of poor educational attainment and poor employment prospects which affected certain segments of the young adult population has been associated with an increased incidence of early child-bearing among young women, which in turn is associated with a higher likelihood of unmarried parenthood and lower involvement by fathers in their children's upbringing (Hannan and Ó Riain 1992).

Similar inequalities influence many aspects of mothers' and children's health. Women with better education and higher social class position are less likely to smoke during pregnancy, more likely to attend ante-natal classes and more likely to breastfeed their babies than are women with poorer education or lower social class position (Wiley and Merriman 1996). This not only affects disadvantaged women themselves but also transfers some of their disadvantage onto their children. The emotional quality of family life is also likely to be influenced by the same kind of forces. Economic stress, especially poverty and unemployment, is a major source of psychological stress, which is turn is likely to add to the strain on family relationships. Thus, for example, unemployment among men is likely to cause stress to their wives as well as to themselves (Whelan *et al* 1991) and thus has implications for the quality of life of families as well as of the affected individuals. Thus, relative material poverty and disadvantage in the lives of individuals translates into various kinds of social handicap in family life. Despite overall progress in economic life in recent decades, uneven distribution of the ensuing benefits has resulted in a worsening of circumstances for many families.

While we can explain some of the trends in family problems by these inequalities in the material economy of family life, they do not explain everything. Many of these problems could occur even in the complete absence of poverty. To arrive at a more complete account, we need also to take account of the *emotional* economy of the family. The emotional economy of family relationships has echoed the development of the material economy, in that emotional expectations have risen and many families have achieved real improvements in the quality of their relationships. This general advance, however, has left many families relatively worse off. These are the families with relationship problems which formerly were considered as tolerable, despite the upsets they caused, but which are now likely to be seen as utterly unacceptable. In these areas, the increasing wealth of some becomes the frame of reference which points up the continuing poverty of others.[10]

10 This arises not only in marriages or other relationships between adults but also in relationships between adults and children. Children in unhappy families are capable of comparing their situation with that of other children and being deeply affected by the result. Thus, the advances in the general condition of children mentioned earlier, part of which consists in their enhanced relationships with adults, can give rise to a relative worsening of the experience of those children who do not share in its benefits.

The Discovery of Child Sexual Abuse

Child sexual abuse was 'discovered' in the early 1980s and its reported incidence subsequently grew dramatically (McKeown and Gilligan 1990, Ferguson 1996). In the wake of this discovery, the question often arises as to whether the problem is as new as it appears to be. While evidence on this question is scarce, there are indications that, on the one hand, the problem has long been objectively present but that, on the other, it is only recently that the public language and institutional framework has come into existence by which it could be constructed as a serious social problem. Thus, for example, in 1931, the Garda Commissioner, Eoin O'Duffy, informed the Committee on the Criminal Law Amendment Acts that sexual crime had been increasing yearly and included a large number of cases of 'criminal interference with girls and children under 16, including many cases of children under 10' (cited in Keogh 1994, p. 72). For the year 1927-29, he quoted figures of 268 cases of offences against girls under 18 (including children) and 174 cases of offences against or between males (including children). These reported cases were likely to have been the tip of the iceberg then just as they were when the problem of child abuse re-surfaced in the 1980s.

Even if we are unclear about the history of child sexual abuse, there is evidence that the recent pattern of discovery of that issue has earlier parallels in other areas. Ferguson's (1993) account of the 'discovery' of cruelty to children in the later nineteenth and early twentieth centuries in Britain and Ireland provides a case in point. In 1884, the year the Society for the Prevention of Cruelty to Children was founded in London, 175 children were reported to have suffered abuse in Britain and Ireland, of whom one died as a result of the abuse. By 1914, as a result of the expansion of the activities of the Society, these figures had soared to 159,000 child victims, of whom 1,226 had died. The staggering extent of the problem, its apparently inexorable rise over decades and the role of data collected by child protection workers in uncovering and publicising its existence all prefigure the child sex abuse syndrome of recent years. Following the peak of the 1910s, child abuse deaths began a long slow decline to an annual total of 277 in Britain and Ireland in 1936. Thenceforth, data on child abuse deaths abruptly ceased to be published and the problem disappeared from public sight. In Ferguson's (1993) view, this occurred not because the problem had diminished to insignificance but because its very persistence in spite of extensive intervention had begun to become an embarrassment to the same kind of child protection workers who had originally highlighted it.

Ferguson's conclusions on this issue point to the role of institutional intervention not only in solving social problems but also in determining whether and in what way those problems are revealed and defined. In the recent history of child sexual abuse, institutional failures in responding to the problem have been uncovered as the problem itself was revealed and have generated almost as much concern. Present concerns that care services not only often fail to protect children but also sometimes worsen their suffering by harbouring child abusers among their staff were not prefigured in earlier parallels. Indeed, it is only now that the past history of abuse of children in care institutions has gained notoriety (as in the Goldenbridge orphanage story which was widely publicised this year).

These arguments suggest that the 'crisis of the family', in so far as it exists, is a crisis of the uneven distribution of family resources rather than of the overall quality of family life. In that sense, it is a localised or limited crisis, since it affects only a minority, though it also has a more general character in that it is partly determined by the wider frame of reference. That frame of reference sets the standards which turn the absence of certain kinds of attributes and resources into deprivation. Developments in the frame of reference can have real benefits for those who keep up with those developments but they can worsen the circumstances of those who fall behind.

This way of interpreting the issue directs our attention away from generalised concerns about the family as an institution and towards the re-distribution of resources as a means of reducing family problems. Some of these resources have a material base (jobs, income, material standards of living, human capital) and so are subject to redistributive action by the state. Such redistribution is often insufficient or is delivered in an unhelpful way, but reform measures are always possible in principle even if they do not emerge in practice. In that sense, the crisis of the family can be addressed and eased by policy. Many of the personal and emotional resources which are important for effective family relationships do not have the same concreteness or transferability. Services of various kinds (counselling, family mediation, education programmes, family skills programmes, etc.) can be put in place to make good the deficits in those resources within individual families but it is not clear how effective such services can be. Outside intervention can only have a limited effect in promoting happiness in families where the members have not been able to create it for themselves.

(ii) Changing Gender Roles[11]

In its review of global social development, the UNDP's *Human Development Report 1995* asserts that "investing in women's capabilities and empowering them to exercise their choices is not only valuable in itself but is also the surest way to contribute to economic growth and overall development" (UNDP 1995, p. iii). Ireland has clearly shared in the global movement towards gender equality which the UNDP report documents. However, it is difficult to quantify the full range of that movement in Ireland, much less estimate its impact on economic growth and overall development. Even such widely noted changes as the increasing labour force participation rate among married women since the 1960s is of uncertain dimensions. Women's economic activity in areas such as family farming and part-time paid work was seriously under-measured in the past, so that much of the recorded increase since then is a statistical artefact (Fahey 1993).

Nevertheless, it is clear that the social, cultural and legal position of women has been transformed in such a way as to release hitherto under-used potential. This is reflected partly in the greater presence of women in many areas of public life that were traditionally the preserve of men (from the Presidency of the state to bus driving). It is also evident in the transformation of the 'traditional' roles of mother and housewife which many Irish women still occupy on a full-time basis. The sharp decline in marital fertility is the clearest example of such change – few married women, whether full-time in the home or not, would now contemplate having six, seven or eight children, as their forebears routinely did. Neither would they accept that the men in their households should as a matter of course be wholly exempt from housework or childcare. These changes reflect the increase in women's negotiating strength within the home, and are as significant for gender equality as women's greater presence in the public sphere (O'Connor 1995).

The central questions for gender equality in Ireland today relate to the further progress towards that goal which is now required and to the evenness (or lack of it) in the distribution of benefits which has so far been achieved across social groups of women. The first issue is a matter of continuing debate. The *Report of the Second Commission on the Status of Women* (1993) provides a recent attempt at a comprehensive review of that debate. The second is equally difficult. Women differ by such things as social class, region, family circumstance and age. What might appear as gender equality to one group of women may appear quite differently to another (see Hakim 1996 for a recent forceful review of the differing significance of labour force participation for different categories of women in western countries). In particular, the pervasive marginalisation of segments of the working class referred to earlier as the key social structural weakness of present-day Ireland affects women as well as men. While women may experience that marginalisation in a different way, it nevertheless is as great a social division among women as among men.

(iii) Community

The 'decline of community' has long been a central theme of commentary on the nature of modern societies. The contrast between the large, impersonal city and the small, intimate rural community is at the heart of such commentary and is powerfully evocative. Social research in Ireland has given this theme quite a different cast in that the countryside,

11 Policy issues concerning gender inequality are discussed in Chapter 9.

especially in the west, has attracted a great deal of attention as the locus of community collapse.[12] Irish towns and cities have had little of the exotic appeal which drew outside researchers to rural communities (from Arensberg and Kimball in the 1930s onwards). Relatively little light has been shed on the nature of urban community in Ireland. There is little clear evidence of a decline in community in urban areas in general, even though are clear instances of localised crises of community in certain marginalised urban areas. The large, urban local authority housing estate, where unemployment, crime and family breakdown are widespread, is the standard image of such distressed urban communities. However, it has recently been emphasised that such areas account for a only a minority of the marginalised. The majority of the marginalised do not live in marginalised communities, but are dispersed quite widely across both urban and rural areas (Nolan *et al* 1994, Jackson and Haase 1996).

It is against this background that a significant development in community as a social resource has occurred since the 1980s. This is the new and systematic recourse by the state to communities and community groups as means to 'job-creating economic activity, social service delivery, or as a means of conferring legitimacy on a range of new area-based special interventions' (Curtin and Varley 1995, p. 380). The discovery of communities as potential 'partners' with state agencies in promoting development has been largely EU-inspired but is attracting increasing interest at the domestic level as well. Advocates of this approach argue that community-based development efforts can often compare well with those of either the state or the private sector in drawing out the unused potential of an area and in distributing the resulting benefits in an equitable way (NESC 1994). The recent OECD study of local area-based partnerships in Ireland goes a step further. It sees those partnerships as a unique and exciting experiment in democracy which has the potential not only to generate economic development but also to resolve contradictions between centralism and localism of a kind which it identifies as fundamental in western democracies (Sabel, 1996).

