Seminario: "Comparación analítica de los modelos de desarrollo a partir de 1950 de los países de pequeña escala de Europa y América Latina"

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THE POLITICAL ECONOMY OF IRELANDS:
1950 to 1990
The Emergence of a Nation
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The Emergence of a Nation

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1. OVERVIEW

The political economy of Ireland during the period 1950-1990 is best understood from the perspective of a nation in transition from a provincial agricultural based rural economy to a more urban European orientated open economy. The economics of the transition, which is the subject matter of this paper, cannot realistically be divorced from a political dimension which has evolved from a long history of independence struggles against English rule. Almost a quarter of the island of Ireland, the geo-political region known as Northern Ireland, remains under the political jurisdiction of the British government. Under the Act of Union 1801, Ireland remained part of the United Kingdom of Great Britain and Ireland until 1921. The country has a chequered history of famine and emigration coupled with rebellions against English rule. Historically the 1916 rebellion was followed by electoral victory for separatism in 1918 and by a guerrilla war which led to the 1921 Anglo-Irish Treaty. In 1921 Ireland was partitioned into six counties comprising Northern Ireland and twenty-six counties of the Irish Free State. Northern Ireland had its own autonomous government until 1972. The Irish Free State was declared a Republic in 1949. It has a President and an elected government.

The political lineage of the modern political parties in the Republic of Ireland can be traced back to the Treaty negotiations; the anti-Treaty faction, led by de Valera, was later renamed as the Fianna Fail party while the pro-Treaty faction, Cumann na nGael was the principal party in the new Fine Gael party. The political struggle against English rule in the early years of the emerging nation shaped what we label the governing characteristics of the political parties. Garrett Fitzgerald, a former Irish Prime Minister summed up the position eloquently when he commented that:

"Few of the leaders of the nationalist revolution who survived the period of the Treaty and the Civil War had been either radical social thinkers or people with an economic bent; their economic and social views had indeed been conservative [.....] their attitudes were even more conservative a third of a century later (our italics) (ex McCarthy [1990 p56])."

After independence in 1921, the relative importance of agriculture to the Irish economy became apparent to the government. However, apart from a brief sojourn with free trade during the 1920's, the government, by adopting a policy of self sufficiency in agriculture coupled with an import substitution policy, the legacy of which was to continue into the early 1950's, did not realise the full growth potential in the traded [agricultural-based] sector. The inefficient agricultural sector did not respond to government policy of subsidisation and modernisation. McCarthy [1990] further comments that Irish "agricultural production rose only by 8% in the twelve years 1948-1960 [as a result] national income increased by slightly over 1% per annum in the period 1949-1953 [p20]." By the 1950's, post-independence Ireland painted a rather bleak picture of under-development. The conservative economic policies of the Fianna Fail government 1951-54, which included a tax to discourage imports of consumer goods and costly agricultural price support echoed the concern expressed amongst Irish academics and civil servants at the time that closed economy strategies which emphasised industrial protection and agricultural subsidies, were misguided. McCarthy [1990] comments further that "the results of these policies were disastrous: the Irish
economy stagnated. Few new factories were built or existing ones expanded. Exports and national income made no gains in real terms. The cost of living continued to rise and emigration began to reach enormous proportions [p22].

It was patently clear in the early 1950's that a new economic strategy was required. In the election year of 1954 the different political parties had presented solutions to a worsening economic crisis. The new coalition government composed of Fine Gael and the Labour Party was constrained in its economic policies by a worsening balance of payments deficit, and was thus afforded little time to implement its economic policies, which retrospectively, had endorsed a more open approach to the economy. Their policies included [i] tax incentives to encourage exports and [ii] a package of grants and incentives to attract foreign firms into Ireland. The coalition partners could not agree on whether the Irish economy was ready for economic planning; the election in 1957 returned Fianna Fail as a single party government with 48.3% of first preference votes. Nonetheless, the concept of an economic plan had now gained the attention of government bureaucrats and intellectuals who, in the wake of a political vacuum on economic policies, visioned a new Ireland in the emerging nations of the late 1950's. The economic plan was not a structured central plan with a concomitant planning bureau, rather it was modelled on the concept of indicative planning pioneered by the 1946 Monet Plan in France and the later 1954 Vannini Plan in Italy. Whitaker believed that the plan recognised the need [in Ireland]

"to organise development systematically, to provide an increasing number of better paid jobs for an increasing number of better qualified workers; to rationalise the system of production in preparation for the more difficult conditions ahead. A modern community is concerned with collective as well as private spending; with the structure of education and its adequacy in relation to the world of tomorrow, and with the provision made for other social needs such as housing, health, social welfare and communications McCarthy [1990, p38]."

The Whitaker Plan 1958-1973, as the plan became known, had abandoned the inward looking protectionist economic policies of pre-1958 in favour of a set of Keynesian policies on demand management and state intervention. The shift in emphasis in policy locked the future of the Irish economy to a strategy of economic growth which was linked with direct foreign investment in export-orientated manufacturing industries. Ireland pre-1958 was an agricultural economy with the agricultural sector providing the base of the traded sector of the economy. In marked contrast, the annual growth rate achieved pre-1958 was significantly less than the 4% reached during the Whitaker Plan. With the arrival of foreign firms, the traded sector of the Irish economy expanded to include industry and agriculture. Some of the success of Irish economic policy during the period 1957-1973 must be attributed to the relative degree of political stability which was afforded to economic policy makers by the political hegemony of the Fianna Fail party. A coalition government was returned to office in the general election of 1973; however, worsening international economic conditions triggered by oil price increases coupled with the adjustment of protected indigenous industrial firms to the EC market witnessed an era of decline in employment and resumption in emigration.

The Fianna Fail government returned to office in 1977 on the promise of a fiscal expansionary policy which occasioned the subsequent increase in
public indebtedness. In the 1980's public opprobrium at the level of indebtedness, rising inflation, low growth and the continued increase in unemployment and emigration witnessed the prolific publication of economic plans with imaginative titles such as The Way Forward [1982], Building on Reality [1984], Programme for National Recovery [1987], Programme for Economic and Social Progress [1991] which either [i] identified the problems facing the domestic Irish economy, preferring unpalatable policy solutions which included public expenditure cuts or [ii] offered solutions on how best, that is, as defined by an international set of criteria identified as the economic fundamentals, to reduce the debt:GNP ratio and restore the imbalance in the public finances. The essential difference, however, between the original Whitaker Plan and the modern plans is that the latter are politically inspired ad hoc attempts to arrest a debt problem and are not apolitical panaceas, as was the Whitaker Plan, for long term economic development. The high growth rates that have been achieved since 1986 have as much to do with growth in international export markets, with the unwillingness across political parties to rehearse the irresponsible economic policies of the 1977-1981 government and with the wage increase moderations linked into the plans. The latter have been a feature of Irish industrial policy allowing the government, employers and trades unions link wage demands with the national budget.

2. INTRODUCTION

The Republic of Ireland is situated on the north-western edge of Europe within easy reach of England, Scotland and Wales, collectively the island of Great Britain. Total population is 3.5m with 27.8% under the age of 15. The Gross Domestic Product at current prices is US$42.8b. Ireland has a predominantly Catholic population comprising 95% of total. Our political, economic and social history is intricately linked with that of the United Kingdom [henceforth abbreviated to UK] and until 1979 both economies shared a common currency, the pound Sterling. The independent Irish parliament, the Oireachtas, is bicameral with the lower house, the Dail, composed of 167 deputies elected by the single transferable vote system of proportional representation and an upper house, the Seanad, chosen on quasi-vocational principles. Ireland has an elected Presidency with the power to dissolve government at the behest of the Prime Minister, An Taoiseach. The political parties in 1921 consisted of Cumann na nGael, the Centre Party [both of whom merged in 1933 to form Fine Gael], the Labour Party and Fianna Fail. In addition to the three mainstream parties which command on average 85% of the votes and 75% of the seats at each election, the political spectrum also includes Sinn Fein, independents and a Worker's Party. Two new parties have recently formed, namely the Progressive Democrats composed of Fianna Fail members who disagreed with party policy and the Democratic Left composed of Worker's Party members. The Civil War which divided families has remained a potent force in Irish political history. Most notably, Ireland as a party system has been dominated by the issue of independence from the UK than by any left-right ideology. During the period under review 1950-1990, the Fianna Fail party held office for 27 of the 40 years and remained the government party. Intermittent coalition governments between Fine Gael and Labour occurred in 1954-1957, in 1973-1977 in the 1981-1982 period of political instability and between 1983-1987. A Fianna Fail minority government held office
briefly between 1987-1989. Since 1989 the Fianna Fail party in coalition with the Progressive Democrats have been in government.

Modern Ireland is a completely different country to the Ireland in 1921 which had survived the ravages of a Civil War provoked by the search for a political independence from the UK. The population in 1921 stood at 2.2m of which 56% of the working population was engaged in agriculture and related activities and 60% of the population was directly dependent on farm employment as a source of livelihood. In 1921 98% of our exports went to the UK which still remains our most important trading partner. In retrospect the economic development of Ireland was derived from a reliance on a larger economic neighbour. In 1973 on becoming a member of the European Economic Community [henceforth the EC], Ireland endorsed its dependence on a larger European economic entity. The rather close proximity of both Europe in general and the UK in particular have had an immeasurable impact on the economic and social development of Ireland. During the latter half of the nineteenth century, bilateral trade deals between Ireland and the UK were common, the last such trade deal having expired in 1966.

Our immediate history in the period 1801-1921 as part of the United Kingdom and our economic development during that period is intricately linked with the industrial development of the UK. Much of Irish history was characterised by what one commentator alluded to as a "colonial attachment to Britain". The colonist-UK exploited the land wealth of colonised-Ireland in not too dissimilar a fashion as that carried out in the African and Carribean colonies. For example, Irish timber supplied the raw material in the construction of the support-shafts in the coal-mines while Irish labour contributed to the working class manpower in the UK. The development of both economies, however, was not mutually exclusive as Ireland pre-1921 had acquired a comparative advantage in the shipbuilding, distilleries, linen and textiles industries. Regretably, the latter were concentrated in what was to become Northern Ireland. Brunt [1988] comments "the dictates of the colonial system, augmented by the paucity of its mineral and energy base, therefore relegated most of Ireland (the area post-1921 which constituted the Republic of Ireland) to providing surplus food and labour for the British industrial system (our italics) [p2]."

