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EDITORS' INTRODUCTION

Ireland's Fiscal Stabilisation — Achievements and Prospects

The papers in this special issue of the *Review* were initially prepared for a conference of the Irish Economic Association held at Trinity College, Dublin on Thursday 19th September 1991. The purpose of the conference was to study in detail the remarkable turnaround which took place in Ireland's fiscal position in the late 1980s and which has endured into the early 1990s.

Through much of the last decade, Ireland's fiscal problems had been the subject of much adverse comment both from inside and outside the country. The problems began with the fiscal expansion programme of the late 1970s. Public borrowing increased, the debt/GNP ratio mounted, and the economy stagnated. By 1986, the debt/GNP ratio had reached more than 130 per cent, a figure well in excess of the debt ratios of what were termed the heavily indebted developing countries. The Exchequer Borrowing Requirement (EBR) remained apparently immovable at an alarming 13 per cent of GNP. A mood of fatalism and despondency prevailed about the nation's ability to come to grips with this problem.

Within a period of four years, the EBR was brought down to under 2 per cent of GNP. The debt/GNP ratio declined to a figure approaching 100 per cent. Even more heartening was the fact that, despite the sharp recession of 1991 in major trading partners such as the UK and an associated steep increase in Irish unemployment, the fiscal improvement was maintained. Thus, the EBR/GNP ratio was 2.1 per cent in 1991 and is forecast to be held at 2.4 per cent in 1992. The size of the fiscal adjustment was exceptionally large by past Irish and indeed European standards. The time-scale over which it has taken place was equally remarkable. At the time of writing, the adjustment seems to have been durable.

The Irish experience has already attracted serious study at home and abroad. The post-1986 fiscal recovery is seen as special not only because of its size, time-scale and durability, but also because the period of adjustment was accompanied not by depression of aggregate demand but by an acceleration of growth, an increase in employment and a fall in unemployment. Massive fiscal contraction (this is not too strong a description) was associated not with stagnation but with economic recovery. Hence an immediate and urgent question: did the recovery happen *because* of, or to put it in less extreme form was recovery helped by, fiscal contraction (the expansionary fiscal contraction (EFC) hypothesis) or did it happen *despite* the fiscal contraction?

This has proven a difficult question to answer. For example, the rôle of other factors must be assessed: improvement in competitiveness, buoyant demand in the UK, USA and continental EC economies, the groundwork laid by earlier adjustment efforts, an effective incomes policy. This leads to a further issue: why was the post-1986 adjustment a "success" and the earlier post-1982 adjustment an apparent failure? Was this the result of the type of adjustment programme, the former's emphasis on curbing public expenditure contrasting with the earlier adjustment programme's reliance on increased taxation? Or was it simply a matter of a more benevolent economic environment prevailing in the later period?

While early studies were helpful on these aspects of the recovery, their findings were of necessity rather preliminary. By autumn 1991, however, sufficient data were at hand to enable a more complete evaluation to be undertaken of what has happened, why it occurred and what policy implications can be drawn. These are all complex issues, not easy to resolve even in retrospect and on some of which there would still be considerable disagreement.

The first paper in the issue, by Barry and Devereux, discusses the theoretical background to fiscal adjustment, crowding-out and possibilities of expansionary fiscal contraction. Alogoskoufis next contrasts Irish experience with that of Greece, another EC member with severe fiscal problems. Geary's paper provides a survey of recent literature on Ireland's fiscal experiment, drawing on Irish and overseas sources. This leads on to Honohan's discussion of the attempts to bring about fiscal adjustment in the early 1980s and of the analytical, practical and political problems attached to such exercises. Fiscal contraction usually involves costs for some sections of the community. Callan and Nolan investigate whether the burden of adjustment fell on the lower and more vulnerable income groups and examine the hypothesis that the poor were sheltered from the worst of the adjustment costs. Finally, Durkan reviews what many considered (mistakenly in his opinion) to be an important institutional feature of the adjustment process — a strict incomes policy applied to public and private sectors. The comments of a discussant follow each paper.

The purpose of this special issue is thus to shed light on the nature of Ireland's recent fiscal stabilisation, which is of relevance not only to scholars of the Irish economy but also to all those concerned with the economics of macroeconomic adjustment. From a purely Irish perspective, it is essential that we deepen our understanding of the process of adjustment in order to maintain the stabilisation that has been achieved and establish a firm foundation on which to tackle Ireland's continuing problems of unemployment and job creation.

Finally, as editors of this issue, we wish to acknowledge the work of Peter Neary and the organising committee of the Irish Economic Association without whose efforts the conference would not have taken place, and also the comments of participants which contributed substantially to the papers which now appear here.

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