Other commentaries are more sceptical and consider that the potential for community-based initiatives is limited (see, e.g. Curtin 1996, Curtin and Varley 1994, Shortall 1994). These critics point both to structural weaknesses in community initiatives (lack of inclusiveness, under-funding, entrepreneurial weakness, impermanence, etc.) and to the inadequacy of the area-based perspective on poverty and development on which they rely. The problem with the area-based perspective, in this

12 Hugh Brody's *Inishkillane* is one of the better known and bleaker evocations of breakdown and demoralisation in west of Ireland communities in the 1960s and 1970s. Nothing either as extensive or as black has been written about any *urban* community in Ireland.

view, is that poverty is found in social groups rather than in localities (Tovey *et al* 1996). This means that programmes which focus on poor localities may benefit better off people rather than the poor people in those localities, while the poor who are located in better-off areas get no consideration at all. In spite of these reservations, even the critics would accept that community initiatives have some role to play and that the continuing vibrancy of community life in many parts of Ireland is a real resource for future development.

5. CONCLUSIONS

Social change in Ireland since 1960 has yielded a number of important advances in social resources and capacities. These have generally enhanced social development in Ireland. Their timing has been such that many of them are only now beginning to come to full fruition, and the outlook they indicate for the foreseeable future is strongly positive. This chapter has not attempted to document all of these developments but has tried to illustrate them in a number of areas – population, human capital, family, changing gender roles and community. While it is easier to speak of advances in some of these areas than in others, the overall conclusion is that there has been a net strengthening of social resources and capacities in all these areas taken together.

At the same time, the context in which these developments have occurred and the manner in which they were brought about has led to fundamental problems in distribution of the benefits and capacities they entail. While there are many forms of mal-distribution, this chapter has highlighted those associated with social class inequality and more particularly with the emergence of a marginalised segment of the working class on the fringes of Irish society. This marginalisation has arisen from the manner in which economic transformation has interacted with social structure. This process has been visible especially in the changing distribution of employment and unemployment, which in turn has been mediated in a central way through the education system. However, the outcomes have extended beyond jobs, incomes and living standards to influence the level of many other resources such as human capital and the types of social resources embodied in family and community among those affected. The social divisions created by this development amount to the single most serious weakness in the Irish social structure at present and form a major challenge for future development.

What response might be made to this challenge? In answering this question, the first thing to note is that existing lines of economic development, however valuable they may be in themselves, will not provide an automatic solution. Recent growth in the numbers at work has not significantly reduced the numbers of long-term unemployed, as new entrants to the labour force have leap-frogged the existing long-term unemployed in the queue for jobs. The very fact of being marginalised places those affected outside the main loop of economic exchange so that activity within that loop could well intensify without having much impact on their circumstances. The present tax and social welfare system undoubtedly contributes to this process. This is so not so much because tax rates are too high or social welfare is too generous but because the interaction of the tax and social welfare system discourages many categories of the less well-off from seeking work. The tax and social welfare treatment of child dependants is the most serious such design defect. A radical reform of the child income support system has often been called for and would go a considerable way to resolving this problem.

This fact has long been recognised and positive measures to bring the marginalised back in to the mainstream have been introduced as a result. The most important of these have centred on human capital measures. They have taken the form of schemes for the disadvantaged in the school system and training programmes for the unemployed. The initial versions of these measures developed in the 1980s may have had little impact given the stagnant labour market conditions of that time, but they may begin to bear more fruit in the present conditions of expansion in labour demand.

Even at that, however, measures that are narrowly focused on human capital take insufficient account of the social resource requirements for successful reintegration of the marginalised into the mainstream. It is in this context that the multi-faceted approach being pursued in area-based partnerships could well be important. So too could initiatives that have no direct connection with employment creation but which have a bearing on strengthening of communities and restoring damaged social resources and capacities. Schemes to involve tenants in the management of estates in local authority housing areas are a small example, as is the bottom-up emergence of other forms of community activism among the marginalised.

The final point is that remedial measures have been slow to develop and are also likely to be slow in their effect. This means that large reductions in marginalisation are unlikely to be achieved in the short term under present approaches. This has serious consequences since marginalisation is not static. It tends to spiral downwards, intensify and create the conditions for its own reproduction in the next generation. The underlying conditions for arresting this downward spiral are now as favourable as one can expect them to be for the foreseeable future. This points to the need for short-term remedial measures directed at those who are already marginalised and who have no immediate alternative methods for re-entering the mainstream.

CHAPTER 3

IRELAND'S APPROACH IN A GLOBAL CONTEXT

1. INTRODUCTION

We are currently experiencing a period of extremely rapid and fundamental change in the way production is organised and controlled at the level of the firm, the state and globally. As a result, concepts and policies framed for a world of relatively predictable, if evolving, conditions are inappropriate for the future environment confronting policy-makers. The ability to adapt in this environment of change will be a key determinant of the economy's future competitiveness.

As a result of the coincidence of technological progress and a number of other factors, such as a drive towards trade liberalisation, the concept of a global economy has come to the fore. Section 2 of this chapter identifies the rapid progress made in the technology of global communications as an important determinant of change. In response, there have been changes in both the organisation of firms and work and in the role of the state in economic management. In addition to these developments, major changes are taking place in the structure of the world's population, the ultimate effects of which remain unclear.

Section 3 focuses on the impact of these developments on Ireland and the need for action to achieve competitiveness. The role of public policy is not diminished, but has altered. While the exact nature of public policy remains unclear, this section builds on previous work published by the Council to argue that the partnership approach which has been developed in Ireland over the past decade offers an appropriate framework within which problems can be addressed and decisions taken regarding the Irish economy. It sets out a number of criteria which the model of decision-making must meet and argues for the further development of the partnership model to encompass industrial relations below the national level and to ensure the inclusion of previously marginalised groups at the national level.

2. AN ENVIRONMENT OF CONSTANT CHANGE

(i) Technology

The future environment within which production will take place will be shaped by changes in technology. The pace of technological progress has been such that it impacts not only on the type of product which is produced and consumed, but also how, where and by whom goods are produced. The rapid pace of development in the technology of communications, in particular, has had wide-ranging impacts. It is now an enormous and expanding industry which has spawned numerous other new industries. In addition, it is increasingly obvious that this development has enabled the emergence of new forms and methods of working (see Section (iii) below). Improved communications have definitely had a major role in the ongoing drive towards trade liberalisation, although it cannot be argued that improved communications will automatically lead to liberalisation tendencies. The acceleration of change in technology is closely interlinked with other developments, such as globalisation, the growth of world financial markets, the shift in economic power towards the Pacific Rim and changes in the role of the state in the economy. This development offers both threats and opportunities to an economy such as Ireland. If offers the opportunity to engage in and develop new industries and to overcome the relative peripherality of Ireland within the EU. However, Ireland is a developed western economy and the emergence of Asian economies may pose threats.

Developments in communications technology have created a number of new industries such as telemarketing, remote back-up services and various multi-media applications. In other areas, there have been rapid developments in bio-technology which are having major knock-on effects on industries such as health and food production. The development and enormous growth of the Internet in recent years could also potentially have important effects on the way goods and services are produced and distributed. Further developments in other areas such as fibre-optics will accelerate the rate of change in these areas and increase the range of possibilities for their application. Such is the speed of this progress that obtaining information on the latest developments is a difficult but vitally important requirement.

The ability of a national economy to exploit the new technologies developed in recent years will have an increasing impact on economic well-being in future decades. New industries have evolved, particularly in high value-added activities. But even if a particular economy does not contain the research capacity required to develop a competitive industry in these particular segments, it must be recognised that many of these new industries, for example, communications and new materials, will have profound effects upon the industrial processes in many other industries. This occurs not only in the particular design of inputs and outputs but also involves the need to ensure that a new range of skills are available, that new forms of organisation to exploit the new opportunities afforded are developed and that the most appropriate organisation of work and the labour relations process are employed.

A key element linking these new developments and new industries is the role played by information. The scientific and technical knowledge required to engage in production in these industries must be obtained, but so must efficient systems for the creation and effective distribution of information within the workplace, the firm and the economy. The development, transfer and use of information requires a particular level of skill development among the labour force. Organisational structures and procedures and the availability of modern infrastructure also have an important role to play in this regard. However, it is increasingly obvious that the most important criterion will be the availability of an educated and trained workforce. Consequently, education is vitally important for future prosperity. Indeed, education is not now just a matter for the early formative years but must involve life-long learning.

Technological change will continue at a rapid pace, although expert opinion suggests its impact will come, less through advances of which we at present know nothing, and much more from practical commercial application of technologies that in some form already exist. The focus on practical, commercial application in turn brings a focus to the organisational innovation required for commercial application. This is an area where European failure to date has been the subject of particular concern. The organisational innovation for the successful utilisation of inventive resources and the new embodied technologies requires the adoption of new forms of organisation within firms (including in the public sector), between the corporate and public sectors and wider societal institutions. These organisational changes in turn focus on the education and training required to make them possible, in particular, lifelong learning and training in firms.

(ii) Globalisation

Evidence of Globalisation

The globalisation hypothesis proposes that capital is freed, to a significant extent, from constraints regarding its choice for the location of production. As a result, previously excluded areas and countries are increasingly integrated into the world trade environment. However, its implications go well beyond this and include the emergence of new consumer markets, a shift in the global balance of economic power, changes in the role of the state in shaping economic performance, and fundamental changes in the type of employment and the nature of work undertaken in both developed and newly emerging economies.