The partition of the country meant that the important industries of linen, shipbuilding, shirt-making, brewing and distilling were no longer within the newly independent state. The major industries which remained in the new Irish state included part of brewing and distilling, textiles and clothing, biscuit-making, bacon-curing and the creameries. The latter had an accredited history with the foundation of the cooperative dairying movement in Ireland. The remaining industrial base was rather weak, composed of small family businesses which supplied local markets. However, only 10% of the workforce was engaged in industry. Industrial development in the new state was constrained by two factors [i] most indigenous industry was not export orientated and [ii] agriculture as the main source of employment did not generate sufficient income in the economy. In addition to this lack of Keynesian effective demand both at home and abroad the main problem facing Irish industry included a shortage of skilled labour, lack of capital and power supplies and shortage of raw materials. Reliance on one market and
the absence of an industrial base in the geographic area of the new state only compounded problems. The Cumann na nGaedl government was reluctant to borrow although it did initiate the £5m Shannon Scheme to increase power supplies in the country. By 1932 the national debt stood at £30m. In the post-1921 period governments supported measures to ameliorate the economic problems, in transport with 1924 Railways Act and in communications with the inauguration of the national broadcasting service in 1927. Technical education was improved with the 1930 Vocational Education Act while air transport was supported with the foundation of Aer Lingus in 1936 and the 1944 Transport Act continued the emphasis on road and rail transport.

2.1 Post-independence 1921-1950

The period from 1921 to 1950 can be conveniently divided into the term of office of the Cumann na nGaedl government from 1922 to 1932, the Fianna Fail government and the subsequent Economic War from 1932 to 1938 and the inter-war years 1938 to 1950. From 1932 to 1945 Fianna Fail emerged as the dominant political party in Irish politics. Its electoral support was drawn from the small rural farms across Ireland while Cumman na nGael endorsed by the Catholic church and the media, enjoyed the support of the middle classes and the bigger farmers. The Irish Free State was now an independent political democracy with an expected degree of economic independence. The Fiscal Enquiry Committee appointed in 1923 to investigate the state of Irish industry did not favour tariff protection. Hence for the first ten years of the existence of the new state, the Irish government adopted a free trade policy. The ambitious agricultural minister, Patrick Hogan, refused to subsidise and pamper the farmer, opting instead to reduce costs in order to increase efficiency, competitiveness and farm profits. The most commented upon feature of his policy was the free importation of a wide range of agricultural products such as maize, wheat and bacon from the US. In other words, in all areas of production where the law of comparative advantage did not favour Ireland, imports were allowed. In retrospect, the policy was the correct one for the 1920's when the British market was open to all exporters. Indeed the 1929 level of agricultural exports, valued at £47m, was not equalled until 1961.

However voter dissatisfaction with agricultural prices in the early 1930's contributed to an election defeat and a new Fianna Fail government led by de Valera assumed office in 1932. De Valera's victory had been achieved through an appeal to the less well off sections of the electorate, including the small farmers, small business owners, farm labourers and the urban working class, all of whom had fared rather badly under the policies adopted by the incumbent government. His party was able to hold the balance of power with the support of 7 pivotal Labour members of parliament. During this period in office widows pensions, unemployment assistance and workmen's compensation were all introduced and the housing programme, initiated by the earlier Cumann na nGael government, was continued. The passing of the 1938 Conditions of Employment Act made Ireland the first country in Europe to guarantee paid annual holidays to industrial workers. In their first budget, the Fianna Fail government adopted a more protectionist stance introducing manifold tariffs which immediately provoked the Economic War with the UK. The government embarked on the catastrophic policy of self-
sufficiency and import substitution. Brown's [1985] opinion, which is shared by many commentators, on why economic nationalism received popular support, was because the protectionist policies "also played a part in an economic war against the old enemy, England. The sacrifices demanded could be extolled in a crudely nationalistic rhetoric [p145]."

The government encouraged tillage at the expense of pasture and offered minimum prices for agricultural produce as a disincentive to livestock production. The 1932 Control of Manufacturers Act, which was a legal barrier to entry for foreign firms, and government involvement in improving the economy's infrastructure ensured that industrial employment increased by 50% from 111,000 to 166,000 between 1933-1938 and industrial output increased, albeit from a low base, by 40% during the period 1931-1936. Industrial protection cost the Exchequer and the high costs of production eventually reduced the competitiveness of Irish exports in the UK market. However by 1935 the Coal Cattle Pacts were signed by the two governments which was an admission by Fianna Fail that a policy of self sufficiency was not suited for the emerging Irish economy. By 1938 the first of many Anglo-Irish Trade Agreements was signed, albeit the benefits were short lived with the outbreak of world war. After the war, the 1948 Anglo-Irish Trade Deal endorsed our dependence on the UK market and in many respects restricted the future development of Irish agriculture. For example, the Irish government had agreed to limit our cattle exports to countries other than the UK to 50,000 per annum while ensuring that 75% of all cattle exports were store cattle. The promised upturn in agriculture did not materialise as the British government switched to a policy of deficiency payments in early 1950 in order to protect the British farmer from the new cheap food policy in the UK. A progressive deterioration occured in the structure of Irish agriculture which continued until the nineteen-sixties.

2.2 Periodisation

In charting the political economy of Ireland from 1950 it became imperative to sub-divide the time period into distinct epochs with a natural breaking point. The natural breaking point is reflected in the title awarded to each period. For example, the post-war period which spans 1950 to 1957 has been identified as an era of crises for the Irish economy characterised by emigrants voting with their feet in large numbers. This Tiebout-like response to a declining economy left behind a structural imbalance in Irish demography. Our first chosen period ends in 1957 when Fianna Fail returns to power and the government opts for the political decision of subjecting the Irish economy to a period of indicative economic planning. The second period, between 1957 to 1973, encompasses the three programmes for economic expansion, otherwise known as the Whitaker Plan, which represents an ambitious era in Irish economic history as the young nation embraces a disciplined economic strategy. The sub-period 1963 to 1973, includes the second programme [1964-1970], a return to Anglo-Irish Trade deals, the third programme for economic expansion [1969-1972] and EC entry.

The latter years of the Whitaker Plan followed less successfully in the wake of the first programme for economic expansion. By 1973, the Irish electorate had decided by a 4:1 majority at referendum to join the emerging Common
Market and we identify the period 1973 to 1983 as an era of EC-led readjustment coupled with intermittent growth. The final period 1983 to 1990 represents a harsh period of retrenchment and fiscal rectitude characterised by the resumption of emigration across all socio-economic classes as high taxes, large public debts and curtailment of the capital programme induced a Tiebout response to the economy's problems. In each period we shall identify the salient contributory factors to the sustained development of the Irish economy and present, if possible, a set of common denominators across the forty year period under review. Before we do so, let us establish the importance of agriculture in the Irish economy.

3. PRECIS ON AGRICULTURE

3.1 Misguided State Policy

In many respects the difficulties experienced by the Irish economy are similar to those of any natural resource economy which is dependent on agriculture and related activities for export earnings, employment and growth. But how critical was our dependence on agriculture in the early period of economic development? Table 1 illustrates the export bias in favour of agriculture which was the major component of the traded sector. But no policy attempt was made to deliver on an agricultural led growth path in a nation which had the potential in soil and manpower and had ready access to international markets exploited, a potential which could have afforded a comparative advantage in agricultural production in the early years of Irish economic development. By 1990 agricultural employment [on-farm] employment accounted for 15% of total employment and 13% of gross domestic product. In the pre-1973 period, fluctuations in agricultural prices and competition in the UK market limited the export potential. The government in 1926 and in 1958 made some effort towards ameliorating agriculture from the economic changes at a time when the outward migration from agriculture contributed to a national problem of emigration and population decline as illustrated later in Tables 3 and 4.

However, government policy did little to redress the imbalance in the concentration of agricultural activity in pasture at the expense of tillage. The government did however build four sugar factories in different geographic areas where tillage was an important agricultural activity. Throughout the period, Irish farmers have shown a willingness to engage in those forms of agricultural output which guarantee a market and a steady price as in the cultivation of barley and wheat on contract. The continued migration from Irish agriculture was facilitated by employment prospects in the UK and falling farm incomes at home. The high levels of disguised unemployment in Irish farms increased the level of migration to the cities and further exacerbated the emigration from the country.

The amount of government expenditure allocated to agriculture is symptomatic of many of the innate problems in agriculture generally. In other words, governments tend to concentrate on price supports and successive Irish governments had no reason to deviate from this approach. As early as 1934 export subsidies of £3m, equalling 1/6 of the value of exports were paid. In addition to subsidies, the 1949 Land Rehabilitation Project targeted £40m of expenditure over a ten year period at improving the structure of
agriculture. Although much of the projected funding was financed by the Mansholt Fund the structural conditions of Irish agriculture remained with bad drainage, bad out-housing and poor marginal soil.

Table 1 Agricultural Exports [% Total Exports]

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</thead>
<tbody>
<tr>
<td>1921</td>
<td>90</td>
<td>80</td>
<td>65</td>
<td>44</td>
<td>25</td>
<td>15</td>
</tr>
</tbody>
</table>

[Source: Trade Statistics of Ireland and Brunt]

Our dependence on agriculture is not the issue but rather the response of Irish agriculture to economic events. In other words, if the development in agriculture is forward looking, optimal and maximises the domestic economy's comparative advantage in agricultural products, the dependence on agriculture could be viewed positively. Alternatively, if dependence on agriculture is proffered as an index of deprivation, monies invested in agriculture will simply be absorbed into a cobweb cycle of non-responsive growth. In other words, there emerges an inverse relationship between government expenditure on agriculture and on-farm structural improvements. Irish agriculture should have been re-orientated away from a dependence on [i] the UK market and [ii] pasture in the early years of development in order to buffer the economy from the inevitable changes created by an agricultural readjustment to a changing economy. During the first programme of the Whitaker Plan the government's objective was to secure an increase in cattle numbers since beef exports did not require an export subsidy. The government had opted instead to subsidise agricultural inputs. In the early sixties the government introduced an agricultural grants scheme and increased price supports. The calved heifer subsidy scheme, for example, was indicative of a government who recognised the need for greater state support, particularly for dairy products. The policy of state support for agriculture was financed by increased tax revenue from the non-agricultural sector.

