

**SYMPOSIUM
ON
ECONOMIC MANAGEMENT IN IRELAND POST-EMU**

(read before the Society, 18 February 1999)

**Economic Management in Ireland Post-EMU:
A Trade Union Perspective**

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The end of the 1990s has seen the Irish economy exposed as never before. But the 1990s has also seen the Irish economy grow as never before. Clearly the challenges of openness can only be met and confronted if the circumstances which created the possibilities for such growth are not just replicated but are further refined and more firmly rooted. It should also be recognised that to ensure such an outcome is as much a socio-political challenge as it is an economic one.

Any participant in European fora today will be struck by two quite different responses to Ireland's economic performance. Perceptions of a Celtic Tiger have on the one hand led to considerable resentment on the part of many fellow Europeans of Irish demands for a continuation of structural funds in the context of *Agenda 2000*, while on the other hand we are being held up as a model for what other Member States should be doing.

As regards the first response, I will limit myself to the observation that a continuation of significant structural funding of Irish economic development is warranted on two counts. While we may indeed be near to closing the gap with the EU average in respect of output per head of population, we are still lagging behind in respect of living standards, which is what the significant difference between Irish GDP and GNP boils down to. Moreover, the fact that we have used such structural funds so purposefully in the past, with a minimum of waste, is surely an argument for further application of such funds towards closing that living standards gap.

When we look at the second European response, a sometimes awe-struck admiration of what is referred to as the 'Irish model', our own response to that should also be twofold. The first should be to recognise what precisely it is that we have achieved

and to take legitimate pride in such achievement. But the second response is also required - to guard against any complacency and recognise how perilously close the 'Irish model' came to unravelling this year, as well as to get to grips with some of the pre-conditions for its survival into the New Millennium.

To return to what the series of four successive *National Programmes* have achieved from 1988 onwards, we must first recognise what went before. The earlier part of the 1980s was an era when Irish growth rates were below OECD levels, and while rates of pay increase were just about staying ahead of high rates of inflation, an ever-increasing tax burden resulted in real living standards for the average worker actually declining by 5 percent in the 1980-87 period. At the same time, with employment itself spiralling downwards, the unemployment problem was turned into a crisis of mass proportions. And adding to the general malaise, the public finances were out of control to the extent of a general government deficit of 9 percent of GDP and a Debt/GDP ratio of 120 percent.

In the years that followed, Ireland was fortunate that government and employers came to an agreement with the trade union movement on addressing these problems through consensus. Competitiveness was enhanced through moderate pay increases which, however, were augmented by tax reductions so as to boost take-home pay and living standards. A decade-long process of controlling the public finances was set in motion that not alone avoided being deflationary, but saw our economic growth averaging 6.5 percent per year, or almost twice the EU average. More significantly, employment began to grow again. Equally noteworthy in the three year period of the *Programme for National Recovery*, 1988 - 1990, was the outcome whereby the real living standards of the average worker improved by 5 percent, reversing the pre-programme losses.

Even against the background of an unfavourable international economic environment in the early years of this present decade, the successor *Programme for Economic and Social Progress*, covering 1991 - 1993 inclusive, saw living standards increase by a further 5.5 percent. The downside, was however, that the unemployment crisis once again became acute, as the modest employment gains during these years could not keep pace with the requirements of a rapidly expanding labour force.

The next three year period of the *Programme for Competitiveness and Work (PCW)*, 1994 - 1996 inclusive, at last saw the emergence of the boom that has too simplistically led to the description 'Celtic Tiger'. The average annual rate of growth in GDP, at 8.6 percent, was more than three times the EU average. And the net jobs gain was the highly significant amount of 145,000. On the other hand, the growth in living standards at 6 percent, was felt by workers to be far too inadequate a reward for their contribution to such high rates of growth. Moreover, the new jobs were primarily being filled by new entrants to the labour market, so that a

significant problem of long-term unemployment remained a still all-too-real legacy of the devastation of the early 1980s.

