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# THE EEC AND THE CONSUMER IN THE REPUBLIC OF IRELAND

(with Special Reference to Farming)

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The EEC and the Consumer

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In my approach to the topic I wish to be somewhat more general than merely considering the aspect of food prices although I intend to give these special attention. My comments must necessarily be brief and in many cases tentative as I am currently engaged in a study of the impact of the EEC on Ireland, both North and South. In making this study I have had the support of the Committee for Social Research in Ireland whose offices are located here in Belfast.

My first point is to restate that a consumer is generally a producer viewed from a specific aspect. The producer's concern is to obtain income and the consumers to get the most value from this income. In a period of inflation the consumer's standard of living will rise if the general price rise is slower than the rise in his income as a producer. In the Republic this has been true for large segments of the population though inevitably there have been the usual victims of inflation - frequently pensioners and lenders. Any consideration of the EEC's impact on the consumer must be supplemented by an investigation of the Community's impact on the income which he or she has to spend and this is something to which I hope to return briefly later on.

## Causes of Inflation - The Theory

Given his income the consumer is concerned about inflation. The next question, then, is "How has the EEC affected inflation"? The answer is complex and is not yet fully worked out. However it is worth examining the causes of inflation. The first point to be noted here is that the high levels of inflation experienced for more than a decade appeared as a world wide phenomenon in the late sixties and with them a revision of the theory of inflation was called for and produced. The previous theory centred on the nation state and sought to explain inflation in terms of a trade off between price increases and levels of unemployment - the Phillips curve. The new emphasis noted that, although these trade offs differed in modern industrial countries, all had begun to move in the same direction simultaneously. The new explanation found the cause to be excess demand begun by US fiscal policy in 1967 which was exported to other industrial countries. (The US validated the excess domestic demand by an inordinate expansion of the money supply which increased by over 50 per cent between 1968 and 1973, see Ryan 1974). The continuous experience of excess demand created inflation expectations which, combined with the excess demand, produced the inflation rates experienced especially since 1969. This hypothesis was shown to be substantially correct by analyses in the US, Canada, and with modifications in the UK (see Parkin 1974). The end of the sixties was also a period in which the prices of raw materials and primary products had started to move up in international trade, which would add to the import bills of industrial countries, especially those with weak currencies, and open to world trade. Two such countries would be the UK and Ireland.

Small Open Economies

As an extension of this theory the case of small open economies operating under a fixed exchange rate was studied and such insights into the situation of the Republic were summarised in a series of papers of which those by Geary (1974), Ryan (1974), Moore McDowell (1975) and Kennedy and Vaughan (1979) are the most significant. The first three cover a common ground which states that, except in the very short run, such economies cannot have an inflation rate that deviates from that of their major trading partners and at the same time maintain their fixed exchange rate. The mechanisms by which the convergence occurs are best illustrated by Geary (1974) following an analysis by Caves (1973). Kennedy (1974), however, challenged this statement as potentially dangerous if it led to the belief that nothing could be done about inflation and noted that short run deviations on the right side could be tremendously important for trade. He also noted that the explanation was simplistic and lacked detailed knowledge of many other factors with an important bearing on inflation, such as the non-traded goods sector. The mechanism of transmission were also largely unknown and unquantified. McCarthy (1980) has graphed the parallel development of inflation in the Republic and the United Kingdom between 1960 and up to the end of the fixed exchange rate regime with the UK. The concordance is impressive as Figure 1 shows. However, as Kennedy has noted,* the fit is too good as it allows nothing for Ireland's other trading partners and the close agreement reflects the high level of institutional and cultural similarity between the two countries.

## An Empirical Test

In the development of the Central Bank model for the Republic McCarthy (1976) found that 93% of the variation in domestic consumer prices (net of taxes and subsidies) could be explained in terms of changes in import prices in the previous and current years and in terms of changes in export prices. Changes in export prices, in turn could be explained again in terms of changes in import prices in the previous and current years plus changes in farm prices. Changes in unit labour cost also entered the equation but their contribution was minute and the coefficient was not statistically significant. In this case over 94% of the variation was accounted for. It is possible to substitute the results for export prices into the general prices equation and obtain a new equation in which changes in domestic prices, net of taxes and subsidies, are seen to be related to changes in import and farm prices with a minor influence from unit labour costs. All three equations are given in an appendix for the mathematically minded.