There was an economic imbalance in the organisation of agricultural holdings. The dominance of uneconomic holdings of less than 50 acres militates against efficient agricultural production. The Irish Land Commission's policy of encouraging smaller acreages of less than 50, not only ran counter to the Mansholt Plan but has contributed to an imbalance which rendered the great majority of farmers unprepared to benefit from the price supports. Should such an imbalance in the structure of holdings have been tolerated by government? In the Irish case, the FF party was increasing its electoral support amongst the small rural farmer who not only represented the majority of farmers in the less than 50 acres class but historically demanded land ownership. Consequently, Irish farm holdings are concentrated in the less than 50 acres category with 65% of holdings located in the category while about 12% of holdings are 100+ acres. The unequal distribution of holdings is the consequence of [i] government policy which encouraged small holdings no matter how uneconomic and [ii] that in post-Independence Ireland the majority of holdings were less than 50 acres.
Despite the amount of government expenditure directed at agriculture, gross domestic product arising in agriculture valued at 1970 prices, increased by only 56% during the entire period 1953 to 1976, an annual average of 2.3%. The growth rate is significantly less than a comparable rate for the Netherlands which achieved a growth rate of 4.1%. On the future growth of Irish agriculture O'Connor and Kelly [1978] comment that "the conclusion to be drawn from this is that a growth in output of 4% per annum, while possibly attainable for three or four years, is hardly sustainable over a longer span [p75]". Reasons proferred include small size of the domestic market, a protected market in many products, a historic reliance on the UK market and the structure and product emphasis of agricultural production. The dependence on agriculture has made Ireland vulnerable to fluctuating economic conditions and ironically the same conditions have engendered efforts to improve agriculture from the early programmes of economic planning through bilateral trade deals and the EC.

![Table 2 Expenditure on Agriculture [Current Prices]]

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure</th>
</tr>
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<tbody>
<tr>
<td>1960</td>
<td>£55m</td>
</tr>
<tr>
<td>1970</td>
<td>£68m</td>
</tr>
<tr>
<td>1983</td>
<td>£210m</td>
</tr>
<tr>
<td>1990</td>
<td>£407m</td>
</tr>
</tbody>
</table>

[Source: From Annual Budget Reports and Annual Reports of Minister of Agriculture]

Table 2 indicates the amount of Irish exchequer money directed at Irish agriculture approximating an annual 5% of total current government expenditure. Since assuming membership of the EC, total EC funding to Ireland has reached an annual estimate of £1b. This ammount of targeted expenditure should have more than outweighed the deprived conditions so characteristic of Irish agriculture. Instead the money has been syphoned-off by rent-seekers, the larger farmers who have overproduced beef and milk outputs with little or no allocated investment towards improving the structure of agriculture. In Table 2, 52% of the allocated expenditure in 1970 was directed at price supports with 48% directed at rationalisation programmes which included drainage, modernisation, research and education. However only 9% of total expenditure was allocated to farm modernisation and drainage in 1970; albeit by 1983 the figure had fallen to 6% while an increased percentage share, 67%, was allocated to price supports. Livestock raising and dairying which were dominant during the early fifties, continued to dominate agricultural production. In 1990, two-thirds of Irish agricultural land is still poorly drained and liable to flooding from nearby rivers while the production of eggs, poultry and pigs which are vital to the success of the small farmer, having lost the British market in the 1950's, have played a small part in overall Irish agricultural production. Government support to these particular markets is minimal in comparison to the breakdown of expenditure allocated to beef and dairying.
3.2 The Economic Development of Agriculture

One of the more striking features of the economic development of any economy is the sharp fall that occurs in the proportion of the population engaged in agriculture as the economy progresses. Table 3 highlights the adjustment of Irish agriculture during the period 1926 to 1971; the relevant statistic is the percentage of the labour force employed in agriculture. This figure decreased from 50% in 1926 to 24% by 1971. The severity of the agricultural problem in contributing to both national unemployment and emigration is illustrated in the column for agricultural employment/labour force. The declining percentage share of agriculture in the labour force reflects the high outward migration from agriculture which reached a peak of 136,000 as recorded in 1961 in Table 4. Had government addressed the imbalance in the distribution of agricultural holdings and encouraged a greater diversification in agricultural production and ensured that grants earmarked for farm improvements were not syphoned-off by rent-seekers, the negative contribution of Irish agricultural demographic changes to the overall economic performance of the Irish economy may have been abated.

<table>
<thead>
<tr>
<th>Year</th>
<th>Agricultural</th>
<th>Total</th>
<th>Labour Force</th>
<th>Agricultural/Labour Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926</td>
<td>653</td>
<td>1.22</td>
<td>1.30</td>
<td>50</td>
</tr>
<tr>
<td>1936</td>
<td>614</td>
<td>1.23</td>
<td>1.33</td>
<td>46</td>
</tr>
<tr>
<td>1946</td>
<td>568</td>
<td>1.22</td>
<td>1.28</td>
<td>44</td>
</tr>
<tr>
<td>1951</td>
<td>496</td>
<td>1.21</td>
<td>1.26</td>
<td>39</td>
</tr>
<tr>
<td>1961</td>
<td>360</td>
<td>1.01</td>
<td>1.07</td>
<td>33</td>
</tr>
<tr>
<td>1971</td>
<td>272</td>
<td>1.04</td>
<td>1.11</td>
<td>24</td>
</tr>
</tbody>
</table>

[Source: Irish Statistical Bulletin, CSO Trends in Employment and Unemployment]

Successive Irish government failed to address the possibility of an agriculture-induced decline in the economy. A reason may be found in the government's perception of agriculture in Irish society. The relative position of agriculture in the economic development of a nation differs across nations. Consider the opinion of the 1965 UK National Plan, which stated in relation to agriculture that "agriculture is one of the industries with a key role in the Plan for faster growth [...] agriculture's main contributions to the Plan will be [...] it will help through increased production to meet the growth in demand [and] by improving its labour productivity more rapidly than the increase in production, agriculture will continue to release substantial manpower resources (our italics).". Contrast this with the 1945 Report of the Irish Smiddy Committee on agricultural policy which commented that "agriculture is not only an industry - and in this country by far our greatest industry - but it is also a way of living, providing homes, many of the necessities of life and employment for farmers and their families". The more socio-economic Smiddy Report identifies Irish agriculture as a welfare policy problem, in other words, any agricultural policy must not only increase production and improve labour productivity but must also maintain the livelihood and increase the prosperity of the farmers.
The relative position of agriculture in the economy can be determined by comparing the numbers in agriculture with other demographic statistics as illustrated in Table 4. The numbers engaged in agriculture recorded a continuous decline of 74% between 1921 and 1986. This represents a large outflow from agriculture as computed in the outflow column. The significant outflow between 1941 and 1961 exacerbated the emigration from Ireland. In 1962, during a period of growth in the Irish economy the outflow continued as did the level of emigration. With the exception of Spain and Portugal who historically have a high percentage of the population engaged in agriculture, Ireland remains unique in Europe with such a dependence on agriculture. In contrast, the UK our largest trading partner during this period had less than 10% of the population engaged in agriculture, a factor which contributed to the British government's policy of subsidising the farmer with deficiency payments.

Like any agricultural economy, Ireland was subject to two adverse economic conditions namely [i] a low price elasticity of demand for food and [ii] an output supply which responds to price incentives. With respect to [ii] the emphasis was placed on pasture rather than on arable farming in the Irish case with the corresponding lower level of output. Pasture or grassland farming constituted 90% of land usage at a time when the future of agriculture depended on developing export markets for more diversified products. Indeed there was a dual agricultural economy composed of farms located in the poorer soils of the western counties and the farms of the more fertile midland region. Climate and a larger size of holding contributed to the midland's region success in tillage, dairying, cash crops and livestock while the typical farmer in the western region, with an average holding of less than 20 acres, depended on dry-stock farming and subsistence. Farm acreage in the western region was too small to be economically viable and the average herd size of less than 5 was not commercial. The government should have adopted a policy of rationalisation in agriculture with a compulsory purchase of small holdings and the creation of viable economic units. Such a policy in retrospect may have slowed down the exodus from agriculture but it would not have stopped the outward migration to the towns and cities.
4. ERA OF CRISES 1950-1957

4.1 Demographic Trends

This period is a watershed for Irish population statistics as illustrated in Table 5. The demographic changes in Ireland during this period contributed to the slow growth rate and the depressed state of the Irish economy. Essentially Ireland had a structural problem with small uneconomic farms which failed to provide an adequate standard of living for the majority of the workforce who depended on agriculture. Hence an exodus from agriculture, as recorded in Table 4 earlier, occurred which was to have a strategic impact on the structure of the population and a longer term impact on the size of the labour force. In retrospect the government was prepared to tolerate the exodus as long as it filtered into emigration. Contemporary governments are now amending the fallacy of this erred judgement. In this period the population of Ireland declined an event that was not to be repeated until 1986. Ironically in both eras, the extent of emigration contributed to the decline in population. In this period, however, the emigration emanated from the farming class; by contrasts in the 1980s the emigrants emanated from all socio-economic classes. The outcome regardless of socio-economic class was the same.

<table>
<thead>
<tr>
<th>Table 5 Irish Demographics [in crude %]</th>
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<tbody>
<tr>
<td>Natural Increase</td>
</tr>
<tr>
<td>Change in Population</td>
</tr>
</tbody>
</table>

[Source: Central Bank, Census of Population 1926-1986 and Kennedy, Giblin and McHugh]

Poor regional industrialisation and family contacts abroad contributed to the eventual high outward migration from agriculture during this period estimated at an annual average of 14,000. The internal migration combined with the lack of effective demand at home resulted in the resumption of emigration. From 1951 as many as 25,000 people per annum emigrated to the UK. The representative emigrant was a single male in the age cohort 15-29, from an agricultural holding of less than 30 acres located in either Connaght or Ulster. Of all the provinces, only Leinster experienced a population increase as the internal migrants moved from rural Ireland to Dublin. Net emigration constituted 13.4% leading to a decline in population of 4.3% during the years 1951 to 1956. In addition, the emigration left behind a highly distorted age structure biased in favour of the older age groups. In fact there were more people aged over 65 in Ireland in the 1951 census out of a population of 2.9m, than in 1841 when the population was 6.6m. The outward migration from agriculture was embodied in a general stream of emigration from Ireland due in part to the weak state of the Irish economy and a general European trend in migration as captured by the international Volkerwanderung.
Fianna Fail lost the general election in 1948 after 16 years in office and was replaced by an inter-party government. In 1951 Fianna Fail returned to office for three years and was then replaced by second inter-party government which held office until 1957. Ireland in this period was essentially an agricultural economy which depended on guaranteed markets for the produce. Farm incomes were low during this period and net migration from the farms contributed to a higher level of net emigration and an imbalance in the socio-economic base of rural areas. Indigenous industry, with the possible exception of the breweries, distilleries, biscuit-making and shipbuilding depended upon a tariff-protected domestic market. Foreign firms likewise produced for the domestic market, consequently the capital required for any post-war economic development was not forthcoming from either indigenous industry or private enterprise. The government had to borrow money in order to finance the development. Under the Marshall Aid Scheme the Irish government was able to access loans at favourable interest rates. The budget of 1950 identified three problems facing the Irish economy [i] increase employment [ii] increase industrialisation and [iii] improve upon the export of agricultural produce. A policy was invoked which included protection for home industries and a return to the wage negotiations process which had commenced as early as 1946.