A refinement and deepening of the programme approach was required if this model was to take us into the post-EMU millennium. The success of the programmes in beginning to address issues of debt, interest rates and inflation in a consensual manner before Maastricht made them Europe-wide issues, ensured that we would meet the Maastricht criteria and thereby be part of a single currency bloc from the very outset. But those who felt excluded from the benefits of the boom, the low paid and the long term unemployed, had to have greater attention paid to their needs. And those working in profitable enterprises needed recognition of their contribution to the firm's success, through rewards at enterprise level over and above the generalised modest pay increases being applied nationally.

As regards the latter issue, *Partnership 2000 (P200)* recognised that the strait-jacket approach of the PCW, which had allowed for no local bargaining whatsoever, could not be repeated. There is therefore some provision for local bargaining in the present agreement. But it is restricted to an extra 2 percent. How then could a greater sense of sharing in the booming economy be developed while avoiding inflationary wage demands? It could only be through sharing in the profits themselves, through the development of a supplementary system of non-wage-based remuneration. *Partnership 2000* highlighted the benefits of such an approach, not least in terms of its flexibility in a post-EMU environment, while the NESC Report, *Strategy into the 21st Century*, which provided the framework for the P2000, argued the case even more trenchantly. Regrettably, progress on this front has been quite disappointing. It follows that if the final year of this present agreement does not see more notable advances, trade unionists may conclude that the absence of profit-sharing means that the only way to take advantage of very high profitability is by reverting to more traditional demands for much higher wage increases.

A much more serious threat to the 'Irish model' had emerged last year in respect of government taxation policy. For P2000 is not just a pay agreement. As far as living standards commitments are concerned, P2000 is a "pay and tax agreement". And that agreement is as much about the distribution of the tax package as its total value. These principles of distribution had previously been unanimously agreed by all parties to the programme when the NESC strategy report established the framework for tax reform under P2000. And this agreed strategy unambiguously stated that the priority should be to increase tax allowances, exemption levels and bands in order to give priority to the lower and moderately paid, as opposed to cutting the top rate of tax which gave maximum benefit to the better off and none at all to the low paid.

The December 1997 budget flew in the face of that consensus-based NESC/P2000, and contemptuously so in the utterances of the Minister for Finance himself. And so the government proceeded with cuts in the top rate of tax, side-by-side with a failure

to comply with the minimal advances in allowances and bands which were required by that consensus.

This rewarding of the rich at the expense of the low and moderately-paid almost led to the collapse of P2000. SIPTU's sustained tax campaign during 1998 pointed out that the budget at the end of that year was the last opportunity to get it right and salvage the programme. We are proud of the fact that on this occasion we were successful in getting the Minister to eat humble pie. The tax strategy of the December 1998 budget was the exact opposite of that of 1997. The SIPTU demands for an introduction of tax credits, the exclusion from the tax net of any worker earning less than £100 per week and the concentration on increasing personal allowances rather than cutting tax rates, were indeed met as a result of our campaign.

We therefore accept that P2000 has now in fact delivered as far as the living standards of most workers are concerned. For average-paid married workers, in the income range of £15,000 to £20,000, the real gain in living standards has been of the order of 13 percent. For much better-paid workers, in the income range of £40,000 to £60,000, a somewhat lower rise of 11 percent has occurred. And for the married worker with two children on the below-average pay range of £11,000 to £13,000 the living standards gain (when *Family Income Supplement* is included) has been of the order of 16 to 18 percent. And this, of course, is as it should be - not only in terms of increasing the incentive to work but also in ensuring a more adequate reward to such workers for a cumulative GDP increase over the partnership period of 30 percent.

And yet there are also those who have not fared so well. Even when *Family Income Supplement* is added in (and discounting the problem of a seriously inadequate take-up of such entitlements), the very low-paid married worker on £8,500 to £9,800 will have seen the real value of weekly income increase during that boom by a more modest 8 to 9 percent. We are here speaking of workers earning £4.00 to £4.60 an hour, for whom full and unequivocal implementation of a *Statutory National Minimum Wage* of £4.80 is now so essential, in other words the end-P2000 equivalent of the *Minimum Wage Commission's* recommendation.