Using this new equation we can estimate the contribution of each element to the general change in prices. This contribution will depend both on the size of the coefficient and the magnitude of the price change. The influence of a percentage change in farm prices in general would be about a quarter that of a similar change in import prices. In absolute terms an increase of one per cent in farm prices will lead to a price rise of 0.176% whereas a rise in unit labour cost would have only one seventh this impact - as determined by McCarthy's equation.

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* Kennedy personal communication

As Kennedy and also Durkan have argued the policy implications are not that unit labour costs are unimportant - quite the contrary. They determine the level of employment/and unemployment rather than that of prices. Judging by Table 1 which admittedly extends beyond the period analysed by McCarthy, import prices would appear to have had four times the import of domestic farm prices.

Table 1: Changes in the Consumer Price Index (net of taxes and subsidies) and the contribution of price changes for imports, farm products and unit labour costs in the Republic of Ireland 196

| Previous Year compared with | Consumer Price | Import Prices | Farmer Prices | Unit Labour Costs |
|---|---|---|---|---|
| 1967 | 3.4 | -.01 | .36 | .04 |
| 1968 | 4.4 | 2.25 | 1.80 | .04 |
| 1969 | 6.2 | 4.11 | .50 | .20 |
| 1970 | 6.9 | 3.57 | .81 | .30 |
| 1971 | 8.8 | 5.00 | 1.23 | .25 |
| 1972 | 9.3 | 4.37 | 3.78 | .27 |
| 1973 | 13.0 | 5.59 | 5.40 | .27 |
| 1974 | 17.6 | 17.96 | .07 | .46 |
| 1975 | 23.1 | 22.09 | 4.79 | .73 |
| 1976 | 17.9 | 13.05 | 4.29 | .47 |
| 1977 | 14.6 | 11.81 | 3.87 | .37 |

Note: The last three observations are extrapolations beyond the range of McCarthy's analysis.

Import Price Rises

If import prices are a dominant element it is important to know what causes them to rise. Just under half (49.4%) of Irish imports in 1978 came from the UK. It would be useful to know the factors determining British export prices to see what impact, if any, EEC farm prices had on these but in the time at my disposal I was not able to find any equations that would enable such an analysis to be done. Given the degree of openness of the UK economy, import prices would play an important role and here two significant elements would be the rise in price of raw materials and primary products and the exchange rate. In the case of that half of Irish imports not coming from the UK the exchange rate would not be fixed and changes in the other rates vis-à-vis sterling would be a significant factor.

## Exchange Rates

For these reasons it would be instructive to look at the movement of sterling, to which the Irish punt was linked until recently, over the last two decades. For comparison other EEC currencies and the US dollar are also given in Table 2 and the comparisons based on the EUA (European Unit of Account) as set out in EEC statistics. 1967 was a year of devaluation in sterling and Danish Kroner; other currencies were fixed. By 1969 sterling had begun to slide and to a lesser extent the Danish Kroner. By 1973 - the year of accession,

Table II : Indices of movement in currency values relative to the EAU 1967-1979

| | UK/Ireland | Denmark | Italy | France | Belgium | Netherlands | Germany | US |
|---|---|---|---|---|---|---|---|---|
| 1967 | 98.5 | 99.5 | 100.5 | 100.5 | 100.5 | 100.5 | 100.5 | 100.5 |
| 1969 | 89.7 | 96.4 | 104.7 | 99.8 | 104.7 | 104.7 | 106.3 | 106.7 |
| 1973 | 76.1 | 99.6 | 93.4 | 96.5 | 111.9 | 113.0 | 130.6 | 86.9 |
| 1976 | 61.4 | 109.3 | 71.9 | 98.9 | 123.9 | 131.0 | 152.0 | 95.7 |
| 1979 | 59.1(57.1)+ | 102.5 | 58.8 | 90.6 | 133.2 | 140.9 | 170.4 | 78.1 |
| 1973 = 100 | | | | | | | | |
| 1976 | 80.7 | 109.7 | 77.0 | 102.5 | 110.7 | 115.9 | 116.4 | 110.1 |
| 1979 | 77.7(75.0)+ | 102.9 | 63.0 | 93.9 | 119.0 | 124.7 | 130.5 | 89.9 |

+ Irish punt

sterling had weakened considerably and also the US dollar. The Italian lira was also slipping. The Deutschmark on the other hand had risen by as large a proportion as sterling had fallen*. By 1979 the Irish punt had lost the most ground followed by the Italian lira and sterling. The US dollar had also dropped sharply. Relative to 1962 and to the Irish punt the Deutschmark had improved its position threefold by 1979. The lower part of the table also expresses these changes relative to 1973 and reveals Italy as having suffered the largest decline. When

* The EAU is an average of the currencies, so compensating movements are to be expected.

these exchange rates, or similar ones modified to account for internal purchasing power, are applied to growth in per capita national income and also in its general level, the UK, Italy and Ireland are seen to have suffered relative to 1973 and all other members to have gained. The first three countries are all countries with considerable regional problems. The lower levels of incomes in these countries mean that consumers there enjoy lower standards of living relative to the EEC as a whole quite irrespective of general price levels.