The extent of government involvement in the economy was reflected in the increase in direct taxation which had doubled in ten years to reach £96m in 1953 and £340m by 1967. The increasing role played by government in domestic capital formation was further reflected in the size of the national debt which stood at £204m at the beginning of this period and doubled to £414m by 1960. The Irish government protected the home market in pig production by allowing poorer grades of bacon to be sold at monopoly prices in Ireland while subsidies were paid to the top quality grades exported to the UK. The subsidy amounted to £0.75m in 1957. In 1947 the UK and Irish governments signed the first of many post-war agreements which obliged both governments to assist Irish economic development. For example, by 1950 capital grants were provided for the Irish poultry industry and Irish and British cattle prices were linked. Government aid to agriculture continued and changed in emphasis to encourage cattle production for the British market. The policy of guaranteed prices for wheat and barley which was continued in this period had to be changed once the long run supply elasticity had increased.

By 1955 the production of wheat exceeded domestic demand; the government agreed to pay the guaranteed price for the home demand while allowing the surplus to be exported as animal feeds. As a disincentive, the government imposed a levy on the wheat growers in order to subsidise the exports. This policy mitigated against the smaller farmer and by increasing the cost of home produced feeding stuffs eventually reduced the competitiveness of Irish pigs and poultry in the British market. It also introduced an imbalance in the total acreage in tillage away from the traditional crops like oats, rye, potatoes and turnips to cash crops like wheat, sugar beat and barley. A system of guaranteed prices for milk was welcomed in those areas where cash crops could not be grown; milk production increased without any noticeable fall in the number of livestock. In this period the growth rate in Irish agriculture was less than 1% per
annum; this disappointing growth rate forced the government to introduce economic planning.

4.2 The Emergence of Statism

During the war the Irish government suspended protective duties but re-imposed them as soon as supplies became available after the war. In 1956 protection was intensified when special import levies were introduced; this policy continued until 1961 when Ireland first applied for EEC membership. The general policy of protection for industry became a unique feature of this period and remained a characteristic of Irish industrial development. Every assistance was provided for indigenous industry both at home and in developing export markets. The Industrial Development Act 1958 encouraged foreign firms to establish in Ireland and offered incentives dependent on two conditions, namely, [i] the firms had to be export orientated and [ii] half of the firm’s voting shares had to be offered to the Irish public. Since 1958 Ireland has remained an attractive location for foreign firms looking for a foothold in a European market. In 1952 Coras Tractala [Trade Board] was established in order to promote exports and trade initially in the dollar areas. In 1952 An Foras Tionscal [Industry Board] was established to encourage industry in the more deprived western seaboard counties of Ireland. Capital grants were provided in addition to training grants for workers. During the fifties the importance of technical education was recognised with the building of technical schools. The 1950 Transport Act enabled the rail network improve and modernise by changing from steam to diesel and by closing uneconomic lines. The monopoly that Aer Lingus had on routes between Ireland and the UK was increased in 1956 when BEA’s share of capital in Aer Lingus was reduced to 10% and it’s share on certain routes notably Dublin-London route was reduced to 20%.

Sadly, Irish industry made little progress in the early fifties. It was a period when the government soon realised that the traditional industrial base offered little solace for future development. The firms were unable to exploit economies of scale in production. Only a small percentage of indigenous firms employed more than 1000 employees with the majority employing less than 300 employees. Many of the textile and clothing industries prospered during the period 1926-1936 and the extent of undercapacity is reflected in the statistic that 12,000 workers were employed 250 factories. Indigenous industry was more dependent on the banking sector as a source of finance than its British counterparts. Bank borrowing to private industry amounted to 15% in Ireland well above a similiar figure for the UK of around 3%. During this period Ireland had the lowest investment figure in Europe with over 50% of investment created by the public sector. Of the total capital raised by public issue between the years 1951 and 1965 only £36m or 10% was created by indigenous private industry.

Post-1950 is a period when the seeds of future industrial development were laid notwithstanding the fact that indigenous Irish firms had become accustomed to government protection and to serving a rather limited home market. Gross domestic product grew at 2% per annum during this period which was characterised by high levels of emigration. Industrial employment stood at an unimpressive 142,000 by 1957 and industrial exports were valued at £33m. The trade deficit by 1950 stood at £87m with imports at
£136m and exports at £49m. Agricultural exports failed to expand as was expected and the outbreak of the Korean War led to increased imports as the government stock-piled. By 1953 our imports stood at £204m with a trade deficit of £123m. By 1955 our trade deficit had worsened which occasioned the introduction of import levies. What was required was a change in government industrial policy towards both local firms and foreign firms, a change in policy which required political stability. The Central Bank of Ireland was only in its infancy during this period but it had many shortcomings as a monetary authority [i] it never engaged in open market operations on the Dublin Stock Exchange primarily because the volume of transactions was too small and [ii] the bank rate of interest was usually determined by the Bank of England since any significant difference between the rates would induce a capital flow.

The period 1945-1950 was a short-lived period of rapid expansion in the Irish economy as public expenditure financed by the Marshall Aid funds increased. The building and construction industry went through a boom period with employment in that sector accounting for 31% of total industrial employment in 1951. Industry also benefited initially from the increased demand form the UK market. Between 1947 and 1951 net capital inflows which amounted to 40% of domestic investment had decreased to 9% during the period 1952-1955. But a high concentration on public investment was not the ideal panacea for an economy with no strong industrial base, a declining agriculture, a declining population and a low level of domestic savings.

5. THE WHITAKER PLAN

5.1 First Programme for Economic Expansion 1957-1963

In 1957 Fianna Fail returned to office and remained in government until 1973. The post-war economic recovery in Ireland was complemented by political hegemony of the Fianna Fail party which has remained the major tour de force in recent Irish political history. The degree of political stability during the early years of economic recovery and growth is important to the economic development of the country. The economy has always depended on agriculture as the major industry, that is, a major source of off-farm employment and of exports. The Whitaker Plan in many respects took cognisance of the early years of agricultural development which may have a bearing on the future overall economic development of the economy. In particular, if the Irish economy is defined essentially as an agricultural economy then the growth rate does depend upon the growth rate of agricultural production. The economic policies were also influenced by the Irish governments concern that Ireland, without fundamental changes to the economy, may be left behind by the pace of economic growth in post-war Europe. A movement away from the protectionist era was endorsed when Ireland secured membership to the United Nations in 1955 and the International Monetary Fund and World Bank in 1957.

By 1957 a new government was in office having replaced the inter-party coalition which remained divided on many important economic issues. The Cumann na nGael led government was defeated at the polls in the wake of a deteriorating economic conditions which witnessed an increased balance of
payments deficit and a decrease in employment in the building and construction industry. The deflation of the economy in 1956 inspired the new Fianna Fail government to implement the Whitaker Plan of economic development, a plan which looked forward to 1970 and intended to change government economic policies to ensure a higher growth rate for the Irish economy. The reasons for implementing the Plan were noble and included a concerted effort on behalf of the government to abate the recession of the previous period which had an average annual growth rate of less than 1%. The government was also keenly aware of the possible trade benefits accruing from the upturn in world economies as reflected in the emerging free trade positions adopted by European economies in the OECD and the EEC in particular. Industrial output, emigration and unemployment all fell during the initial years of the programme. However net agricultural output remained static over the period due in part to the adverse policy of the UK.

It was a formidable task as the Irish economy was emerging rather slowly from the post-war period. But there were some positive and encouraging signs; for example in 1957 the trade deficit stood at £52m which was one of the lowest recorded in the fifties with exports as % of imports equal to 71%, a ratio which was not equalled until ten years later in 1967. Invisible earnings in 1957 stood at £63m which contributed to +£9m on the Balance of Payments. The 1957 value of invisible earnings was one of the lowest recorded, the value increased significantly from 1957 having doubled to £115m by 1976 principally from a combinations of factors including tourism receipts, emigrant remittances and foreign investments. The Whitaker Plan prepared the way for a period of free trade which was to complement our application for membership of the EEC. The government decided to enter a period of free trade with a 10% reduction in tariffs in 1963 and a further 10% reduction in 1964, which ended once our membership had failed. By 1965 the trend was reversed when the government imposed an import levy of 15%.

The Whitaker Plan had attributed the low rate of growth in the Irish economy to the failure in Irish agriculture to expand. The government decision to concentrate on one area of economic activity made the success of the plan more vulnerable to abuse of government schemes. Likewise, given the acknowledged structural problems inherent in agriculture, the plan was optimistic in directing attention on agriculture as an engine of growth. Subsidy schemes in particular, which encouraged beef production allowed many inferior quality heifers which would have been fattened and killed to be retained for breeding purposes thus lowering the quality of the livestock. The Plan targeted agriculture by improving the structure of agricultural production by providing advisory services, agricultural education and research. In particular it argued that beef production rather than dairying should be encouraged and that every means should be used to reduce the average costs in agriculture which required [i] removal of price controls on feeding barley and [ii] introduction of subsides to factor inputs like feeds and fertilisers rather than finished products like butter and bacon. Every effort was made to eradicate bovine tuberculosis, the eradication of which secured the exports of Irish beef to the UK market. The cost of this tuberculosis scheme reached as high as £10m per annum. The export of Irish beef was opposed by those who argued that the slaughtering of Irish beef at home would have increased employment in the meat processing industries and the possible development of ancillary industries in the production of by-products.
Throughout the period, Irish farmers appeared unwilling to fully embrace the co-operative movement in agricultural production which had originated in Ireland in the later years of the nineteenth century. The agricultural movement had flourished in Irish agriculture and progress had been made in livestock marketing through the auspices of the Irish Cooperative Livestock Marts. Most of the cooperatives in this period were primarily engaged in dairying with only three cooperatives involved in meat processing. In general the cooperatives were involved in the processing and marketing of agricultural produce but very little attention was given to improving the efficiency per se in agriculture. By 1963 it was obvious that there was room for improvement in both production and marketing. However, the economics of cooperation which would have ensured bulk rates of discount in purchasing raw materials, achieved economies of scale in production were not achieved. In other words, organisational X-inefficiencies may have persisted throughout the cooperatives in the early years which only constrained the economic potential contained within the Whitaker Plan. As a consequence of the lack of initiative across the cooperative management, the government established agencies such as Bord Bainne [Milk Board] and Bord Grain [Grain Board] in order to market agricultural produce.

Political opposition to the reduced emphasis on dairying contained within the Plan eventually forced the government to concede; consequently the subsidies on milk and butter were retained at an extra cost to the exchequer. Incentives to encourage beef production and improve the number of livestock did not materialise as the number of livestock only increased by 6% during this period. Attempts were made to provide capital and credit financing for Irish farmers with the restructuring of the Agricultural Credit Company in 1959. The Agricultural Credit Company was authorised by the government to offer loans for working capital and farm inputs. However the improvement in agriculture was hampered by a legacy of the historic Land Acts which not only awarded land to those who had no intention of working the land but had resulted in a plethora of small uneconomic holdings. The majority of the land holdings would have been considered uneconomic under the terms of the Mansholt Plan. Tillage farmers continued to operate under contract conditions and the acreage under peas, beans, cabbage, potatoes and celery was linked to contracts offered by the government run Erin Foods. It became increasingly obvious by the end of the first programme that Irish farmers adamantly remained conservative in both their outlook and production.