But what of progress on the employment front? As far as overall results are concerned, again an undoubted success. Since the macro-economic projections of P2000 envisaged a final outcome of 114,000 net jobs growth, the now-anticipated outcome of 200,000 is indeed a tribute to the 'Irish model', as is the reduction in Live Register unemployment from 270,000 in December 1996 to 214,000 last month, and the seasonally-adjusted standardised rate from 11 to 7 percent. But it is here that the bubble of self-satisfaction must be burst. Government complacency in respect of overall employment results has led it to renege on specific commitments in respect of the older long-term unemployed. It should not be forgotten that P2000

had registered a national consensus on this issue when it stated that a top priority was to “*target available opportunities at the hardest to place unemployed*”, with the first priority being “*persons on means tested long-term unemployment payments*”.

This is only as it should have been. A comparative analysis undertaken for the latest edition of OECD *Employment Outlook* showed that Ireland’s relative position in respect of older long-term unemployed is significantly worse than the EU average, not to mention that of the total OECD itself. In 1996, those unemployed for 12 months or more, expressed as a percentage of total unemployed, came to 59 percent in Ireland, compared with 44 percent for the EU and 34 percent for the OECD. And when we look at the over 45s unemployed for 12 months or more, expressed as a percentage of the total number unemployed in that age category, (in other words the extent to which that age group’s unemployment problem is a long term one), we find the relative position of Ireland worsening still further - to as much as 72 percent, compared with lower proportions of 55 and 52 percent for the EU and OECD, respectively.

That is why smug government responses to the overall decline in unemployment figures are becoming all the more alarming. In a booming economy it is indeed a welcome outcome that in the period covered by P2000 to date the number of unemployed on the Live Register under 25 years of age has declined by 36 percent. But it is more sobering to consider that the numbers unemployed who are aged 25 and over have declined at less than half that rate - at 17 percent. And one can be sure that when more detailed analysis becomes possible the rate of decline will have been significantly smaller for the over-35s, not to mention the over-45s.

This is why, in the light of the fact that even on the most narrow of definitions we still have as many as 60,000 long-term unemployed, it is necessary to re-focus on the following specific government commitment under the present programme:-

“The range of labour market interaction measures, including the Community Employment Programme (both the integration and part-time job options), the Pilot Part-Time Jobs Opportunities Programme and the Jobs Initiative will be reviewed to ensure that priority is given to those most disadvantaged. The objective will be to meet their need through a greater choice of full-time or part-time options. As resources permit, there will be an increase of 10,000 places, with particular provision for those unemployed for more than 5 years”.

The following question therefore needs to be asked:-

How has P2000 lived up to its commitment in respect of such targeted employment measures?

And the answer unfortunately, is-

Pretty poorly - despite the fact that "resources" more than "permit". To date only interim measures are being slowly implemented - 1,000 additional places have been provided on the *CE Part-Time Jobs Option* (targeted at those aged 35 years and over and more than three years unemployed) and 1,000 places on the *Whole Time Jobs Initiative* (targeted at those aged 35 years and over and more than five years unemployed). Accordingly, the key employment commitment requiring to be met in this final year of P2000 is to make up the shortfall of 8,000 additional places still outstanding for those older long-term unemployed who are being by-passed by the economic boom.

Before turning to another more troubling institutional challenge posed in this twelfth continuous year of tri and quadripartite national programmes, I wish to sum up the necessity of paying close attention to the lessons to be learned from an analysis of both achievements and shortcomings. Economic management in Ireland post-EMU starts off with many advantages of which other EU Member States would be envious. We have halved the Debt/GDP ratio of twelve years ago and, with an actual budget surplus, we are in fact well within the Maastricht conditions required of us in order to become founding participants this year of the new single-currency area. At the same time we face new fiscal constraints arising from the need to maintain such a healthy position in the public finances while coming to grips with reduced structural funds flows. And we will not be entirely cocooned in a wholly advantageous single-currency area until such time as the United Kingdom also became a participant.

But, on the other hand, we also have this much envied 'Irish model' of consensus management to see us through into the post EMU era, do we not? The jury is in fact still out on that, perhaps the most fundamental issue regarding post-EMU management. Let it not be forgotten that this present partnership agreement was only accepted at a Special Delegate Conference of the Irish Congress of Trade Unions (ICTU) in January 1997 by 62 percent of the delegates. There are even fewer grounds for complacency when we remember that in a nation-wide ballot in my own union, SIPTU, the majority for acceptance had been an even narrower one of 57 percent. 1999, therefore, will be a critical year for weighing up the advantages and disadvantages of the P2000 experience, before our own Biennial Delegate Conference of SIPTU in October comes to a decision on whether or not to even consider commencing negotiations on a possible successor agreement, to say nothing on whether or not the outcome of such negotiations would themselves prove acceptable.

