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The EU Structural Fund Programme and Ireland Compensation for SMP: Experience and Some Lessons

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The EU Structural Fund Programme and Ireland
Compensation for SMP: experience and some lessons

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Introduction

The establishment of the European Economic Community in its economic form was based on the desire to create a single market for goods and services covering the economies of the founder members. In its initial phases, policy was directed to reducing and eliminating tariff barriers between members. Throughout this period and up to the early 1970's the EEC experienced rapid growth and full employment. However, the elimination of tariffs did not in itself create a unified market. Within the EEC there were many non-tariff barriers, ranging from border delays to differences in technical standards. The effect of these barriers was to prevent the emergence of a unified market and to protect domestic industry in some countries. The existence and importance of these non-tariff barriers was recognised, the approach to their removal was by negotiation, but there was very little progress over a wide range of technical issues (patents, standards etc.), and customs delays and formalities still existed.

During the 1970's and 1980's the rise in unemployment within the EC, and its continued high level relative to both the US and Japan, coupled with competitive difficulties experienced by EC companies **vis-a-vis** their US and Japanese counterparts, created pressure for better functioning markets within the EC. The Single European Act was designed to accelerate the process of the removal of non-tariff barriers, thereby establishing a single market, rather than a set of individual country markets, in the expectation that this market would result in: stronger firms, realising economies of scale, where available; technological

development driven by the R&D that larger firms can support; and ultimately greater output and employment.

Economic and Monetary Union is the next logical step in the process of integration that was begun almost 40 years ago. The Single Market Programme has competitive implications within the EU as well as between the EU and the rest of the world. Within the EU competitive differences between members can be affected by independent decisions by members in relation to tax rates and tax systems, energy pricing, transport policy,etc., while at a different level entirely, a lack of parity in public services, can have competitive implications. Ultimately this must be addressed, but at present the Single Market Programme seems to represent the limits of thinking. The concept of Economic Union contained in the Delors Report has clearly not been accepted, while the concept of Monetary Union embodied in the Maastricht Treaty falls very far short of what a single market requires, and of course, even this is in considerable doubt following the events of mid-1993.

Part I. The Single Market Programme

In this section of the paper I will contrast the estimated effect of the SMP on the EU as a whole with the estimated effect on Ireland, and then provide estimates of the impact of the Community Support Framework, associated with the SMP, on Ireland. These estimates are based on existing published research.

The starting point of the analysis is the Cecchini Report, considering just the macro study contained therein in relation to the EU, and a similar analysis undertaken for Ireland by the Economic and Social Research Institute (ESRI). Table 1 summarises the results.

Table 1. Macro Effects of Potential Economic Gain from SMP

Variable	Units	EU	Ireland
GDP/GNP	% change	4.5	1.7
Consumer Prices	% change	-6.1	-1.1
Employment change	No.000's	1800	8
Budget Balance	% GDP/GNP	2.2	0.5
External Balance	% GDP/GNP	1.0	-0.3

The EU results

The Cecchini Report adopted two approaches to estimating the economic impact of the SMP. The first was based on a microeconomic study which attempted to directly estimate the costs at the micro level of border formalities, different standards, unrealised economies of scale, and a lack of competition. The second was a model-based macro study.

For the macro study the models used were the Commission's Hermes model and the OECD's Interlink model. The objective of the exercise was to estimate the broad orders of magnitude of the pre-1992 Programme situation for the variables listed, and was an extension of the micro study which formed the main part of the report. The inputs into the models were taken from the micro study to preserve consistency.

The overall effects for the EU are impressive. Output would be 4.5 per cent higher, once the effect have worked through the EU economies. Consumer prices would be 6 per cent lower than otherwise, while employment would be 1.8 million higher. Simultaneously, budget deficits would be lower, because of the higher level of GDP, and finally the Balance of Payments on current account would improve because of the EU's improved competitive position resulting from lower prices, consequent

lower labour costs, and the effect of realising economies of scale. Furthermore, the improvement in both budget balances and the balance of payments provides policy makers with greater policy flexibility, and the models were used to simulate the impact of policy coordination arising from this flexibility. The results of this latter exercise indicated that there were further output and employment gains for the EU, but they are not included in Table 1.