The table shows that prior to EEC entry the sterling exchange rate had fallen substantially. Indeed the rate of decline in the six years preceding membership was the same as that in the six years after membership. The question can then be asked: What has been the cause of this exchange rate decline and what steps if any can the EEC take to strengthen the ailing economies? An answer to these questions could benefit the consumer through the impact on income and by halting inflation more than compensate for the higher cost of food. However in the UK case some would argue that the malady is itself caused by the drain on Britain of higher import prices for food and the taxation levied to pay for surpluses. This is something to which we shall have to return.

Consumer Prices

Exchange rates are of course linked to consumer prices and Table III documents the experience with inflation of the EEC countries. Compared with

Table III: Consumer Price Indices in the EEC 1967-1979 (3rd Quarter)

| 1962 = 100 | Ireland | UK | Denmark | Italy | France | Belgium | Netherlands | Germany |
|---|---|---|---|---|---|---|---|---|
| 1967 | 122.4 | 118.1 | 129.2 | 126.0 | 118.1 | 118.4 | 124.6 | 113.4 |
| 1969 | 137.3 | 130.6 | 144.6 | 130.1 | 131.9 | 126.3 | 139.1 | 118.3 |
| 1973 | 197.0 | 177.8 | 189.2 | 168.5 | 166.7 | 155.0 | 182.6 | 145.1 |
| 1976 | 328.4 | 298.6 | 261.5 | 274.0 | 231.9 | 214.5 | 239.1 | 172.0 |
| 1979 III | 463.5 | 439.4 | 358.7 | 422.6 | 311.7 | 252.2 | 279.3 | 192.7 |
| 1973 = 100 | | | | | | | | |
| | 166.7 | 167.9 | 138.2 | 162.6 | 139.1 | 138.4 | 130.9 | 118.5 |
| | 235.2 | 247.1 | 189.6 | 250.8 | 187.0 | 162.7 | 152.9 | 132.8 |
| 1976 = 100 | | | | | | | | |
| | 141.1 | 147.2 | 137.2 | 154.2 | 134.4 | 117.6 | 116.8 | 112.0 |

price levels in 1962 the Irish rate of inflation has been the highest but compared with 1973 the Italian and British rates have been higher. When Ireland and Denmark joined in 1973 their rates compared with 1962 were broadly similar. Subsequently the Irish exchange rate fell by 25% while the Danish rate hardened slightly. The rise in Irish prices was 100 percentage points higher. Up to 1976 the Danish Kroner gained 10% and price rises were moderate. In the period after 1976 the fall in the Irish and Danish exchange rates were broadly similar and internal price rises not very different. This is what you would expect given that internal prices reflect exchange rates and vice versa.

Agricultural Price Indices

To return to McCarthy's equations for estimating price changes, farm prices were noted to have an important impact though not as great as that of import prices. However this can be cancelled by the magnitude of the changes in the price of farm produce.

EEC statistics provide a basis for comparison among European countries and the general results on the basis of 1970 = 100 show that by the second quarter of 1979 Irish producer prices had increased fourfold and at twice the rate of Denmark which was also outside the EEC in 1970. UK prices had increased threefold. The main divergence between Irish and UK rates of change occurred after 1976 and may be related to differential devaluations of the green pound. Italian prices had increased slightly more than those for the UK even though Italy was one of the original founder members of the Community. France was also an original member yet price changes moved in line with those of Denmark i.e., they doubled. Dutch and German prices only rose by a third and Belgian by a half. In these countries the index was lower in the second quarter of 1979 compared with 1976, especially in Germany and the Netherlands. These countries generally had no price rises due to alignment and the experience suggests that once adjustment has occurred downward pressure on prices can be expected on Irish and British prices unless these are avoided by a deterioration in the exchange rate.