The results of the first programme for economic expansion were mixed during the initial years from 1957 to 1963; from the perspective of agriculture the results were discouraging for the government which may have reflected the over-emphasis placed on agriculture per se without recourse to changing the structure of Irish agriculture. The targeted growth rate of 2% in gross domestic product, however, appeared to be conservative as the annual growth rate between 1959 and 1963 reached 4%. Brown [1985] comments "that GNP had increased by 15.5%, volume of production by 28.5%, total imports by 30.25%, car registrations by 29.5% and volume of personal expenditure by 11.5% beween 1958-1961 [p242]". The Export Profit Tax Relief scheme which was initially introduced by the inter-party
government in 1956, was amended in this period to encourage the entry of foreign owned industry. The signing of the Anglo-Irish Free Trade Agreement in 1965 and our accession to GATT in 1967 created a free trade environment for Irish goods and services. Higher prices for agricultural exports coupled with the increase in industrial exports from foreign-owned firms enabled the Irish economy achieve an annual exports growth rate of 8.2%. This new phenomenon of export-led growth was to continue into the next period and contribute to the economic success of the Whitaker Plan.

5.2. Era of Intermittent Growth 1963-1972:

5.2.1 Second Programme for Economic Expansion 1963-70

The early years of this period are overshadowed by our application for membership of the EEC. The application was in conjunction with the UK application to which there was opposition from France. The Irish government entered a period of free trade by reducing import tariffs during the negotiation period 1961-1964, but once the EEC negotiations had failed import levies were reimposed and our dependence on the UK market was endorsed by an Anglo-Irish Free Trade Agreement which was signed in 1965. This trade deal was mutually beneficial in ensuring duty free access of Irish industrial exports to the UK market and a continued supply of Irish agricultural produce to the UK consumer. However the prices on offer in the EEC were much higher than those in the UK market. The opportunity cost of non-membership as reflected in the loss in potential export earnings from EEC membership and the potential gains in trade from diversification of the Irish export market away from a reliance on the UK, undermined any economic improvements on offer from the second programme. It was because of a history of bilateral trade deals with the UK that by the mid-1960's approximately 52% of Irish agricultural exports were either livestock or carcass.

Ironically our renewed reliance on the UK economy replaced our political dependence with an economic dependence. The Irish government may have believed that new trade alliances like EFTA threatened the position of Irish exports in the British market. In many respects the UK's trade and agricultural policy determined the standard of living in Irish agriculture and had the potential to undermine the success of agriculture as a key industry in our economic plans. The British government in pursuing its policy of cheap food signed many bilateral trade deals. In particular, the 1960 trade deal with Denmark removed duties on Danish butter and bacon which were in direct competition with Irish products in the UK market. The government subsidy to the bacon industry reached £3m in 1966 as the domestic supply of bacon increased at a time when the UK market was becoming more competitive. A similar event happened with poultry under the 1948 bilateral trade deal; once poultry prices collapsed in the UK market in 1949 the Irish government continued to subsidise the poultry producers until they had adjusted to the market collapse. It was becoming increasingly obvious that an ever increasing agricultural subsidy bill was the cost to the Irish government of a continued reliance on the UK market.

Was there some hidden political agenda? Was there a political reason nestled behind the continued trade agreements, perchance a promise of the
reported return of the six Ulster counties to the Irish Republic. From the UK's perspective, the UK government was primarily interested in our livestock sector as a source of store animals for fattening by Scottish farmers. However, the access to the UK market enjoyed by our industrial exports was to be welcomed. The Agreement in principle complemented the continued location of foreign firms in Ireland during this period under the auspices of a government scheme of providing grants and tax-free exemptions on profits. In excess of 250 firms located in Ireland during the period which enabled industrial output to expand in volume and variety. By 1973 Ireland's industrial base had shifted from the traditional industries of clothing, textiles and light industry to include cranes and forklift trucks, car assembly, synthetic diamonds, pianos, tobacco-making equipment, precision tools, electrical equipment and electronic components. Most commentators acknowledge the governments apolitical willingness to embrace the free trade developments across Europe in a concerted effort to disassociate from the protectionist and inward looking perception of Ireland acquired during the period 1938 to 1952. Many welcomed the governments position during this period in what Thornley [1965] described as "the delayed peaceful social revolution [p12]."

5.2.2 The Economics of the Second Programme

The second programme, an exercise in Keynesian macroeconomics, was more sophisticated than the first programme with its growth targets of 3-4% set for the thirteen different sectors of industry in addition to targets set for the economy. The objectives were abandoned however in 1968 as unemployment increased to a level which was higher than in 1963. Personal consumer expenditure was identified as the main economic aggregate in the economic plan and the growth in consumer expenditure had been targeted to lag the growth in investment. But the level of expenditure was underestimated by the government; it increased by 4.6% in 1964 instead of the targeted 3.4%. This opened up a balance of trade deficit which forced the government to retalliate with import duties. Employment in industry only increased by 50% of the expected target and the level of imports was underestimated by the planners. The apparent success of the programme hinged on personal consumer expenditure. The objective was to attain a level of investment in the economy; to do so required consumer sending to increase at a lower rate than the rate of investment in order to allow private investment to increase faster than the growth in national income. If this succeeded, domestic savings would be sufficient in theory to finance the targeted level of investment.

Albeit, Ireland's growth rate during this period was significantly greater than in earlier periods with an average growth rate of 4% per annum. For example, this is double the growth rate of the fifties. Employment stabilised around 1m during the period, composed of 39.8% in services, 34.5% in agriculture and 24.9% in industry. Industrial output increased by 7% per annum and industrial exports increased by 18% per annum. Industry productivity increased in all sectors of the economy and total domestic investment which averaged 14% in 1962-1968 increased to 23% between 1969-1972. Agricultural employment was no longer the largest source of employment in the economy. Indeed by 1963 the government realised that agriculture was not responding to the many incentives on offer. Increasingly
the government found itself stepping in to fill the vacuum created by an absence of private enterprise. A reliance on government intervention became the norm, a reliance which manifested itself in the many government agencies established in this period and in the guaranteed trade deals required to affect agricultural supply. An indicator of government indebtedness is reflected in the national debt which had amounted to £900m by 1970. The Irish economy was becoming a mixed economy without any clear indication of the optimal degree of mixture between private enterprise and government intervention. The second programme for economic expansion set a target growth rate of 2.7% per annum in the agricultural sector. This was too optimistic given the fact that between 1930 and 1960 net agricultural output increased by 20% or by 0.6% per annum on average. As expected the programme emphasised the need for more export markets and better marketing of Irish produce and also identified a lack of efficiency across Irish farms as resulting from uneconomic holdings. In other words, the farms are too small to reap economies of scale in production. This is a recurrent problem in Irish agriculture.

The second programme was achieving some degree of success. By 1969 Irish industrial exports exceeded agricultural exports in value. During this period the industrial sector expanded at 6% per annum inspired by the export-orientated industrialisation of foreign owned firms. Although this development ought to be welcomed by the government as a reflection of a lesser dependence on agriculture, it brought a new dependence on industrial raw materials which would have an effect on our balance of trade. This is reflected in the highest recorded balance of trade deficit in 1969 at £210m with imports recorded at the highest level of £589m. In 1969 agricultural exports accounted for 47% of the market while industrial exports accounted for 49%. By 1970 the trend intensified with agricultural exports falling to 44% and industrial exports rising to 51% The composition of our agricultural exports also changed during this period to include chilled and frozen meats and a lower emphasis on livestock and processed foods. The import of industrial raw materials accounted for 55% of total imports in 1969. The destination of foreign trade also changed with a somewhat reduced reliance on the UK market. For example, in 1921, 98% of exports and 89% of imports originated in the UK, by 1969 exports had fallen to 65% and imports to 53%. The EEC and US markets accounted for the difference in the 1969 trade figures.

The government welcomed the trend identified by the trade statistics in 1969 which indicate a diversification away from the UK market. However the UK market remains the predominant export market and the figures also reveal an incredibly slow forty-eight year re-adjustment period in the destination of our foreign trade. The cheap food policy employed by successive British governments facilitated the export of Irish agricultural produce to the UK. The failure to locate foreign markets other than the UK for Irish exports must reflect badly on management of export agencies and of domestic firms. Although the Irish Management Institute was founded as early as 1952 it was not until the aborted third programme for economic expansion in 1971-1973 that a serious effort was undertaken by the government to further management education in Ireland. Again this reflects a dependence on government intervention and it was not surprising that tax revenues for 1969 had increased to £337m. The continued growth in tourism during this period
as a source of invisible earnings, may have been overlooked; tourism revenue peaked to £100m in 1969 of which English and Northern Ireland based tourists contributed £40m.

Whatever the achievements accredited to the Whitaker Plan vis-a-vis manufacturing industry, the relatively poor success attributed to agriculture needs to be further investigated. The 1971 Report of the Committee Reviewing State Expenditure in Agriculture presented a more pessimistic picture of the state of Irish agriculture than hitherto. Using 1966 census data, it estimated the number of farms in Ireland to be 200,000 of which 88,000 were viable farms providing 70% of total gross agricultural output and an annual farm income of £1250 and 44,000 were deemed to be potentially viable producing only 14% of output with an annual farm income of less than £500. The permanently non-viable farms totaled 68,000 providing 17% of gross output and an average annual income of less than £200. At the same time the Irish government was spending £80m per annum in 1966 on direct farm support of which £56m or 75% was direct income support with the remainder divided into drainage improvements, capital loans, export subsidies, relief on local rates and input subsidies. By 1972 the aid to agriculture had doubled and only 17% of all farmers, who produced over 50% of the subsidised milk, benefited from the increased government support. Public choice scholars should be interested in the fact that the Fianna Fail government depended on the vote of the farming sector for continued re-election during the hegemony period which spanned from 1957 to 1973. But the income supports allowed government to ignore the bleak facts of rural disintegration which continues to be a recurrent problem in Ireland.