Despite the undoubted overall gains in employment and living standards, Irish workers are also conscious of a significant change in the distribution of income between labour and capital over the period of the four programmes. Indeed, as the latest OECD statistics show, the capital income share in the Irish business sector will

have risen from 25 percent to 38 percent between 1987 and the year 2000. Now, of course, the argument is that the higher investment requirements to sustain jobs and living standards growth have to be funded by such a shift. But if Irish workers are denied any sharing of the ownership of such a process it will remain as alien as ever.

The boat has been missed in the first two years of P2000 to make significant headway in successfully negotiating the profit-sharing schemes which the NESC strategy had hoped would become a vital feature of the transition to EMU and beyond. If workers recognise the need for investment, they also see that to date the returns on investment have been the rewards of privilege rather than of society at large. And when the December 1997 budget also unexpectedly slashed the rate of Capital Gains Tax to half of what it had been, Irish trade unionist saw that speculative investment was being rewarded to an even greater extent than productive investment - the very speculation that was now fuelling a housing crisis that was pricing a modest home beyond the means of the average-paid worker. As James Larkin Junior once argued in 1958 -

“If we are to live in a free economy; if the highest ideal of the State is private enterprise; if we are to look up to the man who sets out to make high profits; and if the highest honour we can pay to a man today is to say he is a successful industrialist and has a large bank balance; then these values must of necessity be applied by workers in their own industrial lives. If the only relationship between the workers and the employer is the wage packet and the salary cheque, then the workers through their trade unions must seek to make that pay packet and that salary cheque as good as possible”.

But Larkin Junior also went on to broaden the trade union movement's own agenda in his presidential address to the ICTU in 1960 when he asked:-

“What should in broad terms be the social aim of trade unions today? Not just higher wages and shorter hours - they are limited industrial demands... Could we for example say that our aim is to secure a steady rising standard of living, based upon the intelligent use of the country's resources and in a manner which will prevent any social group or class acquiring an unequal and unjustifiable share and thereby creating or maintaining a privileged social position?”

Larkin Junior, the 30th anniversary of whose death occurs today, was as great a trade union leader for his era as his father had been before him. He was, moreover, a founding participant in the NESC's pre-cursor, the National Industrial and Economic Council. But he also recognised that it took two to tango. He argued:-

“In the running of any industrial or commercial enterprise there are several stages at which questions arise and managerial decisions are made. There is the general trading and financial position; there is the question of the allocation of the gross

profit to various purposes; there is the general long-term managerial policy and finally there is the direct control and supervision of staff including wages, conditions of employment and general amenities in the workplace. If workers are to be invited to participate in forms of co-operation with employers, in which of the above spheres is co-operation to take place and is it to be a co-operation between equals, with no limitation on the workers? Is co-operation to be confined to discussing improved facilities such as canteens, cloakrooms, recreational and social activities, or to putting forward suggestions for the more efficient running of the enterprise - but is the door to be slammed in their face when they ask about the finances of the enterprise, the managerial salaries and perks, or express an interest in the profit side of the accounts? It seems to me the Trade Union Movement must make it clear that a new name for an old dog is not good enough".

If P2000 is ultimately to be judged a success much therefore will depend on the extent to which it can at last be developed as meaningful partnership at the level of the individual enterprise itself. Time is running out on this issue, as it is also in respect of an even more contentious one, which in SIPTU's case came close enough to having our members reject as inadequate the terms of P2000 itself. Much will revolve on whether the *High Level Group* set up under P2000 to tackle the question of trade union recognition can in fact successfully come to grips with this bone of contention. This, in fact, is the key socio-political pre-requisite for successful economic management, to which I referred at the outset of this paper. A fifth programme will prove impossible if workers continue to be faced with the glaring contradiction between a system of economic management so dependent on delivery by trade unions of a whole range of economic and industrial relations commitments on the one hand, and the refusal by a range of employers to concede even the most minimal representational rights to workers on the other. For at the end of the day, this is what the recognition issue boils down to. Not so much the recognition of a building like Liberty Hall or an institution like SIPTU or the ICTU, but the recognition of the rights of individual workers themselves to be professionally represented by a union in collective bargaining and other industrial relations issues, just as it is the right of an individual citizen to be professionally represented by a solicitor in matters of law. This contradiction between denial of representational rights at so many basic levels of work and the expectation of delivery by representative trade unions in terms of national economic strategy, is a fundamental fault-line in the 'Irish model' which must be closed rather the papered over if the whole structure is not to collapse.