Table IV: Producer Price Indices for Agriculture for EEC countries 1972-1979

| 1970 = 100 | Ireland | UK | Denmark | Italy | France | Belgium | Netherlands | Germany |
|---|---|---|---|---|---|---|---|---|
| 1972 | 129.9 | 113.4 | 113.6 | 115.6 | 118.0 | 106.7 | 108.8 | 120.9 |
| 1973 | 169.8 | 146.3 | 149.2 | 145.4 | 131.9 | 121.5 | 121.5 | 121.0 |
| 1974 | 172.2 | 165.8 | 150.0 | 160.9 | 135.6 | 114.4 | 114.9 | 121.8 |
| 1975 | 207.3 | 203.5 | 161.3 | 187.0 | 145.9 | 135.6 | 129.7 | 130.8 |
| 1976 | 262.2 | 269.2 | 181.8 | 231.9 | 169.1 | 152.4 | 146.6 | 147.7 |
| 1977 | 321.1 | 269.0 | 190.3 | 263.1 | 174.9 | 147.0 | 142.2 | 139.0 |
| 1978 | 362.6 | 278.0 | 200.5 | 285.4 | 185.0 | 142.1 | 138.0 | 134.9 |
| 1979 II | 404.9 | 306.3 | 201.6 | 307.8 | 200.0 | 151.9 | 138.8 | 135.2 |

Some reasons for the different experiences of different countries could be differences in the composition of agricultural output in the different countries. Another would be the differences in the level of prices in the base year. One would have expected a priori that Irish and Danish price levels and the composition of output to have been broadly similar in 1970 yet Irish prices rose twice as fast as Danish. It should be noted in passing that prices were exceptionally high in Ireland in the second quarter of 1979. By September they had fallen by 9.3% whereas Danish prices rose 1%. Adjustment on this account would not change the argument greatly.

Factors Influencing Farm Prices

What are the factors influencing Irish farm prices ? Here we must distinguish between products which fall within the remit of the Common Agricultural Policy and those which do not. Lamb, potatoes, oats, milk for liquid consumption are examples of the latter. Another distinction would be those products that were maintained at a higher level of price in Ireland before accession than was the generally prevailing price in the EEC (at least in terms of EAU prices). Wheat and sugar wouldbe examples of such products. Again one would have expected that in general British prices, even allowing for deficiency payments, would have been lower than those supported in Ireland and therefore the rate of prices increase greater but as Table IV shows this was not so.

Turning now to those products to which the Common Agricultural Policy applies we find a variety of mechanisms to support prices - intervention buying and adjustable external tariffs. These devices guarantee a minimum price to farmers but if world marketing conditions so dictate the actual price realised can be much higher. This seems to have been the situation with cattle in 1972 and 1973. An index of the weighted unit price of cattle corrected for the rise in the consumer price index shows this outcome:

| 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 |
|---|---|---|---|---|---|---|---|---|---|
| 100 | 98 | 100 | 121 | 136 | 101 | 103 | 119 | 130 | 138 |

These figures show the rise in cattle prices above the current rate of inflation. The high 1973 price level was followed by a collapse in cattle prices in 1974 in spite of EEC membership. The prices also relate to gross receipts and are not adjusted for movements in costs, such as the fertiliser price trebling following the oil crisis. A comparison of unit values in real terms between 1973 and 1977 shows that many products experienced real price falls while others increased. (As I mentioned before, sheep and potatoes are not CAP products).

| | | | | | |
|---|---|---|---|---|---|
| Cattle | - | 5 | Milk | + | 22 |
| Sheep | - | 19 | Cereals | + | 2 |
| Pigs | - | 1 | Potatoes | + | 12 |
| Poultry | - | 10 | Sugar Beet | + | 41 |
| Eggs | - | 25 | | | |

## Regional Incomes

As a consequence of these changes the regional development of total agricultural income in the Republic has been disparate. The West region had a fall of -4.9 per cent in real income and the Midlands of -1.4 per cent compared to a gain of 15.3 per cent in the rich dairying area of the South West. High prices and the expectation of continuing inflation has put the purchase of land beyond the reach of the industrious up-and-coming young farmers and made the urgent problem of structural improvement well nigh impossible. Whatever about the interests of the consumer, it would be useful to ascertain how much the farmer has benefited in real terms. It could be a lot less than is generally supposed.

At the time of accession Ireland expected to gain for certain major products from the transitional adjustments to be completed by 1 January 1978 and by the annual price reviews of the EEC. Price rises due to currency depreciation were not foreseen. No forecasts were published anticipating the impact of EEC prices on food prices, unlike in Britain where the price increases for food were reckoned to be 16 per cent. Incidentally, the Cambridge Economic Policy group, opposing EEC membership, have calculated that the food price rise net of inflation was 12 per cent.