There are three clear manifestations of globalisation. First, and most obvious, is the huge growth in world trade and the emergence of trade in previously closed sectors of the economy, in particular, the service sectors. The second effect can be seen in the world financial markets where a twenty-four hour market exists, with huge volumes of finance virtually unconstrained. Globalisation of the financial markets has outpaced that in goods markets, partly because of lower transaction costs and the rapid development of communications technology. The third manifestation of globalisation is the emergence to prominence of the transnational corporation (TNC). The TNC is important in this process since it enables the rapid transfer of knowledge and production techniques to new localities. The TNC is also important since it makes management and knowledge resources mobile. However, the immobility of many other types of labour means that – while production, finance and ultimately consumption may occur in a standardised form on a global basis – globalisation as it currently exists is unlikely to lead to an equalisation of wage rates or rates of return on capital.

Qualifications to Globalisation

It can be argued that the extent to which the world economic regime has become truly 'global' in recent years, has been exaggerated. First, despite the achievements of GATT, it can be shown that many economies are no more open today than they were in the early years of the century. The proportion of trade in merchandise in the major industrial countries is no greater now than what it was prior to 1914. Second, capital mobility, as a percentage of national income, was lower for all major industrial countries in the 1980s and 1990s than for the UK prior to 1914. It has also been claimed that the mobility of capital is exaggerated by the rapid growth in portfolio investment. Third, global labour mobility is considerably less now than in the earlier period. Fourth, the home country remains the main location of production and value-added for many TNCs.

While these observations are true, they would seem to ignore important differences between the 1990s and the late 19th and early 20th century. First, many more countries are now integrated into the world trade regime, and the range of products and services traded has increased. Second, while migration is less prevalent, the international mobility of people and the sale of labour across national frontiers is more prevalent. Third, and most important, even if globalisation was as great in the past, what matters is that *globalisation has profound effects*; indeed, this is proven by the fact that trade, migration and capital mobility produced enormous strains in the early 20th century, leading to war and subsequent closure of the international economic system.

These arguments have led to the suggestion that what has emerged is a regionalised, rather than global, economy whereby three major groupings – the triad of North America, Europe and Japan – account for the majority of world trade and financial flows. These three groupings engage in substantial trade and investment with each other, but most economic

activity takes place between countries *within* each region. Hirst and Thompson (1996) present evidence that countries on the margins of each triad member have tended to form networks around the relevant partner. Thus, Japanese financial relationships with the newly emerging Asian economies are particularly important, as are EU relationships with Central and Eastern Europe and American investment in Central and South America. This supports the idea that a level playing field in the global marketplace is a poor approximation of reality. Instead, FDI flows indicate that the geographical and regional relationship of countries remains an important determinant of foreign investment flows. This regional pattern is even more obvious in trade, indicating that global trade integration is even lower than global investment integration. For example, most imports of EU countries are from other countries in Europe, with little indication that this is about to change.

What is valuable about the critique of the globalisation hypothesis is that it questions the idea, which is sometimes seen as synonymous with globalisation, that national policy and characteristics have become entirely irrelevant (see below). It also draws attention to the need for international and supranational governance at regional level, such as in the EU.

The Effects of Globalisation/Internationalisation

While the globalisation of production and consumption produces standardisation of products, closer examination indicates that transnational firms differentiate their products and customise them to local needs and cultures. This means that low cost production centres can produce low and medium technology products for export to developed countries, while simultaneously providing consumption markets for more specialised products produced in the developed world. The result is a rapid growth of low and medium technology manufacturing, and rapid urban growth, especially in the second wave of emerging Asian economies, such as Thailand, Malaysia and now China.

Globalisation has had a number of very important effects on the way production is organised. The emergence of the multinational corporation and the key role being played by information as a vital resource is an important feature of globalisation and technological progress. There have also been important effects on the nature of work and the appropriate role for the state in developing national economies. One development which has accompanied these changes is the rise in unemployment in developed economies.

Globalisation has brought to the fore the importance of achieving national competitiveness. Within this context, a major role has been identified for training and education policies to enhance the skill content of the labour force. Public authorities have a role to play in collaboration with social partners in ensuring this skilled labour force is available. Identification of the correct role for the state in the training process, and other policies which enhance the competitive potential of the economy, will be perhaps the single most important component which will influence competitiveness in the coming decades. These are not issues which can be deferred into the medium-term. In fact, it is increasingly obvious that administrative systems which have transformed themselves and adapted to the changing environment have made major economic gains, while those overly burdened by structural rigidities cannot adapt. As a result, while unable to identify precisely what the state will look like in the future, a number of ideas emerge from observation of current developments.

The successful state will be one which achieves a number of balances. It will be one which does not attempt to replace or exclude global market forces, but neither will it be one which withdraws from the market in the belief that the free competitive outcome will always be optimal or possible. The successful state will not merely be a facilitator, although this is an important role in many cases, but will be also one which can and does act in a proactive manner and regularly as a joint partner. It will also be one which operates at many different levels and manages to successfully redefine the correct level of actions for a changed environment. In particular, it will be one which fosters the development of new levels of association, both within the economy and externally. However, the fluidity of the current environment means that the precise structure of the state which will meet these requirements remains indeterminate. Indeed, it can only be discovered by deliberate experimentation in public policy.

(iii) Changes in the Work Environment

A number of changes are occurring in the nature of work and the environment in which it is undertaken. In addition, the importance of human resources and the organisation of the firm in achieving competitiveness must now be emphasised.

The extent to which the work environment is changing is detailed in Walley (1996). The changes he considers include:

- (i) The increasing importance of the services sector as the source of employment;
- (ii) The prominence of information as the key raw material in manufacturing;
- (iii) The increase in the importance of skills as technology change becomes endemic;

- (iv) A higher degree of emphasis on customer satisfaction and quality, requiring the ability to adapt flexibly;
- (v) The enhanced role of intangibles which convert knowledge into services, for example, research, design and marketing;
- (vi) The importance of innovation in determining competitiveness;
- (vii) A trend towards flatter, more decentralised and team-based patterns of organisation within firms;
- (viii) The emergence of networks and alliances;
- (ix) A new importance attached to non-cost factors in defining competitiveness;
- (x) The need to adapt to global factors;
- (xi) A need for active learning during the working career of the individual;
- (xii) The prominence of atypical and contract based work relationships.

It is clear that these changes require substantial management initiatives. It is important to determine ways in which public policy can play a role. A number of these changes add considerable instability to the work environment. Thus, while the emergence of new forms of contract and flexible employment seem necessary for competitiveness, it is important to ensure that workers' rights are protected and that flexibility does not imply insecurity. Not only will insecurity adversely impact upon motivation, but is also likely to be accompanied by a reduction in the investment and training which firms are willing to make.

The internal organisation of firms, where changes have generally resulted in less defined roles for workers, means that the acquisition of a broad range of skills is increasingly important. In this respect, many countries now seek to learn from the Japanese system which combines long-term employment contracts with relatively short-term work deployment systems, whereby workers are frequently moved within the firm. This type of organisation also makes considerable use of information passed up from the work-floor, rather than emphasising the dominance of decisions handed down. It also implies a considerable decentralisation of responsibility and blurs the line between the initiation of the concept and its implementation. However, these principles cannot be applied simply by imitating Japanese methods (Sabel, 1995).

Ireland has reached the stage of development where living standards and social factors mean that firms find it difficult to compete in industries where labour costs are the most significant factor in competitiveness. It has also been suggested that the system of social contracts in Ireland and other parts of Europe has resulted in a loss of competitiveness and, as a result, should be altered. The problem with this suggestion is that the existing contract has conferred many benefits on a majority of Irish and European citizens and a move towards dismantling this contract would be perceived as undesirable by many. Thus, future prosperity requires the creation of high quality, high value-added employment and the pursuit of growth policies which will lead to increased quality employment.

(iv) Demographic Trends

Of all the changes in the future environment, perhaps the greatest impact will be felt as a result of population growth rates and demographic profiles. Four features seem relevant:

(i) World population is increasing rapidly;

(ii) This increase is concentrated almost entirely in the developing world;

(iii) There are varying rates of population growth within the developing world;

(iv) There is an ageing population in most of the developed world.

World population has been growing at an accelerating rate. Not only will this result in an increased global population, but differences in the rates of growth between the richer countries and other countries mean that the problems resulting will be concentrated in the poorer countries. At a time of unprecedented wealth creation in the Northern hemisphere and in parts of South East Asia, real living standards over much of Africa have declined substantially in recent decades. This is partly the result of poor economic performance, but is also a result of rapid population increases. There is no general agreement as to what may be the maximum global population which can be sustained, but it is increasingly evident that population increases concentrated in these poorer countries are bound to lead to crisis in the near future. In effect, the developments in technology and productive capacity in the richer countries appear to have little impact on living standards for much of the world's population. Should present trends continue, wealth will be increasingly concentrated in the hands of a dwindling proportion of the world's population.

The descent into poverty is of course not necessarily the result of population concentration. In fact, some of the most heavily populated areas have managed to raise living standards substantially in recent years while some of the poorest countries have quite low population density. The exact mechanisms that work remain unclear but it would appear that a particular combination of political and administrative structure evident

in many of the poorest countries may be responsible for their poor performance. However, it must be concluded that the western countries have not sufficiently attempted to engender benevolent systems in these countries, instead pursuing short-term strategic aims.

On a different scale, some elements of this process can be identified even within the richer countries. Many countries in recent years have exhibited an increasing divergence of wealth within their population. To a large extent, this has been associated with concentrations of unemployment within particular groups or regions especially in urban areas. Many serious social problems have resulted which are continuing to intensify, while efforts to overcome them have proven generally unsuccessful. These problems are increasingly evident in Ireland. In this report, the issue is addressed not merely as one of job creation but one requiring efforts to overcome the social exclusion of certain groups which leads to the erection of further barriers against these individuals. Employment creation, and as a result economic growth, are major parts of overcoming these problems, but are not projected in themselves to be sufficient to overcome the problems of inequality which continue to intensify.