5.2.3 The Third Programme for Economic Expansion 1970-72

As the third programme for economic expansion was implemented in late 1971, political troubles in Northern Ireland began to impact on both the politics and the economy of Ireland. The Fianna Fail government which had remained in office since 1957 lost the general election in 1973 to a coalition of the two remaining largest political parties, Fine Gael and Labour. At a time when our second application for EEC membership was clearly confirmed the Irish government was constrained by two extraneous events [i] the escalation of political violence in Northern Ireland and [ii] the world oil crisis. But these events were to a limited extent cushioned by our entry to the EEC in 1973. Government policy during the sixties was presented under the halo of an economic plan which did little, if anything, to overcome the structural problems inherited from previous generations. Uneconomic farm holdings, conservative farm attitudes, reliance on a single market, no international diversification of our exports, bad industrial relations, continuously high emigration, failure of domestic industry under protection to sustain and increase employment, represent negative attributes which should not have been tolerated and allowed to continue under the aegis of a credible economic plan. The hegemony of one political party gave the plan legitimacy and credibility.

While the reluctance of Irish farmers to take risks and diversify can be explained to a limited extent by a history of uncertainty and famine, government policy which cocooned the industry within a web of government
guarantees and protection must also be acknowledged as a contributory factor. The majority of farms are owned by over-50 year old bachelors with no heirs, eaking a livelihood from a barren land. Government polices aimed at improving the structure of agriculture, such as retirement schemes, renting or leasing schemes and even compulsory purchase schemes should have been prominent in the Whittaker Plan. Rather, the adoption of more popular economic measures may have secured re-election in the short term; the long term outcome apparently of such measures was an inefficient agricultural industry. One comparative example illustrates the degree of inefficiency: in 1970 52 Danish bacon factories process 12m pigs annually while it takes 37 factories in Ireland to process 1.5m pigs annually. A re-organisation of the Irish bacon industry would have reduced costs and contributed to a comparative advantage over Danish bacon on European markets.

The third programme was anathema to the Mansholt Plan which had argued for larger more economic farm holdings. In 1970 there were 280,000 farm holdings in Ireland of which only 47% were deemed to be economically viable. Likewise, a Farm Management Survey 1972-1975 concluded that of all farms ≤ 50 acres 32% earned less than £1000 per annum and that 50% of farms had a negative investment income. In other words the average farmer was earning less than the minimum industrial wage and would have been better off if he sold the farm, invested the money and acquired employment. This is a serious indictment on the ideals of Whittaker Plan and on the potential within Irish agriculture as a key element in economic planning. After a period of sustained assistance to agriculture, 32,000 farms in the most deprived western region of Ireland remained as economically unviable farms by 1972. A final indictment of any degree of indicative planning which had initially emphasised the role of agriculture is in the disregard for the fishing industry in a nation surrounded by the sea. Fishing was always regarded as a major component of Irish agriculture. Our total fish exports in early 1970's averaged only £4.6m per annum.

Economic policy options were interrupted by the general election in 1973 which ended the Fianna Fail political party's monopoly on government. The programme had forecast growth in agriculture at 4% and industry growth at 7%. The plan had intended to concentrate on exports as the main economic aggregate. By the early 1970's the Irish economy had entered an era where the creation of employment was more difficult than in the sixties. One particular factor which was to haunt Irish industrial policy for the next decade was recurrent job losses. The concept was not new to an economy which bounced between different trade deals and government protection in order to stabilise total employment between agriculture and industry. However, in the 1970's the difference was that the decline in industrial employment per se coupled with the annual outflow from agriculture and returned migrants contributed to an increase in structural unemployment. Job losses had to be factored into total employment figures in order to compute the net increase in employment.

5.2.3.1 The Legacy of Foreign Firms

At a time when Irish entry into the EEC was imminent no one could have anticipated the extent of job losses in Irish industry unable to compete efficiently in the post-EEC economic environment. Many of the industries
which collapsed were the ones which survived in the period 1926-1936, a relatively more protectionist period than post-1973. The Industrial Development Authority in preparing the 1973-1977 five year plan for industrial development estimated job losses conservatively at 17,000 per annum over the period. Worldwide recession, a lack of migration opportunities abroad and falling industrial profits at home contributed to 28,000 job losses in 1975. The Whitaker Plan which spanned the period 1957 to 1973 had limited success on the agricultural sector. In many respects the economy was transformed from a natural resource based agricultural economy to a foreign-firm dominated industrial economy. It was our eventual entry into the EEC that forced efficiency on Irish indigenous industry and the regrettable consequent increase in industry-specific unemployment. The successful growth rates of employment and output in industry was due primarily to the growth of the foreign component of Irish industry. The largest contingent of foreign firms included 40% British, 20% German, 20% American and 5% Dutch.

| Table 6 Foreign Firms in Ireland |
|---------------------|-----|------|
|                     | Total Employment % | Net Output % |
| Irish               | 57.2 | 35.0 |
| Foreign             | 42.8 | 65.0 |
| EC                  | 16.2 | 14.8 |
| non-EC              | 26.6 | 50.2 |

[Source: IPA Directory 1991]

The government encourage foreign firms at the expense of indigenous firms, a policy which may have serious employment consequences in later years as noted by the importance of foreign firms to Irish industrial employment and industrial output in Table 6. Albeit, Brunt [1985] echoed our sentiment in his comment that "comparatively little consideration was given to indigenous industry, an despite its absolute importance, no real policy emerged for import substitution activites [p23]", many scholars have argued that indigenous Irish firms did not respond to the many incentives and opportunites proffered during the course of economic development. The reason, continued Brunt was "the perceived lack of job potential after operating for up to thirty years behind high levels of protection". Recent pronouncements by foreign firms that job losses may be increased in their Irish based plants as they embark on a worldwide rationalisation policy revealed the exposure of the Irish industrial sector to foreign firm dependence.

6. ERA OF READJUSTMENT 1973-1983

This period is an important time in Irish political economy. The economy had emerged from an era which experienced a degree of economic planning never before undertaken in the history of the state. The country was about to embrace a new European dimension which would impact on every sector of
the economy. Table 7 illustrates a set of economic statistics which proffer testimony to the relative economic strength and weaknesses of the Irish economy, illustrating the average annual growth rate in the volume of gross domestic product which increased and reached a peak during the 1961-1971 period. The growth was too low to compensate for the combined outflow from agriculture, job losses and the natural increase in population. The growth rate of manufacturing output noticeably increased during the protectionist government. The increase in 1946-50 was due to the post-war boom in Europe as imports increased and domestic demand increased. The sixties and seventies indicated a steady progress as foreign export-orientated firms began to locate in Ireland. Employment growth was faster during the protectionist period [1931-1960] than post-1960. However labour productivity grew faster in the post-1960 period.

<table>
<thead>
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<th>Year</th>
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<th>Growth Manu</th>
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<th>National Debt</th>
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<tr>
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</table>

[Source: Census of Industrial Production, and Kennedy, Giblin and McHugh]

Ireland on joining the EEC in 1973 had experienced over 15 years of unprecedented economic development which had increased per capita incomes and arrested the historic decline in population. Although the improvements in agriculture were disappointing it was expected that Irish agriculture would respond positively to the new EEC Common Agricultural Policy. Whatever adjustments had to be made in the protected traditional industries were discounted by the expected gains from EEC entry. The economic development in this period, apart from two boom years in 1977 and 1978, was undermined by two oil crises, in 1973 and in 1979 and by a world recession in 1982-1983. As a net importer of industrial raw materials and an importer of 70% of energy requirements, the increased oil price was to impact on the balance of of payments and on domestic inflation. In addition our membership of the European Monetary System in 1979 despite the British government’s refusal to join, introduced a new Irish pound, the Punt, which devalued against both the dollar and Sterling. This only compounded the problem of high import costs and further increased domestic inflation. The Irish government in line with many European governments responded to the oil crises by increasing government borrowing. The current budget deficit increased from 0.4% of GNP in 1973 to 6.9% by 1975 while the Exchequer borrowing requirement increased from 8.6% of GNP to 16%. The first budget of the new Fine Gael-Labour government in 1973 fulfilled election promises by increasing public services and social welfare payments. However the policy was short-lived as the public finances and the extent of government debt became a public issue.

2.5
In subsequent budgets in 1976 and 1977 the current budget deficit was reduced to 3.8% by 1977 while the Exchequer borrowing requirement was reduced to 10% by 1977. The policy was welcomed at a time when the world was recovering from a recession and international demand was beginning to increase. However the government lost the election to a new Fianna Fail government in 1977. In fulfilling election promises the government pursued a policy of increased expenditure and lower taxes. Many traditional tax sources were abolished and an expansionary policy was no more than a short term election budget which had deflationary effects on the Irish economy. By 1981 the current budget deficit had increased to 8% and the Exchequer borrowing requirement had increased to 13% of GNP. Net foreign debt had escalated from £78m in 1977 to a staggering £1000m in 1979 reaching a perilous level of £6700m by 1983. The extent of government and public sector indebtedness is reflected in the fact that 25-35% of the tax revenue during this period was required to service the government debt.

6.1 An Ironic Twist of Fate

The Fianna Fail government recklessly continued to adopt an expansionary policy in their 1980 and 1981 budgets. The policy was criticised by economists as irresponsible given the problem with the public finances. Many of the projects financed under the Public Capital Programme only provided short-term employment which was an unsatisfactory long term response to the increase in the labour force. Although the unemployment in Ireland at 126,000 in 1981 was one of the highest levels amongst EC countries, the increase in unemployment between 1973-1981 was less than the EEC average and significantly less than Denmark, the Netherlands, Belgium and the UK.

In an ironic twist of fate unemployment reached 208,000 by the end of 1984, equal to 16.4% of the labour force and well above the EEC average of 10.3%. One contributory factor to this twist is embedded in the statistics: 30% of the unemployed in 1984 were under the age of 25 years in country where 45% of the population is under the age of 21 years. Ironically, employment in Ireland was 8% higher in 1981 than in 1973 contrary to the trend in EEC countries. During a period of world recession, Ireland had been able to create employment. However over half of the increase in employment in 1971-1981 was in the public sector which reflected the extent of government expenditure in the economy. Average pay in the public sector doubled during the period 1978-1981 which had an adverse affect on the current budget deficit; subsequent budgets had to reduce the size of the public sector in order to restore balance to the public finances.
<table>
<thead>
<tr>
<th>Year</th>
<th>Public Exp/GNP</th>
<th>National Debt/GNP</th>
<th>Employ Services/Total Employ.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>24.0</td>
<td>11.2</td>
<td>33.0</td>
</tr>
<tr>
<td>1960</td>
<td>32.0</td>
<td>64.0</td>
<td>39.7</td>
</tr>
<tr>
<td>1980</td>
<td>65.0</td>
<td>81.0</td>
<td>51.2</td>
</tr>
<tr>
<td>1990</td>
<td></td>
<td></td>
<td>48.5</td>
</tr>
</tbody>
</table>

[Source: CSO National Income and Expenditure, Census of Population]

The reduction in the Public Capital Programme affected the building and construction industry which is one of the major sources of employment in Irish manufacturing. From 1980 manufacturing employment decreased and by 1986 it was 20% below the 1979 peak. The growth of government is illustrated in Table 8 which reports the ratio of public expenditure to GNP, the ratio of total national debt to GNP and employment in services [including public sector, public utilities, public administration and private services employment] as a percentage of total employment. Three elections in the period 1981-1983 indicated the degree of political instability with the Fianna Fail party prepared to vote-trade with minority parties in order to hold the balance of power. Amidst the political squabbling which split the Fianna Fail party into a new party, the Progressive Democrats, the rate of inflation increased to 20%, unemployment increased significantly and the external debt repayments had increased substantially.