There should of course be every incentive for us to try and get things right. The 1999 *Annual Economic Report*, which has just been published by the European Commission, shows what a favourable start Ireland has for the new millennium. We are indeed by far and away the most open economy of all euro participants. But even though wages per employee have now reached 94 percent of the euro-area average, the fact that productivity is 6 percent above the average has also ensured

that Ireland is only 90 percent of the euro-area average in respect of unit labour costs. In fact, in that regard Ireland stands out as the most competitive economy of all the member states of the single currency area. We have moreover also caught up with the euro-area average rate of investment.

If such a solid foundation is to be built upon it also requires a more responsible approach by government in further developing the type of tax system that will be conducive to ensuring that significant and justifiable increases in living standards remain compatible with moderate pay developments. When the government flew in the face of P2000 commitments to worthwhile increases in personal allowances by instead cutting the top rate of tax in its December 1997 budget, it argued that this is what the electorate had voted for. But what the government chose to ignore was that the Fianna Fail election manifesto had also committed it to "*honour fully all the tax commitments in Programme 2000*" which, as I have already pointed out, were as much about the equitable distribution as the total amount of the tax package.

Table 1: Total Assessed For Tax

Tax Year	Exempt %	Marginal Relief %	Standard Rate %	Higher Rate %
1997/1998	23	8	40	29
1998/1999	23	5	41	31
1999/2000	27	2	39	32

Source: Based on Revenue Commissioners' Estimates.

Now that a year later, in the December 1998 budget, the government finally honoured all these commitments, it has since felt free to broadcast its intention to revert back in the December 1999 budget to a policy of further cuts in the top rate of tax. If this occurs, of course, it will be at a cost of sacrificing the more meaningful advances in tax reform that are required in order to get more low paid people out of the tax net altogether, as well as more modestly paid people out of paying the top rate of tax, see Table 1.

Indeed, in this regard, having become obsessed with the deceptive simplicities of a magic-number top-rate, the government seems to have forgotten another supposedly key commitment in its own *Action Programme for the Millennium*, namely, "*to ensure that 80 percent of taxpayers do not pay tax at the higher rate of tax*". The position then applying in the 1997/98 tax year was that only 62 percent of tax payers were free of the top rate of tax, see Table 2.

But far from making any incremental progress towards its 80 percent objective, the

position applying from April will be the exact opposite, a mere 56 percent. Or, to put it another way, the government was elected with an action programme which committed it to the objective of ensuring that only 20 percent of taxpayers would pay the top rate, but the position applying in the 1999/2000 tax year is that as many as 44 percent of taxpayers will be hit by that rate, an actual increase from the 38 percent when this government took office.

Table 2: Total Number of Taxpayers (excluding those exempted)

Tax Year	Higher Rate %	Lower Rates %
1997/1998	38	62
1998/1999	40	60
1999/2000	44	56
Govt. Programme Commitment	20	80

Source: Based on Revenue Commissioners' Estimates.

If the government wants to create a climate conducive to a refining of the economic management required for the post EMU era, it will either win or lose the argument with its next budget. There is therefore everything to play for in the coming year. But it is also so easy to get it wrong and cause the structures that ensured progress over the past twelve years to completely collapse. So, in order to effectively cope with the management challenges of the future, it is necessary to learn from past and present mistakes and change accordingly.

DISCUSSION

Professor Dermot McAleese: I would like to compliment the authors of the three percipient papers presented this evening. Each paper provides distinct insights into the origins and sustainability of the current boom and of the problems of managing it. These problems cover a wide spectrum: pay bargaining, fiscal balance, infrastructure spending, coping with structural change and tax policy among others.