The final impact of changes in the structure of the world's population and in income distribution, across and within countries, remains unclear. Rapid population growth in certain high growth Asian countries, in addition to the emergence of China as a trading nation and a major centre of production, will accelerate the movement in the global economy towards Asia. It is unclear to what extent this threatens the continuing prosperity of the West, but it certainly emphasises the importance of pursuing competitive economic policies. Many low skill sources of employment have already moved to Asia and, as these countries continue to invest heavily in education and human resource development, other industries in Western economies will come under threat. However, the developed economies remain competitive in knowledge intensive sectors, especially services, and, provided the appropriate strategies are followed, can continue to create employment in these high growth sectors.

3. IRELAND'S APPROACH

(i) The Three Elements of a Consistent Policy Framework

The current *Strategy* report begins from the perspective outlined in *A Strategy for the Nineties* (1990) and *A Strategy for Growth, Competitiveness and Employment* (1993). There, it was argued that there are three requirements for a consistent policy framework in a small, open, European democracy.

(i) The economy must have a macroeconomic policy approach which guarantees low inflation and a steady growth of aggregate demand;

(ii) There must be an evolution of incomes which ensures continued improvement in competitiveness, which handles distributional conflict in a way which does not disrupt the functioning of the economy, and which accords with the society's values concerning fairness;

(iii) There must be a set of complementary policies which facilitate and promote structural adjustment in order to improve competitiveness.

The manner in which a consistent and effective overall approach is developed varies considerably across countries. Consideration of how various countries, with different structures and political traditions, operate economic and social policy suggests two important requirements:

(i) The overall system must be consistent;

(ii) It must be suitable for the economy and society to which it is applied.

(ii) Core Elements of the Emerging Irish Model

The question then is: what substantive policies are appropriate in each of these three categories (macroeconomic growth with low inflation, competitive and fair incomes, and structural adjustment) and how can consistency be achieved? The Council believes that recent experience provides clear indications of how to proceed. First, earlier Council work has suggested ways in which these questions might be answered. Second, developments since 1987 indicate certain ways in which Ireland can compete in the international economy. Third, a careful study of globalisation provides useful information on where a major Irish policy effort should be made. Finally, we take note of the underlying society within which public policy, business practice and industrial relations must fit.

The Council's Orientation: Participation and Institutional Competitiveness

As well as reaching agreement on many detailed policy issues, the Council's reports contain a general orientation which would seem to retain its relevance as Irish economic and social policy proceeds into the 21st Century.

This orientation is one which begins from the belief that the widest participation in social life, economic activity and policy-making are inseparable and fundamental requirements for the well-being of Irish society. This is combined with an unambiguous recognition and acceptance of Ireland's participation in the international economy and the European Union. This implies that the competitiveness of the Irish economy is a precondition for the pursuit of all other economic and social goals. The Council has long argued that international competitiveness requires both inward investment and indigenous development and has proposed measures to enhance each. The Council has argued that macroeconomic performance, international competitiveness and social justice are best served by a negotiated determination of income distribution, which encompasses wage growth, taxation and social provision. The Council has recognised, however, that this approach is insufficient in addressing long-term unemployment and social exclusion. Consequently, it has identified the need for targeted, multi-dimensional, area-based measures on long-term unemployment.

Negotiated Programmes

Some countries achieve a consistent policy framework by means of strong government regulation of the economy and society. Others achieve consistency in a more pluralist fashion. In Ireland, the achievement of a consistent approach to macroeconomic policy, incomes and structural adjustment has been strongly associated with negotiated programmes. These align the social partners to consistent and competitive actions and provide a framework within which government can adopt a strategic perspective to important policy issues. The relatively successful negotiated programmes of the late 1980s and the 1990s have been based on a shared understanding of the problems facing the Irish economy and society and the main lines of policy required to address them.

Globalisation Places a Premium on Structural Adjustment and Social Cohesion

The foundations for Irish economic and social policy and a new programme, may be further clarified by considering globalisation. There is little doubt that globalisation of markets and firms has undermined many elements of national economic policy. Even large countries find that macroeconomic policy and traditional, large scale, industrial policy are severely constrained. However, the discussion in Section 2 suggests qualifications to the concept of globalisation. There are several areas where national policy remains crucial. National policies which influence corporate governance, innovation, the labour market and industrial relations still have a significant effect on national prosperity. In addition, the study of current economic conditions may further clarify the policy approach which should be adopted by a small, open, European, democracy like Ireland:

(i) Most of the policies which affect national prosperity are *supply-side* policies;

(ii) Given rapid economic change, national policies must produce *flexibility*;

(iii) Successful national supply-side policies, directed towards innovation and competitiveness, depend on 'the high level of social cohesion and co-operation that the state can both call upon and develop' (Hirst and Thompson, 1992).

This has implications for the three elements of a consistent policy framework, outlined above. It suggests that, as long as macroeconomic discipline is maintained, an increased focus of Ireland's economic and social policies should now be on the second and third elements of a consistent policy framework. As noted above, supply-side policies which facilitate and promote structural adjustment in order to improve competitiveness are clearly vital in a globalised economy. As outlined in Section 2 above, these include education, training, life-long learning, technology, R&D, innovation and infrastructural and organisational capability. But the success of supply-side measures for competitiveness depends on the level of social cohesion and co-operation. Public policy must engage in fostering collaborative action within and among firms and developing the institutions which would make collaboration self-sustaining. This collaboration should exist between firms, between the social partners and extend to the non-marketised and informal sectors. Consequently, long-term unemployment and the fairness of incomes, taxation and social provision, remain central policy issues. Long-term unemployment stretches social cohesion to the limit and would, in the long-term, also threaten economic prosperity.

Negotiated Programmes, Industrial Relations and Irish Society

At the level of public policy making, it seems that negotiated, multi-annual programmes, provide a framework within which the Irish political and administrative system behaves in a strategic, as opposed to a short-term, manner. In the sphere of industrial relations, it seems that social partnership at the national level has produced economy-wide moderate wage growth and industrial peace. In addition, this model of policy-making, business and industrial relations is also consistent with some enduring characteristics of Irish society. It places a high value on voluntary participation in social, economic and public life. It seeks stability through the plural representation and accommodation of diverse interests. It is market-led but social. It is non-dogmatic, informal and co-operative. It reflects an underlying sense of social solidarity and a strong national identity. The country is small enough to actively use these characteristics in an informal policy process which encourages various interest groups to address problems jointly. In recent years, this has been reflected in a conscious experimentalism in several public policy, business and industrial relations spheres. Consequently, in the Irish case, social partnership can be more than an industrial relations system, since it would seem to reflect important features of Ireland's social system.

However, this apparent fit between the emerging model of policy-making, business and industrial relations, on the one hand, and the characteristics of Irish society, on the other, is hugely qualified by the continuing problem of long-term unemployment and social exclusion. This raises questions about the negotiation and content of a new multi-annual programme. It also undermines those features of Irish society – social solidarity, a shared perspective on key policy needs, and mutual accommodation – which underpin the negotiated approach to policy. This *Strategy* report suggests ways in which Ireland can address this weakness of its recent approach. The Council is anxious that the policy process takes greater heed of those who have, so far, benefited least from Ireland's recovery. It is convinced that this can be done without undermining its effectiveness in aligning economic actors to coherent approaches.

(iii) The Current Challenge: Self-Generating Competitiveness and Social Inclusion

While negotiated, multi-annual, programmes at national level would seem to remain necessary, the task now is to make competitiveness and social solidarity *self-sustaining*. State strategy remains critical, but public policy is most effective when social actors are responsible for ever-improving competitiveness and social inclusion. Consequently, the *Strategy* document and policy must provide a framework for building competitiveness at firm and industry level. Likewise, they must provide a framework in which social inclusion and fairness are achieved by harnessing Ireland's high levels of community involvement, extensive voluntary associations and absence of deep social divisions. This requires extending the benefits of social partnership by consciously promoting a wider distribution of the fruits of growth and wider participation in policy deliberation and implementation.

Consequently, the Council explores ways of developing the social partnership model both below the national level and at national level.

There are two strands to the development of the policy process which require to be examined. These are:

(i) Industrial relations partnership below the national level, and in new spheres;

(ii) The representation of marginalised groups at national level.

The first of these issues is considered in Chapter 7 below. The representation of marginalised groups at national level is discussed in Chapter 13.

The Council believes that these arguments, when placed in the context of a rapidly changing global environment, mean that the search for consensus, which underlies the Irish model of policy-making, is the best available approach to economic development for a number of reasons.

First, some crucial national policies are indivisible, and cannot be effective unless conducted coherently and with a broad measure of agreement. Exchange rate policy provides a good example. This policy must be set by reference to the broad national interest. In this, and a number of other areas of policy, a national framework to which all sectors and interests conform is vital. Second, agreement on the real underpinnings of Ireland's overall competitiveness and social cohesion can avoid fruitless debate on alternative models which might have some attractive features, but which are simply not consistent with competitiveness and social cohesion in the Irish context. Third, it is important to appreciate that these underpinnings of competitiveness and social cohesion provide a framework, not a strait-jacket. While there are several economic and social policies which are indivisible (and in which a single policy or set of standards must apply), there are many other areas where a plurality of approaches is appropriate. These include not only areas of economic, industrial and social activity, but also public policy.

PART II

Economic Framework

CHAPTER 4

MACROECONOMIC POLICY

1. INTRODUCTION

A small open economy requires a consistent set of macroeconomic, distributional and structural policies. In the movement to EMU, a major challenge confronting all European countries is to establish a consistent and effective relationship between a 'fixed' exchange rate, public finance and wage bargaining. The first two of these are considered in this chapter. Wage bargaining is discussed in Chapter 5.