The increasing problem of structural unemployment in the earlier part of this period was attributed to the adjustment to free trade, to higher costs of production and to the continued location of capital intensive industries in Ireland. Leddin and McNutt [1991] have argued that EMS realignments "resulted in a significant appreciation of the real exchange rate over the period [p31]". The economy secured a competitive loss against its two major trading partners, the UK and the US. The budgets are a key to how the government perceives the unemployment problem. For example, the 1977 Keynesian expansionary budget attributed unemployment to a lack of effective demand in the economy. The budget, which secured the re-election of the Fianna Fail party to government with the largest majority in the history of the state, was to remain an economic albatross around the neck of the Irish economy. In many respects the budget was a watershed in Irish political history for two reasons, namely [i] the Fianna Fail party has never since returned to power with an overall majority and [ii] subsequent government policies were constrained by the public finances, a policy known as "fiscal rectitude". This policy was transferable across each political party manifesto and transcended political divides as each party competed on offering the voter the more convenient approach to solving the public finances and government indebtedness.
6.2 The Industrial Mix

Entry to the EEC offered the Irish economy a welcomed escape route from a legacy of domestic economic policies which could have hampered the overall development of the economy. The job losses could have occurred earlier in our economic history had agriculture and indigenous industry not been buffeted so frequently by protectionist policies. Emigration continued to absorb the increase in labour supply while foreign direct investment in Ireland during the sixties acted as a buffer against prolonged economic stagnation inherited from the fifties. The combined demand for labour from the foreign firm sector coupled with the increased demand for labour in the UK was able to outweigh the increase in labour supply during the late sixties. Albeit, by 1970 economic problems began to emerge in the Irish economy. Unemployment was reaching 90,000 the highest ever recorded figure while emigration was continuing to the UK and US. Population was falling to the lowest level in the history of the modern Republic. Recurring deficits in trade and in the fiscal budget limited the scope of the government in tackling the emerging economic problems. Many Irish industries protected under the Whittaker Plan were too small to avail of economies of scale. The closure of many inefficient firms after the 1965 Anglo-Irish Free Trade Agreement was a forerunner to the industrial chaos and upheaval post-EEC membership.

But what of the private industry sector? This period inherited a problem of bad industrial relations which militates against a successful industrial policy. Strikes have been very numerous with an average of 451,000 man days lost in the sixties due to industrial action and 13 wage rounds negotiated between 1950 and 1970. The proportion of value added had shifted away from profits to wages and salaries. By 1974 profit return was only 7% of assets, significantly below the level of inflation. In 1975 it was in line with inflation at 14%. Output in Irish industry had tended in the early years of this period to grow 5% faster than the corresponding growth in employment, implying that the average rate of productivity growth in indigenous Irish industry was in line with the EEC. The capital costs facing the Irish entrepreneur tends to be less than the labour costs which militates against sustained increases in industrial employment. An increase in national output for the Irish economy can occur either from increasing productivity or by increasing income per head. The former policy translates into increasing output while the latter translates into increasing employment. In this period it became increasingly obvious that successive Irish governments had opted for the latter.

Paradoxically, the growth rate of the Irish economy during this period surpassed all expectations. In particular the Irish growth rate at 3.8% per annum, while less than the average growth rates of previous periods, actually exceeded the average European growth rate at 1.8% per annum. Two contributory factors have been identified by Nolan and Nolan [1991] who argued that "it is useful to examine the post-1973 trends in the level of direct foreign investment in Ireland and in the size of Ireland's trade deficit [p244]." The increase in US based foreign firms as a one-off reaction to Irish membership of EEC may have contributed to the delayed slowdown in Irish growth rates during this period. The US firms provided expansion in the manufacturing sector creating job opportunities and increasing exports.
From 1977 to 1983 Ireland recorded a trade surplus which peaked to £14.7m in 1980. In addition government expansionary policy with the return of the Fianna Fail party to government in 1977 added an extra stimulus to the flagging economy. In particular real expenditures on construction increased by 9.7% per annum during the period 1977-1981. This is reminiscent of the housing boom affected by the McGilligan budget in 1950 with an average of 12,000 houses built annually during the fifties.

6.3 Government Indebtedness

A characteristic of Irish political history during the period 1957 to 1973 was the near dictatorship of one political party, Fianna Fail as the government party. Although the party was responsible for the increase in growth rates in the sixties, much of the adjustment required of indigenous Irish industry post-EEC entry and the structural imbalance in Irish agriculture could have been abated pre-EEC entry had the government opted for a less protectionist policy. Although ever effort was made to enter in the spirit of free trade by selective reduction in tariffs and offering industry modernisation grants to improve efficiency, Ireland in 1973 still [i] had a low rate of employment increase [ii] experienced a continued outward migration from agriculture [iii] relied on a single UK market [iv] had a high level of public expenditure and [v] pampered X-inefficiencies in the industrial sector which manifested itself in bad industrial realtions and a failure by indigenous management to explore new export markets. The extent of government indebtedness is illustrated in Table 9:

<table>
<thead>
<tr>
<th>Current Budget Deficit</th>
<th>EBR</th>
<th>Balance of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>7.0</td>
<td>13.0</td>
</tr>
<tr>
<td>1981</td>
<td>7.5</td>
<td>16.0</td>
</tr>
<tr>
<td>1986</td>
<td>8.5</td>
<td>13.0</td>
</tr>
</tbody>
</table>

[Source: Central Bank Bulletin, and National Income and Expenditure]

The Fine Gael-Labour coalition government in July 1981 introduced a restrictive budget which had little impact on reducing the level of government indebtedness. A general election saw the return of Fianna Fail to power in March 1982 with a medium-term economic plan, The Way Forward, which had planned to eliminate the budget deficit by 1986. By November 1982 another election saw the return of the Fine Gael-Labour coalition government which deferred the date for eliminating the budget deficit to 1987. Their medium-term economic plan, Building on Reality, adopted a more relaxed attempt to reduce the budget deficit to 5% by 1987. Very little impact was made in reducing the budget deficit but Exchequer borrowing was reduced through what some commentators called "a substantial real reduction in the Public Capital Programme [p80]". National debt and accumulated foreign borrowing continued to rise; servicing the external debt amounted to 35% of tax revenue. However, the balance of payments deficit was reduced significantly due primarily to a decline in home demand.
7. FISCAL RECTITUDE 1983-1990

From 1983 to 1987 a coalition government of Fine Gael and Labour continued with a policy of fiscal rectitude which saw the growth rate of the Irish economy collapse to 0.1% with unemployment increasing to 15% of the labour force and inflation falling from a high of 19% in 1979 to the EEC average of 3% by 1987. By 1987 the Fianna Fail party had returned to power as a minority government; in the general election of 1989 Fianna Fail returned to power, ironically in a coalition structure with the Progressive Democrats. The price of coalition, the joint programme for government continued with the policy of subjecting the Irish economy to a severe regime of fiscal rectitude. This represents the most interesting period in recent Irish economic history both from a political and economic point of view. The debt issue was the one uniting feature which allowed the Opposition uncharacteristically to support the government during the implementation of harsh economic policies.

The debt issue became an election issue and voters were now concerned about the state of the public finances. The post-1985 sub-period was characterised by an increasing trade surplus while the early eighties witnessed an increasing interest repayment burden on external debts. Election crises between 1981 and 1983 returned governments who were determined to rectify the ever increasing indebtedness of the Irish exchequer. Central government expenditure had been curtailed and the government entered a period of privatisation and contractionary budgets. The extent of the contraction is indicated in Table 10 which reports a reduction in the budget deficit as a percentage of GNP from 7.1% in 1983 to 0.7% in 1990. The level of inflation was reduced from a high of 21% in the late 1970's to less than 3% by the end of this period under review. During the sub-period Irish growth rates averaged 1.2% per annum which lagged behind an EEC average of 1.8% per annum for the same period. In addition to higher real interest repayments, foreign firm growth was not at the level of the previous period. The public sector was contracted under successive government policies of fiscal rectitude. A rational expectations type explanation has been touted to account for the increased growth rates in the latter years that is, the Fianna Fail government's commitment to fiscal rectitude has inspired confidence in the private sector which has contributed to an increase in private investment and consumption.

But increases in growth rates or a comparison of domestic growth rates with European averages masks the real economic problems of poverty, emigration and unemployment. Expenditure on social welfare as a percentage of total current government expenditure reached its highest level of 33.2% in 1986 while between 1989-1990 family income support as a percentage of the expenditure on social welfare increased by 8.5%. As at 1990 1.3m of the estimated 3.5m population are in receipt of a weekly social welfare payment. Gross domestic product per capita at 1989 market prices is $9644 which makes Ireland after both Portugal [US$4629] and Greece [US $5399] the third poorest country in the EEC. This period has witnessed the return of emigration which reached a peak of 46,000 by 1989 while between 1983 and 1990 207,000 people emigrated. The destination has changed in favour of the US rather than the UK.
Table 10 Main Economic Indicators [in %]

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>flation</td>
<td>9.2</td>
<td>7.6</td>
<td>4.7</td>
<td>4.0</td>
<td>2.6</td>
<td>2.5</td>
<td>3.9</td>
<td>2.8</td>
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<tr>
<td>live register</td>
<td>14.7</td>
<td>16.4</td>
<td>17.7</td>
<td>18.1</td>
<td>18.8</td>
<td>18.4</td>
<td>17.9</td>
<td>17.2</td>
</tr>
<tr>
<td>budget deficit/GNP</td>
<td>7.1</td>
<td>7.0</td>
<td>8.2</td>
<td>8.3</td>
<td>6.5</td>
<td>1.7</td>
<td>1.3</td>
<td>0.7</td>
</tr>
<tr>
<td>EBR/GNP</td>
<td>12.9</td>
<td>12.4</td>
<td>12.8</td>
<td>12.8</td>
<td>9.9</td>
<td>3.3</td>
<td>2.3</td>
<td>2.0</td>
</tr>
</tbody>
</table>

[Source: Central Bank Annual Reports, National Income and Expenditure]

Table 10 records the main economic indicators during this period, the annual percentage change in inflation, the live register figures as a percentage of the labour force, the current budget deficit as percentage of GNP and the Exchequer borrowing requirement as a percentage of GNP. The rapid increase in the population from a high birth rate averaging 11.2% during the 1970's has filtered into this period and the consequent increase in labour demand is unable to match the increase in labour supply. Unemployment is now an acknowledged structural problem with 45% of those unemployed registering for more than one year. Total employment in Ireland stands at 1.1m which is composed of 56.5% in services, 28.8% in industry and 14.7% in agriculture. The services sector was the only sector to experience an increase in employment throughout the period 1960 to 1990. This was a familiar trend in most EC countries. The contractionary policy of government in this period curbed this growth in employment at a time when the labour supply was increasing.