The Cecchini Report estimates are not without criticism. Baldwin (1989) suggests that focusing on static effects, which both the micro and macro exercise did, seriously underestimated the economic impact of the SMP, though the Cecchini Report went further than traditional models which abstract from economies of scale. Baldwin concluded that the higher level of income would result in a higher capital stock, financed by higher savings, and that this "growth bonus" would add significantly to the Cecchini estimates. Furthermore he concluded that if one used the insights from the new endogenous growth theory, it was possible that the growth rate could be permanently raised.

The Irish Results

An Economic and Social Research Institute (ESRI) study, using the Hermes-Ireland model, simulated the effects for Ireland of the SMP (O'Sullivan,1989). It can be seen, from Table 1 that the impact on Ireland of the SMP across the relevant variables is less favourable than for the EU as a whole. The change in GDP is less, the effect on prices is less, the balance of payments disimproves rather than improves, the employment gain is slight, and the improvement in the budget balance is weaker. (These variables are, of course, not independent.) Most of the addition to output that takes place is due to increase in external demand as a result of assumed effects abroad due to the completion of the single market. There is little impact from increased competition or economies of scale. In essence the model produces demand effects.

It is not clear what conclusions can be drawn from this, as differences between the EU and individual countries may simply reflect characteristics of the models used. To the extent that conclusions can be drawn, what the results indicate is a relative worsening of a peripheral region following a greater degree of integration. Barry (1994) suggests that traditional trade theory predicts convergence, but that new trade theory indicates that the relative position of peripheral regions could worsen. It can be argued that some of the transfers to poorer regions were justified on these latter grounds.

The Act establishing the Single Market required that some existing transfers within the EU be reorganised to become more effective. These transfers fall under the broad heading of Structural Funds, and consist of the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the guidance element of the European Guidance and Guarantee Fund (EAGGF) associated with the Common Agricultural Policy. Each of these Funds was begun separately and designed to meet particular needs.

Ireland was in receipt of direct payments under each of these funds, but the SMP increased very significantly the amounts involved. The 1988 Community budget settlement agreed that the ERDF and the ESF should increase, with the level of spending by 1993 double that of 1987 in real terms, and that there should be a concentration in poor regions. In 1989 this was taken further when the ERDF and ESF, together with the Guidance section of the EAGGF and the European Investment Bank, were reorganised into the Community Support Framework (CSF). For purposes of the CSF Ireland is considered a region, and while this has obvious advantages from the point of view of resources devoted to negotiation, there are regions within the country, where income levels are well below average Irish levels.

The creation of the CSF, and the increase in the level of resources were designed to compensate the country for the lower

estimated benefits arising from the SMP, compared to the EU as a whole, among other objectives. These other objectives include an increase in income per head to narrow income differences within the EU. The CSF was not primarily about compensation, but is now seen as compensation within Ireland, a point discussed later.

The ESRI, in a separate analysis, estimated the effects of increased expenditure by both Government and private sector as a result of increased structural fund expenditure (Bradley and Fitzgerald, 1989). The results are shown in Table 2.

Table 2. Macro Effects of Increased Structural Fund Expenditure

Variable	Units	Effect by 1994
GNP	% change	1.6
Consumer Prices	% change	1.7
Employment change	Nos.000's	8
Budget Balance	%GNP	1.0
External Balance	%GNP	1.3

Increased structural fund expenditure does improve the performance of the economy and brings it more in line with the EU total. The level of output increases as does the level of employment, but the overall output impact remains less than that for the EU. Both the budget and external balance also improve. However the estimated price effects are positive, and consequently wage inflation is higher than otherwise, and higher than in the EU as a whole. These are ex ante model results and derive their impact on the economy through the demand side.

There is no doubt that the demand effects of structural fund expenditure have been very important in the performance of the economy, which grew by 5.3 per cent, on average, over the period 1989-1993, and which did not experience the output declines associated with the latest recession.

A later study, again by the ESRI, attempted to build in the supply side effects of the first CSF. However in much of the analysis the ESRI assumed rates of return on CSF funded investment, and this in turn produced the macro estimates of the overall impact of the CSF. The overall impact from this study is thus greater than reported in Table 2. However one must be cautious about an assessment of a programme that assumes the results. There has been much discussion about individual programmes and projects. However with very few exceptions, there has been little ex post project analysis. There remain considerable doubts about many of the programmes.