The Council's overall approach to macroeconomic policy is outlined in Section 2. The operation of monetary policy is considered in Section 3. Fiscal policy is addressed in Sections 4 and 5. Section 4 outlines a medium term perspective on the development of Ireland's public finances. Section 5 develops principles which should guide the development of the public finances in the coming years. The Council's macroeconomic policy recommendations, including specific targets for fiscal policy are presented in Section 6.

2. THE OVERALL MACROECONOMIC APPROACH

It can be argued, that in recent years Ireland has made significant progress towards achieving two of elements of a consistent policy approach, the macroeconomic and the distributional. Preparation for and transition to EMU provides the sheet anchor of the macroeconomic approach, and national agreements on pay, taxation, social welfare and social provision, determine distribution. This combination produces low and predictable inflation and steadily increasing international competitiveness. The combination was not easily achieved. It took many years for Ireland to converge towards German inflation and interest rates, and Ireland's adherence to the EMS narrow-band was occasionally threatened by devaluation of Sterling. Indeed, the whole European Exchange Rate Mechanism (ERM) was significantly loosened in 1993, when exchange rate speculation undermined the narrow-band parities. Following the widening of the ERM narrow band, the Council argued that Ireland should continue to adopt a credible, non-accommodating, exchange rate policy (NESC, 1993). This can be seen as a continuation of the same fundamental exchange rate and macroeconomic strategy, in new circumstances. By adopting that strategy, in combination with social partnership agreements covering pay and other policies, Ireland has made major advances in economic management and performance. In particular, consensus on this long-run strategy has taken the exchange rate, and therefore inflation, outside political competition and industrial relations conflict.

3. MONETARY POLICY

Irish policy is oriented towards joining EMU on its establishment. This is an approach which the Council endorses. In the context of EMU, a key issue that needs to be considered is how Ireland should address any problems which might arise should the UK remain outside EMU and there is a sudden fall in the value of Sterling.

In the Council's view, there are four major requirements for dealing with the possible occurrence of Sterling weakness in the context of Irish membership and UK non-membership of EMU. First, it is necessary that, in the face of a rapid depreciation of Sterling, the relevant Irish partners have sufficient trust to address the problem in a timely and effective way. In the Council's view, co-ordinated wage bargaining, in the context of a negotiated social partnership programme, which is operational at the level of the individual enterprise, is the environment most likely to guarantee the necessary degree of trust, information-flow and burden-sharing. The existing arrangements for monitoring national programmes could be utilised to provide a mechanism for review should this be necessary. Second, every effort must be made – in public policy, individual enterprises, IBEC, ICTU and other associations – to strengthen the underlying competitiveness of Irish businesses. Third, it is necessary to achieve further reduction in the non-wage costs of labour, through reform of tax and PRSI. Fourth, it is necessary to assist Irish enterprises to make maximum use of financial market hedging instruments, while recognising that these instruments will not provide complete cover.

Profit sharing arrangements can have significant benefits at both enterprise and macroeconomic level. Where these are developed, they can also assist the handling of problems arising from downward movement in Sterling.

(i) Domestic Monetary Policy Issues

In *A Strategy for Growth, Competitiveness and Employment* (1993), the Council reiterated its view that the primary goal of monetary policy is price stability. It outlined its preference for a credible, non-accommodating, exchange rate policy during the transition to EMU. Day-to-day management of this monetary policy must take note of three

factors: the Maastricht criteria, domestic credit expansion and the nominal value of Sterling.

The fundamental requirement is that Ireland continue to adhere to the Maastricht criteria. The criteria relevant to monetary policy are:

- (i) Inflation close to the three best performing member states;
- (ii) A currency which has observed the normal EMS fluctuation margins for at least two years, without devaluation;
- (iii) Interest rates which suggest that the convergence is durable.

The Council believes that the Central Bank must continue to ensure that these criteria are met. It recognises the major benefits which have derived from lower interest rates after the 1992-3 crisis of the ERM. It recognises that a loss of credibility in the exchange rate, or in the transition to EMU, would probably increase interest rates significantly, and undermine the stable economic environment.

(ii) European Policy Issues

At European level, a major monetary policy issue is 'cohabitation' – the relationship between the Euro and the currencies outside of EMU. The Council is firmly of the opinion that this is a genuinely European issue, on which a clear position is desirable before movement to a single currency. From its contacts with Economic and Social Councils in other European countries, the Council is aware that Ireland is not alone in dissatisfaction with the possibility of excessive currency fluctuations within the Single European Market. However, it is conscious that Ireland may be more exposed to damage from such fluctuations than any other members of the single currency.

4. WHERE ARE WE NOW? A MEDIUM-TERM PERSPECTIVE ON PUBLIC FINANCE

(i) Introduction

It is important to achieve consistency between monetary and fiscal policy. In order for the Council to make recommendations on fiscal policy in the coming years, it is necessary to establish where Ireland now stands. Consequently, this section outlines a medium-term perspective on the public finances. The main trends in a period of rapid change since the mid 1980s, tell us a lot about the nature of the Irish policy system, and thereby allows us to develop realistic proposals for future change.

(ii) Aggregate Trends, 1986-1996

The period under review is one in which Ireland addressed an acute fiscal and economic crisis. Sharp change in the direction of the public finances was achieved at the same time as economic growth resumed and has, in recent years, reached unprecedented levels. However, there are numerous ways to achieve lower government borrowing and debt, and it is important to be clear on the way in which these were achieved in the Irish case – development of active social partnership and political consensus at national level.

Falling Expenditure and Tax Burden

Total government expenditure as a proportion of GNP has been sharply reduced over the past decade (see Figure 4.1). In 1986 total government expenditure was over 58 per cent of GNP, while by 1996 this had fallen to 46 per cent. The reduction in the tax burden (inclusive of PRSI) has been more modest; the tax burden fell from 40.2 per cent in 1986 to 38.7 per cent in 1996. The difference between the reduction in spending and taxation reflects the sharp fall in borrowing. In the EU context, the common measure of government borrowing is the general government deficit (GGD). This measure is explained in Box 4.1. The general government deficit has fallen from 8.6 per cent of GDP in 1987 to around 2 per cent of GDP in 1996 (see Figure 4.2).

Reduction in Debt/GDP Ratio

The reduction in the share of government expenditure and borrowing in GNP has made it possible to achieve a significant reduction in the debt/GDP ratio over the past decade. The debt ratio peaked at 117.6 per cent in 1986, and has fallen consistently since then, to 76 per cent in 1996 (see Figure 4.3). The one exception was an increase in 1993, which was due to the devaluation in that year; the devaluation increased the foreign currency part of the debt, when measured in Irish pounds.

Box 4.1
General Government Deficit
The New EU Measure of Public Borrowing

The deficit referred to in the Maastricht Treaty, which must generally be no more than 3 per cent, is measured on a *General Government* basis. The General Government Deficit (GGD) shows the annual borrowing by all arms of government, excluding commercial semi-state bodies, but ignores loan and equity transactions. Until recently, public discussion of government borrowing in Ireland has focused on the Exchequer Borrowing Requirement (EBR). The EBR is a cashflow measure of the difference between expenditure and revenue of central government. The main differences between the GGD and the EBR are as follows:

(i) Transactions *within the General Government sector* do not effect the GGD. An example of this is the treatment of savings made by the National Treasury Management Agency (NTMA) on interest on the national debt. It is possible to affect the EBR by carrying over interest savings from one year to another. This is done by building up balances with the NTMA operating account and the Post Office Savings Bank Fund. Such internal transactions are discounted in the computation of the GGD, so that savings are recorded in the year in which they are made. Another example of this difference is the treatment of departmental balances (i.e. cash balances held by a government department at the end of a year). Such balances can be carried from one year to another to reduce the following year's EBR. However, this has no effect on the GGD, which depends on the actual spending of the department in a given year.

(ii) The deficits of *other parts of the General Government sector*, such as local authorities, health boards, non-commercial state bodies are included in the GGD, but not in the EBR. However, commercial state organisations (such as Telecom) which are not mainly dependent on public revenue for their operations are not part of the General Government sector. The borrowing of such bodies is not part of either the GGD or the EBR.

(iii) The revenue from the *sale of state assets* (e.g. commercial state companies) reduces the EBR, but does not effect the GGD. Such transactions are regarded as merely financial transactions, which do not effect the underlying budgetary balance. Conversely, state equity injections also have no impact on the GGD.

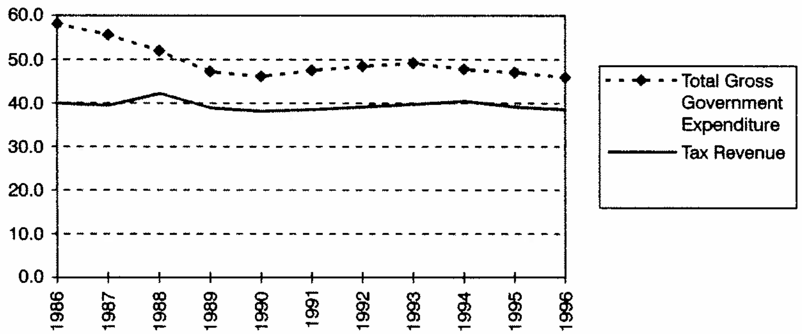
(iv) The GGD incorporates some aspects of *accruals accounting*. One aspect of the current conventions used in calculating the GGD is that interest is specifically defined as accountable on a cash basis. However, under new conventions to be adopted in the computing the GGD, interest will be charged on an accruals basis. This has implications for the accounting of interest on small savings schemes operated by An Post. Under the new conventions, interest on such products will be charged on an accruals basis. This will have the effect of increasing the underlying level of GGD by 0.4 percentage points of GDP. This will come into effect from 1999.