A persistent theme of the papers concerns the major contribution to Ireland's economic recovery made by the succession of social partnership agreements over the past decade. More to the point, a failure to negotiate another moderate pay deal is seen by many as one of the key risk factors to which the economy is currently exposed. Yet, a curious feature of Krugman's analysis of Ireland's economic position is that he provides no more than a glancing reference to the pay bargaining system. Is this because there is no analogue of such pay deals in the USA, or for that matter in the successful European regions mentioned in Professor Bradley's paper, and hence such issues do not figure much in the literature on regional economics? In this sense Ireland's position in the new Europe will be similar to nation states, such as Portugal, but quite different to regions of a unitary state. I wonder if Professor Bradley might comment on the weight he would give to incomes policy as an element in Ireland's panoply of economic management tools in the years ahead?

The Stability and Growth Pact places severe constraints on Irish budgetary policy. Recalling the mess that domestic governments have made of fiscal policy in the past, I must agree with John Bradley that having our public finances subjected to regular scrutiny by Brussels is a source of reassurance. The Stability Pact does not, however, make Irish fiscal policy irrelevant. Rather it obliges the government to plan its policy in a medium term framework, subject to the upper bound 3 percent budget deficit. This type of exercise is illustrated in the recently published *Ireland - Stability Programme 1999-2001*. The programme envisages a budget surplus (as percentage of GDP) amounting to 1.7, 1.4 and 1.6 percent respectively over the next three years to 2001. Such a commitment is surely a unique event in Ireland's fiscal history. It is heartening that the government can commit itself to accumulating surpluses of this magnitude despite pressures on spending. In this regard, Brian Geoghegan makes the valid point that more investment in infrastructure will be needed over the coming years. Is there an implication here that the government should spend more on infrastructure and reduce the projected budget surpluses in order to do so? Or does he think that the projected surpluses should be adhered to and finance for greater investment found in some other way?

Reverting to pay negotiations and the social partners, last year's Barrington lecture by Dr. Philip Lane analysed the rise in the profit share of GDP from 25 percent to 35 percent between 1987 and 1996. We have covered some of the same ground this

evening, but the statistics in Manus O'Riordan's paper shed new light on how the increase in national output has been distributed. One aspect of this income distribution concerns the share of public sector employees and the apparently superior outcome they have been able to extract from the national agreements. Despite this success, however, there appears to be continuing dissatisfaction over pay and conditions within the public sector, a dissatisfaction that cannot be defused by profit sharing or similar schemes that might work in the private sector. Are we right to view the public sector as a potential source of major problems in the near future, with the potential to derail our economic prosperity?

Mr. Kieran Cilly: Would the speakers consider that implementation and the retention of the proposed low rate of Corporation Profits Tax in 2003 is one of the most important post-EMU medium term policy issues for the Irish government, in the light of recent German queries about unfair tax competition in this area and given this low tax rate is a major inducement for multinationals operating in the Irish economy?

Mr. Michael McGinley: The comments made in the papers are most interesting but they may have avoided one important issue - who manages the Irish economy?. Everybody accepts that Ireland is a small open economy but we often seem to avoid the implications of this when reviewing the economic management of this state. This tendency is particularly marked when the economy is booming. Two aspects illustrate the point. In agriculture there are major clouds on the horizon - the depletion of the Common Agricultural Policy funds when the Eastern European countries join the EU and the next round of the World Trade Organisation negotiations which will depress agricultural prices. Neither of these are susceptible to much control by the Irish government which will have very limited choices in how it responds. The great jewel in the crown of the Irish boom has been the success of the new technology sector. Is this not controlled mainly from boardrooms in the USA rather than from Government Buildings in Merrion Street, Dublin?.

Joining the EU has been most beneficial for Ireland but our membership will vastly reduce the limited control which we have over our own future. Monetary Union will dramatically demonstrate this. It may well transpire that over the next twenty years, Ireland will have about the same degree of control over its economy as Galway now has over its affairs in the island of Ireland. Will it be a question of the "*The West Awake*" or, alas, the sun going down on Galway Bay?.

