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"Ireland's Economy in the 1980s: Stagnation and Recovery": A Comment

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During much of the 1980s the Irish national debt/GDP ratio reached 130 per cent, the current account deficit was over 15 per cent, while the government deficit remained persistently large. Since then the debt/GDP ratio has been reduced to close to 100 per cent, external accounts are in surplus, while the government deficit is now about 3 per cent of GDP. All this has entailed various costs with one of the more problematic being a rise and seeming persistence in unemployment.

The question arises whether the stabilisation has been successful. Analysis of the evidence is important in order to assess how the economy arrived at the present juncture and what further efforts might be most appropriate at this time. However, the Irish experience is also of interest to a much broader audience. Many countries, especially the severely indebted developing countries, faced similar problems in the 1980s and continue to seek advice and guidance on how to go from here.

Professor Geary's paper makes a welcome contribution both for those with an immediate Irish interest and those struggling with the problems facing many developing countries. He brings together a wide array of "evidence", imposes some order on it and seeks to assess which questions have been answered and which remain open.

Geary questions Dornbusch's (1989) rather gloomy interpretation of events. I agree with Geary and indeed Dornbusch himself has also reassessed his position. He now (1991) comes closer to the Honohan view that many measures were in fact taken such as major and sustained budget correction, less-than-German inflation, strong growth and a falling debt ratio. He still has some concerns on the risks inherent in strong dependency on external demand and the need for more work on public finance.

Newell and Symons (1990) focused on the unemployment issue and sought to relate it to the fiscal contraction of 1982. While their findings were negative it is not clear whether this resulted from restricting their analysis of unemployment to only the labour market. Giavazzi and Pagano (1990) seek to test the hypothesis of expansionary fiscal contraction "the German view of fiscal policy". Their conclusion was somewhat negative but Geary suggests that the inclusion of data for 1989 and 1990 could firm up their results. The work of McAleese (1990) on this issue suggests that the two stabilisations (early and late 1980s) produced quite different outcomes. This analysis should be extended to provide a more definitive answer on what made the latter seemingly more successful.

McAleese and McCarthy (1989) focused on the rôle of external shocks. They showed there was an attempt to foster export promotion in the early 1980s but the external environment and terms of trade in particular were unfavourable. However, when this situation reversed in the late 1980s the economy was able to benefit from it. Geary is somewhat critical of the work of Barry and Bradley (1990, 1991). Their work was based on the ESRI model but it is not made clear whether his reservations are with the analysis or the intrinsic limitations of the model used in the work. It would help to offer some suggestions of modifications that might improve the situation.

Geary seeks to assess where we are now. One gets the impression that policy makers will have limited flexibility with monetary and exchange rate policy. Fiscal policy then becomes even more critical. In this area the lessons emerging seem to be close to recent World Bank experience. Three broad themes seem to central to good/sustainable fiscal policy: (a) it needs to be broad-based; (b) it should reflect equity concerns especially for the less fortunate; and (c) various promotional activities, such as for industrial development, should best *not* be done through tax breaks.

What is surprising is that little evidence seems to be available in some areas such as:

- The rôle of demography and migration (there is some mention in the work of Newell and Symons and also in Barry and Bradley) would seem to be important. Ireland does have significant differences with other European countries and there should be some implications for education and training policy.
- The seeming continuing bias towards capital and how it affects the

labour markets. Why is it that many employers are so adverse to hiring?

- Capital flight — Is it important and what can be done about it?
- National Debt — Without the debt Ireland could essentially follow policies similar to other European countries. However, this large negative initial condition severely restricts the policy options available. In view of the large size of the debt, even now, one would expect more discussion on what might be done. Recent experience suggests that it is important to try to moderate the impact of the debt so that strong growth can ensue. This has been done in countries such as Mexico by restructuring the debt, in Chile by severe contraction of consumption. While it is essential to sustain fiscal rectitude it is important to also investigate all possible options, e.g., are foreign transfers distorting investment patterns or could some of them be better used to service the debt?
- The impact of the global economy — Present outlook is for a modest recovery in 1992. This will be largely conditioned by the robustness of the recovery in the US as the other two global poles, Germany and Japan, have their own problems. There are some major uncertainties; real interest rates around 4 per cent, weak world trade prospects and a whole plethora of events in Eastern Europe. If Ireland is to maintain its competitiveness it is essential to analyse these forces and devise a policy framework that will allow the economy to progress during the possibly difficult years ahead.

I feel that Professor Geary has done an excellent job in bringing together a wide spectrum of evidence presently available. He has also identified a number of issues that remain open and others that do not seem to have attracted much attention. I hope that his work will encourage other researchers to focus their attention on these areas not only to illuminate the policy debate in Ireland but in the many other countries facing similar problems.

REFERENCES

DORNBUSCH, RUDIGER, 1991. *Ireland and Europe's New Money*, Massachusetts Institute of Technology, mimeo.