The industry programme directs funds to the existing programmes of the development agencies, without any major change in the overall programme for indigenous industry. There has been institutional change, but this has not been a product of the CSF, and indeed is not the issue. The peripherality programme lacked a consistent framework for considering the physical access problems of the economy, thus ignoring among other issues, the impact of the Channel tunnel on Ireland, the problems of access to international hub at Heathrow, the issue of competition in sea ports, in particular in relation to Holyhead, the main access point in the UK for freight and people. The human resource programme seemed to represent a continuation and expansion of existing expenditures, when already there was concern about the content of training programmes.

Overall, the first CSF for Ireland has been associated with an expansion of expenditure by agencies based on the perceived needs of these agencies by themselves. An ex post evaluation of the programme may need to take a different approach. There is a need

Need to establish the actual and expected benefits from the CSF financed expenditure and this can only be done by an analysis of actual projects. However there is a more fundamental point about the CSF, viz. what is the logic behind the programmes, which has not been addressed, and which is turned to in Part IV. In Part II the logic behind the transfers is examined.

Part II. Income Inequalities in the EU

Within the EU there has always been debate about differences in incomes between countries, and about differences in incomes between regions. Much of the theoretical literature is inconclusive in policy terms, yet policy must be made. At the time the SMP was being considered, differences in income per head between countries were considered very marked, and much of the original structural funds were directed to reducing these inequalities.

However it is worth while to examine the numbers once again, taking data from that period (Durkan, 1993). Table 3 looks at per capita GDP. The typical adjustment of crude GDP per head figures to take account of relative purchasing power forms the basis of much of structural fund expenditure. This adjustment narrows income per head gaps quite significantly. It leaves Ireland's income per head at about two thirds that of the EU average, though much closer to the highest.

However, these adjusted figures are still relatively crude. In effect the adjustment is to the numerator. Is it sensible to adjust the numerator, and not the denominator? Perhaps one country has relatively more children, so that in what sense could one expect to find similarities in crude income per head data. There are major differences in the denominator between countries.

Table 3. GDP per capita 1989

	ECU	PPP
Belgium	13982	17444
Denmark	18528	18478
Germany	17421	19244
Greece	4924	9353
Spain	8924	13324
France	15497	18703
Ireland	8760	11534
Italy	13669	17841
Luxembourg	16907	22311
Holland	13684	17605
Portugal	4199	9452
UK	13283	18402
EU	13551	17229

Table 4 presents data covering the crude participation rate in the labour force, household size and unemployment rate across the EU.

As can be seen there are major differences between countries. In the case of Ireland the relatively low participation rate reflects the pre 1973 (or pre entry to the EU) regulations that forced women to resign from employment over a wide range of occupations and industries on marriage. Participation rates are rising among married women, and for younger age groups are not dissimilar to those of other EU countries, but there is an overhang which has not yet fully worked through the age cohorts.

Similarly, household size is large relative to the majority of EU countries, primarily, but not wholly, due to more children

per family on average. Family size is falling, for new families, but it takes some time for this to work through the whole age structure.

The unemployment rate is also relatively high, reflecting (i) fiscal mismanagement and the effect this had on wage rates, and (ii) the structure of the labour market, which made it difficult for the labour market to adjust to the shocks of the 1980's.

Table 4. Participation, Household Size and Unemployment

	Crude Participation rate % 1989	Household Size No.1990	Unemployment Rate % 1990
Belgium	39.6	2.63	8.0
Denmark	56.1	1.71	8.1
Germany	47.9	2.30	4.4
Greece	40.7	2.92	-
Spain	38.0	3.40	15.9
France	44.7	2.61	9.2
Ireland	37.9	3.31	14.7
Italy	41.4	2.77	10.0
Luxembourg	42.4	2.65	1.8
Holland	45.6	2.48	7.3
Portugal	46.9	2.99	4.0
UK	50.9	2.50	7.8
EU	44.9	2.62	8.4

These factors reflect choices that the society made, and it is not obvious the transfers between countries should be made to reduce income inequalities that arise for what are essentially societal choices. To the extent that transfers continue to take place they may create curious incentives for societies.