Apart from the Maastricht Treaty context, the GGD gives a better measure of the underlying public deficit. On the other hand, the Maastricht requirements refer to the GGD as a percentage of GDP. In Ireland, GNP is a more appropriate measure. However, to avoid confusion, this chapter refers to the GGD as a percentage of GDP.

Because of the well known difficulties with GDP, Irish economic discussion has in the past focused on the national debt/GNP ratio. However, in the EU context, the focus is on the General Government debt/GDP ratio. For this reason, the General Government debt/GDP ratio is used in Figure 4.3. The Council's previous recommendations for fiscal policy were expressed in terms of the debt/GNP ratio. If the Council's target had been expressed in terms of the General Government debt/GDP ratio, the equivalent target would have been a minimum debt/GDP ratio of 85 per cent by 1996. The actual reduction in the General Government debt/GDP was from 94.5 per cent in 1993 to 76 per cent in 1996.

FIGURE 4.1

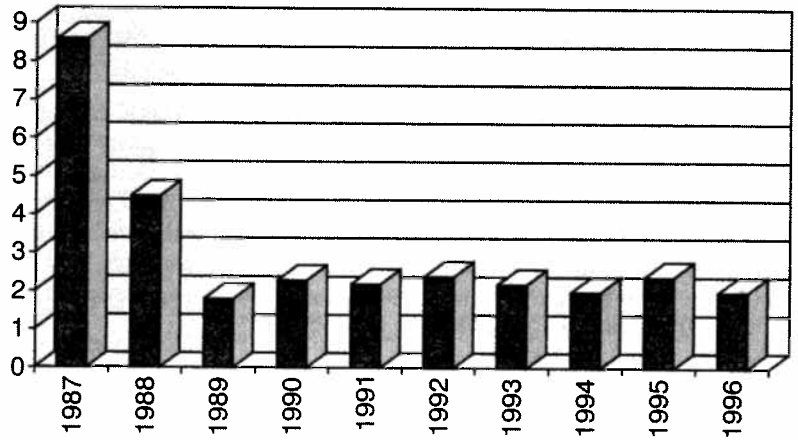
Total Government Expenditure and Tax Revenue as Percentage of GNP



Source: Department of Finance.

FIGURE 4.2

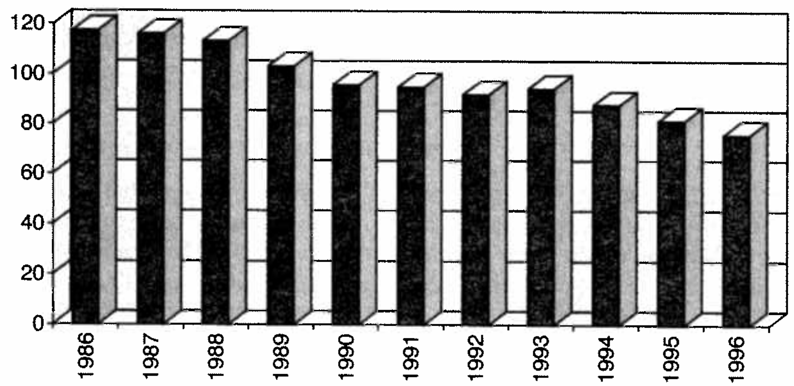
General Government Deficit as Percentage of GDP



Source: Department of Finance.

FIGURE 4.3

General Government Debt as Percentage of GDP



Source: Department of Finance.

How these Adjustments were Achieved

The correction of the public finances was concentrated in the late 1980s. Between 1990 and 1994, there was a slight increase in the share of total government expenditure in GNP, but this share has been falling since 1994. The level of borrowing has been broadly stable since 1990. The tax burden as a share of GNP also increased slightly in the early 1990s.

The sharp reduction in total expenditure in the late 1980s reflected reductions in both current and capital expenditure. Total gross current expenditure was reduced by a total of 6.3 per cent between 1987 and 1989 in real (CPI basis) terms. The reduction in capital expenditure was even more severe, with a total real reduction of 30.3 per cent in the same period (see Table 4.1). The reduction in current expenditure was achieved by real reductions in the volume of services, while some reduction in unemployment also helped to reduce expenditure.

International Comparison

Comparative figures on the level of general government expenditure are shown in Appendix Table A1. The level of general government expenditure, as a percentage of GDP, is lower in Ireland than any other EU country. However, if expenditure is expressed as a percentage of GNP, the figure for Ireland is estimated at around 46 per cent.[1] On this basis the level of expenditure in Ireland is still lower than most EU countries but it is higher than the UK. This level of expenditure is similar to but slightly higher than the other cohesion countries: Portugal (44.7 per cent of GDP), Greece (45.5 per cent of GDP) and Spain (45.2 per cent of GDP).

1 This is calculated as gross general government expenditure as a percentage of GNP. Net general government expenditure in Ireland is around 44 per cent of GNP.

TABLE 4.1

Total Gross Current Expenditure and Exchequer Capital Expenditure as Percentage of GNP

	Total Gross Current Expenditure	Exchequer Financed Capital Expenditure
1986	52.1	6.0
1987	50.6	5.1
1988	48.3	3.7
1989	44.0	3.2
1990	42.8	3.3
1991	44.3	3.3
1992	45.2	3.3
1993	45.2	4.0
1994	43.9	3.9
1995	43.3	3.8
1996	41.9	4.1

Source: Department of Finance.

(iii) Current Government Expenditure

Current public expenditure has two major components: Central Fund expenditure and supply services. Central Fund expenditure covers debt service costs, EU budget contributions and some minor miscellaneous items, such as judicial pensions. Supply services expenditure is day-to-day expenditure on most public services.

Central Fund

The reduction in the debt burden has been significant in moderating the growth of Central Fund expenditure. Central Fund expenditure has fallen from 12.7 per cent of GNP in 1986 to 8.4 per cent in 1996. Central Fund expenditure is also significantly influenced by interest rate movements. Interest rates on the national debt are more stable than headline interest rates due to the age profile of the debt. Nonetheless, even small interest rate movements have large effects on expenditure. Interest rates on the national debt have been falling since 1991 to a low of 6.6 per cent in 1996.

Box 4.2
Measures of Current Expenditure on Public Services

There are three ways of measuring the current public expenditure on most public services: two of them based on supply services and one from the national accounts. Two are measures of non-capital (i.e. current) supply services: net and gross. Net non-capital supply services refers to current expenditure directly funded by the exchequer. Gross non-capital supply services incorporates net supply services expenditure as well as PRSI contributions and 'appropriations in aid' (certain EU receipts and other non-exchequer income of government departments or agencies). Both of these budgetary measures are cash-based, so that the underlying expenditure can sometimes differ from the recorded expenditure. For example, the timing of certain payments, the transferring of savings on debt servicing costs from year to year and the timing of EU receipts are among the factors which effect the recorded annual changes in expenditure. The payment of Equal Treatment awards in social welfare, mainly in 1995 but also in 1996, also implies that the underlying changes differ from the official figures. For these reasons a third measure of expenditure, derived from the national accounts is used in the text in addition to the supply services measures. The national accounts measure of current expenditure is a broader definition and incorporates elements of accruals accounting.

Supply Services

There are three ways of measuring current public expenditure, in general public services (see Box 4.2). All of these current expenditure measures confirm that there were sharp reductions in expenditure in the late 1980s, while current expenditure has been rising in real terms since 1990 (see Table 4.2). The most comprehensive measure, the national accounts definition, shows a slowdown in expenditure growth in 1994 and 1995, but a subsequent increase in 1996. A similar trend is evident for gross non-capital supply services.

TABLE 4.2

Current Expenditure: Annual Percentage Change in Real Terms 1988-1996

	Net Non-Capital Supply Services	Gross Non-Capital Supply Services	Real Non-Interest Current Expenditure (National Accounts Definition)
1988	-3.1	-1.1	0.9
1989	-3.4	-3.2	-9.4
1990	1.0	3.3	6.3
1991	5.5	6.3	6.4
1992	8.4	6.8	5.8
1993	6.4	6.1	7.2
1994	6.6	4.9	3.6
1995	6.0	3.1	3.9
1996	3.8	4.6	6.0

Note: The supply services figures have been adjusted to exclude the Local Loans Fund in 1987, while the Equality Treatment Payments have been excluded in 1995.

Source: Department of Finance and CSO, *National Income and Expenditure*.

Increased Social Spending

The increase in current expenditure after 1990 was due, in part, to an increase in social spending to address needs in welfare, health and education and to ameliorate the problems which had emerged from the earlier cuts in expenditure, such as lengthening hospital waiting lists. Between 1989 and 1996, the annual average real increase in expenditure on social services was 4.7 per cent (see Table 4.3). Expenditure on health has grown most rapidly, while there have also been substantial increases in education and social welfare. These increases reflect significant increases in the volume of social services and transfer payments during the 1990s. In a general sense, the Council sees this as a part of the social partnership approach to policy which has emerged during the past decade. While it unambiguously supported sharp reductions in current and capital expenditure in order to put public finances on a sustainable path, it also believes that the fruits of overall public finance correction, and of economic growth, must be distributed in ways which address social priorities and the needs of various social interests.

TABLE 4.3

Social Services Expenditure
Annual Percentage Changes in Real Terms

	1987-89	**1989-96**
Health	-0.4	6.4
Education	0.3	5.2
Social Welfare	-0.7	4.2
Housing	-20.8	-18.2
Subsidies	-5.0	-2.5
Total	-0.6	4.7

Note: Deflated by the CPI.

Source: Secretariat calculations using Department of Finance data.

Public Service Pay

However, the increase in expenditure cannot be entirely explained by the increase in the volume of social services, transfer payments and other public services. Public expenditure is significantly influenced by the cost, as well as the volume, of public services. The cost of public services usually rises by more than the CPI. This is at least partly due to the labour intensive nature of public services, but could also reflect problems of inefficiency.[2]

In the early 1990s, cost pressures were particularly significant in increasing public expenditure, reflecting substantial pay increases. Public service pay is a significant influence on the cost of public services. The issue of public service pay is examined in Chapter 5.