Can we now disentangle the three elements of the farm price rise? Some typical results for major commodities are as follows:

| | Alignment | Annual Price Increases 1973 to Jan 1 1978 | Both | Green Pound devaluations to May 1978 | Total |
|---|---|---|---|---|---|
| Butter | + 20% | + 24% | + 49% | + 70% | +154% |
| Beef & Veal | + 28% | + 58% | +103% | | +246% |
| Wheat | + 6% | + 13% | + 22% | | +108% |
| Barley | + 18% | + 26% | + 48% | | +152% |

In the case of the Republic the alignment steps were generally not as large as the impact of annual price increases over the period of alignment. At the same time the increases due to green pound devaluations were much greater than either. In the case of the UK the alignment amounts were greater whereas the green pound devaluation was lower in the same period, 44.5 per cent. The annual price increases were the same for both countries. By following a slower green pound devaluation the UK was able to cushion the effect on the consumer in a way which Maclennan (1978) Minister for Consumer Affairs in the Labour Government acknowledged was not anticipated. This may have been necessary given that the alignment steps were + 144 per cent for butter, 56 per cent for wheat, and 60 per cent for barley. Since the Republic had been operating a system of price supports already before accession, the transition was easier on the Irish consumer and would have been a lot lighter had the serious level of inflation been avoided. *

Impact of Farm Prices on Food Prices

Sheehy, on two separate occasions, attempted to estimate the impact of the EEC on consumer prices in the Republic. Both exercises were at the behest of the National Prices Commission. In the first instance, Sheehy (1974) examined the 5 per cent across the board increase in all EEC support prices introduced on 2 October 1974, which was coupled with an 11.1 per cent devaluation of the Irish green pound. Sheehy noted that some products were not under CAP - lamb, potatoes, soft drinks and half the food imports including beverages and certain fruits. Others were selling on the open market at prices above the support prices - poultry, eggs, vegetables, fish and most of the remaining food imports. Similar considerations applied to wheat, feed grains and sugar. The products directly affected were milk, dairy products, beef and pigmeat. Allowing for the weightings in the Consumer Price index, the total direct impact on food prices Sheehy calculated to be 1 per cent. Clearly this apparent increase of 16.7 per cent would have had a larger impact had there been a weaker market for some commodities such as poultry and pigmeat. Sheehy went on to calculate the income gains to farmers which netted £71.8 million. This increase was derived by £15.1 million extra paid by Irish consumers and £54.4 millions from foreigners, or a £3.6 gain to the country in foreign exchange for every £1 extra paid by Irish consumers. This is a point to which we shall return.

Sheehy (1978) carried out his second exercise at the end of the alignment period, i.e., 1 January 1978. He noted that whereas the consumer price in general had risen 111 per cent between 1972 and 1977, the food index had risen by 120 per cent. Food had risen faster than general prices but not so much faster as was widely believed. This comparison, however, ignores the rise in food prices in 1971

* This was avoided to some extent by a lesser devaluation of the green pound than the actual market exchange rate warranted.

and 1972 which, to some extent, was in anticipation of accession. Comparing February 1971 with February 1978 would have shown food at 266 compared with a general index of 248 or, put more starkly, assuming food was 30 per cent of the total index, a non-food index of 240. As Sheehy notes the index would have been higher but for the removal of VAT on food and the considerable increase in food subsidies. These subsidies are now being phased out. Given the absence of significant direct farmer taxation, the brunt of the subsidies has come from outside the agricultural sector.

Using the 1972-1977 comparison, Sheehy decomposed retail food prices as follows:

Decomposition of retail food price increases, 1972 to 1977

| Sector | Weighting in food chain | Increase in Sector 1977 over 1972 % | Change at Retail 1977 over 1972 points | % of Total |
|---|---|---|---|---|
| Pre-farm | 0.176 | 160.5 | 28.25 | 19.6 |
| Farm | 0.264 | 134.7 | 35.55 | 24.7 |
| Import | 0.110 | 226.0 | 24.86 | 17.3 |
| Marketing | 0.450 | 122.8 | 55.24 | 38.4 |
| Total-unadjusted | 1.000 | 143.9 | 143.9 | 100.0 |
| Subsidy adjustment | - | - | 14.1 | - |
| VAT adjustment | - | - | -9.8 | - |
| Total | - | - | 120 | - |

Source: National Prices Commission Monthly Report No. 70, p. 71, February 1978

"Pre-farm" represents farm inputs. Fertiliser prices had trebled between 1972 and 1977 and feed prices were almost as bad. Petrol was also greatly increased as were machinery prices (largely imported). 30 per cent of the import bill was made up of feed inputs and here membership of the EEC undoubtedly played a significant role in the price rise as the source of supplies was diverted to Europe.

