

Distributional Aspects of Ireland's Fiscal Adjustment: A Comment

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There is little, if anything, I can add to the fine paper by Tim Callan and Brian Nolan in the way of statistical data or direct comment. Their treatment of the topic has been comprehensive, impartial and professional.

The main message to emerge from their paper, for me, was that the fiscal retrenchment and economic growth of the period did not have any particularly adverse distributional consequences — at a macroeconomic level at least. This is in marked contrast to the experience of the UK in the first half of the 1980s, where the income share of the bottom 50 per cent fell quite considerably over the period. The main reason for this is that fiscal adjustment in Ireland was accompanied by growth in incomes and employment, thereby avoiding many of the adverse distributional consequences experienced in the UK.

I would like to comment briefly on a number of issues that relate broadly to the topic of the paper. First, I will address the issue of the counterfactual position to be adopted in analysing the change, a topic very well discussed in the paper. Second, I would like to stress the relationship between unemployment and inequality, or conversely that between employment and equality. Finally, I would like to highlight the limited scope available to any government to effect redistribution through income transfers, given the current structure of public expenditure and the distribution of income.

- (i) In the statistical section of the paper, the positions at the end and beginning of the period in question are compared. The counterfactual

assumption implicit in this is that, in the absence of the fiscal adjustment, the relative position of all groups in 1986 would have been maintained. This is really the only counterfactual position that can be assumed given the data. However, it is possible to argue *a priori* that the position of the poor would have worsened, in an absolute and/or relative sense, in the absence of the fiscal adjustment, or improved where a different fiscal adjustment mechanism had been implemented and so on. Thus, the counterfactual position adopted, as the authors point out, is critical to one's assessment of the distributional impact of adjustment.

- (ii) The second issue is that of the conflicting and complementary nature of the policy objectives of equality and increased employment. This is important when weighing up the efficiency and distributional consequences of the adjustment. (See John (1991) for a fine discussion of this topic.)

Introductory texts tell us that in perfectly-functioning labour markets wages are simply supply- and demand-determined prices. Given that there are many different types of labour that are not perfect substitutes, and different demands and supplies of each, full employment in all these markets will probably involve large inequalities of income. Efforts to remove this inequality in earnings will create labour-market distortions and an excess supply of labour in some markets. The net result is increased unemployment. The point being made may be a simple one, but it is none the less still very relevant — it highlights the fundamental difficulty involved in increasing equality through redistributing incomes in a market economy.

The pursuit of more equality through distributing incomes almost certainly conflicts with the objective of increasing employment. In contrast, it could be argued that, because of the present level of unemployment, the pursuit of increased employment *complements* the pursuit of equality. There can be little doubt that the unemployed bear the major costs of economic recessions. In practice, the adverse distributional and social impact of unemployment is probably the single most important reason for the pursuit of increased employment.

- (iii) A final point is that, apart from the problem mentioned in (ii), the government has limited scope for redistributing income given the structure of public expenditure and the distribution of incomes. If debt service is excluded, government current expenditure on social

services already accounts for over 70 per cent of the total, with very limited scope for transfers from other subheadings. The total could, of course, be increased but where is the revenue for this to come from? "From the rich" is the usual reply. But who are the rich? Scott Fitzgerald defined them as being "different from you and me", Hemingway's rejoinder being, "yes they have more money". But are they different from you and me? The figure for *average* earnings, because it is pulled up by those with very high salaries, is much higher than that for *median* earnings. Someone earning one and a half times average earnings does not sound very rich or privileged but, judging from UK data, he/she is probably in the top 10 per cent of the earnings distribution, Hills (1988). Someone on twice average earnings is probably within the top 3 per cent of the earnings distribution.

Thus people on one and a half times average earnings or higher *are* the rich and it is misleading to argue that significant redistribution could be accomplished by leaving the income of most of this group untouched while taxing the fortunes of some unspecified super-rich group.

In summary: in my opinion the main plank of distribution policy should be the pursuit of increased employment. Increased employment would not only improve the distribution of income, but also lead to more equality in the broadest sense of the term. As Kennedy states:

Where the market system can provide enough jobs for all who are willing and able to work, this will go a long way to widely distributing the fruits of economic progress, Kennedy (1991).

What, though, is the major obstacle to increasing employment, and therefore to improving the distribution of income? Drawing on the findings of a major study on why some countries have low unemployment levels, Kennedy concludes, as I do, that the overriding obstacle to developing an adequate employment strategy in Ireland is the absence of a deeply-held consensus that involuntary unemployment is unacceptable, accentuated by a prevailing view that those unable to find work at home can, and perhaps should, emigrate.

REFERENCES

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