When adjusted to take account of the factors listed above, GNP per person (which is actually per person employed) in Ireland is 77 per cent of the EU average. This conclusion applies to data available at the time the amount of structural funds were being increased. In the period since, there has been a rapid growth of the economy relative to other EU economies. Crude income per head measures indicate that income per head in Ireland by 1993 was running at about 78 per cent of the EU average, so that clearly if the factors discussed above were incorporated the differences in income per person employed would be low. This accords with a commonsense view when comparing Irish and UK incomes, where it is not obvious that income levels in Ireland are about two thirds those of the UK, particularly when wage rates are so similar, and indeed higher in Ireland.

The data above have no currency in the policy debate in Ireland. The issue is the amount of transfers received from other EU members. A recent medium term forecast which indicated that the level of income per head would soon exceed the level at which EC funding would continue caused consternation, and calls for "ring-fencing" Dublin, where it is believed income levels are very much higher than elsewhere in the country. This is very little to do with the economics of the situation, but everything to do with the politics, a theme turned to in the next section.

Part III. The Second Community Support Framework

At the Edinburgh Summit in December 1992, the Taoiseach (Prime Minister) announced that Ireland had secured £8bn in structural funds in the second round of the Community Support Framework. The

issue of the allocation of funds to Ireland has been marked by controversy over the amount and the timing of payments. There has also been controversy in regard to the degree to which Government and European Commission officials "agreed" to figures, as there were no formal documents setting out the agreements. The controversies were not in anyone's interest, and highlight the need for more formal procedures for setting transfers. It is worthwhile to look at the nature of the difficulties that arose with existing procedures.

At the Edinburgh Summit the total amount of Structural and Cohesion Funds for the period 1994-2000 was established at IR£65 bn (in constant 1992 prices). Ireland's share of this was not formally agreed at this summit, but as indicated above, the Taoiseach provided an order of magnitude of IR£8 bn, based on Ireland's expected share of the new budget. The share for Ireland, however, was itself a variable, which was expected to lie between 10 per cent and 13.5 per cent of the total. The latter figure was based on an assumption of maintaining the share received in the first CSF, and the IR£8 bn was clearly based on this. There was some debate about the status of the IR£8 bn. However in mid-July 1993, the Minister of Foreign affairs was involved in negotiations in Brussels with the EC president on Ireland's allocation at a EU foreign Ministers' meeting. A figure of IR£7.8 bn (in 1993 prices) was agreed, and while this was less than the amount government had announced earlier, it was generally seen as favourable.

A characteristic of this period is that no official documentation was available to confirm the amounts reportedly allocated to Ireland both at the Edinburgh Summit and later at the July EU Foreign Ministers' meeting. There were no official documents setting down the amounts allocated to Ireland, as this was not formally decided until mid-October 1993. The only source of information with regard to structural funds was verbal statements to the media by the Taoiseach, and the Foreign Minister. These statements could not be confirmed by reference to the Government

Information Service, or the information services attached to the Department of Finance or the Department of Foreign Affairs. Furthermore there was no official EU documentation in relation to the amounts following both meetings.

The National Plan, which was the set of policies and proposed expenditures under the CSF (including the Cohesion Fund), was thus being prepared on the assumption of external transfers from the EU which were not a matter of formal written agreements, and which were subsequently found to be less.

Furthermore the amounts were not clearcut. After the Edinburgh Summit the amount of £8bn was announced. As the allocation is in ECUs this amount should have been increased in Irish Pound terms to £8.8 bn following the 10 per cent devaluation in January, yet the Government consistently claimed that the allocation was IR£8 bn.

Finally, the timing of the amounts was not consistently maintained. Originally, following the Maastricht treaty the CSF was expected to apply over a period of five years and the amounts involved were IR£6 bn. The timing was subsequently amended to 7 years with the announcement of the IR£8 bn at Edinburgh, but one of these seven years is actually 1993, which is the final year of the first CSF Programme.The National Development Plan 1994 - 99 was prepared on the basis of an EC transfer of IR£8 bn over the period 1993 - 99. Excluding 1993 the amounts are IR£6.9 bn in constant 1993 prices.

On October 21st the European Commission announced that the allocation to Ireland in 1993 Irish Pound terms was £7.2 bn, or some IR£600 million below the assumption in the National Plan. In the early days following this announcement there was extraordinary political comment both in the Dail (Parliament) and the media about the failure of Government to secure adequate funding and about the trustworthiness of Government and EC officials. Government compounded this by claiming that the

original targets would be met, given the quality of the projects contained in the National Plan. For this to be realised these projects must be better than marginal projects in other recipient countries (Spain, Portugal, Greece) and there is no evidence that this will happen.