"Farm" refers to Irish farmers' output prices. Creamery milk had trebled in price but cattle prices were up 138 per cent. Here again cattle prices were moving strongly upwards in 1972 and the actual increase is masked somewhat in Sheehy's estimates. Eggs were up by less than 86 per cent.

"Imports" relate to food imports - 19.1 per cent of food was foreign origin in 1972 compared with 23.3 per cent in 1976. Sheehy did not determine how much of these imports was of EEC origin and whether such supplies were replacing cheaper sources elsewhere. Some of the imports were of non-EEC products: tropical fruit, tea, coffee, etc. Sheehy notes that coffee was at the time of calculation in short supply internationally. This observation was irrelevant given the weighting of coffee in new 1975 index:- 0.087 per cent. Given the very substantial rise in all import prices, it could be useful to trace the source of these price increases as between EEC and other.

"Marketing" refers to the margin of the food price due to processing and retailing. Here the increase was the least, reflecting the impact of the supermarket chains, part of whose profits were passed on to the consumer in lower prices.

All four sources of price change would have increased retail food prices by 144 per cent (as against 97 per cent for a probable non-food index) were it not for the removal of VAT from food and substantial food subsidies. It will be noted that all along the chain from the input producer to the retailer, import prices have a significant effect. Here again the weakness of the currency must have played a considerable role. This factor aggravated the influence of EEC farm protection.

Redistributional Aspects

In discussions of food prices it is usual to refer to the differential impact on different income groups and in Britain it is widely believed that the poor have fared particularly badly. There are two aspects to this question. First, the absolute share of income spent on food and second, whether inflation rates have been higher for lower income groups. It is a well-known property of Engels Law that as incomes rise expenditure on food rises less than proportionately and this is borne out by the results of the Household Budget Inquiry. However, what is not so well-known is that the index of price change for poor households for all items does not differ greatly from that of other income groups. This was first demonstrated by Kennedy and Bruton (1975) who showed that between 1968 and 1975 when prices generally rose by more than 100 per cent, the difference between the highest and lowest increases was 2 per cent. This was not significant given the size of the overall increase. The highest rise was in the poorest category but the lowest rise was in the second lowest income group. Irvine and McCarthy (1977) re-analysed the results based on a "true" cost of living index. Such an index allows for substitution between goods as relative prices change. Irvine and McCarthy concluded that the inflation had produced a slight worsening of the relative position of higher income groups. The same authors (1978) later re-analysed the results of a study by Muellbauer (1974) which had claimed a 6 per cent worsening in the relative position of the UK's poorer consumers and found that this finding was not supported by their results using true cost of living indices.

Impact of CAP on the Republic

To revert to the impact of the CAP on the Irish consumer the most developed analysis has been that of Attwood (1979) which was based on Input-Output tables constructed by E. Henry. Attwood's analysis considered the benefits of CAP under four headings: (1) the economy as a whole; (2) the agricultural sector; (3) the non-agricultural productive sector; and (4) consumers. Under the economy as a whole Attwood made estimates of the gain to the balance of payments arising from higher prices than those in world trade. While the figures in the calculation are on the high side, for reasons given by Attwood, the GNP benefit in 1978 was reckoned by him to be about 10 per cent.

Farmers themselves gained little from the multiplier effects of their exports but gained about £57 millions from transfers from Irish consumers outside farming. However, had Ireland remained outside the EEC the Government would have continued some measure of farm support to keep farmers' incomes from falling behind the 115 per cent growth in non-agricultural wages and salaries. Such support would have been a lot more costly than £57 millions.

The cost to the non-agricultural sector, given as £57 millions, is net of the savings arising from the shouldering of the cost of farm support by the EEC rather than by Irish taxpayers. The benefits to the sector come through a non-agricultural household income multiplier of almost unity. This means that non-agricultural households benefited by the same amount as the increased value of agricultural exports. In this way the economy was able to sustain a 3 per cent real growth rate all through the recession though part of this must be attributed to the success of industrial promotion.