The gap between Irish industrial output and employment widened significantly during this period. The increase in output has not been translated into an increase in employment. One particular reason can be traced back to the early industrial policy of protected industries. In the early 1980's protected inefficient Irish industries began to reduce their employment levels with the impact of free trade. Hence employment in the traditional industries of drink and tobacco, textiles and clothing declined during this period. Using 1987 figures foreign firms accounted for 42.8% of total manufacturing employment and 65% of total manufacturing output. Many of the foreign firms who were located in Ireland have since pursued a policy of worldwide rationalisation to which Ireland was not immune. The consequent increase in labour productivity allowed industrial output to increase. A Neo-Luddite argument would suggest that Irish industry is now less labour-intensive, thus allowing for increases in output to occur without any changes in employment. The cause for the high rate of job losses in in Ireland pre-1987 remains a debating point amongst economists. The coalition government has a commitment of creating 25,000 new jobs per annum as announced in its Programme for Economic Progress. However the net increase in employment will be less than 25,000 as job losses have to be factored into the computation.

The commissioned Telesis Report published in 1984 suggested that the Irish government should "pick winners", that is, identify firms most likely to
succeed in the current economic climate and proffer them economic assistance. Current government industrial policy directed at indigenous firms as evident from the 1990 Review of Industrial Performance "is not directed at picking winners but rather at seeking to identify companies with significant growth potential that can benefit from a substantial programme of state supports (our italics) [p56]". This would imply that firm growth is positively correlated with state funding, a view which is anathema to many policymakers. However, if the growth referred to is growth in employment, then government policy could be defined as Pigovian, that is, labour subsidies as a state support could ease the unemployment problem. An alternative interpretation smacks either of rent-seeking or electioneering. The degree of state funding differs across firms; for example, the state supports awarded to a foreign firm is determined by the amount on offer from a competing country. For indigenous industry the amount of assistance is determined by a criterion of viability as laid down in the 1985 Company Development Programme. Both companies are subject to a generous 10% profits tax while the foreign company is also offered generous capital grants under the 1986 Industrial Development Act.

### 7.1 The Sub-Period 1986-90

The following Table 11 records the annual growth rate of the Irish economy during different sub-periods. It would appear that the higher growth rates of the seventies may have been achieved in the 1986-1990 period while no period post-1983 achieved the higher growth rates of 4% achieved in the nineteen-sixties. The low growth rate in the 1981-86 period mirrors the slump in Europe which a Keynesian analysis would attribute to the "increased fiscal austerity, most notably in FRG and UK, and this tendency toward decreased public expenditure [p98, Fitoussi and Phelps]". In the Irish case, successive governments embarked on a policy of fiscal austerity during this sub-period.

<table>
<thead>
<tr>
<th>Table 11 Sub-period Growth Rates [in %]</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.8</td>
</tr>
</tbody>
</table>

[Source: Eurostat, National Income and Expenditure and Nolan and Nolan]

In March 1987 the Fine Gael-Labour coalition government collapsed over the issue of proposed cuts in social welfare. The newly elected minority Fianna Fail government was able to pursue a more harsh economic budget, reducing central government expenditure from 48% of GNP in 1988 to 37.2% in 1990 with the support of the major opposition party Fine Gael. Although this strategy adopted by Fine Gael was deemed to be politically suicidal it did contribute to the necessary restructuring of the public finances. The period 1987-1989 was crucial year in arresting the declining growth in the Irish economy. By 1989 another election witnessed the return of Fianna Fail in a coalition government with the Progressive Democrats.
A political consensus had been achieved across all political parties that the public finances had to be addressed and that a contractionary policy was the correct policy for the economy. The government's Programme for National Recovery signalled the government's willingness to reform the public finances; it won approval from both the corporate sector and non-residents both of whom increased their respective investment in the Irish economy. The unions likewise approved the Programme with the adoption a public sector pay deal. This Irish experiment with the Austrian ideal of social partnership has contributed to the economic performance of the Irish economy. It represented a union endorsement of government policy at a crucial time in our economic history when economic progress was intricately linked to the restoration of balance to the public finances. It is probable that an increase in labour productivity, arising from an inter-sectoral shift in employment from manufacturing to services and within manufacturing to more capital intensive operations, has contributed to the competitiveness of Irish goods abroad and to the increase in the growth rate at home.

The fall in inflation during this period was helped by the slump in oil prices in 1986 allowing inflation to fall to 2.5% by 1988 as noted in Table 10. The government budget was in surplus by 1987 and has remained in surplus at 8% of GNP in 1990. The surplus was helped by a tax amnesty which realised £500m in back taxes from the private and corporate sectors between 1988-1989. The Programme for National Recovery has had a positive effect on economic expectations and its successor the Programme for Economic and Social Progress initiated in 1991 has been sidelined by the emerging recession in world trade. The objective of government policy has been to reduce the debt/GDP ratio which reached a peak of 131.5% in 1987; the ratio now stand at 95.6% significantly above the required European Monetary Union ratio of 60%. The achievement of this target depends on a multitude of economic factors including the level of exports, migration, increased unemployment and the reform of the Common Agricultural Policy. Overriding all of these factors is the political consensus required to allow the policy of restoring order to the public finances benefit the economy at large.
8. CONCLUSION

There are a few policy observations which can be extracted from the Irish experience of economic development during the period 1950-1990. Increasingly, during the early years of the Whitaker Plan, the government found itself stepping in to fill the vacuum created by what only be defined as a lack of private sector initiative in the organisation of the agricultural sector. Government sponsored state companies were established with a range of different responsibilities across the agricultural sector which included the marketing and distribution of agricultural produce, agricultural research and education and agricultural finance. In the non-agricultural sectors of transport, telecommunications and postal services state companies were established and the large public monopolies have continued into the 1990's.

Privatisation of these companies is now on the political agenda in an era which warrants reduced government involvement in the economy. An alternative which should be explored but was not within the framework of Irish development, is whether or not an optimal mix of ownership in the supply of public goods could have been achieved.

The entire period under review from 1950-1990 represents an intriguing era in Irish political economy. The newly independent nation-state enjoined in the free trade policies evident in Europe after the First World War and enjoyed a period of growth and prosperity. The ravages of the Civil War overshadowed any economic improvements as did the government's unwillingness to engage in capital expenditures. Ireland was predominantly an agricultural economy. The 1929 world depression had an impact on Ireland; the reduction in world agricultural prices and frustration with domestic policies contributed to the defeat of the government and the assumption to office of de Valera and the Fianna Fail party. The election signalled a return to an inimical relationship with the UK leading to the protectionist Economic War. Irish political leaders, unable to divorce the twin issues of political independence and economic independence from the UK, adopted myopic economic policies. For example, the indigenous industries which succeeded in this protectionist era were to collapse under a more free trade regime in later years of development.

Then as now the relative success of government policy will depend on internal political stability and on the external world economy.

The underlying structure of the Irish economy was to play an important role in the evolution of successful economic strategies. No serious structural reforms were introduced into Irish agriculture which has remained a price incentive orientated industry for many years. Albeit, the demise of the Common Agricultural Policy at the EC level, has at last awakened a latent entrepreneurship in Irish agriculture. Arguably, this latent entrepreneurship which remained cocooned behind a wall of price guarantees and subsidies in early years of economic development could have facilitated an agricultural led economic growth. Policies which divide the land into
uneconomic holdings and offer price rather than structural subsidies has left a structural imbalance in Irish agriculture. The contingent outward-migration from agriculture during the early part of this period contributed to the mass emigration from the country.

The failure to secure a viable agricultural industry and consolidate the performance of agriculture in an agricultural economy endowed with natural resources on the periphery of large industrial powers, must remain as an indictment of successive government policies.

The role of government is important; opportunistic government failed in Ireland as witnessed by the economic policies adopted in the 1977-1981 period. In this period, the high indebtedness constrained the economic involvement of a generation which had to seek employment and work in foreign lands. The imminent return of our immigrants has put renewed pressure on the labour force which is translating into high levels of unemployment for the forseeable future. It is evident that the political stability of the 1957-1973 period when one political party held government office, was contributory factor to the sustained economic growth attached to the Whitaker Plan. It was not until the publication of Fianna Fail's blueprint for development, Economic Development in 1958, that the Irish economy experienced growth. The country entered a period of sustained growth until the early 1970's. Only in the early 1980's when our foreign indebtedness reached £7b requiring 35% of tax revenue to service, did governments return to the philosophy of 1958 in preparing economic programmes. Internationally the growth rate of the Irish economy has increased and is converging to the EC level. The convergence, however, masks the structural problems of social deprivation and long term unemployment and an increasing real interest rate which is curbing private sector investment. It is paramount that future governments do not underestimate the impact of long term unemployment and the ensuing socio-economic problems on the attainment of government policy. Anomalies have arisen across the Irish welfare system - the real after-tax income can be less than a social welfare income - which act as a disincentive to work. Employers who will incur high insurance costs per employee, are cost constrained which acts as a further disincentive to employment.

In later years, the Irish political scene has witnessed the responsible political party which has adopted a centrist position to alleviating the debt and public finance crises.

Growth has been attained in the Irish economy since 1986 at a time when the most severe fiscal contractionary policies were adopted by successive governments. The conversion of the budget deficits into budget surpluses, the reduction in borrowing requirements and a balance of payments surplus have been attained in an era with reduced involvement by the government in economic activity. But the growth has been achieved at a cost of high unemployment and reduced provision of public goods such as health, public housing and education. There is a noticeable growth in the middle classes.
which sits rather uncomfortably with the increasing numbers of dependents on social welfare and government programmes. A redistribution of resources has emanated from the government’s over-riding policy of restoring order to the public finances, a redistribution which may have engendered a more unequal distribution. Constituent sub-groups within the Irish electorate engage in rent-seeking activities in order to protect their respective income levels. Irish politicians, however, have remained characteristically ambivalent on the equality achievements of the economic growth.

It is imperative that governments of small nations do not allow the international paymasters dictate the terms of economic development. Small nations, like Ireland, have an internal dynamic which needs time and political commitment to harness equitably.