The National Plan is (at the time of writing) in the course of being revised to take account of the smaller allocation, and the reaction of the European Commission to the individual projects.

Some reflections on the procedures.

The Irish Government was involved in a negotiating exercise. The objective of Government was to achieve a share of the Structural and Cohesion Funds comparable to that realised in the first CSF programme - i.e. 13.5 per cent. This share is very high and cannot be justified on objective criteria (e.g. relative income levels, peripherality etc.). From the outset the Government sought to establish an acceptance both at home and among EC officials, at the highest level, of figures which maintained Ireland's share. This is an inevitable consequence of reliance on negotiation rather than acceptance of formal procedures. While verbal agreements may have been made, there was no formal agreement i.e. the process of negotiation continued well beyond the publication of the National Plan and was only concluded with the announcement by the Commission of the £7.2bn in October 1993. We still await a revised National Plan. Objectively the amounts allocated to Ireland are very high relative to other recipients.

Part IV The National Development Plan - Constraints on Development

The National Development Plan was published in mid-October 1993. This Plan set out the Irish Government's submission for CSF financing. The objectives and strategy of the Plan are clearly set out in Chapter 3 "General Development Strategy". The subsequent chapters 4 - 10 set out broad sectoral objectives and expenditures to give effect to the strategy, while the remainder of the Plan is concerned with some general issues (Chapters 10 to 13) and the issue of implementation. Even though the Plan numbers have clearly been affected by the lower allocation from the EC the broad thrust as laid out in the Plan is still important.

Four Programmes in the National Plan - Industry, Human Resources, Transport and Energy - account for two thirds of all Plan expenditure. The first three of these account for 60 per cent of all EU funding. The bulk of private sector funding (73%) is in the industry sector, and private sector financing accounts for the greater part of industry investment. In effect almost half of EU funding in the Plan is directed towards Human Resources and Transport, mainly infrastructure.

The model of development that lies behind the CSF and the National Plan is fairly simple. This model sees the long-run development of the economy deriving from increasing and improving the stock of physical and human capital. The National Plan is essentially an attempt to do both, and this explains the emphasis on infrastructure and human resource development.

The CSF is not designed as an income support for poorer regions of the EU. While pure income transfers would temporarily raise income levels, thus apparently reducing inter regional income inequalities and satisfying the aims of the CSF, the true effects are quite different since the income effects are not sustainable unless these transfers continue indefinitely. The output

inequality would increase, and the poorer regions would lag even further behind in terms of economic progress.

The objective of the structural fund programme is to increase the supply capacity of the economy, primarily by raising the level of physical and human capital. The National Plan, and the CSF, thus seem to be based on traditional neo-classical growth theory. However there is a good deal more to traditional theory than improving and increasing human and physical capital. There is an underlying assumption that markets work efficiently, yet it is evident that factor and product markets in Ireland are heavily distorted. Nor is it obvious that the Irish economy is experiencing a low level of skills or domestic saving. Participation rates in second and third level are remarkably high, and the economy is now running a balance of payments current account surplus, of 9 per cent of GNP in 1993.

Much of human resource expenditure in the National Plan is in relation to the skills of new entrants onto the Labour Force. (There are some important exceptions to this where some specific programmes are directed to those long-term unemployed. In general these programmes will enhance the quantity and quality of the Labour Force.) The reality is that much of the benefit of this will be lost to the economy through migration, though clearly those whose skills are enhanced will benefit.

The balance of payments surplus indicates that there is no shortage of domestic savings. Associated with this surplus is a very significant level of net direct and portfolio overseas investment by the private sector. While in 1993 this was running at 1.3 per cent of GNP the figures for each of the years 1989 to 1992 were 8.8, 8.1, 7.5 and 5.8 per cent of GNP, respectively. Clearly, there was some portfolio shifting when exchange controls were relaxed, but the scale and continuation of the outflows suggests that as profitable additional avenues for investment are not available domestically.

The economy is not experiencing a skill or domestic resource shortage. The CSF is directed at alleviating assumed weaknesses in both. The constraint that the economy faces is essentially a cost constraint, which derives from poorly functioning markets.