An indication of the benefits to the non-farm sector lies in the fact that Government transfers were the fastest growing source of income in real terms between 1973 and 1977 at + 29.1 per cent. The remuneration of employees in sectors other than manufacturing and farming was the second fastest at 15 per cent.* Manufacturing wages grew 13.2 per cent whereas the real increase in agriculture was only 5.1 per cent. Admittedly comparison with 1973 in the latter case overlooks the highly favourable prices obtaining in 1973. The expansion of administrative, professional and service employment was facilitated by the successful export record of agriculture and welfare transfers also benefited from the same cause. This is the income-enhancing effect of the EEC referred to earlier.

Attwood had difficulty in defining consumers in a way that differed from the community as a whole or from the non-agricultural community already discussed. He found the idea of the non-farming community viewed solely as food purchasers an unrealistic split of roles. However, addressing himself to the concept he asked what the price support for Irish agriculture would have been in the absence of membership and how it would have affected domestic prices. He concluded that it could well have been as large, or larger. Speaking of the 70 per cent increase

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* The price index for services grew faster than that for food.

in support prices due to the green pound devaluations between October 1974 and 1978 he noted that their combined effect was to add about 7 per cent to the Consumer Price Index since entry.

General Prosperity

To summarise Attwood's analysis it is clear that the Republic of Ireland has been enjoying an immense change during the seventies. Part of this growth has been due to the successful promotional activities of the IDA which have had the sympathy of Brussels. Part must also be attributed to the gains of the Common Agricultural Policy. These gains would be regarded more as a movement towards a realistic export price regime away from the depressed trading conditions obtaining previously rather than a bonus over and above good prices. The consequences have been a general air of progress pervading the country, with new houses being built everywhere and areas long marked by rural decline experiencing return flows and rising marriage and birth rates. Some part of this success story must be due to the multiplier effects of the CAP since farmers at the height of their prosperity were not called on to make a large direct contribution to income redistribution within Ireland. Given the appropriate taxation regime the gains from CAP could have been used to further internal redistribution. At present the gains are much smaller and the opportunity largely missed.

What of the future? Now that the harmonisation of national price is completed, future price rises will come from annual negotiations and from currency depreciation. Let us take them in that sequence. The history of annual price changes for three major commodities has been as follows:

| Change over previous year: | Cattle | Milk | Barley |
|---|---|---|---|
| 1973/4 | 10.5 | 4.5 | 1.0 |
| 1974/5 | 18.6 | 13.1 | 4.9 |
| 1975/6 | 5.5 | 10.9 | 9.4 |
| 1976/7 | 7.5 | 5.1 | 4.5 |
| 1977/8 | 3.5 | 3.1 | 3.5 |
| 1978/9 | 2.5 | 1.9 | 1.3 |
| 1979/80 | 1.5 | – | 1.5 |
| 1980/1 (proposed) | 1.5 | 1.2 | 2.0 |

The table would indicate that, expressed in units of account, the era of large annual price increases is over. The large increases in 1974/5 were to compensate farmers for the disastrous fall in incomes following the oil crisis due to increase in input costs. This can be illustrated by Irish fertiliser prices.

| | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|
| N | 4.95 | 5.30 | 7.90 | 10.60 |
| P | 6.65 | 7.28 | 15.40 | 23.40 |
| K | 2.04 | 2.28 | 3.53 | 5.36 |

Source: John A. Connolly (1975) Table A.11.

The price increase projected for milk does not take into account the proposed large co-responsibility levy for extra production. The view would seem to be that the farmers' relative position will be eroded over time and the margin of protection diminish. Indeed such a development, if properly programmed, could be in the long-term interests of efficient full-time producers such as those of the UK and Ireland. A number of measures currently under discussion would help in this direction. At the same time, the consumer would benefit. There has been some movement towards freer trade in the provision made for New Zealand produce and sugar and beef imports from ACP countries. Further liberalisation is most likely to benefit North American producers rather than those of the Third World. Such liberalisation should take place in the context of a general liberalisation, also agreed by the US and Japan so that world prices reflect more closely comparative advantage. It should also be noted that the different patterns of trade currently, the new exchange rates and the higher prices for primary products since the late 'sixties mean that an attempt by Britain to revert to the old system of deficiency payments is unlikely to be successful even if the taxpayer was prepared to shoulder the cost. It should also be noted that cheap food will not overcome the problem of competitivity. In the mid-'seventies food in Britain was about 40 per cent cheaper than in Germany, but, according to the Cambridge Economic Policy Group, this factor did not appear to help British exports. The answer lies in a large reinvestment programme such as that which France completed successfully.