2 The difficulties of measuring output in the public services make it virtually impossible to identify the significance of the role of inefficiency in measuring the cost of public services at an aggregate level. Because of these difficulties, the normal convention adopted in measuring output of the public services is to assume zero productivity growth.

(iv) Conclusion on Trends Since the Mid-1980s

There has been a remarkable transformation in the public finances over the past decade. The pattern of that transformation reveals both the significant features and weaknesses of the Irish policy system.

The Features of the System

A comparison of the present position with the mid-to-late 1980s underlines the transformation achieved. The share of public expenditure in national output (GNP) has fallen from 58 per cent in 1986 to 46 per cent in 1996. Since 1989 the *volume* of public consumption has increased strongly. This reflects significant increases in the volume of social services – in health and education – while expenditure on social welfare transfers has also increased. In a general sense, the Council sees this as one component of the social partnership approach. Some increase in social spending is a valuable concomitant to the moderate pay settlements and the adherence to competitive economic disciplines, which form another component of the social partnership approach. Whether the increased quantity and quality of social services required such a large increase in expenditure is a separate matter. As noted in Chapter 5 of this report, the Council is anxious about several features of public sector pay bargaining.

In contrast to public expenditure, the burden of taxation on Irish economic output has fallen much less (from 40.2 per cent of GNP in 1986 to 38.7 per cent of GNP in 1996). This reflects the large reduction in the deficit. The reduction in the debt/GDP ratio is a most important aspect of public finance developments in the last decade. This too, is a key component of the social partnership approach, since reduction in debt burden was a fundamental requirement for economic recovery and the establishment of public policy options and continues to be a key element for continued economic growth.

Overall, this experience underlines two things. First, in Irish circumstances management of the public finances – including the reaction to crisis – benefits from the element of consensus created by the national partnership approach. Second, sudden changes in either the quantity or composition of taxation and expenditure are difficult to achieve within the Irish system. These mean that long-term public policy priorities – including radical changes in expenditure and tax – are likely to require coherent, medium-term, programmes of reform.

First, control of overall public expenditure remains a difficult policy and managerial problem. Even when new priorities and programmes emerge, expenditure on existing programmes has a strong tendency to grow. This tendency for expenditure to grow undermines the ability of policy to reflect priorities. In particular, it tends to pre-empt tax reform and tax reduction and measures to address social polarisation, even though these are seen as high priorities by policy makers and the social partners.

Within public expenditure control, an important problem is fraud. Indeed, developments in recent years show that there have been a number of cases where control procedures were quite inadequate. 'Quality service' in the public sector must mean service to those legitimately entitled to benefits, grants and subsidies.

The ongoing difficulty of managing public expenditure can, occasionally, give rise to a second problem: where expenditure grows well above its sustainable rate of increase for a period, it then requires a period of unusually slow expenditure growth (or tax increases). This zigzag effect – while partly inevitable – can give rise to fruitless short-term debates and take the focus off more important medium-term goals.

The third weakness revealed in the experience of the past decade concerns public sector pay. The Council argues that the system must produce public pay outcomes which are consistent with: (i) developments in the private sector; (ii) the demands on public resources and their impact on competitiveness; and (iii) the pace of change within public sector organisations (see Chapter 5 below).

These weakness indicate three requirements for successful public finance management, in the medium-term:

(i) Review and development of the systems of public expenditure management and control within the context of the Council's recommended budgetary strategy and the Strategic Management Initiative (SMI);

(ii) The system of public sector pay bargaining should be coherent with private sector experience and the need for restructuring;

(iii) There is a need for greater dissemination of the meaning of the social partnership approach – particularly interdependence and solidarity (see Chapter 5 below).

5. PRINCIPLES GOVERNING FUTURE DEVELOPMENT

The Council previously outlined principles which should govern public finance policy. These have reflected underlying principles of public finance – sustainability and flexibility – and the priorities which the Council saw in 1986, 1990, and 1993. On this occasion, the Council reiterates these principles and adds to them, drawing on the experience of the past decade.

(i) Enduring Public Finance Principles: Sustainability and Flexibility

Sustainability

A technical definition of sustainability of the public finances is whether the debt/GNP ratio is stable or declining. It can be shown that the evolution of the debt/GNP ratio depends on three variables: the nominal growth rate, the nominal interest rate and the non-interest budget balance. When the nominal interest rate exceeds the nominal growth rate, then a sufficiently large non-interest surplus is required to stabilise the debt/GNP ratio.[3] Where the nominal interest rate is less than the nominal growth rate, then the debt ratio can be stabilised with a non-interest deficit, provided it is sufficiently small.

The movement of the nominal interest rate and the nominal growth rate since 1993 have been favourable from the point of view of reducing the debt/GNP ratio. The nominal growth rate exceeded the nominal interest rate, which made it considerably easier to reduce the debt ratio. The non-interest surplus was sufficient to achieve a significant fall in the debt ratio despite some reduction in the non-interest surplus (as a percentage of GNP) since 1993.

Flexibility

Sustainability is a minimum requirement. Once sustainability prevails, other criteria must be found to guide policy. A second criterion in considering the objective of fiscal policy is flexibility. There are a number of different aspects to flexibility.

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3 The non-interest budget surplus required to stabilise the debt/GNP ratio is calculated by multiplying this ratio by the difference between the nominal interest rate and the nominal growth rate. Note that this analysis assumes that there are no exchange rate changes. Exchange rate movements have had a significant effect on the Irish debt/GNP ratio on some occasions. However, the three variables mentioned in the text are the dominant influences on the evolution of the debt/GNP ratio.

Debt Service Costs: A key benefit of reducing the debt burden is that this provides greater flexibility in the public finances, by reducing the share of revenue taken by debt service costs. The trend in debt service costs is shown in Table 4.4. Debt service costs peaked in 1985; at that time, debt servicing accounted for almost 22.6 per cent of gross current expenditure, 30 per cent of tax revenue and 93.5 per cent of income tax. Since then, there has been considerable progress in reducing the burden of debt servicing costs. For 1996, it is estimated that debt service will account for 15.1 per cent of gross current expenditure, 16.4 per cent of the tax revenue and 56 per cent of income tax revenue. The progress in reducing the debt burden over the past decade has thus yielded a considerable benefit in terms of greater flexibility in the public finances. However, 15.1 per cent of gross current expenditure, or around £2.3 billion, still represents a significant cost, so it is important to make further progress in reducing the debt burden.

Stabilisation and EMU: At a time of recession, revenue tends to decline (or increase at a lower rate), while expenditure tends to increase as unemployment increases. These changes can act as automatic stabilisers, and help to mitigate the effects of a downturn in economic activity. However, these changes also imply a rise in borrowing. If the initial condition of the public finances is sufficiently stable, then it is possible to allow for some increase in borrowing in recessionary periods, without causing undue difficulties. On the other hand, if the condition of the public finances is already unsatisfactory, then the policy response in a recession may be to increase tax rates or reduce expenditure. This can have the effect of intensifying the recession and move the economy into a vicious circle. This was the experience of the Irish economy in the first half of the 1980s.

The ability to respond appropriately to downturns in economic activity is a key benefit of developing flexibility in the public finances. This will be particularly important under EMU, as the option of adjusting exchange rates will not exist. The Maastricht conditions for EMU require a general government deficit (GGD) not exceeding 3 per cent of GDP and a debt/GDP ratio not exceeding 60 per cent. There are proposals for a *Stability Pact* which would elaborate on how member states propose to meet the conditions of the Maastricht Treaty for EMU. The level of the GGD in each of the member states is shown in Appendix Table A2. These figures give an indication of the absolute and relative position of Ireland, as regards the Maastricht criteria.

TABLE 4.4

Trend in Service of Public Debt 1977-1996

Year	Service of Public Debt £m	Service of Public Debt: As a % of Gross Current Expenditure	As a % of Tax Revenue	As a % of Income Tax
1985	1,967	22.6	30.0	93.5
1986	1,989	21.6	28.0	83.3
1987	2,118	22.1	28.1	78.1
1988[1]	2,141	22.1	25.1	76.8
1989	2,141	21.9	24.7	76.2
1990	2,300	22.1	24.7	76.1
1991	2,351	20.8	23.8	72.8
1992	2,355	19.4	22.3	69.0
1993	2,390	18.4	20.8	64.4
1994	2,227	16.2	17.5	58.0
1995*	2,405	16.4	18.1	58.2
1996**	2,310	15.1	16.4	56.0

Notes: * Provisional Out-turn
** Post-Budget Estimate.
(1) The 1988 figures exclude the exceptional once-off effects of the tax amnesty

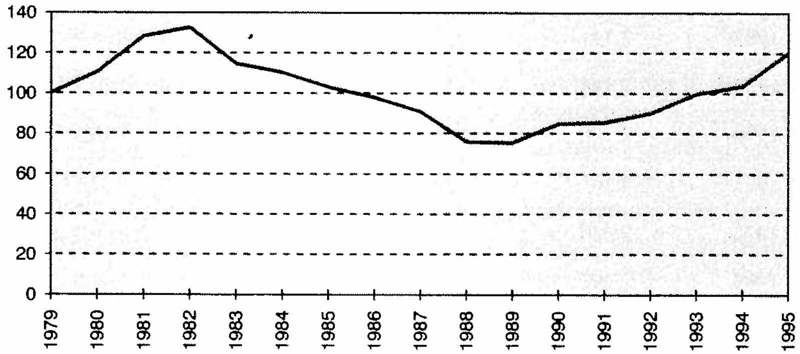
Source: Department of Finance.

Structural Funds: Concerns about the future of the Structural Funds also points to the need to develop greater flexibility in the public finances. The growth of the Irish economy implies that Ireland will exceed the current threshold for eligibility for 'Objective 1' funding when the current round of Structural Funds ends in 1999. This raises the possibility of a reduction in Structural Funds receipts beyond 1999, although the future of regional policy as a whole has not yet been determined.