The labour market is characterised by a two tier bargaining system - centralised and decentralised simultaneously. Theory suggests that this is less efficient in producing full employment than either fully centralised or fully decentralised bargaining (Calmfors and Driffill 1988, Durkan 1992). Thus the economy has experienced high unemployment for a decade and a half, with unemployment now running at 15-16 per cent of the labour force and has simultaneously experienced high emigration. The difficulties of the labour market were compounded by fiscal mismanagement over the 1977-1986 period, where tax policy had the effect of raising the real product wage while simultaneously reducing the real consumption wage. The effect of this is inbuilt into the existing structure of labour costs, and is responsible, together with the structure of the bargaining system, for a significant proportion of the level of unemployment.

Product markets are also heavily distorted. The two main banks account for over 80 per cent of all banking activity, and the banking system is regulated by a Central Bank whose prudential considerations have prevented bank loss irrespective of the state of the economy through margin increases. The retail grocery trade is highly concentrated, with four companies accounting for 75 per cent of sales. There remain many agencies with differential pricing between Irish and other EC markets. It is difficult for final users to purchase directly, and indeed government itself, in order to protect its revenue base has made direct imports more difficult now than in the pre SMP era. This applies in particular to motor vehicles, where excise duties in excess of 20 per cent were replaced by a first registration tax and onerous compliance conditions. The VAT rules in relation to

mail order purchases, (a characteristic of the single US market, which helps to equalise prices for a wide range of goods) have operated to stop some existing activity. Other sectors have sought and obtained delays in the application of the principles behind the SMP. It is difficult to see how a single market can develop under these circumstances.

Capital markets are also distorted. The effect of industrial policy as pursued in Ireland has been to reduce the cost of capital via grants. Capital grants are equivalent to interest subsidies, and for much of the past 30 years the real cost of capital has been negative. This has encouraged investment, and substitution of capital for labour. It is no surprise to find employment free growth in the circumstances confronting both labour and capital markets. The CSF has worsened this situation as it has provided funds for investment that are effectively free.

The logic of the above is that CSF funds should be directed to alleviating the constraints that the economy is experiencing. If the economy is cost constrained then the funds should be used to reduce costs. This is not just a question of infrastructure, at some point it is possible to have enough infrastructure (Northern Ireland being the prime example). The main constraint is the functioning of the labour market and the inherited level of labour costs deriving from fiscal mismanagement.

This constraint can easily be dealt with, through debt reduction and reductions in taxes, yet the likelihood that this can happen is low. First, it is believed that the Commission would not countenance the use of Structural Funds for debt and tax reduction, as this appears to be a straight income transfer to those in employment. However it is through its effect on wage development, and thus on employment, and the supply side of the economy, that the impact would be felt. The danger with second guessing donors is that you produce programmes that satisfy them rather than domestic needs. There is some experience from

developing countries of development plans directed towards attracting funds applied to projects, when the real needs were quite different.

Second, the bureaucracy has an interest in the expansion of its own sphere of activity, and own programmes, and a debt reduction programme would not achieve this. This is a very short run view of the world, as a well functioning economy offers greater opportunities for the expansion of public services than an economy that relies on transfers that are misapplied.

Over and above the labour market distortions, other market distortions must be addressed. These should be dealt with on an ongoing basis. Finally, if we recognise that nothing will change and the constraints identified above will not be addressed, it is still worthwhile to do things properly. There is an overemphasis on physical capital. Infrastructure is being added to as if the opportunity cost were zero. Building a road that is not used represents a waste of resources. Not employing those who are unemployed allows their human capital to degredate. Real choices are being made, whose consequences are not fully considered.

Conclusion

The SMP has will have positive effects on the Irish economy. Associated with the programme are significant transfers from other EU members. The logical basis of some of these transfers relates to the differential impact of the SMP on Ireland compared to other EU countries. However a significant proportion of the transfers derives from attempts to reduce differences in income which are long standing. Differences in income are not in themselves a reason for transfers as they may reflect choices society has made. The basis for the amounts for each country is unsatisfactory, and Irish experience with the second CSF is salutary. The implicit model of development which underlies the

form of the CSF for Ireland is inappropriate, and hence the performance of the economy will be less than its potential. The correct focus of transfers should be to relieve constraints facing the economy, and the most important constraint facing the economy is the cost structure, distorted both by a poorly functioning labour market and by capital subsidies that exacerbate the situation.

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