In July 1977 "Which" magazine published an account of the amounts of surplus commodities in terms of daily consumption rates. For barley and sugar it was 2 days, 20 days for beef and veal, 37 days for wine and 61 days for butter, but this was after subsidised exports had occurred. This helps to put the "mountains" and "lakes" in perspective. Given the nature of farm production some buffer stocks are clearly an advantage but are also less vital in a situation of perpetual surplus. The case for warding off the increased production is clear but would be best achieved in a situation that enables the consumer to benefit from the efficiency of the best producers. The present situation does not permit comparative advantage to operate.

In terms of inflation the real bogey is the future of the exchange rate and what the EEC can do to strengthen the economies experiencing difficulties. It is generally recognised (e.g., McDougall report) that European integration cannot proceed unless there is provided some mechanism for solving this problem. At present the dominant view within seems to be that of total free trade with consumer lobbies advocating that this be extended also to agriculture. Irish history should warn of the consequences of strict adherence to Manchester liberalism. The Act of Union ushered in a brief period of agricultural prosperity followed by farm price collapse and the rapid dismantling of the industrial gains of Grattan's parliament. Belfast, as the then second city of the Empire, gained at that time it is true, but Belfast no longer holds such an enviable position. The strong centres of the contemporary scene are almost all in continental Europe and in Germany in particular. It is of no benefit to the consumer to promote lower prices through general free trade if, like in the great Irish Famine, he has no income by which to avail of these prices. Free trade by all means but let's have a regime of free trade that in addition provides the means for ailing areas to recover and for preindustrial areas to retain their populations. The British and Irish consumer, therefore, has a vested interest in mechanisms by which structure al re-organisation can be promoted. Given such a re-organisation and stronger currencies the impact of food prices would be of less concern. This was essentially the British government's point of view at the time of accession. Now, however, the argument has veered to suggest that the money at present going to farm subsidies should be spent instead on regional programmes in the UK, Italy and Ireland. In the long run the Irish interest (both producer and consumer) could coincide with that stance. There are, however, a number of political problems which would make the Irish government nervous about trusting to such a switch over. At present the CAP acts as a surrogate regional fund in the Republic and benefits are reaped in two ways. First, there are the actual EEC transfers. Under the CAP these funds are available without any requirement of matching finance from the Irish exchequer and they are paid automatically without political intervention in their allocation. No other transfers share these characteristics. Second, the transfers themselves are only part of the story. Other inflows occur through enhanced prices paid by foreign and local consumers. Given that Ireland's share of both CAP and the Regional Fund are broadly similar a mechanism which maintained the same level of inflows but allocated them under the Regional Fund could have distinct advantages for Irish development. However, the political debate on CAP tends to obscure the fact that in terms of transfers the size of the total EEC budget is very small -- roughly the same proportion of EEC GNP as that fraction of GNP suggested as a target by the United Nations for helping the development of the Third World. Compared to the fraction of GNP passing through the coffers of individual State exchequers the funds available to Brussels are very small. As matters stand at present the Republic is getting support via a quasi-regional fund - CAP and its efforts to industrialise have had official blessing at Brussels, mainly because the country is small and the concession hurt few people. If Northern Ireland was independent such an arrangement could also be made but the extension of these facilities to the UK as a whole at present would meet political opposition in Europe. In the outcome of these concessions the consumers' interests in the Republic have been served to a considerable extent, but it is difficult to see the same situation continuing much into the future and especially after further enlargement.

## Appendix

Price equations from McCarthy

Change in Consumer Prices net of taxes and subsidies ($\dot{P}_t$) Eq. 9 (a)

$$\dot{P}_t = \underset{(.442)}{1.672} + \underset{(.064)}{.098}\, m_t + \underset{(.124)}{.260}\, \dot{m}_{t-1} + \underset{(.110)}{.495}\, \dot{X}_t \qquad \text{standard errors}$$

$R^2 = .927$ D.W. 2.36 d.f = 16

Change in Export Prices ($\dot{X}_t$) Eq. 11.

$$\dot{X}_t = \underset{(.610)}{.313} + \underset{(.165)}{.049}\, \dot{l}_t + \underset{(.049)}{.355}\, \dot{f}_t + \underset{(.055)}{.404}\, \dot{m}_t + \underset{(.198)}{.202}\, \dot{m}_{t-1} \qquad \text{standard errors}$$

$R^2 = .944$ D.W. = 1.81 d.f = 15

Combined equations

$$\dot{P}_t = 1.827 + .298\, \dot{m}_t + .360\, \dot{m}_{t-1} + 0.176\, \dot{f}_t + .024\, \dot{l}_t$$

All variables are price indices

m = import

f = farm

l = unit labour costs

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