The trend in the public capital programme (PCP) since 1979 is shown in Figure 4.4. The Community Support Framework (CSF) was instrumental in offsetting the decline in the PCP during the early 1980s. A reduction in Structural Funds would probably require some increase in capital borrowing, even if there is some reduction in public investment. In addition, the Structural Funds are also significant for current expenditure, most notably training and education. This also suggests that a reduction in EU receipts would need to be, at least partly, replaced by domestic expenditure.

FIGURE 4.4

Index of Real Expenditure on Public Capital Programme



Note: Deflated by the implicit gross domestic fixed capital formation deflator.

Source: Budget Booklets.

It is impossible to predict at this stage what the future of Structural Funds receipts will be after 1999. Given the uncertainty involved, the objective should be to develop sufficient flexibility in the public finances to absorb any possible reduction in transfers which may occur. Proposals for a *Stability Pact* - under which the GGD is 'close to balance' in normal circumstances – also have implications for the future of public investment (since the GGD includes capital borrowing).

Demography: For the next several years, demographic trends will move in a favourable direction, from the perspective of the public finances. There will be a reduction in the share of the population dependent on the working population due to the decline in the number of children. This

implies that average living standards will rise faster than the average income of the working population. The longer term projections imply an eventual decline in the working population relative to pensioners.

The Council is undertaking a study of the policy implications of Ireland's changing demographic structure. The implications for the long-term sustainability of the public finances from this perspective reinforce the need to reduce the debt burden. Fitzgerald (1994) suggests that, in the long-term, it may be necessary to go beyond eliminating existing debt to actually build up state investments.

Conclusion

The principles of sustainability and flexibility set definite limits to Ireland's discretion in public finance. These need to be made consistent with the further principles set out below.

(ii) Principles Reflecting the Irish System

Coherent, Consensus-Based, Medium-Term, Programmes of Reform

Previous experience indicates that sudden changes in either the quantity or composition of taxation and expenditure are difficult to achieve within the Irish system. This implies that long-term public policy priorities – including radical change in expenditure and taxation – are likely to require coherent, medium-term programmes of reform (see Chapter 12).

Improved Public Expenditure Management

While the 1980s required crisis management, events in the past decade have revealed an ongoing problem of public expenditure control. Consequently, the Council sees examination of policy and management systems as an important principle. The Strategic Management Initiative, discussed in Chapter 12, has an important role in this regard. The Council accepts that the social partners and other interests have an important role in assisting government to make and achieve priorities in both public expenditure and taxation.

Public Service Pay Bargaining

The Council accepts that public sector developments have formally accorded with *procedures* laid down in the PESP and the PCW. It is, nonetheless, concerned that the *outcome* of those negotiations should produce an increase in overall pay which is consistent with the needs of the economy and society.

The Council acknowledges that there has been significant evolution in the public sector system over the three programmes, and that, in general, this has brought the public system closer to that in the private sector. However, it is concerned that this new system – in which pay increases must be accompanied by change in work patterns – has not taken firm root and is not adequately understood and accepted.

In the Council's view, the next national programme must produce a public sector wage settlement which achieves six things:

(i) Settlements in line with those in the private sector;

(ii) Adherence to the terms of the Treaty on European Union;

(iii) Implementation of the Strategic Management Initiative and other reform programmes, so as to deliver effective services at minimum cost;

(iv) Closer synchronisation of public and private pay settlements;

(v) Promote national competitiveness;

(vi) Support achievement of the fiscal policy recommended by the Council.

Developments in public sector pay are analysed in more detail in Chapter 5.

(iii) Principles Reflecting Current Priorities

The principles outlined above underline the importance of sustainability and flexibility in the public finances. Included within the principle of flexibility is the reduction of the debt burden, transition to EMU and preparation for a lower level of European structural funds. In setting public finance policy in a way which accords with these principles, certain priorities should prevail in the coming years. These are set out below.

Measures to Address Unemployment and Social Polarisation

While the growth of employment and the reduction in unemployment is obviously central to tackling social exclusion, the multiple problems which can trap individuals, families and entire communities in vicious circles of disadvantage requires concerted action, beyond general policies to maximise the growth of employment. There is a danger than a policy of tax and deficit reductions will be accompanied by further polarisation

of society. Living standards for the majority could increase, while there may not be any improvement in the quality of life for the disadvantaged. As explained in Chapter 8, the Council believes that additional public resources should be allocated for an enhanced programme of measures to address long term unemployment and social polarisation, while at the same time ensuring that potential savings from the elimination of fraud of the tax and social welfare systems are achieved.

Tax Reform

The Council attaches priority to further tax reform. An important objective of the Council is to reduce the burden of taxation at lower and middle income levels. Tax reform can make a key contribution to this objective. Key aspects of tax reform are the restriction of discretionary tax expenditures and broadening of the tax base, in order to reduce the direct taxation of employment. The case for tax reform has been outlined by the Council, the Commission on Taxation and many other studies. Tax reductions can be a part of tax reform by delivering tax change to targeted groups and providing some compensation for those who gain less from tax reform. Indeed, the Council believes that a specified percentage of national income should be allocated to tax reform and reduction in each of the next three years (see below and Chapter 11).

Lower Public Expenditure Growth

The Council sees slower public expenditure growth as an important principle in the coming years. This reflects the priority attached to the transition to EMU and to tax reform.

The Maastricht Treaty and the Stability Pact

The implications of the terms of the Maastricht Treaty and the Stability Pact have been discussed above under 'Flexibility' (Section (ii)). Adherence to these terms is a key current priority.

(iv) Summary of Principles for Public Finance

These principals, which the Council believes should guide the evolution of the public finances may be summarised as follows:

Enduring public finance principles:

(i) Sustainability

(ii) Flexibility

- debt service costs
- stabilisation and EMU
- Structural Funds
- demography

Principles reflecting the Irish system:

(i) Coherent, consensus based, medium-term, programmes of reform;

(ii) Improved public expenditure management;

(iii) Reform of public sector pay bargaining;

Principles reflecting current priorities:

(i) Measures to address unemployment and social polarisation;

(ii) Tax reform;

(iii) Lower public expenditure growth;

(iv) Adherence to the terms of the Maastricht Treaty and the Stabilisation Pact.

6. CONCLUSION

Transition to EMU provides the sheet anchor of macroeconomic policy. With regard to fiscal policy, the Council proposes that its Action Programme on Unemployment (see Chapter 8), significant tax reform (see Chapter 11) and the Maastricht criteria must be met over the next three years. Accordingly, the Council recommends an equitable and balanced fiscal policy that incorporates:

- An action programme for social inclusion;
- Real tax reductions representing at least 0.5 per cent of GDP each year;
- Current public expenditure strictly limited to a 2 per cent real increase;
- A gradual reduction in the public financial deficit to not more than 1.5 per cent, between 1997 and 1999; and

- A debt/GDP ratio of 70 per cent by 1999 (a 60 per cent level can on this basis be achieved early in the 21st century).

The Council believes that an equitable and balanced approach must be adopted in implementing the principles set out above. That approach must recognise that action to deliver greater employment, social inclusion and action to reduce taxation, especially personal taxes, are fundamental priorities. These priorities must be achieved in the first instance, and not as residuals when existing or 'no policy change' expenditure bills are met. The Council wishes to stress the need to limit the growth in current public expenditure to no more than 2 per cent per annum in real terms. The Council appreciates that it will be necessary to make significant savings on existing activities both to observe that limit and to find room for the costs of the Council's social action programme. The Council believes that there is scope for greater efficiency and effectiveness in many areas of public expenditure. A strict adherence to this limit will allow the priorities identified in this Strategy to be achieved within the recommended deficit targets.

The Council believes this package:

- Will assist significantly in promoting greater employment, social inclusion and in reducing disadvantage;
- Will facilitate a moderate pay agreement;
- Will generate growth; and
- Will deliver a General Government Deficit comfortably within the requirements of the Maastricht criteria and in line with those of a stability pact.

The Council strongly supports a clear non-accommodating exchange rate strategy to provide the foundation for low inflation and low interest rates. The Council believes that the Central Bank must continue to ensure that the Maastricht criteria are met. Monitoring of domestic credit is also necessary so as to provide early warning of any inflationary pressures.

Macroeconomic policy is closely related to wage bargaining, which is the subject of the next chapter. A macroeconomic policy which achieves low inflation and low interest rates provides an appropriate environment for wage bargaining. At the same time, the evolution of other policies, including incomes policy, is a critical influence on the achievement of the goals of macroeconomic policy.

APPENDIX TO CHAPTER 4

TABLE A1

General Government Total Expenditure (As a Percentage of GDP, 1996)

	1996
Belgium	53.7
Denmark	60.0
Germany	50.0
Greece	45.5
Spain	45.2
France	54.6
Ireland	**38.6**
Italy	52.0
Luxembourg	40.9
Netherlands	51.3
Austria	52.7
Portugal	44.7
Finland	57.0
Sweden	66.7
United Kingdom	42.4
Europe	50.6
United States	34.9
Japan	36.0

Source: *European Economy,* Supplement A, *Economic Trends,* No. 5/6, May/June 1996.

TABLE A2

General Government Deficit (As a Percentage of GDP, 1996)

	1996
Belgium	-3.2
Denmark	-0.9
Germany	-3.9
Greece	-8.1
Spain	-4.8
France	-4.2
Ireland	**-2.0**
Italy	-6.3
Luxembourg	0.7
Netherlands	-3.5
Austria	-4.6
Portugal	-4.4
Finland	-3.3
Sweden	-5.2
United Kingdom	-4.4
Europe	-4.4
United States	-2.0
Japan	-4.5

Source: *European Economy,* Supplement A, *Economic Trends,* No. 5/6, May/June 1996.