Mr. Brendan Lynch: Distributional issues and remedying socio-economic problems in our society ought to comprise an important element of the economic management agenda in Ireland in the next five years. Economics is not just concerned with production. Distribution is a major part of the dismal science. It is also on the economic affairs agenda of every democratic government.

Until recently in Ireland, the low level of economic development and relatively high levels of unemployment dictated that broad-based economic development and economic growth orientated policies ought to dominate the economic agenda. Most economists regarded management of social problems as akin to containing economic costs in the national economy. A different approach to economic management is appropriate now. Unemployment has now fallen below 7 percent and is approaching some of the lowest levels in Irish history. GNP per capita is almost equal to the UK average and will equal the EU average within a few years. There is considerable economic scope to devote more political attention and resources to redistribution and the remedying of social problems.

Because we have necessarily focused economic policies on growth of output and employment, economic management has quite often ignored social problems. Public housing policy, particularly in urban areas, is a good example. It is ironic that in the political debate on regionalisation, one of the principal arguments adduced against it was the importance of maintaining EU structural funding for economically disadvantaged areas in Irish cities. Those working to solve the social and economic problems in Ballymun and Knocknaheeny appear to have calculated that it is an easier political task to obtain fiscal redistribution from Frankfurt or Amsterdam than it is from Clontarf or Douglas.

It is very difficult even in a democracy to devote adequate resources to remedying social problems because of competing political claims. In modern Irish history, the allocation of adequate resources to redistribution and social economic problems have nearly always been precluded by either the demands of economic development or the constraints of economic recession and high budget deficits; that is until 1994/1995. In the short-term, it is very likely that the economy will significantly outperform the European average, that unemployment will continue to fall and that there will be continued budget surpluses. In the medium term, most economic forecasters expect that Irish GNP per capita will reach and then exceed the EU average. However, over a longer time horizon, there is a greater probability that adverse economic circumstances will interrupt the *Celtic tiger's* progress and again make it more politically difficult to increase the resources going towards the amelioration of social problems.

The existence of a budget surplus and the expectation of more in succeeding years offers the best opportunity, possibly for a very long time into the future, to remedy social problems in the Irish political economy and fully address distributional issues.

Professor John Fitz Gerald: If growth is to continue, albeit at a slower rate than in the last four years, the demand for labour will continue to rise. Unless the bottlenecks in the supply of skilled and unskilled labour can be overcome, market pressures will force a rise in the real exchange rate. Because the rate of exchange

within the EMU is fixed, this appreciation in the real exchange rate will have to take place through a higher rate of wage inflation. This appreciation could be expected to continue until Ireland's competitiveness is reduced, bringing the demand and supply of labour into balance.

As pointed out by Lane (1998), there has been a sustained decline in labour's share of national income over the past 10 years, with wage moderation occurring hand in hand with rising profit margins. Such a trend cannot continue indefinitely, nor is it desirable that it should. What is important is that the adjustment towards a higher, market-clearing wage does not feed into excessive expectations in the future. This process of allowing a real appreciation of the exchange rate through an increase in wage inflation does hold a number of dangers. It would obviously lead, not only to a higher rate of wage inflation, but also to upward pressure on the rate of inflation of non-tradable goods and services. The most notable current example of this inflationary pressure is the rise in house prices. While membership of EMU would prevent this process getting out of hand, there must be a concern that the real appreciation of the currency would overshoot. If and when there is a significant slow-down in the economy we could find that the loss of competitiveness, which had occurred gradually over a period of years, would result in an actual loss of employment in a more difficult external environment.

If wage rates were to rise above their long-term sustainable level, albeit under short-term market pressures, the long-term consequences could prove very serious for all involved. As is well known, it is extremely difficult to wind down/reverse any increases in real wage rates (the so called 'ratchet effect'), and consequently a prolonged slow-down could be expected to result. Such an overshooting in the real appreciation of the currency was a contributory factor in Ireland's economic problems of the early 1980s. A second potentially destabilising factor is the current very low level of the personal savings ratio. Anything which had a severe adverse effect on personal sector wealth (or expectations about future earnings) could result in the ratio reverting suddenly to its historic norm. This, in turn, could have a substantial adverse impact on domestic demand and growth.

Reference

Lane, P., 1998. "Profits and Wages in Ireland, 1987-1996", *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol. XXVII, Part 4.